# Daewoo Shipbuilding & Marine Engineering Co., Ltd.

**Separate Financial Statements**
**December 31, 2020 and 2019**

**Daewoo Shipbuilding & Marine Engineering Co., Ltd.**
**Index**
**December 31, 2020 and 2019**

**Independent Auditor's Report**

(English Translation of a Report Originally Issued in Korean)

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

**Opinion**

We have audited the accompanying separate financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the Company), which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of Daewoo Shipbuilding & Marine Engineering Co., Ltd. as at December 31, 2020, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

We also have audited, in accordance with Korean Standards on Auditing, the Company's Internal Control over Financial Reporting as of December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting,* and our report dated March 17, 2021 expressed an unqualified opinion.

**Basis for Opinion**

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**A. Revenue recognition based on input method**

***Why it is determined to be a key audit matter***

As explained in Note 3 (Critical Accounting Estimates and Assumptions) to the separate financial statements, the Company recognizes contract revenue and contract costs associated with the construction contract as revenue and expense respectively under the percentage of completion method at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The percentage of completion method is based on the percentage of costs incurred to date, excluding any contract cost that does not reflect the work performed, compared to the estimated total costs of the contract, which are estimated based on future estimates such as material cost, labor cost, construction period and others.

As explained in Note 3 (Critical Accounting Estimates and Assumptions) to the separate financial statements, during the prior period, unexpected process delay in offshore plants have occurred and the inefficiency has increased. As a result, the general construction costs to estimated costs have significantly increased. The estimation of total contract costs has changed due to the price change of major raw materials of commercial ships, offshore plants and changes in exchange rate and changes in assumptions of contracts as at December 31, 2020. Considering the impact of increase in uncertainty of estimate in total contract costs due to risk of fluctuations in material costs and others, and changes in estimation to the profit or loss or future profit or loss, the uncertainty of estimation of total contract cost is identified as significant risk.

As explained in Note 3 (Critical Accounting Estimates and Assumptions) to the separate financial statements, the Company includes variations, arisen from changes in project scope or others, in contract revenue when it is highly probable that a customer will approve the variations, the specified performance standards will be met or exceeded and the associated amount can be reliably measured. Total contract revenue is measured at the initial contract amount agreed; however, total estimated contract revenue may deviate from original estimate depending on project scope changes, claims, incentive payments, or penalties for delayed delivery arising in the course of construction. Given the extent of uncertainties associated with the outcomes of future events impacting estimates of contract revenue, we identified uncertainty of contract revenue as a significant risk.

***How our audit addressed the key audit matter***

As at December 31, 2020, we performed the following audit procedures on the Company’s revenue recognition based on input method.

- We assessed whether the accounting policy of revenue recognition based on input method is appropriate.
- We performed audit procedures over possibility of generating economic benefits.
  - Examined the terms and conditions of the contract
  - Reviewed if there is significant decrease in prices of similar vessels and termination conditions
  - Inquired of management on customer’s financial status and project progress
- We evaluated design and tested the effectiveness of internal controls related to the calculation of estimated total contract cost.
- We assessed the reasonableness of management’s estimates used for calculating total contract costs (quantities of materials to be used and labor hours, etc.) and reconciled them with the estimates made by project teams.
- We compared total contract costs of projects with that of similar projects and evaluated the reasonableness.
- We examined if there are any changes in estimated total contract cost after the reporting period

and the reason causing the changes.

- We tested the effectiveness of internal controls related to measuring cost input and allocation by each construction contract.
- We tested the occurrence and cut-off of cost incurred for each construction contract.
- We obtained an understanding and assessed design and effectiveness of internal controls of the Company related to the accounting treatment for variations in contract work.
- We examined supporting documents of the customer's approvals in relation to the changing contract amounts from variations in contract work.
- We reviewed the conditions for liquidated damage arising from delay and major milestone as well as the contract completion date.
- We assessed consistency between the expected delivery date and estimated date to fulfill the major milestones specified in the agreements for the contracts that management expects liquidated damages arising from delayed completion.
- We evaluated the reasonableness of management's basis for estimated liquidated damage arising from delayed completion.

**B. Collectability of the contract assets and undelivered ships with indication of impairment**

***Why it is determined to be a key audit matter***

As explained in Note 3 (Critical Accounting Estimates and Assumptions) to the separate financial statements, the Company assesses at the end of each reporting period whether there are any objective evidences that the contract assets (due from customers contract work) are impaired. The objective evidences include aggravation of the customer's financial condition, increase in the probability of contract termination due to delay in contract in progress or decrease of vessel price, delay in delivery schedule and others. After the assessment on the objective evidences, the Company recognizes impairment loss if it believes there is an 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 uncertainty in collectability of the contract assets or undelivered ships has been increased as possibility of delay in delivery and contract termination, which might be caused by customers' financial difficulties due to extended global oil price decline, have been increased. Accordingly, we identified the collectability of the contract assets and undelivered ships with indication of impairment as a significant risk.

***How our audit addressed the key audit matter***

As at December 31, 2020, in respect of the collectability of the contract assets and undelivered ships with indication of impairment, we have performed the following audit procedures.

- We obtained an understanding and evaluated the design and effectiveness of the internal controls related to assessing the collectability of the contract assets and undelivered ships.
- We inquired of management with respect to basis for recognizing the significant contract assets.
- We obtain an understanding of the status of project that recognized the significant contract assets through discussion with management.
- We inquired of management in relation to contract termination possibility and customer's financial status.
- We assessed the reasonableness of collectability assessment of the contract assets.

**Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 3 to the separate financial statements of the

Company. Note 3 to the separate financial statements describes the uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's operating activities, including market demand and the Company's productivity. These matters do not affect our opinion.

**Other Matters**

The separate financial statements of the Company for the year ended December 31, 2019, were audited by another auditor who expressed an unqualified opinion on those statements on March 13, 2020.

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

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dae-hyun Jou, Certified Public Accountant.

Seoul, Korea

March 17, 2021

This report is effective as of March 17, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

# Daewoo Shipbuilding & Marine Engineering Co., Ltd.
## Separate Statements of Financial Position
## December 31, 2020 and 2019

| *(in millions of Korean won)* | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 6,7,37 | ₩ | 1,330,484 | ₩ | 1,991,736 |
| Short-term financial instruments | 6,8,37 | | 47,095 | | 407,213 |
| Financial assets at fair value through profit or loss | 5,6,9,18,28 | | - | | 287 |
| Short-term financial assets at amortized cost | 6,9 | | 14 | | 7 |
| Trade and other receivables | 6,9,37 | | 675,488 | | 367,766 |
| Contract assets | 6,10,38 | | 2,158,917 | | 2,171,367 |
| Current portion of firm commitment assets | 28 | | 651 | | 40,109 |
| Current portion of currency forward assets | 4,5,6,28 | | 110,495 | | 361 |
| Inventories | 11 | | 955,533 | | 1,150,475 |
| Current tax assets | | | 3,637 | | 3,903 |
| Other current assets | 12 | | 595,199 | | 680,613 |
| Non-current assets held for sale | 13 | | 14,743 | | - |
| | | | 5,892,256 | | 6,813,837 |
| **Non-current assets** | | | | | |
| Long-term financial instruments | 6,8 | | 395,649 | | 415,983 |
| Financial assets at fair value through profit or loss | 5,6,9,18 | | 31,913 | | 28,394 |
| Financial assets at amortized cost | 6,9 | | 19,575 | | 24,969 |
| Financial assets at fair value through other comprehensive income | 5,6,9 | | 7,381 | | 19,087 |
| Investments in subsidiaries | 14,42 | | 746 | | 746 |
| Investments in associates and joint venture | 15 | | 2,185 | | 9,190 |
| Long-term trade and other receivables | 6,9,37,38 | | 77,417 | | 91,610 |
| Firm commitment assets | 28 | | 895 | | 39,941 |
| Currency forward assets | 4,5,6,28 | | 56,149 | | 6,549 |
| Property, plant and equipment | 16,18 | | 3,590,483 | | 3,570,232 |
| Right-of-use assets | 17,37 | | 63,042 | | 28,596 |
| Investment properties | 18,19 | | 7,558 | | 7,676 |
| Intangible assets | 20 | | 808 | | 2,263 |
| Other non-current assets | 12 | | 7,073 | | 8,575 |
| | | | 4,260,874 | | 4,253,811 |
| **Total assets** | | ₩ | 10,153,130 | ₩ | 11,067,648 |

## Daewoo Shipbuilding & Marine Engineering Co., Ltd.
### Separate Statements of Financial Position
### December 31, 2020 and 2019

| *(in millions of Korean won)* | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Short-term borrowings | 6,18,23,37,40 | ₩ | 953,531 | ₩ | 1,065,022 |
| Trade and other payables | 6,21,37 | | 748,673 | | 911,999 |
| Current portion of long-term debentures | 6,22,40 | | 238,025 | | 116,270 |
| Current portion of long-term borrowings | 6,18,23,40 | | 985,996 | | 204,058 |
| Current financial guarantee liabilities | 6,18 | | - | | 33 |
| Current lease liabilities | 17,37,40 | | 18,212 | | 18,446 |
| Current portion of firm commitment liabilities | 28 | | 47,195 | | 67 |
| Current portion of currency forward liabilities | 4,5,6,28 | | 3,453 | | 86,280 |
| Contract liabilities | 10,38 | | 1,245,692 | | 1,802,296 |
| Current portion of provisions | 26,39 | | 640,042 | | 351,788 |
| Other current liabilities | 24 | | 216,733 | | 176,508 |
| | | | 5,097,552 | | 4,732,767 |
| **Non-current liabilities** | | | | | |
| Debentures | 6,22,40 | | 320,714 | | 511,814 |
| Long-term borrowings | 6,18,23,37,40 | | 135,572 | | 973,475 |
| Long-term trade and other payables | 6,21 | | 3,993 | | 43,446 |
| Net defined benefit liabilities and other long-term employee benefits | 25 | | 40,945 | | 79,053 |
| Provisions | 26,39 | | 595,584 | | 964,351 |
| Lease liabilities | 17,37,40 | | 62,646 | | 15,590 |
| Firm commitment liabilities | 28 | | 54,649 | | 5,840 |
| Currency forward liabilities | 4,5,6,28 | | 802 | | 36,207 |
| Deferred tax liabilities | | | 73,896 | | 73,596 |
| | | | 1,288,801 | | 2,703,372 |
| **Total liabilities** | | | 6,386,353 | | 7,436,139 |
| **Equity** | | | | | |
| Share capital | 29 | | 541,454 | | 541,029 |
| Other contributed capital | 31 | | (714) | | (257) |
| Hybrid bonds | 31 | | 2,332,832 | | 2,332,832 |
| Components of other capital | 31 | | 306,701 | | 316,221 |
| Retained earnings | 30 | | 586,504 | | 441,684 |
| **Total equity** | | | 3,766,777 | | 3,631,509 |
| **Total liabilities and equity** | | ₩ | 10,153,130 | ₩ | 11,067,648 |

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

**Daewoo Shipbuilding & Marine Engineering Co., Ltd.**
**Separate Statements of Profit or Loss**
**Years Ended Decembmer 31, 2020 and 2019**

| *(in millions of Korean won, except per share amounts)* | **Notes** | | **2020** | | **2019** |
|---|---|---|---|---|---|
| **Sales** | 28,37,38,41 | ₩ | 7,041,551 | ₩ | 8,317,582 |
| **Cost of sales** | 36,38 | | 6,648,389 | | 7,872,049 |
| **Gross profit** | | | 393,162 | | 445,533 |
| Selling and administrative expenses | 33,36 | | 240,802 | | 177,475 |
| **Operating profit** | | | 152,360 | | 268,058 |
| Finance income | 6,34,37 | | 535,386 | | 426,237 |
| Finance costs | 6,34,37 | | 426,634 | | 710,072 |
| Other non-operating income | 6,35 | | 204,662 | | 267,227 |
| Other non-operating expenses | 6,35 | | 350,937 | | 310,992 |
| **Profit (loss) before income tax expense** | | | 114,837 | | (59,542) |
| Income tax expense (benefits) | 27 | | 300 | | (1,820) |
| **Profit (loss) for the year** | | ₩ | 114,537 | ₩ | (57,722) |
| **Earnings (losses) per share** | 32 | | | | |
| Basic earnings (losses) per share *(in Korean won)* | | ₩ | 844 | ₩ | (760) |
| Diluted earnings (losses) per share *(in Korean won)* | | | 694 | | (760) |

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

## Daewoo Shipbuilding & Marine Engineering Co., Ltd.
### Separate Statements of Comprehensive Income
### Years Ended Decembmer 31, 2020 and 2019

| *(in millions of Korean won)* | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Profit (loss) for the year** | | ₩ | 114,537 | ₩ | (57,722) |
| **Other comprehensive income** | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | 31 | | | | |
| Remeasurements of net defined benefit liabilities | 25 | | 21,982 | | (45,130) |
| Gain on valuation of property, plant and equipment | 16 | | - | | 831 |
| Gain (loss) on valuation of financial assets at fair value through other comprehensive income | 6,31 | | (1,219) | | 1,764 |
| | | | 20,763 | | (42,535) |
| **Total comprehensive income (loss) for the year** | | ₩ | 135,301 | ₩ | (100,257) |

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

## Daewoo Shipbuilding & Marine Engineering Co., Ltd.
**Separate Statements of Changes in Equity**
**Years Ended Decembmer 31, 2020 and 2019**

*(in millions of Korean won)*

| | Attributable to owners of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Other contributed capital | | | Components of other capital | | | |
| | Share capital | Other capital | Treasury stock | Hybrid bond | Gain (loss) on valuation of financial assets at fair value through other comprehensive income | Revaluation surplus of property, plant and equipment | Retained earnings | Total |
| **Balance at January 1, 2019** | ₩ 541,029 | ₩ 469 | ₩ (726) | ₩ 2,332,832 | ₩ (8,052) | ₩ 324,700 | ₩ 541,514 | ₩ 3,731,766 |
| Loss for the year | - | - | - | - | - | - | (57,722) | (57,722) |
| Other comprehensive income | - | - | - | - | 1,764 | (2,191) | (42,108) | (42,535) |
| **Balance at December 31, 2019** | ₩ 541,029 | ₩ 469 | ₩ (726) | ₩ 2,332,832 | ₩ (6,288) | ₩ 322,509 | ₩ 441,684 | ₩ 3,631,509 |
| | | | | | | | | |
| **Balance at January 1, 2020** | ₩ 541,029 | ₩ 469 | ₩ (726) | ₩ 2,332,832 | ₩ (6,288) | ₩ 322,509 | ₩ 441,684 | ₩ 3,631,509 |
| Debt to equity swaps | 425 | (426) | - | - | - | - | - | (1) |
| Stock issuance costs | - | (31) | - | - | - | - | - | (31) |
| Profit for the year | - | - | - | - | - | - | 114,537 | 114,537 |
| Other comprehensive income | - | - | - | - | (1,219) | - | 21,982 | 20,763 |
| Reclassification of other comprehensive income to retained earnings | - | - | - | - | (8,301) | - | 8,301 | - |
| **Balance at December 31, 2020** | ₩ 541,454 | ₩ 12 | ₩ (726) | ₩ 2,332,832 | ₩ (15,808) | ₩ 322,509 | ₩ 586,504 | ₩ 3,766,777 |

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

## Daewoo Shipbuilding & Marine Engineering Co., Ltd.
### Separate Statement of Cash Flows
### Years Ended Decembmer 31, 2020 and 2019

| *(in millions of Korean won)* | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from (used in) operations | 40 | ₩ | (416,065) | ₩ | 2,603,464 |
| Dividends received | | | 4,284 | | 3,942 |
| Interests received | | | 22,155 | | 33,675 |
| Interests paid | | | (76,031) | | (101,519) |
| Income tax refund (paid) | | | 266 | | (3,003) |
| **Net cash inflow (outflow) from operating activities** | | | (465,391) | | 2,536,559 |
| **Cash flows from investing activities** | | | | | |
| Cash inflows from investing activities: | | | | | |
| Acceptance of government grants | | | 10 | | - |
| Decrease in short-term financial instruments | | | 1,185,903 | | 66,865 |
| Decrease in long-term financial instruments | | | 21,628 | | 316,559 |
| Decrease in financial assets at amortized costs | | | 7 | | 1 |
| Disposal of financial assets at fair value through profit or loss | | | 2,041 | | 259 |
| Disposal of financial assets at fair value through other comprehensive income | | | 10,487 | | 10 |
| Disposal of investments in subsidiaries | | | - | | - |
| Disposal of investments in associates and joint venture | | | 1,727 | | 9,750 |
| Disposal of non-current assets held for sale | | | - | | 10,331 |
| Disposal of property, plant and equipment/intangible assets | | | 1,821 | | 8,851 |
| Decrease in leasehold deposits | | | 2,313 | | - |
| Disposal of other investments | | | - | | 10,765 |
| | | | 1,225,937 | | 423,391 |
| Cash outflows from investing activities: | | | | | |
| Increase in short-term financial instruments | | | 779,019 | | 401,462 |
| Increase in long-term financial instruments | | | 47,707 | | 312,900 |
| Acquisition of financial assets at fair value through profit or loss | | | 5,000 | | 8,108 |
| Increase in long-term loans | | | 50,018 | | 18,400 |
| Acquisition of property, plant and equipment/intangible assets | | | 187,849 | | 155,732 |
| Increase in leasehold deposits | | | 3,696 | | - |
| Acquisition of other investments | | | 58 | | 87 |
| | | | 1,073,347 | | 896,689 |
| **Net cash inflow (outflow) from investing activities** | | ₩ | 152,590 | ₩ | (473,298) |

**Daewoo Shipbuilding & Marine Engineering Co., Ltd.**
**Separate Statement of Cash Flows**
**Years Ended Decembmer 31, 2020 and 2019**

| *(in millions of Korean won)* | **Notes** | **2020** | | **2019** | |
|---|---|---|---|---|---|
| **Cash flows from financing activities** | 40 | | | | |
| Cash inflows from financing activities: | | | | | |
| Proceeds from short-term borrowings | | ₩ | - | ₩ | 2,882 |
| | | | - | | 2,882 |
| Cash outflows from financing activities: | | | | | |
| Repayment of short-term borrowings | | | 93,797 | | 350,303 |
| Repayment of current portion of long-term debentures | | | 123,191 | | - |
| Repayment of current portion of long-term borrowings | | | 4 | | 4 |
| Repayment of lease liabilities | | | 28,081 | | 47,676 |
| Payment of redeemable deposits | | | 62,958 | | - |
| Payment of share issue cost | | | 32 | | - |
| | | | 308,063 | | 397,983 |
| **Net cash outflow from financing activities** | | | (308,063) | | (395,101) |
| **Net increase (decrease) in cash and cash equivalents** | | | (620,864) | | 1,668,160 |
| Cash and cash equivalents at the beginning of the year | | | 1,991,736 | | 325,732 |
| Effects of exchange rate changes on the cash and cash equivalents | | | (40,388) | | (2,155) |
| **Cash and cash equivalents at the end of the year** | 7 | ₩ | 1,330,484 | ₩ | 1,991,736 |

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

## 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 ships, including special-purpose ships and construction of offshore plants. As at December 31, 2020, the Company's major shareholder is Korea Development Bank ("KDB") (55.68%).

## 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years 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 International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate 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 financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value;
- assets held for sale – measured at fair value less costs to sell; and
- defined benefit pension plans – plan assets measured at fair value.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

### 2.2 Changes in Accounting Policies and Disclosures

*2.2.1 New and amended standards adopted by the Company*

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020.

*(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the financial statements.

*(b) Amendments to Korean IFRS 1103 Business Combination – Definition of a Business*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

*(c) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement and Korean IFRS 1107 Financial Instruments: Disclosure – Interest Rate Benchmark Reform*

The amendments allow to apply the exceptions in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Company assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the financial statements.

*2.2.2 New standards and interpretations not yet adopted by the Company*

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting period and have not been early adopted by the Company.

*(a) Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension*

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

*(b) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform*

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

*(c) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework*

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

*(d) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use*

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

*(e) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract*

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

*(f) Annual improvements to Korean IFRS 2018-2020*

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters

- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities

- Korean IFRS 1116 *Leases* – Lease incentives

- Korean IFRS 1041 *Agriculture* – Measuring fair value *(g) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

**2.3 Functional and Presentation Currency**

The financial statements are presented in Korean won ("KRW"), which is the Company's functional and presentation currency.

**2.4 Investments in Subsidiaries, Joint Ventures, and Associates**

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. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

**2.5 Foreign Currency Translation**

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of reporting period, foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are different, therefore, recognized in profit or loss in the period in which they arise. Exchange differences that applies hedge accounting with certain requirements are recognized in other comprehensive income.

When gains or losses on a nonmonetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

**2.6 Cash and Cash Equivalents**

The Company classifies cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value into cash and cash equivalents. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. Bank overdrafts which are repayable on demand of a financial institution are included as a component of cash and cash equivalents.

**2.7 Financial Instruments**

*(a) Financial assets*

The financial assets are recognized in the separate statement of financial position only when the Company is eligible for the contracting parties and the regular way acquisition or sales are recognized at the transaction date or settlement date. The financial assets are classified to financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost depending on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The financial assets are measured at fair value at initial recognition and the transaction cost directly incurred in relation to the acquisition is added to the fair value at the initial recognition otherwise it falls under the financial assets at fair value through profit or loss.

1) Financial assets at fair value through profit or loss

The following financial assets are classified to financial assets at fair value through profit or loss:

- financial assets held for short-term trading
- financial assets designated to financial assets measured at fair value through profit or loss
- financial assets that are not measured at fair value through other comprehensive income or amortized cost

The Company may designate certain financial assets upon initial recognition as at fair value through profit or loss when it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income and dividend income from financial assets at fair value through profit or loss are recognized in profit or loss.

2) Financial assets at fair value through other comprehensive income

The following financial assets are measured at fair value through other comprehensive income:

- Debt instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest

- Equity instruments that are not held for short-term trade and designed to financial assets measured at fair value through other comprehensive income

The financial assets under this category are measured at fair value after initial recognition. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of interest income, dividend income and foreign exchange gains and losses which are recognized in profit or loss.

When the financial asset under this category is disposed, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. However, the cumulative gain or loss incurred from equity instruments designed to this category is not reclassified to profit or loss.

Fair value of the financial assets under this category presented in foreign currency is measured at the foreign currency and translated by using the exchange rate at the end of the reporting period. Fair value movement resulting from foreign exchange difference due to the changes in amortized costs is recognized as profit or loss of the period and other movement is recognized as an element of equity.

3) Financial assets at amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and interest income is calculated by using the effective interest rate method.

4) Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

*(b) Expected credit losses of financial assets (debt instruments)*

Expected credit losses applies to financial assets at amortized const or at fair value through other comprehensive income except for fair value through profit or loss at the end of each reporting period. The method on measurement of impairment loss allowance depends on whether the credit risk has significantly increased or not. As presented in the following table, the Company recognizes 12-month expected credit losses in profit or loss or lifetime expected losses depending on whether there is a significant increase in credit risk after initial recognition.

| Stage | | Loss allowance |
|---|---|---|
| Stage 1 | No significant increase in credit risk after Stage 1 initial recognition[1] | 12-month expected credit losses: expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date |
| Stage 2 | Significant increase in credit risk after initial recognition | Lifetime expected credit losses: expected credit losses that result from all possible |
| Stage 3 | Credit-impaired | |

[1] No significant increase in credit risk is regarded in case where the credit risk is low at the end of the reporting period.

The asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance.

For trade receivables, contract assets and lease receivable, the Company applies the practical expedient to provide for expected credit losses, which requires the use of the lifetime expected loss allowance.

Expected credit loss is a probability weighted value of a range of possible outcomes and measured by using the time value of money, historical events and available information at the end of the reporting period without undue cost or effort to predict future economic circumstance.

*(c) Financial liabilities*

Financial liabilities are recognized in the separate statement of financial position only when the Company is a party of financial instrument contract and classified as financial liabilities at fair value through profit or loss or other financial liabilities. The financial liabilities are measured at fair value at initial recognition and the transaction cost directly incurred in relation to the transaction is deducted from the fair value at the initial recognition otherwise it falls under the financial liabilities at fair value through profit or loss.

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes the financial liabilities designated to financial liabilities measured at fair value through profit or loss at initial recognition. After initial recognition, financial liabilities are measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. The transaction costs are recognized as profit or loss of the period as incurred.

2) Financial liabilities not subject to fair value through profit or loss

Financial liabilities that are not classified as fair value through profit or loss are measured at amortized costs by using the effective interest rate method after the initial recognition except for the following financial liabilities.

The financial liabilities that the transfer does not qualify for derecognition or the continuing involvement approach is applicable are measured to the extent of net carrying amount of the transferred assets and liabilities. The financial liabilities are measure to the extent where the net carrying amount of the transferred assets and relevant liabilities is equivalent to the independently measured fair value on right and obligation of transferor.

Financial guarantee liabilities (except for the transfer of financial assets that are not qualifying for derecognition or financial liabilities that the continuing involvement approach is applicable) and commitments to provide a loan at a below-market interest rate are measured at the higher of the expected credit loss allowance or the amount initially recognized less the cumulative amount of income.

3) Derecognition of financial liabilities

Financial liabilities (or a part of financial liabilities) are derecognized in the separate statement of financial position only when it is extinguished. The initially recognized financial liabilities are derecognized and financial liabilities are newly recognized when the existing debtor or creditor exchanges the debt instrument with substantially non-equivalent condition, or the terms of the existing financial liabilities are substantially changed. The difference between the carrying amount and the consideration resulting from the financial liabilities extinguished or transferred to third parties is recognized as profit or loss for the period.

*(d) Net-off of financial assets and liabilities*

The Company nets off financial assets and liabilities and presents the net amount in the separate statement of financial position when the Company hold a right for net-off and has an intention to settle down the net amount.

*(e) Classification of liabilities and equities*

The debt instrument and equity instrument have been classified to liabilities or equities based on the substance of the contract or the definition of financial liabilities or equity instrument.

*(f) Derivative Instruments*

Derivatives are initially recognized at fair value on the ate when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period.

1) Embedded derivatives

i) Hybrid contracts with financial asset hosts

Financial assets with embedded derivatives are classified being considered in their entirety, and the embedded derivatives are not separated for recognition. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

ii) Other hybrid contracts (including hosts that are not financial assets)

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- a separate instrument with the same terms as the embedded derivative meets the definition of a derivative; and
- the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

2) Hedge accounting

Fair value hedge accounting is applied if it is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk. Cash flow hedge accounting is applied if it is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

To apply hedge accounting, the hedging relationship, the strategy for undertaking the hedge, the risk being hedged, and how the entity will assess the hedging instrument's effectiveness and others are documented. The hedging instrument's effectiveness represents the effectiveness of the changes in the hedged item's fair value or cash flows due to the risk being hedged offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged item.

3) Fair value hedges

If derivatives and non-derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss. If the hedged items are equity instruments for which the Company has elected to present changes in fair value in other comprehensive income, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in other comprehensive income. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

4) Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The ineffective portion is recognized in profit or loss. Cash flow hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. When the cash flow hedge accounting is discontinued and it is expected that there will be still future cash flows from the hedged item, the cumulative reserve for cash flow hedge is reserved until future cash flow is incurred or it is expected that the reserve for cash flow hedge is a loss and will not be recovered in the future entirely or partially. However, if the future cash flow of the hedged item is no longer expected to occur, the cumulative reserve for cash flow hedge is immediately recognized to profit or loss.

5) Hedges of net investment in a foreign operation

In case of the hedges of net investment in a foreign operation, the effective portion of the hedges is recognized in other comprehensive income. The ineffective portion is recognized in profit or loss. The effective portion recognized in other comprehensive income is reclassified to profit or loss in accordance with Korean IFRS 1021 *The Effects of Changes in Foreign Exchange Rates* at disposal of the foreign operation in its entirety or partial in the future.

**2.8 Trade Receivables**

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, and subsequently measured at amortized cost using the effective interest method, less loss allowance.

**2.9 Inventories**

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. The unit cost of inventories is determined by using the moving-weighted average method excluding for work in process and goods in transit (the specific identification method).

Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale, and it is revaluated for each reporting period.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**2.10 Investment Property**

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost including transaction cost. An investment property is measured after initial measurement at depreciated cost less any accumulated impairment losses. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Investment property, except for land, is depreciated using the straight-line method over their useful lives of 60 years. The Company reviews the depreciation method, residual values and useful lives of investment property at the end of each reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

Investment property is replaced only if the use of the property is changed, and the carrying amount before the replacement is succeeded when the replacement takes a place among investment property, owner-occupied property and inventories.

Investment property is derecognized from the statement of financial position upon disposal, or when the use of it is permanently ceased and no future economic benefits are expected from disposal. A gain or loss from discard or disposal of investment property is the difference between the net disposal amount and the carrying amount, and is recognized in profit or loss for the period in which the discard or disposal occurs.

**2.11 Property, Plant and Equipment**

Property, plant and equipment are initially stated at cost. The cost of an item of property, plant and equipment is directly attributable to its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment, excluding land, are measured after initial measurement at depreciated cost less any accumulated impairment losses. Land is carried at fair value at revaluation date after initial measurement, less accumulated impairment losses. Valuation is performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

| | **Useful lives** |
|---|---|
| Buildings | 12 ~ 60 years |
| Structures | 12 ~ 50 |
| Machinery | 12 ~ 30 |
| Ships and aircraft | 15 ~ 40 |
| Vehicles and others | 6 ~ 15 |

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment, excluding land, shall be derecognized upon disposal; or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognized.

Increases in the carrying amount arising from revaluation of land are recognized in other comprehensive income as revaluation reserves. Increases that offset previous decreases of the same asset that are charged to profit or loss are recognized in profit or loss for the offsetting amount; all other decreases are recognized in profit or loss. However, if there is a remaining balance of revaluation reserves for the same asset, decreases of the asset is recognized in other comprehensive income for the remaining amount. Meanwhile, revaluation reserves related to asses held for sale is transferred to retained earnings at disposal.

**2.12 Intangible Assets**

The Company recognizes as an intangible asset when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Intangible assets are initially recognized at its historical cost and carried at cost less accumulated amortization and accumulated impairment losses.

*(a) Intangible assets acquired separately*

The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use.

*(b) Goodwill*

The Company recognizes goodwill at the acquisition date measured as the excess of (1) over (2) below: (1) the aggregate of: (i) the consideration transferred, which generally requires acquisition date fair value; (ii) the amount of any non-controlling interest in the acquiree; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree. (2) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

*(c) Acquisition as part of a business combination*

The acquisition cost of an intangible asset that is recognized separately from the goodwill acquired in a business combination is measured at the fair value at the acquisition date.

*(d) Internally generated intangible assets*

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated: the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Company's intention to complete the intangible asset for use or sale, the intangible asset's method of creating the future economic benefit, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and the ability to measure reliably the expenditure attributable to the intangible asset during its development. The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above, and includes all expenditures that are directly related to the intangible asset's output, production and preparation of the intangible asset for operation under management's intention. An internally generated goodwill is not recognized as an asset.

*(e) Useful lives and amortization*

Intangible assets with a finite useful life, the amount subject to amortization is recognized on a straight-line basis over their estimated useful lives when the asset is available for use. The amount of an asset with a finite useful life is determined after deducting its residual value. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless: (1) there is a commitment by a third party to purchase the asset at the end of its useful life; or (2) there is an active market for the asset and: (i) residual value can be determined by reference to that market; and (ii) it is probable that such a market will exist at the end of the asset's useful life. The estimated useful lives, and amortization method for an intangible asset with a finite useful life are reviewed at the end of each reporting period, and when it is deemed appropriate to change them, the effect of any change is accounted for as a change in accounting estimates.

An intangible asset with an indefinite useful life shall not be amortized. The Company is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount (1) annually, and (2) whenever there is an indication that the intangible asset may be impaired. The useful life of an intangible asset is reviewed at the end of each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment shall be accounted for as a change in an accounting estimate.

The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

| | **Useful lives** |
|---|---|
| Industrial rights | 5 ~ 10 years |
| Development expense | 5 |
| Exclusive right to use facilities | 20 ~ 40 |

*(f) Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

### 2.13 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

Grants subject to repayment are accounted for as a change in an accounting estimate.

### 2.14 Emission Permits and Obligations

The emission obligations generated by emitting greenhouse gasses are measured as sum of book value of each compliance year's emission permits which the Company holds and best estimation of expected expenditure required to fulfill obligation about amounts that exceeding the emission permits as of year-end. The emission permits and the emission obligations are classified as 'intangible assets' and 'current provisions' respectively on the statement of financial position.

### 2.15 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 45 ~ 90 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within the date other than the normal operational course. They are considered to be the same as their fair values, due to their short-term nature.

**2.16 Leases**

*(a) Lessor*

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

*(b) Lessee*

The Company leases various offices, warehouses, accommodations, ships, equipment and cars. Lease contracts are typically made for fixed periods of 2 to 10 years, but may have extension options as described in (d) below.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is lessee, the Company applies the practical expedient which has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company determines the lease term as the non-cancellable period of a lease, together with both (1) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (2) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Company should consider a termination penalty in determining the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company (the lessee) under residual value guarantees;
- the exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT-equipment and small items of office furniture.

*(c) Variable lease payments*

Some ship leases contain variable payment terms that are linked to shipment volume. Variable lease payments that depend on shipment volume are recognized in profit or loss in the period in which the condition that triggers those payments occurs. The variable lease payments paid upon contracts with such variable payment terms amount to ₩ 3,708 million (2019: ₩ 4,428 million) for the year ended December 31, 2020.

*(d) Extension and termination options*

Extension and termination options are included in a number of leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

*(e) Residual value guarantees*

To optimize lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases.

**2.17 Provisions**

Provisions are recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources with economic benefits will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account of the inevitable risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows, and provisions are discounted using a pretax interest rate that reflects the assessment of the current market over the risks specific to the liability and the time value of money. The risks reflected on this discount rate do not include the risks considered for estimating the future cash flows. If there is a sufficient and objective evidence that there will be a future event affecting the expenditure to settle a present obligation, the Company estimates provisions considering this future event. The Company does not consider the expected gain on disposal of assets when measuring provisions.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.

The Company reviews the balance amounts of provisions at the end of each reporting period and adjusts the balance amounts by reflecting the best estimates as at the end of the reporting period. If it is not probable that an outflow of resources with economic benefits will be required to settle the obligation, the Company recognizes a reversal of provisions. Provisions are used for the expenditures that are related to the initial recognition.

### 2.18 Treasury Shares

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The gain or loss from the purchase, disposal, reissue, or retirement of treasury shares is not recognized as current profit or loss.

### 2.19 Revenue Recognition

For all contracts with customers that are applicable of Korean IFRS 1115 *Revenue from Contracts with Customers*, revenue is recognized applying the following five-step process to contracts with customers:

- identify contracts with customers;
- identify the separate performance obligation;
- determine the transaction price of the contract;
- allocate the transaction price to each of the separate performance obligations; and
- recognize the revenue as each performance obligation is satisfied.

*(a) Identify performance obligation*

The Company operates commercial ships division, offshore plant and special ships division and other business division. For the year ended December 31, 2020, revenue from the commercial ships division and offshore plant and special ships division amount to ₩ 5,116,938 million and ₩ 1,873,811 million, respectively, which represent 72.7% and 26.6% of the Company's total revenue, respectively.

The Company identifies the separate performance obligations if; i) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and ii) the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The Company identifies a construction of each vessels in contracts entered by commercial ships, offshore plants and special ships division as a performance obligation. Sales of goods and rendering of services that are distinct such as purchase and procurement activity are identified as a separate performance obligation.

*(b) A performance obligation is satisfied over time*

The commercial ships division and offshore plant and special ships division of the Company build and sell ships ordered by customers, and it generally takes over one year to build.

The Company transfers the control over the goods or services over time, and consequently, it is considered that a performance obligation is satisfied over time; thus, revenue is recognized over time, if one of the following three criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

- The entity's performance creates or enhances an assets that the customer controls as the asset is created or enhanced; or

- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

As a result of the contract terms and conditions analysis, the Company recognizes revenue over time on the basis that the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. However, in case of a resale contract for certain ships of which contract is terminated, the revenue is recognized upon delivery as it is deemed to have an alternative use at contract inception, depending on the progress of completion of the ship's construction.

*(c) Measuring percentage of completion using input methods*

Revenue for performance obligation satisfied over time is recognized using percentage of completion based on the input method. An entity shall exclude from an input method the effects of any inputs that do not depict the entity's performance in transferring control of goods or services to the customer. When the outcome of performance obligation cannot be estimated reliably but the cost is expected to be recoverable, revenue is recognized only to the extent of costs incurred until the outcome can be estimated reliably.

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

*(d) Variable consideration*

The Company may experience variable consideration due to liquidated damage and change order caused by the delays in delivery and overweight of vessels. Moreover, some of national defense contracts include cost reimbursement agreements in which the total contract revenue is determined based on the cost that is admitted in accordance to the Rules for Calculation of Cost of Defense Materials.

The Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration has resolved.

*(e) A significant financing component in the contract*

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

*(f) Allocation of transaction prices*

The Company allocates transaction prices based on the individual selling prices for the various performance obligations identified in a single contract.

*(g) Incremental costs of obtaining a contract*

The Company pays broker commissions to its brokers based on certain supply contracts. Such incremental cost for obtaining a contract is an incremental cost because it would not have incurred if the contract has not been obtained. Any cost that is incurred regardless of obtaining a contract is recognized as an expense as incurred unless it can be charged to the customer whether the contract is obtained or not.

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

*(h) Warranties*

The Company analyzed the effect of warranties, and concluded that the impacts on the financial statements are not significant. The Company provides customers for certain project with another warranty in addition to the standard warranty assuring that the product complies with agreed-upon specifications. Therefore, the promised service is a separate performance obligation in accordance with Korean IFRS 1115.

If the Company provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the Company accounts for the promised warranty as a separate performance obligation and allocate a portion of the transaction price to service provided and warranty service.

*(i) Contract assets and liabilities*

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, and a contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. The Company presents contract assets and liabilities arising from the same contract in the statement of financial position at net amount by offsetting each other.

**2.20 Employ Benefits**

*(a) Short-term employ benefits*

Short-term employ benefits include salaries, social security contributions, short-term paid leaves such as paid annual leaves or paid sick leaves to be approved within 12 month from the fiscal period in which an employ provides the related service, profit-sharing and bonus to be paid within 12 month from the fiscal period in which an employ provides the related service, and non-cash benefits for currently working employees. When an employee has rendered service to the Company during a certain period, the Company recognizes the undiscounted short-term employ benefit expected to be paid in exchange for that service as accrued expense, after deducting any benefit already paid. If the benefit already paid exceeds the undiscounted amount, the Company recognizes a decrease in the future payment or a refund in cash arising from the exceeds as prepaid expense. The Company recognizes short-term employ benefits as expenses unless they are included in costs of assets in accordance of other Korean IFRS.

*(b) Post-employment benefits*

1) Defined contribution plan

The defined contribution plan is a retirement benefit plan in which the Company pays a fixed amount of contributions to an entity (a fund), the Company’s legal and constrictive obligations are limited to the contractual amount to be paid to a fund, and the amount of post-employment benefits is determined according to the Company’s retirement benefit plan, contributions to insurance entities and the investment gains from those contributions. When an employee has rendered service to the Company during a certain period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as accrued expense, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes the excess as prepaid expense. The Company recognizes contributions as expenses unless they are included in costs of assets in accordance of other Korean IFRS.

2) Defined benefit plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The amount recognized as net defined benefit liabilities is the present value of defined benefit obligations at the end of the reporting period less fair value of plan assets at the end of the reporting period that can directly settle the related defined benefit obligations. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is denominated in the same currency in which the benefits are expected to be paid, and calculated at the discount rate, which is the market yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligation.

Among defined benefit costs, net interests from current service costs and net defined benefit liabilities (assets) are recognized in profit or loss, and remeasurements of net defined benefit liabilities (assets) are recognized in other comprehensive income. Meanwhile, net defined benefit liabilities (assets) recognized in other comprehensive income is not reclassified into profit or loss for the subsequent period.

Net defined benefit assets, negative amount of net defined benefit liabilities, is recognized on a limit of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

If a defined benefit plan that attributes benefits to past services is newly adopted or the existing plan changes the benefits to be paid for past services, the past service costs incurred are measured as a change in liabilities due to plan amendments and recognized as expenses as incurred.

*(c) Other long-term employee benefits*

The Company provide long-term employee benefits that are entitled to employees with service period for five years and above. The liabilities recognized in relation to other long-term employee benefits is the present value of defined benefit obligations at the end of the reporting period less fair value of plan assets at the end of the reporting period that can directly settle the related defined benefit obligations.

*(d) Termination benefits*

A liability and expense for a termination benefit are recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs under Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*.

### 2.21 Impairment of Assets

Except for inventories, contact assets recognized under Korean IFRS 1115 *Revenue from Contacts with Customers* or assets recognized from costs incurred for obtaining or performing a contract, deferred tax assets, assets recognized from employee benefits, financial assets, investment property measured at fair value, non-current assets held for sale and others, an impairment loss on an asset is recognized by the following methods.

For intangible assets with indefinite useful lives, intangible assets not ready for use and goodwill acquired by a business combination, the recoverable amount is estimated annually regardless of the indication of an impairment of the asset. For other assets, the Company reviews whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

A recoverable amount of an asset is the higher of net fair value or value in use of the asset or the CGU. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. If the revaluation amount is to be the carrying amount in accordance with the revaluation model, an impairment loss of an asset is accounted as a decrease in revaluation.

For the purpose of impairment testing, goodwill acquired in a business combination, from the acquisition date, should be allocated to each of the acquirer's CGUs that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit.

Assets are estimated for their recoverable amounts if there is any indication of impairment after reviewing for non-existence of or a decrease in past impairment loss of assets other than goodwill at the end of each reporting period. A reversal of impairment loss is recognized only when there is a change in the estimates used for determining the recoverable amount after the recognition of the previous impairment loss. The carrying amount of the asset increased due to the reversal of impairment loss cannot exceed the depreciation amount or the carrying amount after depreciation before recognizing the impairment loss. A reversal of an impairment loss is recognized immediately in profit or loss. A reversal of impairment loss of a CGU is distributed in proportion to the carrying amounts of the assets (excluding goodwill) comprising the CGU, and impairment loss of goodwill is not reversed for the subsequent period.

### 2.22 Income Tax

The tax expense (benefit) for the period consists of current and deferred tax (benefit). Current and deferred income tax is recognized in profit or loss. Current and deferred tax related to items that are direct additions or deductions to equity for the current or other reporting period is recognized directly in equity.

*(a) Current income tax*

Current income tax is a corporate income tax to be paid (refunded) for taxable profit (loss) for the reporting period. Taxable income (loss) is income (loss) for the period that is used for calculating income tax to be paid (refunded) in accordance with laws by the taxation authorities and may differ from income or loss on the separate statement of other comprehensive income.

The current income tax liabilities (assets) for the current and prior reporting periods is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The current income tax expenses for the current and prior reporting periods that has not been paid are recognized as liabilities, and any overpaid amounts are recognize as assets. Any benefit related to taxable loss subject to retroactive deduction for the current income tax for the prior reporting period is recognized as assets.

*(b) Deferred income tax*

Deferred tax liabilities are recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and they arise from high probability that the timing of the reversal of the temporary difference is controlled by the parent entity, investors or participants in relation to investments in subsidiaries, branches and associates and interests in joint agreements and temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences. However, deferred tax assets are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss; and they arise from high probability that investors or participants in relation to investments in subsidiaries, branches and associates and interests in joint agreements and temporary differences will not reverse in the foreseeable future, or it is not probable that future taxable profit will be available to utilize those temporary differences. The Company recognizes a deferred tax asset to the extent of deferred unused tax loss and tax credits only if it is probable that future taxable profit will be available to utilize the unused tax loss and tax credits.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The reduced amount is reversed to the extent that it has become probable that there will be sufficient taxable profit for utilizing the reduced amount.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted until the end of the reporting period, and they are not discounted.

The Company has a legally enforceable right to offset current tax assets and tax liabilities. Deferred tax assets and liabilities are offset in relation to the deferred tax balances by the same taxation authority.

**2.23 Earnings per Share**

The Company calculates basic and diluted earnings per share for profit or loss attributable to ordinary shareholders of the Company and presents them in the statement of comprehensive income.

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Profit or loss attributable to ordinary shareholders of the Company is profit from continuing operations and profit or loss for the period adjusted by dividends for preferred shares, net of tax, differences from redemption of preferred shares and other similar effects.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**2.24 Non-current Assets Held for Sale**

An entity classifies a non-current asset as held for sale if its carrying amount will be recovered mainly through selling the asset rather than through usage. Non-current assets held for sale are measured at the lower of the net fair value or the carrying amount, and are not depreciated (amortized). Non-current assets held for sale are presented on the statement of financial position being separated from other assets. The assets or liabilities included in a disposal group held for sale are presented on the statement of financial position being separated from other assets and liabilities.

**2.25 Financial Guarantee Agreements**

A financial guarantee agreement provided by the Company is initially measured at fair value, and subsequently measured at the higher of the followings and recognized as other financial liabilities:

- provision calculated in accordance to the impairment policy for financial instruments; or

- the initially recognized amount less the accumulated gain recognized in accordance to Korean IFRS 1115 *Revenue from Contracts with Customers*.

### 2.26 Segment Reporting

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief executive officer. The chief executive officer is responsible for allocating resources and assessing performance of the operating segments. The chief operation executive makes a decision on general operations, and the Company makes a decision on projects requiring strategic orders through the order discussion committee.

### 2.27 Error Correction

Excluding a case in which the effect from an error in a reporting period or the cumulative effect from the error cannot be practically determined, financial information is restated if the comparative financial statements for the period in which an error has occurred are presented on the financial statements that are initially approved for issuance after the material error in the prior reporting period has been identified.

### 2.28 Approval of Separate Financial Statements

The separate financial statements for the year ended December 31, 2020 were approved by the Board of Directors on March 10, 2021 and may be approved with a modification at the general shareholders' meeting.

## 3. Critical Accounting Estimates and Assumptions

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Additional information of significant judgement and assumptions of certain items are included in relevant notes.

### 3.1 Impact of Coronavirus Disease 2019 (“COVID-19”)

During 2020, the spread of Coronavirus disease 2019 (“COVID-19”) has a material impact on domestic and global economy, and accordingly, it may potentially have a negative impact on revenue and other financial performance of the Company in the future. It is highly uncertain to expect range of the impact of COVID-19 on the financial position and financial performance, and COVID-19 would affect to the Company’s customers, suppliers and overall global market by various factors. Therefore, the Company’s financial performance may not reflect the effect of COVID-19 completely.

The Company operates their business in significantly changed manner of restricting workplace and movements of employees, or cancelling activities for customers, and it is expected to cause decrease in productivity as well as decrease/delay in sales, loss on chance for future sales and others. In addition, it is expected to have a negative impact; such as, decrease in consumption of the customers, decrease in new sales due to delay in supply and collection of existed receivables, because operating environments including the market are exposed to the material uncertainty.

Also, the production volume may not reach to the normal volume due to the effect from COVID-19, and if the actual volume does not reach to the normal volume, the fixed indirect manufacturing cost is distributed based on the normal volume and the undistributed fixed indirect manufacturing cost (volume loss) is recognized as an expense for the period.

Significant accounting estimates and assumptions applied in the preparation of the separate financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company’s business, financial position and financial performance and liquidity cannot presently be determined.

### 3.2 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.

### 3.3 Deferred Tax Assets

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

**3.4 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**

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**

*(a) 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).

*(b) 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 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. For the current period, the estimated total contract cost was increased due to changes in the key raw materials and price changes from exchange rate fluctuation, changes in assumptions for orders and others in commercial ships and special ships.

As at December 31, 2020, 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 ₩ 364,560 million.

*(c) 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. Such measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future event. Under the cost redemption agreement that the Company is performing, the contract price is estimated based on the amount of cost that is expensed for performing a contract and recognized in the total contract revenue.

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.

*(d) 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 December 31, 2020, the maximum amount for liquidated damages arising from delays caused by the Company is estimated to be ₩ 163,612 million. From this amount, the amount that the Company is likely to pay due to its responsibility is expected to be ₩ 142,050 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.

*(e) Uncertainty of estimates in collectability of contract assets (Due from customer for contract 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’.

## 4. Financial Instruments

### 4.1 Financial Risk Factors

The Company's activities are exposed 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 foreign currency risk management committee, and the risk management department identifies, assesses and hedges financial risks through close cooperation with other relevant departments. Overall, financial risk management policy of the Company is consistent with that of the prior period.

#### 4.1.1 Market Risk

*(a) Foreign currency risk*

1) 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 December 31, 2020 and 2019.

*(in millions of Korean won)*

| | December 31, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD | | EURO | | JPY | | Others | | Total | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Functional currency** | | | | | | | | | | |
| KRW | ₩ 2,877,098 | ₩ 1,446,913 | ₩ 828 | ₩ 133,484 | ₩ 22 | ₩ 54 | ₩ 5,793 | ₩ 6,107 | ₩ 2,883,741 | ₩ 1,586,558 |

*(in millions of Korean won)*

| | December 31, 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD | | EURO | | JPY | | Others | | Total | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Functional currency** | | | | | | | | | | |
| KRW | ₩ 2,586,607 | ₩ 1,807,474 | ₩ 781 | ₩ 30,490 | ₩ 162 | ₩ 481 | ₩ 40,513 | ₩ 13,606 | ₩ 2,628,063 | ₩ 1,852,051 |

The Company's sensitivity to a 10% increase or decrease in Korean won (functional currency of the Company) against the major foreign currencies as at December 31, 2020 and 2019, is presented in the table below. The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies. The impact of weakened/strengthened Korean won by 10 % on the Company's pre-tax profit for the year is as follows:

| *(in millions of Korean won)* | **December 31, 2020** | | | |
|---|---|---|---|---|
| | **USD** | **EURO** | **JPY** | **Others** |
| 10% increase (Korean won weakened) | ₩ 143,019 | ₩ (13,266) | ₩ (3) | ₩ (31) |
| 10% decrease (Korean won strengthened) | (143,019) | 13,266 | 3 | 31 |

| *(in millions of Korean won)* | **December 31, 2019** | | | |
|---|---|---|---|---|
| | **USD** | **EURO** | **JPY** | **Others** |
| 10% increase (Korean won weakened) | ₩ 77,913 | ₩ (2,971) | ₩ (32) | ₩ 2,691 |
| 10% decrease (Korean won strengthened) | (77,913) | 2,971 | 32 | (2,691) |

2) Forward foreign exchange contracts

The Company operates internationally to win contracts for commercial ships and offshore plant projects, and is exposed to foreign exchange risk, primarily the changes of exchange rates in U.S. dollar or Euro. Foreign exchange risk arises from advance received denominated in foreign currency from customers and an exchange rate fluctuation of delivery payment. The risk is measured through a forecast of highly probable U.S. dollar and Euro receivables. The risk is hedged with the objective of minimizing the volatility of the sales of the Company.

The Company treasury's risk management policy is to hedge more than 40% of exposure to foreign currency risk of construction payment (firm commitment), of which the Company will receive according to payment conditions stated in the construction contract of ships and offshore plants.

The Company uses foreign currency forwards to hedge its exposure to foreign currency risk. Under the Company's policy the critical terms of the forwards must align with the hedged items.

The Company only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points and discounted to present value.

The Company also entered into foreign currency forwards in relation to projected purchases for the next 12 months that do not qualify as 'highly probable' forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as held for trading with gains or losses recognized in profit or loss.

The following details the forward foreign currency contracts outstanding as at December 31, 2020 and 2019.

| *(in millions of Korean won, in thousands of foreign currency, except for exchange rate)* | | December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Average contracted exchange rate** | **Sell Amounts** | | **Buy Amounts** | | **Fair value assets (liabilities)** | |
| **For fair value hedging** | | | | | | | | |
| Sell USD | ₩ | 1,137.42 | USD | 3,164,350 | KRW | 3,599,206 | ₩ | 159,690 |
| Sell EUR | | 1,353.68 | EUR | 189,386 | KRW | 256,369 | | 2,699 |
| | | | USD | 3,164,350 | | | | |
| Total | | | EUR | 189,386 | KRW | 3,855,575 | ₩ | 162,389 |

| *(in millions of Korean won, in thousands of foreign currency, except for exchange rate)* | | December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Average contracted exchange rate** | **Sell Amounts** | | **Buy Amounts** | | **Fair value assets (liabilities)** | |
| **For fair value hedging** | | | | | | | | |
| Sell USD | ₩ | 1,108.98 | USD | 3,338,975 | KRW | 3,702,868 | ₩ | (115,577) |
| **For trading** | | | | | | | | |
| Sell USD | | 1,170.75 | USD | 18,000 | KRW | 21,074 | | 287 |
| Total | | | USD | 3,356,975 | KRW | 3,723,942 | ₩ | (115,290) |

3) Effects of hedge accounting

The effects of the foreign currency related hedging instruments on the Company's financial position and performance are as follows:

| *(in millions of Korean won, in thousands of foreign currency)* | | **2020** | | **2019** |
|---|---|---|---|---|
| (Currency forward) | | | | |
| Currency forward assets | KRW | 166,644 | KRW | 6,910 |
| Currency forward liabilities | KRW | 4,255 | KRW | 122,487 |
| Notional amount (USD) | USD | 3,164,350 | USD | 3,338,975 |
| Notional amount (EUR) | EUR | 189,386 | EUR | - |
| Maturity | | 2021/01 ~ 2023/12 | | 2020/02 ~ 2022/09 |
| Hedge ratio | | 1:1.033 | | 1:0.941 |
| Change in discounted exchange rate | KRW | 162,389 | KRW | (115,577) |
| Change in value of hedged item | KRW | (157,210) | KRW | 122,872 |
| Weighted average hedged exchange rate (USD) | USD | 1,086.54 | USD | 1,145.15 |
| Weighted average hedged exchange rate (EUR) | EUR | 1,339.03 | EUR | - |

*(b) Price risk*

The Company's investment in marketable equity securities is made upon management's decision. For the year ended December 31, 2020, the Company has disposed all marketable equity securities that are classified as financial assets that are measured at fair value through other comprehensive income.

*(c) 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.

1) The Company's exposures to interest rates on financial assets and financial liabilities as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Fixed interest rate: | | | | |
| Financial assets[1] | ₩ | 1,818,049 | ₩ | 2,432,077 |
| Financial liabilities[2] | | (1,321,439) | | (1,389,654) |
| | ₩ | 496,610 | ₩ | 1,042,423 |
| Floating interest rate: | | | | |
| Financial assets[1] | ₩ | - | ₩ | 408,124 |
| Financial liabilities[2] | | (1,312,400) | | (1,480,986) |
| | ₩ | (1,312,400) | ₩ | (1,072,862) |

[1] Financial assets consist of cash and cash equivalents, short-term and long-term financial instruments, short-term and long-term loans and financial assets at amortized cost (government and public bonds).
[2] Financial liabilities consist of short-term and long-term borrowings and debentures.

2) The contractual re-pricing dates of the financial liabilities as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | | Amount | Ratio | | Amount | Ratio |
| Fixed interest rate | ₩ | 1,312,400 | 48.0% | ₩ | 1,480,986 | 48.8% |
| Fixed interest rate: re-pricing dates[1] | | 1,423,181 | 52.0% | | 1,553,963 | 51.2% |
| Up to 6 months | | 750,472 | 27.4% | | 633,288 | 20.9% |
| 6 to 12 months | | 123,428 | 4.5% | | 123,260 | 4.1% |
| 1 to 5 years | | 486,596 | 17.8% | | 687,262 | 22.6% |
| Over 5 years | | 62,686 | 2.3% | | 110,153 | 3.6% |
| Discount on debentures | | (58,829) | - | | (112,744) | - |
| Present value discounts | | (42,913) | - | | (51,565) | - |
| | ₩ | 2,633,839 | 100.0% | ₩ | 2,870,640 | 100.0% |

[1] Re-pricing date is earlier of the contractual re-pricing dates or contract maturity.

3) The cash flow sensitivity analyses of floating-rate financial assets and liabilities

The table below summarizes the impact of increases/decreases of interest rate on the Company's pre-tax profit for the year. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant.

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Financial instruments with floating interest rates: | | | | |
| 100bp Increase | ₩ | (13,124) | ₩ | (10,729) |
| 100bp Decrease | | 13,124 | | 10,729 |

The sensitivity analyses above have been determined based on the assumption that the amount of floating-rate financial assets and liabilities outstanding at the end of the reporting period has been identical for the whole reporting period.

**4.1.2 Credit Risk**

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. For financial guarantee liabilities, whose contract period has been expired for the year ended December 31, 2020, it is represented by the maximum amount to be paid at the debtor's request, which amounts to ₩ 21,854 million as at December 31, 2019 (Notes 18).

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.

*(a) Security*

For some trade receivables, the Company may obtain security in the form of Corporate Guarantee which can be called upon if the counterparty is in default under the terms of the agreement.

*(b) Impairment of financial assets*

The Company has following types of financial assets that are subject to the expected credit loss model:

- Trade receivables and contract assets for sales of goods and provision of services,
- Contract assets relating to provision of services, and
- Other financial assets carried at amortized cost.

1) Trade receivables and contract assets

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics.

i) Movements in the loss allowance provision for trade receivables and contract assets for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | |
|---|---|---|---|
| | **Trade receivables** | **Contract assets** | **Total** |
| Beginning balance | ₩ 703,315 | ₩ 37 | ₩ 703,352 |
| Impairment | 10,190 | 8,596 | 18,786 |
| Others | (244) | - | (244) |
| Ending balance | ₩ 713,261 | ₩ 8,633 | ₩ 721,894 |

| *(in millions of Korean won)* | 2019 | | |
|---|---|---|---|
| | **Trade receivables** | **Contract assets** | **Total** |
| Beginning balance | ₩ 704,093 | ₩ 95,125 | ₩ 799,218 |
| Impairment (reversal) | (40,452) | 1,824 | (38,628) |
| Others | 39,674 | (96,912) | (57,238) |
| Ending balance | ₩ 703,315 | ₩ 37 | ₩ 703,352 |

The impairment losses on trade receivables and contract assets were assessed based on the expected credit losses model considering the past credit loss experiences according to changes in the accounting standard (in prior year: the incurred loss model). The estimated impairment losses on these receivables are presented separately in the provision for impairment. The Company considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, or
- default or significant delinquency in payments.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within impairment loss in the statement of profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

ii) The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

The loss allowance provision as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | | **December 31, 2020** | | |
|---|---|---|---|---|---|
| | | | **Expected loss rates** | **Gross carrying amount** | **Loss allowance provision** |
| Trade receivables | Collective assessment | Affiliates | 3.37% | ₩ 641 | ₩ 22 |
| | | Government organization | 0.00% | 42,444 | - |
| | | Others | 0.87% | 545,711 | 4,669 |
| | | Sub-total | 0.80% | 588,796 | 4,691 |
| | Individual assessment | | - | 718,762 | 708,571 |
| | | | - | ₩ 1,307,558 | ₩ 713,262 |
| Contract assets | Collective assessment | Affiliates | 3.37% | ₩ - | ₩ - |
| | | Government organization | 0.00% | 90,839 | - |
| | | Others | 0.00% | 1,791,034 | 32 |
| | | Sub-total | 0.00% | 1,881,873 | 32 |
| | Individual assessment | | - | 285,677 | 8,601 |
| | | | - | ₩ 2,167,550 | ₩ 8,633 |

| *(in millions of Korean won)* | | | December 31, 2019 | | |
|---|---|---|---|---|---|
| | | | Expected loss rates | Gross carrying amount | Loss allowance provision |
| Trade receivables | Collective assessment | Affiliates | 8.79% | ₩ 913 | ₩ 80 |
| | | Government organization | 0.00% | 20,961 | - |
| | | Others | 0.59% | 318,953 | 1,415 |
| | | Sub-total | 0.44% | 340,827 | 1,495 |
| | Individual assessment | | - | 726,123 | 701,820 |
| | | | - | ₩ 1,066,950 | ₩ 703,315 |
| Contract assets | Collective assessment | Affiliates | 8.79% | ₩ - | ₩ - |
| | | Government organization | 0.00% | 1 | - |
| | | Others | 0.59% | 1,880,219 | 37 |
| | | Sub-total | 0.00% | 1,880,220 | 37 |
| | Individual assessment | | - | 291,184 | - |
| | | | - | ₩ 2,171,404 | ₩ 37 |

2) Other financial assets at amortized cost

Other financial assets at amortized cost include loans, other receivables, accrued income and deposits. Movements in loss allowance provision for other financial assets at amortized cost for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | |
|---|---|---|---|---|---|
| | Loans | Other receivables | Accrued income | Deposits | Total |
| Beginning balance | ₩ 287,898 | ₩ 88,908 | ₩ 28,601 | ₩ 16,703 | ₩ 422,110 |
| Impairment (reversal) | 50,018 | (2,630) | - | (1,337) | 46,051 |
| Others | - | 3,677 | - | - | 3,677 |
| Ending balance | ₩ 337,916 | ₩ 89,955 | ₩ 28,601 | ₩ 15,366 | ₩ 471,838 |

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | **Loans** | **Other receivables** | **Accrued income** | **Deposits** | **Total** |
| Beginning balance | ₩ 287,898 | ₩ 96,136 | ₩ 28,601 | ₩ 16,894 | ₩ 429,529 |
| Impairment (reversal) | - | (7,467) | - | (191) | (7,658) |
| Others | - | 239 | - | - | 239 |
| Ending balance | ₩ 287,898 | ₩ 88,908 | ₩ 28,601 | ₩ 16,703 | ₩ 422,110 |

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

3) Amounts recognized in profit or loss

The amounts recognized in profit or loss within 'impairment loss' in relation to impaired receivables for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | | **Other financial assets at amortized cost** | | | |
| | **Trade receivables** | **Contract assets** | **Loans** | **Other receivables** | **Deposits** | **Total** |
| Changes due to impairment loss | ₩ 11,508 | ₩ 8,601 | ₩ 50,018 | ₩ 105 | ₩ - | ₩ 70,232 |
| Reversal of impairment loss | (1,318) | (5) | - | (2,735) | (1,337) | (5,395) |
| | ₩ 10,190 | ₩ 8,596 | ₩ 50,018 | ₩ (2,630) | ₩ (1,337) | ₩ 64,837 |

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | | | **Other financial assets at amortized cost** | | |
| | **Trade receivables** | **Contract assets** | **Other receivables** | **Deposits** | **Total** |
| Changes due to impairment loss | ₩ (40,452) | ₩ 1,824 | ₩ 168 | ₩ - | ₩ (38,460) |
| Reversal of impairment loss | - | - | (7,635) | (191) | (7,826) |
| | ₩ (40,452) | ₩ 1,824 | ₩ (7,467) | ₩ (191) | ₩ (46,286) |

#### 4.1.3 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.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The balances due within a year equals to their book amount as the impact of discounting is not significant.

| *(in millions of Korean won)* | December 31, 2020 | | | |
|---|---|---|---|---|
| | **Less than 1 year** | **Between 1 and 2 years** | **Over 2 years** | **Total** |
| Borrowings and others[1] | ₩ 2,223,198 | ₩ 267,588 | ₩ 289,375 | ₩ 2,780,161 |
| Trade and other payables | 736,900 | 11,773 | 3,993 | 752,666 |
| Lease liabilties[1,2] | 20,241 | 16,551 | 30,130 | 66,922 |
| | ₩ 2,980,339 | ₩ 295,912 | ₩ 323,498 | ₩ 3,599,749 |

[1] The cash flows for borrowings (including debentures) and lease liabilities include expected interest expense.
[2] Lease liabilities of ₩ 17,818 million recognized in relation to land in use under the BOT agreement is to be succeeded 25 years later with the Company's property, plant and equipment; therefore, it is not included.

| *(in millions of Korean won)* | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Less than 1 year** | **Between 1 and 2 years** | **Over 2 years** | **Total** |
| Borrowings and others[1] | ₩ 1,449,008 | ₩ 1,134,992 | ₩ 566,493 | ₩ 3,150,493 |
| Trade and other payables | 912,289 | 28,436 | 15,010 | 955,735 |
| Financial guarantee contracts[2] | 21,854 | - | - | 21,854 |
| Lease liabilties[1] | 18,505 | 4,856 | 11,647 | 35,008 |
| | ₩ 2,401,656 | ₩ 1,168,284 | ₩ 593,150 | ₩ 4,163,090 |

[1] The cash flows for borrowings (including debentures) and lease liabilities include expected interest expense.
[2] Amount of financial guarantee contract represents a limit of payment guarantee, which is the maximum amount payable by the Company in case the debtor claims for the full guaranteed amount.

The table below analyses the Company's derivative instruments into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract.

| *(in millions of Korean won)* | December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Less than 1 year | | Between 1 and 2 years | | Over 2 years | | Total |
| (Net settlement) | | | | | | | | |
| Currency forward | ₩ | 107,546 | ₩ | 41,365 | ₩ | 14,880 | ₩ | 163,791 |

| *(in millions of Korean won)* | December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Less than 1 year | | Between 1 and 2 years | | Over 2 years | | Total |
| (Net settlement) | | | | | | | | |
| Currency forward | ₩ | (87,993) | ₩ | (33,641) | ₩ | 1,179 | ₩ | (120,455) |

### 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.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowing divided by total capital. Net debt is total borrowings less cash and cash equivalents and short financial instruments. Total capital is ‘equity’ as shown in the separate statement of financial position plus net borrowing.

The gearing ratios as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Total borrowings (Notes 22, 23) | ₩ | 2,633,838 | ₩ | 2,870,640 |
| Less: cash and cash equivalents and short-term financial instruments | | (1,377,579) | | (2,398,949) |
| | | 1,256,259 | | 471,691 |
| Total equity(B) | | 3,766,777 | | 3,631,509 |
| Total capital(C)=(A)+(B) | | 5,023,036 | | 4,103,200 |
| Gearing ratio(A)/(C) | | 25.01% | | 11.50% |

## 5. Fair Value

### 5.1 Fair Value Hierarchy

Financial instruments that are measured at fair value are categorized by the fair value hierarchy, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date (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 December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| **Financial assets** | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| Beneficiary certificates | ₩ | 1,316 | ₩ | - | ₩ | - | ₩ | 1,316 |
| Equity investments | | - | | 30,597 | | - | | 30,597 |
| Currency forward assets | | | | | | | | |
| Derivative instrument for hedging | | - | | 166,644 | | - | | 166,644 |
| Financial assets at fair value through other comprehensive income | | | | | | | | |
| Non-listed securities | | - | | 1,749 | | 5,632 | | 7,381 |
| | ₩ | 1,316 | ₩ | 198,990 | ₩ | 5,632 | ₩ | 205,938 |
| **Financial liabilities** | | | | | | | | |
| Currency forward liabilities | | | | | | | | |
| Derivative instrument for hedging | ₩ | - | ₩ | 4,255 | ₩ | - | ₩ | 4,255 |
| | ₩ | - | ₩ | 4,255 | ₩ | - | ₩ | 4,255 |

| *(in millions of Korean won)* | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Derivative held for trading | ₩ - | ₩ 287 | ₩ - | ₩ 287 |
| Beneficiary certificates | 3,392 | - | - | 3,392 |
| Equity investments | - | 25,002 | - | 25,002 |
| Currency forward assets | | | | |
| Derivative instrument for hedging | - | 6,910 | - | 6,910 |
| Financial assets at fair value through other comprehensive income | | | | |
| Listed securities | 1 | - | - | 1 |
| Non-listed securities | - | 13,455 | 5,632 | 19,087 |
| | ₩ 3,393 | ₩ 45,654 | ₩ 5,632 | ₩ 54,679 |
| **Financial liabilities** | | | | |
| Currency forward liabilities | | | | |
| Derivative instrument for hedging | ₩ - | ₩ 122,487 | ₩ - | ₩ 122,487 |
| | ₩ - | ₩ 122,487 | ₩ - | ₩ 122,487 |

### 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.

There were no transfers between levels 1 and 2 for recurring fair value measurements for the years ended December 31, 2020 and 2019.

Changes in level 3 for recurring fair value measurements for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | |
|---|---|---|---|---|---|
| | **Beginning balance** | **Purchases (disposals)** | **Transfer[1]** | **Valuation** | **Ending balance** |
| Financial assets at fair value through other comprehensive income | | | | | |
| Non-listed securities | ₩ 5,632 | ₩ - | ₩ - | ₩ - | ₩ 5,632 |

[1] During the year ended December 31, 2020, the Company transferred investments in associates to equity investments at fair value through other comprehensive income as the Company lost its significant influence over Daehan Shipbuilding Co., Ltd. and Shinhan Heavy Industries Co., Ltd., associates of the Company (Note 15).

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | **Beginning balance** | **Purchases (disposals)** | **Transfer[1]** | **Valuation** | **Ending balance** |
| Financial assets at fair value through other comprehensive income | | | | | |
| Non-listed securities | ₩ 8,248 | ₩ (10) | ₩ (2,754) | ₩ 148 | ₩ 5,632 |

[1] During the year ended December 31, 2019, the Company transferred equity investments at fair value through other comprehensive income to investments in associates as the Company decided that it has significant influence over KC LNG Tech Co., Ltd. (Note 15).

### 5.3 Valuation Techniques and the Inputs

Valuation techniques and inputs used in the recurring and non-recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy as at December 31, 2020, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | **Level** | **Valuation techniques** | **Inputs** | **Range of inputs** | **Fair value** |
| Currency forward | 2 | Discounted cash flow | Forward rate, credit risk adjusted discount rate | N/A | ₩ 162,389 |
| Equity investments | 2 | Quoted price in inactive market | Quoted price in inactive market | N/A | 30,597 |
| Unlisted equity securities | 2 | Quoted price in inactive market | Quoted price in inactive market | N/A | 1,749 |
| Unlisted equity securities | 3 | Net asset value approach method | N/A | N/A | 5,632 |

## 6. Financial Instruments by Category

### 6.1 Financial Assets

Categorizations of financial assets as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Financial assets at amortized cost | Derivative financial assets for hedging | Total (Carrying amount) | Fair value |
| Cash and cash equivalents | ₩ - | ₩ - | ₩ 1,330,484 | ₩ - | ₩ 1,330,484 | ₩ 1,330,484 |
| Short- and long-term financial assets | - | - | 442,744 | - | 442,744 | 442,744 |
| Financial assets at fair value through profit or loss[1] | 31,913 | - | - | - | 31,913 | 31,913 |
| Financial assets at amortized cost | - | - | 19,590 | - | 19,590 | 19,590 |
| Financial assets at fair value through other comprehensive income | - | 7,381 | - | - | 7,381 | 7,381 |
| Trade and other receivables | - | - | 752,905 | - | 752,905 | 752,905 |
| Contract assets | - | - | 2,158,917 | - | 2,158,917 | 2,158,917 |
| Currency forward assets | - | - | - | 166,644 | 166,644 | 166,644 |
| | ₩ 31,913 | ₩ 7,381 | ₩ 4,704,640 | ₩ 166,644 | ₩ 4,910,578 | ₩ 4,910,578 |

[1] Financial assets at fair value through profit or loss consist of equity investments and beneficiary certificates.

| *(in millions of Korean won)* | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Financial assets at amortized cost | Derivative financial assets for hedging | Total (Carrying amount) | Fair value |
| Cash and cash equivalents | ₩ - | ₩ - | ₩ 1,991,736 | ₩ - | ₩ 1,991,736 | ₩ 1,991,736 |
| Short- and long-term financial assets | - | - | 823,196 | - | 823,196 | 823,196 |
| Financial assets at fair value through profit or loss[1] | 28,681 | - | - | - | 28,681 | 28,681 |
| Financial assets at amortized cost | - | - | 24,976 | - | 24,976 | 24,976 |
| Financial assets at fair value through other comprehensive income | - | 19,087 | - | - | 19,087 | 19,087 |
| Trade and other receivables | - | - | 459,376 | - | 459,376 | 459,376 |
| Contract assets | - | - | 2,171,367 | - | 2,171,367 | 2,171,367 |
| Currency forward assets | - | - | - | 6,910 | 6,910 | 6,910 |
| | ₩ 28,681 | ₩ 19,087 | ₩ 5,470,651 | ₩ 6,910 | ₩ 5,525,329 | ₩ 5,525,329 |

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

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

### 6.2 Financial Liabilities

Categorizations of financial liabilities as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | |
|---|---|---|---|---|
| | **Financial liabilities at amortized cost** | **Derivative financial liabilities for hedging** | **Total (Carrying amount)** | **Fair Value** |
| Borrowings | ₩ 2,075,099 | ₩ - | ₩ 2,075,099 | ₩ 2,077,818 |
| Debentures | 558,739 | - | 558,739 | 559,974 |
| Trade and other payables | 752,666 | - | 752,666 | 752,666 |
| Currency forward liabilities | - | 4,255 | 4,255 | 4,255 |
| | ₩ 3,386,504 | ₩ 4,255 | ₩ 3,390,759 | ₩ 3,394,713 |

| *(in millions of Korean won)* | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Financial liabilities at amortized cost** | **Derivative financial liabilities for hedging** | **Total (Carrying amount)** | **Fair Value** |
| Borrowings | ₩ 2,242,555 | ₩ - | ₩ 2,242,555 | ₩ 2,244,195 |
| Debentures | 628,085 | - | 628,085 | 634,004 |
| Trade and other payables | 955,445 | - | 955,445 | 955,445 |
| Currency forward liabilities | - | 122,487 | 122,487 | 122,487 |
| Financial guarantee liabilities[1] | 33 | - | 33 | 33 |
| | ₩ 3,826,118 | ₩ 122,487 | ₩ 3,948,605 | ₩ 3,956,164 |

[1] As described in Note 18, the Company recognized expected payment guarantees amount, based on the agreement, 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

Net gains or net losses on each category of financial instruments for the years ended December 31, 2020 and 2019, are as follows:

1) Financial assets

| *(in millions of Korean won)* | 2020 | | | | |
|---|---|---|---|---|---|
| | **Financial assets at fair value through profit or loss** | **Financial assets at fair value through other comprehensi-ve income** | **Financial assets at amortized cost** | **Derivative financial assets for hedging** | **Total** |
| Interest income | ₩ 6,432 | ₩ - | ₩ 56,639 | ₩ - | ₩ 63,071 |
| Dividend income | - | 88 | - | - | 88 |
| Impairment loss | - | - | (64,837) | - | (64,837) |
| Losses on foreign currency translation, net | - | - | (76,275) | - | (76,275) |
| Gains on foreign currency transaction, net | - | - | 48,735 | - | 48,735 |
| Gains on valuation of foreign exchange forward contracts, net | - | - | - | 170,907 | 170,907 |
| Gains on foreign exchange forward transaction, net | 388 | - | - | 10,924 | 11,312 |
| Losses on valuation of financial assets at fair value through other comprehensive income | - | (1,219) | - | - | (1,219) |
| Gains on valuation of financial assets at fair value through profit or loss | 538 | - | - | - | 538 |
| Gains on disposal of financial assets at fair value through profit or loss | 23 | - | - | - | 23 |
| | ₩ 7,381 | ₩ (1,131) | ₩ (35,738) | ₩ 181,831 | ₩ 152,343 |

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | **Financial assets at fair value through profit or loss** | **Financial assets at fair value through other comprehensi-ve income** | **Financial assets at amortized cost** | **Derivative financial assets for hedging** | **Total** |
| Interest income | ₩ - | ₩ - | ₩ 90,558 | ₩ - | ₩ 90,558 |
| Dividend income | - | 134 | - | - | 134 |
| Reversal of impairment loss | - | - | 46,286 | - | 46,286 |
| Gains on foreign currency translation, net | - | - | 2,366 | - | 2,366 |
| Gains on foreign currency transaction, net | - | - | 154,592 | - | 154,592 |
| Gains on valuation of foreign exchange forward contracts, net | 287 | - | - | 6,910 | 7,197 |
| Gains on foreign exchange forward transaction, net | 137 | - | - | 4,097 | 4,234 |
| Gains on valuation of financial assets at fair value through other comprehensive income | - | 1,764 | - | - | 1,764 |
| Gains on valuation of financial assets at fair value through profit or loss | 337 | - | - | - | 337 |
| Gains on disposal of financial assets at fair value through profit or loss | 10 | - | - | - | 9 |
| | ₩ 771 | ₩ 1,898 | ₩ 293,802 | ₩ 11,007 | ₩ 307,477 |

2) Financial liabilities

| *(in millions of Korean won)* | 2020 | | | |
|---|---|---|---|---|
| | **Financial liabilities at fair value through profit or loss** | **Financial liabilities at amortized cost** | **Derivative financial liabilities for hedging** | **Total** |
| Interest expenses | ₩ - | ₩ (138,671) | ₩ - | ₩ (138,671) |
| Gains on foreign currency translation, net | - | 92,656 | - | 92,656 |
| Losses on foreign currency transaction, net | - | (6,457) | - | (6,457) |
| Gains on valuation of foreign exchange forward contracts, net | - | - | 19,631 | 19,631 |
| Losses on foreign exchange forward transaction, net | (583) | - | (78,224) | (78,807) |
| Reversal of financial guarantee liabilities | - | 33 | - | 33 |
| | ₩ (583) | ₩ (52,439) | ₩ (58,593) | ₩ (111,615) |

| *(in millions of Korean won)* | 2019 | | | |
|---|---|---|---|---|
| | **Financial liabilities at fair value through profit or loss** | **Financial liabilities at amortized cost** | **Derivative financial liabilities for hedging** | **Total** |
| Interest expenses | ₩ - | ₩ (162,116) | ₩ - | ₩ (162,116) |
| Losses on foreign currency translation, net | - | (38,429) | - | (38,429) |
| Losses on foreign currency transaction, net | - | (20,138) | - | (20,138) |
| Losses on valuation of foreign exchange forward contracts, net | - | - | (122,871) | (122,871) |
| Losses on foreign exchange forward transaction, net | (56,059) | - | (145,694) | (201,753) |
| Reversal of financial guarantee liabilities | - | 446 | - | 446 |
| | ₩ (56,059) | ₩ (220,237) | ₩ (268,565) | ₩ (544,861) |

## 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 December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| Financial institution deposits | ₩ | 1,330,484 | ₩ | 1,991,736 |

## 8. Restricted or Pledged Financial Assets

The restricted or pledged financial assets as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | | Description |
|---|---|---|---|---|---|
| Short-term financial asset | ₩ | 47,095 | ₩ | 9,123 | Pledged as collateral for performance guarantee and others |
| Long-term financial asset | | 272,980 | | 415,983 | Pledged as collateral for performance guarantee and others |
| | ₩ | 320,075 | ₩ | 425,106 | |

Other than the above financial assets, ₩ 62,958 million of current deposits are restricted for redemption of principal and interests of debentures.

## 9. Financial Assets

### 9.1 Financial Assets at Fair Value through Profit or Loss

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

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

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Currency forward assets held for trading | ₩ - | ₩ - | ₩ 287 | ₩ - |
| Beneficiary certificates | - | 1,316 | - | 3,392 |
| Equity investment | - | 30,597 | - | 25,002 |
| | ₩ - | ₩ 31,913 | ₩ 287 | ₩ 28,394 |

Amounts recognized in profit or loss for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | 2019 |
|---|---|---|
| Gains on currency forward assets held for trading, net | ₩ 388 | ₩ 425 |
| Gains on equity investments | 595 | 286 |
| Gains (losses) on beneficiary certificates | (35) | 60 |
| Gains on short-term financial instruments | 6,432 | - |
| | ₩ 7,380 | ₩ 771 |

### 9.2 Financial Assets at Fair Value through Other Comprehensive Income

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

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

| *(in millions of Korean won)* | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| **Non-current** | | | | |
| Listed securities | ₩ | - | ₩ | 1 |
| Non-listed securities | | 7,381 | | 19,087 |
| | ₩ | 7,381 | ₩ | 19,088 |

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings.

### 9.3 Financial Assets at Amortized Cost

*(a) Financial assets at amortized cost*

Details of financial assets at amortized cost as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Current | | Non-current | | Current | | Non-current | |
| Government and public bonds | ₩ | 14 | ₩ | 19,576 | ₩ | 7 | ₩ | 24,969 |

*(b) Movements in financial assets at amortized cost*

Movements in financial assets at amortized cost for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Current | | Non-current | | Current | | Non-current | |
| Beginning balance | ₩ | 7 | ₩ | 24,969 | ₩ | 1 | ₩ | 37 |
| Disposals | | (7) | | - | | (1) | | - |
| Amortization | | - | | 886 | | - | | - |
| Impairment | | - | | (10,738) | | - | | - |
| Transfer | | 14 | | 4,459 | | 7 | | 24,932 |
| Ending balance | ₩ | 14 | ₩ | 19,576 | ₩ | 7 | ₩ | 24,969 |

### 9.4 Trade Receivables and Other Financial Assets at Amortized Cost

*(a) Trade receivables and provision for impairment*

Trade receivables and its provisions for impairment as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Receivables from construction contracts | ₩ 612,501 | ₩ 693,572 | ₩ 361,369 | ₩ 705,126 |
| Less: Provision for impairment | (29,881) | (683,380) | (18,726) | (684,589) |
| Receivables from construction contracts, net | ₩ 582,620 | ₩ 10,192 | ₩ 342,643 | ₩ 20,537 |

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. 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.

*(b) Other financial assets at amortized cost*

Other financial assets at amortized cost as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Loans | ₩ 205,441 | ₩ 157,707 | ₩ 173,111 | ₩ 140,018 |
| Less: Provision for impairment | (205,441) | (132,476) | (173,111) | (114,787) |
| Loans, net | - | 25,231 | - | 25,231 |
| Other receivable | 29,304 | 107,049 | 30,350 | 116,042 |
| Less: Provision for impairment | (12,633) | (77,322) | (9,072) | (79,836) |
| Other receivable, net | 16,671 | 29,727 | 21,278 | 36,206 |
| Accrued income | 37,510 | 7 | 32,440 | 7 |
| Less: Provision for impairment | (28,595) | (6) | (28,595) | (6) |
| Accrued income, net | 8,915 | 1 | 3,845 | 1 |
| Deposits[1] | 67,283 | 27,633 | - | 26,339 |
| Less: Provision for impairment | - | (15,367) | - | (16,704) |
| Deposits, net | 67,283 | 12,266 | - | 9,635 |
| | ₩ 92,869 | ₩ 67,225 | ₩ 25,123 | ₩ 71,073 |

[1] The liquidity redeemable deposit of ₩ 62,958 million is deposited for repaying the principal and interest of the debenture.

## 10.Contract Assets and Liabilities

10.1 The Company has recognized the following revenue-related contract assets and liabilities:

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| Due from customers for contract work | ₩ | 2,167,550 | ₩ | 2,171,404 |
| Impairment loss | | (8,633) | | (37) |
| Total contract assets | ₩ | 2,158,917 | ₩ | 2,171,367 |
| | | | | |
| Due to customers for contract work[1] | ₩ | 1,044,481 | ₩ | 1,601,085 |
| Advance received | | 201,210 | | 201,210 |
| Total contract liabilities | ₩ | 1,245,691 | ₩ | 1,802,295 |

[1] Revenue recognized that was included in the contract liability balance of ₩ 1,601,085 million at the beginning of the year amounts to ₩ 1,521,059 million for the year ended December 31, 2020.

### 10.2 Revenue Recognized in relation to Contract Liabilities

Details of performance obligations that have not been performed for construction contracts with confirmed prices are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| Total of transaction prices allocated to construction contracts in which obligations have not been entirely or partially performed at the end of the year | ₩ | 8,637,954 | ₩ | 10,139,537 |

The Company expects to recognize revenues from the transaction prices allocated to the unperformed contracts as at December 31, 2020, by performing the obligations. Most of ship building contracts are completed within one to three years, and some special contracts may require a longer period to perform obligations.

## 11. Inventories

Details of inventories as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Valuation allowance | Carrying amount | Acquisition cost | Valuation allowance | Carrying amount |
| Work in process | ₩ 1,111,788 | ₩ (433,830) | ₩ 677,958 | ₩ 1,079,600 | ₩ (311,664) | ₩ 767,936 |
| Raw materials | 244,749 | (20,062) | 224,687 | 323,511 | (29,851) | 293,660 |
| Supplies | 16,744 | - | 16,744 | 16,526 | - | 16,526 |
| Goods in transit | 36,145 | - | 36,145 | 72,354 | - | 72,354 |
| | ₩ 1,409,426 | ₩ (453,892) | ₩ 955,534 | ₩ 1,491,991 | ₩ (341,515) | ₩ 1,150,476 |

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. Accordingly, the Company recognized loss on valuation of inventories amounting to ₩ 112,377 million (2019: ₩ 66,481 million) for the year ended December 31, 2020. These were included in 'cost of sales' in the separate statements of profit or loss.

The cost of inventories recognized as 'cost of sales' amounted to ₩ 3,461,476 million (2019: ₩ 3,757,445 million) for the year ended December 31, 2020.

## 12. Other Assets

12.1 Details of other assets as at December 31, 2020 and 2019, are as follows:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advance payments | ₩ 518,851 | ₩ - | ₩ 566,185 | ₩ - |
| Prepaid construction costs | 7 | - | 4,689 | - |
| Prepaid expenses | 16,743 | 4,550 | 18,167 | 6,051 |
| Incremental costs of obtaining a contract | 34,321 | - | 39,720 | - |
| Other investment assets | - | 2,524 | - | 2,524 |
| Others | 25,277 | - | 51,852 | - |
| | ₩ 595,199 | ₩ 7,074 | ₩ 680,613 | ₩ 8,575 |

The Company has recognized an asset in relation to broker commission that would not have incurred if the contract has not been obtained.

| *(in millions of Korean won)* | | **December 31, 2020** | | **December 31, 2019** |
|---|---|---|---|---|
| Assets recognized from incremental costs of obtaining a contract as at December 31 | ₩ | 34,321 | ₩ | 39,720 |
| Amortization and impairment loss recognized as cost for the year (reversal) | | (31,715) | | (23,462) |

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

Changes in the book amount of accumulated impairment loss of incremental costs of obtaining a contract for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | **2020** | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance** | | **Reversal of provision for impairment** | | **Ending balance** | |
| Accumulated impairment loss | ₩ | 30,074 | ₩ | (18,795) | ₩ | 11,279 |

| *(in millions of Korean won)* | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance** | | **Reversal of provision for impairment** | | **Ending balance** | |
| Accumulated impairment loss | ₩ | 76,339 | ₩ | (46,265) | ₩ | 30,074 |

## 13. Non-current Assets Held for Sale

As described in Note 43, 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 non-current assets held for sale.

Details of assets of disposal group classified as held for sale as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **December 31, 2020** | | **December 31, 2019** |
|---|---|---|---|---|
| Land | ₩ | 14,743 | ₩ | - |

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 are to be disposed in January 2021.

## 14. Investments in Subsidiaries

14.1 Details of the investments in subsidiaries of the Company as at December 31, 2020, and 2019, are as follows:

| *(in millions of Korean won)* | | | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|---|
| | **Location** | **Main business** | **Ownership interest (%)** | **Book amount** | **Ownership interest (%)** | **Book amount** |
| DSME Shandong Co., Ltd. | China | Manufacturing ship parts | 100.00 | ₩ - | 100.00 | ₩ - |
| DK Maritime S.A | Panama | Shipping | 100.00 | - | 100.00 | - |
| 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 | 546 | 100.00 | 546 |
| | | | | ₩ 746 | | ₩ 746 |

14.2 Changes in the book amount of investment in subsidiaries for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | |
|---|---|---|---|
| | **Beginning balance** | **Acquisition (disposal)** | **Ending balance** |
| DSME Information and Consulting | ₩ 200 | ₩ - | ₩ 200 |
| DSME Kazakhstan LLP | 546 | - | 546 |
| | ₩ 746 | ₩ - | ₩ 746 |

| *(in millions of Korean won)* | 2019 | | |
|---|---|---|---|
| | **Beginning balance** | **Acquisition (disposal)** | **Ending balance** |
| DSME Far East LLC[1] | ₩ 1 | ₩ (1) | ₩ - |
| DSME Information and Consulting | 200 | - | 200 |
| DSME Kazakhstan LLP | 546 | - | 546 |
| | ₩ 747 | ₩ (1) | ₩ 746 |

[1] Completed liquidation during the year ended December 31, 2019.

## 15. Investments in Associates and Joint Venture

15.1 Details of investments in associates and joint venture as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|---|---|
| | Location | Main business | Ownership interest (%) | | Book amount | Ownership interest (%) | | Book amount |
| **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.[2] | Haenam | Ship building | 12.76 | | - | 23.35 | | 5,132 |
| Shinhan Heavy Industries Co., Ltd.[3] | Ulsan | Manufacturing ship parts | 89.22 | | - | 89.22 | | - |
| Samwoo Heavy Industry Co., Ltd.[4] | Gwangyang | Manufacturing ship parts | 100.00 | | - | 100.00 | | - |
| KC LNG Tech Co., Ltd.[1,5] | Busan | Patents management and licenses business | 16.60 | | - | 16.60 | | 1,873 |
| **Joint venture** | | | | | | | | |
| SBM Shipyard Ltd. | Angola | Holding company (FPSO engineering and operation) | 33.33 | | - | 33.33 | | - |
| | | | | ₩ | 2,185 | | ₩ | 9,190 |

[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.

[2] The Company has transferred the investment to equity investments at fair value through other comprehensive income and financial assets at amortized cost as the Company lost its significant influence over the investee company due to a decrease in ownership interest of the investee company for the year ended December 31, 2020.

[3] The Company has transferred the investment to equity investments at fair value through other comprehensive income as the Company lost its significant influence over the investee company due to the commencement of rehabilitation procedure for the investee company for the year ended December 31, 2020.

[4] The Company has reclassified the investment in subsidiaries as investment in associates because the Company lost its control over these subsidiaries, due to the commencement of major creditor bank management procedure for the investee company during the year of 2017.

[5] The Company has transferred the investment from financial assets at fair value through other comprehensive income to investments in associates as the Company decided that it has significant influence over the investee company during the year of 2019.

15.2 Changes in the book amount of the investments in associates and joint venture for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | |
|---|---|---|---|---|
| | **Beginning balance** | **Acquisition (disposal)** | **Others** | **Ending balance** |
| TPI Megaline Co., Ltd. | ₩ 2,185 | ₩ - | ₩ - | ₩ 2,185 |
| Daehan Shipbuilding Co., Ltd. | 5,132 | (660) | (4,472) | - |
| KC LNG Tech Co., Ltd. | 1,873 | - | (1,873) | - |
| | ₩ 9,190 | ₩ (660) | ₩ (6,345) | ₩ 2,185 |

| *(in millions of Korean won)* | 2019 | | | |
|---|---|---|---|---|
| | **Beginning balance** | **Acquisition (disposal)** | **Others** | **Ending balance** |
| TPI Megaline Co., Ltd. | ₩ 2,185 | ₩ - | ₩ - | ₩ 2,185 |
| Welliv Private Investment Joint Company | 9,750 | (9,750) | - | - |
| Daehan Shipbuilding Co., Ltd. | - | - | 5,132 | 5,132 |
| KC LNG Tech Co., Ltd. | - | - | 1,873 | 1,873 |
| | ₩ 11,935 | ₩ (9,750) | ₩ 7,005 | ₩ 9,190 |

## 16. Property, Plant and Equipment

16.1 Details of property, plant and equipment as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Acquisition cost** | **Revaluation surplus** | **Government grants** | **Accumulated depreciation** | **Accumulated impairment losses** | **Book amount** |
| Land | ₩ 1,543,106 | ₩ 405,729 | ₩ - | ₩ - | ₩ (58,728) | ₩ 1,890,107 |
| Buildings | 1,127,910 | - | (5,081) | (436,429) | (101,894) | 584,506 |
| Structures | 1,326,403 | - | - | (508,065) | (105,978) | 712,360 |
| Machinery | 1,015,922 | - | (81) | (580,544) | (189,641) | 245,656 |
| Vehicle | 183,412 | - | - | (123,694) | (32,427) | 27,291 |
| Ships and aircraft | 187,400 | - | - | (111,383) | (5,230) | 70,787 |
| Tools | 294,541 | - | - | (170,005) | (124,530) | 6 |
| Supplies | 226,231 | - | (25) | (139,760) | (86,420) | 26 |
| Construction-in-progress | 71,247 | - | - | - | (11,504) | 59,743 |
| | ₩ 5,976,172 | ₩ 405,729 | ₩ (5,187) | ₩ (2,069,880) | ₩ (716,352) | ₩ 3,590,482 |

| *(in millions of Korean won)* | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Acquisition cost** | **Revaluation surplus** | **Government grants** | **Accumulated depreciation** | **Accumulated impairment losses** | **Book amount** |
| Land | ₩ 1,559,620 | ₩ 405,729 | ₩ - | ₩ - | ₩ (56,754) | ₩ 1,908,595 |
| Buildings | 1,056,647 | - | (5,223) | (417,047) | (91,243) | 543,134 |
| Structures | 1,305,235 | - | - | (475,597) | (104,162) | 725,476 |
| Machinery | 955,996 | - | (82) | (576,098) | (191,724) | 188,092 |
| Vehicle | 178,692 | - | - | (126,864) | (41,724) | 10,104 |
| Ships and aircraft | 188,530 | - | - | (107,984) | (7,856) | 72,690 |
| Tools | 329,009 | - | - | (210,259) | (114,586) | 4,164 |
| Supplies | 234,883 | - | (41) | (154,501) | (67,244) | 13,097 |
| Construction-in-progress | 116,383 | - | - | - | (11,504) | 104,879 |
| | ₩ 5,924,995 | ₩ 405,729 | ₩ (5,346) | ₩ (2,068,350) | ₩ (686,797) | ₩ 3,570,231 |

16.2 Changes in property, plant and equipment for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance** | **Acquisition** | **Disposals** | **Depreciation** | **Others[1]** | **Ending balance** |
| Land | ₩ 1,908,595 | ₩ - | ₩ - | ₩ - | ₩ (18,488) | ₩ 1,890,107 |
| Buildings | 543,134 | 1,143 | - | (19,601) | 59,830 | 584,506 |
| Structures | 725,476 | 50 | - | (32,543) | 19,377 | 712,360 |
| Machinery | 188,092 | 53,517 | (267) | (24,849) | 29,163 | 245,656 |
| Vehicle | 10,104 | 11,376 | - | (3,900) | 9,711 | 27,291 |
| Ships and aircraft | 72,690 | 2,130 | - | (6,273) | 2,240 | 70,787 |
| Tools | 4,164 | 20,238 | (12) | (2,394) | (21,990) | 6 |
| Supplies | 13,097 | 11,292 | (9) | (3,100) | (21,254) | 26 |
| Construction-in-progress | 104,879 | 83,256 | - | - | (128,392) | 59,743 |
| | ₩ 3,570,231 | ₩ 183,002 | ₩ (288) | ₩ (92,660) | ₩ (69,803) | ₩ 3,590,482 |

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

| *(in millions of Korean won)* | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance[1]** | **Acquisition** | **Disposals** | **Depreciation** | **Others[2]** | **Ending balance** |
| Land | ₩ 1,837,254 | ₩ 2,925 | ₩ (6,618) | ₩ - | ₩ 75,034 | ₩ 1,908,595 |
| Buildings | 551,951 | 1,539 | (1,033) | (20,855) | 11,532 | 543,134 |
| Structures | 755,580 | 225 | (1) | (33,389) | 3,061 | 725,476 |
| Machinery | 203,096 | 53,341 | (407) | (22,044) | (45,894) | 188,092 |
| Vehicle | 14,641 | 8,856 | - | (2,299) | (11,094) | 10,104 |
| Ships and aircraft | 81,800 | 1,269 | - | (6,300) | (4,079) | 72,690 |
| Tools | 16,437 | 4,533 | (10) | (3,336) | (13,460) | 4,164 |
| Supplies | 25,739 | 14,780 | (7) | (6,618) | (20,797) | 13,097 |
| Construction-in-progress | 179,633 | 66,547 | - | - | (141,301) | 104,879 |
| | ₩ 3,666,131 | ₩ 154,015 | ₩ (8,076) | ₩ (94,841) | ₩ (146,998) | ₩ 3,570,231 |

[1] In accordance with Korean IFRS 1116 *Leases*, finance lease ships and aircraft amounting to ₩ 23,819 million are transferred to right-of-use assets.
[2] Others mainly consist of transfer of construction-in-progress to property, plant and equipment, other account transfers and impairment loss.

16.3 As described in Note 42, the Company measured the amount of impairment loss of the cash generating units that had indication of an impairment due to decrease in the sales volume and deterioration in market condition. After the impairment assessment, the Company recognized total ₩ 54,642 million (2019: ₩ 141,881 million) of impairment loss on property, plant and equipment. The estimated recoverable amount from the impairment assessment is the net fair value of individual asset, which is the estimated value of the sale or potential appraisal with the potential buyer.

16.4 Line items including depreciation (including depreciation on investment properties) in the statements of profit or loss for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Cost of sales | ₩ | 88,739 | ₩ | 90,990 |
| Selling and administrative expenses | | 815 | | 1,645 |
| Research and development expenses | | 3,224 | | 2,324 |
| | ₩ | 92,778 | ₩ | 94,959 |

16.5 Property, plant and equipment measured at fair value

Land measured at fair value is included in Level 3.

1) The Company engages external, independent and qualified valuers to determine the fair value of the land owned by the Company. The accounting team reviews whether the assumptions used in the independent valuation report and changes in value are reasonable. The external valuators applied a publicly assessed land price method, which calculates the value of land based on the official price of land that is deemed to have a similar valuation factors or the value of use, adjusted by fixed date of appraisal, local factors, individual factors and others. And, the Company reviewed the reasonableness of appraisal results using the sales comparison approach, of which determines the value of land based on the sales cases for the land and the nearby areas with similar value of land.

2) Valuation techniques and the inputs

Valuation techniques and inputs used in the recurring fair value measurements categorized within Level 3 of the fair value hierarchy as at December 31, 2020, are as follows:

| | Level | Valuation techniques | Inputs | Range of inputs | Correlation between unobservable variable inputs and fair value |
|---|---|---|---|---|---|
| Land | 3 | Publicly assessed land price method | Fixed date of appraisal | 0.94015 ~ 1.034195 | When land price change rate rises (falls), fair value increases (decreases) |
| | | | Local factors | 1 | When the regional factor increases (decreases), fair value increases (decreases) |
| | | | Individual factors | 0.112 ~ 4.180 | When the correction value such as the ground condition increases (decreases), fair value increases (decreases) |
| | | | Others | 1.13 ~ 8.33 | The correction for land price level, etc. increases (decrease), fair value increases (decreases) |

16.6 Contractual commitments for the acquisition of property, plant and equipment

According to the agreement entered with Seoul National University in 2015, the Company completed the construction of tank facilities for testing purpose in Siheung Campus on September 14, 2020, and registered a right of leasehold on October 24, 2020. The Company will transfer its ownership after 25 years of the completion. The acquisition cost of property, plant and equipment as at December 31, 2020, is ₩ 60.2 billion.

## 17. Right-of-use Assets

17.1 Changes in right-of-use assets for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Beginning balance | | Acquisition | | Depreciation[1] | | Others[2] | | Ending balance | |
| Lease- Buildings | ₩ | 13,353 | ₩ | 45 | ₩ | (8,135) | ₩ | 2,695 | ₩ | 7,958 |
| Lease- Machinery | | 4,535 | | 72 | | 2,880 | | (7,437) | | 50 |
| Lease- Ships and aircraft | | 8,063 | | - | | (14,009) | | 57,926 | | 51,980 |
| Lease- Vehicle | | 2,294 | | 728 | | (1,821) | | 687 | | 1,888 |
| Lease- Land | | 350 | | 17,960 | | (1,590) | | (15,555) | | 1,165 |
| | ₩ | 28,595 | ₩ | 18,805 | ₩ | (22,675) | ₩ | 38,316 | ₩ | 63,041 |

[1] Depreciation of lease- vehicle amounting to ₩ 756 million was transferred to research and development expenses.
[2] Others consist of the disposal of right-of-use assets and the difference in connection with reassessment of right-of-use assets. As described in Note 42, the Company measured the amount of impairment loss of the cash generating units that had indication of an impairment due to decrease in the sales volume and deterioration in market condition. After impairment assessment, the Company recognized ₩ 17,760 million of impairment loss on right-of-use assets (2019: nil). The estimated recoverable amount from the impairment assessment is the net fair value of individual asset, which is the value of a lease contract available for a lease or the recoverable amount related to a lease contract at the termination.

| *(in millions of Korean won)* | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Beginning balance[1] | | Acquisition | | Depreciation | | Others[2] | | Ending balance | |
| Lease- Buildings | ₩ | 21,433 | ₩ | 2,981 | ₩ | (11,272) | ₩ | 211 | ₩ | 13,353 |
| Lease- Structures | | 125 | | - | | (18) | | (107) | | - |
| Lease- Machinery | | 29,256 | | 11,120 | | (14,747) | | (21,094) | | 4,535 |
| Lease- Ships and aircraft | | 27,234 | | - | | (18,954) | | (217) | | 8,063 |
| Lease- Vehicle | | 2,633 | | 2,065 | | (1,892) | | (512) | | 2,294 |
| Lease- Land | | 952 | | 1,845 | | (1,631) | | (816) | | 350 |
| | ₩ | 81,633 | ₩ | 18,011 | ₩ | (48,514) | ₩ | (22,535) | ₩ | 28,595 |

[1] The beginning balance is the amount after adjustments from the adoption of Korean IFRS 1116.
[2] 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 December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **December 31, 2020** | | **December 31, 2019** |
|---|---|---|---|---|
| Current liabilities | ₩ | 18,212 | ₩ | 18,446 |
| Non-current liabilities | | 62,646 | | 15,590 |
| | ₩ | 80,858 | ₩ | 34,036 |

17.3 In connection with lease, cash outflows and total interest expenses are ₩ 34,927 million (2019: ₩ 47,676 million) and ₩ 2,226 million (2019: ₩ 2,210 million), respectively, for the year ended December 31, 2020.

17.4 The expenses relating to short-term leases, leases of low-value assets and variable lease payment are ₩ 335 million (2019: ₩ 187 million), ₩ 160 million (2019: ₩ 263 million) and ₩ 3,708 million (2019: ₩ 4,428 million), respectively, for the year ended December 31, 2020. These expenses are included in cost of sales and administrative expenses.

17.5 Residual maturity of lease liabilities in contracts for the years ended December 31, 2020 and 2019, is as follows:

| *(in millions of Korean won)* | **2020** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Less than 1 year** | | **1 year ~ 5 years** | | **Over 5 years** | | **Total** | |
| Lease liabilities | ₩ | 18,212 | ₩ | 42,814 | ₩ | 19,832 | ₩ | 80,858 |

| *(in millions of Korean won)* | **2019** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Less than 1 year** | | **1 year ~ 5 years** | | **Over 5 years** | | **Total** | |
| Lease liabilities | ₩ | 18,446 | ₩ | 15,590 | ₩ | - | ₩ | 34,036 |

### 18. Pledged Assets

18.1 As at December 31, 2020, the Company's assets except deposits (Note 8) that are pledged as collateral for performance guarantee and others are summarized as follows:

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

| Assets | Book amount | | Pledged amount | | Guarantee for | Borrowings amount | | Lender |
|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment, and investment properties | KRW | 3,329,005 | KRW | 3,735,200 | Borrowings in Korean won | KRW | 625,559 | KDB and KEXIM |
| | | | USD | 880,000 | Borrowings in foreign currencies | USD | 1,036,685 | |
| Financial assets at fair value through profit or loss | KRW | 29,362 | KRW | 30,858 | Performance guarantee | | - | KDIA and Machinery Financial Cooperative |
| | KRW | 3,358,367 | KRW | 3,766,058 | | KRW | 625,559 | |
| | | | USD | 880,000 | | USD | 1,036,685 | |

18.2 Significant guarantees provided to others than the Company's related parties as at December 31, 2020, are as follows:

*(in thousands of foreign currency)*

| Provided for | Guarantee Amount[1] | | Lender |
|---|---|---|---|
| Korea Line Corp. | USD | - | KDB and others |

[1] Fully redeemed during the year ended December 31, 2020 (2019: USD 18,875 thousand).

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

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

| Provided by | Guarantee Limit | | Actual warranty balance | |
|---|---|---|---|---|
| | Currency | Amount | Currency | Amount |
| KDB | USD | 4,700,000 | USD | 1,127,161 |
| | | | USD | 2,463,565 |
| KEXIM | USD | 4,132,048 | EUR | 76,598 |
| | | | KRW | 12,616 |
| Other financial institutions | USD | 95,000 | USD | 89,816 |

In addition to the above, the Company is provided with performance guarantee of ₩ 2,308,058 million from Korean Defense Industry Association and others. The entire amount of ₩ 32,600 million loaned to investees is also guaranteed. Meanwhile, the Company provides a mortgage of transfer on i) export object under construction, ii) raw materials for construction and iii) export payment, relating to performance guarantee provided, borrowing on shipbuilding financing and the new funding support limit provided by the Korea Development Bank and the Korea Export-Import Bank (Note 42).

## 19. Investment Properties

19.1 Investment properties as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| Acquisition cost | ₩ 4,661 | ₩ 8,473 | ₩ 13,134 |
| Accumulated depreciation | - | (4,223) | (4,223) |
| Accumulated impairment | - | (1,353) | (1,353) |
| Book amount | ₩ 4,661 | ₩ 2,897 | ₩ 7,558 |

| *(in millions of Korean won)* | December 31, 2019 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| Acquisition cost | ₩ 4,661 | ₩ 8,473 | ₩ 13,134 |
| Accumulated depreciation | - | (4,105) | (4,105) |
| Accumulated impairment | - | (1,353) | (1,353) |
| Book amount | ₩ 4,661 | ₩ 3,015 | ₩ 7,676 |

19.2 Changes in the book amounts of investment properties for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| Beginning balance | ₩ 4,661 | ₩ 3,015 | ₩ 7,676 |
| Depreciation | - | (118) | (118) |
| Ending balance | ₩ 4,661 | ₩ 2,897 | ₩ 7,558 |

| *(in millions of Korean won)* | 2019 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| Beginning balance | ₩ 4,661 | ₩ 3,134 | ₩ 7,795 |
| Depreciation | - | (119) | (119) |
| Ending balance | ₩ 4,661 | ₩ 3,015 | ₩ 7,676 |

19.3 Income generated from the investment properties for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Rental revenue | ₩ | 98 | ₩ | 163 |

19.4 Fair values of the investment properties as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | December 31, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book amount | | Fair value | | Book amount | | Fair value | |
| Land | ₩ | 4,661 | ₩ | 6,792 | ₩ | 4,661 | ₩ | 6,792 |
| Buildings | | 2,896 | | 3,300 | | 3,015 | | 3,300 |
| | ₩ | 7,557 | ₩ | 10,092 | ₩ | 7,676 | ₩ | 10,092 |

The fair value valuation is performed by independent valuers.

## 20. Intangible Assets

Intangible assets as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Acquisition cost | ₩ | 20,115 | ₩ | 18,379 |
| Accumulated amortization and impairment loss | | (19,307) | | (16,116) |
| Book amount | ₩ | 808 | ₩ | 2,263 |

Changes in book amounts of intangible assets for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Intellectual property rights | | Certified emission reduction | | Others | | Total | |
| Beginning balance | ₩ | 1,593 | ₩ | - | ₩ | 670 | ₩ | 2,263 |
| Acquisition (disposal) | | 1,598 | | 4,615 | | - | | 6,213 |
| Amortization | | (250) | | - | | - | | (250) |
| Impairment loss[1] | | (2,941) | | - | | - | | (2,941) |
| Transfer and others | | - | | (4,477) | | - | | (4,477) |
| Ending balance | ₩ | - | ₩ | 138 | ₩ | 670 | ₩ | 808 |

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Intellectual property rights | | Development costs | | Others | | Total | |
| Beginning balance | ₩ | 2,956 | ₩ | 13,417 | ₩ | 636 | ₩ | 17,009 |
| Acquisition (disposal) | | 1,678 | | 23 | | (2) | | 1,699 |
| Amortization | | (459) | | (147) | | - | | (606) |
| Impairment loss[1] | | (2,582) | | (13,293) | | 36 | | (15,839) |
| Ending balance | ₩ | 1,593 | ₩ | - | ₩ | 670 | ₩ | 2,263 |

[1] As described in Note 42, the Company measured the amount of impairment loss of the cash generating units that had indication of an impairment due to decrease in the sales volume and deterioration in market condition. After impairment assessment, the Company recognized total ₩ 2,941 million (2019: ₩ 14,051 million) of impairment loss on intangible assets during the year of 2020. The estimated recoverable amount from the impairment assessment is the net fair value of individual asset, which is the estimated value of the sale or potential appraisal with the potential buyer.

Quantity and carrying amount of certified emission reduction for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2019 | | 2020 | | Total | |
|---|---|---|---|---|---|---|
| | **Quantity** | **Amount** | **Quantity** | **Amount** | **Quantity** | **Amount** |
| Beginning balance | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |
| Free of charge | 389,454 | - | 388,134 | - | 777,588 | - |
| Cancellation | (7,684) | - | (7,684) | - | (15,368) | - |
| Submission | (444,610) | (4,477) | (355,390) | - | (800,000) | (4,477) |
| Provision | (48,950) | - | - | - | (48,950) | - |
| Purchases | 120,000 | 4,615 | - | - | 120,000 | 4,615 |
| Ending balance | ₩ 8,210 | ₩ 138 | ₩ 25,060 | ₩ - | ₩ 33,270 | ₩ 138 |

Emissions obligations are measured as the sum of the carrying amount of the allocated allowances that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. Emission permits and emission obligations are classified as 'intangible assets' and 'current provisions', respectively, in the separate statement of financial position.

## 21. Trade and Other Payables

Trade and other payables as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Trade payables[1] | ₩ 463,462 | ₩ - | ₩ 561,119 | ₩ - |
| Accounts payables | 170,869 | 3,993 | 184,642 | 43,446 |
| Accrued expenses | 104,569 | - | 142,158 | - |
| Deposits received | 9,773 | - | 24,080 | - |
| | ₩ 748,673 | ₩ 3,993 | ₩ 911,999 | ₩ 43,446 |

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

## 22. Debentures

Details of the book amount of debentures as at December 31, 2020 and 2019, are as follows:

| Type | Maturity date | Annual interest rate (%) | | 2020 | | 2019 |
|---|---|---|---|---|---|---|
| 4-2nd non-guarantee bonds | April 21, 2023 | 1.00 | ₩ | 124,252 | ₩ | 149,102 |
| 5-2nd non-guarantee bonds | April 21, 2023 | 1.00 | | 82,196 | | 98,635 |
| 6-1st non-guarantee bonds | April 21, 2023 | 1.00 | | 177,594 | | 213,113 |
| 6-2nd non-guarantee bonds | April 21, 2023 | 1.00 | | 24,430 | | 29,316 |
| 7th non-guarantee bonds | April 21, 2023 | 1.00 | | 123,974 | | 148,768 |
| Commercial papers | October 21, 2021 ~ April 21, 2023 | 1.00 | | 85,123 | | 101,894 |
| | | | | 617,569 | | 740,828 |
| Less: discount on debentures | | | | (50,082) | | (105,754) |
| Less: Discount on current portion of debentures | | | | (8,747) | | (6,990) |
| Less: current portion of debentures | | | | (238,025) | | (116,270) |
| | | | ₩ | 320,715 | ₩ | 511,814 |

As described in Note 43, the Company and bond holders agreed the plan of debt restructuring that included i) the debt-to-equity swap of 50% or more of existing corporate bonds and CP, ii) extending the maturity of remaining bonds and CP and iii) decreasing interest rate of remaining bonds through bondholders' meeting. In addition, the Company contracted amendment on terms and conditions of issuing CP during April 2017. In accordance with this debt restructuring plan debt-to-equity swap of corporate bonds and CP is executed on August 12, 2017, December 22, 2017, March 15, 2018 and October 20, 2020.

## 23. Borrowings

### 23.1 Short-term borrowings

Details of the book amount of short-term borrowings as at December 31, 2020 and 2019, are as follows:

*(in millions of Korean won)*

| | Creditor | Description | Annual interest rate (%) | 2020 | 2019 |
|---|---|---|---|---|---|
| Short-term borrowings in Korean won | Kookmin Bank | Overdraft | - | ₩ 1,565 | ₩ 7,725 |
| | KDB | General loan | 3.00 | 432,659 | 432,659 |
| | KEXIM | Export financing loan | 3.00 | 192,900 | 192,900 |
| | | | | 627,124 | 633,284 |
| Short-term borrowings in foreign currencies | KDB and others | USANCE | 6ML+0.5 and others | 196,751 | 293,764 |
| | KEXIM | Export financing loan | 3ML+2.65 | 129,656 | 137,974 |
| | | | | 326,407 | 431,738 |
| | | | | ₩ 953,531 | ₩ 1,065,022 |

### 23.2 Long-term borrowings

Details of the book amount of long-term borrowings as at December 31, 2020 and 2019, are as follows:

*(in millions of Korean won)*

| | Creditor | Description | Annual interest rate (%) | 2020 | 2019 |
|---|---|---|---|---|---|
| Long-term borrowings in Korean won | Korea Housing Guarantee | General loan | - | ₩ 101 | 105 |
| | Kookmin Bank | General loan | 1.00 | 20,000 | 20,000 |
| | Hana Bank | 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 |
| | | | | 147,985 | 147,989 |
| Long-term borrowings in foreign currencies | KDB | Operating loan | 3ML+2.08 and others | 794,240 | 845,194 |
| | Korea Energy Agency | Energy special loan | - | 12,984 | 13,216 |
| | KEXIM | Overseas investment loan | 6ML+3.05 and others | 17,136 | 18,235 |
| | | Export financing loan | 3ML+2.65 and others | 174,616 | 185,819 |
| | | Operating loan | 1.00 | 12,265 | 13,051 |
| | Woori Bank | Operating loan | 1.00 | 5,256 | 5,593 |
| | | | | 1,016,497 | 1,081,108 |
| | | | | 1,164,482 | 1,229,097 |
| Less: Current portion | | | | (985,996) | (204,058) |
| Less: Discount on loans | | | | (42,913) | (51,565) |
| | | | | ₩ 135,573 | ₩ 973,474 |

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

### 24. Other Liabilities

Other liabilities as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Unearned income | ₩ | 9 | ₩ | 2 |
| Withholdings | | 216,724 | | 176,506 |
| | ₩ | 216,733 | ₩ | 176,508 |

## 25. Net Defined Benefit Liabilities and Other Long-term Employee Benefit Liabilities

25.1 Details of net defined benefit liabilities and other long-term employee benefit liabilities as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Present value of defined benefit obligation | ₩ | 417,087 | ₩ | 451,818 |
| Fair value of plan assets | | (404,470) | | (399,250) |
| Net defined benefit liabilities | ₩ | 12,617 | ₩ | 52,568 |
| Other long-term employee benefit liabilities | ₩ | 28,328 | ₩ | 26,486 |

25.2 Movements in the net defined benefit liabilities and other long-term employee benefit liabilities for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Present value of defined benefit obligations** | | **Plan assets** | | **Other long-term employee benefit obligation** | | **Total** |
| Beginning balance | ₩ | 451,818 | ₩ | (399,250) | ₩ | 26,486 | ₩ | 79,054 |
| Current service cost | | 54,963 | | - | | 1,572 | | 56,535 |
| Past service cost | | (102) | | - | | 2,804 | | 2,702 |
| Interest expense (income) | | 9,068 | | (8,029) | | 538 | | 1,577 |
| | | 515,747 | | (407,279) | | 31,400 | | 139,868 |
| Remeasurements: | | | | | | | | |
| Return on plan assets | | - | | 897 | | - | | 897 |
| Actuarial losses arising from change in financial assumptions | | (1,362) | | - | | (17) | | (1,379) |
| Actuarial gains (losses) arising from experience adjustments | | (21,517) | | - | | 307 | | (21,210) |
| | | (22,879) | | 897 | | 290 | | (21,692) |
| Contributions | | - | | (40,000) | | - | | (40,000) |
| Benefit payments | | (75,781) | | 41,913 | | (3,360) | | (37,231) |
| Ending balance | ₩ | 417,087 | ₩ | (404,469) | ₩ | 28,330 | ₩ | 40,945 |

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Present value of defined benefit obligations** | | **Plan assets** | | **Other long-term employee benefit obligation** | | **Total** | |
| Beginning balance | ₩ | 418,410 | ₩ | (277,618) | ₩ | 21,692 | ₩ | 162,484 |
| Current service cost | | 51,133 | | - | | 7,688 | | 58,821 |
| Interest expense (income) | | 9,809 | | (6,507) | | 512 | | 3,814 |
| | | 479,352 | | (284,125) | | 29,892 | | 225,119 |
| Remeasurements: | | | | | | | | |
| Return on plan assets | | - | | 1,126 | | - | | 1,126 |
| Actuarial gains (losses) arising from change in demographic assumptions | | 3 | | - | | 21 | | 24 |
| Actuarial gains (losses) arising from change in financial assumptions | | 24,993 | | - | | (113) | | 24,880 |
| Actuarial gains (losses) arising from experience adjustments | | 19,008 | | - | | 445 | | 19,453 |
| | | 44,004 | | 1,126 | | 353 | | 45,483 |
| Contributions | | - | | (152,300) | | - | | (152,300) |
| Benefit payments | | (71,538) | | 36,049 | | (3,759) | | (39,248) |
| Ending balance | ₩ | 451,818 | ₩ | (399,250) | ₩ | 26,486 | ₩ | 79,054 |

25.3 The significant actuarial assumptions as at December 31, 2020 and 2019, are as follows:

| *(in percentage, %)* | **2020** | **2019** |
|---|---|---|
| Discount rate | 2.09% | 2.06% |
| Salary growth rate (including inflation rate) | 2.20% | 2.13% |

25.4 Plan assets as at December 31, 2020 and 2019, consist of:

| *(in millions of Korean won)* | **2020** | | **2019** | |
|---|---|---|---|---|
| Deposit and installment savings | ₩ | 15,019 | ₩ | 54,915 |
| Others [1] | | 389,451 | | 344,335 |
| | ₩ | 404,470 | ₩ | 399,250 |

[1] Includes the contributions to the National Pension Fund.

25.5 While holding all other assumptions constant as at December 31, 2020 and 2019, and in the case where significant actuarial assumptions are within the reasonable and possible changes, the fluctuation of the defined benefit obligations is as follows:

| *(in millions of Korean won)* | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Increase** | | **decrease** | | **Increase** | | **decrease** | |
| Changes in 100 basis point (bp) of discount rate | ₩ | (37,409) | ₩ | 44,102 | ₩ | (39,406) | ₩ | 46,520 |
| Changes in 1% of expected salary growth rate | | 43,599 | | (37,720) | | 46,216 | | (39,902) |

Since there is correlation among actuarial assumptions, changes of assumptions will not occur in isolation and above sensitivity analyses will not show the actual change of defined benefit obligations. Also, in the above sensitivity analyses, present value of defined benefit obligations is measured by using the projected unit credit method, which is applied to measure the amount of defined benefit obligations in the statement of financial position.

25.6 The weighted average duration of the defined benefit obligations is 10.01 years. The expected maturity analysis of undiscounted pension benefits as at December 31, 2020, is as follows:

| *(in millions of Korean won)* | | **Less than 1 year** | | **Between 1~2 years** | | **Between 2~5 years** | | **Between 5~10 years** | | **Over 10 years** | | **total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Pension benefits | ₩ | 32,410 | ₩ | 34,791 | ₩ | 92,375 | ₩ | 185,028 | ₩ | 978,384 | ₩ | 1,322,988 |

The Company reviews the funding level on an annual basis and has a policy to eliminate deficit in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2020 are ₩ 61,790 million.

## 26. Provisions

Changes in provisions for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | | Non-current | | |
| | Provision for construction losses | Provision for construction warranties | Other provisions | Provision for construction warranties | Other provisions | Total |
| Beginning balance | ₩ 276,833 | ₩ - | ₩ 74,954 | ₩ 273,854 | ₩ 690,497 | ₩ 1,316,138 |
| Additional (reversal) provisions | 35,000 | - | 89,182 | 30,486 | (139,703) | 14,965 |
| Transfer | 87,247 | 154,186 | (4,477) | (158,742) | (91,445) | (13,231) |
| Used during period | - | (39,382) | (33,501) | - | (9,363) | (82,246) |
| Ending balance | ₩ 399,080 | ₩ 114,804 | ₩ 126,158 | ₩ 145,598 | ₩ 449,986 | ₩ 1,235,626 |

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | Current | | Non-current | | |
| | Provision for construction losses | Other provisions | Provision for construction warranties | Other provisions | Total |
| Beginning balance | ₩ 535,561 | ₩ 23,179 | ₩ 306,814 | ₩ 553,374 | ₩ 1,418,928 |
| Additional (reversal) provisions | (258,728) | 36,566 | 41,011 | 209,945 | 28,794 |
| Used during period | - | 15,209 | (73,971) | (72,822) | (131,584) |
| Ending balance | ₩ 276,833 | ₩ 74,954 | ₩ 273,854 | ₩ 690,497 | ₩ 1,316,138 |

## 27. Income Taxes Expense (Benefits)

27.1 Income tax expense (benefits) for the years ended December 31, 2020 and 2019, consist of:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Income tax payable (receivable) | ₩ | - | ₩ | (901) |
| Changes in deferred income tax from temporary differences | | 300 | | (1,750) |
| Total amount of income tax effect | | 300 | | (2,651) |
| Income tax directly reflected to shareholders' equity | | - | | 831 |
| Income tax expense (benefits) | ₩ | 300 | ₩ | (1,820) |

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

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Profit (loss) before income tax | ₩ | 114,837 | ₩ | (59,542) |
| Tax calculated at applicable tax rates | | 31,580 | | (16,374) |
| Adjustments: | | | | |
| Tax effect of permanent differences | | 5,792 | | (8,201) |
| Unrecognized deferred tax assets[1] | | (28,820) | | 35,889 |
| Others | | (8,253) | | (13,134) |
| Income tax expense (benefits) | ₩ | 300 | ₩ | (1,820) |
| Effective tax rate | | 0.26% | | - |

[1] The Company recognizes a deferred tax asset for all deductible temporary differences and unused tax losses when it is probable the taxable profit will be available against which the temporary difference can be utilized. However, certain deferred tax assets recognized in the previous year, due to uncertainty of future taxable profit from decrease in winning contracts caused by global economy recession is recognized as income tax expense.

27.3 Changes in deferred tax assets and liabilities for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | **Beginning balance** | | **Increase (decrease)** | | **Ending balance** |
| (Temporary differences) | | | | | | |
| Provision for impairment loss | ₩ | 297,884 | ₩ | 18,091 | ₩ | 315,975 |
| Provision for construction warranties | | 75,310 | | (3,700) | | 71,610 |
| Provision for construction loss | | 76,129 | | 33,618 | | 109,747 |
| Provision for contingent liabilities | | 199,945 | | (47,782) | | 152,163 |
| Other long-term employee benefit obligation | | 7,284 | | 507 | | 7,791 |
| Gain on valuation of other comprehensive income | | 1,729 | | 2,618 | | 4,347 |
| Loss on revaluation of land | | (255,679) | | - | | (255,679) |
| Provision for advance depreciation | | (60,190) | | - | | (60,190) |
| Others | | 388,591 | | (4,736) | | 383,855 |
| | | 731,003 | | (1,384) | | 729,619 |
| Tax losses and others | | 844,265 | | (27,435) | | 816,830 |
| Tax refund due to accounting different from facts[1] | | 364,605 | | (300) | | 364,305 |
| | | 1,939,873 | | (29,119) | | 1,910,754 |
| Recognized deferred tax assets (liabilities) | | (73,596) | | (300) | | (73,896) |
| Unrecognized deferred tax assets (liabilities) | ₩ | 2,013,469 | ₩ | (28,819) | ₩ | 1,984,650 |

[1] In accordance with Article 58-3 of the Corporate Tax Law and Article 95-3 of the Enforcement Decree of the Corporate Tax Law, taxes that are overpaid due to other accounting treatments are deducted from the corporate tax amount of each fiscal year from the fiscal year falls. In this case, the amount deducted in each fiscal year is limited to 20% of the overpaid tax amount, and the remaining tax amount after the deduction is carried forward to the subsequent year, and there is no maturity.

| *(in millions of Korean won)* | 2019 | | |
|---|---|---|---|
| | **Beginning balance** | **Increase (decrease)** | **Ending balance** |
| (Temporary differences) | | | |
| Loss on revaluation of land | ₩ 645 | ₩ (1) | ₩ 644 |
| Provision for construction warranties | 84,374 | (9,064) | 75,310 |
| Provision for construction loss | 147,279 | (71,150) | 76,129 |
| Gain on foreign currency translation | 621 | - | 621 |
| Gain on valuation of currency forward | 4,036 | 7,403 | 11,439 |
| Gain (loss) on valuation of other comprehensive income | 2,214 | (485) | 1,729 |
| Gain (loss) on revaluation of land | (256,381) | 701 | (255,680) |
| Provision for advance depreciation | (60,334) | 143 | (60,191) |
| Provision for contingent liabilities | 152,105 | 47,840 | 199,945 |
| Others | 488,364 | 192,693 | 681,057 |
| | 562,923 | 168,080 | 731,003 |
| Tax losses | 974,781 | (130,516) | 844,265 |
| Tax refund due to accounting different from facts[1] | 364,530 | 75 | 364,605 |
| | 1,902,234 | 37,639 | 1,939,873 |
| Recognized deferred tax assets (liabilities) | (75,346) | 1,750 | (73,596) |
| Unrecognized deferred tax assets (liabilities) | ₩ 1,977,580 | ₩ 35,889 | ₩ 2,013,469 |

[1] In accordance with Article 58-3 of the Corporate Tax Law and Article 95-3 of the Enforcement Decree of the Corporate Tax Law, taxes that are overpaid due to other accounting treatments are deducted from the corporate tax amount of each fiscal year from the fiscal year falls. In this case, the amount deducted in each fiscal year is limited to 20% of the overpaid tax amount, and the remaining tax amount after the deduction is carried forward to the subsequent year, and there is no maturity.

27.4 The analysis of deferred tax assets and liabilities as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Deferred tax asset to be recovered within 12 months | ₩ | 9,824 | ₩ | - |
| Deferred tax asset to be recovered after more than 12 months | | 533,897 | | 364,605 |
| | | 543,721 | | 364,605 |
| Deferred tax liabilities | | | | |
| Deferred tax liability to be recovered within 12 months | | (9,824) | | - |
| Deferred tax liability to be recovered after more than 12 months | | (607,793) | | (438,201) |
| | | (617,617) | | (438,201) |
| Deferred tax liabilities, net | ₩ | (73,896) | ₩ | (73,596) |

27.5 The Company recognizes a deferred tax asset for all deductible temporary differences and unused tax losses when it is probable the taxable profit will be available against which the temporary difference can be utilized. However, certain deferred tax assets recognized in the previous year, due to uncertainty of future taxable profit from decrease in winning contracts caused by global economy recession is recognized as income tax expense. Details of unrecognized deferred tax assets as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Unused losses | ₩ | 2,972,400 | ₩ | 3,070,053 |
| Deductible taxable difference | | 4,246,619 | | 4,251,657 |

The maturity of unused losses is as follows:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Under 5 years | ₩ | 1,102,434 | ₩ | - |
| Between 5~10 years | | 1,869,965 | | 3,070,053 |

## 28. Derivative Instruments

Details of derivative instruments held for hedging and trading purposes as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Sales** | **Other non-operating income (expense)** | **Firm commitment assets[1]** | **Firm commitment liabilities[1]** | **Currency forward assets** | **Currency forward liabilities** |
| For fair value hedging[1] | ₩ 5,244 | ₩ (55,999) | ₩ 1,546 | ₩ 101,844 | ₩ 166,644 | ₩ 4,255 |
| For trading[2] | - | (196) | - | - | - | - |
| | ₩ 5,244 | ₩ (56,195) | ₩ 1,546 | ₩ 101,844 | ₩ 166,644 | ₩ 4,255 |

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

| *(in millions of Korean won)* | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **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] | ₩ (135,746) | ₩ (58,566) | ₩ 80,050 | ₩ 5,906 | ₩ 450 | ₩ 6,910 | ₩ 122,487 |
| For trading[2] | - | (55,634) | - | - | - | 287 | - |
| | ₩ (135,746) | ₩ (114,200) | ₩ 80,050 | ₩ 5,906 | ₩ 450 | ₩ 7,197 | ₩ 122,487 |

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

## 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 December 31, 2020 and 2019.

The Company's total number of authorized shares, issued shares and par value per share are 800,000,000 shares, 107,290,669 shares and ₩ 5,000, respectively, as at December 31, 2020 and 2019.

Changes in number of shares and share capital for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won, and in number of shares)* | Details | Number of shares (unit: shares) | | Share capital |
|---|---|---|---|---|
| January 1, 2019 | Beginning balance | 107,205,752 | ₩ | 541,028 |
| December 31, 2019 | Ending balance | 107,205,752 | | 541,028 |
| January 1, 2020 | Beginning balance | 107,205,752 | | 541,028 |
| October 20, 2020 | Debt to equity swaps | 84,917 | | 425 |
| December 31, 2020 | Ending balance | 107,290,669 | | 541,453 |

## 30. Retained Earnings

Retained earnings as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Legal reserves[1] | ₩ | 81,080 | ₩ | 81,080 |
| Reserve for facility expansion | | 3,450,000 | | 3,450,000 |
| Reserve for dividend equalization | | 70,000 | | 70,000 |
| Accumulated deficits before disposition | | (3,014,575) | | (3,159,396) |
| | ₩ | 586,505 | ₩ | 441,684 |

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

The disposition of accumulated deficit for the year ended December 31, 2020 is expected to be disposed at the shareholders' meeting on March 25, 2021. The disposition date for the year ended December 31, 2019, was March 25, 2020.

The disposition of accumulated deficit for the years ended December 31, 2020 and 2019, are as follows:

| *(in Korean won)* | **2020** | **2019** |
|---|---|---|
| **Undisposed accumulated deficit** | | |
| Undisposed accumulated deficit carried over from prior year | ₩ (3,159,395,668,263) | ₩ (3,059,565,617,802) |
| Remeasurements of net defined benefit liabilities | 21,982,379,330 | (45,129,603,467) |
| Reclassification of revaluation surplus | - | 3,021,802,000 |
| Reclassification of loss on valuation of financial at fair value through other comprehensive income | 8,301,279,030 | - |
| Profit (loss) for the year | 114,537,478,309 | (57,722,248,994) |
| | (3,014,574,531,594) | (3,159,395,668,263) |
| **Transfers such as discretionary reserves** | - | - |
| **Undisposed accumulated deficit to be carried forward** | ₩ (3,014,574,531,594) | ₩ (3,159,395,668,263) |

## 31. Other Contributed Capital and Components of Other Capital

31.1 Other contributed capital and components of other capital as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| Other contributed capital | | | | |
| Share premium | ₩ | 10,527 | ₩ | 10,437 |
| Others[1] | | (11,242) | | (10,694) |
| | ₩ | (715) | ₩ | (257) |
| Components of other capital | | | | |
| Revaluation surplus of property, plant and equipment | ₩ | 322,509 | ₩ | 322,509 |
| Loss on valuation of financial assets at fair value through other comprehensive income | | (15,809) | | (6,289) |
| | ₩ | 306,700 | ₩ | 316,220 |

[1] Others include ₩ 513 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 December 31, 2020.

31.2 Hybrid capital instrument as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| 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 |
| | ₩ | 2,332,832 | ₩ | 2,332,832 |

[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 because there is no contractual cash payment obligation of the issuer. Details of convertible bonds issued by the Company are changed as at June 28, 2017, and the condition of bond issuance are as follows:

| | **Details** |
|---|---|
| Bonds | 8th Private unregistered non-guarantee convertible bond |
| Value at issue | ₩ 1,000,000 million |
| Maturity | December 29, 2046(30 years), maturity date can be extended under the same conditions based on the discretion of the issuer. |
| Interest paid | 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.<br>Payment: Pay quarterly, optional payment suspension only if there is no reason for not suspending interest payment(*). The suspended interest is deferred to the next interest payment date, and an additional interest that applied guaranteed yield-to-maturity (same as bond interest rate) compounded quarterly on the interest for deferral is occurred.<br>Overdue interest: If early redemption amount is not paid after the notification of early redemption right or interest is not paid despite the reason for not suspending interest payment(*), the overdue interest rate of 15% is applied.<br>(*)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 | ₩ 40,350 per share |
| Trigger clause | The liquidation of the issuing company |

[2] As at June 28, 2017, the Company issued convertible bonds to KEXIM to secure its capital, by offsetting ₩ 1,284,775 million 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 because there is no contractual cash payment obligation of the issuer. Details of convertible bonds issued by the Company are as follows:

| | **Details** |
|---|---|
| Bonds | 9th Private unregistered non-guarantee convertible bond |
| Value at issue | ₩ 1,284,775 million |
| Maturity | June 28, 2047 (30 years), maturity date can be extended under the same conditions based on the discretion of the issuer. |
| Interest paid | Amount: 1.0% until December 31, 2021, 0.25% added every year on standard yield of 5 year maturity public unsecured corporate bonds.<br>Payment: Pay quarterly, optional payment suspension only if there is no reason for not suspending interest payment(*). The suspended interest is deferred to the next interest payment date, and an additional interest that applied guaranteed yield-to-maturity (same as bond interest rate) compounded quarterly on the interest for deferral is occurred.<br>Overdue interest: If early redemption amount is not paid after the notification of early redemption right or interest is not paid despite the reason for not suspending interest payment(*), the overdue interest rate of 15% is applied.<br>(*)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 | ₩ 40,350 per share |
| Trigger clause | The liquidation of the issuing company |

[3] As at March 14, 2018, the Company issued convertible bonds to KEXIM to secure its capital, by offsetting ₩ 48,057 million 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 because there is no contractual cash payment obligation of the issuer. Details of convertible bonds issued by the Company are as follows:

| | **Details** |
|---|---|
| Bonds | 10th Private unregistered non-guarantee convertible bond |
| Value at issue | ₩ 48,057 million |
| Maturity | March 14, 2048 (30 years), maturity date can be extended under the same conditions based on the discretion of the issuer. |
| Interest paid | Amount: 1.0% until December 31, 2021, 0.25% added every year on standard yield of 5 year maturity public unsecured corporate bonds.<br>Payment: Pay quarterly, optional payment suspension only if there is no reason for not suspending interest payment(*). The suspended interest is deferred to the next interest payment date, and an additional interest that applied guaranteed yield-to-maturity (same as bond interest rate) compounded quarterly on the interest for deferral is occurred.<br>Overdue interest: If early redemption amount is not paid after the notification of early redemption right or interest is not paid despite the reason for not suspending interest payment(*), the overdue interest rate of 15% is applied.<br>(*)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 | ₩ 40,350 per share |
| Trigger clause | The liquidation of the issuing company |

## 32. Earnings Per Share

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

Basic earnings (losses) per share for the years ended December 31, 2020 and 2019, are as follows:

| *(in Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Profit (loss) for the year | ₩ | 114,537,478,309 | ₩ | (57,722,248,994) |
| Paid interest of hybrid capital instruments[1] | | (24,006,166,650) | | (23,767,597,850) |
| Profit (loss) on ordinary shares | ₩ | 90,531,311,659 | ₩ | (81,489,846,844) |
| Weighted average number of ordinary shares outstanding *(in shares)* | | 107,206,482 | | 107,189,545 |
| Basic earnings (losses) per share | ₩ | 844 | ₩ | (760) |

[1] Interest payable related to hybrid capital instrument of ₩ 24,006 million (accumulated: ₩ 82,807 million) is included as at December 31, 2020.

32.2 Weighted-average number of ordinary shares outstanding used in the calculation of earnings per share, for the years ended December 31, 2020 and 2019, respectively, are as follows:

| *(in shares)* | 2020 | | | | |
|---|---|---|---|---|---|
| | **Issued shares** | **Treasury shares** | **Outstanding shares** | **Number of days** | **Weighted average number of ordinary shares outstanding** |
| Jan 1, 2020 | 107,205,752 | (16,207) | 107,189,545 | 366 | 107,189,545 |
| Oct. 20, 2020 | 84,917 | - | 84,917 | 73 | 16,937 |
| | | | | 366 | 107,206,482 |

| *(in shares)* | 2019 | | | | |
|---|---|---|---|---|---|
| | **Issued shares** | **Treasury shares** | **Outstanding shares** | **Number of days** | **Weighted average number of ordinary shares outstanding** |
| Jan 1, 2019 | 107,205,752 | (16,207) | 107,189,545 | 365 | 107,189,545 |
| | | | | 365 | 107,189,545 |

32.3 Diluted earnings per share 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.

| *(in Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Profit (loss) on ordinary shares | ₩ | 90,531,311,659 | ₩ | (81,489,846,844) |
| Paid interest of hybrid capital instrument | | 24,006,166,650 | | 23,767,597,850 |
| Profit (loss) used to determine diluted EPS | ₩ | 114,537,478,309 | ₩ | (57,722,248,994) |
| Weighted average number of ordinary shares outstanding *(in shares)* | | 107,206,482 | | 107,189,545 |
| Adjustment: | | | | |
| Assumption of conversion of permanent bonds *(in shares)* | | 57,814,925 | | 57,814,925 |
| Weighted average number of ordinary shares outstanding *(in shares)* | | 165,021,407 | | 165,004,470 |
| Diluted earnings per share | ₩ | 694 | ₩ | [1] |

[1] Diluted and basic earnings per share for the year ended December 31, 2019 are equal because there is no dilution effect in dilutive securities.

## 33. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Employee benefits | ₩ | 60,679 | ₩ | 67,190 |
| Post-employment benefits | | 6,757 | | 5,129 |
| Commission | | 38,446 | | 49,225 |
| Depreciation | | 4,104 | | 6,323 |
| Impairment loss (reversal) | | 18,785 | | (38,627) |
| Administrative service costs | | 7,497 | | 12,867 |
| Research and development expenses | | 70,926 | | 68,737 |
| Others | | 33,608 | | 6,632 |
| | ₩ | 240,802 | ₩ | 177,476 |

### 34. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| **Finance income** | | | | |
| Interest income | ₩ | 63,071 | ₩ | 90,558 |
| Gains on valuation of financial assets at fair value through profit or loss | | 598 | | 374 |
| Gains on disposal of financial assets at fair value through profit or loss | | 32 | | 9 |
| Dividend income | | 4,284 | | 3,942 |
| Gains on foreign currency translation | | 94,980 | | 34,580 |
| Gains on foreign currency transactions | | 162,622 | | 284,052 |
| Gains on valuation of currency forward | | 191,339 | | 7,197 |
| Gains on currency forward transactions | | 18,428 | | 5,079 |
| Reversal of financial guarantee liabilities | | 33 | | 446 |
| | ₩ | 535,387 | ₩ | 426,237 |

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| **Finance costs** | | | | |
| Interest expenses | ₩ | 140,896 | ₩ | 164,326 |
| Losses on valuation of financial assets at fair value through profit or loss | | 60 | | 38 |
| Losses on disposal of financial assets at fair value through profit or loss | | 10 | | - |
| Losses on foreign currency translation | | 78,599 | | 70,643 |
| Losses on foreign currency transactions | | 120,344 | | 149,597 |
| Losses on valuation of currency forward | | 802 | | 122,871 |
| Losses on currency forward transactions | | 85,923 | | 202,597 |
| | ₩ | 426,634 | ₩ | 710,072 |

## 35. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| **Other non-operating income** | | | | |
| Gains on valuation of firm commitment | ₩ | 28,696 | ₩ | 206,729 |
| Gains on disposal of property, plant and equipment | | 1,822 | | 3,092 |
| Reversal of impairment loss on other investments | | - | | 7,493 |
| Reversal of provision for other impairment | | 1,418 | | 16,460 |
| Reversal of provisions | | 156,408 | | 413 |
| Others | | 16,318 | | 33,040 |
| | ₩ | 204,662 | ₩ | 267,227 |

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| **Other non-operating expenses** | | | | |
| Losses on valuation of firm commitment | ₩ | 207,931 | ₩ | 7,736 |
| Losses on disposal of property, plant and equipment | | 287 | | 2,314 |
| Contingency loss | | 5,843 | | 133,261 |
| Other impairment loss | | 47,468 | | 8,802 |
| Impairment loss on property, plant and equipment | | 72,402 | | 141,882 |
| Impairment loss on intangible assets | | 2,941 | | 14,051 |
| Others | | 14,066 | | 2,947 |
| | ₩ | 350,938 | ₩ | 310,993 |

### 36. Expenses by Nature

Expenses classified by nature for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | | 2020 | | 2019 |
|---|---|---|---|---|
| Changes in inventories | ₩ | 209,402 | ₩ | 197,812 |
| Purchase of raw materials | | 3,252,075 | | 3,559,633 |
| Employee benefits | | 845,905 | | 931,218 |
| Depreciation | | 92,779 | | 94,959 |
| Depreciation of right-of-use assets | | 22,674 | | 48,515 |
| Amortization | | 250 | | 606 |
| Commission | | 104,161 | | 118,442 |
| Travel | | 2,963 | | 7,723 |
| Administrative service fees | | 76,841 | | 77,163 |
| Rent | | 30,497 | | 30,368 |
| Amount paid to subcontractor | | 1,347,722 | | 1,958,891 |
| Others | | 903,921 | | 1,024,194 |
| | ₩ | 6,889,190 | ₩ | 8,049,524 |

## 37. Related Parties

37.1 Related parties of the Company as at December 31, 2020, are as follows:

| | Name of company |
|---|---|
| Parent Company | KDB |
| Subsidiaries | DSME Shandong Co., Ltd., DK Maritime S.A., DSME Information and Consulting, DSME Kazakhstan LLP |
| Associates[1] | Wing Ship Technology Corp., TPI Megaline Co., Ltd., Samwoo Heavy Industry Co., Ltd., KC LNG Tech Co., Ltd. |
| Joint venture | 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] Daehan Shipbuilding Co.,Ltd., Shinhan Heavy Industries Co., Ltd. have been excluded from associates due to loss of significant influence over these entities for the year ended December 31, 2020.

[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.

37.2 Significant transactions with the related parties for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | **Transaction** | **2020** | **2019** |
|---|---|---|---|
| ***Parent Company:*** | | | |
| KDB | Disposal of shares[1] | ₩ 1,727 | ₩ - |
| | Interest and other income | 214,957 | 36,563 |
| | Interest and other expenses | 137,949 | 385,645 |
| ***Subsidiaries:*** | | | |
| DSME Shandong Co., Ltd | Sales | 2,609 | 3,171 |
| | Purchases | 110,586 | 149,207 |
| Other subsidiaries | Sales | 130 | 148 |
| | Purchases | 23,254 | 41,030 |
| | Interest and other income | 3,988 | 2,341 |
| | Interest and other expense | 19,568 | 5,788 |
| ***Associates and Joint venture:*** | | | |
| Samwoo Heavy Industry Co., Ltd. and others | Sales | 1,461 | 4,273 |
| | Purchases | 177,168 | 378,971 |
| | Interest and other income | 1,582 | 1,188 |
| | Interest and other expense[2] | 5,270 | 20,963 |
| ***Other related parties:*** | | | |
| KEXIM | Interest and other expense | 36,660 | 37,398 |
| Related parties of KDB and others[3] | Sales | 301,846 | 1,041,525 |
| | Purchases | 58,725 | 91,224 |
| | Interest and other income | 1,542 | 102 |
| | Interest and other expense | 1,295 | 302 |
| Total | Disposal of shares[1] | 1,727 | - |
| | Sales | 306,046 | 1,049,117 |
| | Purchases | 369,733 | 660,432 |
| | Interest and other income | 222,069 | 40,194 |
| | Interest and other expense | ₩ 200,742 | ₩ 450,096 |

[1] Amount represents proceeds from disposal of 172,732 shares of Daehan Shipbuilding Co.,Ltd., which were classified as an associate in 2019, to KDB.

[2] Interests and variable lease payments arising from lease transaction with TPI Megaline Co., Ltd. for the year ended December 31, 2020 amount to ₩ 1,562 million (2019: ₩ 1,063 million) and ₩ 3,708 million (2019: ₩ 4,428 million), respectively.

[3] There were no shipbuilding contracts entered with HMM CO., LTD. (formerly, Hyundai Merchant Marine Co., Ltd.) and its subsidiaries for the years ended December 31, 2020 and 2019. The Company recognized sales of ₩ 302,135 million (2019: ₩ 1,032,139 million) for the year ended December 31, 2020. As at December 31, 2020, there is not remaining contract balance (2019: ₩ 315,678 million).

37.3 Fund transactions with related parties for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | **Transaction** | | **2020** | | **2019** |
|---|---|---|---|---|---|
| ***Parent Company:*** | | | | | |
| KDB | Redemption of borrowings | ₩ | 47,990 | ₩ | 107,186 |
| ***Associates and Joint venture:*** | | | | | |
| TPI Megaline Co., Ltd.[1] | Redemption of lease liabilities | | 12,071 | | 16,577 |
| ***Other related parties:*** | | | | | |
| KEXIM and others | Redemption of borrowings | | - | | 100,000 |
| | Decrease in loans | | - | | 18,400 |
| Total | Redemption of borrowings | | 47,990 | | 207,186 |
| | Decrease in loans | | - | | 18,400 |
| | Redemption of lease liabilities | ₩ | 12,071 | ₩ | 16,577 |

[1] Interest expenses recognized in relation to repayment of lease liabilities for the year ended December 31, 2020, amount to ₩ 1,562 million (2019: ₩ 1,063 million).

37.4 Significant receivables from and payables to the related parties as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | **2020** | | | | | |
|---|---|---|---|---|---|---|
| | **Financial instruments and others[1]** | **Trade receivables and others[1]** | **Other receivables[1]** | **Loans and others[1]** | **Borrowings** | **Other payables and others** |
| ***Parent Company:*** | | | | | | |
| KDB | ₩ 1,767,371 | ₩ - | ₩ - | ₩ 159,949 | ₩ 1,263,970 | ₩ 6,277 |
| ***Subsidiaries*:** | | | | | | |
| DSME Shandong Co., Ltd. | - | 500 | - | 4,265 | - | - |
| DK Maritime S.A. | - | 84,837 | - | - | - | - |
| Other subsidiaries | - | - | 288 | - | - | 4,229 |
| ***Associates:*** | | | | | | |
| Samwoo Heavy Industry Co., Ltd. and others | - | 141 | 11 | 15,276 | - | 54,793 |
| ***Joint venture:*** | | | | | | |
| SBM Shipyards Ltd. and others | - | - | - | 183,133 | - | - |
| ***Other related parties:*** | | | | | | |
| KC Kazakh B.V. and others | - | 3,603 | - | 32,850 | - | 50 |
| KEXIM[2] | - | - | - | - | 526,573 | 806 |
| Related parties of KDB | 1,260 | 114 | 2,234 | - | - | 16 |
| | ₩ 1,768,631 | ₩ 89,195 | ₩ 2,533 | ₩ 395,473 | ₩ 1,790,543 | ₩ 66,171 |

[1] Amount before deduction of provision for impairment loss.

[2] Hybrid capital instrument classified as equity were not included in the borrowings (Note 31).

| (in millions of Korean won) | 2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Financial instruments and others[1] | | Trade receivables and others[1] | | Other receivables[1] | | Loans and others[1] | | Borrowings | | Other payables and others | |
| ***Parent Company:*** | | | | | | | | | | | | |
| KDB | ₩ | 2,206,980 | ₩ | - | ₩ | - | ₩ | 6,815 | ₩ | 1,362,914 | ₩ | 125,292 |
| ***Subsidiaries*:** | | | | | | | | | | | | |
| DSME Shandong Co., Ltd. | | - | | 544 | | - | | 25,379 | | - | | - |
| DK Maritime S.A. | | - | | 84,837 | | - | | - | | - | | - |
| Other subsidiaries | | - | | 15 | | 31 | | - | | - | | 3,588 |
| ***Associates:*** | | | | | | | | | | | | |
| DAEHAN SHIPBUILDING CO., LTD. and others | | - | | 252 | | 2,283 | | 125,563 | | - | | 16,371 |
| ***Joint venture:*** | | | | | | | | | | | | |
| SBM Shipyards Ltd. and others | | - | | - | | - | | 183,133 | | - | | - |
| ***Other related parties:*** | | | | | | | | | | | | |
| KC Kazakh B.V. and others | | - | | 3,566 | | - | | 32,850 | | - | | - |
| KEXIM[2] | | - | | - | | - | | 1,199 | | 547,979 | | 1,006 |
| Related parties of KDB | | 3,149 | | 490,259 | | - | | 33,318 | | - | | 10,331 |
| | ₩ | 2,210,129 | ₩ | 579,473 | ₩ | 2,314 | ₩ | 408,257 | ₩ | 1,910,893 | ₩ | 156,588 |

[1] Amount before deduction of provision for impairment loss.
[2] Hybrid capital instrument classified as equity were not included in the borrowings (Note 31).

Meanwhile, movements of provision for impairment of trade and other receivables in relation to the above receivables with related parties for the years ended December 31, 2020 and 2019, are as follows:

| (in millions of Korean won) | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | | Others[1] | | Ending balance | |
| Trade receivables | ₩ | 88,440 | ₩ | - | ₩ | 88,440 |
| Other receivables | | 2,234 | | - | | 2,234 |
| Loans and others | | 299,978 | | (75,826) | | 224,152 |
| | ₩ | 390,652 | ₩ | (75,826) | ₩ | 314,826 |

[1] As Shinhan Heavy Industries Co., Ltd. was excluded from related parties due to the commencement of the rehabilitation procedure, ₩ 75,826 million of provision for impairment excluded from disclosure is included in others.

| *(in millions of Korean won)* | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance** | | **Others** | | **Ending balance** | |
| Trade receivables | ₩ | 88,558 | ₩ | (118) | ₩ | 88,440 |
| Other receivables | | 2,238 | | (4) | | 2,234 |
| Loans and others | | 299,978 | | - | | 299,978 |
| | ₩ | 390,774 | ₩ | (122) | ₩ | 390,652 |

37.5 Key management compensation for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | **2020** | | **2019** | |
|---|---|---|---|---|
| Short-term employee benefits | ₩ | 1,293 | ₩ | 2,942 |
| Post-employment benefits | | 99 | | 79 |
| | ₩ | 1,392 | ₩ | 3,021 |

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

37.6 Significant collateral and guarantees provided for the related parties as at December 31, 2020, are as follows:

*(in thousands of foreign currency)*

| | **Provided for** | **Guaranteed amount** | | **Guarantor** |
|---|---|---|---|---|
| Performance guarantee | DSME Kazakhstan[1] | USD | 32,625 | Tengizchevroil LLP (TCO) and others |
| Performance guarantee | KC Kazakh B.V.[2] | USD | 250 | KazMunayGas |

[1] The Company provided performance guarantees regarding the construction performance of TCO FGP Module Fabrication in Kazakhstan. The performance guarantee amount is USD 1,395,988 thousand, and the guarantee amount corresponding to the liability ratio under the consortium contract is USD 32,625 thousand.
[2] The Company provided performance guarantees to KazMunayGas regarding the share of mining area in Kazakhstan disposed of by KC Kazakh B.V.

37.7 Significant guarantees provided by related parties as at December 31, 2020, are as follows:

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

| Guarantor | Type of obligations guaranteed | Guaranteed amount | | Type of borrowings | Borrowing amount | |
|---|---|---|---|---|---|---|
| ***Parent Company:*** | | | | | | |
| KDB | USANCE | USD | 314,400 | Short-term borrowings | USD | 27,894 |
| | | | | | EUR | 5,023 |
| | AP BOND and others | USD | 4,700,000 | - | USD | 1,127,161 |
| ***Other related parties:*** | | | | | | |
| | | | | - | USD | 2,463,565 |
| KEXIM | AP BOND and others | USD | 4,132,048 | - | EUR | 76,598 |
| | | | | - | KRW | 12,616 |
| | | | | | USD | 3,618,620 |
| | | USD | 9,146,448 | | EUR | 81,621 |
| | | | | | KRW | 12,616 |

37.8 The Company entered into a non-cancellable long-term transportation contract with TPI Megaline Co., Ltd. of which the remaining term is approximately 5 years. The book amount of right-of-use assets and lease liabilities as at December 31, 2020 is ₩ 51,114 million and ₩ 50,192 million, respectively.

## 38. Construction Contracts

38.1 Changes in the remaining balance of construction contracts for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | |
|---|---|---|---|---|---|
| | **Beginning balance** | **New contracts** | **Others[1]** | **Recognized construction revenue[2]** | **Ending balance** |
| Commercial ships | ₩ 6,083,772 | ₩ 5,102,360 | ₩ (94,588) | ₩ (5,121,882) | ₩ 5,969,662 |
| Offshore plant and special ships | 4,054,960 | 202,190 | 282,922 | (1,874,678) | 2,665,394 |
| Others | 806 | - | 2,503 | (410) | 2,899 |
| | ₩ 10,139,538 | ₩ 5,304,550 | ₩ 190,837 | ₩ (6,996,970) | ₩ 8,637,955 |

[1] Others consist of increase or decrease due to fluctuations of foreign exchange rates and changes of contract amount.
[2] Recognized construction revenue excludes increase or decrease of sales related to firm commitment assets (liabilities) according to hedge accounting.

| *(in millions of Korean won)* | 2019 | | | | |
|---|---|---|---|---|---|
| | **Beginning balance** | **New contracts** | **Others[1]** | **Recognized construction revenue[2]** | **Ending balance** |
| Commercial ships | ₩ 8,151,916 | ₩ 3,358,315 | ₩ 341,113 | ₩ (5,767,572) | ₩ 6,083,772 |
| Offshore plant and special ships | 3,807,667 | 1,606,396 | 1,272,459 | (2,631,562) | 4,054,960 |
| Others | 5,286 | - | (3,541) | (939) | 806 |
| | ₩ 11,964,869 | ₩ 4,964,711 | ₩ 1,610,031 | ₩ (8,400,073) | ₩ 10,139,538 |

[1] Others consist of increase or decrease due to fluctuations of foreign exchange rates and changes of contract amount.
[2] Recognized construction revenue excludes increase or decrease of sales related to firm commitment assets (liabilities) according to hedge accounting.

38.2 Details of in-progress construction contracts such as recognized construction profit or loss as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | |
|---|---|---|---|---|
| | **Accumulated construction revenue** | **Accumulated construction cost** | **Accumulated profit (loss)** | **Reserve[1]** |
| Commercial ships | ₩ 4,489,415 | ₩ (4,809,252) | ₩ (319,837) | ₩ 693,572 |
| Offshore plant and special ships | 10,356,139 | (11,308,846) | (952,707) | - |
| Others | 1,773 | (1,898) | (125) | - |
| | ₩ 14,847,327 | ₩ (16,119,996) | ₩ (1,272,669) | ₩ 693,572 |

[1] Reserve, before the deduction of provision for impairment, refers to the receivable 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.

| *(in millions of Korean won)* | 2019 | | | |
|---|---|---|---|---|
| | **Accumulated construction revenue** | **Accumulated construction cost** | **Accumulated profit (loss)** | **Reserve[1]** |
| Commercial ships | ₩ 3,679,468 | ₩ (3,844,399) | ₩ (164,931) | ₩ 705,126 |
| Offshore plant and special ships | 16,338,499 | (16,519,595) | (181,096) | - |
| Others | 1,369 | (1,174) | 195 | - |
| | ₩ 20,019,336 | ₩ (20,365,168) | ₩ (345,832) | ₩ 705,126 |

[1] Reserve, before the deduction of provision for impairment, refers to the receivable 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.

38.3 Details of due to and from customers for contract work as at December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Contract assets[1]** | | **Contract liabilities[2]** | | **Contract assets[1]** | | **Contract liabilities[2]** | |
| Commercial ships | ₩ | 1,690,630 | ₩ | 453,268 | ₩ | 1,674,325 | ₩ | 633,039 |
| Offshore plant and special ships | | 468,319 | | 788,870 | | 497,078 | | 1,160,451 |
| Others | | - | | 3,554 | | 1 | | 8,805 |
| | ₩ | 2,158,949 | ₩ | 1,245,692 | ₩ | 2,171,404 | ₩ | 1,802,295 |

[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.

38.4 Contractual details that contract revenue for the years ended December 31, 2020 and 2019, are more than 5% of sales in previous year, are as follows:

*(in millions of Korean won)*

| | Customers | Contract date | Expected completion date[1] / Completion date | Percentage of completion | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Contract assets (Due from customers for contract work) | | Trade receivables (receivables from construction contracts) | | Contract assets (Due from customers for contract work) | | Trade receivables (receivables from construction contracts) | |
| | | | | | Gross | Provision[2] | Gross | Provision[2] | Gross | Provision[2] | Gross | Provision[2] |
| LNGB | Asia | 2020.06.05 | 2022.09.23 | 2.16 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |
| LNGB | Asia | 2020.06.05 | 2022.12.31 | 0.02 | - | - | - | - | - | - | - | - |
| Drillship | Europe | 2012.09.27 | 2023.12.31 | 98.90 | 108,914 | - | - | - | 102,015 | - | 24 | - |
| Drillship | Europe | 2013.06.24 | 2023.12.31 | 98.62 | 176,763 | (8,601) | 8,098 | (8,098) | 189,169 | - | 15 | - |
| FPSO | Oceania | 2012.03.08 | 2021.12.31 | 99.90 | 100,082 | - | - | - | 103,708 | - | - | - |
| Fixed Platform | Europe | 2012.12.21 | 2020.01.15 | 100.00 | - | - | - | - | - | - | 7,337 | - |
| Fixed Platform | Asia | 2013.05.26 | 2021.04.30 | 98.71 | - | - | 6,247 | - | - | - | 1,933 | - |
| Fixed Platform | Asia | 2014.10.09 | 2020.11.10 | 100.00 | 322 | - | - | - | - | - | 99,456 | - |

[1] Expected completion date is the date expected by the Company as at December 31, 2020, 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 December 31, 2020, four construction contracts were not presented according to Amendment to Korean IFRS 1115, par 129.2(2) due to contractual reasons with customers. The aforementioned information has not been presented in the securities report, investment prospectus, nor quarterly report / semi-annual reports required in Capital Market Act. Additionally, the fact that they are not disclosed was reported to the audit committee on February 19, 2021.

38.5 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:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 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[1] |
| Commercial ships | ₩ 331,741 | ₩ (158,727) | ₩ (69,339) | ₩ 5,822 | ₩ 1,690,630 | ₩ - |
| Offshore plant and special ships | 66,221 | 47,089 | 79,019 | (2,953) | 476,920 | (8,601) |
| Others | 1,119 | 2,508 | 2,922 | (562) | - | - |
| | ₩ 399,081 | ₩ (109,130) | ₩ 12,602 | ₩ 2,307 | ₩ 2,167,550 | ₩ (8,601) |

[1] Accumulated impairment loss excludes the loss recognized through the collective assessment.

| *(in millions of Korean won)* | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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[1] |
| Commercial ships | ₩ 184,284 | ₩ 200,887 | ₩ 96,221 | ₩ 186,341 | ₩ 1,674,325 | ₩ - |
| Offshore plant and special ships | 92,550 | 925,321 | 443,065 | 453,801 | 497,078 | - |
| Others | - | 6 | (435) | 418 | 1 | - |
| | ₩ 276,834 | ₩ 1,126,214 | ₩ 538,851 | ₩ 640,560 | ₩ 2,171,404 | ₩ - |

[1] Accumulated impairment loss excludes the loss recognized through the collective assessment.

38.6 Changes in the estimation of total contract revenues and costs

As the estimated total revenue and costs for contracts in progress have changed, details of changes in estimated total contract revenue and costs, profits or loss for the years ended December 31, 2020 and 2019, and the succeeding period, and the impact on due from customers for contract work are as follows:

| *(in millions of Korean won)* | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | ₩ | (158,727) | ₩ | (69,339) | ₩ | 5,821 | ₩ | (95,209) |
| Offshore plant and special ships | | 47,089 | | 79,019 | | (2,953) | | (28,977) |
| Others | | 2,508 | | 2,922 | | (562) | | 148 |
| | ₩ | (109,130) | ₩ | 12,602 | ₩ | 2,306 | ₩ | (124,038) |

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | ₩ | 200,887 | ₩ | 96,221 | ₩ | 186,341 | ₩ | (81,674) |
| Offshore plant and special ships | | 925,321 | | 443,065 | | 453,801 | | 28,455 |
| Others | | 6 | | (435) | | 418 | | 24 |
| | ₩ | 1,126,214 | ₩ | 538,851 | ₩ | 640,560 | ₩ | (53,195) |

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 December 31, 2020 (December 31, 2019). Contract costs and contract revenue may change in the future.

## 39. Commitments and Contingencies

39.1 The Company provided 14 blank notes to Korea Energy Agency as construction warranty and others at December 31, 2020.

39.2 The Company is involved in a lawsuit as a plaintiff pending in relation to repayment request of lot loans, and 18 other pending lawsuits with aggregated claim amount of ₩ 941,019 million as at December 31, 2020. The Company requested for arbitrations to the London Maritime Arbitrators Association in relation to three lawsuits of settlement of contract amount and additional contract cost incurred with some customers amounting to USD 8,473 thousand.

39.3 Certain investors claimed that they acquired the ordinary shares, corporate bonds, and commercial papers and resulted in loss by relying on false audited report, annual report, registration of securities, and prospectus, etc due to fraudulent accounting. Including the aforementioned litigation, the Company is involved in 85 other lawsuits as a defendant with aggregated claim amount of USD 223,759 thousand, NOK 20,374 thousand and ₩ 498,346 million, including a pending lawsuit in relation to construction payment. The outcome of the above cases cannot be reasonably estimated, and outflows of resources and the timing are also uncertain as at December 31, 2020. The Company, however, recognized the best estimated loss amounting to ₩ 553,319 million from pending litigations and performance guarantees as provisions as at December 31, 2020.

39.4 The Company paid penalty amounting to ₩ 15.3 billion and received a notice of complaint against corporation from Fair Trade Commission for not issuing contract documents, improperly determining the subcontract payments, and improperly terminating or modifying the consignment as the Company made a consignment on manufacturing parts of ships and offshore plants to subcontractors. In addition, 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. The Company will file an application for suspension of execution and proceed with the complaint against FTC’s administrative measure (penalty/corrective order).

39.5 Shinhan Heavy Industries Co., Ltd. obtained the approval of commencement of rehabilitation procedure on June 30, 2020 from department 17 of Seoul Bankruptcy Court. The Company entered into a loan agreement amounting to ₩ 55.2 billion with Shinhan Heavy Industries Co., Ltd. on July 21, 2020. ₩ 50 billion were executed and the remaining ₩ 5.2 billing were recognized as provisions.

39.6 The Company’s major joint ventures are as follows.

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.

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.

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.

DSME Kazakhstan LLP, a subsidiary of the Company, formed consortiums, including Ersai Caspian Contractor LLC, to provide on-site management supervision and personnel training services for TCO projects in Kazakhstan. The Company provides performance guarantee amounting to USD 32,625 thousand (whole: USD 1,395,988 thousand) in relation to construction in Kazakhstan.

39.7 As at December 31, 2020, the estimated loss amounting to ₩ 168,560 million out of the claim amount of ₩ 802,107 million related to the construction contract of the Company was included in the statement of financial position as provisions for construction warranties. The amount expected to offset the contract amount is deducted by ₩ 80,341 million. Meanwhile, the Company is obligated to warranty liabilities in connection with the construction contracts of the Company. As a result, the Company accrued the expected warranty cost as the provision for construction warranties (Note 26).

39.8 Details of guaranteed amount to major financial institutions as at December 31, 2020 are as follows:

*(in thousands of foreign currency and in millions of Korean won)*

| | | | **Amount** |
|---|---|---|---|
| KDB and others | Issuance of L/C limit | USD | 1,072,800 |
| | Foreign-currency payment guarantee limit | USD | 8,927,048 |
| | Borrowing limit | USD | 1,041,516 |
| | | ₩ | 3,845,543 |

### 40. Statement of Cash Flows

Cash flows from operating activities for the years ended December 31, 2020 and 2019, are as follow:

| *(in millions of Korean won)* | | **2020** | | **2019** |
|---|---|---|---|---|
| 1. Profit (loss) for the year | ₩ | 114,537 | ₩ | (57,722) |
| 2. Adjustments for | | | | |
| Income tax expense (benefits) | | 300 | | (1,820) |
| Post-employment benefits | | 55,900 | | 56,507 |
| Employee benefits | | 5,203 | | 8,553 |
| Depreciation | | 92,779 | | 94,961 |
| Depreciation of right-of-use assets | | 22,674 | | 48,515 |
| Amortization | | 250 | | 606 |
| Impairment loss (reversal) | | 18,786 | | (38,628) |
| Other impairment losses (reversal) | | 46,050 | | (7,658) |
| Impairment loss on financial assets at amortized costs | | 10,738 | | - |
| Loss on valuation of inventories | | 112,377 | | 66,481 |
| Gain on disposal of property, plant and equipment | | (1,822) | | (3,092) |
| Loss on disposal of property, plant and equipment | | 287 | | 2,314 |
| Impairment loss on property, plant and equipment | | 72,402 | | 141,882 |
| Impairment loss on intangible assets | | 2,941 | | 15,880 |
| Reversal of impairment loss on intangible assets | | - | | (41) |
| Dividend income | | (4,284) | | (3,942) |
| Interest income | | (63,071) | | (90,558) |
| Finance income | | (663) | | (830) |
| Interest expense | | 140,896 | | 164,326 |
| Finance costs | | 69 | | 38 |
| Loss (gain) on foreign currency translation | | (16,380) | | 36,063 |
| Loss (gain) on valuation of firm commitment | | 179,236 | | (198,993) |
| Loss (gain) on valuation of currency forward contracts | | (123,042) | | 313,192 |
| Provision (reversal) for provisions | | 14,965 | | (4,374) |
| Miscellaneous income | | (1,069) | | (15,972) |
| Miscellaneous expenses | | 6,044 | | 4,613 |
| 3. Changes in working capital | | | | |
| Decrease (increase) in trade receivables | | (252,333) | | 246,722 |
| Decrease in other receivables | | 10,245 | | 53,894 |
| Decrease (increase) in contract assets | | (1,609) | | 2,210,140 |
| Decrease in inventories | | 97,025 | | 127,099 |
| Decrease (increase) in firm commitments | | (4,794) | | 135,544 |
| Increase in currency forward contracts | | (154,730) | | (211,721) |
| Decrease (increase) in other assets | | 76,046 | | (178,483) |
| Decrease in trade payables | | (95,762) | | (101,469) |
| Decrease in other payables | | (98,743) | | (84,674) |

| *(in millions of Korean won)* | **2020** | **2019** |
|---|---|---|
| Decrease in advances received | - | (155) |
| Increase (decrease) in contract liabilities | (561,867) | 4,316 |
| Decrease in provisions | (82,248) | (67,018) |
| Increase in other liabilities | 40,470 | 120,297 |
| Payment for severance benefits | (75,781) | (65,063) |
| Decrease (increase) in plan assets | 1,913 | (116,285) |
| Cash generated from (used in) operations | ₩ (416,065) | ₩ 2,603,464 |

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:

| *(in millions of Korean won)* | **2020** | **2019** |
|---|---|---|
| Application of new lease policy | ₩ - | ₩ 57,814 |
| Capital increase (debt to equity swaps) | 546 | - |
| Transfer of amount recognized as other comprehensive income in accordance with disposal of investments | 8,301 | - |
| Reclassification of investments in associates to financial assets at amortized cost | 4,473 | - |
| Transfer of long-term borrowings and debentures to current portion of long-term borrowings and debentures | 1,083,223 | 116,274 |
| Transfer of other receivables to financial assets at amortized cost | - | 24,939 |
| Transfer of construction in progress to property, plant and equipment | 127,981 | 136,184 |
| Transfer of leasehold deposits to the respective current assets | 4,325 | - |
| Transfer of property, plant and equipment to non-current assets held for sale | 14,743 | - |
| Offsetting certified emission reduction and certified emission liabilities | 4,477 | - |
| Acquisition of property, plant and equipment recognized in other payables | 1,366 | - |

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

Changes in liabilities arising from financing activities for the years ended December 31, 2020 and 2019, are as follows:

| *(in millions of Korean won)* | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance** | **Cash flows from financing activities** | **Changes in exchange rate** | **Amortization** | **Transfer and others** | **Ending balance** |
| Current | | | | | | |
| Short-term borrowings | ₩ 1,065,022 | ₩ (93,797) | ₩ (17,694) | ₩ - | ₩ - | ₩ 953,531 |
| Current portion of long-term borrowings | 204,058 | (4) | (63,256) | - | 845,198 | 985,996 |
| Current portion of long-term debentures | 116,270 | (123,191) | - | 6,990 | 237,956 | 238,025 |
| Current lease liabilities | 18,446 | (28,081) | (417) | - | 28,264 | 18,212 |
| | 1,403,796 | (245,073) | (81,367) | 6,990 | 1,111,418 | 2,195,764 |
| Non-current | | | | | | |
| Long-term borrowings | 973,475 | - | (1,007) | 8,302 | (845,198) | 135,572 |
| Debentures | 511,815 | - | - | 46,925 | (238,025) | 320,715 |
| Lease liabilities | 15,590 | - | - | - | 47,056 | 62,646 |
| | 1,500,880 | - | (1,007) | 55,227 | (1,036,167) | 518,933 |
| | ₩ 2,904,676 | ₩ (245,073) | ₩ (82,374) | ₩ 62,217 | ₩ 75,251 | ₩ 2,714,697 |

| *(in millions of Korean won)* | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning balance** | **Cash flows from financing activities** | **Changes in exchange rate** | **Amortization** | **Transfer and others** | **Ending balance** |
| Current | | | | | | |
| Short-term borrowings | ₩ 1,414,638 | ₩ (347,421) | ₩ (2,195) | ₩ - | ₩ - | ₩ 1,065,022 |
| Current portion of long-term borrowings | 197,061 | (4) | 6,997 | - | 4 | 204,058 |
| Current portion of long-term debentures | - | - | - | - | 116,270 | 116,270 |
| Current lease liabilities | 57,814 | (47,676) | 1,483 | - | 6,825 | 18,446 |
| | 1,669,513 | (395,101) | 6,285 | - | 123,099 | 1,403,796 |
| Non-current | | | | | | |
| Long-term borrowings | 935,902 | - | 29,980 | 7,597 | (4) | 973,475 |
| Debentures | 575,561 | - | - | 52,524 | (116,270) | 511,815 |
| Lease liabilities | 24,145 | - | - | - | (8,555) | 15,590 |
| | 1,535,608 | - | 29,980 | 60,121 | (124,829) | 1,500,880 |
| | ₩ 3,205,121 | ₩ (395,101) | ₩ 36,265 | ₩ 60,121 | ₩ (1,730) | ₩ 2,904,676 |

## 41. Segment Information

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

| Division | Goods or services | Major customer | Ratio of sales (%) |
|---|---|---|---|
| Commercial ships | LNGC and others | Maran Gas Maritime Inc. and others | 72.7 |
| Offshore plant and special ships | Marine steel structure and others | Tengizchevroil LLP (TCO) and others | 26.6 |
| Others | Energy, service | Various customers | 0.7 |
| | | | 100.0 |

41.2 Financial information by segment is as follows:

| *(in millions of Korean won)* | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Commercial Ships | | Offshore plants and special ships | | Others | | Total |
| Sales | ₩ | 5,116,938 | ₩ | 1,873,811 | ₩ | 50,802 | ₩ | 7,041,551 |
| Gross profit (loss) | | (202,112) | | 536,643 | | 58,631 | | 393,162 |

| *(in millions of Korean won)* | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Commercial Ships | | Offshore plants and special ships | | Others | | Total |
| Sales | ₩ | 5,612,905 | ₩ | 2,634,371 | ₩ | 70,306 | ₩ | 8,317,582 |
| Gross profit (loss) | | (30,347) | | 434,296 | | 41,584 | | 445,533 |

There are three customers (2019: three customers) who contribute more than 10% of the Company's revenue and their revenue amount to ₩ 2,905,412 million and ₩ 2,585,969 million for the years ended December 31, 2020 and 2019, respectively.

The Company does not report operating profit, profit for the year, assets and liabilities by regions and operating segments.

### 42. Create 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 occurred for the following reasons.

1) Recognition of provisions for delays in deliveries

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

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

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

3) Impairment loss on assets including property, plant and equipment and investments in subsidiaries

As described in Notes 16, 17 and 20, the Company measured the amount of impairment loss of the cash generating units due to decrease in the sales volume and deterioration in market condition. After impairment assessment, the Company recognized total ₩ 54,642 million (2019: ₩ 141,881 million) of impairment loss on property, plant and equipment, ₩ 2,941 million (2019: ₩ 14,051 million) of impairment loss on intangible assets, and ₩ 17,760 million (2019: ₩ -) of impairment loss on right-of-use assets.

During the year ended December 31, 2018, the Company recognized impairment losses on investments in subsidiaries of ₩ 22,806 million. Also, the Company has 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 because the Company lost its control over them due to the agreement with its major creditor bank. Also, Shinhan Heavy Industries Co., Ltd. was classified as securities at fair value through other comprehensive income as the Company lost its significant influence over the entity due to the rehabilitation procedure in June 2020.

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 progress (Note 43). Meanwhile, KDB and KEXIM Bank pledged to provide new capital support to DSME until the repayment date of the remaining bonds after the debt-to-equity swap and to use the reserved portion of the new funds for remaining bonds first.

## 43. Debt Restructuring

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

43.1 Details of debt restructuring are as follows:

| *(in millions of Korean won)* | | **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 | ₩ | 165,405 | ₩ | 101 |
| Corporate bonds[2] | | 1,350,000 | | 711,066 | | 638,934 | | - |
| Commercial papers | | 199,183 | | 97,289 | | 101,894 | | - |
| Long-term borrowings[3,4] | | 680,653 | | 680,633 | | - | | 20 |
| | ₩ | 3,924,875 | ₩ | 3,018,521 | ₩ | 906,233 | ₩ | 121 |

[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, March 15, 2018, and October 20, 2020 (total of 17,559,003 shares). In addition, 50.85% of bonds held by other creditors were restructured 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.

[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. In 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 year-end date of December 31, 2020.

As a result of the above-mentioned debt restructuring agreement, the Company issued new shares through a third-party allotment amounting to ₩ 792,758 million 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 on August 12, 2017, for ₩ 65,669 million of corporate bonds (2nd) and creditor bank on December 22, 2017, for ₩ 22,171 million of corporate bonds (3rd) and creditor bank on March 15, 2018, and for ₩ 3,426 million of corporate bonds (4th) and creditor bank on October 20, 2020 were executed.

43.2 Debt-to-equity swaps and changes in terms

i) Debt to equity swaps

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

[1] 62,289 shares (assuming conversion rate of 50%) which was not converted to investment as at December 31, 2020, were recognized as other paid-in capital.

ii) Debt grace period

| *(in millions of Korean won)* | **Public offering bonds (including CP)** | **Unsecured borrowings** |
|---|---|---|
| Debt in the grace period | ₩ 740,828 | ₩ 165,405 |
| Grace period | 6 years | 10 years |
| Payment method | 3-year grace period, Installment over 3 years | 5-year grace period, Installment over 5 years |
| Commencing period of payment | July 21, 2020 | September 28, 2022 |
| Completed amount of payment[1] | ₩ 123,260 | ₩ - |

[1] Includes pending payments regarding undeclared bonds amounting to ₩ 69 million as at December 31, 2020. The amount is transferred to long-term other payables.

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

| *(in millions of Korean won)* | **Public offering bonds (including CP)** | **Unsecured borrowings** |
|---|---|---|
| Target bond | ₩ 740,828 | ₩ 165,405 |
| Effective interest rate | 1.00% | 1.00% |
| Applicable period | 6 years | 10 years |

## 44. 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.

The Company decided to enter into a modification agreement to change the party under the third party allocation from Hyundai Heavy Industries Co., Ltd. to Korea Shipbuilding & Offshore Engineering Co.,Ltd. and certain articles (date of termination) of the new share subscription agreement with the resolution of the Company’s Board of Directors on January 22, 2020. In addition, the Company decided to enter into a modification agreement for the second time to extend the termination date of the new share subscription agreement on January 22, 2021 to December 31, 2021.

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 agreement may be terminated at the commencement of the rehabilitation or bankruptcy procedure in accordance with the Act on the Debtor Rehabilitation and Bankruptcy.

**Report on Independent Auditor's**
**Audit of Internal Control over Financial Reporting**

(English Translation of a Report Originally Issued in Korean)

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

**Opinion on Internal Control over Financial Reporting**

We have audited Daewoo Shipbuilding & Marine Engineering Co., Ltd.'s (the Company) Internal Control over Financial Reporting as at December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We also have audited, in accordance with Korean Standards on Auditing, the separate financial statements of the Company, which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flow for the year then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 17, 2021 expressed an unqualified opinion.

**Basis for Opinion on Internal Control over Financial Reporting**

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the *Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting**

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Report on the Effectiveness of Internal Control over Financial Reporting.*

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

**Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting**

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Korean Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

**Definition and Inherent Limitations of Internal Control over Financial Reporting**

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Dae-hyun Jou, Certified Public Accountant.

Seoul, Korea

March 17, 2021

This report is effective as at March 17, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the Company's internal control over financial reporting thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Report on the Effectiveness of**
**Internal Control over Financial Reporting**

(English Translation of a Report Originally Issued in Korean)

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

We, as the Chief Executive Officer ("CEO") and the Internal Control over Financial Reporting ("ICFR") Officer of Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company"), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting for the year ended December 31, 2020.

The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We designed and operated ICFR in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting* established by the Operating Committee of Internal Control over F\
inancial Reporting in Korea (the ICFR Committee). And, we conducted an evaluation of ICFR based on *Best Practice Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting* established by the ICFR Committee.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2020, is designed and operating effectively, in all material respects, in accordance with *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 9, 2021

Yong Suck Choi,
Internal Accounting Control Officer

Sung Geun Lee,
Chief Executive Officer