Samsung Heavy Industries Co., Ltd.

and Subsidiaries

Consolidated Financial Statements
December 31, 2015 and 2014

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying consolidated financial statements Samsung Heavy Industries Co., Ltd. and its subsidiaries (collectively "the Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

Other Matters

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

Samil PricewaterhouseCoopers

Seoul, Korea

March 10, 2016

This report is effective as of March 10, 2016, 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 consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samsung Heavy Industries Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2015 and 2014

(In thousands of Korean won)	Notes		2015		2014
Assets					
Current assets					
Cash and cash equivalents	4,7,9	₩	983,478,374	₩	340,828,995
Short-term financial instruments	5,7,9		1,153,964,618		552,286,821
Trade receivables	7,9,10		350,650,287		766,105,470
Due from customers for contract work	6		4,291,514,814		5,468,236,344
Other receivables	7,9,10		30,172,001		34,565,557
Advance payments			894,966,319		1,204,339,397
Prepaid expenses			94,671,566		113,569,546
Current derivative financial instruments	7,8,9,11,32		245,272,670		332,651,727
Current firm commitment assets	11		451,717,715		387,032,381
Inventories	12		1,449,045,285		1,168,817,779
Other current financial assets	7,13		52,748,576		67,399,191
Other current assets			112,278,509		145,370,678
			10,110,480,734		10,581,203,886
Non-current assets					
Long-term available-for-sale financial assets	7,8,14		61,143,040		97,777,954
Investments in associates and joint ventures	15		5,705,345		5,358,357
Property, plant and equipment	16		5,582,821,927		5,273,010,241
Investment properties	17		6,981,786		20,593,114
Intangible assets	18		101,741,434		128,529,131
Long-term prepaid expenses			75,663,981		97,112,810
Derivative financial instruments	7,8,9,11,32		143,056,517		183,431,052
Firm commitment assets	11		385,128,454		209,890,507
Non-current trade receivables	7,9,10		67,955,945		165,321,704
Deferred income tax assets	29		730,006,107		307,599,590
Other financial assets	5,7,13		30,906,717		52,405,736
			7,191,111,253		6,541,030,196
Total assets		₩	17,301,591,987	₩	17,122,234,082

1. General information

1.1 The Parent Company

Samsung Heavy Industries Co., Ltd. was incorporated in 1974 under the Commercial Code of the Republic of Korea to shipbuilding contracts and off-shore plants. The Company listed its shares on the Korea Exchange in January 28, 1994.

The consolidated financial statements, which include those of the Parent Company, Samsung Heavy Industries Co., Ltd. (the “Company”), and its 13 controlled subsidiaries including Samsung Heavy Industries(Ningbo) Co., Ltd. (collectively referred to as the “Group”), have been prepared and presented according to Korean IFRS 1110, *Consolidated Financial Statements*.

1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2015, are as follows:

Subsidiaries	Percentage of ownership (%)	Location	Closing Month	Main business
Samsung Heavy Industries (Ningbo) Co., Ltd.	100	China	December	Ship parts manufacturing, construction
Samsung Heavy Industries (Rongcheng) Co., Ltd.	100	China	December	Ship parts manufacturing
Rongcheng Gaya Heavy Industries Co., Ltd.	100	China	December	Ship parts manufacturing
Samsung Heavy Industries India Pvt. Ltd.	100	India	December	Engineering
Camellia Consulting Corporation	100	USA	December	Engineering
Samsung Heavy Industries (M) SDN.BHD	100	Malaysia	December	Market research
SVIC 13 New Technology Business Investment	99	Korea	December	Investment
Samsung Heavy Industries Brazil	100	Brazil	December	Market research
SHI Brazil Construction	100	Brazil	December	Construction
Samsung Heavy Industries Trade (Shanghai) Co.,Ltd.	100	China	December	Ship parts trading
Samsung Heavy Industries Nigeria Co. Ltd	100	Nigeria	December	Construction
Samsung Heavy Industries Hamburg GmbH	100	Germany	December	Engineering
SHI-MCI FZE[1]	70	Nigeria	December	Construction

Although the Group owns 50.1%, 51.0% and 50.0% of the voting rights in Daejung Offshore Wind Power Co., Ltd., Offshore 1 Consulting Corporation and Jeongam Wind Power Co., Ltd., respectively, they are excluded from the consolidated subsidiaries and classified as joint ventures because the Group exercises joint control with other shareholders.

[1] The Group is considered to have control over SHI-MCI FZE, since the Group newly invested in SHI-MCI FZE with 70% ownership interest during the year ended December 31, 2014.

1.4 Changes in Scope for Consolidation

Samsung Wind Energy, Inc. is excluded from the consolidation due to its liquidation for the year ended December 31, 2015

2. Significant Accounting Policies

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

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group 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 preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual periods beginning January 1, 2015:

- Amendment to Korean IFRS 1019, *Employee Benefits*

Korean IFRS 1019, *Employee Benefits*, allows a practical expedient for companies that operate defined benefit plans and when contributions are made by employees or third parties. The application of this amendment does not have a material impact on the consolidated financial statements.

- Annual Improvements to Korean IFRS 2010-2012 *Cycle*

- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of a 'vesting conditions', 'performance condition', and 'service condition'.

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies the classification and measurement of contingent consideration in the business combination.

- Amendment to Korean IFRS 1108, *Operating Segments*

Korean IFRS 1108, *Operating Segments*, requires disclosures of the judgments made by management in aggregating operating segments and a reconciliation of the reportable segments' assets to the entity's assets.

- Amendment to Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1038, *Intangible assets*

Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1038, *Intangible assets*, clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- Amendment to Korean IFRS 1024, *Related Party Disclosures*

Korean IFRS 1024, *Related Party Disclosures*, includes, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

- Annual Improvements to Korean IFRS 2011-2013 *Cycle:*

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies that Korean IFRS 1103 does not apply to the accounting for the formation of any joint arrangement.

- Amendment to Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, clarifies that the portfolio exception, which allows an entity to measure the fair value of a group of financial instruments on a net basis, applies to all contracts (including non-financial contracts) within the scope of Korean IFRS 1039.

- Amendment to Korean IFRS 1040, *Investment property*

Korean IFRS 1040, *Investment property*, clarifies that Korean IFRS 1040 and Korean IFRS 1103 are not mutually exclusive.

Other standards and amendments which are effective for the annual period beginning on January 1, 2015, do not have a material impact on the consolidated financial statements of the Group.

(b) New standards and interpretations not yet adopted by the Group

New standards and amendments issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these standards and amendments would not have a material impact on its consolidated financial statements.
- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1041, *Agriculture and fishing:*

Productive plants
- Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements,* Korean IFRS 1028*, Investments in Associates and Joint Ventures,* and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*
- Korean IFRS 1111, *Joint Agreements*
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Furthermore, new standards issued, but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below:

- Korean IFRS 1109, *Financial Instruments*

The new Standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The Standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. The new Standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

- Korean IFRS 1115*, Revenue from Contracts with Customers*

The new Standard for the recognition of revenue issued in December 2015 will replace Korean IFRS1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related Interpretations.

Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new Standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

Also, new and amended standards issued after December 31, 2015, and effective for the financial year beginning January 1, 2016, are as follows:

Korean IFRS 1011, *Construction Contract*; Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets;* and Interpretation 2115, *Arrangements for Property Construction*

These standards and interpretation clarify the requirement that specific accounting estimates for contract-based industry and information relating to potential risk should be disclosed in detail classified by individual constructions and operating segments. These amendments will be effective for annual periods beginning on or after January 1, 2016. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests that do not result in loss of control, any difference between the adjustment to the carrying amount of non-controlling interest and consideration paid or received is recognized directly in equity attributable to the controlling interest.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(c) Joint Arrangements