

# ***Samsung Heavy Industries Co., Ltd.***

Separate Financial Statements  
December 31, 2015 and 2014

**Samsung Heavy Industries Co., Ltd.**  
**Index**  
**December 31, 2015 and 2014**

---

	<b>Page(s)</b>
<b>Independent Auditor's Report</b> .....	1-2
<b>Separate Financial Statements</b>	
Separate Statements of Financial Position .....	3-4
Separate Statements of Income .....	5
Separate Statements of Comprehensive Income .....	6
Separate Statements of Changes in Equity .....	7
Separate Statements of Cash Flows .....	8
<b>Notes to Separate Financial Statements</b> .....	9-54
<b>Report on Independent Accountants' Review of Internal Accounting Control System</b> .....	55
<b>Report on the Operations of the Internal Accounting Control System</b> .....	56

## 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 separate financial statements of Samsung Heavy Industries Co., Ltd (the "Company"), which comprise the separate statements of financial position as of December 31, 2015 and 2014, and the separate 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 separate financial statements present fairly, in all material respects, the financial position of Samsung Heavy Industries Co., Ltd. as of December 31, 2015 and 2014, and its 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.

A handwritten signature in black ink, reading "Samil Kwon" followed by a stylized Korean name "Kwonwaterhouse Co. Korea".

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 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.

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

<i>(In thousands of Korean won)</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,7,9	₩ 929,537,097	₩ 278,952,165
Short-term financial instruments	5,7,9	906,269,740	423,679,977
Trade receivables	7,9,10	146,769,616	674,054,254
Due from customers for contract work	6	4,291,514,814	5,633,102,785
Other receivables	7,9,10	25,166,663	38,256,942
Advance payments		887,133,039	1,168,763,939
Prepaid expenses		74,034,950	92,904,489
Current derivative financial instruments	7,8,9,11,32	243,395,896	332,260,718
Current firm commitment assets	11	451,441,393	387,032,382
Inventories	12	1,421,117,403	1,121,342,169
Other current financial assets	7,13	46,548,289	67,070,741
Other current assets		43,299,158	121,503,268
		<u>9,466,228,058</u>	<u>10,338,923,829</u>
<b>Non-current assets</b>			
Long-term available-for-sale financial assets	7,8,14	61,143,040	97,777,954
Investments in subsidiaries, associates and joint ventures	15	498,009,881	496,165,179
Property, plant and equipment	16	4,807,199,653	4,664,578,605
Investment properties	17	6,981,786	20,593,114
Intangible assets	18	94,779,516	121,124,875
Long-term prepaid expenses		17,809,986	29,532,245
Derivative financial instruments	7,8,11,32	141,228,620	183,377,664
Firm commitment assets	11	375,752,456	209,890,507
Non-current trade receivables	7,9,10	67,955,945	165,321,704
Deferred income tax assets	29	724,599,632	306,675,242
Other financial assets	5,7,13	30,621,380	52,009,625
		<u>6,826,081,895</u>	<u>6,347,046,714</u>
<b>Total assets</b>		<u>₩ 16,292,309,953</u>	<u>₩ 16,685,970,543</u>

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

<i>(In thousands of Korean won)</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	7,32	₩ 1,383,452,666	₩ 1,487,268,953
Short-term borrowings	7,19,32	1,778,721,569	2,118,826,625
Other payables	7,32	97,757,265	110,070,457
Advance receipts		912,324,444	633,187,087
Due to customers for contract work	6	2,668,395,202	3,103,958,592
Accrued expenses	7,32	492,130,022	655,923,537
Income tax payable		1,877,337	83,663,842
Current derivative financial instruments	7,8,11,32	517,081,181	345,178,485
Current firm commitment liabilities	11	246,071,594	343,105,018
Current portion of long-term debts	7,19,32	510,000,000	599,697,656
Provisions	21	375,693,088	202,887,356
Other current liabilities		34,601,719	84,515,957
		<u>9,018,106,087</u>	<u>9,768,283,565</u>
<b>Non-current liabilities</b>			
Debentures	7,19,32	1,098,155,375	598,924,336
Long-term debts	7,19,32	1,327,400,000	307,562,664
Retirement benefit obligations	20	175,924,377	81,148,863
Other provisions	21	24,072,508	64,806,409
Derivative financial instruments	7,8,11,32	394,013,021	212,231,666
Firm commitment liabilities	11	137,640,798	191,500,624
Other financial liabilities	7,13,32	20,174,353	15,162,587
		<u>3,177,380,432</u>	<u>1,471,337,149</u>
<b>Total liabilities</b>		<u>12,195,486,519</u>	<u>11,239,620,714</u>
<b>Equity</b>			
Capital stock	22		
Common stock		1,154,376,930	1,154,376,930
Preferred stock		574,225	574,225
Premium on capital stock	22	417,172,244	417,172,244
Accumulated other comprehensive income	23	23,601,777	47,564,262
Other components of equity	23	(963,896,146)	(963,896,146)
Retained earnings	24	3,464,994,404	4,790,558,314
		<u>4,096,823,434</u>	<u>5,446,349,829</u>
<b>Total equity</b>		<u>4,096,823,434</u>	<u>5,446,349,829</u>
<b>Total liabilities and equity</b>		<u>₩ 16,292,309,953</u>	<u>₩ 16,685,970,543</u>

The accompanying notes are an integral part of these financial statements.

**Samsung Heavy Industries Co., Ltd.**  
**Separate Statements of Income**  
**Years ended December 31, 2015 and 2014**

*(In thousands of Korean won, except per share amounts)*

	Notes	2015	2014
<b>Revenue</b>	6,33	₩ 9,332,927,411	₩ 12,584,242,743
<b>Cost of sales</b>	25	10,534,392,159	11,938,125,475
<b>Gross profit(loss)</b>		(1,201,464,748)	646,117,268
Selling and administrative expenses	25,26	463,111,698	503,379,077
<b>Operating profit</b>		(1,664,576,446)	142,738,191
Other income	27	2,652,959,187	2,614,713,235
Other expenses	27	2,546,179,783	2,525,717,594
Financial income	28	231,193,988	246,642,573
Financial costs	28	247,395,530	331,993,257
<b>Profit(loss) before income tax</b>		(1,573,998,584)	146,383,148
Income tax expense(income)	29	(321,958,743)	34,012,555
<b>Profit(loss) for the year</b>		₩ (1,252,039,841)	₩ 112,370,593
<b>Earnings(loss) per share</b>			
<b>Basic earnings per share</b>	30	₩ (6,107)	₩ 522
<b>Diluted earnings per share</b>	30	₩ (6,107)	₩ 522

The accompanying notes are an integral part of these financial statements.

**Samsung Heavy Industries Co., Ltd.**  
**Separate Statements of Comprehensive Income**  
**Years ended December 31, 2015 and 2014**

<i>(In thousands of Korean won)</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Profit(loss) for the year</b>		₩ (1,252,039,841)	₩ 112,370,593
<b>Other comprehensive income (loss)</b>		(46,224,361)	(36,003,067)
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of net defined benefit liabilities	20	(29,369,229)	(11,813,589)
Income tax		7,107,353	2,858,889
<b>Items that may be subsequently reclassified to profit or loss</b>			
Changes in value of available-for-sale financial assets	7,14,23	(31,388,755)	(35,683,861)
Income tax	23	7,426,270	8,635,494
<b>Total comprehensive income(loss) for the year</b>		₩ (1,298,264,202)	₩ 76,367,526

The accompanying notes are an integral part of these financial statements.



**Samsung Heavy Industries Co., Ltd.**  
**Separate Statements of Changes in Equity**  
**Years ended December 31, 2015 and 2014**

(In thousands of Korean won)

	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income	Other Components of Equity	Retained Earnings	Total
<b>Balance at January 1, 2014</b>	₩ 1,154,951,155	₩ 417,172,244	₩ 74,612,629	₩ (649,229,604)	₩ 4,795,631,364	₩ 5,793,137,788
<b>Comprehensive income</b>	-	-	-	-	112,370,593	112,370,593
Loss for the year	-	-	(27,048,367)	-	-	(27,048,367)
Change in value of available-for-sale financial assets	-	-	-	-	(8,954,700)	(8,954,700)
Remeasurement of net defined benefit liabilities	-	-	-	-	-	-
<b>Transactions with equity holders of the Company</b>						
Dividends relating to 2013	-	-	-	-	(108,488,943)	(108,488,943)
Gain on disposal of treasury stock	-	-	-	182,903	-	182,903
Disposal of treasury stock	-	-	-	806,949	-	806,949
Acquisition of treasury stock	-	-	-	(315,527,199)	-	(315,527,199)
Stock purchase options	-	-	-	(129,195)	-	(129,195)
<b>Balance at December 31, 2014</b>	₩ 1,154,951,155	₩ 417,172,244	₩ 47,564,262	₩ (963,896,146)	₩ 4,790,558,314	₩ 5,446,349,829
<b>Balance at January 1, 2015</b>	₩ 1,154,951,155	₩ 417,172,244	₩ 47,564,262	₩ (963,896,146)	₩ 4,790,558,314	₩ 5,446,349,829
<b>Comprehensive income</b>	-	-	-	-	(1,252,039,841)	(1,252,039,841)
Profit for the year	-	-	-	-	-	-
Change in value of available-for-sale financial assets	-	-	(23,962,485)	-	-	(23,962,485)
Remeasurement of net defined benefit liabilities	-	-	-	-	(22,261,876)	(22,261,876)
<b>Transactions with equity holders of the Company</b>						
Dividends relating to 2014	-	-	-	-	(51,262,193)	(51,262,193)
<b>Balance at December 31, 2015</b>	₩ 1,154,951,155	₩ 417,172,244	₩ 23,601,777	₩ (963,896,146)	₩ 3,464,994,404	₩ 4,096,823,434

~

The accompanying notes are an integral part of these financial statements.

**Samsung Heavy Industries Co., Ltd.**  
**Separate Statements of Cash Flows**  
**Years ended December 31, 2015 and 2014**

<i>(In thousands of Korean won)</i>	Notes	2015	2014
<b>Cash flows from operating activities</b>			
Cash generated from (used in) operations	31	₩ 655,618,985	₩ (24,204,117)
Interest received		36,084,206	40,802,968
Interest paid	19	(100,161,345)	(115,021,219)
Dividends received		472,989	989,438
Income tax paid	29	(164,078,037)	(423,252,609)
<b>Net cash generated from (used in) operating activities</b>		<u>427,936,798</u>	<u>(520,685,539)</u>
<b>Cash flows from investing activities</b>			
Acquisition of short-term financial instruments		(482,589,763)	(134,082,691)
Disposal of long-term available-for-sale financial assets	14	1,709,566	16,599,425
Acquisition of subsidiaries, associates and joint ventures	15	(1,962,290)	(95,624,550)
Acquisition of property, plant and equipment	16	(408,586,173)	(312,045,343)
Disposal of property, plant and equipment	16	32,759,062	37,075,888
Disposal of investment properties	17	25,122,387	27,129,530
Disposal of intangible assets	18	2,870,611	129,438
Disposal of other current financial assets		38,797,474	15,874,142
Acquisition of other current financial assets		-	(17,999,192)
Disposal of other non-current financial assets		26,467,727	5,521,530
Acquisition of other non-current financial assets		(4,762,885)	(5,826,979)
<b>Net cash used in investing activities</b>		<u>(770,174,284)</u>	<u>(463,248,802)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	19	(356,269,162)	819,048,046
Repayments of current portion of long-term debts	19	(600,000,000)	(180,370,000)
Proceeds from long-term borrowings	19	1,503,940,392	300,000,000
Repayments of long-term borrowings	19	(1,871,171)	-
Issuance of debentures	19	498,284,500	-
Acquisition of treasury stock	23	-	(315,527,199)
Disposal of treasury stock	24	-	320,760
Dividends paid	24	(51,262,193)	(108,488,943)
<b>Net cash provided by financing activities</b>		<u>992,822,366</u>	<u>514,982,664</u>
<b>Increase(decrease) in cash and cash equivalents</b>		650,584,880	(468,951,677)
Cash and cash equivalents at beginning of year		278,952,165	747,669,840
Effect of exchange rate change on cash and cash equivalents		52	234,002
<b>Cash and cash equivalents at the end of year</b>		<u>₩ 929,537,097</u>	<u>₩ 278,952,165</u>

The accompanying notes are an integral part of these financial statements.

# **Samsung Heavy Industries Co., Ltd.**

## **Notes to Separate Statements**

### **December 31, 2015 and 2014**

---

#### **1. General information**

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

#### **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 the 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 preparation of the separate financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of 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 Policy and Disclosures**

The company 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'.

## **Samsung Heavy Industries Co., Ltd.**

### **Notes to Separate Statements**

#### **December 31, 2015 and 2014**

---

- 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 company.

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

New standards and amendments issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The company 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*:

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

*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
  
- Amendment to Korean IFRS 1027, *Separate Financial Statements*

Amendment to Korean IFRS 1027, *Separate Financial Statements*, requires that the accounting for investments in subsidiaries, jointly controlled entities and associates be accounted for under one of the following methods by each category: at cost, in accordance with the Korean IFRS 1039, or the equity method in Korean IFRS 1028. This amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The company is assessing the impact of application of this amendment on its separate financial statements.

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 company 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 company is in the process of determining the effects resulting from the adoption of the new Standard.

# **Samsung Heavy Industries Co., Ltd.**

## **Notes to Separate Statements**

### **December 31, 2015 and 2014**

---

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 company is in the process of determining the effects resulting from the adoption of the new Standard.

### **2.3 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. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

### **2.4 Segment Reporting**

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 34). The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

### **2.5 Foreign Currency Translation**

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency"). The separate financial statements are presented in Korean won, which is the Controlling Company's functional and presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

### **2.6 Financial Assets**

#### *(a) Classification and measurement*

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on the trade date.

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

*(b) Impairment*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months. A decline in the fair value of an available-for-sale equity instrument by more than 30% from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

*(c) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

**2.7 Derivative Instruments**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

The resulting gain or loss is recognized in the statement of income within 'other income (expenses)' or 'finance income (costs)' according to the nature of transactions.

The Company applies fair value hedge accounting of firm commitments.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 8. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. The fair value of trading derivatives is classified as a non-current asset or liability when the remaining maturity is more than 12 months and as a current asset or liability when the remaining maturity is less than 12 months.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for hedging exchange risk of a firm commitment. The gain or loss relating to the effective portion of derivative instruments hedging exchange risk of a firm commitment is recognized in the statement of income within 'other income (expenses)'. The gain or loss relating to the ineffective portion is recognized in the statement of income within 'finance income (costs)'. Changes in the fair value of the hedge firm commitments attributable to exchange risk are recognized in the statement of income within 'other income (expenses)'.

**2.8 Inventories**

Inventories are stated at the lower of cost and net realizable value. Raw materials for Shipbuilding & offshore business are evaluated using moving weighted average method and individual method is applied for evaluating unfinished housing, merchandise in transit and land held for housing.

**2.9 Property, Plant and Equipment**

Property, plant and equipment is stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	25 – 50 years
Structures	25 - 50 years
Machinery	10 - 30 years
Vehicles	5 - 30 years
Tools, furniture and fixtures	5 years



# **Samsung Heavy Industries Co., Ltd.**

## **Notes to Separate Statements**

### **December 31, 2015 and 2014**

---

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

#### **2.10 Borrowing Costs**

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

#### **2.11 Government Grants**

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Company will comply with the conditions attached to it. Government grants related to assets are presented by deducting the grants to arrive at the carrying amount of the assets, and grants recognized as income are deferred and presented by deducting the expenses related to the purpose of the government grants.

#### **2.12 Intangible Assets**

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at its cost less accumulated amortization and accumulated impairment losses.

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives when the asset is available for use. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

Other intangible assets	5 years
-------------------------	---------

#### **2.13 Investment Property**

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 25 to 50 years.

#### **2.14 Impairment of Non-financial Assets**

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.15 Financial Liabilities**

*(a) Classification and measurement*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

*(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

**2.16 Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

**2.17 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities 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 nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**2.18 Employee Benefits**

*(a) Post-employment benefits*

The Company has both defined contribution and defined benefit plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. 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 determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

*(b) Share-based payments*

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is remeasured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in the profit for the year and equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

**2.19 Revenue Recognition**

Revenue is measured the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The revenue can be reliably measured only when any contingency related to sales is resolved. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(a) Construction contracts*

A construction contract is defined by Korean IFRS 1011, *Construction Contracts*, as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss on the construction contract is immediately recognized as an expense. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. Contract costs are recognized as an expense in the period in which they are incurred.

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These amounts are recognized as inventory, prepaid expenses or other assets.

On the statement of financial position, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings (due from customers for contract work); a contract represents a liability where the opposite is the case (due to customers for contract work).

*(b) Sales of goods*

Sales of goods are recognized when the Company has delivered products to the customer.

*(c) Interest income*

Interest income is recognized using the effective interest method according to the time passed. When receivables are impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

*(d) Dividend income*

Dividend income is recognized when the right to receive payment is established.

**2.20 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2015 financial statements of the Company was approved by the Board of Directors on February 1, 2016, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

**3. Critical Accounting Estimates and Assumptions**

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities after the end of the reporting date are addressed below.

*(a) Income taxes*

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 29).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

*(b) Fair value of financial instruments*

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

*(c) Revenue recognition*

The Company uses the 'percentage-of-completion method' in revenue recognition of the construction contracts. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Revenues and earnings are subject to significant change, effected by early steps in a long-term projects, change in scope of a project, cost, period, and plans of the customers.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

Total contract revenue is measured based on contractual amount initially agreed. The contract revenue can be increased by additional contract work, claims and incentive payments in the course of construction, or decreased by the penalty when the completion of contract is delayed due to the Company's fault. Therefore, this measurement of contract revenue is affected by the uncertainty of the occurrence of future events. The change in contract revenue is recognized when it is probable that the customer will approve the increase in revenue due to the changes in contract work, or when it is probable that the Company will be able to satisfy the performance requirements, and the amount can be estimated reliably.

*(d) Provision for warranty*

The Company has accrued warranty provision for the estimated costs of future repair, based on historical experience and terms of guarantees. The warranty provision is offset when costs related to repair incurred, and the remaining balances are reversed upon termination of the terms of guarantees. Repairing costs in excess of the corresponding provision is expensed in the period incurred.

*(e) Net defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 20).

*(f) Provisions*

As described in Note 21, the Company recognizes provisions for warranties and repairs and estimated returns as of the reporting date. The amounts are estimated based on past experience.

**4. Cash and Cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than three months:

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>
Cash	₩ 143,588	₩ 138,518
Ordinary deposits	2,028,309	980,008
Checking account	850	1,780
Other deposits	927,364,350	277,831,859
	₩ 929,537,097	₩ 278,952,165

**5. Restricted Deposits**

As of December 31, 2015, ₩ 25 million of long-term financial instruments are restricted to maintain checking accounts (Note 13). The ₩ 107,960 million in short-term financial instruments are subject to withdrawal restrictions as collaterals for government projects and others.

**6. Construction Contracts**

A. The Company's contract balances as of December 31, 2015, and the related revenues recognized for the year then ended are as follows:

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

<i>(In thousands of Korean won)</i>	<b>Opening Balance</b>	<b>Changes</b>	<b>Recognized Construction Revenue</b>	<b>Year-end Balance</b>
Shipbuilding & offshore contracts	₩ 19,987,151,990	₩ 11,395,549,857	₩ 9,106,977,240	₩ 22,275,724,607
Construction contracts	243,050,663	5,656,765	105,530,032	143,177,396
Others	103,864,404	92,501,046	120,420,139	75,945,311
	<u>₩ 20,334,067,057</u>	<u>₩ 11,493,707,668</u>	<u>₩ 9,332,927,411</u>	<u>₩ 22,494,847,314</u>

As of the end of the reporting period, the Company is provided with performance guarantees and warranties of ₩ 1,524,577 million for the shipbuilding & offshore contracts from several financial institutions including Korea EXIM Bank. The Company is provided with performance guarantees and warranties of ₩ 492,786 million in relation to the construction contracts from several financial institutions including Construction Guarantee.

B. The following table presents the breakdown of in-progress construction contracts such as recognized construction profit or loss as of December 31, 2015:

<i>(In thousands of Korean won)</i>	<b>Accumulative construction cost</b>	<b>Accumulative construction revenue</b>	<b>Unbilled amount</b>	<b>Overbilled amount</b>
Shipbuilding & offshore contracts	₩ 25,704,041,884	₩ (154,223,623)	₩ 4,272,113,410	₩ 2,612,213,139
Construction contracts	556,703,624	(59,337,788)	5,087,372	47,453,492
Others	176,527,184	5,475,158	14,314,032	8,728,571
Total	<u>₩ 26,437,272,692</u>	<u>₩ (208,086,253)</u>	<u>₩ 4,291,514,814</u>	<u>₩ 2,668,395,202</u>

C. Due to the factors causing the rise in shipbuilding & offshore and construction costs in 2015, the estimated total revenue and estimated total costs for contracts in progress have changed. Details of changes in estimated total contract revenue, estimated total contract costs, profits or loss for the year and the succeeding year, and the impact on due from customers for contract work are as follows:

<i>(In thousands of Korean won)</i>	<b>Changes in estimated total contract revenue</b>	<b>Changes in estimated total contract</b>	<b>Impact on profit or loss for the year</b>	<b>Impact on profit or loss for the succeeding year</b>	<b>Changes in due from customers for contract work<sup>1</sup></b>
Shipbuilding & offshore contracts	382,895,507	1,869,842,829	(1,342,038,157)	(144,909,165)	(1,342,038,157)
Construction contracts	5,499,215	34,275,296	(29,607,354)	831,273	(29,607,354)
Others	(317,330)	4,682,641	(5,500,975)	501,004	(5,500,975)
Total	<u>388,077,392</u>	<u>1,908,800,766</u>	<u>(1,377,146,486)</u>	<u>(143,576,888)</u>	<u>(1,377,146,486)</u>

<sup>1</sup> Changes in due to customers for contract work are included.

The impact on profit or loss for the year and the succeeding year is determined based on total contract costs, which are estimated based on the circumstances present from the start of the contract to the end of current year, and the estimated contract revenue as of December 31, 2015. Contract costs and contract revenue may change in the future.

D. As of December 31, 2015, the maximum amount of liquidated damage claims from the delay as the Company was not able to meet the contracted completion date is expected to be ₩ 27,249 million. However,

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

the amount of damage claim cannot be estimated reasonably as the Company did not receive a notice of liquidated damage from the Contractor and the cause of the construction delay is unclear.

E. Changes in warranty provision and provision for construction loss for the year ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	2015		
	Beginning Balance	Changes	Ending Balance
Warranty provision	₩ 309,543,817	₩ (31,835,606)	₩ 277,708,211
Provision for construction loss	557,114,081	182,077,135	739,191,216

(In thousands of Korean won)

	2014		
	Beginning Balance	Changes	Ending Balance
Warranty provision	₩ 261,782,131	₩ 47,761,686	₩ 309,543,817
Provision for construction loss	264,779,184	292,334,897	557,114,081

F. Provision for impaired due from customers for contract work amount to ₩ 94,592 million as of December 31, 2015.

**7. Financial Instruments by Category**

A. Categorizations of financial instruments as of December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)	Assets at fair value through profit and loss	Loans and receivables	Derivative instruments for hedging purpose	Assets classified as available-for-sale	Total
<b>2015</b>					
Cash and cash equivalents	₩ -	₩ 929,537,097	₩ -	₩ -	₩ 929,537,097
Short-term financial instruments	-	906,269,740	-	-	906,269,740
Trade receivables	-	146,769,615	-	-	146,769,615
Derivative financial instruments	45,622,066	-	339,002,451	-	384,624,517
Non-current trade receivables	-	67,955,945	-	-	67,955,945
Available-for-sale financial assets	-	-	-	61,143,040	61,143,040
Other financial assets	-	102,336,332	-	-	102,336,332
	₩ 45,622,066	₩ 2,152,868,729	₩ 339,002,451	₩ 61,143,040	₩ 2,598,636,286



**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

(In thousands of Korean won)

2015	Liabilities at fair value through profit and loss	Financial liabilities at amortized cost	Derivative instruments for hedging purpose	Total
Trade payables	₩ -	₩ 1,383,452,666	₩ -	₩ 1,383,452,666
Borrowings	-	3,106,121,569	-	3,106,121,569
Current portion of long-term debts	-	510,000,000	-	510,000,000
Debentures	-	1,098,155,375	-	1,098,155,375
Derivative financial Instruments	7,162,860	-	903,931,342	911,094,202
Other financial liabilities	-	610,061,639	-	610,061,639
	₩ 7,162,860	₩ 6,707,791,249	₩ 903,931,342	₩ 7,618,885,451

(In thousands of Korean won)

2014	Assets at fair value through profit and loss	Loans and receivables	Derivative instruments for hedging purpose	Assets classified as available-for-sale	Total
Cash and cash equivalents	₩ -	₩ 278,952,165	₩ -	₩ -	₩ 278,952,165
Short-term financial instruments	-	423,679,977	-	-	423,679,977
Trade receivables	-	674,054,254	-	-	674,054,254
Derivative financial Instruments	3,165,196	-	512,473,186	-	515,638,382
Non-current trade receivables	-	165,321,704	-	-	165,321,704
Available-for-sale financial assets	-	-	-	97,777,954	97,777,954
Other financial assets	-	157,337,307	-	-	157,337,307
	₩ 3,165,196	₩ 1,699,345,407	₩ 512,473,186	₩ 97,777,954	₩ 2,312,761,743

(In thousands of Korean won)

2014	Liabilities at fair value through profit and loss	Financial liabilities at amortized cost	Derivative instruments for hedging purpose	Total
Trade payables	₩ -	₩ 1,487,268,953	₩ -	₩ 1,487,268,953
Borrowings	-	2,426,389,288	-	2,426,389,288
Current portion of long-term debts	-	599,697,656	-	599,697,656
Debentures	-	598,924,336	-	598,924,336
Derivative financial instruments	8,962,358	-	548,447,792	557,410,150
Other financial liabilities	-	781,156,581	-	781,156,581
	₩ 8,962,358	₩ 5,893,436,814	₩ 548,447,792	₩ 6,450,846,964

B. Net gains or net losses on each category of financial instruments for the years ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	2015	2014
Available-for-sale financial assets		
Valuation gain (loss) (Other comprehensive income)	₩ (31,388,756)	₩ (35,683,861)
Impairment loss	-	(35,434)
Gain on disposal	2,255,040	11,907,036
Dividend income	472,989	989,437
Loans and receivables		
Gain on foreign currency translation	84,291,469	36,417,977
Interest income	39,993,092	39,464,543
Impairment/Reversal loss	(68,721,665)	(24,415,810)
Assets at fair value through the profit and loss		
Valuation gain	81,092,745	843,672
Transaction gain	42,504,372	200,092,957
Derivative instruments for hedging purpose(assets)		
Valuation gain	269,997,639	26,301,636
Transaction gain	416,129,834	527,070,903
Liabilities at fair value through the profit and loss		

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Valuation loss	(26,792,193)	(6,410,977)
Transaction loss	(36,119,686)	(290,295,755)
Derivatives instruments for hedging purpose(liabilities)		
Valuation loss	(819,070,612)	(389,721,849)
Transaction loss	(687,173,087)	(539,078,505)
Financial liabilities measured at amortized cost		
Interest expenses	(106,874,389)	(117,983,215)
Gain(loss) on foreign currency translation	(51,113,726)	2,152,251

**8. Fair Value**

A. Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets <sup>1</sup>				
Available-for-sale financial assets <sup>2</sup>	₩ 50,267,947	₩ 50,267,947	₩ 83,156,934	₩ 83,156,934
Derivative financial instruments	384,624,517	384,624,517	515,638,382	515,638,382
Financial liabilities <sup>1</sup>				
Derivative financial instruments	₩ 911,094,202	₩ 911,094,202	₩ 557,410,150	₩ 557,410,150

<sup>1</sup> Short-term trade receivables and payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

<sup>2</sup> Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

B. Available-for-sale financial assets Measured at Cost

Details of available-for-sale financial assets measured at cost as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Unlisted securities	₩ 2,131,604	₩ 5,877,531
Investments	8,743,489	8,743,489
	<u>₩ 10,875,093</u>	<u>₩ 14,621,020</u>

The above unlisted stocks and equity instruments are measured at cost because the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed.

C. Fair Value Hierarchy

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

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

- liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 : Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Derivative financial instruments	₩ -	₩ 384,624,517	₩ -	₩ 384,624,517
Available-for-sale financial assets	42,948,007	-	7,319,940	50,267,947
<b>Liabilities</b>				
Derivative financial instruments	₩ -	₩ 911,094,202	₩ -	₩ 911,094,202

  

<i>(In thousands of Korean won)</i>	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Derivative financial instruments	₩ -	₩ 515,638,382	₩ -	₩ 515,638,382
Available-for-sale financial assets	75,675,594	-	7,481,340	83,156,934
<b>Liabilities</b>				
Derivative financial instruments	₩ -	₩ 557,410,150	₩ -	₩ 557,410,150

**D. Valuation Technique and the Inputs**

Valuation techniques and inputs used in the fair value of financial instruments categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2015, are as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>			
	<b>Fair value</b>	<b>level</b>	<b>Valuation techniques</b>	<b>Inputs</b>
Available-for-sale financial assets	₩ 7,319,940	3	Discounted cash flow method	Perpetual growth rate Ratio of operating profit before tax
Derivatives assets	384,624,517	2	Present value technique	-
Derivatives liabilities	911,094,202	2	Present value technique	-

**E. Valuation Processes for Fair Value Measurements Categorized Within Level 3**

The Company values the fair value measurements based on the valuation report from Korea Asset Pricing. The Company's finance department reports directly to the chief financial officer (CFO) and the audit committee (AC), and discusses valuation processes and results with the CFO and AC at least once every quarter in line with the Company's quarterly reporting dates.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

**9. Credit Quality of Financial Assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates as of December 31, 2015 and 2014:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Group 1 <sup>1</sup>	₩ 165,261,449	₩ 648,686,984
Group 2 <sup>2</sup>	9,121,642	39,573,124
	<u>₩ 174,383,091</u>	<u>₩ 688,260,108</u>

<sup>1</sup> Customers of shipbuilding & offshore segment with no defaults in the past

<sup>2</sup> Customers of E&I segment with no defaults in the past

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Cash at bank and short-term bank deposits <sup>1</sup>		
AAA	₩ 278,881,529	₩ 32,291,967
AA	650,511,980	246,521,679
	<u>₩ 929,393,509</u>	<u>₩ 278,813,646</u>

<sup>1</sup> The rest of 'cash and cash equivalents' in the statement of financial position represents cash on hand

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Short-term financial instruments		
AAA	₩ 906,269,740	₩ 423,679,977

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Derivative financial assets		
AAA	₩ 384,624,517	₩ 515,638,382

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**10. Trade and Other receivables**

Trade and other receivables, and their provisions for impairment of receivables as of December 31, 2015 and 2014, consist of the following:

(In thousands of Korean won)

	2015		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Regular receivables	₩ 343,619,548	₩ 27,784,799	₩1,137,839,681	₩ 42,234,617
Less: Provision for impairment	(128,893,987)	(2,142,843)	(298,463,723)	(3,422,420)
Trade and other receivables, net	214,725,561	25,641,956	839,375,958	38,812,197
Less: Non-current receivables	(67,955,945)	(475,293)	(165,321,704)	(555,256)
	₩ 146,769,616	₩ 25,166,663	₩ 674,054,254	₩ 38,256,941

The aging analysis of trade and other receivables as of December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	2015	2014
	₩	₩
Receivables not past due	174,383,091	688,260,108
Past due but not impaired <sup>1</sup>		
Less than six months	2,705,760	642,062
Over six months	4,434,058	17,964,971
	7,139,818	18,607,033
Impaired <sup>2</sup>	189,881,438	473,207,157
	₩ 371,404,347	₩ 1,180,074,298

<sup>1</sup> Trade receivables past due but not impaired relate to a number of independent customers who have no recent history of default.

<sup>2</sup> Provision for impaired receivables amount to ₩ 131,037 million as of December 31, 2015 (2014: ₩ 301,886 million). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Movements on provisions for impairment of trade receivables for the years ended December 31, 2015 and 2014, are as follows:

(In thousands of Korean won)

	2015		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning	₩ 298,463,723	₩ 3,422,420	₩ 268,642,119	₩ 4,800,810
Provision for receivables impairment	(23,346,390)	161,050	28,372,290	401,796
Foreign currency translation	2,243,979	-	1,587,135	-
Receivables written-off during the year as uncollectible	(148,467,325)	(1,288,664)	(137,821)	-
Unused amounts reversed	-	(151,963)	-	(1,780,186)
Ending	₩ 128,893,987	₩ 2,142,843	₩ 298,463,723	₩ 3,422,420

The creation and release of provision for impaired receivables have been included in 'selling and administrative expenses' in the statement of income.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**11. Derivatives**

As of December 31, 2015, the Company have forward exchange contracts with KEB Hana Bank and 19 other banks to hedge foreign exchange fluctuation risk relation to the foreign advance receipts, foreign payables, foreign debentures, and foreign borrowings. The valuation gain (loss) of derivative contracts is as follows:

(In thousands of Korean won and other currencies)

	Short position		Long position	Gain (loss) from derivative valuation	Gain (loss) from derivative valuation for hedging purpose	Gain (loss) from firm commitment valuation	Firm commitment	Derivative financial instrument
USD	13,185,334	KRW	14,635,641,997	₩ (2,941,186)	₩ (773,886,935)	₩ 740,034,110	₩ 691,124,050	₩ (825,777,736)
USD	2,562,311	KRW	3,048,962,478	170,810	37,872,151	(81,900,113)	12,411,120	38,042,962
NOK	1,116,277	USD	139,375	-	14,338,913	(14,338,913)	(64,987,484)	14,638,057
NOK	31,748	KRW	4,241,175	-	(13,731)	13,731	13,731	(13,731)
NOK	308,766	KRW	44,637,083	-	2,476,038	(2,476,038)	(12,184,621)	3,345,134
GBP	249	KRW	434,248	-	495	(495)	(495)	495
EUR	2,404	KRW	3,093,796	-	(8,467)	8,467	8,467	(8,467)
EUR	1,339	KRW	2,020,966	-	103,519	-	-	285,093
KRW	1,906,532,689	USD	1,602,774	(947,943)	(23,855,588)	23,855,588	(49,138,176)	(24,803,531)
KRW	5,859,078,674	USD	5,274,149	82,068,383	207,887,653	(207,887,653)	(234,522,696)	322,140,354
USD	24	SGD	35	(1,099)	1,259	(1,259)	2,371	160
USD	1,399	SEK	11,573	-	(18,192)	18,192	349,496	(18,192)
USD	101	SEK	880	-	4,069	(4,069)	31,629	4,069
KRW	286,503	SEK	2,100	-	10,729	(10,729)	(10,729)	10,729
USD	37,786	NOK	316,045	(3,404,706)	1,216,863	(1,216,863)	8,375,208	(2,187,843)
KRW	30,120,801	NOK	217,106	-	(1,059,155)	1,059,155	4,162,926	(1,059,155)
KRW	1,880,456	NOK	14,081	-	6,930	(6,930)	(6,930)	6,930
USD	738	JPY	88,187	(36,314)	31,425	(31,425)	27,711	(4,889)
USD	1,094	JPY	134,509	(11,918)	40,154	(40,154)	18,009	28,236
KRW	13,319,665	JPY	1,415,813	126,413	543,846	(543,846)	(543,846)	670,260
USD	20,342	GBP	13,449	-	(483,992)	483,992	557,595	(489,121)
USD	545,354	EUR	460,740	(17,308,626)	(16,315,954)	16,315,954	69,081,192	(47,631,113)
USD	196,977	EUR	181,716	(2,252,584)	4,654,292	(4,654,292)	9,720,338	2,401,709
KRW	141,484,369	EUR	103,441	(2,152,262)	(2,897,031)	2,897,031	5,186,052	(7,319,415)
KRW	104,302,215	EUR	82,528	1,267,758	1,368,979	(1,368,979)	(1,192,399)	2,636,737
USD	57,724	CNY	374,651	-	(1,658,329)	1,658,329	1,673,805	(1,658,329)
USD	3,243	CNY	21,614	-	7,446	(7,446)	9,534	7,446
KRW	8,115,039	CNY	45,432	-	(121,525)	121,525	121,525	(121,525)
KRW	6,956,917	CNY	38,890	-	63,714	(63,714)	(63,714)	63,714
USD	232	AUD	318	(1,154)	-	-	-	(1,154)
USD	10,392	AUD	14,726	(275,020)	617,451	(617,451)	3,257,787	342,431
				₩ 54,300,552	₩ (549,072,973)	₩ 471,295,705	₩ 443,481,456	₩ (526,469,685)

The Company applies the fair value hedge accounting and is exposed to fluctuations in fair value until December 28, 2018. The realized gain and loss on derivative transactions recognized upon the expiration of contracts during the year ended December 31, 2015, amounted to ₩ 483,717 million and ₩ 754,760 million (2014: ₩ 665,227 million and ₩ 677,235 million), respectively. The realized gain and loss on firm commitments recognized during the years ended December 31, 2015 amounts to ₩ 718,387 million and ₩ 456,735 million, (2014 ₩ 644,016 million and ₩ 570,543 million), respectively.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**12. Inventories**

Inventories as of December 31, 2015 and 2014 are as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>
Work-in-process	₩ 39,244,678	₩ 50,085,945
Raw materials	775,507,094	900,000,656
Materials in-transit	196,165,631	171,255,568
Inventory of Construction Completed	410,200,000	-
	<b>₩ 1,421,117,403</b>	<b>₩ 1,121,342,169</b>

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩ 5,253,543 million (2014: ₩ 6,475,380 million).

**13. Other Financial Assets and Liabilities**

Details of other financial assets and liabilities as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Other financial assets				
Loans	₩ 17,061,028	₩ 19,206,028	₩ 54,392,884	₩ 35,981,210
Accrued income	13,778,713	-	10,333,620	-
Deposits	15,708,548	10,915,458	2,344,237	15,448,559
Long-term financial instruments	-	24,600	-	24,600
Non-trade receivables	-	475,293	-	555,256
	<b>₩ 46,548,289</b>	<b>₩ 30,621,379</b>	<b>₩ 67,070,741</b>	<b>₩ 52,009,625</b>
Other financial liabilities				
Guarantee deposits received	₩ -	₩ 20,174,353	₩ -	₩ 15,162,587
	<b>₩ -</b>	<b>₩ 20,174,353</b>	<b>₩ -</b>	<b>₩ 15,162,587</b>

Short-term and long-term loans receivables as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>Interest rates as of December 31, 2015</b>	<b>2015</b>	<b>2014</b>
Loans to employees	0.0-2.0%	₩ 16,617,330	₩ 17,270,844
Loans to cooperative firms	0.0-4.0%	12,351,864	22,578,155
Loans to customers	5.0-6.0%	14,499,619	61,699,565
		43,468,813	101,548,564
Less: Provision for impairment of receivables		(7,201,757)	(13,190,240)
Less: Current portion		(17,061,028)	(45,460,640)
		<b>₩ 19,206,028</b>	<b>₩ 35,981,210</b>

As of December 31, 2015, ₩ 25 million of long-term financial instruments are restricted to maintain checking accounts (Note 5).

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**14. Available-for-sale Financial Assets**

Changes in available-for-sale financial assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Balance at the beginning of year	₩ 97,777,954	₩ 138,413,658
Additions	-	-
Unrealized loss on valuation of available for sale securities	(32,401,642)	(22,994,075)
Disposal and impairment	(4,233,272)	(17,641,629)
Balance at the end of year	<u>₩ 61,143,040</u>	<u>₩ 97,777,954</u>

Details of available-for-sale financial assets as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Marketable equity	₩ 42,662,521	₩ 74,903,695
Non-marketable equity <sup>1,2</sup>	18,195,033	22,102,360
Beneficiary certificates	285,486	771,899
	<u>₩ 61,143,040</u>	<u>₩ 97,777,954</u>

<sup>1</sup> Among the non-marketable equities, investments of Samsung Venture Investment Corporation and Samsung Economics Research Institute were valued at ₩ 7,320 million (2014: ₩ 7,481 million) by independent external valuers using reasonable valuation model and appropriate measurements based on professional judgments (Note 8).

<sup>2</sup> The fair value of non-marketable equity securities, other than the investments mentioned above are presented at their acquisition cost of ₩ 10,875 million (2014: ₩ 14,621 million). The Company does not have any plans to dispose of the above-mentioned equities in the near future (Note 8). In addition, among these securities, ₩ 8,021 million is pledged as collateral for the long-term borrowings (Note 19).

Changes in unrealized gain (loss) for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Balance at the beginning of year	₩ 47,564,262	₩ 74,612,629
Unrealized loss on valuation of available-for-sale securities	(32,401,642)	(22,994,075)
Realized gain(loss) on disposal of available for sale securities	1,012,887	(12,689,786)
Deferred income tax liabilities	7,426,270	8,635,494
Balance at the end of year	<u>₩ 23,601,777</u>	<u>₩ 47,564,262</u>



**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**15. Investments in Subsidiaries, Associates and Joint Ventures**

Details of investments in subsidiaries, associates and joint ventures as of December 31, 2015 and 2014, are as follows:

Investee	Location	Percentage of ownership interest (%)	2015	2014
Samsung Heavy Industries (Ningbo) Co., Ltd.	China	100.0%	₩ 167,810,098	₩ 167,810,098
Samsung Heavy Industries (Rongcheng) Co., Ltd.	China	100.0%	163,647,755	163,647,755
Rongcheng Gaya Heavy Industries Co., Ltd.	China	100.0%	52,194,501	52,194,501
Samsung Heavy Industries Brazil	Brazil	100.0%	392,570	392,570
Samsung Wind Energy, Inc.	USA	-	-	117,588
Samsung Heavy Industries India Pvt.Ltd.	India	100.0%	3,263,121	3,263,121
Camellia Consulting Corporation	USA	100.0%	2,473,656	2,473,656
SVIC 13 New Technology Business Investment	Korea	99.0%	3,069,990	2,207,700
Samsung Heavy Industries (M) Sdn.Bhd	Malaysia	100.0%	184,531	184,531
SHI Brazil Construction	Brazil	100.0%	24,711	24,711
Samsung Heavy Industries Trade(Shanghai) Co., Ltd.	China	100.0%	190,220	190,220
Samsung Heavy Industries Nigeria Co. Ltd	Nigeria	100.0%	95,730,850	95,730,850
Samsung Heavy Industries Hamburg GmbH	Germany	100.0%	794,440	794,440
MMHE-SHI LNG Sdn Bhd	Malaysia	30.0%	291,959	291,959
Daejung Offshore Wind Power Co., Ltd. <sup>1</sup>	Korea	50.1%	5,010,000	5,010,000
Jeongam Wind Power Co., Ltd <sup>1</sup>	Korea	50.0%	2,100,000	1,000,000
Offshore 1 Consulting Corporation <sup>1</sup>	USA	51.0%	831,479	831,479
			₩ 498,009,881	₩ 496,165,179

<sup>1</sup> All joint arrangements where in the Company has joint control, are structured through a separate entity and classified as joint ventures as parties with joint control on the joint arrangements have rights on the net assets of the arrangements.

Changes in ownership interests in subsidiaries, associates and joint ventures as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015	2014
Beginning balance	₩ 496,165,179	₩ 407,971,296
Acquisition of subsidiaries, associates and joint ventures	1,962,290	95,624,550
Disposal and transfer of subsidiaries, associates and joint ventures	(117,588)	-
Impairment of subsidiaries, associates and joint ventures	-	(7,430,667)
Ending Balance	₩ 498,009,881	₩ 496,165,179

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**16. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2015 and 2014, are as follows:

	2015							2014										
	Land	Building	Structures	Machinery	Vehicles	Tools, furniture and fixtures	Construction-in-progress	Machinery in-transit	Total	Land	Building	Structures	Machinery	Vehicles	Tools, furniture and fixtures	Construction-in-progress	Machinery in-transit	Total
Beginning net book value	₩ 812,403,381	₩ 967,658,379	₩ 1,243,478,224	₩ 831,020,532	₩ 352,718,730	₩ 233,840,337	₩ 223,459,022	₩ -	₩ 4,664,578,605	₩ 798,333,332	₩ 881,684,651	₩ 1,230,777,907	₩ 876,029,462	₩ 358,210,258	₩ 188,447,142	₩ 322,501,677	₩ 2,547,624	₩ 4,658,532,053
Acquisition	-	-	-	-	-	-	414,036,495	1,188,713	415,225,208	-	-	-	114,700	505,876	1,209,390	299,116,526	-	300,946,492
Disposal	(4,237,315)	(12,671,893)	(2,859,519)	(7,585,652)	(476,721)	(597,480)	-	-	(28,428,580)	(922,765)	(1,760,643)	(33,092)	(7,852,805)	(567,637)	(1,010,431)	(32,000,515)	-	(44,147,888)
Depreciation	-	(26,220,434)	(33,905,342)	(75,079,870)	(25,104,311)	(82,421,323)	-	-	(242,731,280)	-	(24,085,704)	(33,028,499)	(73,872,302)	(21,580,339)	(70,066,397)	-	-	(222,633,241)
Transfer <sup>1</sup>	16,867,077	50,683,980	32,044,277	52,747,747	10,785,365	78,172,480	(241,880,626)	(864,600)	(1,444,300)	-	-	-	(9,811,250)	(28,823)	(7,281,308)	-	-	(17,121,381)
Ending net book value	₩ 825,033,143	₩ 979,450,032	₩ 1,238,757,640	₩ 801,102,757	₩ 337,923,063	₩ 228,994,014	₩ 395,614,891	₩ 324,113	₩ 4,807,199,653	14,992,814	111,820,075	45,761,908	46,412,727	16,179,395	122,541,941	(366,158,666)	(2,547,624)	(10,997,430)
Acquisition cost	₩ 825,033,143	₩ 1,251,874,530	₩ 1,616,362,744	₩ 1,653,858,807	₩ 501,547,750	₩ 608,283,518	₩ 395,614,891	₩ 324,113	₩ 6,852,899,496	-	-	-	(839,767,011)	(163,595,865)	(378,615,983)	-	-	(2,032,008,461)
Accumulated depreciation	-	(272,424,498)	(377,605,104)	(839,767,011)	(163,595,865)	(378,615,983)	-	-	(2,032,008,461)	-	-	-	(12,989,039)	(28,822)	(673,521)	-	-	(13,691,382)
Accumulated impairment loss	-	-	-	-	-	-	-	-	(13,691,382)	-	-	-	-	-	-	-	-	-
Net book amount	₩ 812,403,381	₩ 967,658,379	₩ 1,243,478,224	₩ 831,020,532	₩ 352,718,730	₩ 233,840,337	₩ 223,459,022	₩ 324,113	₩ 4,807,199,653	₩ 798,333,332	₩ 881,684,651	₩ 1,230,777,907	₩ 876,029,462	₩ 358,210,258	₩ 188,447,142	₩ 322,501,677	₩ 2,547,624	₩ 4,658,532,053

<sup>1</sup> ₩ 1,444 million (2014: ₩ 10,997 million) was transferred to intangible assets (Note 18).

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Depreciation expense of ₩ 208,251 million (2014: ₩ 191,987 million) and ₩ 4,722 million (2014: ₩ 3,782 million) and ₩ 29,758 million (2014: ₩ 26,864 million) has been charged to 'cost of sales' and 'research and development' and 'selling and administrative expenses', respectively.

The Company has capitalized borrowing costs amounting to ₩1,995 million (2014: ₩198 million) on qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 3.08% (2014: 3.37%).

**17. Investment Property**

Details of investment property as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015			2014		
	Cost	Accumulated depreciation	Book value	Cost	Accumulated depreciation	Book value
Land	₩ 3,840,791	₩ -	₩ 3,840,791	₩ 8,383,288	₩ (2,274,641)	₩ 6,108,647
Buildings	4,181,613	(1,040,618)	3,140,995	27,571,485	(13,087,018)	14,484,467
	<u>₩ 8,022,404</u>	<u>₩ (1,040,618)</u>	<u>₩ 6,981,786</u>	<u>₩ 35,954,773</u>	<u>₩ (15,361,659)</u>	<u>₩ 20,593,114</u>

Changes in investment property for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	2015			2014		
	Land	Building	Total	Land	Building	Total
Beginning net book value	₩ 6,108,647	₩ 14,484,467	₩ 20,593,114	₩ 14,363,840	₩ 30,217,008	₩ 44,580,848
Acquisition	-	-	-	-	-	-
Disposal	(2,267,856)	(11,156,012)	(13,423,868)	(8,255,193)	(15,269,969)	(23,525,162)
Depreciation	-	(187,460)	(187,460)	-	(462,572)	(462,572)
Ending net book value	<u>₩ 3,840,791</u>	<u>₩ 3,140,995</u>	<u>₩ 6,981,786</u>	<u>₩ 6,108,647</u>	<u>₩ 14,484,467</u>	<u>₩ 20,593,114</u>

There is no rent income from investment property during the year ended December 31, 2015, and operating expenses (including repairs and maintenance) of ₩ 9 million (2014: ₩ 648 million) were incurred on properties from which no rental income was generated. During the year ended December 31, 2014, rent income from investment property is ₩ 228 million, and operating expenses (including repairs and maintenance) directly related to those investment property is ₩ 114 million from which rental income was generated.

The fair value cannot be reasonably assessed, since comparable market transactions have a low probability of occurrence, and there is no alternative measurement method.

As of December 31, 2015 and 2014, there is no restricted use investment property.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**18. Intangible Assets**

Changes in intangible assets for December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>Memberships</b>	<b>2015 Other intangible assets</b>	<b>Total</b>
Beginning net book value	₩ 31,522,040	₩ 89,602,835	₩ 121,124,875
Acquisition <sup>1</sup>	-	1,444,300	1,444,300
Amortization	-	(23,199,779)	(23,199,779)
Disposal	(4,589,880)	-	(4,589,880)
Ending net book value	₩ 26,932,160	₩ 67,847,356	₩ 94,779,516
Acquisition cost	₩ 30,019,530	₩ 204,953,433	₩ 234,972,963
Accumulated amortization and impairment loss	(3,087,370)	(137,106,077)	(140,193,447)
Net book amount	₩ 26,932,160	₩ 67,847,356	₩ 94,779,516

<i>(In thousands of Korean won)</i>	<b>Memberships</b>	<b>2014 Other intangible assets</b>	<b>Total</b>
Beginning net book value	₩ 31,635,443	₩ 100,004,604	₩ 131,640,047
Acquisition <sup>1</sup>	-	10,997,430	10,997,430
Amortization	-	(21,399,199)	(21,399,199)
Disposal	(113,403)	-	(113,403)
Ending net book value	₩ 31,522,040	₩ 89,602,835	₩ 121,124,875
Acquisition cost	₩ 38,354,537	₩ 203,509,133	₩ 241,863,670
Accumulated amortization and impairment loss	(6,832,497)	(113,906,298)	(120,738,795)
Net book amount	₩ 31,522,040	₩ 89,602,835	₩ 121,124,875

<sup>1</sup> The amount includes ₩ 1,444 million (2014: 10,997 million) representing the transfer from construction-in-progress (Note 16).

Amortization of ₩ 23,200 million (2014: ₩ 21,399 million) is included in the 'selling and administrative expenses'.

The Company recognized research and development expenses totaling of ₩ 88,629 million (2014: ₩ 97,247 million) for the year ended December 31, 2015.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**19. Borrowings and Debenture**

Details of carrying amount of borrowings as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>Annual interest rate (%) December 31, 2015</b>	<b>2015</b>	<b>2014</b>
Debentures			
unsecured debenture	2.5-4.4	₩ 1,098,155,375	₩ 1,198,621,992
Less : current portion		-	(599,697,656)
		<u>1,098,155,375</u>	<u>598,924,336</u>
Long-term borrowings			
Facility loans	2.3-2.6	600,000,000	300,000,000
Korea Housing guarantee Co., Ltd. <sup>1</sup>	-	-	7,562,664
Production Finance	2.6-3.0	710,000,000	-
Exchange equalization fund	1.4-1.5	527,400,000	-
Less : current portion		(510,000,000)	-
		<u>1,327,400,000</u>	<u>307,562,664</u>
Short-term borrowings			
Korea Development Bank one other	2.4-2.6	870,000,000	2,070,000,000
Construction Guarantee <sup>1</sup>	1.4	8,593,000	8,593,000
Banker's usance	0.9-1.5	302,635,908	40,233,625
Term loan	1.8	117,200,000	-
Invoice loan	1.0-2.1	297,787,308	-
Production Finance	2.6	182,505,353	-
		<u>1,778,721,569</u>	<u>2,118,826,625</u>
Current maturities of long-term debts			
Current portion of debentures		-	599,697,656
Current portion of long-term borrowings		510,000,000	-
		<u>510,000,000</u>	<u>599,697,656</u>
		<u>₩ 4,714,276,944</u>	<u>₩ 3,625,011,281</u>

<sup>1</sup> Available-for-sale financial assets are provided as collateral for borrowings (Note 14).

Details of debentures as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>Annual interest rate (%) December 31, 2015</b>	<b>2015</b>	<b>2014</b>
The 89-1st unsecured debenture	4.2	₩ -	₩ 299,948,785
The 89-2nd unsecured debenture	4.4	399,622,954	399,304,061
The 90-1st unsecured debenture	3.2	-	299,748,871
The 90-2nd unsecured debenture	3.3	199,755,209	199,620,275
The 91 unsecured debenture	2.5	498,777,212	-
		<u>1,098,155,375</u>	<u>1,198,621,992</u>
Less : current portion		-	(599,697,656)
		<u>₩ 1,098,155,375</u>	<u>₩ 598,924,336</u>

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Details of issue of debentures as of December 31, 2015, are as follows:

	<u>The 89-2nd unsecured debenture</u>	<u>The 90-2nd unsecured debenture</u>	<u>The 90 unsecured debenture</u>
Face amount	₩400,000 million	₩200,000 million	₩500,000 million
Issuing cost	₩1,543 million	₩670 million	₩1,716 million
Interest rate	4.4%	3.3%	2.5%
Interest payment	Payment of credit every three months after issued date	Payment of credit every three months after issued date	Payment of credit every three months after issued date
Issued date	February 14, 2012	September 26, 2012	February 12, 2015
Maturity date	February 14, 2017	September 26, 2017	February 12, 2018

**20. Net Defined Benefit Liability**

The defined benefit plan that the Company operates is final salary pension plan, which provide benefits to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded plans. Plan assets held in trusts are governed by local regulations and practice in each country.

Details of net defined benefit liability recognized on the statements of financial position as of December 31, 2015 and 2014, is as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Present value of funded defined benefit obligations	₩ 555,808,417	₩ 484,273,774
Present value of unfunded defined benefit obligations	22,369,712	36,618,744
Fair value of plan assets <sup>1</sup>	(402,253,752)	(439,743,655)
Liability on the statement of financial position	₩ 175,924,377	₩ 81,148,863

<sup>1</sup> The contributions to the National Pension Fund of ₩ 718 million are included in the fair value of plan assets as of December 31, 2015 (2014: ₩ 827 million).

Changes in the defined benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 520,892,518	₩ 442,622,935
Current service cost	78,015,406	77,218,140
Interest expense	17,937,143	16,801,759
Past service costs and gain and loss from settlement	-	13,823,511
Remeasurements:		
Actuarial gain and loss arising from changes in demographic assumptions	(220,992)	(8,302,206)
Actuarial gain and loss arising from changes in financial assumptions	1,920,599	22,766,401
Others	21,000,275	(9,346,115)
Payments from plans:		
Benefit payments	(61,369,920)	(38,573,360)
Transfer from and to related companies	3,100	3,881,453
Ending balance	₩ 578,178,129	₩ 520,892,518

Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014, are as follows:

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 439,743,655	₩ 396,126,715
Interest income	14,863,031	16,489,249
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	(6,669,347)	(6,695,509)
Contributions:		
Employers	-	58,146,900
Payments from plans:		
Benefit payments	(45,683,587)	(24,323,700)
Transfer from and to related companies	-	-
Ending balance	<u>₩ 402,253,752</u>	<u>₩ 439,743,655</u>

Plan assets as of December 31, 2015 and 2014, consist of as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>		<u>2014</u>	
	<u>Quoted price</u>	<u>Composition</u>	<u>Quoted price</u>	<u>Composition</u>
Cash and cash equivalents	₩ 401,535,594	99.8%	₩ 438,916,207	99.8%
Others (National Pension Fund)	718,158	0.2%	827,448	0.2%
	<u>₩ 402,253,752</u>	<u>100.0%</u>	<u>₩ 439,743,655</u>	<u>100.0%</u>

The principal actuarial assumptions as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Discount rate	3.2%	3.8%
Salary growth rate	3.9%	4.2%

The sensitivity of the defined benefit obligations as of December 31, 2015, to changes in the weighted principal assumptions is:

<i>(In percentage, %)</i>	<u>Effect on defined benefit obligation</u>		
	<u>Changes in principal assumption</u>	<u>Increase in principal assumption</u>	<u>Decrease in principal assumption</u>
Discount rate	1.0%	6.9% decrease	7.9% increase
Salary growth rate	1.0%	7.9% increase	7.0% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ended December 31, 2016, are ₩ 68,933 million and the weighted average duration of the defined benefit obligations is 12.9 years.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Expected maturity analysis of undiscounted pension benefits as of December 31, 2015, is as follows:

<i>(In thousands of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Pension benefits	₩ 79,457,406	₩ 90,648,898	₩ 197,768,671	₩ 1,464,659,023	₩ 1,832,533,998

**21. Provisions, Contingent Liabilities and Commitments**

**A. Provisions**

Details and changes in provisions for liabilities for the year ended December 31, 2015, are as follows:

<i>(In thousands of Korean won)</i>	<b>Reference</b>	<b>January 1, 2015</b>	<b>Increase (decrease)</b>	<b>December 31, 2015</b>
Long-term Incentives	(A)	₩ 49,172,409	₩ (40,733,901)	₩ 8,438,508
Litigations	(B)	<u>218,521,356</u>	<u>172,805,732</u>	<u>391,327,088</u>
		<u>₩ 267,693,765</u>	<u>₩ 132,071,831</u>	<u>₩ 399,765,596</u>

(A) The Company has a long-term incentive plans for its executives based on three-year management performance criteria and has made a provision for the estimated incentive cost for the current year.

(B) As of December 31, 2015, the Company has a pending lawsuit amounting to ₩ 50,303 million against the Company for claiming additional payments of wages related to general wages. The Company recognizes the best estimate which is expected to be paid as provisions. The final liability of the Company is subject to change from the estimated amount depending on the outcome of this case. In addition, the Company has accrued warranty provision for the estimated costs of future repair, based on warranty period, the historical data and others, and the corresponding amount is recognized as warranty expenses.

**B. Contingent liabilities**

(A) As of December 31, 2015, the Company is named as a defendant in 23 legal cases, excluding the case and the arbitration which recognized provision. The aggregate amounts of claims as the defendant amounted to approximately ₩ 40,073 million. The said case is still pending in court and as of December 31, 2015, the outcome of these cases is uncertain. Accordingly, the ultimate effect of these matters on the financial position of the Company cannot be determined.

(B) As of December 31, 2015, the Company provides guarantees to the ship-owners in relation to ship financing amounting to USD 91 million.



**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

(C) The Company provides performance guarantees of USD 559 million to the ship-owners in relation to the shipbuilding & offshore contracts (Note 34).

(D) The Company provides payment guarantees for subsidiary's borrowings up to USD 68 million (Executed amount: USD 68 million) and CNY 63 million (Executed amount: CNY 49 million). And the Company provides guarantees of USD 12 million for a subsidiary's currency forward contracts. (Note 34).

C. Commitments

(A) As of December 31, 2015, the Company has technical assistance agreements with three foreign companies.

(B) As of December 31, 2015, the Company is provided with refund guarantee of USD 4,865 million from Korea Exim bank and others. The ships under construction are pledged as collaterals for the guarantees provided by the financial institutions.

(C) Commitment limits made with financial institutions are as follows:

<i>(In millions of Korean won)</i>	<b>Financial Institution</b>	<b>Contract limit</b>
Overdrawn Account	Woori Bank and others	₩ 46,000
Trade Finance	Hana Bank and others	1,380,600
General Loan, others	Korea Exim Bank and others	4,157,153
Purchase Card	Nonghyup and others	500,000

**22. Capital Stock and Capital Surplus**

The Company's total number of authorized shares is 300 million shares. As of December 31, 2015, total number of stocks issued is 230,990,231 shares, including 114,845 shares of preferred stock, and the par value per share is ₩ 5,000.

	<b>Number of shares outstanding (in shares)</b>			<b>Equity and share premium (in thousands of Korean won)</b>		
	<b>Common stock</b>	<b>Preferred stock</b>	<b>Total</b>	<b>Capital stock</b>	<b>Share premium</b>	<b>Total</b>
January 1, 2015	204,910,957	114,845	205,025,802	₩1,154,951,155	₩ 417,172,244	₩1,572,123,399
Exercise of stock options (Treasury stock)	-	-	-	-	-	-
Acquisition of treasury stock	-	-	-	-	-	-
December 31, 2015	204,910,957	114,845	205,025,802	₩1,154,951,155	₩ 417,172,244	₩1,572,123,399

The Company holds 25,964,429 shares of its common stock (Note 23).

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**23. Accumulated Other Comprehensive Income and Other components of equity**

Changes in accumulated other comprehensive income for the year ended December 31, 2015, is as follows:

<i>(In thousands of Korean won)</i>	<u>Beginning</u>	<u>Increase</u>	<u>Ending</u>
Change in value of available-for-sale financial assets	₩ 47,564,262	₩ (23,962,485)	₩ 23,601,777

Changes in accumulated other comprehensive income represent net of tax effect amounts.

Other components of equity as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Treasury stock	₩ (970,268,048)	₩ (970,268,048)
Gain on disposal of treasury stock	6,360,652	6,360,652
Stock purchase options	11,250	11,250
	<u>₩ (963,896,146)</u>	<u>₩ (963,896,146)</u>

As of December 31, 2015, the Company holds 25,964 thousand shares of its common stock amounting to ₩ 970,268 million. The treasury stock is presented as a deduction from equity.

**24. Retained Earnings**

Retained earnings as of December 31, 2015 and 2014, consist of:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Legal reserve <sup>1</sup>	₩ 103,100,000	₩ 97,970,000
Discretionary reserves <sup>2</sup>	4,635,269,854	4,588,269,854
Unappropriated retained earnings	(1,273,375,450)	104,318,460
	<u>₩ 3,464,994,404</u>	<u>₩ 4,790,558,314</u>

<sup>1</sup> 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 capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

<sup>2</sup> The Company appropriates a certain portion of its retained earnings as reserves for financial structure improvement, and research and human resource development which are provided in order to obtain tax benefits under the Special Tax Treatment Control Law. Among these reserves, the reversed amount according to the terms of related tax laws may be distributed.

The appropriation of retained earnings for the years ended December 31, 2015 and 2014, is as follows:

<i>(In Korean won)</i>	<u>2015</u>	<u>2014</u>
Unappropriated retained earnings carried over from prior year	₩ 926,267,209	₩ 902,566,681
Net income(loss)	(1,252,039,841,081)	112,370,593,368

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Remeasurement of net defined liabilities	(22,261,876,056)	(8,954,700,090)
Research and development reserves	62,000,000,000	82,000,000,000
Reserve for facilities	1,211,375,449,928	-
	-	185,392,192,750
Appropriation of retained earnings		
Earned profit reserves	-	5,130,000,000
Dividend	-	51,262,192,750
Reserve for facilities	-	129,000,000,000
Unappropriated retained earnings to be carried forward	₩ -	₩ 926,267,209

The dividends paid in 2015 and 2014 were ₩ 51,262 million (common stock: ₩ 250 per share, preferred stock: ₩ 300 per share) and ₩ 108,489 million (common stock: ₩ 500 per share, preferred stock: ₩ 550 per share) respectively.

There is no dividend in respect of the year ended December 31, 2015.

**25. Expenses by nature**

Expenses by nature for the years ended December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

	<b>2015</b>	<b>2014</b>
Changes in inventories	₩ (399,358,732)	₩ (23,545,802)
Raw-materials and supplies used	5,652,901,555	6,498,926,183
Employee benefit expense	1,274,023,038	1,276,748,931
Depreciation and amortization expenses	265,931,060	244,032,439
Service fees	262,668,746	281,401,473
Outsource expenses	2,503,741,652	2,503,866,078
Others	1,437,596,538	1,660,075,249
	₩ 10,997,503,857	₩ 12,441,504,551

**26. Selling, General and Administrative expenses**

Details of selling, general and administrative expenses for the years ended December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

	<b>2015</b>	<b>2014</b>
Employee benefit expense	₩ 91,979,894	₩ 135,723,344
Service fees	87,702,127	121,184,489
Warranty expense	(12,651,512)	(12,373,781)
Provision for receivables impairment	71,245,682	28,372,290
Depreciation and amortization	52,958,582	48,263,187
Research and development	88,213,197	95,103,064
Taxes and dues	17,118,408	11,119,152
Others	66,545,320	75,987,332
	₩ 463,111,698	₩ 503,379,077

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**27. Other Income and Expenses**

Details of other income and expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
<b>Other income</b>		
Currency transaction differences	₩ 92,908,193	₩ 107,819,314
Currency translation differences	105,152,327	45,265,234
Gain from derivative valuation	264,372,370	288,967,175
Gain from derivative transactions	483,716,793	665,226,933
Gain from firm commitment valuation	802,451,333	632,929,631
Gain from firm commitment transactions	718,386,805	644,016,060
Others	185,971,366	230,488,888
	<u>₩ 2,652,959,187</u>	<u>₩ 2,614,713,235</u>
<b>Other expenses</b>		
Currency transaction differences	₩ 72,088,643	₩ 115,981,463
Currency translation differences	22,350,922	7,652,125
Loss from derivative valuation	813,445,343	652,387,388
Loss from derivative transactions	754,760,046	677,234,535
Loss from firm commitment valuation	331,155,628	288,806,613
Loss from firm commitment transactions	456,735,278	570,542,605
Others	95,643,923	213,112,865
	<u>₩ 2,546,179,783</u>	<u>₩ 2,525,717,594</u>

**28. Financial Income and Costs**

Details of financial income and costs for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
<b>Financial income</b>		
Interest income	₩ 21,176,056	₩ 25,381,592
Currency transaction differences	8,585,450	1,276,339
Currency translation differences	52	958,025
Gain from derivative valuation	86,718,013	2,780,263
Gain from derivative transactions	114,714,417	216,246,354
	<u>₩ 231,193,988</u>	<u>₩ 246,642,573</u>
<b>Financial costs</b>		
Interest expense	₩ 32,550,878	₩ 14,601,147
Currency transaction differences	24,473,744	2,594,485
Currency translation differences	49,623,715	906
Loss from derivative valuation	32,417,461	8,347,567
Loss from derivative transactions	108,329,732	306,449,152
	<u>₩ 247,395,530</u>	<u>₩ 331,993,257</u>

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**29. Income Tax**

Income tax expense (income) for the years ended December 31, 2015 and 2014, consists of:

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>
Current tax on profits for the year	₩ 86,972,663	₩ 212,175,682
Total current tax	86,972,663	212,175,682
Origination and reversal of temporary differences	(406,840,649)	(179,683,592)
Deferred income tax due to tax loss carryforwards	(2,090,757)	980,568
Total deferred tax	(408,931,406)	(178,703,024)
Deferred income tax charged to equity	-	539,897
Income tax expense(income)	₩ (321,958,743)	₩ 34,012,555

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the entity as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>
Profit(loss) before tax	₩ (1,573,998,584)	₩ 146,383,148
Income tax based on statutory rate	₩ (381,369,658)	₩ 34,962,722
Adjustments	59,410,915	(950,167)
Tax deduction	(2,090,758)	(2,740,975)
Permanent differences and others	61,501,673	1,790,808
Income tax expense(Income)	₩ (321,958,743)	₩ 34,012,555
Effective tax rate (Income tax over profit before tax) <sup>1</sup>	-	23.2%

<sup>1</sup> As income tax benefit is occurred, the Company did not calculate effective tax rate



**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>
Loss on valuation of available-for-sale securities	₩ (7,535,132)	₩ (9,420,762)
Remeasurements	3,861,545	(3,245,808)
	<u>₩ (3,673,587)</u>	<u>₩ (12,666,570)</u>

Details of unrecognized deductible (taxable) temporary differences as deferred tax assets (liabilities) as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>	<b>Remark</b>
Interests in subsidiary	₩ (19,561,949)	₩ (19,561,949)	No plan for disposal

Since it is probable that future taxable profit will be available against which the unused tax losses can be utilized, the Company recognized the related deferred tax assets.

The analysis of deferred tax assets and liabilities as of December 31, 2015 and 2014, is as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Within 1 year</b>	<b>After more than 1 year</b>	<b>Within 1 year</b>	<b>After more than 1 year</b>
Deferred tax assets	₩ 24,035,013	₩ 963,107,137	₩ 71,272,458	₩ 556,681,872
Deferred tax liabilities	(28,373,254)	(234,169,264)	(26,852,356)	(294,426,732)
	<u>₩ (4,338,241)</u>	<u>₩ 728,937,873</u>	<u>₩ 44,420,102</u>	<u>₩ 262,255,140</u>

**30. Earnings (Loss) per Share**

A. Basic earnings (loss) per share

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

Basic earnings (loss) per ordinary share for the years ended December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won except per share amount)</i>	<b>2015</b>	<b>2014</b>
Profit(Loss) attributable to equity holders of the Company	₩ (1,251,339)	₩ 112,302
Weighted average number of ordinary shares in issue (thousands)	204,911	215,228
Basic earnings(loss) per share	₩ (6,107)	₩ 522

B. Diluted earnings (loss) per share

Diluted earnings(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: Stock purchase option.

Diluted earnings(loss) per share for the years ended December 31, 2015 and 2014, is as follows:

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

*(In millions of Korean won except per share amount)*

	<u>2015</u>	<u>2014</u>
Profit(loss) used to determine diluted earnings per share	₩ (1,251,339)	₩ 112,302
Weighted average number of ordinary shares for diluted earnings(loss) per share (thousands)	204,911	215,239
Diluted earnings(loss) per share	₩ (6,107)	₩ 522

Profit (loss) attributable to equity holders of the company for the years ended December 31, 2015 and 2014, are as follows:

*(In millions of Korean won)*

	<u>2015</u>	<u>2014</u>
Profit(loss) for the year	₩ (1,252,040)	₩ 112,371
Adjustments	701	(69)
Profit(loss) attributable to equity holders of the Company	<u>₩ (1,251,339)</u>	<u>₩ 112,302</u>

Weighted average number of ordinary shares in issue and those for diluted earnings for the years ended December 31, 2015 and 2014, are as follows:

*(In millions of Korean won except per share amount)*

	<u>2015</u>	<u>2014</u>
Beginning	₩ 204,911	₩ 216,852
Treasury stock	-	(1,624)
Weighted average number of ordinary shares in issue	204,911	215,228
Stock options	-	11
Weighted average number of ordinary shares for diluted earnings(loss) per share	204,911	215,239

**31. Cash Generated from Operations**

Details of cash generated from operations for the years ended December 31, 2015 and 2014, consist of the following:

*(In thousands of Korean won)*

	<u>2015</u>	<u>2014</u>
Profit(Loss) before income tax	₩ (1,573,998,584)	₩ 146,383,148
Adjustments for:		
Retirement benefits	81,089,518	91,354,162
Provisions for receivables impairment	71,423,327	28,197,036
Reversal of provision for receivables impairment	(2,701,662)	(3,781,226)
Gain on disposal of subsidiaries, associates and joint ventures	(2,029)	-
Impairment loss of subsidiaries, associates and joint ventures	-	7,430,667
Loss on disposal of available-for-sale financial assets	1,004,046	692,291
Gain on disposal of available-for-sale financial assets	(3,259,086)	(12,599,327)
Impairment loss of available-for-sale financial assets	-	35,434
Currency translation differences (gain)	(105,152,379)	(46,223,259)
Currency translation differences (loss)	71,974,636	7,653,031
Depreciation expense	242,731,280	222,633,241
Gain on disposal of property, plant and equipment	(20,820,033)	(911,276)
Loss on disposal of property, plant and equipment	16,489,552	7,983,275
Impairment loss of property, plant and equipment	-	17,121,381
Amortization expense	23,199,780	21,399,198
Gain on disposal of intangible assets	(9,000)	(16,035)
Loss on disposal of intangible assets	1,728,269	-
Gain on disposal of investment property	(11,698,519)	(10,197,249)
Loss on disposal of investment property	-	6,592,881
Loss from derivative transaction and valuation	759,430,988	471,197,918
Gain from firm commitment transaction and valuation	(732,947,232)	(417,596,473)
Interest income	(39,993,092)	(39,464,543)



**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Interest expense	104,879,478	117,785,062
Dividend income	(472,989)	(989,437)
Loss of valuation of equity method investments	187,458	462,572
	<u>457,082,311</u>	<u>468,759,324</u>
Changes in assets and liabilities		
Trade receivables	733,432,412	(220,002,251)
Due from customers for contract work	1,246,995,899	(299,721,177)
Due to customers for contract work	(435,563,390)	(119,683,873)
Other receivables	13,230,796	(6,655,273)
Advance payments	281,630,901	185,017,349
Prepaid expenses	28,491,634	20,786,029
Inventories	(299,775,234)	(298,010,504)
Other current financial assets	(13,323,825)	(236,198)
Other current assets	78,204,111	(4,186,634)
Long-term prepaid expenses	2,100,163	(40,441,054)
Trade payables	(106,028,335)	(142,197,476)
Other payables	(18,957,683)	(4,696,782)
Advance receipts	279,137,357	15,654,548
Accrued expenses	(168,160,645)	129,832,011
Other current liabilities	(49,946,298)	(55,205,619)
Defined benefit obligation	(15,683,233)	(68,515,107)
Provisions	134,688,910	38,412,302
Derivative financial instruments	(274,733,070)	230,886,140
Firm commitment	351,783,022	4,652,116
Other non-current financial assets	5,011,766	(5,035,136)
	<u>1,772,535,258</u>	<u>(639,346,589)</u>
Cash generated from operations	<u>₩ 655,618,985</u>	<u>₩ (24,204,117)</u>

The Company's cash flow statements are prepared using the indirect method, and the principal non-cash transactions for the years ended December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<u>2015</u>	<u>2014</u>
Transfer of current portion of long-term borrowings	₩ 510,000,000	₩ -
Transfer of current portion of debentures	-	599,697,656
Transfer of current portion of long-term prepaid expenses	9,622,096	28,818,145
Transfer of construction in-progress to other property, plant and equipment	241,880,626	366,158,666
Write-offs of trade receivables	148,467,325	137,821

Cash receipts and payments arising from transactions occurring frequently on short-term borrowings and short-term financial instruments are presented on net basis financial instruments.

### **32. Financial Risk Management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the board of directors. The Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The board reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk,

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

32.1 Market risk

*(a) Foreign exchange risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Euro. Foreign exchange risk arises from firm commitment and future commercial transactions, recognized assets and liabilities.

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency.

The Company's risk management policy is to hedge of anticipated cash flows and it qualify as firm commitment for hedge accounting purposes.

The Company uses forward contracts and currency swaps to hedge its foreign exchange risk arising from all anticipated cash flows in foreign currencies. Therefore, the fluctuation in value of major foreign currencies has almost no impact on profit and loss.

*(b) Price risk*

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the separate statement of financial position as available-for-sale. The market values for the Company's listed equity investments as of December 31, 2015 and 2014, are ₩ 42,663 million and 74,904 million, respectively.

If there is a change in price of equity investment by 30%, the amount of other comprehensive income changes for the years ended December 31, 2015 and 2014, would be ₩ 9,701 million and ₩ 17,033 million, respectively.

*(c) Cash flow and fair value interest rate risk*

The Company's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash equivalents held at variable rates. Also, borrowings and debentures issued at fixed rates expose the Company to fair value interest rate risk.

The Company analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on the profit of a 0.1% shift would be a maximum increase (decrease) of ₩ 4,714 million (2014: ₩ 3,625 million).

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

32.2 Credit risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If 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.

Accordingly, credit exposure to the Company is expected to be restricted. The maximum exposure to credit risk at the end of the reporting date is the carrying value of the financial assets and includes guaranteed amounts of ₩ 196,572 million and ₩ 669,051 million relating to the financial guarantee contract and performance guarantees provided, respectively.

32.3 Liquidity risk

The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal financial ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Details of the Company's liquidity risk analysis as of December 31, 2015 and 2014, are as follows:

*(In thousands of Korean won)*

	<b>2015</b>		
	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>More than 2 years</b>
Derivative financial assets	₩ 243,395,896	₩ 101,452,890	₩ 39,775,731
Borrowings	1,822,099,190	523,245,653	832,590,003
Current maturities of long-term debts	519,499,759	-	-
Debentures	36,610,000	619,571,260	501,512,877
Trade payables and other payables	1,973,339,952	20,174,353	-
Derivative financial liabilities	517,081,181	345,819,500	48,193,521
Payment guarantee contracts <sup>1</sup>	382,177,157	179,356,575	304,089,177

*(In thousands of Korean won)*

	<b>2014</b>		
	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>More than 2 years</b>
Derivative financial assets	₩ 332,260,718	₩ 160,824,170	₩ 22,553,494
Borrowings	2,145,281,812	305,651,353	8,179,280
Current maturities of long-term debts	608,628,493	-	-
Debentures	24,200,000	24,200,000	607,100,274
Trade payables and other payables	2,253,262,947	15,162,587	-
Derivative financial liabilities	345,178,485	133,280,174	78,951,491
Payment guarantee contracts <sup>1</sup>	282,893,261	196,533,048	81,969,018

<sup>1</sup> Payment guarantee contracts present maximum amount to be paid upon principal debtor's claim (Note 21).

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

Details of the Company's recognized financial assets and liabilities subject to enforceable master netting arrangements or similar agreements as of December 31, 2015, are as follows:

<i>(In thousands of Korean won)</i>	<b>Presented in the statement of financial position</b>	<b>Amounts not offset</b>	<b>Net amount</b>
Derivative financial assets	₩ 244,646,833	₩ (235,920,883)	₩ 8,725,950
Derivative financial liabilities	577,749,588	(235,920,883)	341,828,705

**32.4 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.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the separate statements of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the separate statements of financial position plus net debt.

The gearing ratios as of December 31, 2015 and 2014, are as follows:

<i>(In thousands of Korean won)</i>	<b>2015</b>	<b>2014</b>
Total borrowings (Note 19)	₩ 4,714,276,944	₩ 3,625,011,280
Less: Cash and cash equivalents (Note 4)	929,537,097	278,952,165
Net debts	3,784,739,847	3,346,059,115
Total equity	4,096,823,434	5,446,349,829
Total capital	₩ 7,881,563,281	₩ 8,792,408,944
Gearing ratio	48.0%	38.1%

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

**33. Operating Segment Information**

The strategic steering management has determined the operating segments, and reviewed the operating information of segments for the purposes of allocating resources and assessing performance.

**General information by business segments**

<b>Segment</b>	<b>Sales Type</b>	<b>Product and Services</b>	<b>Main Customer</b>	<b>Sales ratio (%)</b>
Shipbuilding & offshore	Product	Tanker, Drillship, LNG, off-shore platform, others	Foreign ship-owners, others	98.9%
E&I	Product	Engineering works, construction, others	Construction business owner, others	1.1%
				<u>100.0%</u>

**Financial information by business segments**

<i>(In thousands of Korean won)</i>	<b>Shipbuilding &amp; offshore</b>	<b>E&amp;I</b>	<b>Total</b>
Sales			
Gross sales	₩ 9,227,397,379	₩ 328,452,180	₩ 9,555,849,559
Inter-segment sales	-	(222,922,148)	(222,922,148)
Net sales	₩ 9,227,397,379	₩ 105,530,032	₩ 9,332,927,411
Operating loss	₩ (1,600,675,836)	₩ (44,549,532)	₩ (1,645,225,368)
Property, plant and equipment & intangible assets	4,888,163,943	13,815,226	4,901,979,169
Depreciation & amortization	265,702,389	228,670	265,931,059

Since most of the debts are jointly utilized debt, the Company does not report segment liabilities to its management.

**Reconciliation between segment operating income (loss) and operating profit (loss)**

<i>(In thousands of Korean won)</i>	
Total segment operating loss	₩ (1,645,225,368)
Internal income and other operating income/expense between segments	-
Undistributed selling and administrative expenses, other operating income/expense	(19,351,078)
Operating loss per statement of income	₩ (1,664,576,446)

Undistributed selling and administrative expenses are not distributed to segments since they are centrally incurred costs.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

**34. Related Party Transactions**

The subsidiaries as of December 31, 2015 and 2014, are as follows:

	<b>Percentage of ownership (%)</b>	
	<b>2015</b>	<b>2014</b>
Samsung Heavy Industries (Ningbo) Co., Ltd.	100	100
Samsung Heavy Industries (Rongcheng) Co., Ltd.	100	100
Rongcheng Gaya Heavy Industries Co., Ltd.	100	100
Samsung Heavy Industries India Pvt. Ltd	100	100
Camellia Consulting Corporation	100	100
Samsung Heavy Industries(M) SDN.BHD	100	100
SVIC 13 New Technology Business investment	99	99
Samsung Wind Energy, Inc.	-	100
Samsung Heavy Industries Brazil	100	100
SHI Brazil Construction	100	100
Samsung Heavy Industries Trade (Shanghai) Co., Ltd	100	100
Samsung Heavy Industries Nigeria Co. Ltd	100	100
Samsung Heavy Industries Hamburg GmbH	100	100
SHI-MCI FZE	70	70

As of December 31, 2015, Samsung Wind Energy is excluded as a subsidiary due to its liquidation.

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

Details of associates and other related parties that have sales and other transactions with the Company or have receivables and payables balances as of December 31, 2015 and 2014, are as follows:

<b>2015</b>				
<i>(In thousands of Korean won)</i>	<b>Sales</b>	<b>Purchase</b>	<b>receivables</b>	<b>payables</b>
Samsung Heavy Industries (Ningbo) Co., Ltd.	₩ -	₩ 105,312,310	₩ 19,639,354	₩ 3,146,336
Samsung Heavy Industries (Rongcheng) Co., Ltd.	-	160,566,760	14,239,789	10,788,102
Rongcheng Gaya Heavy Industries Co., Ltd.	104,982	-	104,982	-
Samsung Heavy Industries India Pvt. Ltd	-	14,407,535	-	-
Samsung Heavy Industries Trade (Shanghai) Co., Ltd	-	1,146,111	-	-
Samsung Heavy Industries Brazil	-	193,953	-	-
Samsung Heavy Industries Hamburg GmbH	-	-	-	-
Samsung Heavy Industries(M) SDN.BHD	-	267,063	-	-
Samsung Heavy Industries Nigeria Co. Ltd	457,913,922	-	337,026,398	-
SHI-MCI FZE	1,792,993	-	1,792,993	-
	<u>₩ 459,811,897</u>	<u>₩ 281,893,732</u>	<u>₩ 372,803,516</u>	<u>₩ 13,934,438</u>

<b>2014</b>				
<i>(In thousands of Korean won)</i>	<b>Sales</b>	<b>Purchase</b>	<b>receivables</b>	<b>payables</b>
Samsung Heavy Industries (Ningbo) Co., Ltd.	₩ -	₩ 94,456,080	₩ 8,823,563	₩ 1,675,629
Samsung Heavy Industries (Rongcheng) Co., Ltd.	-	138,684,701	11,098,891	13,630,745
Rongcheng Gaya Heavy Industries Co., Ltd.	-	8,731,805	-	-
Samsung Heavy Industries India Pvt. Ltd	-	14,397,202	-	-
Camellia Consulting Corporation	-	1,318,537	-	-
Samsung Heavy Industries Trade (Shanghai) Co., Ltd	-	877,899	-	-
Samsung Heavy Industries Brazil	-	466,359	-	-
Samsung Heavy Industries Hamburg GmbH	-	3,332,576	-	-
Samsung Heavy Industries(M) SDN.BHD	-	227,969	-	-
Samsung Heavy Industries Nigeria Co. Ltd	130,748,609	-	169,763,459	-
	<u>₩ 130,748,609</u>	<u>₩ 262,493,128</u>	<u>₩ 189,685,913</u>	<u>₩ 15,306,374</u>

**Samsung Heavy Industries Co., Ltd.**  
**Notes to Separate Statements**  
**December 31, 2015 and 2014**

---

Details of payment guarantees and collateral provided by the Company for the funding sources of the related parties as of December 31, 2015, are as follows, and no collateral and payment guarantees are provided by the related parties:

Payment guaranteed provided by the Company

<i>(in thousands of US dollars, Chinese yuan)</i>		Guaranteed by		Guaranteed amount	Remark
Subsidiary	SHI-MCI FZE	ING	USD	67,500	Borrowings
Subsidiary	Rongcheng Gaya Heavy Industries Co., Ltd.	Hana Bank	CNY	37,077	Borrowings
		Shinhan Bank	CNY	26,000	Borrowings

Other than the payment guarantees above, the Company provides performance guarantees of USD 559 million to the ship-owners in relation to shipbuilding contracts of Samsung Heavy Industries (Ningbo) Co., Ltd., a subsidiary and provides guarantees to the financial institutions up to USD 12 million in relation to currency forward contracts.

**Associates**

A major associate of the Company as of December 31, 2015, is MMHE-SHI LNG SDN BHD and there are no transactions with an associate or receivables and payables balances for the year ended December 31, 2015.

**Joint ventures**

Joint ventures of the Company as of December 31, 2015, are Daejung Offshore Wind Power Co., Ltd. and Offshore 2 Consulting Corporation.

**Key Management Compensation**

For the year ended December 31, 2015, key management compensation consists of ₩ 2,125 million (2014: ₩ 2,196 million) in short-term benefits and ₩ 444 million (2014: ₩ 269 million) in long-term, severance and other benefits which are highly probable to be paid in the future. Key management consists of registered executive officers who have authorities and responsibilities for planning, directing and controlling of operations of the Company.



**Report on Independent Accountants'  
Review of Internal Accounting Control System**

To the President of  
Samsung Heavy Industries Co., Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Samsung Heavy Industries Co., Ltd. (the "Company") as of December 31, 2015. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2015, the Company's IACS has been designed and is operating effectively as of December 31, 2015, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation 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.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2015, and we did not review management's assessment of its IACS subsequent to December 31, 2015. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers  
March 10, 2016

## **Report on the Operations of the Internal Accounting Control System**

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

I, as the Internal Accounting Control Officer (“IACO”) of Samsung Heavy Industries Co., Ltd. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2015.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS standards.

February 1, 2016

Tae Hong Jeon, Internal Accounting Control System Officer

Dae Young Park, Chief Executive Officer and President