

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate 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 separate financial statements of HD Hyundai Heavy Industries Co., Ltd. (the "Company"), which comprise the separate statements of financial position as of December 31, 2023 and 2022, and the separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2023 and 2022, and its separate financial performance and its separate 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 Company's Internal Control over Financial Reporting ("ICFR") 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 Company'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 *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate 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 separate financial statements as of and for the year ended December 31, 2023. These matters were addressed in the context of our audit of the separate 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 separate financial statements, the Company 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 Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (ii) the Company's performance does not create an asset with an alternative use to the Company and the Company 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 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 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 plus recognized profits (less recognized losses).

(2) Uncertainty in the estimation of total contract costs

As described in Note 31 to the separate 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 separate financial statements as of and for the year ended December 31, 2023:

- Testing certain internal controls over the Company's determination of revenue recognition accounting policies
- Testing certain internal controls over the Company'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 31 to the separate financial statements, the Company should include only generated 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 31 to the separate 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 Company 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 constructions 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 31 to the separate financial statements, Heavy-Tail payment plan is a major collection terms of the Company. 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 Company'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 separate financial statements may differ from those generally accepted and applied in other countries.



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

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 separate 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 separate 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.
 Separate Statements of Financial Position
 As of December 31, 2023 and 2022

(In thousands of won)

| | <u>Note</u> | | <u>2023</u> | <u>2022</u> |
|---|-----------------|---|-----------------------|-----------------------|
| Assets | | | | |
| Cash and cash equivalents | 5,6,40,41 | ₩ | 900,193,712 | 723,249,202 |
| Short-term financial assets | 5,7,8,40,41 | | 131,000,000 | 161,000,000 |
| Trade and other receivables | 8,9,31,40,41,44 | | 1,383,651,159 | 1,156,122,321 |
| Contract assets | 31,40,41 | | 3,458,668,852 | 3,180,079,663 |
| Inventories | 10 | | 1,308,520,347 | 1,360,377,404 |
| Derivative assets | 26,40,41 | | 104,488,450 | 106,450,664 |
| Firm commitment assets | 26 | | 197,198,295 | 218,541,618 |
| Current tax assets | | | 5,401,223 | 5,146,866 |
| Other current assets | 11 | | 1,279,219,152 | 1,077,329,302 |
| Total current assets | | | <u>8,768,341,190</u> | <u>7,988,297,040</u> |
| Investments in subsidiary and associate | 12,13,44 | | 68,946,317 | 30,345,757 |
| Long-term financial assets | 5,7,8,15,40,41 | | 10,562,231 | 9,554,272 |
| Long-term trade and other receivables | 9,31,40,41,44 | | 168,168,131 | 176,738,787 |
| Investment property | 16 | | 1,418,248 | 1,457,516 |
| Property, plant and equipment | 17 | | 6,414,554,236 | 6,216,100,201 |
| Intangible assets | 19 | | 106,633,432 | 100,046,843 |
| Right-of-use assets | 18 | | 36,432,628 | 42,416,690 |
| Derivative assets | 26,40,41 | | 191,895,218 | 293,924,052 |
| Firm commitment assets | 26 | | 104,451,409 | 190,170,417 |
| Deferred tax assets | 37 | | 922,331,692 | 893,619,300 |
| Other non-current assets | 11,24 | | 330,439,363 | 340,424,046 |
| Total non-current assets | | | <u>8,355,832,905</u> | <u>8,294,797,881</u> |
| Total assets | | ₩ | <u>17,124,174,095</u> | <u>16,283,094,921</u> |

See accompanying notes to the separate financial statements.

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

(In thousands of won)

| | <u>Note</u> | <u>2023</u> | <u>2022</u> |
|--|--------------------|-----------------------|-----------------------|
| Liabilities | | | |
| Short-term financial liabilities | 5,21,23,40,41,42 ₩ | 1,560,030,665 | 1,444,632,171 |
| Current lease liabilities | 18,23,40,41 | 12,005,675 | 13,121,318 |
| Trade and other payables | 22,40,41,44 | 2,025,746,164 | 1,575,195,044 |
| Contract liabilities | 31 | 5,811,350,022 | 4,764,892,821 |
| Short-term provisions | 25,31,40,41 | 180,305,602 | 900,927,588 |
| Derivative liabilities | 26,40,41 | 306,545,962 | 316,553,631 |
| Firm commitment liabilities | 26 | 49,649,884 | 58,224,089 |
| Total current liabilities | | <u>9,945,633,974</u> | <u>9,073,546,662</u> |
| Long-term financial liabilities | 5,21,23,40,41,42 | 1,559,942,823 | 1,150,024,155 |
| Non-current lease liabilities | 18,23,40,41 | 26,059,302 | 30,331,121 |
| Long-term trade and other payables | 22,40,41,44 | 3,790,807 | 380,996 |
| Long-term contract liabilities | 31 | 10,278,198 | 10,551,260 |
| Liabilities for defined benefit plans | 24 | 30,857,205 | 28,462,252 |
| Non-current provisions | 25 | 50,595,840 | 279,550,656 |
| Derivative liabilities | 26,40,41 | 107,085,369 | 190,170,417 |
| Firm commitment liabilities | 26 | 180,944,865 | 229,959,123 |
| Total non-current liabilities | | <u>1,969,554,409</u> | <u>1,919,429,980</u> |
| Total liabilities | | <u>11,915,188,383</u> | <u>10,992,976,642</u> |
| Equity | | | |
| Common stock | 27 | 443,865,580 | 443,865,580 |
| Capital surplus | 27 | 3,120,677,461 | 3,118,364,962 |
| Capital adjustments | 28 | (1,411,000) | (1,411,000) |
| Accumulated other comprehensive income | 26,29 | 871,875,065 | 881,829,100 |
| Retained earnings | 30 | 773,978,606 | 847,469,637 |
| Total equity | | <u>5,208,985,712</u> | <u>5,290,118,279</u> |
| Total liabilities and equity | ₩ | <u>17,124,174,095</u> | <u>16,283,094,921</u> |

See accompanying notes to the separate financial statements.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
 Separate 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 | 26,31,32,40,44 ₩ | 11,957,982,952 | 9,065,348,185 |
| Cost of sales | 10,26,34,40,44 | 11,309,469,301 | 8,902,373,908 |
| Gross profit | | 648,513,651 | 162,974,277 |
| Selling, general and administrative expenses | 33,34,40 | 470,707,675 | 449,771,525 |
| Operating profit (loss) | | 177,805,976 | (286,797,248) |
| Finance income | 26,35,40 | 627,736,808 | 1,139,051,565 |
| Finance costs | 26,35,40 | 1,123,425,805 | 1,591,454,391 |
| Other non-operating income | 26,36,40 | 579,095,017 | 812,607,188 |
| Other non-operating expenses | 26,36,40 | 231,201,855 | 492,902,079 |
| Profit (loss) before income tax | | 30,010,141 | (419,494,965) |
| Income tax expense (benefit) | 37 | 8,680,683 | (69,419,163) |
| Profit (loss) for the year | | 21,329,458 | (350,075,802) |
| Other comprehensive income (loss) | 26,29,40 | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Effective portion of changes in fair value of cash flow hedges | | (10,298,671) | 525,597 |
| Total items that are or may be reclassified subsequently to profit or loss | | (10,298,671) | 525,597 |
| Items that will not be reclassified to profit or loss: | | | |
| Changes in fair value of financial assets measured at FVOCI | | (63) | (186) |
| Actuarial gains and losses | | (95,215,051) | 43,307,734 |
| Revaluation of property, plant and equipment | | 739,261 | 2,227,649 |
| Total items that will not be reclassified to profit or loss | | (94,475,853) | 45,535,197 |
| Other comprehensive income (loss) for the year, net of income tax | | (104,774,524) | 46,060,794 |
| Total comprehensive loss for the year | | ₩ (83,445,066) | (304,015,008) |
| Earnings (loss) per share | | | |
| Basic earnings (loss) per share (In won) | 38 | ₩ 240 | (3,943) |

See accompanying notes to the separate financial statements.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
Separate 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 | Total equity |
|--|---|--------------------|----------------------|------------------------|---|----------------------|----------------------|
| Balance at January 1, 2022 | ₩ | 443,865,580 | 3,118,364,962 | (1,411,000) | 881,517,909 | 1,151,795,836 | 5,594,133,287 |
| Total comprehensive income (loss) for the year | | | | | | | |
| Loss for the year | | - | - | - | - | (350,075,802) | (350,075,802) |
| 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 |
| Other | | | | | | | |
| Reclassification of revaluation surplus | | - | - | - | (2,441,869) | 2,441,869 | - |
| Balance at December 31, 2022 | ₩ | <u>443,865,580</u> | <u>3,118,364,962</u> | <u>(1,411,000)</u> | <u>881,829,100</u> | <u>847,469,637</u> | <u>5,290,118,279</u> |
| Balance at January 1, 2023 | ₩ | 443,865,580 | 3,118,364,962 | (1,411,000) | 881,829,100 | 847,469,637 | 5,290,118,279 |
| Total comprehensive income (loss) for the year | | | | | | | |
| Profit for the year | | - | - | - | - | 21,329,458 | 21,329,458 |
| 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 | | - | - | - | - | (95,215,051) | (95,215,051) |
| Revaluation of property, plant and equipment | | - | - | - | 739,261 | - | 739,261 |
| Other | | | | | | | |
| Changes in other capital surplus | | - | 2,312,499 | - | - | - | 2,312,499 |
| Reclassification of revaluation surplus | | - | - | - | (394,562) | 394,562 | - |
| Balance at December 31, 2023 | ₩ | <u>443,865,580</u> | <u>3,120,677,461</u> | <u>(1,411,000)</u> | <u>871,875,065</u> | <u>773,978,606</u> | <u>5,208,985,712</u> |

See accompanying notes to the separate financial statements.

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

(In thousands of won)

| | <u>Note</u> | <u>2023</u> | <u>2022</u> |
|--|-------------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Profit (loss) for the year | ₩ | 21,329,458 | (350,075,802) |
| Adjustments | | <u>229,774,844</u> | <u>456,070,392</u> |
| Cash generated from operations | 39 | 251,104,302 | 105,994,590 |
| Interest received | | 47,931,597 | 41,090,669 |
| Interest paid | | (115,960,281) | (76,706,938) |
| Dividends received | | 20,568 | 37,708 |
| Income taxes refund (paid) | | <u>(2,463,062)</u> | <u>(4,727,117)</u> |
| Net cash provided by operating activities | | <u>180,633,124</u> | <u>65,688,912</u> |
| Cash flows from investing activities | | | |
| 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 | | 2,114,047 | 151,655 |
| Proceeds from sales of property, plant and equipment | | 9,952,748 | 12,796,136 |
| 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 investments in subsidiary and associate | | (41,418,513) | (29,000,000) |
| Proceeds from sales of investments in subsidiary and associate | | - | 165,115 |
| Acquisition of long-term financial assets | | (1,007,959) | - |
| Acquisition of long-term other receivables | | (164,977) | (4,469,669) |
| Acquisition of property, plant and equipment | | (461,784,185) | (476,532,164) |
| Acquisition of intangible assets | | (34,365,704) | (29,239,143) |
| Decrease in cash from business transfers | | <u>(3,192,000)</u> | <u>-</u> |
| Net cash used in investing activities | | <u>(499,009,139)</u> | <u>(523,977,860)</u> |
| Cash flows from financing activities | | | |
| Proceeds from short-term financial liabilities | | 878,475,914 | 621,413,028 |
| Proceeds from long-term financial liabilities | | 1,520,610,000 | 365,490,000 |
| Repayment of financial liabilities | | (1,882,523,741) | (1,919,105,866) |
| Repayment of lease liabilities | | <u>(13,766,571)</u> | <u>(9,609,449)</u> |
| Net cash provided (used in) financing activities | | <u>502,795,602</u> | <u>(941,812,287)</u> |
| Effects of exchange rate changes on cash and cash equivalents | | <u>(7,475,077)</u> | <u>(13,775,202)</u> |
| Net increase (decrease) in cash and cash equivalents | | 176,944,510 | (1,413,876,437) |
| Cash and cash equivalents at January 1 | | <u>723,249,202</u> | <u>2,137,125,639</u> |
| Cash and cash equivalents at December 31 | ₩ | <u>900,193,712</u> | <u>723,249,202</u> |

See accompanying notes to the separate financial statements.

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

1. Reporting Entity

HD Hyundai Heavy Industries Co., Ltd. (the "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 Company was listed on the Korea Exchange in September 2021. The Company's head office is located in Ulsan. As of December 31, 2023, the Company's major stockholder is the HD Korea Shipbuilding & Offshore Engineering Co., Ltd. (78.0%).

2. Basis of Preparation

The separate financial statements have been prepared 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.

These financial statements are separate financial statements in accordance with K-IFRS No.1027, '*Separate Financial Statements*' presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate 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 separate 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 separate financial statements are prepared and presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates. The Company's financial statements are prepared and presented in Korean won, which is the Company's functional currency and presentation currency.

(3) Use of estimates and judgments

The preparation of the separate 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.

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2. Basis of Preparation, Continued

(3) Use of estimates and judgments, continued

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 separate financial statements is included in the following notes:

- Note 4: Lease term – whether the Company is reasonably certain to exercise extension options;
- Note 4: Timing of revenue recognition;
- Note 13: Investment in associates - whether the Company has significant influence over an investee;
- Note 14: Classification of joint arrangements; and
- Note 16: Classification of investment property

(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 41: Measurement of expected credit loss on trade receivables and contract assets – key assumption about determining weighted-average loss rate;
- Note 11, 17 and 19: Impairment test – key assumptions underlying recoverable amounts, including the recoverability of other current assets, property and intangible assets;
- Note 24: Measurement of defined benefit obligations – key actuarial assumptions;
- Note 25, 42 and 43: Recognition and measurement of provisions and contingencies – key assumption about the likelihood and magnitude of an outflow of resources;
- Note 31: Revenue recognition in proportion to the stage of completion, the estimates of total contract costs; and
- Note 37: Measurement of deferred tax

(iii) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company 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 Company's Audit Committee.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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2. Basis of Preparation, Continued

(3) Use of estimates and judgments, continued

(iii) Measurement of fair value, continued

When measuring the fair value of an asset or a liability, the Company 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 Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

- Note 15: Financial assets measured at fair value;
- Note 16: Investment property;
- Note 17: Property, plant and equipment; and
- Note 41: Financial instruments.

3. Changes in Accounting Policies

(1) New and revised standards adopted by the Company

The Company has applied the following standards and interpretations for the first time for their annual reporting period commencing January 1, 2023. The Company 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 Company 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 Company applied the amendments to transactions that occur on or after the beginning of the earliest period presented.

Following the amendments, the Company 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 Company 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.

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3. Changes in Accounting Policies, Continued

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

(ii) Global minimum tax, continued

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 Company 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.

(iii) Material accounting policy

The Company 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 Company in the preparation of the separate 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 separate financial statements except for the changes in accounting policies as explained in Note 3.

The Company 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) Subsidiaries and equity-accounted investees in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No.1027, '*Separate Financial Statements*'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No.1027 '*Separate Financial Statements*'. Dividends from subsidiaries or associates are recognized in profit or loss when the right to receive the dividend is established.

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4. Material Accounting Policies, Continued

(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 Company 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. However, the uninstalled goods are valued at acquisition cost using the individual method.

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 Company 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 Company 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.

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 26).

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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4. Material Accounting Policies, Continued

(4) Non-derivative financial assets, continued

(ii) Classification and subsequent measurement, continued

(b) Financial assets - Business model assessment

The Company 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 Company'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 Company'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 Company 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 Company 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 Company's claim to cash flows from specified assets (e.g., non-recourse features)

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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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 Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company 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 Company 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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Notes to the Separate Financial Statements
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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 Company holds forward exchange contracts to manage foreign exchange risk. The Company 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 Company 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 separate financial statements of comprehensive income. The Company 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 Company 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 Company 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.

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

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company 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 Company 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 Company on terms that the Company 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'.

(iv) Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company 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 Company's procedures for recovery of amounts due.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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4. Material Accounting Policies, Continued

(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 Company's property, plant and equipment are as follows:

| | <u>Useful lives (years)</u> |
|-------------------------------|-----------------------------|
| Buildings | 25~50 |
| 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.

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

(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:

| | <u>Useful lives (years)</u> |
|-----------|-----------------------------|
| Buildings | 50 |

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4. Material Accounting Policies, Continued

(10) Impairment of non-financial assets

The carrying amounts of the Company'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.

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4. Material Accounting Policies, Continued

(11) Leases

(i) As a lessee

The Company applies one recognition and measurement approach for all leases, except for short-term leases and leases of small underlying assets. The Company, 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 Company 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 Company 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.

(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 company 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 Company 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 Company also applies the exemption from recognition for small asset leases to leases of office supplies, which are considered small assets. The Company 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 Company 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.

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4. Material Accounting Policies, Continued

(12) Contract assets and contract liabilities

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

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

Contract liabilities are the Company'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 Company's rights to receive the payment. The Company offsets the contract assets and contract liabilities arising from one contract and presents them in the separate 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.

(13) Non-derivative financial liabilities

The Company 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 Company 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 Company'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 Company, 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 Company 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 Company can no longer withdraw the offer of those benefits and when the Company 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 termination benefits are due 12 months after the reporting period, they are discounted to their present value.

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4. Material Accounting Policies, Continued

(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 Company recognizes any impairment loss on the assets associated with that contract.

(iv) Other provision

In accordance with the announced environmental policy and appropriate legal requirements, the Company 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 Company 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 Company 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.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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4. Material Accounting Policies, Continued

(16) Emissions rights, continued

(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.

(18) Revenue from contracts with customers

Under K-IFRS No.1115, revenue is recognized when the Company 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 Company considers if significant benefit of financing is provided to the customer or the Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company resale the asset in accordance with the contractual process.

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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

Consequently, if the Company's performance does not create an asset with an alternative use to the Company and the Company has enforceable right to payment for performance completed to date. The Company 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 Company's performance in transferring control of goods or services promised to a customer, towards complete satisfaction of that performance obligation.

If the Company 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 Company without undue cost. Therefore, the Company 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 Company'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 Company'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.

The construction contracts of the Company 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 Company recognizes revenue over time for performance obligations satisfied over time.

- i) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- ii) the Company'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 Company's performance in transferring control of goods or services promised to a customer, towards complete satisfaction of that performance obligation. If the Company 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 Company without undue cost. Therefore, the Company 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 Company'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 Company'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.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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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 timing of satisfaction of performance obligations is when the assets held by the Company are transferred to and controlled by the customer, and the Company 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 Company transfers physical possession of the asset to the customer.

(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 Company 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 Company forecasts its expected costs of satisfying a performance obligation and then add on appropriate margin for that good or service.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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For the years ended December 31, 2023 and 2022

4. Material Accounting Policies, Continued

(18) Revenue from contracts with customers, continued

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

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 Company recognizes revenue by deducting the estimated amount incurred by the contract terms from the contract price.

(19) Finance income and finance costs

The Company'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 26).

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 Company'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.

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 Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. The Company 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.

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4. Material Accounting Policies, Continued

(20) Income tax, continued

(ii) Deferred tax, continued

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 Company 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 Company 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 Company divides operating segments basis on internal reports that the Company'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 32 the Company 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 Company for the year beginning on January 1, 2023, and the Company 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 Company.

- 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 Company has exposure to the following risks arising from financial instruments:

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

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

(1) Financial risk management

- 1) Risk management framework

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, 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.

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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5. Risk Management, Continued

(1) Financial risk management, continued

1) Risk management framework, continued

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade and other receivables from customers and investments.

(i) Trade and other receivables and contract assets

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Most of the Company'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 Company 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 Company 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 Company 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 Company provides financial guarantees to other related parties if necessary.

3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company has historically been able to satisfy its cash requirements from cash flow from operations and debt or equity financing. If the Company cannot generate sufficient cash flow from operations to meet its cash requirements, the Company 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 Company'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 Company 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 Company. Generally, the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

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

The Company hedges trade receivables and trade payables denominated in a foreign currency in respect of forecasted sales and purchases. The Company 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 Company 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 Company 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 Company's profit or loss is avoided.

(iii) Other market price risk

The Company 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 Company monitors the liability to equity ratio and net borrowing to equity ratio, which the Company defines as total liabilities divided by total equity and net borrowing divided by total equity.

The Company'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)

| | | 2023 | 2022 |
|-----------------------------------|---|-------------|-------------|
| Total liabilities | ₩ | 11,915,188 | 10,992,977 |
| Total equity | | 5,208,986 | 5,290,118 |
| Cash and deposits(*1) | | 1,031,202 | 884,257 |
| Borrowings(*2) | | 3,119,973 | 2,594,656 |
| Liability to equity ratio | | 228.74% | 207.80% |
| Net borrowing to equity ratio(*3) | | 40.10% | 32.33% |

(*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> | | <u>2023</u> | <u>2022</u> |
|---|---|-------------|-------------|
| 1. Operating profit(loss) | ₩ | 177,806 | (286,797) |
| 2. Interest expenses | | 131,205 | 105,906 |
| 3. Interest coverage ratio(1÷2) | | 1.36 | (*) |

(*) The interest coverage ratio was not calculated due to operating losses for the years 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> | | <u>2023</u> | <u>2022</u> |
|-----------------------------|---|----------------|----------------|
| Cash | ₩ | 57 | 57 |
| Current deposit | | 8,753 | 3,954 |
| MMDA and others | | 891,384 | 719,238 |
| | ₩ | <u>900,194</u> | <u>723,249</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> | | <u>2023</u> | | <u>2022</u> | |
|------------------------------------|---|----------------|--------------------|----------------|--------------------|
| | | <u>Current</u> | <u>Non-current</u> | <u>Current</u> | <u>Non-current</u> |
| 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> | | <u>2023</u> | <u>2022</u> | <u>Restrictions</u> |
|---------------------------------|---|-------------|-------------|--|
| Other receivables | ₩ | - | 4,100 | Collateral deposit |
| Long-term financial instruments | | 8 | 8 | Guarantee deposits for checking accounts |

The Company has deposited ₩131,000 million in financial institutions to provide financial support to the Company'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)

| | 2023 | | 2022 | |
|---------------------------------|--------------------|----------------|------------------|----------------|
| | Current | Non-current | Current | Non-current |
| Trade receivables: | | | | |
| Trade receivables | ₩ 1,722,288 | 279,046 | 1,516,804 | 316,995 |
| Allowance for doubtful accounts | (624,616) | (118,343) | (617,794) | (151,542) |
| | <u>1,097,672</u> | <u>160,703</u> | <u>899,010</u> | <u>165,453</u> |
| Other receivables: | | | | |
| Other accounts receivables | 429,241 | 1,439 | 396,200 | 2,878 |
| Allowance for doubtful accounts | (160,710) | - | (157,004) | (1) |
| Accrued income | 54,240 | - | 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 | 847 | 5,916 | 369 | 7,606 |
| | <u>285,979</u> | <u>7,465</u> | <u>257,112</u> | <u>11,286</u> |
| | <u>₩ 1,383,651</u> | <u>168,168</u> | <u>1,156,122</u> | <u>176,739</u> |

(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 | - |
| Ending balance | <u>₩ 1,103,903</u> | <u>1,088,044</u> |

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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 | ₩ | 498,913 | (17,448) | 481,465 | 443,132 | (11,614) | 431,518 |
| Raw materials | | 543,667 | (2,971) | 540,696 | 547,692 | (3,995) | 543,697 |
| Supplies | | 18,293 | - | 18,293 | 15,450 | - | 15,450 |
| Materials-in-transit | | 268,066 | - | 268,066 | 369,712 | - | 369,712 |
| | ₩ | <u>1,328,939</u> | <u>(20,419)</u> | <u>1,308,520</u> | <u>1,375,986</u> | <u>(15,609)</u> | <u>1,360,377</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.

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 | ₩ | 1,087,237 | - | 874,638 | - |
| Accumulated impairment loss | | (984) | - | - | - |
| Prepaid expenses | | 196,415 | 702 | 179,876 | 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 | | - | 221,290 | - | 237,970 |
| | ₩ | <u>1,279,219</u> | <u>330,439</u> | <u>1,077,329</u> | <u>340,424</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.

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12. Investments in Subsidiaries

In March 2023, the Company acquired a subsidiary in Argentina, Hyundai Heavy Industries Argentina S.R.L., to carry out construction work for local construction. In addition, in November 2023, the Company acquired the entire equity shares of HD Hyundai Heavy Industries MOS CO., Ltd from HD Korea Shipbuilding & Offshore Engineering Co., Ltd., which is the intermediate parent of the Company, to improve management efficiency. In January 2022, the Company acquired the entire shares of HD Hyundai Engine Company Ltd. from HD Korea Shipbuilding & Offshore Engineering Co., Ltd., which is the intermediate parent of the Company.

Investments in subsidiaries as of December 31, 2023 and 2022 are summarized as follows:

(In millions of won, except percentage of ownership)

| <u>Company</u> | <u>Location</u> | <u>Fiscal year end</u> | <u>Main business</u> | <u>Ownership (%)</u> | <u>2023 Carrying amount</u> | <u>2022 Carrying amount</u> |
|---|-----------------|------------------------|--|----------------------|-----------------------------|-----------------------------|
| HD Hyundai Engine Company Ltd. | South Korea | December | Manufacture of internal combustion engines | 100.00 | ₩ 54,000 | 29,000 |
| Hyundai Heavy Industries Argentina S.R.L | Argentina | December | Construction | 99.98 | 1,805 | - |
| HD Hyundai Heavy Industries MOS CO., Ltd. | South Korea | December | Business facility maintenance services | 100.00 | 11,795 | - |
| | | | | | ₩ <u>67,600</u> | <u>29,000</u> |

13. Investment in Associate

In December 2020, the Company acquired shares of KC LNG Tech Co., Ltd. from HD Korea Shipbuilding & Offshore Engineering Co., Ltd., which is the intermediate parent of the Company.

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

(In millions of won, except percentage of ownership)

| <u>Company</u> | <u>Location</u> | <u>Fiscal year end</u> | <u>Main business</u> | <u>Ownership (%)</u> | <u>2023 Carrying amount</u> | <u>2022 Carrying amount (*2)</u> |
|---------------------------|-----------------|------------------------|----------------------------|----------------------|-----------------------------|----------------------------------|
| KC LNG Tech Co., Ltd.(*1) | South Korea | December | Other engineering services | 16.60 | ₩ 1,346 | 1,346 |

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

(*2) As indications of impairment to the investment in associate were identified, the impairment loss of ₩2,090 million was recognized as non-operating expenses for the year ended December 31, 2022.

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14. 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 Company 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 Company. The Company 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 Company 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 Company. The Company 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.

15. 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)

| | | 2023 | 2022 |
|---------------------------------------|---|-------------|-------------|
| | | Non-current | Non-current |
| Unlisted equity securities: | | | |
| 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)

| | | 2023 | 2022 |
|--------------------------------------|---|--------------|--------------|
| | | Non-current | Non-current |
| Investments in capital(*): | | | |
| 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 | - |
| | ₩ | <u>8,816</u> | <u>7,808</u> |

(*) 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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16. Investment Property

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

(In millions of won)

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

(In millions of won)

| | | 2022 | | |
|-------------------|---|-------------|------------------|--------------|
| | | Land | Buildings | Total |
| 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)

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

(In millions of won)

| | | 2022 | | |
|--------------------------|---|-------------|------------------|--------------|
| | | Land | Buildings | Total |
| 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)

| | | 2023 | 2022 |
|---|---|-------------|-------------|
| Rental income | ₩ | 19 | 7 |
| Operating and maintenance expense arising from investment property that generated rental income | | 54 | 54 |

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16. Investment Property, Continued

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

| <i>(In millions of won)</i> | | <u>2023</u> | <u>2022</u> |
|-----------------------------|---|--------------|--------------|
| Land | ₩ | 857 | 935 |
| Buildings | | <u>1,877</u> | <u>2,330</u> |
| | | <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 Company 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.

17. Property, Plant and Equipment

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

| <i>(In millions of won)</i> | | <u>2023</u> | | | | | | |
|-----------------------------|---|------------------|------------------|-------------------|--------------------------------|---------------------------------|----------------|------------------|
| | | <u>Land</u> | <u>Buildings</u> | <u>Structures</u> | <u>Machinery and equipment</u> | <u>Construction in-progress</u> | <u>Others</u> | <u>Total</u> |
| Beginning balance | ₩ | 3,141,480 | 1,033,227 | 832,278 | 532,640 | 297,744 | 378,731 | 6,216,100 |
| Acquisitions(*) | | 3,048 | 9,039 | 4,621 | 238,820 | 107,289 | 107,602 | 470,419 |
| Conversions | | 2 | 58,087 | 39,577 | 8,897 | (122,765) | 8,468 | (7,734) |
| Disposals | | (832) | (64) | (927) | (2,391) | - | (394) | (4,608) |
| Depreciation | | - | (41,276) | (31,919) | (107,007) | - | (71,194) | (251,396) |
| Impairment | | - | (1,183) | (1,314) | (4,590) | - | (1,140) | (8,227) |
| Ending balance | ₩ | <u>3,143,698</u> | <u>1,057,830</u> | <u>842,316</u> | <u>666,369</u> | <u>282,268</u> | <u>422,073</u> | <u>6,414,554</u> |

(*) The amount of expenditures related to the acquisition of construction in-progress is ₩99,411 million for the year ended December 31, 2023.

| <i>(In millions of won)</i> | | <u>2022</u> | | | | | | |
|-----------------------------|---|------------------|------------------|-------------------|--------------------------------|---------------------------------|----------------|------------------|
| | | <u>Land</u> | <u>Buildings</u> | <u>Structures</u> | <u>Machinery and equipment</u> | <u>Construction in-progress</u> | <u>Others</u> | <u>Total</u> |
| Beginning balance | ₩ | 3,141,860 | 1,057,183 | 826,615 | 505,589 | 107,517 | 347,488 | 5,986,252 |
| Acquisitions(*) | | - | 2,169 | 5,311 | 115,008 | 263,222 | 95,702 | 481,412 |
| Conversions | | - | 15,556 | 34,197 | 14,170 | (72,995) | 6,179 | (2,893) |
| Disposals | | (380) | (301) | (41) | (4,170) | - | (1,833) | (6,725) |
| Depreciation | | - | (39,814) | (30,871) | (97,223) | - | (66,154) | (234,062) |
| Impairment | | - | (1,566) | (2,933) | (734) | - | (2,651) | (7,884) |
| Ending balance | ₩ | <u>3,141,480</u> | <u>1,033,227</u> | <u>832,278</u> | <u>532,640</u> | <u>297,744</u> | <u>378,731</u> | <u>6,216,100</u> |

(*) The amount of expenditures related to the acquisition of construction in-progress is ₩263,847 million for the year ended December 31, 2022.

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17. 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 | | | | | | Total |
|--------------------------|-------------|-----------|------------|-------------------------|--------------------------|-------------|-------------|
| | Land | Buildings | Structures | Machinery and equipment | Construction in-progress | Others | |
| Acquisition cost | 3,143,698 | 1,977,456 | 1,605,757 | 3,174,078 | 282,268 | 1,830,629 | 12,013,886 |
| Accumulated depreciation | - | (854,130) | (644,006) | (2,420,044) | - | (1,329,109) | (5,247,289) |
| Accumulated impairment | - | (65,496) | (119,435) | (87,665) | - | (79,447) | (352,043) |
| Ending balance | ₩ 3,143,698 | 1,057,830 | 842,316 | 666,369 | 282,268 | 422,073 | 6,414,554 |

(In millions of won)

| | 2022 | | | | | | Total |
|--------------------------|-------------|-----------|------------|-------------------------|--------------------------|-------------|-------------|
| | Land | Buildings | Structures | Machinery and equipment | Construction in-progress | Others | |
| Acquisition cost | 3,141,480 | 1,910,518 | 1,564,545 | 2,984,988 | 297,744 | 1,766,622 | 11,665,897 |
| Accumulated depreciation | - | (812,977) | (614,138) | (2,367,942) | - | (1,304,627) | (5,099,684) |
| Accumulated impairment | - | (64,314) | (118,129) | (84,406) | - | (83,264) | (350,113) |
| Ending balance | ₩ 3,141,480 | 1,033,227 | 832,278 | 532,640 | 297,744 | 378,731 | 6,216,100 |

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

(4) Impairment losses

The Company performed an impairment assessment of CGU assets for which indicators of impairment existed and recognized an impairment loss of ₩5,887 million (2022: KRW 5,386 million) on 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 Company evaluated impairment loss caused by property, plant and equipment not in use, and an impairment loss was recognized in the amount of ₩2,340 million for the year ended December 31, 2023. The Company 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 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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17. Property, Plant and Equipment, Continued

| 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). |
| 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 Company tests for goodwill impairment on CGU annually. The Company, 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 Company 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.

As of December 31, 2023, the recoverable amount of the CGU was determined to be its value in use, which exceeds its carrying amount. The discount rate and permanent growth rate, which are basically used when testing for impairment on CGU were calculated by considering 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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17. Property, Plant and Equipment, Continued

(5) Land revaluation

The Company applied revaluation model on land and for the year ended December 31, 2020 the Company 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:

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

(In millions of won)

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.

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18. 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 | Buildings | Machinery and equipment | Others | Total |
| Beginning balance | ₩ 14,194 | 24,750 | 199 | 3,274 | 42,417 |
| Additions | 2,738 | 4,742 | - | 1,516 | 8,996 |
| Termination/Cancellation | (12) | (201) | - | - | (213) |
| Depreciation | (3,791) | (8,427) | (147) | (2,402) | (14,767) |
| Ending balance | ₩ <u>13,129</u> | <u>20,864</u> | <u>52</u> | <u>2,388</u> | <u>36,433</u> |

(In millions of won)

| | 2022 | | | | |
|--------------------------|-----------------|------------------|--------------------------------|---------------|---------------|
| | Land | Buildings | Machinery and equipment | Others | Total |
| Beginning balance | ₩ 13,081 | 3,261 | - | 1,564 | 17,906 |
| Additions | 5,082 | 26,321 | 224 | 3,221 | 34,848 |
| Termination/Cancellation | - | - | - | (80) | (80) |
| Conversions | - | 972 | - | - | 972 |
| Depreciation | (3,969) | (5,804) | (25) | (1,431) | (11,229) |
| Ending balance | ₩ <u>14,194</u> | <u>24,750</u> | <u>199</u> | <u>3,274</u> | <u>42,417</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 | 17,448 | 30,097 | 224 | 5,537 | 53,306 |
| Accumulated depreciation | (4,319) | (9,233) | (172) | (3,149) | (16,873) |
| Ending balance | ₩ <u>13,129</u> | <u>20,864</u> | <u>52</u> | <u>2,388</u> | <u>36,433</u> |

(In millions of won)

| | 2022 | | | | |
|--------------------------|-----------------|------------------|--------------------------------|---------------|---------------|
| | Land | Buildings | Machinery and equipment | Others | Total |
| Acquisition cost | 18,260 | 30,472 | 224 | 4,861 | 53,817 |
| Accumulated depreciation | (4,066) | (5,722) | (25) | (1,587) | (11,400) |
| Ending balance | ₩ <u>14,194</u> | <u>24,750</u> | <u>199</u> | <u>3,274</u> | <u>42,417</u> |

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18. 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> | | 2023 | 2022 |
|-------------------------------|---|---------------|---------------|
| Current lease liabilities | ₩ | 12,006 | 13,121 |
| Non-current lease liabilities | | 26,059 | 30,331 |
| | ₩ | <u>38,065</u> | <u>43,452</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> | | 2023 | | | | |
|-----------------------------|---|------------------------|--------------------------------|-------------------------|------------------|--------------------------|
| | | Carrying amount | Contractual Cashflow(*) | Less than 1 year | 1~3 years | More than 3 years |
| Lease liabilities | ₩ | 38,065 | 40,307 | 12,011 | 18,483 | 9,813 |

(*) Undiscounted lease payments

| <i>(In millions of won)</i> | | 2022 | | | | |
|-----------------------------|---|------------------------|--------------------------------|-------------------------|------------------|--------------------------|
| | | Carrying amount | Contractual Cashflow(*) | Less than 1 year | 1~3 years | More than 3 years |
| Lease liabilities | ₩ | 43,452 | 44,591 | 13,465 | 17,336 | 13,790 |

(*) 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> | | 2023 | 2022 |
|---|---|-------------|-------------|
| Depreciation on right-of-use assets(*) | ₩ | 14,767 | 11,229 |
| Interest expense on lease liabilities | | 1,094 | 691 |
| Short-term lease payment(*) | | 20,023 | 9,393 |
| Payments for leases of low-value assets not short-term lease(*) | | 124 | 77 |

(*) 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 ₩34,688 million and ₩19,414 million.

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19. 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 | 41,488 | 100,047 |
| Acquisition | | 34,366 | - | 34,366 |
| Reclassification | | (4,843) | - | (4,843) |
| Amortization | | (9,146) | (564) | (9,710) |
| Impairment (*1) | | (13,227) | - | (13,227) |
| Ending balance | ₩ | 65,709 | 40,924 | 106,633 |

(*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 | - | 29,239 |
| Conversion | | - | (771) | (771) |
| Amortization | | (7,272) | (564) | (7,836) |
| Impairment (*1) | | (43) | - | (43) |
| Ending balance | ₩ | 58,559 | 41,488 | 100,047 |

(*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 | ₩ | 107,505 | 44,075 | 151,580 |
| Accumulated amortization | | (28,028) | (1,457) | (29,485) |
| Accumulated impairment | | (13,768) | (1,694) | (15,462) |
| Ending balance | ₩ | 65,709 | 40,924 | 106,633 |

(In millions of won)

| | | 2022 | | |
|--------------------------|---|-------------------|---------|----------|
| | | Development costs | Others | Total |
| Acquisition cost | ₩ | 77,982 | 44,075 | 122,057 |
| Accumulated amortization | | (18,882) | (893) | (19,775) |
| Accumulated impairment | | (541) | (1,694) | (2,235) |
| Ending balance | ₩ | 58,559 | 41,488 | 100,047 |

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19. Intangible Assets, Continued

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

| <i>(In millions of won)</i> | | <u>2023</u> | <u>2022</u> |
|--------------------------------|--|-----------------|---------------|
| 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 | 100 | 55 |
| | | <u>₩ 9,146</u> | <u>7,272</u> |

20. Emissions rights and Liabilities

- (1) The Company 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:

| <i>(In ton)</i> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> | <u>2025</u> | <u>Total</u> |
|---|-------------|-------------|-------------|-------------|-------------|--------------|
| 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:

| <i>(In ton)</i> | Emissions Rights Quantity of 2023 | | | | |
|--|--|-------------|-----------------|----------------|----------------|
| | <u>2021</u> | <u>2022</u> | <u>2023(*1)</u> | <u>2024</u> | <u>2025</u> |
| 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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20. Emissions rights and Liabilities, Continued

| <i>(In ton)</i> | 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 Company's GHG emissions estimate for the current year is 639,429 tons.

21. 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:

| <i>(In millions of won)</i> | 2023 | | 2022 | |
|-----------------------------|----------------|--------------------|----------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Borrowings | ₩ 960,379 | 850,000 | 1,384,655 | 276,730 |
| Bonds | 599,880 | 710,820 | 60,000 | 873,650 |
| Discount on bonds | (228) | (877) | (23) | (356) |
| | ₩ 1,560,031 | 1,559,943 | 1,444,632 | 1,150,024 |

22. Trade and Other Payables

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

| <i>(In millions of won)</i> | 2023 | | 2022 | |
|-----------------------------|----------------|--------------------|----------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Trade payables | ₩ 1,319,048 | - | 927,274 | - |
| Other accounts payable | 200,466 | - | 198,146 | - |
| Accrued expenses | 506,232 | 2,795 | 449,775 | - |
| Deposits received | - | 996 | - | 381 |
| | ₩ 2,025,746 | 3,791 | 1,575,195 | 381 |

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23. 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 | 2.43~5.68 | ₩ 1,050,000 | 936,000 |
| General loan in foreign currency | Industrial and Commercial Bank of China and others | 7.15~7.53 | 322,350 | 506,920 |
| | | | 1,372,350 | 1,442,920 |
| Current portion of long-term borrowings | | | (522,350) | (1,166,190) |
| | | | ₩ 850,000 | 276,730 |

(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 Company is provided with guarantees from financial institution issued for Secured bond.

(4) Aggregate maturities of the Company'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 | 850,000 | 710,820 | 1,560,820 |
| | ₩ 1,810,379 | 1,310,700 | 3,121,079 |

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23. Borrowings and Bonds, Continued

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

(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 | | 276,730 | 873,650 | 1,150,380 |
| | ₩ | 1,661,385 | 933,650 | 2,595,035 |

- (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 | ₩ | 1,661,385 | 933,271 | 43,452 | 2,638,108 |
| Cash flows from financing activities | Borrowing | 1,973,086 | 426,000 | - | 2,399,086 |
| | Repayment | (1,822,524) | (60,000) | (13,767) | (1,896,291) |
| Non-cash flows | The effects of changes in foreign exchange rates | (1,568) | 11,050 | 111 | 9,593 |
| | Amortization of bond discounts | - | (726) | - | (726) |
| | Others | - | - | 9,043 | 9,043 |
| Cash flows from operating activities(*) | | - | - | (774) | (774) |
| Ending balance | ₩ | 1,810,379 | 1,309,595 | 38,065 | 3,158,039 |

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

(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 financing activities | Borrowing | 621,413 | 365,490 | - | 986,903 |
| | Repayment | (1,653,136) | (265,970) | (9,609) | (1,928,715) |
| 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 | - | - | 34,828 | 34,828 |
| Cash flows from operating activities(*) | | - | - | (335) | (335) |
| Ending balance | ₩ | 1,661,385 | 933,271 | 43,452 | 2,638,108 |

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

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24. Employee Benefits

(1) Defined contribution plans

Due to the implementation of the defined contribution plans in April 2022, the Company recorded contributions to financial institutions as current expenses. The cost recognized in profit or loss due to the defined contribution plans is ₩1,951 million for the year ended December 31, 2023 and ₩944 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:

| <i>(In millions of won)</i> | 2023 | 2022 |
|--|-----------------|----------------|
| Present value of defined benefit obligations | ₩ 827,412 | 693,920 |
| Other long-term benefits | 30,857 | 28,462 |
| | <u>858,269</u> | <u>722,382</u> |
| Fair value of plan assets(*) | (827,412) | (693,920) |
| Liabilities recognized under defined benefit plans | ₩ <u>30,857</u> | <u>28,462</u> |

(*) The fair value of plan assets amounting to ₩221,290 million (₩237,970 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 ₩1,048,702 million (₩931,890 million in 2022) as of December 31, 2023(See Note 11).

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

| <i>(In millions of won)</i> | 2023 | 2022 |
|-----------------------------------|--------------------|----------------|
| Retirement pension(*) | ₩ 1,047,984 | 931,045 |
| Transfer to National Pension Fund | 718 | 845 |
| | ₩ <u>1,048,702</u> | <u>931,890</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> | 2023 | 2022 |
|--------------------------------|-----------------|---------------|
| Current service costs | ₩ 69,074 | 68,370 |
| Past service costs | - | (4,024) |
| Interest on obligations | 35,996 | 23,604 |
| Expected return on plan assets | (49,128) | (25,394) |
| | ₩ <u>55,942</u> | <u>62,556</u> |

For the years ended December 31, 2023 and 2022, amounting to ₩881 million and ₩3,416 million were incurred, respectively, as additional retirement benefits.

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24. Employee Benefits, Continued

(2) Defined benefit plans, continued

(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> | <u>2023</u> | <u>2022</u> |
|-------------------------------------|------------------|----------------|
| Beginning balance | ₩ 722,382 | 813,842 |
| Current service costs | 69,074 | 68,370 |
| Past service costs | - | (4,024) |
| Interest cost | 35,996 | 23,604 |
| Benefits paid | (100,031) | (113,789) |
| Transfers from (to) related parties | 2,929 | 1,158 |
| Transfers of business | (533) | - |
| Actuarial gains and losses | | |
| Population statistical assumption | - | 2,728 |
| Financial assumption | 65,508 | (120,196) |
| Experience adjustment | 62,944 | 50,689 |
| Ending balance | ₩ <u>858,269</u> | <u>722,382</u> |

(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> | <u>2023</u> | <u>2022</u> |
|----------------------------------|--------------------|----------------|
| Beginning balance | ₩ 931,890 | 806,996 |
| Benefits paid | (73,814) | (92,574) |
| Contributions paid into the plan | 140,000 | 200,800 |
| Expected return on plan assets | 49,128 | 25,394 |
| Actuarial gains and losses | 1,498 | (8,726) |
| Ending balance | ₩ <u>1,048,702</u> | <u>931,890</u> |

The Company 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 Company expects to pay ₩74,996 million and ₩61,940 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> | <u>2024.01.01 ~ 2024.12.31</u> | <u>2025.01.01 ~ 2028.12.31</u> | <u>2029.01.01 ~ 2033.12.31</u> | <u>2034.01.01 ~</u> | <u>Total</u> |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|---------------------|--------------|
| Expected payment | ₩ 31,782 | 274,101 | 371,278 | 2,170,854 | 2,848,015 |

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24. Employee Benefits, Continued

(2) Defined benefit plans, continued

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

| <i>(In percentage)</i> | <u>2023</u> | <u>2022</u> |
|-------------------------------------|-------------|-------------|
| Discount rate | 4.41 | 5.31 |
| Future salary growth | 3.04 | 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> | <u>2023</u> | <u>2022</u> |
|---------------------------|-------------|-------------|
| Weighted average duration | 10.25 | 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> | | <u>2023</u> | | <u>2022</u> | |
|------------------------------------|---|-----------------|-----------------|-----------------|-----------------|
| | | <u>Increase</u> | <u>Decrease</u> | <u>Increase</u> | <u>Decrease</u> |
| Discount rate (1% movement) | ₩ | (71,735) | 83,372 | (58,670) | 68,188 |
| Future salary growth (1% movement) | | 74,685 | (65,873) | 61,568 | (54,205) |

25. Provisions

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

| <i>(In millions of won)</i> | | <u>2023</u> | | | | |
|-----------------------------|---|--|--|---|---------------------------------|----------------|
| | | <u>Provision for construction losses</u> | <u>Provision for construction warranty</u> | <u>Provision for product warranty</u> | <u>Other provisions(*1)</u> | <u>Total</u> |
| Beginning balance | ₩ | 108,761 | 382,643 | 65,602 | 623,473 | 1,180,479 |
| Additions | | 13,094 | 65,229 | 60,796 | 16,675 | 155,794 |
| 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>111,488</u> | <u>95,843</u> | <u>3,808</u> | <u>230,902</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.

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25. Provisions, Continued

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

(In millions of won)

| | 2022 | | | | |
|-------------------|-----------------------------------|-------------------------------------|--------------------------------|----------------------|-----------|
| | Provision for construction losses | Provision for construction warranty | Provision for product warranty | Other provisions(*1) | Total |
| Beginning balance | ₩ 229,827 | 406,602 | 76,862 | 584,262 | 1,297,553 |
| Additions | 56,622 | 56,538 | 31,418 | 39,211 | 183,789 |
| Reversals | (198,787) | (17,145) | (21,763) | - | (237,695) |
| Utilization | - | (63,352) | (20,915) | - | (84,267) |
| Others(*2) | 21,099 | - | - | - | 21,099 |
| Ending balance | ₩ 108,761 | 382,643 | 65,602 | 623,473 | 1,180,479 |

(*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.

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

(In millions of won)

| | 2023 | | | | |
|-------------|-----------------------------------|-------------------------------------|--------------------------------|------------------|---------|
| | Provision for construction losses | Provision for construction warranty | Provision for product warranty | Other provisions | Total |
| Current | ₩ 19,763 | 89,797 | 66,938 | 3,808 | 180,306 |
| Non-current | - | 21,691 | 28,905 | - | 50,596 |
| | ₩ 19,763 | 111,488 | 95,843 | 3,808 | 230,902 |

(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 | - | 256,277 | 23,274 | - | 279,551 |
| | ₩ 108,761 | 382,643 | 65,602 | 623,473 | 1,180,479 |

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26. Derivative Financial Instruments

The Company 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:

| Hedge accounting | Type | Description |
|-------------------------|------------------------------------|---|
| 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 |

(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 | |
| | | 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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26. 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)

| <u>Description</u> | <u>Type</u> | <u>Sales</u> | <u>Cost of sales</u> | <u>Finance income</u> | <u>Finance costs</u> | <u>Other non-operating income</u> | <u>Other non-operating expenses</u> | <u>Other comprehensive income (before tax)</u> |
|--------------------|------------------------------------|--------------|----------------------|-----------------------|----------------------|-----------------------------------|-------------------------------------|--|
| 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 Company applies cash flow hedge accounting, for which the Company 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.

27. 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> | <u>2023</u> | <u>2022</u> |
|----------------------------|-------------|-------------|
| Authorized shares | 160,000,000 | 160,000,000 |
| Par value per share | ₩ 5,000 | 5,000 |
| Issued shares | 88,773,116 | 88,773,116 |

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27. Common stock and Capital Surplus, Continued

(2) Capital surplus

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

| <i>(In millions of won)</i> | <u>2023</u> | <u>2022</u> |
|---|--------------------|--------------------|
| 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 | - |
| Other capital surplus of investment in associate in November, 2023 | (2,818) | - |
| 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) | - |
| Addition : Tax effect of investment in associate in November, 2023 | 704 | - |
| Appropriations of retained earnings | <u>(2,500,000)</u> | <u>(2,500,000)</u> |
| Total | <u>₩ 3,120,677</u> | <u>3,118,365</u> |

(3) Dividends

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

28. Capital adjustments

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

| <i>(In millions of won)</i> | <u>2023</u> | <u>2022</u> |
|-----------------------------|-------------|-------------|
| Repayment of hybrid bonds | ₩ (1,411) | (1,411) |

29. 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 | <u>875,924</u> | <u>875,579</u> |
| | <u>₩ 871,875</u> | <u>881,829</u> |

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29. Accumulated Other Comprehensive Income, Continued

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

(In millions of won)

| | 2023 | | |
|--|--------------------------|-------------------|-------------------------|
| | Before tax amount | Tax effect | After tax amount |
| Effective portion of changes in fair value of cash flow hedges | ₩ (13,776) | 3,477 | (10,299) |
| Actuarial gains and losses | (126,954) | 31,739 | (95,215) |
| Revaluation of property, plant and equipment | - | 739 | 739 |
| | ₩ (140,730) | 35,955 | (104,775) |

(In millions of won)

| | 2022 | | |
|--|--------------------------|-------------------|-------------------------|
| | Before tax amount | Tax effect | After tax amount |
| 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 |
| | ₩ 58,632 | (12,571) | 46,061 |

30. Retained Earnings

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

(In millions of won)

| | 2023 | 2022 |
|----------------------------------|-------------|-------------|
| Unappropriated retained earnings | ₩ 773,979 | 847,470 |

(2) Statements of appropriation of retained earnings for the years ended December 31, 2023 and 2022 are as follows:

Date of appropriation for 2023: March 26, 2024

Date of appropriation for 2022: March 28, 2023

(In millions of won)

| | 2023 | 2022 |
|---|------------------|----------------|
| I. Unappropriated retained earnings | | |
| Unappropriated retained earnings to be carried from previous year | ₩ 847,470 | 1,151,796 |
| Profit(loss) for the year | 21,329 | (350,076) |
| Actuarial gains and losses | (95,215) | 43,308 |
| Reclassification of revaluation surplus | 395 | 2,442 |
| | 773,979 | 847,470 |
| II. The conversion of capital surplus | - | - |
| III. Appropriation of retained earnings | - | - |
| IV. Unappropriated retained earnings to be carried over to subsequent year | ₩ 773,979 | 847,470 |

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31. Revenue

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

(In millions of won)

| | | Shipbuilding | Offshore, Industrial Plant and Engineering | Others | Total |
|-----------------------|---|---------------------|---|------------------|-------------------|
| Beginning balance | ₩ | 25,860,230 | 1,672,583 | 5,645,370 | 33,178,183 |
| Changes and others(*) | | 14,440,589 | 1,608,295 | 4,174,976 | 20,223,860 |
| Sales recognized | | (7,901,471) | (1,269,740) | (2,786,772) | (11,957,983) |
| Ending balance | ₩ | <u>32,399,348</u> | <u>2,011,138</u> | <u>7,033,574</u> | <u>41,444,060</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 Company 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)

| | | 2024 | 2025 | After 2026 | Total |
|-----------------|---|-------------|-------------|-------------------|--------------|
| Expected amount | ₩ | 13,027,188 | 12,889,688 | 15,527,184 | 41,444,060 |

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

(In millions of won)

| | | Accumulated revenue of construction | Accumulated cost of construction | Accumulated Profit (loss) of construction | Billed receivables on construction contracts | Contract asset | Contract liabilities | Provision for construction losses |
|---|---|--|---|--|---|---------------------------|---------------------------------|--|
| 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.

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.

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31. Revenue, Continued

(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 |
| Offshore, | CFP | 2014.04.13 | 2018.10.18 | 99.43% | ₩ - | - | 869 | - |
| Industrial Plant | ZOR | 2015.10.13 | 2019.07.27 | 96.59% | 2,024 | - | 24,043 | - |
| and Engineering | 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 | 2023.07.01 | 2027.04.01 | 3.56% | - | - | 90,060 | - |
| Shipbuilding | 3407 | | | | | | | |
| | 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 Company omits the related disclosures after reporting it to audit committee. As of December 31, 2023, the Company 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 Company has disclosed the related information.

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31. 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) |
| | ₩ | <u>297,523</u> | <u>526,808</u> | <u>50,854</u> | <u>(280,139)</u> | <u>(229,285)</u> | <u>17,224</u> | <u>3,004</u> |

(*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 Company 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% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| | | increase | decrease | increase | decrease | increase | decrease | increase | 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) |
| | ₩ | <u>(85,306)</u> | <u>74,801</u> | <u>(607,000)</u> | <u>617,505</u> | <u>(43,286)</u> | <u>44,296</u> | <u>19,632</u> | <u>(20,321)</u> |

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

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31. Revenue, Continued

(5) Source of revenue

(In millions of won)

| | | <u>2023</u> | <u>2022</u> |
|---------------------------------------|---|-------------------|------------------|
| Revenue from contracts with customers | ₩ | 12,459,869 | 9,477,121 |
| Investment property rentals | | 19 | 7 |
| Hedging gains and losses | | (501,905) | (411,780) |
| | ₩ | <u>11,957,983</u> | <u>9,065,348</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)

| | | <u>2023</u> | <u>2022</u> |
|---|---|-------------------|------------------|
| Major products/service lines | | | |
| Shipbuilding | ₩ | 8,269,139 | 6,793,577 |
| Offshore, Industrial Plant and Engineering | | 1,331,730 | 787,499 |
| Engine and Machinery | | 2,777,696 | 1,818,088 |
| Others | | 81,323 | 77,964 |
| | ₩ | <u>12,459,888</u> | <u>9,477,128</u> |
| Primary geographical markets | | | |
| Korea | ₩ | 5,745,553 | 3,211,869 |
| North America | | 486,236 | 92,201 |
| Asia | | 3,126,854 | 3,454,214 |
| Europe | | 2,895,092 | 1,835,572 |
| Others | | 206,153 | 883,272 |
| | ₩ | <u>12,459,888</u> | <u>9,477,128</u> |
| Duration of contract | | | |
| Short-term contract | ₩ | 252,752 | 628,019 |
| Long-term contract | | 12,207,136 | 8,849,109 |
| | ₩ | <u>12,459,888</u> | <u>9,477,128</u> |
| Timing of revenue recognition | | | |
| Goods and services transferred at a point in time | ₩ | 2,813,356 | 2,080,638 |
| Goods and services transferred over time | | 9,646,532 | 7,396,490 |
| | ₩ | <u>12,459,888</u> | <u>9,477,128</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)

| | | <u>2023</u> | | <u>2022</u> | |
|---------------------------------|---|------------------|--------------------|----------------|--------------------|
| | | <u>Current</u> | <u>Non-current</u> | <u>Current</u> | <u>Non-current</u> |
| Trade receivables | ₩ | 1,722,288 | 279,046 | 1,516,804 | 316,995 |
| Allowance for doubtful accounts | | (624,616) | (118,343) | (617,794) | (151,542) |
| | ₩ | <u>1,097,672</u> | <u>160,703</u> | <u>899,010</u> | <u>165,453</u> |
| 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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31. Revenue, Continued

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

The Company 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 Company 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> | | 2023 | 2022 |
|-----------------------------|---|-------------|-------------|
| 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.

32. Operating Segments

The Company 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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32. 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 | | | |
|---|---------------------|--------------------------------|----------------------------------|-------------------------|
| | Sales | Operating profit (loss) | Profit(loss) for the year | Depreciation (*) |
| 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 | 2,705,449 | 285,913 | 245,772 | 64,662 |
| Others | 81,323 | (219,686) | (364,760) | 37,761 |
| | <u>₩ 11,957,983</u> | <u>177,806</u> | <u>21,329</u> | <u>275,913</u> |

- (*) 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.

(In millions of won)

| | 2022 | | | |
|---|--------------------|--------------------------------|----------------------------------|------------------------|
| | Sales | Operating profit (loss) | Profit(loss) for the year | Depreciation(*) |
| Shipbuilding | ₩ 6,467,204 | (123,567) | (48,225) | 135,578 |
| Offshore and Industrial Plant Engineering | 785,281 | (152,570) | (175,442) | 22,908 |
| Engine and Machinery | 1,734,899 | 173,201 | 153,219 | 62,447 |
| Others | 77,964 | (183,861) | (279,628) | 32,233 |
| | <u>₩ 9,065,348</u> | <u>(286,797)</u> | <u>(350,076)</u> | <u>253,166</u> |

- (*) 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) 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 | 2,095,893 | 1,849,560 |
| Others | 7,898,227 | 3,075,891 |
| | <u>₩ 17,124,174</u> | <u>11,915,188</u> |

(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 | 1,460,637 | 1,307,505 |
| Others | 8,213,726 | 2,852,687 |
| | <u>₩ 16,283,095</u> | <u>10,992,977</u> |

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33. Selling, General and Administrative Expenses

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

| <i>(In millions of won)</i> | <u>2023</u> | <u>2022</u> |
|--|------------------|----------------|
| Salaries | ₩ 124,751 | 125,822 |
| Bonus | 26,711 | 24,344 |
| Post-employment benefit costs | 8,847 | 8,811 |
| Employee welfare | 47,936 | 35,905 |
| Depreciation | 27,457 | 23,937 |
| Amortization | 100 | 55 |
| Bad debt expenses (Reversal of bad debt) | (22,433) | (23,345) |
| Ordinary development costs | 82,995 | 71,228 |
| Advertising | 6,712 | 5,895 |
| Printing | 929 | 1,009 |
| Power | 2,068 | 1,706 |
| Warranty expenses (Reversal) | (50,319) | 13,823 |
| Insurance | 331 | 477 |
| Office supplies | 842 | 888 |
| Supplies | 2,659 | 1,614 |
| Utilities | 128 | 151 |
| Repairs | 619 | 457 |
| Travel | 7,251 | 5,000 |
| Research | 3,242 | 3,236 |
| Training | 2,632 | 2,750 |
| Service contract expenses | 74,073 | 52,391 |
| Transportation | 612 | 373 |
| Freight | 3,649 | 2,273 |
| Ceremony expenses | 779 | 1,493 |
| Rent | 2,283 | 2,455 |
| Data processing | 18,756 | 12,392 |
| Entertainment | 637 | 567 |
| Taxes and dues | 2,714 | 2,183 |
| Service charges | 83,264 | 60,408 |
| Automobile maintenance | 3,104 | 3,314 |
| Sales commissions | 897 | 1,975 |
| Others | 6,482 | 6,185 |
| | <u>₩ 470,708</u> | <u>449,772</u> |

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34. 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> | <u>2023</u> | <u>2022</u> |
|-------------------------------------|---------------------|------------------|
| Changes in inventories | ₩ 51,857 | (461,710) |
| Purchase of inventories | 7,593,683 | 6,197,800 |
| Depreciation | 251,436 | 234,101 |
| Depreciation on right-of-use assets | 14,767 | 11,229 |
| Amortization | 9,710 | 7,836 |
| Employee benefits | 1,031,441 | 885,463 |
| Others | 2,827,283 | 2,477,426 |
| (*) | <u>₩ 11,780,177</u> | <u>9,352,145</u> |

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

35. 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> | <u>2023</u> | <u>2022</u> |
|---|--------------------|------------------|
| Finance income: | | |
| Interest income | ₩ 48,491 | 45,319 |
| Gain on disposal of financial instruments measured at FVTPL | 904 | 9,126 |
| Dividend income | 21 | 38 |
| Gain on foreign currency translation | 19,805 | 48,520 |
| Gain on foreign currency transactions | 325,831 | 563,114 |
| Gain on valuation of derivatives | 99,596 | 410,328 |
| Gain on derivatives transactions | 93,561 | 62,607 |
| Reversal of other provisions | 39,528 | - |
| | <u>₩ 627,737</u> | <u>1,139,052</u> |
| Finance costs: | | |
| Interest expense | ₩ 131,205 | 105,906 |
| 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 | 361,087 |
| Loss on valuation of derivatives | 315,113 | 415,425 |
| Loss on derivatives transactions | 336,524 | 460,267 |
| Other provision additions | - | 20,402 |
| | <u>₩ 1,123,426</u> | <u>1,591,454</u> |

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36. 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)

| | <u>2023</u> | <u>2022</u> |
|---|------------------|----------------|
| Other non-operating income: | | |
| Gain on disposal of investments in subsidiary and associate | ₩ - | 45 |
| Gain on disposal of property, plant and equipment | 8,305 | 11,161 |
| 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 | 11,127 | 52,458 |
| | <u>₩ 579,095</u> | <u>812,607</u> |
| Other non-operating expenses: | | |
| Other bad debt expenses | ₩ 848 | 5 |
| Commissions | 1,888 | 4,097 |
| Warranty | 5,906 | 6,992 |
| Impairment loss on investments in subsidiary and associate | - | 2,090 |
| 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 | 4,602 | 2,704 |
| Loss on disposal of right-of-use assets | 117 | 80 |
| Miscellaneous expenses | 58,518 | 66,804 |
| | <u>₩ 231,202</u> | <u>492,902</u> |

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37. 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)

| | <u>2023</u> | <u>2022</u> |
|---|----------------|-----------------|
| Current tax expense | ₩ 1,439 | 2,028 |
| Adjustment for prior periods | - | (2,913) |
| Origination and reversal of temporary differences | (28,713) | (55,963) |
| Income tax recognized directly in equity | 35,955 | (12,571) |
| Total income tax expense (benefit) | ₩ <u>8,681</u> | <u>(69,419)</u> |

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

(In millions of won)

| | <u>2023</u> | <u>2022</u> |
|--|-----------------|-----------------|
| Effective portion of changes in fair value of cash flow hedges | ₩ 3,477 | (53) |
| Actuarial gains and losses | 31,739 | (14,746) |
| Revaluation of property, plant and equipment | 739 | 2,228 |
| | ₩ <u>35,955</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:

(In millions of won)

| | <u>2023</u> | <u>2022</u> |
|---|----------------|-----------------|
| Profit (loss) before income tax | ₩ 30,010 | (419,495) |
| Tax rate | 25.00% | 26.60% |
| Income tax using the Company's statutory tax rate | 7,503 | (111,586) |
| Adjustment for: | | |
| - Change in tax rate(*1) | 15,051 | 43,349 |
| - Tax effect of non-deductible expenses | 586 | 4,470 |
| - Tax effect of tax-exempt income | (7,408) | (2) |
| - Tax incentives | (6,556) | (3,445) |
| - Current adjustments for prior periods | - | (2,913) |
| - Others | (495) | 708 |
| Income tax expense (benefit) | ₩ <u>8,681</u> | <u>(69,419)</u> |
| Effective tax rate | 28.93% | (*2) |

(*1) For the year ended December 31, 2023, a tax rate of 25%, expected to be realized after 2023, applied to temporary differences.

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

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37. Income Tax Expense, Continued

- (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> | 2023 | 2022 |
|---|-------------|-------------|
| Deferred assets at the end of the year | ₩ 922,332 | 893,619 |
| Deferred assets at the beginning of the year | 893,619 | 837,656 |
| Deferred tax effects by origination and reversal of temporary differences | 28,713 | 55,963 |

- (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.
- (6) Deferred tax assets and liabilities are offset and presented in the separate 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:

| <i>(In millions of won)</i> | 2023 | | |
|---|------------------------------|---------------|---------------------------|
| | Beginning balance | Change | Ending balance |
| Allowance for doubtful accounts | ₩ 265,078 | (3,673) | 261,405 |
| Defined benefit liabilities | 203,834 | 49,633 | 253,467 |
| Plan assets | (266,737) | (19,780) | (286,517) |
| Derivatives | (19,340) | 22,714 | 3,374 |
| Accrued expenses | 18,726 | 98 | 18,824 |
| Gains and losses on foreign exchange translations | 51,050 | (20,540) | 30,510 |
| Others | 179,106 | (268,992) | (89,886) |
| | 431,717 | (240,540) | 191,177 |
| Tax losses carried forward | 436,765 | 260,488 | 697,253 |
| Tax incentives carried forward | 25,137 | 8,765 | 33,902 |
| | ₩ 893,619 | 28,713 | 922,332 |

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37. Income Tax Expense, Continued

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

| <i>(In millions of won)</i> | 2022 | | |
|---|------------------------------|------------------|---------------------------|
| | Beginning balance | Change | Ending balance |
| 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 |
| | <u>571,520</u> | <u>(139,803)</u> | <u>431,717</u> |
| Tax losses carried forward | 246,471 | 190,294 | 436,765 |
| Tax incentives carried forward | 19,665 | 5,472 | 25,137 |
| | <u>₩ 837,656</u> | <u>55,963</u> | <u>893,619</u> |

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

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38. 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> | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------------|
| Earnings (loss) for the year | ₩ 21,329,458 | (350,075,802) |
| Weighted average number of ordinary shares outstanding(*) | <u>88,773,116</u> | <u>88,773,116</u> |
| Earnings (loss) per share <i>(In won)</i> | <u>₩ 240</u> | <u>(3,943)</u> |

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

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

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

(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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39. 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> | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------|
| Profit (loss) for the year | ₩ 21,329 | (350,076) |
| Adjustments for: | 229,775 | 456,070 |
| Post-employment benefit costs | 55,942 | 62,556 |
| Depreciation | 251,436 | 234,101 |
| Depreciation on right-of-use assets | 14,767 | 11,229 |
| Amortization | 9,710 | 7,836 |
| 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 | (167,912) | (505,498) |
| Finance costs | 531,644 | 749,214 |
| Other non-operating income | (553,254) | (751,885) |
| Other non-operating expenses | 159,441 | 412,300 |
| Income tax expense (benefit) | 8,681 | (69,419) |
| Trade receivables | (218,214) | (272,142) |
| Other receivables | (24,450) | (65,504) |
| Contract assets | (278,589) | (343,720) |
| Inventories | 51,295 | (461,711) |
| Derivatives | (218,350) | (138,313) |
| Firm commitments | 458,562 | 477,916 |
| Other current assets | (188,358) | (361,871) |
| Other non-current assets | (6,695) | (101,686) |
| Trade payables | 393,148 | (245,489) |
| Other payables | 44,014 | 73,966 |
| Contract liabilities | 1,030,412 | 2,140,472 |
| Long-term other payables | 2,795 | - |
| Retirement benefits paid | (100,031) | (113,789) |
| Succession of retirement benefits | 2,929 | 1,158 |
| Plan assets | (66,186) | (108,226) |
| Provisions | (941,074) | (143,821) |

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

| <i>(In millions of won)</i> | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------|
| Reclassification of current portion of long-term borrowings | ₩ 522,350 | 1,158,240 |
| Reclassification of construction-in-progress | 115,057 | 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) | 625 |
| Increase in right-of-use assets and lease liabilities | 8,996 | 34,848 |
| Reclassification of investment properties to property, plant and equipment | - | 2,612 |

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40. 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 | Total | Fair value |
| Assets carried at fair value: | | | | | | |
| Financial assets measured at FVTPL(*1) | ₩ - | 8,816 | - | - | 8,816 | 8,816 |
| Financial assets measured at FVOCI(*2) | - | - | 1,738 | - | 1,738 | 1,738 |
| Derivative assets | 296,383 | - | - | - | 296,383 | 296,383 |
| Assets carried at amortized cost: | | | | | | |
| Cash and cash equivalents | - | - | - | 900,194 | 900,194 | - |
| Financial instruments | - | - | - | 131,008 | 131,008 | - |
| Trade and other receivables | - | - | - | 1,551,819 | 1,551,819 | - |
| Contract assets | - | - | - | 3,458,669 | 3,458,669 | - |
| Financial assets total | ₩ 296,383 | 8,816 | 1,738 | 6,041,690 | 6,348,627 | 306,937 |
| Liabilities carried at fair value: | | | | | | |
| Derivative liabilities | ₩ 413,631 | - | - | - | 413,631 | 413,631 |
| Liabilities carried at amortized cost: | | | | | | |
| Borrowings | - | - | - | 1,810,379 | 1,810,379 | - |
| Bonds | - | - | - | 1,309,595 | 1,309,595 | - |
| Trade and other payables | - | - | - | 2,029,537 | 2,029,537 | - |
| Lease liabilities | - | - | - | 38,065 | 38,065 | - |
| Financial liabilities total | ₩ 413,631 | - | - | 5,187,576 | 5,601,207 | 413,631 |

(*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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40. 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 | | | | | |
|---|--|--|---|---|------------------|-------------------|
| | <u>Fair value- hedging instruments</u> | <u>Financial instruments measured at FVTPL</u> | <u>Equity investments measured at FVOCI</u> | <u>Financial instruments measured at amortized cost</u> | <u>Total</u> | <u>Fair value</u> |
| Assets carried at fair value: | | | | | | |
| Financial assets measured at FVTPL(*1) | ₩ - | 7,808 | - | - | 7,808 | 7,808 |
| Financial assets measured at FVOCI(*2) | - | - | 1,738 | - | 1,738 | 1,738 |
| Derivative assets | 400,375 | - | - | - | 400,375 | 400,375 |
| Assets carried at amortized cost: | | | | | | |
| Cash and cash equivalents | - | - | - | 723,249 | 723,249 | - |
| Financial instruments | - | - | - | 161,008 | 161,008 | - |
| Trade and other receivables | - | - | - | 1,332,861 | 1,332,861 | - |
| Contract assets | - | - | - | 3,180,080 | 3,180,080 | - |
| Financial assets total | ₩ <u>400,375</u> | <u>7,808</u> | <u>1,738</u> | <u>5,397,198</u> | <u>5,807,119</u> | <u>409,921</u> |
| Liabilities carried at fair value: | | | | | | |
| Derivative liabilities | ₩ 506,724 | - | - | - | 506,724 | 506,724 |
| Liabilities carried at amortized cost: | | | | | | |
| Borrowings | - | - | - | 1,661,385 | 1,661,385 | - |
| Bonds | - | - | - | 933,271 | 933,271 | - |
| Trade and other payables | - | - | - | 1,575,576 | 1,575,576 | - |
| Lease liabilities | - | - | - | 43,452 | 43,452 | - |
| Other provision | - | - | - | 39,528 | 39,528 | - |
| Financial liabilities total | ₩ <u>506,724</u> | <u>-</u> | <u>-</u> | <u>4,253,212</u> | <u>4,759,936</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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40. 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 |
| Sales: | | | | | |
| Hedging gains and losses | ₩ (501,905) | - | - | - | (501,905) |
| Cost of sales: | | | | | |
| Hedging gains and losses | 67 | - | - | - | 67 |
| Selling, general and administrative expenses: | | | | | |
| Reversal of bad debt | - | - | - | 22,433 | 22,433 |
| Finance income: | | | | | |
| Interest income | - | - | - | 48,396 | 48,396 |
| Gain on disposal of financial instruments measured at FVTPL | - | 904 | - | - | 904 |
| Dividend income | - | 21 | - | - | 21 |
| Gain on foreign currency translation | - | - | - | 19,805 | 19,805 |
| Gain on foreign currency transactions | - | - | - | 322,095 | 322,095 |
| 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 |
| Total | ₩ 193,157 | 925 | - | 429,824 | 623,906 |
| Finance costs: | | | | | |
| Interest expense | ₩ - | - | - | (127,725) | (127,725) |
| 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) |
| Total | ₩ (651,637) | (2,746) | - | (461,480) | (1,115,863) |
| Other non-operating income: | | | | | |
| Reversal of other allowance for doubtful accounts | ₩ - | - | - | 303 | 303 |
| Other non-operating expenses: | | | | | |
| Other bad debt expenses | - | - | - | (848) | (848) |
| Other comprehensive income (loss), net of income tax: | | | | | |
| Effective portion of changes in fair value of cash flow hedges | (10,299) | - | - | - | (10,299) |

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40. 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)

| | 2022 | | | | |
|--|---------------------------------------|--|---|---|-------------|
| | Fair value- hedging instruments | Financial instruments measured at FVTPL | Equity investments measured at FVOCI | Financial instruments measured at amortized cost | Total |
| Sales: | | | | | |
| Hedging gains and losses | ₩ (411,780) | - | - | - | (411,780) |
| Cost of sales: | | | | | |
| Hedging gains and losses | (2,491) | - | - | - | (2,491) |
| Selling, general and administrative expenses: | | | | | |
| Reversal of bad debt | - | - | - | 23,345 | 23,345 |
| Finance income: | | | | | |
| Interest income | - | - | - | 45,221 | 45,221 |
| 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 | - | - | - | 556,967 | 556,967 |
| Gain on valuation of derivatives | 410,328 | - | - | - | 410,328 |
| Gain on derivatives transactions | 62,607 | - | - | - | 62,607 |
| Total | ₩ 472,935 | 9,164 | - | 650,708 | 1,132,807 |
| Finance costs: | | | | | |
| Interest expense | ₩ - | - | - | (83,873) | (83,873) |
| 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) |
| Total | ₩ (875,692) | (518) | - | (688,498) | (1,564,708) |
| Other non-operating income: | | | | | |
| Reversal of other allowance for doubtful accounts | ₩ - | - | - | 8,264 | 8,264 |
| Other non-operating expenses: | | | | | |
| Other bad debt expenses | - | - | - | (5) | (5) |
| Other comprehensive income (loss), net of income tax: | | | | | |
| Effective portion of changes in fair value of cash flow hedges | 526 | - | - | - | 526 |

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41. Financial Instruments

(1) Credit risk

1) Exposure to credit risk

The carrying amounts of financial assets and contract assets represent 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> | | <u>2023</u> | <u>2022</u> |
|--|---|------------------|------------------|
| Cash and cash equivalents(*1) | ₩ | 900,137 | 723,192 |
| Fair value-hedging instruments | | 296,383 | 400,375 |
| Financial instruments measured at FVTPL | | 8,816 | 7,808 |
| Financial instruments measured at amortized cost(*2) | | 5,141,496 | 4,673,949 |
| | ₩ | <u>6,346,832</u> | <u>5,805,324</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> | | <u>2023</u> | <u>2022</u> |
|-----------------------------|---|------------------|------------------|
| Korea | ₩ | 2,216,446 | 1,184,412 |
| North America | | 12,877 | 87 |
| Asia | | 1,427,646 | 2,080,178 |
| Europe | | 1,350,047 | 1,030,851 |
| Others | | 134,480 | 378,421 |
| | ₩ | <u>5,141,496</u> | <u>4,673,949</u> |

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

| <i>(In millions of won)</i> | | <u>2023</u> | | <u>2022</u> | |
|--------------------------------|---|------------------|--------------------|------------------|--------------------|
| | | <u>Gross</u> | <u>Impairment</u> | <u>Gross</u> | <u>Impairment</u> |
| Not past due | ₩ | 5,275,751 | (349,018) | 4,814,192 | (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>6,114,392</u> | <u>(1,103,904)</u> | <u>5,600,985</u> | <u>(1,088,044)</u> |

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41. Financial Instruments, Continued

- (1) Credit risk, continued
2) Impairment loss, continued
(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)

| | | <u>2023</u> | <u>2022</u> |
|---|---|------------------|------------------|
| 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 | - |
| Ending balance | ₩ | <u>1,103,903</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 Company is certain that the amount of assets cannot recover. If the Company 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)

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

- (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)

| | | <u>2023</u> | | | | |
|--|---|------------------------------|-------------------------|--------------------|------------------|--------------------------|
| | | <u>Contractual cash flow</u> | <u>6 months or less</u> | <u>6~12 months</u> | <u>1~3 years</u> | <u>More than 3 years</u> |
| Non-derivative financial liabilities: | | | | | | |
| Borrowings | ₩ | 1,933,588 | 411,376 | 633,607 | 888,605 | - |
| Bonds | | 1,401,303 | 524,820 | 119,021 | 364,493 | 392,969 |
| Trade and other payables | | 2,029,537 | 2,025,746 | - | 3,791 | - |
| Lease liabilities | | 40,307 | 6,752 | 5,259 | 18,483 | 9,813 |
| Derivative financial liabilities: | | | | | | |
| Forward exchange contracts used for hedging | | 430,191 | 193,796 | 119,692 | 116,573 | 130 |
| | ₩ | <u>5,834,926</u> | <u>3,162,490</u> | <u>877,579</u> | <u>1,391,945</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.

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41. Financial Instruments, Continued

(2) Liquidity risk, continued

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 |
| Non-derivative financial liabilities: | | | | | | |
| Borrowings | ₩ | 1,705,671 | 1,205,332 | 218,627 | 281,712 | - |
| Bonds | | 1,013,846 | 75,338 | 15,092 | 525,097 | 398,319 |
| Trade and other payables | | 1,575,576 | 1,575,195 | - | 381 | - |
| Lease liabilities | | 44,591 | 6,343 | 7,122 | 17,336 | 13,790 |
| Derivative financial liabilities: | | | | | | |
| Forward exchange contracts used for hedging | | 536,212 | 177,685 | 148,433 | 209,885 | 209 |
| | ₩ | <u>4,875,896</u> | <u>3,039,893</u> | <u>389,274</u> | <u>1,034,411</u> | <u>412,318</u> |

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

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)

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

(In millions of won)

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

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41. Financial Instruments, Continued

(3) Currency risk

1) Exposure to currency risk

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

(In millions of won)

| | | 2023 | | | | | |
|---|---|--------------------|------------------|--------------|----------------|------------------|--------------------|
| | | USD | EUR | CNY | JPY | Others | Total |
| 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.

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

(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 |
| | | <u>4,107,591</u> | <u>52,080</u> | <u>-</u> | <u>326</u> | <u>210,959</u> | <u>4,370,956</u> |
| 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) |
| | | <u>(1,690,092)</u> | <u>(99,645)</u> | <u>(419)</u> | <u>(2,336)</u> | <u>(247,482)</u> | <u>(2,039,974)</u> |
| 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 | ₩ | <u>2,311,255</u> | <u>(47,552)</u> | <u>(419)</u> | <u>(2,010)</u> | <u>(36,641)</u> | <u>2,224,633</u> |

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

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41. Financial Instruments, Continued

(3) Currency risk, continued

1) Exposure to currency risk, continued

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

| <i>(In won)</i> | 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 |

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 Company 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:

| <i>(In millions of won)</i> | Profit or loss | | |
|-------------------------------|-----------------------|-------------|---------|
| | 2023 | 2022 | |
| 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 Company's interest-bearing financial instruments as of December 31, 2023 and 2022 are as follows:

| <i>(In millions of won)</i> | 2023 | 2022 |
|--|--------------------|--------------------|
| Fixed interest rate instruments: | | |
| Financial assets | ₩ 1,264,881 | 1,081,837 |
| Financial liabilities | (2,257,099) | (1,068,276) |
| | ₩ <u>(92,218)</u> | <u>13,561</u> |
| Floating interest rate instruments: | | |
| Financial assets | ₩ 8,784 | 3,580 |
| Financial liabilities | (863,980) | (1,526,380) |
| | ₩ <u>(855,196)</u> | <u>(1,522,800)</u> |

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41. Financial Instruments, Continued

(4) Interest rate risk, continued

- 2) Interest rate risk arises from savings and borrowings with floating interest rates. The Company 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: Receives floating interest rate.

(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 |
| 2023 | | |
| Floating interest rate instruments | ₩ (8,552) | 8,552 |
| Interest rate swap | 5,802 | (5,802) |
| Net cash flow sensitivity | ₩ (2,750) | 2,750 |
| 2022 | | |
| Floating interest rate instruments | ₩ (15,228) | 15,228 |
| Interest rate swap | 11,406 | (11,406) |
| Net cash flow sensitivity | ₩ (3,822) | 3,822 |

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41. Financial Instruments, Continued

(5) Fair value

1) Fair value hierarchy

The Company 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> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------------|----------------|----------------|----------------|--------------|
| 2023: | | | | |
| Financial assets measured at FVTPL | ₩ - | - | 8,537 | 8,537 |
| Derivative assets | - | 296,383 | - | 296,383 |
| Derivative liabilities | - | 413,631 | - | 413,631 |
| 2022: | | | | |
| 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 Company 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.

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.

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41. Financial Instruments, Continued

(5) Fair value, continued

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 values 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)

| | 2023 | 2022 | Valuation techniques | Input variables |
|------------------------|-------------|-------------|-----------------------------|--|
| Derivatives: | | | | |
| 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)

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

- 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 |
|------------------------------------|---|-------------|-------------|-----------------------------|------------------------|---|---|
| | | | | | | | |
| Machinery Financial Cooperative | ₩ | 5,998 | 4,998 | Net asset value model | - | - | - |
| Construction Guarantee Cooperative | | 2,539 | 2,539 | Net asset value mode | - | - | - |

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41. Financial Instruments, Continued

(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 |
| Financial assets: | | | | | |
| Trade and other receivables | ₩ | 119 | (95) | 24 | 24 |
| Financial liabilities: | | | | | |
| 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 |
| Financial assets: | | | | | |
| Trade and other receivables | ₩ | 1,273 | (543) | 730 | 730 |
| Financial liabilities: | | | | | |
| Trade and other payables | | 3,902 | (543) | 3,359 | 3,359 |

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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42. Commitments and Contingencies

- (1) As of December 31, 2023, the Company has entered into general loan agreements with Korea Development Bank and others amounting to ₩1,116,000 million and USD 250,000 thousand.
- (2) As of December 31, 2023, the Company has entered into credit facilities agreements such as letters of credit with KEB Hana Bank and others for the Company's exports and imports amounting to ₩210,900 million and USD 1,091,796 thousand.
- (3) As of December 31, 2023, the Company has entered into credit facilities agreements such as pre-shipment credit with Shinhan Bank and others amounting to ₩53,200 million.
- (4) As of December 31, 2023, in connection with the Company's contract performance guarantees, the Company has been provided with guarantees amounting to ₩2,861,195 million and USD 15,307,733 thousand by various financial institution. Among them, the Company 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 Company provides as collateral its ships under construction and construction materials.

43. 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 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) At the end of 2021, ₩10,500 million was recognized as a provision by estimating the amount to be paid when the Company lost, and the payment was completed as much as ₩10,500 million in the share of the Company agreed between the defendant companies in January 2022. |
| The effect on the Company as a result of litigation | 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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43. 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 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 |
| The progress of litigation | <p>Defendant partially lost the first trial (Ulsan District Court 2012 gahap 10108) on February 12, 2015.</p> <p>Defendant totally won the second trial (Busan High Court 2015 na 1888) on January 13, 2016.</p> <p>The third trial(Supreme Court 2016 da 7975) was reversed and remanded for the purpose of loss of the defendant on December 16, 2021.</p> <p>The reversed and remanded suit(Busan High Court 2022 na 29) was receipted on January 3, 2022.</p> <p>1st adjustment on July 20, 2022</p> <p>2nd adjustment on August 17, 2022</p> <p>3rd adjustment on September 21, 2022</p> <p>4th adjustment on December 3, 2022</p> <p>Decisions to replace adjustment (compulsory adjustment) on December 28, 2022</p> <p>Compulsory adjustment approved on January 12, 2023</p> |
| Future litigation schedule and countermeasures | Currently, the case was closed due to the confirmation of the compulsory adjustment decision, and the Company is in the process of paying unpaid legal allowances. |
| The effect on the Company 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. |

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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43. Litigations, Continued

(3) KOC Claim Arbitration

| | |
|---|--|
| Date of filing | February 17, 2020 |
| Litigant | Plaintiff: Kuwait Oil Company, Defendant: The 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 | The KOC filed a request for arbitration with the London International Court of Arbitration (LCIA) on February 17, 2020. The KOC submitted a statement of claiming compensation for a defect to the part of construction on January 30, 2021. The Company submitted refutation document for plaintiff's statement on May 7, 2021. The KOC submitted response and The Company submitted refutation document on June 25, 2021. Complete of 'Document Production' procedure on November 16, 2021. The Company submitted the witness statements on March 21, 2022. The Company submitted the witness response statements on May 16, 2022. The Company submitted the 1 st specialist statements on July 9, 2022. The Company submitted the 2 nd specialist statements on September 30, 2022. 1 st International Arbitration Hearing on October 25, 2022 2 nd International Arbitration Hearing on January 26, 2023 Arbitration Award (the Company to pay damages and related interest to KOC) on April 27, 2023 Decision on Allocation of Arbitration Costs (Final conclusion) on June 2, 2023 |
| Future litigation schedule and countermeasures | The arbitration has been concluded, and the Company has paid the awarded amount, interest, and costs according to the decision. |
| The effect on the Company 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 Company is currently a defendant in 35 lawsuits involving claims amounted to ₩139,400 million. Currently, the impact on the Company's financial statements, if any, cannot be reliably estimated.

Meanwhile, as of June 17, 2019, a lawsuit was filed against the Company 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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44. Related Parties

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

| Ultimate parent | Main business |
|---|---|
| HD HYUNDAI CO.,LTD. | Investment |
| Intermediate parent | Main business |
| HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD.(*1) | Investment and research and development |
| Subsidiaries | Main business |
| HD Hyundai Engine Company Ltd.(*1) | Manufacture internal combustion engines |
| Hyundai Heavy Industires Argentina S.R.L(*2) | construction |
| HD Hyundai Heavy Industries MOS Co., Ltd.(*1)(*2) | Maintenance services of business facilities |
| Associate | Main business |
| KC LNG Tech Co., Ltd. | Other engineering services |
| Others (large-scale corporate conglomerate)(*5) | Main business |
| HD Hyundai Xitesolution Co., Ltd.(*3) | 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. (*3) | 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.(*4) | Hotel consignment operation management |
| HD Hyundai Europe Research and Development Center GmbH(*4) | research and development |
| HD Hyundai Electric Co., Ltd.(*3) | 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.(*3) | Engineering services |
| HD Hyundai Oilbank Co., Ltd.(*1) | Manufacturing of petroleum products |
| HD Hyundai Robotics Co., Ltd | 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 |

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
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44. Related Parties, Continued

(1) As of December 31, 2023, related parties with the Company 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, it was newly incorporated as a subsidiary.

(*3) 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.

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

(*5) 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) | | |
| | Sales | Purchase of raw materials | Purchase of Property, plant and equipment | Purchase of others |
| Ultimate parent | | | | |
| HD HYUNDAI CO.,LTD. | ₩ 1,918 | 2,715 | - | 10,835 |
| Intermediate parent | | | | |
| HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. | 16,471 | 17,211 | 2,902 | 132,802 |
| Subsidiaries | | | | |
| HD Hyundai Engine Company Ltd. | 597 | 29,516 | - | - |
| HD Hyundai Heavy Industries MOS Co., Ltd.(*3) | 5,324 | 136,653 | - | 1 |
| | <u>5,921</u> | <u>166,169</u> | <u>-</u> | <u>1</u> |
| Associate | | | | |
| KC LNG Tech Co., Ltd. | ₩ - | 71 | - | 678 |
| Others (large-scale corporate conglomerate) | | | | |
| HD Hyundai Robotics Co., Ltd | 541 | 6 | 200 | 1 |
| HD Hyundai Electric Co., Ltd. | 25,603 | 101,729 | 2,029 | 91 |
| HD Hyundai Construction Equipment Co., Ltd. | 13,394 | 189 | 176 | 119 |
| HD Hyundai Xitesolution Co., Ltd. | 4,237 | 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 | 74,322 | - | 144 |
| Hyundai Hyms Co., Ltd. | 126 | 75,904 | - | 46 |
| HD Hyundai Marine Solution Co., Ltd. | 19,175 | 20,296 | 172 | 53,704 |
| 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>1,250,239</u> | <u>335,578</u> | <u>38,050</u> | <u>56,601</u> |
| ₩ | <u>1,274,549</u> | <u>521,744</u> | <u>40,952</u> | <u>200,917</u> |

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

44. 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:

(*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, and all transactions with the Company during the current period are included.

In addition to the above transaction, in relation to the ordinary wage lawsuit, which is undergoing payment procedures during the current period, the 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, HD Hyundai Heavy Industries MOS Co., Ltd. receiving ₩1,857 million.

In addition to the above transactions, the details of acquisition and capital increase of subsidiaries from related parties for the year ended December 31, 2023, are as follows:

(In USD, millions of won)

| Transaction | Company | currency | amount |
|--------------------|--|-----------------|---------------|
| Acquisition | Hyundai Heavy Industries Argentina S.R.L | USD | 493.51 |
| Capital increase | HD Hyundai Engine Company Ltd. | KRW | 25,000 |
| Capital increase | Hyundai Heavy Industries Argentina S.R.L | USD | 1,400,000 |

In addition to the above transactions, the details of acquisition of investment in subsidiary from related parties for the year ended December 31, 2023, are as follows:

(In millions of won)

| Counter parties | Acquired property | Company | Acquired amount | Note |
|---|--------------------------|--|------------------------|--------------------|
| HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. | Investment in subsidiary | Hyundai Heavy Industries MOS Co., Ltd. | ₩ 14,613 | All of shares held |

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

44. 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 millions of won)

| | Sales and others(*1) | 2022 | | |
|---|----------------------|---------------------------|---|--------------------|
| | | Purchases and others(*2) | | |
| | Sales | Purchase of raw materials | Purchase of Property, plant and equipment | Purchase of others |
| Ultimate parent | | | | |
| HD HYUNDAI CO.,LTD. (formerly known as Hyundai Heavy Industries Holdings Co., Ltd.) | ₩ 1,316 | - | - | 587 |
| Intermediate parent | | | | |
| Korea Shipbuilding & Offshore Engineering Co., Ltd. | 9,622 | 8,436 | - | 92,702 |
| Subsidiaries | | | | |
| HD Hyundai Heavy Industries Free Zone Enterprise(*3) | 53 | - | - | - |
| HD Hyundai Engine Company Ltd. | 19,814 | 6,168 | - | - |
| Total | <u>19,867</u> | <u>6,168</u> | <u>-</u> | <u>-</u> |
| Associate | | | | |
| KC LNG Tech Co.,Ltd. | ₩ - | 171 | - | 284 |
| Others (large-scale corporate conglomerate) | | | | |
| 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 | 3,653 | 341 |
| Hyundai Samho Heavy Industries Co., Ltd.(*4) | 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 | 76,767 | - | 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. (*5) | 75 | 2,927 | - | 79 |
| Hyundai Energy Solutions Co., Ltd. | 821 | - | - | - |
| International Maritime Industries Company | 13,163 | - | - | - |
| Others | 7,137 | 739 | 550 | 2,713 |
| | <u>1,153,687</u> | <u>392,465</u> | <u>14,732</u> | <u>42,410</u> |
| ₩ | <u>1,184,492</u> | <u>407,240</u> | <u>14,732</u> | <u>135,983</u> |

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

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

(*3) As the liquidation process of Hyundai Heavy Industries Free Zone Enterprise has been completed for the year ended December 31, 2022, the transactions of 2022 are included

(*4) 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 Company and Hyundai Infra Solutions Co., Ltd are included.

(*5) 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.
Notes to the Separate Financial Statements
For the years ended December 31, 2023 and 2022

44. 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 transactions, the details of acquisition of investment in subsidiary from related parties for the year ended December 31, 2022, are as follows:

(In millions of won)

| Counter parties | Acquired property | Company | Acquired amount | Note |
|---|--------------------------|-----------------------------|-----------------|--------------------|
| Korea Shipbuilding & Offshore Engineering Co., Ltd. | Investment in subsidiary | Hyundai Engine Company Ltd. | ₩ 29,000 | All of shares held |

- 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) | |
| Ultimate parent | | | | | |
| HD HYUNDAI CO.,LTD. | ₩ | 111 | 4,194 | 189 | 14,610 |
| Intermediate parent | | | | | |
| HD KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD. | | 8,235 | 37,225 | 49,242 | 612 |
| Subsidiaries | | | | | |
| HD Hyundai Engine Company Ltd. | | 84 | 752 | 3,280 | - |
| HD Hyundai Heavy Industries MOS Co., Ltd. | | 151 | 345 | 23,622 | - |
| Total | | 235 | 1,097 | 26,902 | - |
| Associate | | | | | |
| KC LNG Tech Co.,Ltd. | | - | - | 746 | - |
| Others (large-scale corporate conglomerate) | | | | | |
| HD Hyundai Robotics Co., Ltd | | 56 | 3,903 | - | - |
| HD Hyundai Electric Co., Ltd. | | 1,215 | 2,032 | 32,065 | 95 |
| HD Hyundai Construction Equipment Co., Ltd. | | 794 | 864 | 253 | - |
| HD Hyundai Xitesolution Co., Ltd. | | 95 | 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 | - |
| | | ₩ 367,795 | 234,715 | 92,828 | 435,404 |
| | | ₩ 376,376 | 277,231 | 169,907 | 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.
Notes to the Separate Financial Statements
For the years ended December 31, 2023 and 2022

44. 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)

| | 2022 | | | |
|---|---|-------------------|-----------------------------------|--------------------|
| | Trade receivables and other receivables | | Trade payables and other payables | |
| | Trade receivables | Other receivables | Trade payables | Other Payables(*1) |
| Ultimate parent | | | | |
| HD HYUNDAI CO.,LTD. (formerly known as Hyundai Heavy Industries Holdings Co., Ltd.) | ₩ 18 | 4,267 | 38 | 19,259 |
| Intermediate parent | | | | |
| Korea Shipbuilding & Offshore Engineering Co., Ltd. | 564 | 11,990 | 23,215 | 587 |
| Subsidiaries | | | | |
| Hyundai Heavy Industries Free Zone Enterprise | - | - | - | - |
| Hyundai Engine Company Ltd. | 21,421 | 5,034 | 2,602 | - |
| Total | <u>21,421</u> | <u>5,034</u> | <u>2,602</u> | <u>-</u> |
| Associate | | | | |
| KC LNG Tech Co.,Ltd. | - | - | 368 | - |
| Others (large-scale corporate conglomerate) | | | | |
| 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 | 256 |
| 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 Hyms 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 |
| | <u>425,417</u> | <u>210,399</u> | <u>38,948</u> | <u>205,052</u> |
| | ₩ <u>447,420</u> | <u>231,690</u> | <u>65,171</u> | <u>224,898</u> |

(*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.
Notes to the Separate Financial Statements
For the years ended December 31, 2023 and 2022

44. 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:

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

| | | 2022 | | | | | |
|-------------------------------|---------------------------------|----------|-------------------|----------|---------|----------------------------|----------------|
| | | Currency | Beginning balance | Increase | Recover | Impairment loss recognized | 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 Company 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.
5) The details of the Company's capital transactions with related parties for the year ended December 31, 2022 are as follows:

| Transaction | | 2022 | |
|-------------|--|---------|-----------------|
| | | Company | Acquired amount |
| Liquidation | Hyundai Heavy Industries Free Zone Enterprise(*) | USD | 127 |

(*) The subsidiary has been liquidated for the year ended December 31, 2022.

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

44. Related Parties, Continued

- (3) As of December 31, 2023, the Company 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 Company is executing with Saudi Engines Manufacturing Company.
- (4) The Company 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 KOREA SHIPBUILDING & OFFSHORE ENGINEERING CO.,LTD.'s capital increase in 2018. The guarantee terminated in March, 2022, and the Company 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 Company was newly established by dividing the 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 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.
- (6) As of December 31, 2023, the Company 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 Company 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 Company 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 Company for the years ended December 31, 2023 and 2022 is as follows:

(In millions of won)

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|----------------|--------------|
| Short-term salaries | ₩ 2,492 | 2,613 |
| Post-employment benefit costs | 550 | 585 |
| Other long-term benefits | 108 | - |
| | <u>₩ 3,150</u> | <u>3,198</u> |

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

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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45. Transfers of business

The Company 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)

| | <u>Book value</u> |
|---------------------------------------|-------------------|
| Assets: | |
| Cash and cash equivalents | ₩ 9,595 |
| Property, plant, & equipment | 20 |
| Intangible assets | 2,141 |
| | <u>₩ 11,756</u> |
| Liabilities: | |
| Contract liabilities | ₩ 9,595 |
| Liabilities for defined benefit plans | 491 |
| | <u>₩ 10,086</u> |

(2) Ship equilibrium water treatment business

(In millions of won)

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

HD HYUNDAI HEAVY INDUSTRIES CO., LTD.
 Notes to the Separate Financial Statements
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46. Subsequent Events

(1) Public Bond Issuance

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

(In millions of won)

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

(2) Merger

The Company 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 separate financial statements as of December 31, 2023 and the audit of internal control over financial reporting pursuant to Article 8-7 of the *Act on External Audit for Stock Companies* of the Republic of Korea.

Independent Auditor's Report on Internal Control over Financial Reporting

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

We have audited HD Hyundai Heavy Industries Co., Ltd.(the "Company")'s internal control over financial reporting ("ICFR") 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 ICFR in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting 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 separate financial statements of the Company, which comprise the separate statements of financial position as of December 31, 2023 and 2022, the separate statements of comprehensive loss, changes in equity and cash flow for the year then ended, and notes, comprising material accounting policy information and other explanatory information, and our report dated March 18, 2024 expressed an unmodified opinion on those separate financial statements.

Basis for Opinion on ICFR

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the ICFR* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the ICFR 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 the ICFR

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

Those charged with governance are responsible for overseeing the Company's ICFR.

Auditor's Responsibilities for the Audit of the ICFR

Our responsibility is to express an opinion on the Company's ICFR 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 was maintained in all material respects.

Our audit of ICFR included obtaining an understanding of ICFR, 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

A Company's ICFR is a process designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A Company's ICFR 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 Company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with K-IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect material misstatements in the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

KPMG Samjony 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 ICFR. 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.

Management's report on the effectiveness of the internal control over financial reporting

Based on a report originally issued in Korean

To the Shareholders and the 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 the year ended December 31, 2023.

The design and operation of ICFR 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 has been effectively designed and operated in order to prevent and detect errors or fraud that may result in a misstatement of the financial statements to ensure preparation and disclosure of reliable 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. And, in assessing the design and operation of the ICFR, we assessed ICFR 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 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