

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.  
AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2023 and 2022**

(With Independent Auditors' Report Thereon)

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## Independent Auditors' Report

Based on a report originally issued in Korean

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

### *Opinion*

We have audited the consolidated financial statements of HD Hyundai Heavy Industries Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising of material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the Group's Internal Control over Financial Reporting ("ICFR") for Consolidation Purposes as of December 31, 2023, based on the criteria established in Conceptual Framework for Designing and Operating ICFR issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 18, 2024, expressed an unmodified opinion on the effectiveness of the Group's internal control over financial reporting.

### *Basis for Opinion*

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### (1) Overview

An overview of key audit matters described in this audit report is as follows:

As described in Note 4 to the consolidated financial statements, the Group produces the customization goods or services on orders from the customers and recognizes revenue over time by the input method when having the following characteristics.

- (i) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (ii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date



The percentage-of-completion is calculated based on the ratio of contract costs incurred to date for work performed to estimated total contract costs except contract costs that do not reflect the progress of completion. The contract assets are presented for all contracts in which contract costs incurred to date plus recognized profits (less recognized losses) exceeded progress billings. The contract liabilities are presented for all contracts in which progress billings exceed contract costs incurred to date plus recognized profits (less recognized losses).

## (2) Uncertainty in the estimation of total contract costs

As described in Note 30 to the consolidated financial statements, estimated total contract costs are calculated based on estimated costs of materials, labor costs and construction period, and uncertainty risk related to exchange rate fluctuation, changes of steel prices and changes in production hours exists. Accordingly, considering the impacts on profit or loss for the year ended December 31, 2023 or future periods, we identified uncertainty in the estimation of total contract costs as a significant risk.

We performed the following audit procedures with respect to the impact of uncertainty in the estimation of total contract costs on the consolidated financial statements as of and for the year ended December 31, 2023:

- Testing certain internal controls over the Group's determination of revenue recognition accounting policies
- Testing certain internal controls over the Group's determination of the estimated total contract costs
- Assessing the appropriateness of accounting policy that recognizes revenue according to the input method by inspecting contract documents
- Inquiries and analytical procedures on changes in major items of total contract costs in each reporting period
- Retrospective review of projects with significant changes in estimated total contract costs
- Identifying the cause of difference for projects with significant changes in estimated total contract costs and if necessary, inspecting relevant documents
- Comparing estimated total contract costs among similar vessels
- Collecting and inspecting the data of estimated total contract costs managed by production department for major projects
- Comparing details in purchase order issued by purchasing department by projects with estimated total material costs
- Assessment on whether estimated total contract costs were approved by proper authorized person
- Inquiries and analytical review procedures on the causes of changes in percentage-of-completion by each reporting period
- For selected major projects, comparing the progress of construction with the percentage-of-completion
- For selected major projects, inquiries on progress and significant changes
- Recalculation for vessel progress and revenue
- Visit to ship construction sites

## (3) Assessment of the percentage-of-completion

As described in the Note 30 to the consolidated financial statements, the Group should include only contract costs incurred to date for work performed to estimated total contract costs in case the percentage-of-completion is calculated based on estimated total contract costs. There is a risk that the factors of change in contract costs incurred to date include construction inefficiency costs. Therefore, we identified assessment of the percentage-of-completion as a significant risk, considering the impact of uncertainty on earnings volatility.

We performed the following audit procedures with respect to the accumulated costs which have effect on calculating the construction percentage-of-completion as of December 31, 2023:

- Inquiries and analytical review procedures on items of the contract costs incurred to date in each reporting period
- For selected samples, inspect supporting documents to verify the existence of cumulative material costs and the appropriateness of allocation by hull number



- For selected samples, inspect supporting documents to verify the existence of cumulative labor costs and expenses, and the appropriateness of allocation by hull number
- Engaging our IT specialists to assist us in assessing the appropriateness of aggregation and allocation of overhead costs by each project
- Engaging our IT specialists to assist us in testing risk scenarios including verification on whether the costs are allocated appropriately to each project

#### (4) Accounting for the variations in contract work

As described in Note 30 to the consolidated financial statements, although contract revenue is measured as the initial amount agreed in the contract, it is possible to be increased by the variations in contract work, compensation, and incentive payments, or decreased by penalties due to delay of construction completion by reason attributable to the Group and therefore, the measurement of contract revenue is impacted by various uncertainties related to the outcome of future events. Variations in contract work, such as specification or design change by clients, have been occurring frequently in the shipbuilding sector due to characteristics of the industry, and they cause a possibility of variations in contract revenue. Accordingly, we identified the accounting for the variations in contract work as a significant risk considering the possibility of variations in contract revenue is high.

We performed the following audit procedures with respect to the accounting for the variations in contract work as of December 31, 2023:

- Testing certain internal controls over changes in terms of contracts
- Inquiries and analytical review procedures on projects in which significant changes in construction contract amounts were made
- Inspecting the documents (change order document, etc.) to verify the appropriateness of the changes in construction contract amounts
- Inspecting the documents regarding completion of construction (delivery protocol, etc.) for contracts completed to verify existence of the contract amounts
- Comparing the contractual delivery date with expected delivery date as of December 31, 2023
- Assessing the appropriateness of liquidated damages and the estimated amount of compensation

#### (5) Assessment of collectability of contract assets

As described in Note 30 to the consolidated financial statements, Heavy-Tail payment plan is a major collection terms of the Group. Since Heavy-Tail payment plan is able to result in significant losses if contract is cancelled, we identified the collectability of contract assets as a significant risk.

We performed the following audit procedures with respect to the assessment of collectability of contract assets as of and for the year ended December 31, 2023:

- Testing certain internal controls over identification and assessment of impairment indicators on contract assets
- For contracts with significant increases in contract assets, inquiries and inspection of documents on payment terms, liquidated damages, delivery time, and other obligations of contracts
- Inspection of the terms of the contracts for ongoing construction to assess the appropriateness of the Group's collection terms
- Assessing management's estimate basis for the collectability of contract assets
- For selected major customers, obtaining external confirmation letters

#### *Other Matter*

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, and for such internal control as management determines is necessary to enable



the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

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

The engagement partner on the audit resulting in this independent auditors' report is Dong Hyun Chi.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 18, 2024

This report is effective as of March 18, 2024, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position  
As of December 31, 2023 and 2022

(In thousands of won)

	Note	2023	2022
<b>Assets</b>			
Cash and cash equivalents	5,6,39,40	₩ 928,043,107	744,148,120
Short-term financial assets	5,7,8,39,40	131,000,000	161,000,000
Trade and other receivables	8,9,30,39,40,43	1,386,425,046	1,135,986,607
Contract assets	30,39,40	3,458,668,852	3,180,079,663
Inventories	10	1,309,807,342	1,377,137,503
Derivative assets	25,39,40	104,488,450	106,450,664
Firm commitment assets	25	197,198,295	218,541,618
Current tax assets		5,481,784	5,192,928
Other current assets	11	1,278,571,245	1,072,328,831
<b>Total current assets</b>		<b>8,799,684,121</b>	<b>8,000,865,934</b>
Investments in associate	12,43	1,331,627	1,345,757
Long-term financial assets	5,7,8,14,39,40	10,562,231	9,554,272
Long-term trade and other receivables	9,30,39,40,43	168,216,131	176,766,787
Investment property	15	1,418,248	1,457,516
Property, plant and equipment	16	6,452,067,647	6,237,402,566
Intangible assets	18	108,419,949	100,465,276
Right-of-use assets	17	37,417,509	43,390,369
Derivative assets	25,39,40	191,895,218	293,924,052
Firm commitment assets	25	104,451,409	190,170,417
Deferred tax assets	36	923,367,122	893,619,300
Other non-current assets	11,23	334,786,897	340,435,807
<b>Total non-current assets</b>		<b>8,333,933,988</b>	<b>8,288,532,119</b>
<b>Total assets</b>		<b>₩ 17,133,618,109</b>	<b>16,289,398,053</b>

See accompanying notes to the consolidated financial statements.



HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2023 and 2022

(In thousands of won)

	<b>Note</b>	<b>2023</b>	<b>2022</b>
<b>Liabilities</b>			
Short-term financial liabilities	5,20,22,39,40,41	₩ 1,560,030,665	1,444,632,171
Current lease liabilities	17,22,39,40	12,077,202	13,173,646
Trade and other payables	21,39,40,43	2,024,927,957	1,573,600,240
Contract liabilities	30	5,811,350,022	4,764,892,821
Short-term provisions	24,30,39,40	180,445,797	900,927,588
Derivative liabilities	25,39,40	306,545,962	316,553,631
Firm commitment liabilities	25	49,649,884	58,224,089
<b>Total current liabilities</b>		<u>9,945,027,489</u>	<u>9,072,004,186</u>
Long-term financial liabilities	5,16,20,22,39,40,41	1,568,942,823	1,159,024,155
Non-current lease liabilities	17,22,39,40	27,009,363	31,277,476
Long-term trade and other payables	21,39,40,43	3,790,807	380,996
Long-term contract liabilities	30	10,278,199	10,551,260
Liabilities for defined benefit plans	23	31,630,734	28,462,252
Non-current provisions	24	51,468,150	279,748,701
Derivative liabilities	25,39,40	107,085,369	190,170,417
Firm commitment liabilities	25	180,944,865	229,959,123
<b>Total non-current liabilities</b>		<u>1,981,150,310</u>	<u>1,929,574,380</u>
<b>Total liabilities</b>		<u>11,926,177,799</u>	<u>11,001,578,566</u>
<b>Equity</b>			
Common stock	26	443,865,580	443,865,580
Capital surplus	26	3,123,227,191	3,118,364,962
Capital adjustments	27	(1,642,927)	(1,642,927)
Accumulated other comprehensive income	25,28	869,146,269	881,829,100
Retained earnings	29	772,843,969	845,402,772
<b>Equity attributable to owners of parent</b>		<u>5,207,440,082</u>	<u>5,287,819,487</u>
<b>Non-controlling interests</b>	1	228	-
<b>Total equity</b>		<u>5,207,440,310</u>	<u>5,287,819,487</u>
<b>Total liabilities and equity</b>		<u>₩ 17,133,618,109</u>	<u>16,289,398,053</u>

See accompanying notes to the consolidated financial statements.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Loss  
For the years ended December 31, 2023 and 2022

(In thousands of won, except per share information)

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Sales	25,30,31,39,43	₩ 11,963,925,991	9,045,480,488
Cost of sales	10,25,33,39,43	11,309,062,476	8,882,619,441
<b>Gross profit</b>		654,863,515	162,861,047
Selling, general and administrative expenses	32,33,39	476,223,550	452,012,200
<b>Operating profit (loss)</b>		178,639,965	(289,151,153)
Finance income	25,34,39	631,106,222	1,139,354,504
Finance costs	25,34,39	1,124,111,388	1,591,690,209
Other non-operating income	25,35,39	580,068,983	812,715,869
Other non-operating expenses	25,35,39	231,326,649	491,268,710
Loss on valuation of equity method		(14,131)	(1,444,085)
<b>Profit (loss) before income tax</b>		34,363,002	(421,483,784)
Income tax expense (benefit)	36	9,673,788	(69,419,162)
<b>Profit (loss) for the year</b>		24,689,214	(352,064,622)
<b>Other comprehensive income (loss)</b>	25,28,39		
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Effective portion of changes in fair value of cash flow hedges		(10,298,671)	525,597
Exchange differences on translating foreign operations		(2,737,104)	30,293
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		(13,035,775)	555,890
<b>Items that will not be reclassified to profit or loss:</b>			
Changes in fair value of financial assets measured at FVOCI		(63)	(186)
Actuarial gains and losses		(97,639,438)	43,307,734
Revaluation of property, plant and equipment		739,261	2,227,649
<b>Total items that will not be reclassified to profit or loss</b>		(96,900,240)	45,535,197
<b>Other comprehensive income (loss) for the year, net of income tax</b>		(109,936,015)	46,091,087
<b>Total comprehensive loss for the year</b>		₩ (85,246,801)	(305,973,535)
<b>Profit (loss) attributable to:</b>			
Owners of the company		24,686,073	(352,064,622)
Non-controlling interests		3,141	-
		₩ 24,689,214	(352,064,622)
<b>Total comprehensive loss attributable to:</b>			
Owners of the company		(85,241,634)	(305,973,535)
Non-controlling interests		(5,167)	-
		₩ (85,246,801)	(305,973,535)
<b>Earnings (loss) per share</b>	37		
Basic earnings (loss) per share (In won)		₩ 278	(3,966)

See accompanying notes to the consolidated financial statements.

# HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Changes in Equity

### For the years ended December 31, 2023 and 2022

(In thousands of won)

		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	Total equity
<b>Balance at January 1, 2022</b>	₩	443,865,580	3,118,364,962	(1,411,000)	881,487,616	1,151,717,791	-	5,594,024,949
<b>Total comprehensive income (loss) for the year</b>								
Loss for the year		-	-	-	-	(352,064,622)	-	(352,064,622)
Changes in fair value of financial assets measured at FVOCI		-	-	-	(186)	-	-	(186)
Effective portion of changes in fair value of cash flow hedges		-	-	-	525,597	-	-	525,597
Actuarial gains and losses		-	-	-	-	43,307,734	-	43,307,734
Revaluation of property, plant and equipment		-	-	-	2,227,649	-	-	2,227,649
Exchange differences on translating foreign operations		-	-	-	30,293	-	-	30,293
<b>Other</b>								
Reclassification of revaluation surplus		-	-	-	(2,441,869)	2,441,869	-	-
Other capital adjustment items		-	-	(231,927)	-	-	-	(231,927)
<b>Balance at December 31, 2022</b>	₩	<u>443,865,580</u>	<u>3,118,364,962</u>	<u>(1,642,927)</u>	<u>881,829,100</u>	<u>845,402,772</u>	<u>-</u>	<u>5,287,819,487</u>
<b>Balance at January 1, 2023</b>	₩	443,865,580	3,118,364,962	(1,642,927)	881,829,100	845,402,772	-	5,287,819,487
<b>Total comprehensive income (loss) for the year</b>								
Profit for the year		-	-	-	-	24,686,073	3,141	24,689,214
Changes in fair value of financial assets measured at FVOCI		-	-	-	(63)	-	-	(63)
Effective portion of changes in fair value of cash flow hedges		-	-	-	(10,298,671)	-	-	(10,298,671)
Actuarial gains and losses		-	-	-	-	(97,639,438)	-	(97,639,438)
Revaluation of property, plant and equipment		-	-	-	739,261	-	-	739,261
Exchange differences on translating foreign operations		-	-	-	(2,728,796)	-	(8,308)	(2,737,104)
<b>Transactions with owners of the Group, recognized directly in equity</b>								
Changes in scope of consolidation		-	398,164	-	-	-	43,496	441,660
Equity transaction within the Group		-	38,101	-	-	-	(38,101)	-
<b>Other</b>								
Changes in other capital surplus		-	4,425,964	-	-	-	-	4,425,964
Reclassification of revaluation surplus		-	-	-	(394,562)	394,562	-	-
<b>Balance at December 31, 2023</b>	₩	<u>443,865,580</u>	<u>3,123,227,191</u>	<u>(1,642,927)</u>	<u>869,146,269</u>	<u>772,843,969</u>	<u>228</u>	<u>5,207,440,310</u>

See accompanying notes to the consolidated financial statements.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2023 and 2022**

(In thousands of won)

	<b>Note</b>	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>			
Profit (loss) for the year	₩	24,689,214	(352,064,622)
Adjustments		214,735,107	463,554,223
<b>Cash generated from operations</b>	38	239,424,321	111,489,601
Interest received		48,509,513	41,382,180
Interest paid		(116,645,866)	(76,942,756)
Dividends received		20,568	37,708
Income taxes refund (paid)		(2,471,355)	(4,748,333)
<b>Net cash provided by operating activities</b>		168,837,181	71,218,400
<b>Cash flows from investing activities</b>			
Proceeds from collection of short-term financial assets		161,000,000	746,299,513
Proceeds from collection of short-term other receivables		-	5,666,035
Proceeds from collection of long-term financial assets		-	6,000
Proceeds from collection of long-term other receivables		2,151,547	152,655
Proceeds from sales of property, plant and equipment		9,656,748	12,889,870
Proceeds from sales of intangible assets		-	500,000
Proceeds from sales of non-current assets held for sale		-	4,719,315
Increase in cash from business transfers		857,404	-
Acquisition of short-term financial assets		(131,000,000)	(755,040,653)
Acquisition of long-term financial assets		(1,007,959)	-
Acquisition of long-term other receivables		(184,976)	(4,496,089)
Acquisition of property, plant and equipment		(478,211,790)	(484,478,175)
Acquisition of intangible assets		(35,693,734)	(29,673,758)
Changes in scope of consolidation (acquisition of control)		(2,279,855)	(14,379,533)
Changes in scope of consolidation (loss of control)		-	(44,334)
Decrease in cash from business transfers		(3,192,000)	-
<b>Net cash used in investing activities</b>		(477,904,615)	(517,879,154)
<b>Cash flows from financing activities</b>			
Proceeds from short-term financial liabilities		878,475,914	621,413,028
Proceeds from long-term financial liabilities		1,520,610,000	374,490,000
Repayment of financial liabilities		(1,882,523,741)	(1,919,105,866)
Repayment of lease liabilities		(13,801,088)	(9,636,937)
<b>Net cash provided (used in) financing activities</b>		502,761,085	(932,839,775)
Effects of exchange rate changes on cash and cash equivalents		(9,798,664)	(13,742,772)
<b>Net increase (decrease) in cash and cash equivalents</b>		183,894,987	(1,393,243,301)
Cash and cash equivalents at January 1		744,148,120	2,137,391,421
<b>Cash and cash equivalents at December 31</b>	₩	928,043,107	744,148,120

See accompanying notes to the consolidated financial statements.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2023 and 2022

**1. Reporting Entity**

**(1) Description of the Parent company**

HD Hyundai Heavy Industries Co., Ltd. (the "Parent company") was newly established through a split-off from HD Korea Shipbuilding & Offshore Engineering Co., Ltd. (known as Hyundai Heavy Industries Co., Ltd. before split-off, existing entity) on June 1, 2019 (inception date) and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other products. The Parent company was listed on the Korea Exchange in September 2021. The Parent company's head office is located in Ulsan. As of December 31, 2023, the Parent company's major stockholder is the HD Korea Shipbuilding & Offshore Engineering Co., Ltd. (78.0%).

**(2) Consolidated subsidiaries**

Subsidiaries as of December 31, 2023 and 2022 are summarized as follows:

Company	Main business	Location	Fiscal year end	Ownership (%)	
				2023	2022
HD Hyundai Engine Company Ltd.	Manufacture of internal combustion engines	South Korea	December	100.00	100.00
Hyundai Heavy Industries Argentina S.R.L(*1)	Construction	Argentina	December	99.98	-
HD Hyundai Heavy Industries MOS CO., Ltd.(*2)	Business facility maintenance services	South Korea	December	100.00	-

(\*1) The Group acquired Hyundai Heavy Industries Argentina S.R.L to carry out local construction work for the year ended December 31, 2023.

(\*2) The Group acquired the entire shares of HD Hyundai Engine Company Ltd. from HD Korea Shipbuilding & Offshore Engineering Co., Ltd., which is the related party.

**(3) Changes in scope of consolidation**

The subsidiary newly subject to consolidation for the year ended December 31, 2023 is as follows:

Company	Reason
Hyundai Heavy Industries Argentina S.R.L	Purchase of shares
HD Hyundai Heavy Industries MOS CO., Ltd.	Purchase of shares

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**1. Reporting Entity, Continued**

**(4) Condensed financial information of consolidated subsidiaries**

Condensed financial information of consolidated subsidiaries as of and for the years ended December 31, 2023 and 2022 is summarized as follows:

(In millions of won)

Company	2023					
	Assets	Liabilities	Equity	Sales	Profit (loss)	Total comprehensive income (loss)
HD Hyundai Engine Company Ltd.	₩ 67,339	14,055	53,284	29,530	1,534	1,501
Hyundai Heavy Industries Argentina S.R.L	1,700	209	1,491	4,563	1,554	(1,184)
HD Hyundai Heavy Industries MOS CO., Ltd.	36,267	24,963	11,304	34,797	(612)	(3,003)

(In millions of won)

Company	2022					
	Assets	Liabilities	Equity	Sales	Profit (loss)	Total comprehensive loss
Hyundai Engine Company Ltd.	₩ 64,562	37,659	26,903	6,168	(1,865)	(1,865)

**(5) Non-controlling interests**

Information about non-controlling interests in subsidiaries as of December 31, 2023 and 2022 is as follows:

(In millions of won)

	Hyundai Heavy Industries Argentina S.R.L	
	2023	2022
Non-controlling interests	0.02%	-
Net assets	1,491	-
Carrying amount of non-controlling interest	1	-
Net income	1,554	-
Net income allocated to non-controlling interests	3	-
Cash flows from operating activities	942	-
Cash flows from investment activities	-	-
Cash flows from financial activities	1,805	-
Net increase or decrease in cash and cash equivalents	423	-
Dividends paid to non-controlling interests	-	-

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## 2. Basis of Preparation

The Parent company and its subsidiaries ("the Group") prepared the consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in Article 5, Clause 1 of *the Act on External Audit of Stock Companies, Etc.* of the Republic of Korea.

The consolidated financial statements were authorized for issue by the Board of Directors on February 6, 2024 and will be submitted for approval to the stockholder's meeting to be held on March 26, 2024.

### (1) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments measured at fair value
- Financial assets measured at FVTPL measured at fair value
- Financial assets measured at FVOCI measured at fair value
- Lands measured at fair value
- Liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

### (2) Functional and presentation currency

The financial statements of individual entities within the Group are prepared in functional currency, which is the currency of the primary economic environment in which the individual entities operate. The consolidated financial statements are prepared and presented in Korean won, which is the Parent company's functional currency and presentation currency.

### (3) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis for consistency with our risk management and climate-related commitments. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The financial impact of the armed conflict in Ukraine, started in February 2022, and subsequent international sanctions against Russia cannot be estimated reasonably.

#### (i) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 4: Lease term – whether the Group is reasonably certain to exercise extension options;
- Note 4: Timing of revenue recognition;
- Note 12: Investment in associates - whether the Group has significant influence over an investee;
- Note 13: Classification of joint arrangements; and
- Note 15: Classification of investment property

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**2. Basis of Preparation, Continued**

**(3) Use of estimates and judgments, continued**

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 5 and 40: Measurement of expected credit loss on trade receivables and contract assets – key assumption about determining weighted-average loss rate;
- Note 11, 16 and 18: Impairment test – key assumptions underlying recoverable amounts, including the recoverability of other current assets, property and intangible assets;
- Note 23: Measurement of defined benefit obligations – key actuarial assumptions;
- Note 24, 41 and 42: Recognition and measurement of provisions and contingencies – key assumption about the likelihood and magnitude of an outflow of resources;
- Note 30: Revenue recognition in proportion to the stage of completion, the estimates of total contract costs; and
- Note 36: Measurement of deferred tax.

(iii) Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.



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**2. Basis of Preparation, Continued**

**(3) Use of estimates and judgments, continued**

(iii) Measurement of fair value, continued

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 14: Financial assets measured at fair value;
- Note 15: Investment property;
- Note 16: Property, plant and equipment; and
- Note 40: Financial instruments.

**3. Changes in Accounting Policies**

**(1) New and revised standards adopted by the Group**

The Group has applied the following standards and interpretations for the first time for their annual reporting period commencing January 1, 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(i) Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction amendments (K-IFRS No.1012 'income tax') from January 1, 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences (e.g. leases and decommissioning liabilities). For all other transactions, the Group applied the amendments to transactions that occur on or after the beginning of the earliest period presented.

Following the amendments, the Group has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of K-IFRS No. 1012 'income tax'. There was also no impact on the opening retained earnings as of January 1, 2022 as a result of the change.

(ii) Global minimum tax

The Group has adopted International Tax Reform – Pillar Two Model Rules amendments (K-IFRS No.1012 'income tax') from 1 January 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure.

The global minimum top-up tax is a system where a multinational group's constituent companies with sales revenue exceeding €750 million in at least 2 of the previous 4 fiscal years have an effective tax rate lower than 15%. In such cases, the excess amount is paid to the tax authorities of the country where the controlling company, meeting specific conditions, is located.

South Korea enacted tax laws related to the global minimum top-up tax in 2023, which must be applied starting from the year commencing after January 1, 2024. Based on the financial statements as of December 31, 2023, it is anticipated that there will be no companies subject to the global minimum top-up tax as per the transition period exemption under Article 80 of the International Tax Adjustment Law. Since South Korea's tax laws related to the global minimum top-up tax will be enforced from January 1, 2024, there are no corporate tax effects for the current year. The Group applied the temporary/mandatory deferral of deferred tax accounting treatment for Pillar Two taxes. When Pillar Two taxes are incurred, it is recognized as current year taxes.

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**3. Changes in Accounting Policies, Continued**

**(1) New and revised standards adopted by the Group, continued**

(iii) Material accounting policy

The Group also adopted Disclosure of Accounting Policies (Amendments to K-IFRS No. 1001 'Presentation of Financial Statements') from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 4 Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

**4. Material Accounting Policies**

The material accounting policies applied by the Group in the preparation of the consolidated financial statements in accordance with K-IFRS are included below. The accounting policies set out below have applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in Note .

The Group adopted the Disclosure of Accounting Policies amendments (K-IFRS No.1001 '*Presentation of Financial Statements*') from January 1, 2023. The amendments require disclosure of 'material' accounting policies rather than 'significant' accounting policies. These amendments do not change the accounting policies by themselves but affects the accounting policy information disclosed in these financial statements.

**(1) Basis of consolidation**

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Interests in equity-accounted investees

Interests in associates are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

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**4. Material Accounting Policies, Continued**

**(1) Basis of consolidation, continued**

- (v) Business combination of entities under common control

The assets and liabilities acquired under business combinations of entities under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of capital surplus.

**(2) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, call deposits, short-term investments with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

**(3) Inventories**

The cost of inventories is based on the moving-average method with the exception of cost of materials-in-transit, which is determined on the specific identification method. Cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Fixed manufacturing overhead costs among conversion costs are distributed based on the normal capacity of production facilities.

The carrying amount of inventory is recognized as cost of goods sold in the period in which revenue from the sale of the inventory is recognized.

**(4) Non-derivative financial assets**

- (i) Recognition and initial measurement

The Group initially recognizes trade receivables and debt securities issued on the date on which they are originated. Other financial assets and financial liabilities are recognized on trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

- (ii) Classification and subsequent measurement

- (a) Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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**4. Material Accounting Policies, Continued**

**(4) Non-derivative financial assets, continued**

(ii) Classification and subsequent measurement, continued

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. These financial assets include all derivative financial assets (See Note 24).

(b) Financial assets - Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

(c) Financial assets - Assessment of whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g., non-recourse features)

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**4. Material Accounting Policies, Continued**

**(4) Non-derivative financial assets, continued**

(ii) Classification and subsequent measurement, continued

(d) Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognized.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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**4. Material Accounting Policies, Continued**

**(5) Derivative financial instruments**

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized as described below:

(i) Hedge accounting

The Group holds forward exchange contracts to manage foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

(a) Fair value hedge

When a derivative is designated as a fair value hedging instrument, changes in fair value of the derivative is recognized in profit or loss. Changes in fair value of the hedged item attributable to hedged risk are also recognized in profit or loss. Changes in fair value of the hedging instrument and hedged item attributable to hedged risk are recognized in profit or loss in the same line of item of consolidated financial statements of comprehensive income. However, for hedges of equity investments at FVOCI, changes in fair value of the hedged item and the hedging instrument are recognized in other comprehensive income. The Group prospectively discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the fair value hedge no longer meets the criteria for hedge accounting.

(b) Cash flow hedge

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income and ineffective portion of changes in fair value of the derivative is recognized immediately in profit or loss.

If the cash flow hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated, or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

(ii) Other derivative financial instruments

Changes in fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

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**4. Material Accounting Policies, Continued**

**(6) Impairment of financial assets**

(i) Financial assets and contract assets

The Group recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets defined in K-IFRS No.1115.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment that includes forward-looking information.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- a significant increase in overdue days of financial assets.

(ii) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

(iii) Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

In view of the importance of impairment losses related to trade receivables and other receivables, including contract assets, they are presented in 'selling, general and administrative expenses' or 'other non-operating expenses'. In view of the importance of other financial assets, impairment losses are not presented separately in the statement of comprehensive income but are presented in 'finance costs'.

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**4. Material Accounting Policies, Continued**

**(6) Impairment of financial assets, continued**

(iv) Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

**(7) Property, plant and equipment**

Property, plant and equipment, except land, are initially measured at cost at the initial recognition. Subsequent to initial recognition, an item of property, plant and equipment excluding land is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Subsequent to initial recognition, land that fair value can be measured reliably is carried at its fair value at the date of revaluation less any accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	<b>Useful lives (years)</b>
Buildings	20~50
Structures	20~45
Machinery and equipment	5~20
Ships	15, 25
Vehicles	5~14
Tools, furniture and fixtures	3~20

**(8) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero.

However, as there are no foreseeable limits to the periods over which some intangible assets are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	<b>Useful lives (years)</b>
Development costs	5
Other intangible assets	20
Memberships, Trademarks	Indefinite



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**4. Material Accounting Policies, Continued**

**(9) Investment property**

Property held for the purpose of earning rentals, benefiting from capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequent to initial recognition, investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated on a straight-line basis over the following estimated useful lives:

	<b>Useful lives (years)</b>
Buildings	50

**(10) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from contract assets that are recognized according to the revenue from the contract with the customer, assets arising from the cost of entering into or fulfilling a contract, employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill arising from a business combination, intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimate future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

An impairment loss is reversed if there is any indication that the impairment loss previously recognized is no longer exists or has been reduced and there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(11) Leases**

(i) As a lessee

The Group applies one recognition and measurement approach for all leases, except for short-term leases and leases of small underlying assets. The Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

(a) Right-of-use

At the lease commencement date, the Group recognizes a right-of-use. The right-of-use asset is initially measured at cost and subsequently measured using the cost model. To apply the cost model, accumulated depreciation and accumulated impairment losses are deducted, and adjustments for remeasurement of lease liabilities are reflected. The Group includes in the cost of the right-of-use asset the amount of the recognized lease liability, initial direct costs, and lease payments made to the lease commencement date, and deducts from the cost of the right-of-use asset any lease incentives received in advance.

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**4. Material Accounting Policies, Continued**

**(11) Leases, continued**

(i) As a lessee, continued

(b) Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date.

Variable lease payments that are not index- or rate-dependent are recognized as expense in the period in which the event or condition that triggers the lease payments occurs (unless they are incurred to produce an inventory asset).

When calculating the present value of the lease payments, the Group uses the incremental borrowing rate at the commencement date of the lease because the implicit interest rate of the lease cannot be easily calculated. Subsequent to initial recognition, the lease liability increases by interests recognized for the lease liability and decreases by lease payments made. In addition, the carrying amount of a lease liability is remeasured when there is a change in the lease term, a change in the lease payments (for example, a change in future lease payments resulting from a change in the index or rate used to calculate the lease payments), or a change in the valuation of the option to purchase the underlying asset.

(c) Leases of low-value assets and short-term leases

The Group applies the exemption from recognition for short-term leases (i.e., these leases have a term of 12 months or less from the lease commencement date and do not include a purchase option) to leases of machinery and equipment. The Group also applies the exemption from recognition for small asset leases to leases of office supplies, which are considered small assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term

(ii) As a lessor

When the Group acts as a lessor, it classifies leases that do not transfer substantially all the risks and rewards of ownership of the underlying assets as operating leases. Lease revenue is recognized on a straight-line basis over the lease term and is included in revenue in the income statement based on the nature of the operation. Direct lease origination costs incurred in entering into an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease revenue. Contingent rent is recognized as revenue when the rent is received.

**(12) Contract assets and contract liabilities**

If the Group performs the transfer of goods or services to the customer before the customer pays the consideration or before the payment date, the Group presents the contract as a contract asset, except as a receivable. Contract assets are the Group's rights to consideration for transfer of goods or services to the customer.

If the customer pays the consideration before the Group transfers goods or services to the customer, or the Group has an unconditional right to receive consideration (i.e., the receivable), the Group presents the contract as a contract liability either when it is paid or to be paid (early both).

Contract liabilities are the Group's obligation to transfer of goods or services to the customer in accordance with the consideration received from the customer or the consideration of the Group's rights to receive the payment. The Group offsets the contract assets and contract liabilities arising from one contract and presents them in the consolidated statements of financial position on a net basis.

On the other hand, expected losses in contracts (i.e., onerous contracts) that exceed the economic benefits expected to be received by the contract are recognized as current provisions.

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**4. Material Accounting Policies, Continued**

**(13) Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss and other financial liabilities in accordance with the substance of the contractual terms and the definition of a financial liability. The Group recognizes them in the statement of financial position when it becomes a party to the contractual provisions of the financial liability.

**(14) Employee benefits**

(i) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified independent actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. When the voluntary retirement is offered to employees, the termination benefits are measured and recognized in profit or loss based on the number of employees expected to accept the offer. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

**(15) Provisions**

(i) Provision for construction warranty

A provision for construction warranties is recognized when the rectification of defects on construction is expected, based on historical warranty data.

(ii) Provision for product warranty

A provision for product warranties is recognized in order to cover ordinary repair related to product defects within the specified period after sales.

(iii) Provision for construction losses

A provision for onerous contracts is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, if unavoidable costs arising from the contractual obligations exceed the benefits expected to arise from the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

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**4. Material Accounting Policies, Continued**

**(15) Provisions, continued**

(iv) Other provision

In accordance with the announced environmental policy and appropriate legal requirements, the Group recognizes the cost of recovering from pollution and the constructive obligation due to performance guarantee as other provisions.

A provision shall be used only for expenditures for which the provision was originally recognized.

**(16) Emissions rights**

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the *Act on Allocation and Trading of Greenhouse Gas Emission*.

(i) Greenhouse gases emission right

Greenhouse gases emission right consists of emission allowances which are allocated from the government free of charge or purchased from the market. Emission rights are recognized as purchase costs by adding other costs that are directly attributable to the acquisition and incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation are classified as an intangible asset and are initially measured at cost and after initial recognition, are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value in each reporting period. Changes in fair value of emission rights held for short-swing profits are recognized in profit or loss.

The Group derecognizes emission rights when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(ii) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Emission liability is estimated obligations for emission rights to be submitted to the government for the performing period. Emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at of the end of the reporting period. Emission liability is derecognized when it is submitted to the government.

**(17) Foreign currency**

Foreign currency differences arising from translation of monetary items are recognized in profit or loss, except the differences arising from payment of monetary items, net investment in a foreign operation or a financial liability designated as cash flow hedges, which are recognized in other comprehensive income. When gains or losses on non-monetary items are recognized in other comprehensive income, effects of exchange rate changes included in that gains or losses are recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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**4. Material Accounting Policies, Continued**

**(18) Revenue from contracts with customers**

Under K-IFRS No.1115, revenue is recognized when the Group transfers control over a good or service to a customer. Control is transferred at a point in time or over time and it requires judgments.

- Determining the transaction price

The Group considers if significant benefit of financing is provided to the customer or the Group in relation to the advance payment from customers and reflects the effects of the time value of money to the transaction price. As a practical expedient, the Group need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

- Identifying of performance obligations

The Group shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer a good or service that is distinct to the customer. If partial change in an order is not distinct, within the context of the contract, the performance obligation is not separated.

(i) Nature and timing of satisfaction of performance obligations

The Group engages in the shipbuilding segment for building merchant ships and special vessels, industrial plant and engineering segment for building and installing offshore oil and gas fields, and the engine machinery segment for manufacturing ships' engines.

The shipbuilding segment builds and sells ships of the order from the owner and takes at least one year from the date of the contract to the completion of the construction. Due to the nature of the order-made production industry being customized according to the terms presented to the customer, the Group itself has no alternative use, and if the contract is terminated for the customer or other party reasons, it can claim incurred costs and reasonably estimated profit for performance completed to date or claim insufficient amount after the Group resale the asset in accordance with the contractual process.

Consequently, if the Group's performance does not create an asset with an alternative use to the Group and the Group has enforceable right to payment for performance completed to date. The Group recognizes revenue over time in accordance with K-IFRS No.1115.

If the performance obligation is satisfied over time, the timing of satisfaction of performance obligations depends on measuring the progress, to depict the Group's performance in transferring control of goods or services promised to a customer, towards complete satisfaction of that performance obligation.

If the Group would not be able to reasonably measure its performance, it measures its performance only to the extent of the costs incurred. As the shipbuilding segment provides design, raw material purchase, production, and trial run, it is difficult to obtain the information required to apply output methods may not be available to the Group without undue cost. Therefore, the Group determines the timing of satisfaction of performance obligations when the timing of costs incurred because input methods, that recognize revenue on the basis of the Group's inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, can faithfully depict the Group's performance.

The offshore, industrial plant and engineering segment is similar process industry to the shipbuilding segment, but the required facility specifications are complicated and extensive depending on the installation area and the production conditions of crude oil or gas, so the construction period is long and the construction amount is large.

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**4. Material Accounting Policies, Continued**

**(18) Revenue from contracts with customers, continued**

(i) Nature and timing of satisfaction of performance obligations, continued

The construction contracts of the Group take at least one year from the contract signing date to the construction completion date and as it has the following nature of the industry, which it produces the customization goods on orders from the customers, the Group recognizes revenue over time for performance obligations satisfied over time.

i) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

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

If the performance obligation is satisfied over time, the timing of satisfaction of performance obligations depends on measuring the progress, to depict the Group's performance in transferring control of goods or services promised to a customer, towards complete satisfaction of that performance obligation. If the Group would not be able to reasonably measure its performance, it measures its performance only to the extent of the costs incurred. As the offshore, industrial plant and engineering segment provides design, raw material purchase, production, and trial run, it is difficult to obtain the information required to apply output methods may not be available to the Group without undue cost. Therefore, the Group determines the timing of satisfaction of performance obligations when the timing of costs incurred because input methods, that recognize revenue on the basis of the Group's inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, can faithfully depict the Group's performance.

The engine machinery segment supplies the ship's propulsion/power generation engines as its main products. For general contracts, revenues are recognized as being satisfied the performance obligation at a point in time, not as satisfied the performance obligation over time.

The timing of satisfaction of performance obligations is when the assets held by the Group are transferred to and controlled by the customer, and the Group determines the point in time by indicators of the transfer of control, that include right to payment, legal title, physical possession, transfer of the significant risks and rewards, and the customer's acceptance of an asset. Generally, exports are transferred under the same conditions as CIF and FOB, and domestic sales are determined to satisfy performance obligations when the Group transfers physical possession of the asset to the customer.

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**4. Material Accounting Policies, Continued**

**(18) Revenue from contracts with customers, continued**

(ii) Significant collection terms

The shipbuilding segment collects by each stage of ship-building, and the timing of collection for general merchant ships is divided into Contract, Steel Cutting, Keel laying, Launching, Delivery, and in particular, the Heavy Tail payment plan, which collects most of the contract price at delivery of ships is a major collection term.

In accordance with the *“Rules on the advances and progress payments for the defense industry”*, advances and progress payments for the special vessels will be made only for funds planned to be spent within 180 days from the date of claim.

The offshore, industrial plant and engineering segment charges and collects by the progress of the construction, including the advance payment, amount of work completed, the achievement amount of milestone, and the reserve for performance. The engine machinery segment collects separately by the advance, middle, and balance payments in accordance with the payment terms as specified in the contract.

Depending on the terms of payment, there may exist a significant financing component, that adjusts the promised consideration to reflect the effect of the time value of money, when the difference between when we receive the goods or services from the customer and when we expect to transfer the promised goods or services to the customer occurs.

(iii) Nature of warranty and the length of the warranty coverage period

The shipbuilding segment typically provides a warranty of 12 months or 24 months depending on type of ship. The engine machinery segment typically provides a warranty period of 24 months after delivery or 12 months after ship delivery. The offshore, industrial plant and engineering segment provides a separate warranty period based on the nature of each construction and the terms of the contract. Usually, after the warranty period granted, it will be converted to paid-in-AS. The provided warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

(iv) How to determine the transaction price, estimating the variable consideration, input variables, information

In the shipbuilding and the offshore, industrial plant and engineering segment, a single performance obligation exists, so it is not necessary to estimate the stand-alone selling price to allocate the transaction price, but in the engine machinery segment, separate services such as installation and supervision exist within the contract.

When the Group allocates the transaction price on a stand-alone selling price basis and the stand-alone selling price does not exist in the market, the total contract amount is allocated to the distinct performance obligations by the expected cost plus a margin approach – the Group forecasts its expected costs of satisfying a performance obligation and then add on appropriate margin for that good or service.

The consideration receivable from customers may be variable by change order due to design changes and additional work caused by requests from owners of the shipbuilding and the offshore, industrial plant and engineering segment, and delayed compensation due to delay in delivery and fail to achieve specifications. In the case of change order, variable consideration is included in the transaction price only to the extent it is highly probable that a significant revenue reversal will not occur. In the case of delayed compensation, the Group recognizes revenue by deducting the estimated amount incurred by the contract terms from the contract price.



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**4. Material Accounting Policies, Continued**

**(19) Finance income and finance costs**

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- the net gain or loss on financial assets at FVTPL;
- the foreign currency gain or loss on financial assets and liabilities;
- impairment losses (and reversals) on investments in debt securities carried at amortized cost;
- the fair value loss on contingent consideration classified as a financial liability;
- hedge ineffectiveness recognized in profit or loss; and
- the reclassification of net gains or losses previously recognized in other comprehensive income on cash flow hedges of interest rate risk and foreign currency risk for borrowings (See Note 24).

Interest income or expense is recognized using the effective interest method. Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

**(20) Income tax**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to the tax payable or receivable in respect of previous year. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. It is measured using tax rates enacted or substantively enacted at the reporting date.



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**4. Material Accounting Policies, Continued**

**(20) Income tax, continued**

(i) Current tax, continued

Current tax assets and liabilities are offset only if certain criteria are met;

- there is a legally enforceable right to offset the recognized amount; and
- there is intends to settle on a net basis or the liability while simultaneously realizing the asset.

(ii) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are recognized for all taxable temporary differences relating to investments in subsidiaries, associates and joint ventures unless the Group can control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

In addition, the Group recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that 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 are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences and the business plans of the Group are considered.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

**(21) Operating segments**

The Group divides operating segments basis on internal reports that the Group's chief executive officer (CEO) regularly reviews to make decisions about resources to be allocated to the segment and assess its performance. As described in Note 31 the Group has four reportable segments which are its strategic operating units. These strategic operating units offer different products and services and are managed separately because they require different technology and marketing strategies.

Segment information reported to the CEO includes items that are directly attributable to the segment and items that are reasonably allocable to the segment.

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#### 4. Material Accounting Policies, Continued

##### (22) Standards issued but not yet effective

The following new standards, interpretations and amendments to existing standards have been published and are not mandatory for the Group for the year beginning on January 1, 2023, and the Group has not early adopted them.

- (i) K-IFRS No.1001 'Presentation of Financial Statements' – Classification of Liabilities as Current or Non-current and borrowing covenants for non-current liabilities

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments are applied for annual reporting periods beginning on or after 1 January 2024.

- (ii) K-IFRS No.1007 'Cash Flow' and K-IFRS No.1107 'Financial Instruments Presentation' - Supplier Finance Arrangements

The amendments introduce new disclosures relating to supplier finance arrangements that assist users of the financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows and on an entity's exposure to liquidity risk. The amendments are applied for annual periods beginning on or after 1 January 2024.

- (iii) The following new and amended accounting standards are not expected to have a significant impact on the Group.

- Lease Liability in a Sale and Leaseback (K-IFRS No.1116 'Lease')
- Disclosure of Cryptographic Assets(K-IFRS No.1001 'Presentation of Financial Statements')

#### 5. Risk Management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's risk management objectives, policies and processes for measuring and managing risk, and the Group's capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

##### (1) Financial risk management

###### 1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

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**5. Risk Management, Continued**

**(1) Financial risk management, continued**

1) Risk management framework, continued

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables from customers and investments.

(i) Trade and other receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Most of the Group's customers are major and international ship's owner targeting global markets and the risk of bankruptcy in the country where they located does not have significant impact on credit risk.

The Group establishes credit limits for each customer and each new customer is analyzed quantitatively and qualitatively before determining whether to utilize third party guarantees, insurance or factoring as appropriate.

(ii) Investments

The Group limits its exposure to credit risk by investing only in liquid debt securities and only with counterparties that have high credit ratings. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, does not expect a significant risk that any counterparty fails to meet its obligations.

(iii) Guarantees

The Group provides financial guarantees to other related parties if necessary.

3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has historically been able to satisfy its cash requirements from cash flow from operations and debt or equity financing. If the Group cannot generate sufficient cash flow from operations to meet its cash requirements, the Group may rely on other financing activities, such as external borrowings and issuing bonds.

4) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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**5. Risk Management, Continued**

**(1) Financial risk management, continued**

4) Market risk, continued

The Group buys and sells derivatives, and also incurs financial liabilities to manage market risks. All such transactions are carried out within the guidelines set by the Group. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group, Korean won (KRW). The currencies in which these transactions primarily are denominated are USD, EUR, CNY, JPY and others.

The Group hedges trade receivables and trade payables denominated in a foreign currency in respect of forecasted sales and purchases. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than two years from the reporting date. When necessary, forward exchange contracts are rolled over at maturity. Trade receivables denominated in a foreign currency have been hedged using forward contracts that mature on the same dates that the receivables are due for collection. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk

The Group hedges interest rate risk using interest rate swap for variable interest borrowings. As a result, the risk that changes in the value of variable interest-bearing bonds and loans will affect the Group's profit or loss is avoided.

(iii) Other market price risk

The Group is exposed to price risk arising from equity instruments.

**(2) Capital management**

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the liability to equity ratio and net borrowing to equity ratio, which the Group defines as total liabilities divided by total equity and net borrowing divided by total equity.

The Group's liability to equity ratio and net borrowing to equity ratio as of December 31, 2023 and 2022 are as follows:

*(In millions of won, except equity ratio)*

		<b>2023</b>	<b>2022</b>
Total liabilities	₩	11,926,178	11,001,579
Total equity		5,207,440	5,287,819
Cash and deposits(*1)		1,059,051	905,156
Borrowings(*2)		3,128,974	2,603,656
Liability to equity ratio		229.02%	208.06%
Net borrowing to equity ratio(*3)		39.75%	32.12%

(\*1) Cash and deposits consist of cash and cash equivalents and short-term and long-term financial instruments.

(\*2) Discount on bonds is deducted from the face value of bonds.

(\*3) Net borrowing represents borrowings net of cash and deposits.

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**5. Risk Management, Continued**

**(2) Capital management, continued**

The interest coverage ratio and basis of calculation for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won, except interest coverage ratio)</i>		<b>2023</b>	<b>2022</b>
1. Operating profit (loss)	₩	178,640	(289,151)
2. Interest expenses		131,890	106,141
3. Interest coverage ratio (1÷2)		1.35	(*)

(\*) The interest coverage ratio was not calculated due to operating losses for the year ended December 31, 2022.

**6. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2023 and 2022 are summarized as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Cash	₩	57	57
Current deposit		10,013	3,954
MMDA and others		917,973	740,137
	₩	<u>928,043</u>	<u>744,148</u>

**7. Short-term and Long-term Financial Assets**

Short-term and long-term financial assets as of December 31, 2023 and 2022 are summarized as follows:

<i>(In millions of won)</i>		<b>2023</b>		<b>2022</b>	
		<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Financial instruments	₩	131,000	8	161,000	8
Financial assets measured at FVTPL		-	8,816	-	7,808
Financial assets measured at FVOCI		-	1,738	-	1,738
	₩	<u>131,000</u>	<u>10,562</u>	<u>161,000</u>	<u>9,554</u>

**8. Restricted Financial Instruments**

Financial instruments, which are restricted in use, as of December 31, 2023 and 2022 are summarized as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>	<b>Restrictions</b>
<b>Description</b>				
Other receivables	₩	-	4,100	Collateral deposit
Long-term financial instruments		8	8	Guarantee deposits for checking accounts

The Group has deposited ₩131,000 million in financial institutions to provide financial support to the Group's partners as of December 31, 2023 and 2022.

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**9. Trade and Other Receivables**

(1) Trade and other receivables as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

(In millions of won)

		2023		2022	
		Current	Non-current	Current	Non-current
<b>Trade receivables:</b>					
Trade receivables	₩	1,723,735	279,046	1,495,383	316,995
Allowance for doubtful accounts		(624,616)	(118,343)	(617,794)	(151,542)
		1,099,119	160,703	877,589	165,453
<b>Other receivables:</b>					
Other accounts receivables		431,738	1,439	397,460	2,878
Allowance for doubtful accounts		(161,910)	-	(157,004)	(1)
Accrued income		54,255	-	14,870	-
Allowance for doubtful accounts		(40,098)	-	(1,567)	-
Loans		162,303	402	164,088	1,095
Allowance for doubtful accounts		(159,844)	(292)	(159,844)	(292)
Guarantee deposits		862	5,964	395	7,634
		287,306	7,513	258,398	11,314
	₩	1,386,425	168,216	1,135,987	176,767

(2) Changes in allowance for doubtful accounts in respect of trade and other receivables for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023	2022
Beginning balance	₩	1,088,044	1,120,357
Impairment loss recognized		4,412	445
Reversal of allowance for doubtful accounts		(27,284)	(32,049)
Write-off		(26)	(709)
Others		38,757	-
Changes in consolidation scope		1,200	-
Ending balance	₩	<u>1,105,103</u>	<u>1,088,044</u>

**10. Inventories**

Inventories as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

		2023			2022		
		Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Work-in-progress	₩	500,062	(17,448)	482,614	459,302	(11,614)	447,688
Raw materials		543,667	(2,971)	540,696	548,283	(3,995)	544,288
Supplies		18,431	-	18,431	15,450	-	15,450
Materials-in-transit		268,066	-	268,066	369,712	-	369,712
	₩	<u>1,330,226</u>	<u>(20,419)</u>	<u>1,309,807</u>	<u>1,392,747</u>	<u>(15,609)</u>	<u>1,377,138</u>

The Write-downs of inventories, amounting to ₩4,810 million were added to cost of sales for the year ended December 31, 2023, and the reversals of inventories, amounting to ₩5,657 million were deducted from cost of sales for the year ended December 31, 2022.

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## 11. Other Current Assets and Other Non-current Assets

Other current assets and other non-current assets as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

		2023		2022	
		Current	Non-current	Current	Non-current
Advance payments	₩	1,086,501	-	869,604	-
Accumulated impairment loss		(984)	-	-	-
Prepaid expenses		196,503	702	179,910	735
Accumulated impairment loss(*1)		(3,449)	-	(18,016)	-
Others(*2)		-	108,447	229,814	101,719
Accumulated impairment loss(*2)		-	-	(188,983)	-
Defined benefit assets		-	225,638	-	237,982
	₩	<u>1,278,571</u>	<u>334,787</u>	<u>1,072,329</u>	<u>340,436</u>

(\*1) Prior to recognition of the provision for the onerous contract, the impairment loss on the related asset was recognized.

(\*2) The vessel under construction acquired due to the cancellation of shipbuilding contract was contracted for sale in 2022 and the sale was completed in 2023.

## 12. Investment in Associate

The Group purchased shares of KC LNG Tech Co., Ltd. From HD Korea Shipbuilding & Offshore Engineering Co., Ltd., the intermediate parent of the Parent company.

(1) Investment in associate as of December 31, 2023 and 2022 is summarized as follows:

(In millions of won, except percentage of ownership)

Company	Location	Fiscal year end	Main business	Ownership (%)		2023	2022
						Carrying amount	Carrying amount
KC LNG Tech Co., Ltd.(*1)	South Korea	December	Other engineering services	16.60	₩	1,332	1,346

(\*1) Although ownership is less than 20%, the Group includes the entity securities as investments in associate since the Group has a significant influence on main operating and financial policy decisions.

(2) Condensed financial information of associate as of and for the years ended December 31, 2023 and 2022 is summarized as follows:

1) Condensed statements of financial position of associate

(In millions of won)

Associate	Year		Current assets	Non-Current assets	Current liabilities	Non-Current liabilities	Equity
KC LNG Tech Co., Ltd.	2023	₩	2,666	6,313	12,893	376	(4,290)
	2022	₩	2,951	7,107	13,916	346	(4,204)

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**12. Investment in Associate, Continued**

(2) Condensed financial information of associate as of and for the years ended December 31, 2023 and 2022 is summarized as follows, continued:

2) Condensed statements of comprehensive loss of associate

(In millions of won)

Associate	Year	Sales	Operating loss	Loss for the year	Other comprehensive income	Total comprehensive loss
KC LNG Tech Co., Ltd.	2023 ₩	2,062	(2,171)	(85)	-	(85)
	2022 ₩	4,231	(3,275)	(8,699)	-	(8,699)

(3) Changes in equity-method accounted investees for the years ended December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

Associate		2023				
		Beginning balance	Acquisition (disposal)	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Ending balance
KC LNG Tech Co., Ltd.	₩	1,346	-	(14)	-	1,332

(In millions of won)

Associate		2022				
		Beginning balance	Acquisition (disposal)	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Ending balance
KC LNG Tech Co., Ltd.	₩	2,790	-	(1,444)	-	1,346

(4) Reconciliation from net assets of the associate to the carrying amount of investment in associate in the Group's consolidated financial statements as of December 31, 2023 and 2022 is summarized as follows:

(In millions of won)

Associate		2023			
		Ending net assets (liabilities)	Percentage of the Group's ownership	Net value	Ending carrying amount
KC LNG Tech Co., Ltd.	₩	(4,290)	16.60%	-	1,332

(In millions of won)

Associate		2022			
		Ending net assets	Percentage of the Group's ownership	Net value	Ending carrying amount
KC LNG Tech Co., Ltd.	₩	(4,204)	16.60%	-	1,346



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### 13. Joint Operation

The joint operations as of December 31, 2023 and 2022 are summarized as follows:

Joint operation	Location	Main business	2023	2022
			Ownership (%)	Ownership (%)
FDH JV(*1)	Kuwait	Chemical plant	33.33	33.33
FDH JV(*2)	Kuwait	Chemical plant	20.00	20.00

(\*1) The Group holds a significant joint operation 'FDH JV' as of December 31, 2023 and 2022. FDH JV is a joint operation that the main purpose of arrangement is construction of Clean Fuels Project MAB2 EPC PKG ordered by Kuwait National Petroleum Group. The Group recognizes the assets and liabilities relating to its interest in a joint operation and recognizes revenues and expenses relating to its interest in a joint operation.

(\*2) The Group holds a significant joint operation 'FDH JV' as of December 31, 2023 and 2022. FDH JV is a joint operation that the main purpose of arrangement is construction of Al Zour Refinery Project Package 2 & 3 EPC PKG ordered by Kuwait Integrated Petroleum Industries Group. The Group recognizes the assets and liabilities relating to its interest in a joint operation and recognizes revenues and expenses relating to its interest in a joint operation.

### 14. Financial Assets measured at fair value

(1) Financial assets measured at FVOCI as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

<i>(In millions of won)</i>		2023	2022
		Non-current	Non-current
<b>Unlisted equity securities:</b>			
Korea Defense Industry Association(*)	₩	1,738	1,738

(\*) Unless otherwise noted, the carrying amounts of unlisted equity securities were recorded at their acquisition cost since their fair values cannot be reliably estimated.

(2) Financial assets measured at FVTPL as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

(In millions of won)

		2023	2022
		Non-current	Non-current
<b>Investments in capital(*):</b>			
Machinery Financial Cooperative	₩	5,998	4,998
Construction Guarantee Cooperative		2,539	2,539
Busan Marine Equipment Association		230	230
Fire Guarantee		20	20
Korea Marine Equipment Association		21	21
Korea Electric Engineers Association		8	-
	₩	8,816	7,808

(\*) Unless otherwise noted, the carrying amounts of Investments in capital were recorded at their acquisition cost since their fair values cannot be reliably estimated.

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**15. Investment Property**

(1) Changes in investment property for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		<b>2023</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 476	982	1,458
Reclassification	-	-	-
Depreciation	-	(40)	(40)
Ending balance	₩ 476	942	1,418

(In millions of won)

		<b>2022</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 476	3,633	4,109
Reclassification	-	(2,612)	(2,612)
Depreciation	-	(39)	(39)
Ending balance	₩ 476	982	1,458

(2) Investment properties as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		<b>2023</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Acquisition cost	₩ 476	2,226	2,702
Accumulated depreciation	-	(1,284)	(1,284)
Ending balance	₩ 476	942	1,418

(In millions of won)

		<b>2022</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Acquisition cost	476	2,226	2,702
Accumulated depreciation	-	(1,244)	(1,244)
Ending balance	₩ 476	982	1,458

(3) Revenue and expense from investment property for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		<b>2023</b>	<b>2022</b>
Rental income	₩	19	7
Operating and maintenance expense arising from investment property that generated rental income		54	54

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**15. Investment Property, Continued**

(4) Fair values from investment property as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		<b>2023</b>	<b>2022</b>
Land	₩	857	935
Buildings		1,877	2,330
		<u>2,734</u>	<u>3,265</u>

The fair value of investment property was determined by external, independent appraiser, having appropriate recognized professional qualifications and experience in relation to the assessment of real estate in the Republic of Korea. The valuation is achieved by using comparison methods to obtain the economic value based on marketability of the property. The Group calculated fair value considering changes in the standard market price such as individual Publicly assessed land price after previous evaluation date in order to estimate the fair value of investment property as of December 31, 2023.

**16. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<b>2023</b>						
				<b>Machinery and equipment</b>	<b>Construction in-progress</b>	<b>Others</b>	<b>Total</b>
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>				
Beginning balance	₩ 3,141,480	1,044,353	834,658	538,975	298,276	379,661	6,237,403
Acquisitions(*)	3,048	9,119	4,621	240,441	122,720	108,320	488,269
Conversions	2	58,908	39,577	13,443	(130,045)	8,638	(9,477)
Disposals	(832)	(64)	(927)	(2,102)	-	(394)	(4,319)
Depreciation	-	(41,808)	(31,999)	(107,808)	-	(71,534)	(253,149)
Changes in scope of consolidation	-	-	-	307	-	1,261	1,568
Impairment	-	(1,183)	(1,314)	(4,590)	-	(1,140)	(8,227)
Ending balance	₩ <u>3,143,698</u>	<u>1,069,325</u>	<u>844,616</u>	<u>678,666</u>	<u>290,951</u>	<u>424,812</u>	<u>6,452,068</u>

(\*) The amount of expenditures related to the acquisition of construction in-progress is ₩104,973 million for the year ended December 31, 2023.

(In millions of won)

	<b>2022</b>						
				<b>Machinery and equipment</b>	<b>Construction in-progress</b>	<b>Others</b>	<b>Total</b>
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>				
Beginning balance	₩ 3,141,860	1,057,183	826,615	505,589	107,517	347,491	5,986,255
Acquisitions(*)	-	2,169	5,589	121,460	263,754	96,694	489,666
Conversions	-	15,638	34,197	14,169	(72,995)	6,179	(2,812)
Disposals	(380)	(301)	(41)	(4,188)	-	(1,833)	(6,743)
Depreciation	-	(40,259)	(30,951)	(97,641)	-	(66,265)	(235,116)
Changes in scope of consolidation	-	11,489	2,182	320	-	46	14,037
Impairment	-	(1,566)	(2,933)	(734)	-	(2,651)	(7,884)
Ending balance	₩ <u>3,141,480</u>	<u>1,044,353</u>	<u>834,658</u>	<u>538,975</u>	<u>298,276</u>	<u>379,661</u>	<u>6,237,403</u>

(\*) The amount of expenditures related to the acquisition of construction in-progress is ₩263,990 million for the year ended December 31, 2022.

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**16. Property, Plant and Equipment, Continued**

(2) Property, plant and equipment as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023					
		Machinery and equipment					Total
		Land	Buildings	Structures	Construction in-progress	Others	
Acquisition cost	₩	3,143,698	2,003,276	1,614,566	3,212,528	290,951	12,107,107
Accumulated depreciation		-	(863,122)	(646,675)	(2,446,197)	-	(5,293,823)
Accumulated impairment		-	(70,829)	(123,275)	(87,665)	-	(361,216)
Ending balance	₩	<u>3,143,698</u>	<u>1,069,325</u>	<u>844,616</u>	<u>678,666</u>	<u>424,812</u>	<u>6,452,068</u>

(In millions of won)

		2022					
		Machinery and equipment					Total
		Land	Buildings	Structures	Construction in-progress	Others	
Acquisition cost	₩	3,141,480	1,935,437	1,573,354	3,015,438	298,276	11,736,604
Accumulated depreciation		-	(821,438)	(616,727)	(2,392,057)	-	(5,139,916)
Accumulated impairment		-	(69,646)	(121,969)	(84,406)	-	(359,285)
Ending balance	₩	<u>3,141,480</u>	<u>1,044,353</u>	<u>834,658</u>	<u>538,975</u>	<u>379,661</u>	<u>6,237,403</u>

(3) Construction-in-progress is mainly related to the expansion of plant facilities as of December 31, 2023.

(4) Impairment losses

The Group evaluated impairment loss for CGU which has an indication of impairment, so that an impairment loss was recognized in the amount of ₩5,887 million (₩5,386 million in 2022) for property, plant and equipment for the year ended December 31, 2023. The estimated recoverable amount by impairment testing is fair value less costs to sell of the individual assets, which is expected negotiated sales amount or appraised value. Appraised value corresponds to fair value, which is evaluated based on valuation methods, such as "publicly assessed land price", "sales comparison approach", and others.

In addition, the Group assessed the impairment of property, plant and equipment without plans for use and recognized an impairment loss of ₩2,340 million for the year ended December 31, 2023. The Group evaluated impairment loss caused by damage of typhoon and others, and an impairment loss was recognized in the amount of ₩2,498 million for property, plant and equipment for the year ended December 31, 2022.

Based on the input variables used in valuation methods, the fair value measurements of property, plant and equipment without plans for use are classified as Level 3 fair value. The valuation methods and input variables used in measuring fair values are as follows:

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**16. Property, Plant and Equipment, Continued**

(4) Impairment losses, continued

<b>Valuation method</b>	<b>Significant but unobservable input variables</b>	<b>Correlation between the main unobservable variable and fair value</b>
Publicly assessed land price	Time adjustment (Rate of changes in land value)	If flexibility of land value increases (decreases), then fair value increases (decreases).
	Regional contribution	If regional contribution increases (decreases), then fair value increases (decreases).
	Individual contribution	If the adjusted value of terms of residential lot and others increases (decreases), then fair value increases (decreases).
	Other contributions	If the adjusted value of the level of land value and others increases (decreases), then fair value increases (decreases).
Cost method	Changes in prices of raw materials, other materials, wages, and others	If the prices of raw materials and others increases (decreases), then fair value increases (decreases).
	Status of maintenance, management and others	If the status of maintenance, management and others is good (bad), then fair value increases (decreases).
Sales comparison approach	Sales comparisons of the object same or similar value formation factors with the target object	The price of target object is calculated through the process of information normalization, time adjustment, and value formation factors comparison according to the status of the target object.

The Group tests for goodwill impairment on CGU annually. The Group, in principle, defines the business unit as CGU, and determines whether it is impaired by evaluating the value in use of the independent CGU. The recoverable amount of each business unit is reasonably estimated by the Group, and is derived through DCF (Discounted Cash Flow) using estimated cash flow before tax based on the five-year business plan approved by the management.

The discount rate and permanent growth rate, which are basically used when testing for impairment on CGU were calculated by taking into account the market environment, and applying the average value of the long-term observation period.

Discount rate applied 7.86~8.84% (8.13%~8.88% in 2022), and the pre-tax discount rate applied 8.31%~9.26%. Cash flows after the estimated period were estimated by applying a 1% growth rate (1% in 2022). All other assumptions are the same as disclosed as of December 31, 2022. If there are subsequent changes in major assumptions, an impairment loss may occur.

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**16. Property, Plant and Equipment, Continued**

(5) Land revaluation

The Group applied revaluation model on land and for the year ended December 31, 2020 the Group revalued land by using the value which independent and expertise appraisal institution. The appraisal institution valued land price based on the publicly assessed land price with adjustments and reviewed reasonableness of revaluation amount by comparing appraised results with the estimated price based on recent market transactions among the independent third parties.

Book values of land assessed by revaluation model and cost model as of December 31, 2023 are as follows:  
(In millions of won)

		2023	
		Revaluation model	Cost model
Land	₩	3,143,698	1,959,089

Based on the input variables used in the valuation method, the fair value measurement of land is classified as level 3 fair value based on the input variables used in the valuation techniques. The valuation method and input variables used in measuring fair value of land are as follows:

Valuation method	Significant but unobservable input variables	Correlation between the main unobservable variable and fair value
Publicly assessed land price	Time adjustment (Rate of changes in land value)	If flexibility of land value increases (decreases), then fair value increases (decreases).
	Regional contribution	If regional contribution increases (decreases), then fair value increases (decreases).
	Individual contribution	If the adjusted value of terms of residential lot and others increases (decreases), then fair value increases (decreases).
	Other contributions	If the adjusted value of the level of land value and others increases (decreases), then fair value increases (decreases).

(6) Temporarily idle property, plant and equipment

The carrying amounts of temporarily idle property, plant and equipment in naval & special ship business are ₩310 million as of December 31, 2023.

The carrying amounts of temporarily idle property, plant and equipment in offshore business are ₩107,103 million as of December 31, 2022.

(7) The details of property, plant and equipment provided as collateral for loans as of December 31, 2023 are as follows:

(In millions of won)		2023			
Collateral for loans		Carrying amount	Provided amount	Related liabilities	Related amount
Buildings	₩	10,706	10,800	Long-term borrowings	9,000
					KEB Hana Bank

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**17. Right-of-use Assets and Lease Liabilities**

(1) Changes in right-of-use assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023				
		Land	Machinery and equipment	Buildings	Others	Total
Beginning balance	₩	15,167	24,750	199	3,274	43,390
Additions		2,738	4,765	-	1,552	9,055
Termination/Cancellation		(12)	(201)	-	-	(213)
Depreciation		(3,829)	(8,428)	(149)	(2,408)	(14,814)
Ending balance	₩	<u>14,064</u>	<u>20,886</u>	<u>50</u>	<u>2,418</u>	<u>37,418</u>

(In millions of won)

		2022				
		Land	Machinery and equipment	Buildings	Others	Total
Beginning balance	₩	13,081	3,261	-	1,564	17,906
Additions		5,082	26,320	224	3,221	34,847
Termination/Cancellation		-	-	-	(80)	(80)
Conversions		-	973	-	-	973
Depreciation		(4,009)	(5,804)	(25)	(1,431)	(11,269)
Changes in scope of consolidation		1,013	-	-	-	1,013
Ending balance	₩	<u>15,167</u>	<u>24,750</u>	<u>199</u>	<u>3,274</u>	<u>43,390</u>

(2) Right-of-use assets as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023				
		Land	Buildings	Machinery and equipment	Others	Total
Acquisition cost	₩	18,501	30,120	224	5,572	54,417
Accumulated depreciation		(4,437)	(9,234)	(174)	(3,154)	(16,999)
Ending balance	₩	<u>14,064</u>	<u>20,886</u>	<u>50</u>	<u>2,418</u>	<u>37,418</u>

(In millions of won)

		2022				
		Land	Buildings	Machinery and equipment	Others	Total
Acquisition cost	₩	19,312	30,472	224	4,861	54,869
Accumulated depreciation		(4,145)	(5,722)	(25)	(1,587)	(11,479)
Ending balance	₩	<u>15,167</u>	<u>24,750</u>	<u>199</u>	<u>3,274</u>	<u>43,390</u>

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**17. Right-of-use Assets and Lease Liabilities, Continued**

(3) Lease liabilities as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Current lease liabilities	₩	12,077	13,174
Non-current lease liabilities		27,009	31,277
	₩	<u>39,086</u>	<u>44,451</u>

(4) Details of the timing of the cash outflow the lease liabilities under contract as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>			
		<b>Carrying amount</b>	<b>Contractual Cashflow (*)</b>	<b>Less than 1 year</b>	<b>More than 3 years</b>
				<b>1~3 years</b>	
Lease liabilities	₩	39,086	41,687	12,083	19,791
					9,813

(\*) Undiscounted lease payments

<i>(In millions of won)</i>		<b>2022</b>			
		<b>Carrying amount</b>	<b>Contractual Cashflow (*)</b>	<b>Less than 1 year</b>	<b>More than 3 years</b>
				<b>1~3 years</b>	
Lease liabilities	₩	44,451	45,972	13,521	17,505
					14,946

(\*) Undiscounted lease payments

(5) Expenses recognized in profit or loss related to leases for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Depreciation on right-of-use assets(*):	₩	14,814	11,269
Interest expense on lease liabilities		1,123	720
Short-term lease payment(*)		20,023	9,419
Payments for leases of low-value assets not short-term lease(*)		124	81

(\*) Included in cost of sales and selling, general and administrative expenses.

The total cash outflows related to leases for the years ended December 31, 2023 and 2022 are amounting to ₩34,751 million and ₩19,501 million.



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**18. Intangible Assets**

(1) Changes in development costs for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023		
		Development costs	Others(*2)	Total
Beginning balance	₩	58,559	41,906	100,465
Acquisition		34,366	1,328	35,694
Reclassification		(4,843)	321	(4,522)
Amortization		(9,206)	(861)	(10,067)
Changes in scope of consolidation		77	-	77
Impairment (*1)		(13,227)	-	(13,227)
Ending balance	₩	65,726	42,694	108,420

(\*1) Impairment loss of development costs was recognized for the year ended December 31, 2023.

(\*2) As of December 31, 2023, other intangible assets include abyss engineering tank and intangible assets with indefinite useful lives, the carrying amounts of which is ₩31,101 million.

(In millions of won)

		2022		
		Development costs	Others (*2)	Total
Beginning balance	₩	36,635	42,823	79,458
Acquisition		29,239	435	29,674
Disposal and others		-	(771)	(771)
Amortization		(7,272)	(581)	(7,853)
Impairment (*1)		(43)	-	(43)
Ending balance	₩	58,559	41,906	100,465

(\*1) Impairment loss of development costs was recognized for the year ended December 31, 2022.

(\*2) As of December 31, 2022, other intangible assets include abyss engineering tank and intangible assets with indefinite useful lives, the carrying amounts of which is ₩31,101 million.

(2) Intangible assets as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023		
		Development costs	Others	Total
Acquisition cost	₩	108,315	46,233	154,548
Accumulated amortization		(28,821)	(1,771)	(30,592)
Accumulated impairment		(13,768)	(1,768)	(15,536)
Ending balance	₩	65,726	42,694	108,420

(In millions of won)

		2022		
		Development costs	Others	Total
Acquisition cost	₩	77,982	44,584	122,566
Accumulated amortization		(18,882)	(910)	(19,792)
Accumulated impairment		(541)	(1,768)	(2,309)
Ending balance	₩	58,559	41,906	100,465

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**18. Intangible Assets, Continued**

- (3) Details of research and development costs and ordinary development costs and development cost amortization included in intangible asset for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

			<b>2023</b>	<b>2022</b>
Research and development costs	Selling, general and administrative expenses	₩	3,242	3,386
	Government grants		-	(150)
		₩	<u>3,242</u>	<u>3,236</u>
Ordinary development costs	Selling, general and administrative expenses	₩	83,967	71,266
	Government grants		(972)	(38)
		₩	<u>82,995</u>	<u>71,228</u>
Development cost amortization	Manufacturing costs	₩	9,046	7,217
	Selling, general and administrative expenses		160	55
		₩	<u>9,206</u>	<u>7,272</u>

**19. Emissions rights and Liabilities**

- (1) The Group participated in the *Act on Allocation and Trading of Greenhouse Gas Emission* from 2015. One planning period spans from 2021 to 2025. The quantities of emission rights which are allocated free of charge during the planning period are as follows:

(In ton)	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Total</b>
Allocated emission right free of charge	514,508	530,744	526,160	521,120	521,120	2,613,652

- (2) Changes in emissions rights for the years ended December 31, 2023 and 2022 are as follows:

(In ton)

	<b>Emissions Rights Quantity of 2023</b>				
	<b>2021</b>	<b>2022</b>	<b>2023(*1)</b>	<b>2024</b>	<b>2025</b>
Beginning balance and free allocation quantity(*2)	714,166	653,522	595,473	521,120	521,120
Purchase(disposal)	(61,389)	(34,657)	-	-	-
Governmental proposition	(529,999)	(549,552)	-	-	-
Borrowing(carry forward)	(122,778)	(69,313)	-	-	-
Reclassification	-	-	-	-	-
Ending Balance	<u>-</u>	<u>-</u>	<u>595,473</u>	<u>521,120</u>	<u>521,120</u>

(\*1) Governmental proposition, purchase (disposal), borrowing (carry forward) and quantity of 2023 will be decided in the next year.

(\*2) The initial free allocation quantity after considering additions and deallocations.

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**19. Emissions rights and Liabilities, Continued**

(2) Changes in emissions rights for the years ended December 31, 2023 and 2022 are as follows, continued:

(In ton)	Emissions Rights Quantity of 2022				
	2021	2022(*1)	2023	2024	2025
Beginning balance and free allocation quantity(*2)	714,166	649,541	526,763	521,830	521,830
Purchase(disposal)	(61,389)	-	-	-	-
Governmental proposition	(529,999)	-	-	-	-
Borrowing(carry forward)	(122,778)	-	-	-	-
Reclassification	-	-	-	-	-
Ending Balance	-	649,541	526,763	521,830	521,830

(\*1) Governmental proposition, purchase (disposal), borrowing (carry forward) and quantity of 2022 will be decided in the 2023.

(\*2) The initial free allocation quantity after considering additions and deallocations.

(3) As of December 31, 2023 and 2022, there are no emission rights provided as collateral.

(4) The Group's GHG emissions estimate for the current year is 639,429 tons.

**20. Short-term and Long-term Financial Liabilities**

Short-term and long-term financial liabilities as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)	2023		2022	
	Current	Non-current	Current	Non-current
Borrowings	₩ 960,379	859,000	1,384,655	285,730
Bonds	599,880	710,820	60,000	873,650
Discount on bonds	(228)	(877)	(23)	(356)
	₩ 1,560,031	1,568,943	1,444,632	1,159,024

**21. Trade and Other Payables**

Trade and other payables as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)	2023		2022	
	Current	Non-current	Current	Non-current
Trade payables	₩ 1,298,873	-	924,771	-
Other accounts payable	215,961	-	199,012	-
Accrued expenses	510,094	2,795	449,817	-
Deposits received	-	996	-	381
	₩ 2,024,928	3,791	1,573,600	381

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**22. Borrowings and Bonds**

(1) Short-term borrowings as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Type of borrowing	Lender	Annual Interest rate (%)	2023	2022
General loan	HSBC and others	5.13~5.14	₩ 110,000	100,000
General loan in foreign currency	FDH JV ZOR	5.00	13,750	13,547
Usance L/C	Kookmin Bank and others	3.58~6.38	314,279	104,918
			438,029	218,465
Current portion of long-term borrowings			522,350	1,166,190
			₩ 960,379	1,384,655

(2) Long-term borrowings as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Type of borrowing	Lender	Annual interest rate (%)	2023	2022
General loan	The Korea Development Bank and others	2.43~6.30	₩ 1,059,000	945,000
General loan in foreign currency	Industrial and Commercial Bank of China and others	7.15~7.53	322,350	506,920
			1,381,350	1,451,920
Current portion of long-term borrowings			(522,350)	(1,166,190)
			₩ 859,000	285,730

(3) Bonds as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Type of Bonds	Longest Maturity	Annual interest rate (%)	2023	2022
Secured bond(*)	2027-03-28	3.18~6.57	₩ 644,700	633,650
Debenture	2026-04-27	2.50~5.38	666,000	300,000
			1,310,700	933,650
Discount on bonds			(1,105)	(379)
Current portion of bonds			(599,880)	(60,000)
Current portion of discount on bonds			228	23
			₩ 709,943	873,294

(\*) The Group is provided with guarantees from financial institution issued for Secured bond.

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**22. Borrowings and Bonds, Continued**

- (4) Aggregate maturities of the Group's borrowings and bonds as of December 31, 2023 and 2022 are as follows:

(In millions of won)

Periods		2023		
		Borrowings	Bonds	Total
2024.01.01 ~ 2024.12.31	₩	960,379	599,880	1,560,259
2025.01.01 ~ 2028.12.31		859,000	710,820	1,569,820
	₩	1,819,379	1,310,700	3,130,079

(In millions of won)

Periods		2022		
		Borrowings	Bonds	Total
2023.01.01 ~ 2023.12.31	₩	1,384,655	60,000	1,444,655
2024.01.01 ~ 2027.12.31		285,730	873,650	1,159,380
	₩	1,670,385	933,650	2,604,035

- (5) Changes in liabilities arising from financing cash flows for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023			
		Borrowings	Bonds	Lease liabilities	Total
Beginning balance		₩ 1,670,385	933,271	44,451	2,648,107
Cash flows from	Borrowing	1,973,086	426,000	-	2,399,086
financing activities	Repayment	(1,822,524)	(60,000)	(13,801)	(1,896,325)
Non-cash flows	The effects of changes in foreign exchange rates	(1,568)	11,050	110	9,592
	Amortization of bond discounts	-	(726)	-	(726)
	Others	-	-	9,129	9,129
Cash flows from operating activities(*)		-	-	(803)	(803)
Ending balance		₩ 1,819,379	1,309,595	39,086	3,168,060

- (\*) Interest expense among the reduction of lease liabilities for the year ended December 31, 2023, is classified as cash flows from operating activities.

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**22. Borrowings and Bonds, Continued**

- (5) Changes in liabilities arising from financing cash flows for the years ended December 31, 2023 and 2022 are as follows, continued:

(In millions of won)

		2022			
		Borrowings	Bonds	Lease liabilities	Total
Beginning balance		₩ 2,663,513	802,247	18,798	3,484,558
Cash flows from	Borrowing	630,413	365,490	-	995,903
financing activities	Repayment	(1,653,136)	(265,970)	(9,637)	(1,928,743)
Non-cash flows	The effects of				
	changes in foreign				
	exchange rates	29,595	31,061	(230)	60,426
	Amortization of bond				
	discounts	-	443	-	443
	Others	-	-	34,858	34,858
Cash flows from					
operating activities(*)		-	-	(364)	(364)
Changes in scope of consolidation		-	-	1,026	1,026
Ending balance		₩ 1,670,385	933,271	44,451	2,648,107

(\*) Interest expense among the reduction of lease liabilities for the year ended December 31, 2022, is classified as cash flows from operating activities.

**23. Employee Benefits**

- (1) Defined contribution plans

Due to the implementation of the defined contribution plans in April 2022, the Group recorded contributions to financial institutions as current expenses. The cost recognized in profit or loss due to the defined contribution plans is ₩1,969 million for the year ended December 31, 2023 and ₩953 million for the year ended December 31, 2022.

- (2) Defined benefit plans

- (i) Recognized liabilities for defined benefit obligations as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023	2022
Present value of defined benefit obligations	₩	841,527	693,939
Other long-term benefits		31,478	28,462
		873,005	722,401
Fair value of plan assets(*)		(841,374)	(693,939)
Liabilities recognized under defined benefit plans	₩	31,631	28,462

(\*) The fair value of plan assets amounting to ₩225,638 million (₩237,982 million in 2022), exceeding the present value of defined benefit obligations, is recognized as defined benefit assets and the fair value of plan assets including excess reserve is ₩1,067,012 million (₩931,921 million in 2022) as of December 31, 2023(See Note 11).

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**23. Employee Benefits, Continued**

(2) Defined benefit plans, continued

(ii) Plan assets as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Retirement pension(*)	₩	1,066,294	931,076
Transfer to National Pension Fund		718	845
	₩	<u>1,067,012</u>	<u>931,921</u>

(\*) The retirement pension is invested in principal and interest guaranteed instruments, principal guaranteed instruments, and funds with bonds mixed as of December 31, 2023.

(iii) Expenses recognized in profit or loss for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Current service costs	₩	70,254	68,389
Past service costs		-	(4,024)
Interest on obligations		36,085	23,604
Expected return on plan assets		(49,263)	(25,394)
	₩	<u>57,076</u>	<u>62,575</u>

For the years ended December 31, 2023 and 2022, amounting to ₩981 million and ₩3,527 million were incurred, respectively, as additional retirement benefits.

(iv) Changes in the liabilities related to employee benefits for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Beginning balance	₩	722,401	813,842
Current service costs		70,254	68,389
Past service costs		-	(4,024)
Interest cost		36,085	23,604
Benefits paid(*)		(103,731)	(113,789)
Transfers from (to) related parties		3,119	1,158
Transfers of business		(533)	-
Changes in scope of consolidation		14,165	-
Actuarial gains and losses			
Population statistical assumption		-	2,728
Financial assumption		67,196	(120,196)
Experience adjustment		64,049	50,689
Ending balance	₩	<u>873,005</u>	<u>722,401</u>

(\*) Among the benefits paid, the amount of the unpaid is amounting to ₩3,605 million which will be paid in January, 2024.

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**23. Employee Benefits, Continued**

(2) Defined benefit plans, continued

(v) Changes in the fair value of plan assets for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Beginning balance	₩	931,921	806,996
Benefits paid		(73,867)	(92,574)
Contributions paid into the plan		142,639	200,813
Expected return on plan assets		49,263	25,394
Actuarial gains and losses		1,605	(8,726)
Changes in scope of consolidation		15,451	18
Ending balance	₩	<u>1,067,012</u>	<u>931,921</u>

The Group reviews the level of the fund each year and takes the policy to preserve fund in the event of a loss to the fund. The Group expects to pay ₩78,743 million and ₩61,992 million in contributions to its defined benefit plans in next year, as of December 31, 2023 and 2022, respectively.

(vi) Expected payment date of the defined benefit obligations as of December 31, 2023 is as follows:

<i>(In millions of won)</i>		<b>2024.01.01 ~ 2024.12.31</b>	<b>2025.01.01 ~ 2028.12.31</b>	<b>2029.01.01 ~ 2033.12.31</b>	<b>2034.01.01 ~</b>	<b>Total</b>
Expected payment	₩	32,944	283,821	378,028	2,250,962	2,945,755

(vii) Principal actuarial assumptions as of December 31, 2023 and 2022 are as follows:

<i>(In percentage)</i>	<b>2023</b>	<b>2022</b>
Discount rate	4.41~4.56	5.31~5.34
Future salary growth	3.04~4.85	3.03
Future mortality (Males, at age 45)	0.18	0.18

(viii) Weighted average durations of the defined benefit obligations as of December 31, 2023 and 2022 are as follows:

<i>(In years)</i>	<b>2023</b>	<b>2022</b>
Weighted average duration	10.24	10.12

(ix) Reasonably possible changes as of December 31, 2023 and 2022 to each relevant actuarial assumption would have affected the defined benefit obligation by the amounts shown below.

<i>(In millions of won)</i>		<b>2023</b>		<b>2022</b>	
		<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
Discount rate (1% movement)	₩	(72,862)	84,731	(58,672)	68,190
Future salary growth (1% movement)		76,025	(67,007)	61,570	(54,207)



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**24. Provisions**

(1) Changes in provisions for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		<b>2023</b>				
		<b>Provision for construction losses</b>	<b>Provision for construction warranty</b>	<b>Provision for product warranty</b>	<b>Other provisions(*1)</b>	<b>Total</b>
Beginning balance	₩	108,761	382,841	65,602	623,473	1,180,677
Additions		13,094	66,043	60,796	16,675	156,608
Reversals		(116,659)	(272,973)	(4,137)	(39,528)	(433,297)
Utilization		-	(63,411)	(26,110)	(596,812)	(686,333)
Others(*2)		14,567	-	(308)	-	14,259
Ending balance	₩	<u>19,763</u>	<u>112,500</u>	<u>95,843</u>	<u>3,808</u>	<u>231,914</u>

(\*1) As of December 31, 2023, other provisions consist of ₩3,808 million in provisions related to ordinary wage lawsuit.

(\*2) For the year ended December 31, 2023, this is the effect of changes in impairment losses previously recognized for assets related to onerous contracts.

(In millions of won)

		<b>2022</b>				
		<b>Provision for construction losses</b>	<b>Provision for construction warranty</b>	<b>Provision for product warranty</b>	<b>Other provisions(*1)</b>	<b>Total</b>
Beginning balance	₩	229,827	406,602	76,862	584,262	1,297,553
Additions		56,622	56,736	31,418	39,211	183,987
Reversals		(198,787)	(17,145)	(21,763)	-	(237,695)
Utilization		-	(63,352)	(20,915)	-	(84,267)
Others(*2)		21,099	-	-	-	21,099
Ending balance	₩	<u>108,761</u>	<u>382,841</u>	<u>65,602</u>	<u>623,473</u>	<u>1,180,677</u>

(\*1) As of December 31, 2022, other provisions consist of ₩583,945 million in provisions related to ordinary wage lawsuit and ₩39,528 million in provisions related to construction obligation.

(\*2) For the year ended December 31, 2022, this is the effect of changes in impairment losses previously recognized for assets related to onerous contracts.

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**24. Provisions, Continued**

(2) Provisions as of December 31, 2023 and 2022 are as follows:

(In millions of won)

(In millions of won)

	2023				
	Provision for construction losses	Provision for construction warranty	Provision for product warranty	Other provisions	Total
Current	₩ 19,763	89,937	66,938	3,808	180,446
Non-current	-	22,563	28,905	-	51,468
	₩ 19,763	112,500	95,843	3,808	231,914

(In millions of won)

(In millions of won)

	2022				
	Provision for construction losses	Provision for construction warranty	Provision for product warranty	Other provisions	Total
Current	₩ 108,761	126,366	42,328	623,473	900,928
Non-current	-	256,475	23,274	-	279,749
	₩ 108,761	382,841	65,602	623,473	1,180,677

**25. Derivative Financial Instruments**

The Group has entered into derivative instrument contracts related to foreign currency forwards with KEB Hana Bank and other 17 banks for hedge the changes in foreign exchange rates. Derivatives are measured at fair values by using forward exchange rates presented by the contract counterparty. The details of assessment and gains or losses of transaction for the year ended December 31, 2023 are as follows:

(1) The description of derivative instrument and hedge accounting is as follows:

<b>Hedge accounting</b>	<b>Type</b>	<b>Description</b>
Fair value hedge	Foreign exchange forward contracts	Hedge of the risk of changes in the fair value of firm commitments
Cash flow hedge	Foreign exchange forward contracts	Hedge of the variability in cash flows attributable to foreign currency exposure in respect of forecast purchases
	Foreign exchange swap contracts	Hedge of the variability in cash flows attributable to foreign currency liabilities in respect of interest rate and exchange rate

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**25. Derivative Financial Instruments, Continued**

(2) Terms of derivative contracts as of December 31, 2023 are as follows:

(In millions of won and in thousands of foreign currency)

Description	Type	Currency		Contract amount	Weighted average exchange rate (In won)	Average maturities	Number of contracts
		Sell	Buy				
Fair value hedge	Foreign exchange forward contracts	USD	KRW	13,662,625 ₩	1,243.74	2025-06-07	6,219
Cash flow hedge	Foreign exchange forward contracts	USD	GBP	20,600	1.24	2025-11-14	2
	Foreign exchange swap contracts	KRW	USD	896,123	1,194.83	2025-07-11	7

- Terms of settlement: Netting the settlement or collecting total.
- The contract amount is denominated in selling currency.

(3) Book values related to derivatives as of December 31, 2023 are as follows:

(In millions of won)

Description	Type		Derivatives				Firm commitment			
			Assets		Liabilities		Assets		Liabilities	
			Non-current		Non-current		Non-current		Non-current	
			Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Fair value hedge	Foreign exchange forward contracts	₩	49,160	180,945	305,812	107,085	197,198	104,451	49,650	180,945
Cash flow hedge	Foreign exchange forward contracts		-	747	-	-	-	-	-	-
	Foreign exchange swap contracts		55,328	10,203	734	-	-	-	-	-
		₩	104,488	191,895	306,546	107,085	197,198	104,451	49,650	180,945

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**25. Derivative Financial Instruments, Continued**

- (4) Gains and losses on the valuation and transaction of derivatives for the year ended December 31, 2023 are as follows:

(In millions of won)

Description	Type	Sales	Cost of sales	Finance income	Finance costs	Other non-operating income	Other non-operating expenses	Other comprehensive income (loss) (before tax)
Fair value hedge	Foreign exchange forward contracts	₩ (501,905)	-	172,372	649,644	543,997	134,909	-
Cash flow hedge	Foreign exchange forward contracts	-	(67)	-	-	-	-	1,382
	Foreign exchange swap contracts	-	-	20,785	1,993	-	-	(15,158)
For trading	Foreign exchange forward contracts	-	-	904	2,746	-	-	-
		₩ (501,905)	(67)	194,061	654,383	543,997	134,909	(13,776)

For the year ended December 31, 2023, the Group applies cash flow hedge accounting, for which the Group accounted the effective portion of the hedge amounting to (-)₩10,299 million, net of tax of ₩3,477 million, as a loss on valuation of derivatives in accumulated other comprehensive income.

The maximum expected period of exposure to cash flow risk, where the cash flow hedge accounting is applied, is approximately 39 months as of December 31, 2023.

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**26. Common stock and Capital Surplus**

(1) Common stock

Common stock as of December 31, 2023 and 2022 is as follows:

<i>(In won, In shares)</i>	<b>2023</b>	<b>2022</b>
Authorized shares	160,000,000	160,000,000
Par value per share ₩	5,000	5,000
Issued shares	88,773,116	88,773,116

(2) Capital surplus

Capital surplus as of years December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>	<b>2023</b>	<b>2022</b>
Paid-in capital in excess of par value by split-off in June, 2019	₩ 4,641,671	4,641,671
Paid-in capital in excess of par value by capital increase in September, 2021	990,000	990,000
Other capital surplus by transfers of business in May, 2023	4,732	-
Other capital surplus by transfers of business in August, 2023	1,169	-
Capital transaction and others in Group	436	-
Deduction : Establishment costs of corporation in June, 2019	(1,729)	(1,729)
Deduction : New stock issue costs of capital increase in September, 2021	(11,577)	(11,577)
Deduction : Tax effect of transfers of business in 2023	(1,475)	-
Appropriations of retained earnings	(2,500,000)	(2,500,000)
<b>Total</b>	<b>₩ 3,123,227</b>	<b>3,118,365</b>

(3) Dividends

The Group has no dividends paid for the years ended December 31, 2023 and 2022.

**27. Capital adjustments**

Capital adjustments as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>	<b>2023</b>	<b>2022</b>
Repayment of hybrid bonds	₩ (1,411)	(1,411)
Acquisition of subsidiary	(232)	(232)
	<b>₩ (1,643)</b>	<b>(1,643)</b>

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**28. Accumulated Other Comprehensive Income**

(1) Accumulated other comprehensive income as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<u>2023</u>	<u>2022</u>
Changes in fair value of financial assets measured at FVOCI	₩	(11)	(11)
Effective portion of changes in fair value of cash flow hedges		(4,038)	6,261
Revaluation of property, plant and equipment		875,924	875,579
Exchange differences on translating foreign operations		(2,729)	-
	₩	<u>869,146</u>	<u>881,829</u>

(2) Other comprehensive income (loss) for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<u>2023</u>		
		<u>Before tax amount</u>	<u>Tax effect</u>	<u>After tax amount</u>
Effective portion of changes in fair value of cash flow hedges	₩	(13,776)	3,477	(10,299)
Actuarial gains and losses		(129,640)	32,001	(97,639)
Revaluation of property, plant and equipment		-	739	739
Exchange differences on translating foreign operations		(2,737)	-	(2,737)
	₩	<u>(146,153)</u>	<u>36,217</u>	<u>(109,936)</u>

<i>(In millions of won)</i>		<u>2022</u>		
		<u>Before tax amount</u>	<u>Tax effect</u>	<u>After tax amount</u>
Effective portion of changes in fair value of cash flow hedges	₩	579	(53)	526
Actuarial gains and losses		58,053	(14,746)	43,307
Revaluation of property, plant and equipment		-	2,228	2,228
Exchange differences on translating foreign operations		30	-	30
	₩	<u>58,662</u>	<u>(12,571)</u>	<u>46,091</u>

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## 29. Retained Earnings

Retained earnings as of December 31, 2023 and 2022 are as follows:

(In millions of won)		<u>2023</u>	<u>2022</u>
Unappropriated retained earnings	₩	772,844	845,403

## 30. Revenue

(1) Changes in outstanding contracts for the year ended December 31, 2023 are as follows:

(In millions of won)		<u>Shipbuilding</u>	<u>Offshore, Industrial Plant and Engineering</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩	25,860,230	1,672,583	5,645,370	33,178,183
Changes and others(*)		14,440,589	1,608,295	4,197,371	20,246,255
Sales recognized		(7,901,471)	(1,269,740)	(2,792,715)	(11,963,926)
Ending balance	₩	<u>32,399,348</u>	<u>2,011,138</u>	<u>7,050,026</u>	<u>41,460,512</u>

(\*) The changes include the impact from the changes due to fluctuations in the exchange rate of foreign currency contracts, cancellation of contracts, change of contract amount and others.

As of December 31, 2023, the Group provides certain amount of financial institution guarantee deposits or letters of guarantee from various financial institutions to the customers for bidding, performance, advance payment and warranty guarantees in connection with above construction contracts.

Periods when the ending balance is expected to be recognized as revenues are as follows:

(In millions of won)		<u>2024</u>	<u>2025</u>	<u>After 2026</u>	<u>Total</u>
Expected amount	₩	13,043,640	12,889,688	15,527,184	41,460,512

(2) Accumulated revenues of construction and others related to construction in progress as of December 31, 2023 are as follows:

(In millions of won)		<u>Accumulated revenue of construction</u>	<u>Accumulated cost of construction</u>	<u>Accumulated Profit (loss) of construction</u>	<u>Billed receivables on construction contracts</u>	<u>Contract asset</u>	<u>Contract liabilities</u>	<u>Provision for construction losses</u>
Shipbuilding	₩	7,539,274	7,212,755	326,519	185,065	2,866,022	4,423,562	14,428
Offshore, Industrial Plant and Engineering(*)		5,332,439	5,434,048	(101,609)	129,709	592,647	165,324	4,262
	₩	<u>12,871,713</u>	<u>12,646,803</u>	<u>224,910</u>	<u>314,774</u>	<u>3,458,669</u>	<u>4,588,886</u>	<u>18,690</u>

(\*) The accumulated revenue and cost of construction related to joint operation (FDH JV) are not included.

Among the receivables on construction contracts, the amount of retentions in accordance with the contract terms is amounting to ₩31,599 million.

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**30. Revenue, Continued**

- (2) Accumulated revenues of construction and others related to construction in progress as of December 31, 2023 are as follows, continued:

Heavy-tail payment plan is a major collection term in the Shipbuilding segment, and Offshore, Industrial Plant and Engineering segment mainly based on Progress and Milestone payment plan. Therefore, billed receivables on construction contracts and contract assets might be changed according to the progress of construction.

- (3) As of December 31, 2023, the information about significant construction contracts is as follows:

(In millions of won)

	Contract	Contract date	Contract due(*1)	Progress	Contract asset		Trade receivable	
					Total	Allowance for doubtful accounts	Total	Allowance for doubtful accounts
<b>Offshore, Industrial Plant and Engineering</b>	CFP	2014.04.13	2018.10.18	99.43%	₩ -	-	869	-
	ZOR	2015.10.13	2019.07.27	96.59%	2,024	-	24,043	-
	SHWE	2021.02.01	2024.04.01	88.73%	33,798	-	-	-
	FPSO Petrobras 78 Project	2021.05.08	2025.11.07	93.90%	540,221	-	-	-
	Shenandoah FPS Project	2021.08.05	2024.09.26	64.05%	-	-	12,765	-
	NASR 2	2014.07.08				(*2)		
	FPU Project 3407	2023.07.01	2027.04.01	3.56%	-	-	90,060	-
<b>Shipbuilding</b>	Shipbuilding PJT	2022.10.04	2026.06.30	0.80%	-	-	-	-

(\*1) For the project the construction deadline that has elapsed, some remaining works are in a progress after delivering the object or a consultation with the client to extent the construction period is still under negotiation.

(\*2) As there are contractual confidentiality obligations and the clients disagree with disclosing this information, the Group omits the related disclosures after reporting it to audit committee. As of December 31, 2023, the Group omitted the related disclosures for eight contracts. However, the date of contracts of NASR 2 are disclosed in securities registration statement, business report, investment prospectus, or important management matters, the Group has disclosed the related information.



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**30. Revenue, Continued**

(4) The effect of changes in estimated total contract cost and total contract revenue

(i) Effect of changes in total contract cost and total contract revenue

For the year ended December 31, 2023, the estimated total contract cost and total contract revenue for contracts in progress as of December 31, 2022 have changed. Effects on profit or loss for the current period and the future period, and the impact on contract assets and contract liabilities are as follows:

(In millions of won)

		Change of total contract revenue(*1)	Change of total estimated contract cost	Effect on profit or loss of contract			Change of contract assets	Change of contract liabilities
				Current period	Future period	Total		
Shipbuilding	₩	166,626	385,771	48,906	(268,051)	(219,145)	26,606	4,607
Offshore, Industrial Plant and Engineering(*2)		130,897	141,037	1,948	(12,088)	(10,140)	(9,382)	(1,603)
	₩	297,523	526,808	50,854	(280,139)	(229,285)	17,224	3,004

(\*1) Changes in entire contract revenue (including foreign currency fluctuation) are reflected because it is unable to distinguish total contract revenue changed directly by changes in total contract costs.

(\*2) The accumulated revenue and cost of construction related to joint operation (FDH JV) are not included.

Effects on profit or loss for the current period and future period is calculated based on the total contract cost and total contract revenue estimated on the basis of situations generated in current period, and these estimations could be changed by variation of situations in the future.

(ii) Sensitivity analysis of changes in estimated total contract cost

The amount of contract assets and contract liabilities affected by progress which is determined by accumulated cost incurred divided by estimated total contract cost. An estimated total contract cost is calculated based on an estimated material cost, labor cost and construction period, and has a variance risk related to exchange rate fluctuations, changes in steel prices and changes in production hours.

The Group has entered foreign currency forward contracts to hedge the risk related to exchange rate fluctuations, and hedges the risk related to changes of steel price in short period of time by entering steel purchase agreement by period. The risk and uncertainty related to production hours has been managed by department which is responsible for managing production hours. Effects on profit or loss of current period and future periods, contract assets and contract liabilities in case production hour changes 10% are as follows:

(In millions of won)

		Effect of profit or loss in current period		Effect of profit or loss in future period		Changes of contract assets		Changes of contract liabilities	
		10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
Shipbuilding	₩	(80,822)	70,259	(588,640)	599,202	(43,113)	44,122	15,368	(15,996)
Offshore, Industrial Plant and Engineering(*)		(4,484)	4,542	(18,360)	18,303	(173)	174	4,264	(4,325)
	₩	(85,306)	74,801	(607,000)	617,505	(43,286)	44,296	19,632	(20,321)

(\*) The accumulated revenue and cost of construction related to joint operation (FDH JV) are not included.

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**30. Revenue, Continued**

(5) Source of revenue

(In millions of won)

		<b>2023</b>	<b>2022</b>
Revenue from contracts with customers	₩	12,465,812	9,457,253
Investment property rentals		19	7
Hedging gains and losses		(501,905)	(411,780)
	₩	<u>11,963,926</u>	<u>9,045,480</u>

(6) Disaggregation of revenue from contracts with customers

Disaggregation of revenue from contracts with customers for the years ended December 31, 2023 and 2022 is as follows:

(In millions of won)

		<b>2023</b>	<b>2022</b>
<b>Major products/service lines</b>			
Shipbuilding	₩	8,269,139	6,793,577
Offshore, Industrial Plant and Engineering		1,331,730	787,446
Engine and Machinery		2,782,062	1,798,273
Others		82,900	77,964
	₩	<u>12,465,831</u>	<u>9,457,260</u>
<b>Primary geographical markets</b>			
Korea	₩	5,746,933	3,192,054
North America		486,236	92,201
Asia		3,126,854	3,454,214
Europe		2,895,092	1,835,572
Others		210,716	883,219
	₩	<u>12,465,831</u>	<u>9,457,260</u>
<b>Duration of contract</b>			
Short-term contract	₩	252,555	608,151
Long-term contract		12,213,276	8,849,109
	₩	<u>12,465,831</u>	<u>9,457,260</u>
<b>Timing of revenue recognition</b>			
Goods and services transferred at a point in time	₩	2,817,722	2,060,770
Goods and services transferred over time		9,648,109	7,396,490
	₩	<u>12,465,831</u>	<u>9,457,260</u>

(7) Contract balance

The information about receivables, contract assets and contract liabilities from contracts with customers as of December 31, 2023 and 2022 is as follows:

(In millions of won)

(In millions of won)	2023		2022	
	Current	Non-current	Current	Non-current
Trade receivables	₩ 1,723,735	279,046	1,495,383	316,995
Allowance for doubtful accounts	(624,616)	(118,343)	(617,794)	(151,542)
	₩ 1,099,119	160,703	877,589	165,453
Contract assets	₩ 3,458,669	-	3,180,080	-
Contract liabilities(*)	(5,811,350)	(10,278)	(4,743,248)	-

(\*) The amount of ₩2,536,191 million included in contract liabilities (₩4,743,248 million) as of December 31, 2022 has been recognized as revenue for the year ended December 31, 2023.

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**30. Revenue, Continued**

(8) Cost to fulfill a contract recognized as an asset

The Group pays commission fees in relation to the contract, in accordance with K-IFRS No.1115, which is the incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Commission fees that are expected to be recovered from the customers are recognized as costs to fulfill contract assets and amortized to reflect the progress of the construction.

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Beginning balance	₩	106,298	73,029
Increase		63,586	59,679
Amortization(*)		(61,278)	(47,509)
Reversal		14,567	21,099
Ending balance	₩	123,173	106,298

(\*) It is amortized in the same way that the controls over involved goods or services are transferred to the customer.

**31. Operating Segments**

The Group has the following four strategic divisions, which are its reportable segments. These strategic operating units offer different products and services and are managed separately because they require different technology and marketing strategies. The chief executive officer (CEO) reviews internal reports of each strategic operating unit at least quarterly.

- (i) Shipbuilding: Manufacturing and sale of VLCCs, containerships, P/C ships, LNG carriers, warships and others
- (ii) Offshore, Industrial Plant and Engineering: Manufacturing and installation of offshore facilities, floating units, co-generating power plants, and processing equipment
- (iii) Engine and Machinery: Manufacturing and sale of engines for ships, diesel power plants, industrial and marine pumps and hydraulic machinery
- (iv) Others: Operating performing arts center, leisure sports facilities and others.

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**31. Operating Segments, Continued**

- (1) The financial performance of each reportable segment for the years ended December 31, 2023 and 2022 is as follows:

(In millions of won)

		2023			
		Inter-segment revenue	Operating Profit (loss)	Profit (loss) for the year	Depreciation(*1)
	Sales				
Shipbuilding	₩ 7,901,471	-	148,787	156,511	150,253
Offshore and Industrial Plant Engineering	1,269,740	-	(37,208)	(16,194)	23,237
Engine and Machinery	2,739,542	(29,727)	286,311	248,859	66,657
Others	116,120	(33,220)	(219,449)	(365,371)	37,923
Consolidation adjustments(*2)	(62,947)	62,947	199	884	-
	₩ 11,963,926	-	178,640	24,689	278,070

(\*1) Depreciation on the property, plant and equipment, the investment property and the right-of-use assets, and amortization for the year ended December 31, 2023 is included.

(\*2) Consolidation adjustments are intercompany transactions within operating segments, the elimination of intercompany transactions, equity method valuation for investments in associate and others.

(In millions of won)

		2022			
		Inter-segment revenue	Operating Profit (loss)	Profit (loss) for the year	Depreciation(*1)
	Sales				
Shipbuilding	₩ 6,467,204	-	(123,567)	(48,225)	135,578
Offshore and Industrial Plant Engineering	785,281	(53)	(152,718)	(175,578)	22,909
Engine and Machinery	1,741,067	(25,983)	171,197	151,354	63,557
Others	77,964	-	(183,861)	(279,628)	32,233
Consolidation adjustments(*2)	(26,036)	26,036	(202)	12	-
	₩ 9,045,480	-	(289,151)	(352,065)	254,277

(\*1) Depreciation on the property, plant and equipment, the investment property and the right-of-use assets, and amortization for the year ended December 31, 2022 is included.

(\*2) Consolidation adjustments are intercompany transactions within operating segments, the elimination of intercompany transactions, equity method valuation for investments in associate and others.

- (2) Assets and liabilities of each reportable segment as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023	
		Total assets	Total liabilities
Shipbuilding	₩	6,495,250	6,338,739
Offshore and Industrial Plant Engineering		634,804	650,998
Engine and Machinery		2,164,932	1,863,823
Others		7,934,494	3,100,855
Consolidation adjustments		(95,862)	(28,237)
	₩	17,133,618	11,926,178

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**31. Operating Segments, Continued**

- (2) Assets and liabilities of each reportable segment as of December 31, 2023 and 2022 are as follows, continued:

(In millions of won)

		2022	
		Total assets	Total liabilities
Shipbuilding	₩	5,533,895	5,582,120
Offshore and Industrial Plant Engineering		1,074,837	1,250,665
Engine and Machinery		1,525,200	1,345,165
Others		8,213,726	2,852,687
Consolidation adjustments		(58,260)	(29,058)
	₩	16,289,398	11,001,579

**32. Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023	2022
Salaries	₩	126,019	126,173
Bonus		27,239	24,344
Post-employment benefit costs		9,016	8,815
Employee welfare		48,470	35,978
Depreciation		27,791	24,501
Amortization		160	58
Bad debt expenses (Reversal of bad debt)		(22,433)	(23,345)
Ordinary development costs		82,995	71,228
Advertising		6,726	5,930
Printing		931	1,009
Power		2,160	1,819
Warranty expenses (Reversal)		(49,505)	14,021
Insurance		331	486
Office supplies		863	894
Supplies		2,689	1,667
Utilities		147	156
Repairs		621	891
Travel		7,291	5,022
Research		3,242	3,236
Training		2,671	2,713
Service contract expenses		74,465	52,374
Transportation		612	373
Freight		3,649	2,273
Ceremony expenses		779	1,493
Rent		2,399	2,541
Data processing		19,011	12,399
Entertainment		648	572
Taxes and dues		2,832	2,249
Service charges		83,651	60,565
Automobile maintenance		3,126	3,322
Sales commissions		897	1,975
Others		6,731	6,280
	₩	476,224	452,012

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### 33. Nature of Expenses

The classifications of expenses by nature for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Changes in inventories	₩	67,331	(478,471)
Purchase of inventories		7,595,876	6,216,708
Depreciation		253,189	235,155
Depreciation on right-of-use assets		14,814	11,269
Amortization		10,067	7,853
Employee benefits		1,053,635	886,675
Others		2,790,374	2,455,443
(*)	₩	<u>11,785,286</u>	<u>9,334,632</u>

(\*) Total expenses consist of cost of sales and selling, general and administrative expenses.

### 34. Finance Income and Finance Costs

Finance income and finance costs for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
<b>Finance income:</b>			
Interest income	₩	49,038	45,610
Gain on disposal of financial instruments measured at FVTPL		904	9,126
Dividend income		21	38
Gain on foreign currency translation		19,804	48,520
Gain on foreign currency transactions		328,263	563,126
Gain on valuation of derivatives		99,596	410,328
Gain on derivatives transactions		93,561	62,607
Reversal of other provisions		39,528	-
Others		391	-
	₩	<u>631,106</u>	<u>1,139,355</u>
<b>Finance costs:</b>			
Interest expense	₩	131,890	106,141
Loss on disposal of financial instruments measured at FVTPL		2,746	518
Loss on foreign currency translation		85,326	227,849
Loss on foreign currency transactions		252,512	361,088
Loss on valuation of derivatives		315,113	415,425
Loss on derivatives transactions		336,524	460,267
Other provision additions		-	20,402
	₩	<u>1,124,111</u>	<u>1,591,690</u>

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**35. Other Non-Operating Income and Other Non-operating Expenses**

Other non-operating income and other non-operating expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<b>2023</b>	<b>2022</b>
<b>Other non-operating income:</b>		
Gain on disposal of property, plant and equipment	₩ 8,298	11,236
Reversal of impairment loss on other current assets	-	857
Gain on disposal of other current assets	14,411	-
Gain on valuation of firm commitments	543,997	739,113
Gain on disposal of right-of-use assets	952	709
Reversal of other allowance for doubtful accounts	303	8,264
Miscellaneous income	12,108	52,537
	<b>₩ 580,069</b>	<b>812,716</b>
<b>Other non-operating expenses:</b>		
Other bad debt expenses	₩ 848	5
Commissions	1,888	4,110
Warranty	5,906	6,992
Loss on disposal of investments in subsidiary and associate	-	444
Impairment loss on property, plant and equipment	8,227	7,884
Impairment loss on intangible assets	13,227	43
Impairment loss on other current assets	-	23,518
Loss on disposal of property, plant and equipment	2,960	5,090
Loss on disposal of intangible assets	-	271
Loss on valuation of firm commitments	134,909	373,324
Donation	4,603	2,704
Loss on disposal of right-of-use assets	117	80
Miscellaneous expenses	58,642	66,804
	<b>₩ 231,327</b>	<b>491,269</b>

**36. Income Tax Expense**

(1) Components of income tax benefit for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

	<b>2023</b>	<b>2022</b>
Current tax expense	₩ 1,396	2,028
Adjustment for prior periods	-	(2,913)
Origination and reversal of temporary differences	(27,939)	(55,963)
Income tax recognized directly in equity	36,217	(12,571)
Total income tax expense (benefit)	<b>₩ 9,674</b>	<b>(69,419)</b>

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**36. Income Tax Expense, Continued**

- (2) Income taxes recognized directly other than profit or loss for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>	<b>2023</b>	<b>2022</b>
Effective portion of changes in fair value of cash flow hedges ₩	3,477	(53)
Actuarial gains and losses	32,001	(14,746)
Revaluation of property, plant and equipment	739	2,228
₩	<u>36,217</u>	<u>(12,571)</u>

Income taxes related to effective portion of changes in fair value of cash flow hedges, actuarial gains and losses and others are recognized in other comprehensive incomes.

- (3) Reconciliations of the effective tax rates for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>	<b>2023</b>	<b>2022</b>
Profit (loss) before income tax ₩	34,363	(421,484)
Income tax using the Group's statutory tax rate	7,839	(111,996)
Adjustment for:		
- Change in tax rates(*1)	16,203	43,349
- Tax effect of non-deductible expenses	586	4,470
- Tax effect of tax-exempt income	(7,407)	(2)
- Tax incentives, Tax incentives carried forward	(6,573)	(3,445)
- Current adjustments for prior periods	1	(2,913)
- Others	(975)	1,118
Total income tax expense(benefit) ₩	<u>9,674</u>	<u>(69,419)</u>
Effective tax rate	28.15%	(*2)

(\*1) For the year ended December 31, 2023, a tax rate has been amended, expected to be realized after 2023, applied to temporary differences

(\*2) As income tax benefit is occurred, the Group did not calculate the effective tax rate.

- (4) Deferred tax assets and deferred tax effects by origination and reversal of temporary differences for the years ended December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>	<b>2023</b>	<b>2022</b>
Deferred assets at the end of the year ₩	923,367	893,619
Deferred assets at the beginning of the year	893,619	837,656
Deferred tax effects by origination and reversal of temporary differences	27,939	55,963
Changes in scope of consolidation (loss of control)	1,809	-

- (5) As of December 31, 2023 and 2022, the tax effects of temporary difference were calculated by expected tax rate of the fiscal year when the temporary differences are expected to reverse.



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**36. Income Tax Expense, Continued**

(6) Deferred tax assets and liabilities are offset and presented in the consolidated statements of financial position, only if there are a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2023 and 2022 are as follows:

	2023		
	Beginning balance	Change	Ending balance
<i>(In millions of won)</i>			
Allowance for doubtful accounts	₩ 265,078	(3,590)	261,488
Defined benefit liabilities	203,834	50,998	254,832
Plan assets	(266,737)	(21,257)	(287,994)
Derivatives	(19,340)	22,714	3,374
Accrued expenses	18,726	328	19,054
Gains and losses on foreign exchange translations	51,050	(20,540)	30,510
Others	179,106	(268,857)	(89,751)
	431,717	(240,204)	191,513
Tax losses carried forward	436,765	261,187	697,952
Tax incentives carried forward	25,137	8,765	33,902
	₩ 893,619	29,748	923,367

	2022		
	Beginning balance	Change	Ending balance
<i>(In millions of won)</i>			
Allowance for doubtful accounts	₩ 288,097	(23,019)	265,078
Defined benefit liabilities	207,905	(4,071)	203,834
Plan assets	(221,492)	(45,245)	(266,737)
Derivatives	2,984	(22,324)	(19,340)
Accrued expenses	16,880	1,846	18,726
Gains and losses on foreign exchange translations	(4,463)	55,513	51,050
Others	281,609	(102,503)	179,106
	571,520	(139,803)	431,717
Tax losses carried forward	246,471	190,294	436,765
Tax incentives carried forward	19,665	5,472	25,137
	₩ 837,656	55,963	893,619

(8) The Group judges that deferred tax assets are recoverable, because it is probable that future taxable profit will be available which the Group can use the unused tax losses and others.

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**36. Income Tax Expense, Continued**

- (9) The details of temporary differences not recognized as deferred tax assets (liabilities) as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>	<b>Reasons</b>
Tax losses carried forward	₩	27,206	29,054	uncertainty in future taxable income
Temporary differences to be deducted		9,380	8,602	uncertainty in future taxable income
Tax incentives carried forward		33	-	uncertainty in future taxable income
	₩	<u>36,619</u>	<u>37,656</u>	

- (10) Expiration schedule of unused deficit as of December 31, 2023 and 2022 is as follows.

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
2029	₩	19,107	20,955
2035		3,984	3,984
2036		1,963	2,050
2037		2,152	2,065
	₩	<u>27,206</u>	<u>29,054</u>

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**37. Earnings (loss) per Share**

(1) Basic earnings(loss) per share for the years ended December 31, 2023 and 2022 is as follows:

<i>(In thousands of won, in shares)</i>		<b>2023</b>	<b>2022</b>
Parent company Earnings (loss) for the year	₩	24,686,073	(352,064,622)
Weighted average number of ordinary shares outstanding(*)		88,773,116	88,773,116
Earnings (loss) per share <i>(In won)</i>	₩	278	(3,966)

(\*) The weighted average number of ordinary shares outstanding for the years ended December 31, 2023 and 2022 are as follows:

<i>(In shares)</i>		<b>2023</b>	
	<b>Number of shares outstanding</b>	<b>Weighted average (In days)</b>	<b>Weighted average number of shares outstanding</b>
Beginning balance	88,773,116	365/365	88,773,116
Weighted average number of ordinary shares outstanding	88,773,116		88,773,116

<i>(In shares)</i>		<b>2022</b>	
	<b>Number of shares outstanding</b>	<b>Weighted average (In days)</b>	<b>Weighted average number of shares outstanding</b>
Beginning balance	88,773,116	365/365	88,773,116
Weighted average number of ordinary shares outstanding	88,773,116		88,773,116

(2) Since there are no diluted potential common shares for the years ended December 31, 2023 and 2022, diluted earnings per share have not been calculated.

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**38. Cash Generated from Operations**

(1) Cash generated from operations for the years ended December 31, 2023 and 2022 is as follows:

<i>(In millions of won)</i>	<b>2023</b>	<b>2022</b>
<b>Profit (loss) for the year</b>	₩ 24,689	(352,065)
<b>Adjustments for:</b>	214,735	463,554
Post-employment benefit costs	57,076	62,575
Depreciation	253,189	235,155
Depreciation on right-of-use assets	14,814	11,269
Amortization	10,067	7,853
Bad debt expenses (Reversal of bad debt)	(22,433)	(23,345)
Reversal of other allowance for doubtful accounts (Other non-operating income)	(303)	(8,264)
Other bad debt expenses (Other non-operating expenses)	848	5
Finance income	(168,459)	(505,789)
Finance costs	532,329	749,450
Other non-operating income	(554,073)	(751,972)
Other non-operating expenses	159,440	410,653
Loss on valuation of equity method	14	1,444
Income tax expense (benefit)	9,674	(69,419)
Trade receivables	(228,122)	(250,670)
Other receivables	(22,904)	(61,709)
Contract assets	(278,589)	(343,720)
Inventories	66,768	(478,471)
Derivatives	(218,350)	(138,313)
Firm commitments	458,562	477,916
Other current assets	(192,672)	(361,875)
Other non-current assets	(6,695)	(101,686)
Trade payables	370,671	(247,993)
Other payables	46,715	74,480
Contract liabilities	1,030,412	2,140,472
Long-term other payables	2,795	-
Retirement benefits paid	(100,126)	(113,789)
Succession of retirement benefits	3,119	1,158
Plan assets	(68,772)	(108,239)
Provisions	(940,260)	(143,622)

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**38. Cash Generated from Operations, Continued**

- (2) Significant transactions that do not involve cash inflows and outflows for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023	2022
Reclassification of current portion of long-term borrowings	₩	522,350	1,158,240
Reclassification of construction-in-progress		121,009	67,488
Reclassification of current portion of long-term loans		(1,840)	(103)
Change in other payables related to acquisition of property, plant and equipment		(926)	236
Increase in right-of-use assets and lease liabilities		9,055	35,741
Reclassification of investment properties to property, plant and equipment		-	2,612

**39. Categories of Financial Instruments and Income and Costs by Categories**

- (1) Categories of financial instruments as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

		2023				
		Fair value- hedging instruments	Financial instruments measured at FVTPL	Equity investments measured at FVOCI	Financial instruments measured at amortized cost	Fair value
<b>Assets carried at fair value:</b>						
Financial assets measured at FVTPL(*1)	₩	-	8,816	-	-	8,816
Financial assets measured at FVOCI(*2)		-	-	1,738	-	1,738
Derivative assets		296,383	-	-	-	296,383
<b>Assets carried at amortized cost:</b>						
Cash and cash equivalents		-	-	-	928,043	-
Financial instruments		-	-	-	131,008	-
Trade and other receivables		-	-	-	1,554,641	-
Contract assets		-	-	-	3,458,669	-
<b>Financial assets total</b>	₩	<u>296,383</u>	<u>8,816</u>	<u>1,738</u>	<u>6,072,361</u>	<u>306,937</u>
<b>Liabilities carried at fair value:</b>						
Derivative liabilities	₩	413,631	-	-	-	413,631
<b>Liabilities carried at amortized cost:</b>						
Borrowings		-	-	-	1,819,379	-
Bonds		-	-	-	1,309,595	-
Trade and other payables		-	-	-	2,028,719	-
Lease liabilities		-	-	-	39,086	-
<b>Financial liabilities total</b>	₩	<u>413,631</u>	<u>-</u>	<u>-</u>	<u>5,196,779</u>	<u>413,631</u>

(\*1) It includes ₩279 million won in financial assets measured at acquisition costs, others, since their fair values cannot be reliably estimated.

(\*2) It includes ₩1,738 million won in financial assets measured at acquisition costs, others, since their fair values cannot be reliably estimated.

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**39. Categories of Financial Instruments and Income and Costs by Categories, Continued**

- (1) Categories of financial instruments as of December 31, 2023 and 2022 are summarized as follows, continued:

(In millions of won)

		2022				
		Fair value- hedging instruments	Financial Instruments measured at FVTPL	Equity investments measured at FVOCI	Financial instruments measured at amortized cost	Fair value
<b>Assets carried at fair value:</b>						
Financial assets measured at FVTPL(*1)	₩	-	7,808	-	-	7,808
Financial assets measured at FVOCI(*2)		-	-	1,738	-	1,738
Derivative assets		400,375	-	-	-	400,375
<b>Assets carried at amortized cost:</b>						
Cash and cash equivalents		-	-	-	744,148	-
Financial instruments		-	-	-	161,008	-
Trade and other receivables		-	-	-	1,312,754	-
Contract assets		-	-	-	3,180,080	-
<b>Financial assets total</b>	₩	<u>400,375</u>	<u>7,808</u>	<u>1,738</u>	<u>5,397,990</u>	<u>409,921</u>
<b>Liabilities carried at fair value:</b>						
Derivative liabilities	₩	506,724	-	-	-	506,724
<b>Liabilities carried at amortized cost:</b>						
Borrowings		-	-	-	1,444,632	-
Bonds		-	-	-	1,159,024	-
Trade and other payables		-	-	-	1,573,981	-
Lease liabilities		-	-	-	44,451	-
Other provision		-	-	-	39,528	-
<b>Financial liabilities total</b>	₩	<u>506,724</u>	<u>-</u>	<u>-</u>	<u>4,261,616</u>	<u>506,724</u>

(\*1) It includes ₩271 million won in financial assets measured at acquisition costs, others, since their fair values cannot be reliably estimated.

(\*2) It includes ₩1,738 million won in financial assets measured at acquisition costs, others, since their fair values cannot be reliably estimated.

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**39. Categories of Financial Instruments and Income and Costs by Categories, Continued**

- (2) Financial instruments income and costs by categories for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023				
		Fair value- hedging instruments	Financial instruments measured at FVTPL	Equity investments measured at FVOCI	Financial instruments measured at amortized cost	Total
<b>Sales:</b>						
Hedging gains and losses	₩	(501,905)	-	-	-	(501,905)
<b>Cost of sales:</b>						
Hedging gains and losses		67	-	-	-	67
<b>Selling, general and administrative expenses:</b>						
Reversal of bad debt		-	-	-	22,433	22,433
<b>Finance income:</b>						
Interest income		-	-	-	48,943	48,943
Gain on disposal of financial instruments measured at FVTPL		-	904	-	-	904
Dividend income		-	21	-	-	21
Gain on foreign currency translation		-	-	-	19,804	19,804
Gain on foreign currency transactions		-	-	-	324,527	324,527
Gain on valuation of derivatives		99,596	-	-	-	99,596
Gain on derivatives transactions		93,561	-	-	-	93,561
Reversal of other provisions		-	-	-	39,528	39,528
Other finance income		-	-	-	391	391
<b>Total</b>	₩	<u>193,157</u>	<u>925</u>	<u>-</u>	<u>433,193</u>	<u>627,275</u>
<b>Finance costs:</b>						
Interest expense	₩	-	-	-	(128,411)	(128,411)
Loss on disposal of financial instruments measured at FVTPL		-	(2,746)	-	-	(2,746)
Loss on foreign currency translation		-	-	-	(85,326)	(85,326)
Loss on foreign currency transactions		-	-	-	(248,429)	(248,429)
Loss on valuation of derivatives		(315,113)	-	-	-	(315,113)
Loss on derivatives transactions		(336,524)	-	-	-	(336,524)
<b>Total</b>	₩	<u>(651,637)</u>	<u>(2,746)</u>	<u>-</u>	<u>(462,166)</u>	<u>(1,116,549)</u>
<b>Other non-operating income:</b>						
Reversal of other allowance for doubtful accounts	₩	-	-	-	303	303
<b>Other non-operating expenses:</b>						
Other bad debt expenses		-	-	-	(848)	(848)
<b>Other comprehensive income (loss), net of income tax:</b>						
Effective portion of changes in fair value of cash flow hedges		(10,299)	-	-	-	(10,299)

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**39. Categories of Financial Instruments and Income and Costs by Categories, Continued**

- (2) Financial instruments income and costs by categories for the years ended December 31, 2023 and 2022 are as follows, continued:

(In millions of won)

(In millions of won)

		2022				
		Fair value- hedging instruments	Financial instruments measured at FVTPL	Equity investments measured at FVOCI	Financial instruments measured at amortized cost	Total
<b>Sales:</b>						
Hedging gains and losses	₩	(411,780)	-	-	-	(411,780)
<b>Cost of sales:</b>						
Hedging gains and losses		(2,491)	-	-	-	(2,491)
<b>Selling, general and administrative expenses:</b>						
Reversal of bad debt		-	-	-	23,345	23,345
<b>Finance income:</b>						
Interest income		-	-	-	45,513	45,513
Gain on disposal of financial instruments measured at FVTPL		-	9,126	-	-	9,126
Dividend income		-	38	-	-	38
Gain on foreign currency translation		-	-	-	48,520	48,520
Gain on foreign currency transactions		-	-	-	556,979	556,979
Gain on valuation of derivatives		410,328	-	-	-	410,328
Gain on derivatives transactions		62,607	-	-	-	62,607
<b>Total</b>	₩	<u>472,935</u>	<u>9,164</u>	<u>-</u>	<u>651,012</u>	<u>1,133,111</u>
<b>Finance costs:</b>						
Interest expense	₩	-	-	-	(84,109)	(84,109)
Loss on disposal of financial instruments measured at FVTPL		-	(518)	-	-	(518)
Loss on foreign currency translation		-	-	-	(227,849)	(227,849)
Loss on foreign currency transactions		-	-	-	(356,374)	(356,374)
Loss on valuation of derivatives		(415,425)	-	-	-	(415,425)
Loss on derivatives transactions		(460,267)	-	-	-	(460,267)
Other provision additions		-	-	-	(20,402)	(20,402)
<b>Total</b>	₩	<u>(875,692)</u>	<u>(518)</u>	<u>-</u>	<u>(688,734)</u>	<u>(1,564,944)</u>
<b>Other non-operating income:</b>						
Reversal of other allowance for doubtful accounts	₩	-	-	-	8,264	8,264
<b>Other non-operating expenses:</b>						
Other bad debt expenses		-	-	-	(5)	(5)
<b>Other comprehensive income (loss), net of income tax:</b>						
Effective portion of changes in fair value of cash flow hedges		526	-	-	-	526



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**40. Financial Instruments**

(1) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets and contract assets represents the maximum credit exposure. The maximum exposure to credit risk as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Cash and cash equivalents(*1)	₩	927,986	744,091
Fair value-hedging instruments		296,383	400,375
Financial instruments measured at FVTPL		8,816	7,808
Financial instruments measured at amortized cost(*2)		5,144,318	4,653,842
	₩	<u>6,377,503</u>	<u>5,806,116</u>

(\*1) Cash held as of December 31, 2023 and 2022 is excluded.

(\*2) The carrying amounts of contract assets as of December 31, 2023 and 2022 are included.

The maximum exposure to credit risk for financial instruments measured at amortized cost (including contract assets) by geographic region as of December 31, 2023 and 2022 is as follows:

<i>(In millions of won)</i>		<b>2023</b>	<b>2022</b>
Korea	₩	2,218,839	1,164,305
North America		12,877	87
Asia		1,427,646	2,080,178
Europe		1,350,047	1,030,851
Others		134,909	378,421
	₩	<u>5,144,318</u>	<u>4,653,842</u>

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**40. Financial Instruments, Continued**

(1) Credit risk, continued

2) Impairment loss

(i) The aging of trade and other receivables and contract assets and the amount of impairment in each aging as of December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023		2022	
		Gross	Impairment	Gross	Impairment
Not past due	₩	5,279,772	(350,217)	4,794,085	(340,363)
0~6 months past due		74,981	(6,213)	30,723	(5,855)
6~12 months past due		18,285	(5,939)	18,494	(5,908)
1~3 years past due		54,119	(51,912)	53,586	(52,213)
More than three years past due		691,256	(690,822)	683,990	(683,705)
	₩	<u>6,118,413</u>	<u>(1,105,103)</u>	<u>5,580,878</u>	<u>(1,088,044)</u>

(ii) Changes in the allowance for doubtful account in respect of trade and other receivables and contract assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of won)

		2023	2022
Beginning balance	₩	1,088,044	1,120,357
Impairment loss recognized		4,412	445
Reversal of allowance for doubtful accounts		(27,284)	(32,049)
Write-off		(26)	(709)
Others		38,757	-
Changes in scope of consolidation		1,200	-
Ending balance	₩	<u>1,105,103</u>	<u>1,088,044</u>

The allowance for doubtful accounts in respect of trade and other receivables and contract assets are used to record impairment losses until the Group is certain that the amount of assets cannot recover. If the Group decides that the asset cannot be recovered, allowance for doubtful accounts will be removed and offset from the financial asset.

For the years ended December 31, 2023 and 2022, impairment losses and reversal of allowance for doubtful accounts arising from in other receivables are recorded as other non-operating income (loss) and the details are as follows:

(In millions of won)

		2023	2022
Other bad debt expenses	₩	848	5
Reversal of other allowance doubtful accounts		(303)	(8,264)
	₩	<u>545</u>	<u>(8,259)</u>

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**40. Financial Instruments, Continued**

(2) Liquidity risk

- 1) The contractual maturities of financial liabilities, including contractual interest payments and excluding the impact of offsetting agreements as of December 31, 2023 are summarized as follows:

(In millions of won)

		2023				
		Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>						
Borrowings	₩	1,943,408	411,657	633,891	897,860	-
Bonds		1,401,303	524,820	119,021	364,493	392,969
Trade and other payables		2,028,719	2,024,928	-	3,791	-
Lease liabilities		41,687	6,790	5,293	19,791	9,813
<b>Derivative financial liabilities:</b>						
Forward exchange contracts used for hedging		430,191	193,796	119,692	116,573	130
	₩	<u>5,845,308</u>	<u>3,161,991</u>	<u>877,897</u>	<u>1,402,508</u>	<u>402,912</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

- 2) The contractual maturities of financial liabilities, including contractual interest payments and excluding the impact of offsetting agreements as of December 31, 2022 are summarized as follows:

(In millions of won)

		2022				
		Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>						
Borrowings	₩	1,714,671	1,205,332	218,627	290,712	-
Bonds		1,013,846	75,338	15,092	525,097	398,319
Trade and other payables		1,573,981	1,573,600	-	381	-
Lease liabilities		45,972	6,371	7,150	17,505	14,946
<b>Derivative financial liabilities:</b>						
Forward exchange contracts used for hedging		536,212	177,685	148,433	209,885	209
	₩	<u>4,884,682</u>	<u>3,038,326</u>	<u>389,302</u>	<u>1,043,580</u>	<u>413,474</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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**40. Financial Instruments, Continued**

(2) Liquidity risk, continued

3) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won)

		<b>2023</b>			
		<b>Expected cash flows</b>	<b>6 months or less</b>	<b>6~12 months</b>	<b>1~3 years</b>
<b>Currency swap</b>					
Assets	₩	86,448	58,669	706	27,073
Liabilities		(2,104)	(1,288)	(816)	-
<b>Forward exchange</b>					
Assets		833	-	-	833
Liabilities		-	-	-	-
	₩	<u>85,177</u>	<u>57,381</u>	<u>(110)</u>	<u>27,906</u>

(In millions of won)

		<b>2022</b>			
		<b>Expected cash flows</b>	<b>6 months or less</b>	<b>6~12 months</b>	<b>1~3 years</b>
<b>Currency swap</b>					
Assets	₩	127,281	48,645	12,390	66,246
Liabilities		-	-	-	-
<b>Forward exchange</b>					
Assets		21	20	1	-
Liabilities		(129)	-	(129)	-
	₩	<u>127,173</u>	<u>48,665</u>	<u>12,262</u>	<u>66,246</u>

(3) Currency risk

1) Exposure to currency risk

(i) The Group's exposure to foreign currency risk as of December 31, 2023 is as follows:

(In millions of won)

		<b>2023</b>					
		<b>USD</b>	<b>EUR</b>	<b>CNY</b>	<b>JPY</b>	<b>Others</b>	<b>Total</b>
Cash and cash equivalents	₩	452,531	131	-	199	23,652	476,513
Trade and other receivables		1,004,791	33,724	-	212	63,059	1,101,786
Contract assets		3,354,074	14,043	-	-	2,024	3,370,141
		<u>4,811,396</u>	<u>47,898</u>	<u>-</u>	<u>411</u>	<u>88,735</u>	<u>4,948,440</u>
Trade and other payables		(613,790)	(87,346)	(727)	(2,975)	(155,290)	(860,128)
Borrowings and bonds		(1,190,985)	(94,394)	-	-	(9,700)	(1,295,079)
		<u>(1,804,775)</u>	<u>(181,740)</u>	<u>(727)</u>	<u>(2,975)</u>	<u>(164,990)</u>	<u>(2,155,207)</u>
Net exposure to statement of financial position		3,006,621	(133,842)	(727)	(2,564)	(76,255)	2,793,233
Derivative contracts(*)		(117,995)	-	-	-	747	(117,248)
Net exposure	₩	<u>2,888,626</u>	<u>(133,842)</u>	<u>(727)</u>	<u>(2,564)</u>	<u>(75,508)</u>	<u>2,675,985</u>

(\*) Derivative contracts to hedge the risk of exchange rate fluctuations are not considered effectiveness of the hedge.

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**40. Financial Instruments, Continued**

(3) Currency risk, continued

1) Exposure to currency risk, continued

(ii) The Group's exposure to foreign currency risk as of December 31, 2022 is as follows:

(In millions of won)

(In millions of won)

		2022					
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	351,323	77	-	108	16,512	368,020
Trade and other receivables		718,561	38,868	-	218	116,718	874,365
Contract assets		3,037,707	13,135	-	-	77,729	3,128,571
		4,107,591	52,080	-	326	210,959	4,370,956
Trade and other payables		(484,753)	(54,851)	(419)	(2,336)	(199,052)	(741,411)
Borrowings and bonds		(1,205,339)	(44,794)	-	-	(8,902)	(1,259,035)
Other provision		-	-	-	-	(39,528)	(39,528)
		(1,690,092)	(99,645)	(419)	(2,336)	(247,482)	(2,039,974)
Net exposure to statement of financial position		2,417,499	(47,565)	(419)	(2,010)	(36,523)	2,330,982
Derivative contracts(*)		(106,244)	13	-	-	(118)	(106,349)
Net exposure	₩	2,311,255	(47,552)	(419)	(2,010)	(36,641)	2,224,633

(\*) Derivative contracts to hedge the risk of exchange rate fluctuations are not considered effectiveness of the hedge.

Exchange rates have been applied for the years ended December 31, 2023 and 2022 are as follows:

(In won)

		Average rate		Year-end spot rate	
		2023	2022	2023	2022
USD	₩	1,305.41	1,291.95	1,289.40	1,267.30
EUR		1,412.36	1,357.38	1,426.59	1,351.20
CNY		184.22	191.57	180.84	181.44
JPY(100)		931.24	983.44	912.66	953.18

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**40. Financial Instruments, Continued**

(3) Currency risk, continued

2) Sensitivity analysis

A weakening of the won, against the USD, EUR, CNY, JPY and others as of December 31, 2023 and 2022 would have changed profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. In addition, this analysis assumes that all other variables, in particular interest rates, remain constant. The changes in profit or loss are as follows:

*(In millions of won)*

		<b>Profit or loss</b>	
		<b>2023</b>	<b>2022</b>
USD (3 percent strengthening)	₩	86,659	69,338
EUR (3 percent strengthening)		(4,015)	(1,427)
CNY (3 percent strengthening)		(22)	(13)
JPY (3 percent strengthening)		(77)	(60)

A strengthening of the won against the above currencies as of December 31, 2023 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain constant.

(4) Interest rate risk

- 1) The carrying amounts of the Group's interest-bearing financial instruments as of December 31, 2023 and 2022 are as follows:

*(In millions of won)*

		<b>2023</b>	<b>2022</b>
<b>Fixed interest rate instruments:</b>			
Financial assets	₩	1,291,470	1,081,837
Financial liabilities		(2,257,099)	(1,068,276)
	₩	<u>(965,629)</u>	<u>13,561</u>
<b>Floating interest rate instruments:</b>			
Financial assets	₩	8,784	3,580
Financial liabilities		(872,980)	(1,535,380)
	₩	<u>(864,196)</u>	<u>(1,531,800)</u>

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**40. Financial Instruments, Continued**

(4) Interest rate risk, continued

- 2) Interest rate risk arises from savings and borrowings with floating interest rates. The Group properly hedges the risk in borrowings with floating interest rates through interest rate swaps. Interest rate swap contracts as of December 31, 2023 are as follows:

(In thousands of foreign currency)

Counterparties	Amount	Interest rate	Average expiration date
Korea Development Bank and others	USD 450,000	Receives floating interest rate Pays fixed interest rate	3M Term Sofr+1.21%~2.18% 1.47%~4.55%
			2024.05.21

- 3) Cash flow sensitivity analysis for floating interest rate instruments

A change of 100 basis points in interest rates as of December 31, 2023 and 2022 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The changes in profit or loss are as follows:

(In millions of won)

	Profit or loss	
	100 bp increase	100 bp decrease
<b>2023</b>		
Floating interest rate instruments	₩ (8,642)	8,642
Interest rate swap	5,802	(5,802)
Net cash flow sensitivity	₩ (2,840)	2,840
<b>2022</b>		
Floating interest rate instruments	₩ (15,318)	15,318
Interest rate swap	11,406	(11,406)
Net cash flow sensitivity	₩ (3,912)	3,912

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**40. Financial Instruments, Continued**

(5) Fair value

1) Fair value hierarchy

The Group classified fair value measurements in accordance with the fair value hierarchy which reflects the significance of the inputs used in fair value measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments measured at fair value, by fair value hierarchy as of December 31, 2023 and 2022 are as follows:

<i>(In millions of won)</i>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2023:</b>					
Financial assets measured at FVTPL	₩	-	-	8,537	8,537
Derivative assets		-	296,383	-	296,383
Derivative liabilities		-	413,631	-	413,631
<b>2022:</b>					
Financial assets measured at FVTPL	₩	-	-	7,537	7,537
Derivative assets		-	400,375	-	400,375
Derivative liabilities		-	506,724	-	506,724

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fairly value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.



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**40. Financial Instruments, Continued**

(5) Fair value, continued

1) Fair value hierarchy, continued

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Unlisted equity securities, investments in capital and other investments in entities newly established or having no comparative entity are excluded from the fair value valuation because their fair value cannot be measured reliably.

(6) Valuation techniques and input variables of Level 2 fair values

The valuation techniques and input variables used in measuring Level 2 fair values as of December 31, 2023 and 2022 are as follows:

*(In millions of won)*

	<b>2023</b>	<b>2022</b>	<b>Valuation techniques</b>	<b>Input variables</b>
<b>Derivatives:</b>				
Derivative assets	296,383	400,375	Cash flow discount model	Foreign currency forward price, discount rate and others
Derivative liabilities	413,631	506,724	Cash flow discount model	Foreign currency forward price, discount rate and others

(7) Level 3 fair values

1) Changes in assets which are classified as Level 3 fair values among assets measured at fair value for the years ended December 31, 2023 and 2022 are as follows:

*(In millions of won)*

	<b>Financial assets measured at FVTPL</b>	
	<b>2023</b>	<b>2022</b>
Beginning balance	₩ 7,537	7,537
Acquisition	1,000	-
Transfer to Level 3	-	-
Ending balance	₩ 8,537	7,537

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**40. Financial Instruments, Continued**

(7) Level 3 fair values, continued

2) The valuation techniques and input variables used in measuring Level 3 fair values as of December 31, 2023 and 2022 are as follows:

(In millions of won)

	2023	2022	Valuation techniques	Input variables	Significant unobservable input variables	Ranges of significant unobservable input variables
<b>Financial assets measured at FVTPL:</b>						
Machinery Financial Cooperative	₩ 5,998	4,998	Net asset value model	-	-	-
Construction Guarantee Cooperative	2,539	2,539	Net asset value mode	-	-	-

(8) Offsetting of financial assets and financial liabilities

1) The details of financial assets and financial liabilities offsetting arrangements as of December 31, 2023 are as follows:

(In millions of won)

	2023			
	Total recognized financial assets	Total recognized financial assets that will be offset	Net financial assets presented in the statement of financial position	Net amount
<b>Financial assets:</b>				
Trade and other receivables	₩ 119	(95)	24	24
<b>Financial liabilities:</b>				
Trade and other payables	3,566	(95)	3,471	3,471

2) The details of financial assets and financial liabilities offsetting arrangements as of December 31, 2022 are as follows:

(In millions of won)

	2022			
	Total recognized financial assets	Total recognized financial assets that will be offset	Net financial assets presented in the statement of financial position	Net amount
<b>Financial assets</b>				
Trade and other receivables	₩ 1,273	(543)	730	730
<b>Financial liabilities</b>				
Trade and other payables	3,902	(543)	3,359	3,359

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#### 41. Commitments and Contingencies

- (1) As of December 31, 2023, the Group has entered into general loan agreements with Korea Development Bank and others amounting to ₩1,169,000 million and USD 250,000 thousand.
- (2) As of December 31, 2023, the Group has entered into credit facilities agreements such as letters of credit with KEB Hana Bank and others for the Group's exports and imports amounting to ₩210,900 million and USD 1,091,796 thousand.
- (3) As of December 31, 2023, the Group has entered into credit facilities agreements such as pre-shipment credit with Shinhan Bank of Korea and others amounting to ₩53,200 million.
- (4) As of December 31, 2023, in connection with the Group's contract performance guarantees, the Group has been provided with guarantees amounting to ₩2,861,195 million and USD 15,307,733 thousand by various financial institution. Among them, the Group has also been provided with payment guarantees in relation to ship advances from customers amounting to USD 13,019,077 thousand by Export-Import Bank of Korea and others. Regarding this, the Group provides as collateral its ships under construction and construction materials.

#### 42. Litigations

- (1) A claim for damages (Seoul Central District Court 2016 gahap 519022)

Date of filing	October 14, 2015
Litigant	Plaintiff: Korea Gas Corporation, Defendant: The Parent company and 18 other firms
Litigation content	Korea Gas Corporation filed a suit against 19 firms including the Parent company claiming compensation (amounting to ₩166,000 million) for a damage arising from bidding collusion of first and second main pipe constructions.
Litigation value	₩166,000 million
The progress of litigation	In progress after filing appeals on October 14, 2015. Plaintiff partially won (₩116,100 million) the first trial on January 13, 2022.
Future litigation schedule and countermeasures	Ruling of first trial was accepted. (Plaintiff and defendant didn't appeal till deadline on February 4, 2022)
The effect on the Group as a result of litigation	At the end of 2021, ₩10,500 million was recognized as a provision by estimating the amount to be paid when the Group lost, and the payment was completed as much as ₩10,500 million in the share of the Group agreed between the defendant companies in January 2022. However, some of the defendant companies did not pay the share, so Korea Gas Corporation executed the collection procedure for the unpaid company.

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**42. Litigations, Continued**

(2) Ordinary wage lawsuit (Busan High Court 2022 na 29)

Date of filing	December 28, 2012
Litigant	Plaintiff: Jeong and nine others, Defendant: The Parent company
Litigation content	Plaintiff filed a suit claiming that total bonuses should be included in the ordinary wage category and recalculated.
Litigation value	₩630 million
	Defendant partially lost the first trial (Ulsan District Court 2012 gahap 10108) on February 12, 2015.
	Defendant totally won the second trial (Busan High Court 2015 na 1888) on January 13, 2016.
	The third trial(Supreme Court 2016 da 7975) was reversed and remanded for the purpose of loss of the defendant on December 16, 2021.
The progress of litigation	The reversed and remanded suit(Busan High Court 2022 na 29) was receipted on January 3, 2022.
	1 <sup>st</sup> adjustment on July 20, 2022
	2 <sup>nd</sup> adjustment on August 17, 2022
	3 <sup>rd</sup> adjustment on September 21, 2022
	4 <sup>th</sup> adjustment on December 3, 2022
	Decisions to replace adjustment (compulsory adjustment) on December 28, 2022
	Compulsory adjustment approved on January 12, 2023.
Future litigation schedule and countermeasures	Currently, the case was closed due to the confirmation of the compulsory adjustment decision, and the Group is in the process of paying unpaid legal allowances.
The effect on the Group as a result of litigation	As of the end of the current year, the procedure for payment of unpaid legal allowances is in progress according to the contents of the court's ruling above.

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**42. Litigations, Continued**

(3) KOC Claim Arbitration

Date of filing	February 17, 2020
Litigant	Plaintiff: Kuwait Oil Company, Defendant: The Parent company and HD Korea Shipbuilding & Offshore Engineering Co., Ltd.
Litigation content	The Kuwait Oil Company (KOC) claimed compensation for a defect to the part of construction delivered by Offshore, Industrial Plant and Engineering segment.
Litigation value	USD 64 million
The progress of litigation	<p>The KOC filed a request for arbitration with the London International Court of Arbitration (LCIA) on February 17, 2020.</p> <p>The KOC submitted a statement of claiming compensation for a defect to the part of construction on January 30, 2021.</p> <p>The Parent company submitted refutation document for plaintiff's statement on May 7, 2021.</p> <p>The KOC submitted response and the Parent company submitted refutation document on June 25, 2021.</p> <p>Complete of 'Document Production' procedure on November 16, 2021.</p> <p>The Parent company submitted the witness statements on March 21, 2022.</p> <p>The Parent company submitted the witness response statements on May 16, 2022.</p> <p>The Parent company submitted the 1<sup>st</sup> specialist statements on July 9, 2022.</p> <p>The Parent company submitted the 2<sup>nd</sup> specialist statements on September 30, 2022.</p> <p>1<sup>st</sup> International Arbitration Hearing on October 25, 2022</p> <p>2<sup>nd</sup> International Arbitration Hearing on January 26, 2023</p> <p>Arbitration Award (the Group to pay damages and related interest to KOC) on April 27, 2023</p> <p>Decision on Allocation of Arbitration Costs (Final conclusion) on June 2, 2023.</p>
Future litigation schedule and countermeasures	The arbitration has been concluded, and the Group has paid the awarded amount, interest, and costs according to the decision.
The effect on the Group as a result of litigation	Following the arbitration ruling, the expenses amounting to ₩71,000 million based on net income have been reflected in the current financial statements.

In addition to the cases mentioned above, the Group is currently a defendant in 36 lawsuits involving claims amounted to ₩139,500 million. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.

Meanwhile, as of June 17, 2019, a lawsuit was filed against the Group and HD Korea Shipbuilding & Offshore Engineering Co., Ltd. for invalidity of split-off June 1, 2019, but the lawsuit was terminated as of January 26, 2023.

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**43. Related Parties**

(1) As of December 31, 2023, related parties with the Group are as follows:

<b>Ultimate parent</b>	<b>Main business</b>
HD HYUNDAI CO.,LTD.	Investment
<b>Intermediate parent</b>	<b>Main business</b>
HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD.(*1)	Investment and research and development
<b>Associate</b>	<b>Main business</b>
KC LNG Tech Co., Ltd.	Other engineering services
<b>Others (large-scale corporate conglomerate)(*4)</b>	<b>Main business</b>
HD Hyundai Xitesolution Co., Ltd.(*2)	Sale and manufacture of machinery equipment for construction and mining
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Hyms Co., Ltd.	Sale and manufacture of machinery equipment for shipbuilding
HD Hyundai Engineering & Technology Co., Ltd.(*1)	Other engineering services
Ulsan HD Football Club Co., Ltd.(*1)	Football club
HD Hyundai Energy Solutions Co., Ltd.(*1)	Solar photovoltaic and renewable energy
HD Hyundai Infracore Co., Ltd. (*2)	Sale and manufacture of construction equipment
HYUNDAI-VIETNAM SHIPBUILDING CO., LTD.	Shipbuilding
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing
HD Hyundai Energy Solutions America Inc. (*1)	Sales of solar module
HHI Mauritius Limited	Manufacturing
HD Hyundai Technology Center India Private Limited(*1)	Consulting of engineering
Hyundai Arabia Company L.L.C.	Industrial plant construction
Hyundai Samho Heavy Industries Panama, Inc.	Civil engineering
Pontos Investment LLC	Investment
SEAMARQ SERVICE Co., Ltd.(*3)	Hotel consignment operation management
HD Hyundai Europe Research and Development Center GmbH(*3)	research and development
HD Hyundai Electric Co., Ltd.(*2)	Sale and manufacture of industrial electric equipment
HD Hyundai Construction Equipment Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction
HD Hyundai Marine Solution Co., Ltd.(*2)	Engineering services
HD Hyundai Oilbank Co., Ltd.(*1)	Manufacturing of petroleum products
HD Hyundai Robotics Co., Ltd(*1)	Manufacturing of industrial robots
Other related parties of HD HYUNDAI CO., LTD.	Other business
Other related parties of HD Hyundai Electric Co., Ltd.	Other business
Other related parties of HD Hyundai Construction Equipment Co., Ltd	Other business
Other related parties of HD Hyundai Marine Solution Co., Ltd	Other business
Other related parties of HD Hyundai Oilbank Co., Ltd.	Other business
Other related parties of HD Hyundai Infracore Co., Ltd.	Other business
Other related parties of HD Hyundai Robotics Co.,Ltd.	Other business
Other related parties	Other business

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**43. Related Parties, Continued**

(1) As of December 31, 2023, related parties with the Group are as follows, continued:

(\*1) For the year ended December 31, 2023, The company name has been changed due to the change in the company group name.

(\*2) For the year ended December 31, 2023, Hyundai Genuine Co., Ltd, Hyundai Electric & Energy Systems Co., Ltd., Hyundai Doosan Infracore Co., Ltd and Hyundai Global Service Co., Ltd. have changed their names to HD Hyundai Xitesolution Co., Ltd., HD Hyundai Electric Co., Ltd., HD Hyundai Infracore Co., Ltd., and HD Hyundai Marine Solution Co., Ltd. respectively.

(\*3) For the year ended December 31, 2023, it was newly incorporated as others (large-scale corporate conglomerate).

(\*4) Hyundai Transformers And Engineering India Private Limited was excluded from others due to liquidation for the year ended December 31, 2023.

(2) Transactions with related parties

1) Significant transactions for the years ended December 31, 2023 and 2022 with related parties are as follows:

(In millions of won)

		2023			
		Sales and others(*1)	Purchases and others(*2)		
			Purchase of raw materials	Purchase of Property, plant and equipment	Purchase of others
<b>Ultimate parent</b>					
HD HYUNDAI CO.,LTD.	₩	1,918	2,715	-	10,835
<b>Intermediate parent</b>					
HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD.		16,486	17,211	2,902	132,907
<b>Associate</b>					
KC LNG Tech Co., Ltd.		-	71	-	678
<b>Others (large-scale corporate conglomerate)</b>					
HD Hyundai Robotics Co., Ltd		579	6	200	1
HD Hyundai Electric Co., Ltd.		26,650	101,729	2,029	93
HD Hyundai Construction Equipment Co., Ltd.		14,041	189	176	125
HD Hyundai Xitesolution Co., Ltd.		4,655	928	4,633	361
Hyundai Samho Heavy Industries Co., Ltd.		721,534	2,588	30,840	-
Hyundai Mipo Dockyard Co., Ltd.		438,111	20,866	-	-
HD Hyundai Engineering & Technology Co., Ltd.		1,335	37,503	-	1
HD Hyundai Oilbank Co., Ltd.		784	74,410	-	159
Hyundai Hyms Co., Ltd.		126	75,904	-	46
Hyundai Heavy Industries MOS Co., Ltd.(*3)		4,109	104,038	-	1
HD Hyundai Marine Solution Co., Ltd.		19,175	20,296	172	53,705
HD Hyundai Energy Solutions Co., Ltd		629	-	-	-
International Maritime Industries Company		15,717	-	-	-
Saudi Engines Manufacturing Company		6,738	-	-	-
Others		2,315	1,247	-	2,134
		<u>1,256,498</u>	<u>439,704</u>	<u>38,050</u>	<u>56,626</u>
₩		<u>1,274,902</u>	<u>459,701</u>	<u>40,952</u>	<u>201,046</u>

(\*1) Includes actual expenses settlement transactions and others

(\*2) Includes ₩8,462 millions of lease payment.

(\*3) For the year ended December 31, 2023, the status has been changed from Others (large-scale corporate conglomerate) to subsidiaries, only transactions from January to October are included.

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**43. Related Parties, Continued**

(2) Transactions with related parties, continued

- 1) Significant transactions for the years ended December 31, 2023 and 2022 with related parties are as follows, continued:

In addition to the above transaction, in relation to the ordinary wage lawsuit, which is undergoing payment procedures during the current period, the Parent company paid the full amount of unpaid allowances in advance and received the allotted amount from each affiliate and paid the withholding tax. Amount of receiving allotted amount from each affiliate and paid the withholding tax are that HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. receiving ₩26,561 million and paid ₩55,230 million, HD Hyundai Electric Co., Ltd. receiving ₩117,358 million and paid ₩8,445 million, HD Hyundai Construction Equipment Co., Ltd. receiving ₩32,462 million and paid ₩2,439 million, HD Hyundai Robotics Co., Ltd receiving ₩4,768 million and paid ₩333 million, HD HYUNDAI CO.,LTD. receiving ₩116 million and paid ₩22 million, and HD Hyundai Heavy Industries MOS Co., Ltd. receiving ₩1,857 million.

(In millions of won)

		2022			
		Sales and others(*1)	Purchases and others(*2)		
		Sales	Purchase of raw materials	Purchase of Property, plant and equipment	Purchase of others
<b>Ultimate parent</b>					
HD HYUNDAI CO.,LTD. (formerly known as Hyundai Heavy Industries Holdings Co., Ltd.)	₩	1,316	-	-	587
<b>Intermediate parent</b>					
Korea Shipbuilding & Offshore Engineering Co., Ltd.		9,622	8,464	-	92,702
<b>Associate</b>					
KC LNG Tech Co.,Ltd.		-	171	-	284
<b>Others (large-scale corporate conglomerate)</b>					
Hyundai Robotics Co., Ltd.		698	125	9	-
Hyundai Electric & Energy Systems Co., Ltd.		25,043	88,440	3,739	66
Hyundai Construction Equipment Co., Ltd.		13,546	215	-	75
Hyundai Genuine Co., Ltd		2,999	802	3,849	341
Hyundai Samho Heavy Industries Co., Ltd.(*3)		557,799	67	6,644	-
Hyundai Mipo Dockyard Co., Ltd.		503,756	12,705	-	-
Hyundai Engineering & Technology Co., Ltd.		860	25,053	-	-
Hyundai Oilbank Co., Ltd.		624	77,133	-	205
Hyundai Hyms Co., Ltd.		224	55,127	-	95
Hyundai Heavy Industries Mos Co., Ltd.		4,523	115,994	8	-
Hyundai Global Service Co., Ltd.		22,419	13,504	129	38,836
Hyundai Heavy Industries Power Systems Co., Ltd.(*4)		75	2,927	-	79
Hyundai Energy Solutions Co., Ltd.		821	-	-	-
International Maritime Industries Company		13,163	-	-	-
Others		7,137	739	550	2,713
		1,153,687	392,831	14,928	42,410
	₩	1,164,625	401,466	14,928	135,983

(\*1) Includes disposal of property, plant and equipment and others.

(\*2) Includes ₩995 millions of lease payment.

(\*3) As Hyundai Samho Heavy Industries Co., Ltd. has merged Hyundai Infra Solutions Co., Ltd for the year ended December 31, 2022, the transactions between the Group and Hyundai Infra Solutions Co., Ltd are included.

(\*4) As Hyundai Heavy Industries Power Systems Co., Ltd. has been separated, only transactions of January and February, 2022 are included.



HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**43. Related Parties, Continued**

(2) Transactions with related parties, continued

2) Outstanding balances as of December 31, 2023 and 2022 with related parties are as follows:

(In millions of won)

	2023			
	Trade receivables and other receivables		Trade payables and other payables	
	Trade receivables	Other receivables	Trade payables	Other Payables(*1)
<b>Ultimate parent</b>				
HD HYUNDAI CO., LTD.	₩ 111	4,194	189	14,610
<b>Intermediate parent</b>				
HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO., LTD.	8,243	37,226	49,256	612
<b>Associate</b>				
KC LNG Tech Co., Ltd.	-	-	746	-
<b>Others (large-scale corporate conglomerate)</b>				
HD Hyundai Robotics Co., Ltd	77	3,903	-	-
HD Hyundai Electric Co., Ltd.	2,008	2,032	32,065	95
HD Hyundai Construction Equipment Co., Ltd.	1,275	864	253	-
HD Hyundai Xitesolution Co., Ltd.	413	414	1,601	383
Hyundai Samho Heavy Industries Co., Ltd.	248,356	20,812	2,816	266,983
Hyundai Mipo Dockyard Co., Ltd.	106,817	155	1,872	167,026
HD Hyundai Engineering & Technology Co., Ltd	63	38	3,881	-
HD Hyundai Oilbank Co., Ltd.	118	99	25,893	-
Hyundai Hyms Co., Ltd.	15	3,499	5,980	-
HD Hyundai Marine Solution Co., Ltd.	1,945	3,432	17,783	917
HD Hyundai Energy Solutions Co., Ltd	58	6	-	-
Hyundai Arabia Company L.L.C(*2)	-	198,703	-	-
International Maritime Industries Company	6,830	-	-	-
Others	1,433	758	684	-
	369,408	234,715	92,828	435,404
₩	377,762	276,135	143,019	450,626

(\*1) Includes ₩15,194 million of lease liabilities.

(\*2) Provisions for bad debts are set for bonds, etc. to the related parties above. For the year ended December 31, 2023, the provision for bad debt of ₩198,608 million has been set, and there is no additional recognized expense for bad debt during the current period.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**43. Related Parties, Continued**

(2) Transactions with related parties, continued

2) Outstanding balances as of December 31, 2023 and 2022 with related parties are as follows, continued:

(In millions of won)

(In millions of won)

	2022				
	Trade receivables and other receivables		Trade payables and other payables		
	Trade receivables	Other receivables	Trade payables	Other Payables(*1)	
<b>Ultimate parent</b>					
HD HYUNDAI CO.,LTD. (formerly known as Hyundai Heavy Industries Holdings Co., Ltd.)	₩	18	4,267	38	19,259
<b>Intermediate parent</b>					
Korea Shipbuilding & Offshore Engineering Co., Ltd.		564	11,990	23,217	587
<b>Associate</b>					
KC LNG Tech Co.,Ltd.		-	-	368	-
<b>Others (large-scale corporate conglomerate)</b>					
Hyundai Robotics Co., Ltd.		78	3,940	32	-
Hyundai Electric & Energy Systems Co., Ltd.		3,990	1,729	3,768	1
Hyundai Construction Equipment Co., Ltd.		709	945	-	-
Hyundai Genuine Co., Ltd		161	335	100	356
Hyundai Samho Heavy Industries Co., Ltd.		133,325	35,550	-	54,419
Hyundai Mipo Dockyard Co., Ltd.		276,107	341	1,305	149,966
Hyundai Engineering & Technology Co., Ltd.		46	23	2,708	-
Hyundai Oilbank Co., Ltd.		221	78	797	-
Hyundai Hymys Co., Ltd.		20	5,001	2,018	-
Hyundai Heavy Industries Mos Co., Ltd.		353	385	18,467	-
Hyundai Global Service Co., Ltd.		3,058	1,745	9,282	407
Hyundai Energy Solutions Co., Ltd.		39	90	-	-
Hyundai Arabia Company L.L.C.(*2)		-	159,962	-	-
International Maritime Industries Company		6,290	-	-	-
Others		1,020	275	471	3
		425,417	210,399	38,948	205,152
₩	425,999	226,656	62,571	224,998	

(\*1) Includes ₩19,848 million of lease liabilities.

(\*2) Provisions for bad debts are set for bonds, etc. to the related parties above. For the year ended December 31, 2022, the provision for bad debt of ₩159,851 million has been set, and the reversion of provision for bad debt of ₩22,981 million has been recognized.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**43. Related Parties, Continued**

(2) Transactions with related parties, continued

3) The details of fund transactions with related parties for the years ended December 31, 2023 and 2022 are as follows:

(In thousands of foreign currency)

		2023				
		Currency	Beginning balance	Increase	Recover	Ending balance
Hyundai Arabia Company L.L.C.	Loans	USD	145,141	-	-	145,141
	Allowance for doubtful accounts	USD	(145,141)	-	-	(145,141)

(In thousands of foreign currency)

		2022				
		Currency	Beginning balance	Increase	Recover	Ending balance
Hyundai Arabia Company L.L.C.	Loans	USD	150,000	-	(4,859)	145,141
	Allowance for doubtful accounts	USD	(150,000)	-	4,859	(145,141)

- 4) During the current period, the Group transferred the small and medium-sized ship promotion package business and the ship equilibrium water treatment business to HD Korea Shipbuilding & Marine Engineering Co., Ltd., Intermediate parent, for ₩6,403 million and ₩1,730 million, respectively.
- (3) As of December 31, 2023, the Group has been provided with performance guarantees by the HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. in relation to the contracts of material supply, license, and service which the Group is executing with Saudi Engines Manufacturing Company.
- (4) The Group had provided guarantee for debts with HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. about loans for members of employee stock ownership acquisition allocated to the employee stock ownership association when HD HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD.'s capital increase in 2018. The guarantee terminated in March, 2022, and the Group provides collateral corresponding amount to 10% (₩4,100 million) of employee stock ownership acquisition loans to The Korea Securities Finance Corporation as of December 31, 2022.
- (5) The Parent company was newly established by dividing the Parent company from the HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. (Hyundai Heavy Industries Co., Ltd. before spin-off, existing entity) on June 1, 2019 (inception date) and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other products. In this regard, the Parent company is responsible for repaying the debts of HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. (Hyundai Heavy Industries Co., Ltd. before spin-off, existing entity) in solidarity.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**43. Related Parties, Continued**

- (6) As of December 31, 2023, the Group has been provided with constructive obligations by HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. for SHWE Phase 3 EPCIC Project construction contracts, amounting to USD 443,144 thousand.
- (7) As of December 31, 2023, the Group has been provided with constructive obligations by HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. for SHENANDOAH FPS Project construction contracts, amounting to USD 621,744 thousand.
- (8) As of December 31, 2023, the Group has been provided with constructive obligations by HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. for FPU Project construction contracts, amounting to USD 1,193,130 thousand.
- (9) Compensation for key management of the Group for the years ended December 31, 2023 and 2022 is as follows:

(In millions of won)

	<b>2023</b>	<b>2022</b>
Short-term salaries	₩ 2,762	2,663
Post-employment benefit costs	584	585
Other long-term benefits	108	-
	<b>₩ 3,454</b>	<b>3,248</b>

The above key management consists of directors and internal auditors who have important rights and responsibilities for the planning, operation and control of the Group.

**44. Purchase of investments in subsidiary**

- (1) The Group acquired the 95% shares of Hyundai Heavy Industries Argentina S.R.L and obtained control of the subsidiary.

In addition, The Group acquired the entire shares of HD Hyundai Heavy Industries MOS Co., Ltd. from HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. and obtained control of the subsidiary.

- (2) Transfer price and identifiable assets and liabilities acquired

- 1) As of the acquisition date of Hyundai Heavy Industries Argentina S.R.L., the fair value of transfer price and identifiable assets and liabilities on acquisition date are as follows:

- i) transfer price  
(In millions of won)

	<b>Amount</b>
Cash and cash equivalents	₩ 1

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**44. Purchase of investments in subsidiary, Continued**

(2) Transfer price and identifiable assets and liabilities acquired, continued

1) As of the acquisition date of Hyundai Heavy Industries Argentina S.R.L., the fair value of transfer price and identifiable assets and liabilities on acquisition date are as follows, continued:

ii) identifiable assets and liabilities

(In millions of won)

		<b>Amount</b>
<b>Assets:</b>		
Cash and cash equivalents	₩	837
Others		78
		915
<b>Liabilities:</b>		
Others		45
<b>Identifiable net assets</b>	₩	<b>870</b>

2) As of the acquisition date of HD Hyundai Heavy Industries MOS Co., Ltd., the fair value of transfer price and identifiable assets and liabilities on acquisition date is as follows:

i) transfer price

(In millions of won)

		<b>Amount</b>
Cash and cash equivalents	₩	14,613

ii) identifiable assets and liabilities

(In millions of won)

		<b>Amount</b>
<b>Assets:</b>		
Cash and cash equivalents	₩	11,496
Trade and other receivables		15,324
Property, plant and equipment		1,568
Intangible assets		77
Others		3,775
		32,240
<b>Liabilities:</b>		
Trade and other payables		16,826
Others		1,107
		17,933
<b>Identifiable net assets</b>	₩	<b>14,307</b>

(3) Change in ownership stake in a subsidiary

(In millions of won)

<b>Subsidiary</b>	<b>effective ownership ratio before transaction</b>	<b>effective ownership ratio after transaction</b>	<b>Reasons for change in ownership stake</b>	<b>Change in non-controlling interest</b>	<b>Change in controlling shareholders' shares</b>
Hyundai Heavy Industries Argentina S.R.L	95.00%	99.98%	Capital transactions within the Group and others	(38)	38

HD HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**45. Transfers of business**

The Group has transferred its medium-small ship propulsion package business and ship equilibrium water treatment business to its Intermediate parent, HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD., in response to the trends of electrification and decarbonization in the ship market. The transfers took place in May 2023 for ₩6,403 million and in August 2023 for ₩1,730 million. The details of the transferred assets/liabilities are as follows.

(1) Medium-small ship propulsion package business

(In millions of won)

	<b>Book value</b>
<b>Assets:</b>	
Cash and cash equivalents	₩ 9,595
Property, Plant, and Equipment	20
Intangible Assets	2,141
	₩ 11,756
<b>Liabilities:</b>	
Contract liabilities	₩ 9,595
Liabilities for defined benefit plans	491
	₩ 10,086

(2) Ship equilibrium water treatment business

(In millions of won)

	<b>Book value</b>
<b>Assets:</b>	
Cash and cash equivalents	₩ 873
Trade receivables	1,425
Inventories	562
Property, Plant, and Equipment	5
Intangible Assets	2,700
Prepaid expenses	50
<b>Total</b>	₩ 5,615
<b>Liabilities:</b>	
Contract liabilities	₩ 873
Trade payables	3,802
Liabilities for defined benefit plans	42
Provision for product warranty	308
Accrued expenses	29
<b>Total</b>	₩ 5,054

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**46. Subsequent Events**

(1) Public Bond Issuance

The Group has issued public bonds in Korean won to secure operating funds, and the details of the issuance are as follows:

*(In millions of won)*

<b>Type</b>	<b>Longest maturity date</b>	<b>Interest rate</b>		<b>Amount</b>
Korean won public bonds	2027-01-29	4.27%~4.60%	₩	200,000

(2) Merger

The Group obtained approval for the merger with HD Hyundai Heavy Industries MOS Co., Ltd. at the board of directors meeting on October 25, 2023 (substituting for the shareholders' meeting according to Article 527-3 (small merger) of the commercial act) with the purpose of enhancing operational efficiency and strengthening business competitiveness. The merger effective date is January 1, 2024.

#### Notice to Readers

This report is annexed in relation to the audit of the consolidated financial statements as of December 31, 2023 and the audit of internal control over financial reporting for consolidation Purposes pursuant to Article 8-7 of the *Act on External Audit for Stock Companies* of the Republic of Korea.



## **Independent Auditors' Report on Internal Control over Financial Reporting for Consolidation Purposes**

Based on a report originally issued in Korean

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

### ***Opinion on Internal Control over Financial Reporting for Consolidation Purposes***

We have audited HD Hyundai Heavy Industries Co., Ltd. and its subsidiaries (the "Group") internal control over financial reporting ("ICFR") for consolidation purposes as of December 31, 2023 based on the criteria established in the Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting for consolidation purposes as of December 31, 2023, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the consolidated financial statements of the Group, which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising material accounting policy information and other explanatory information, and our report dated as of March 18, 2024 expressed an unmodified opinion on those consolidated financial statements.

### ***Basis for Opinion on ICFR for Consolidation Purposes***

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the ICFR for Consolidation Purposes* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting for consolidation purposes in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management and Those Charged with Governance for ICFR for Consolidation Purposes***

The Group's management is responsible for designing, operating and maintaining effective ICFR for consolidation purposes and for its assessment of the effectiveness of ICFR for consolidation purposes, included in the accompanying Management's report on the effectiveness of the internal control over financial reporting for consolidation purposes.

Those charged with governance are responsible for overseeing the Group's internal control over financial reporting for consolidation purposes.

### ***Auditors' Responsibilities for the Audit of the ICFR for Consolidation Purposes***

Our responsibility is to express an opinion on the Group's ICFR for consolidation purposes based on our audit. We conducted our audit in accordance with KSAs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective ICFR for consolidation purposes was maintained in all material respects.

Our audit of ICFR for consolidation purposes included obtaining an understanding of ICFR for consolidation purposes, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.

**Definition and Limitations of ICFR for Consolidation Purposes**

A Group's internal control over financial reporting for consolidation purposes is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A Group's ICFR for consolidation purposes includes those policies and procedures that

- (1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with K-IFRS, and that receipts and expenditures of the Group are being made only in accordance with authorizations of management and directors of the Group; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Group's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, ICFR for consolidation purposes may not prevent or detect material misstatements in the consolidated 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.

The engagement partner on the audit resulting in this independent auditors' report is Dong Hyun Chi.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 18, 2024

<p>This report is effective as of March 18, 2024, 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 internal control over financial reporting for consolidation purposes. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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## **Management's report on the effectiveness of the internal control over financial reporting for Consolidation Purposes**

Based on a report originally issued in Korean

To the Shareholders, Board of Directors and Audit Committee of  
HD Hyundai Heavy Industries Co., Ltd.

We, as the Chief Executive Officer("CEO") and the Internal Control over Financial Reporting("ICFR") officer of HD Hyundai Heavy Industries Co., Ltd.("the Company"), assessed the effectiveness of the design and operation of the Company's ICFR for consolidation purposes for the year ended December 31, 2023.

The design and operation of ICFR for consolidation purposes is the responsibility of the Company's management, including the CEO and the ICFR officer.

We, as the CEO and ICFR officer, assessed whether the Company's ICFR for consolidation purposes has been effectively designed and operated in order to prevent and detect errors or fraud that may result in a misstatement of the consolidated financial statements to ensure preparation and disclosure of reliable consolidated financial statements.

We, as the CEO and ICFR officer, used the 'Conceptual Framework for designing and operating ICFR' established by the Operating Committee of ICFR (the "ICFR Committee") as the standard for the design and operation of the Company's ICFR for consolidation purposes. And, in assessing the design and operation of the ICFR, we assessed ICFR for consolidation purposes based on the 'Management Guideline for Evaluating and Reporting Effectiveness of ICFR' as established by the ICFR committee.

Based on our assessment, we conclude that the Company's ICFR for consolidation purposes is effectively designed and operated as of December 31, 2023, in all material respects, in accordance with the Conceptual Framework for designing and operating ICFR.

We, as the CEO and ICFR officer, confirm that this report does not contain or present any false statement of omit to state a fact necessary to be presented herein.

We also confirm that this report does not contain or present any statement which might cause material misunderstanding to the readers, and we have reviewed and verified this report with due care.

*February 6, 2024*

*Sang Kyun, Lee*  
*Chief Executive Officer*

*Byung Jo, Ko*  
*Internal Control over Financial Reporting Officer*