

Samsung C&T Corporation and Subsidiaries

**Consolidated Interim Financial Statements
June 30, 2018 and 2017**

Samsung C&T Corporation and Subsidiaries
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June 30, 2018 and 2017

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
Samsung C&T Corporation

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Samsung C&T Corporation (the Company) and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at June 30, 2018, and the related consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, consolidated interim statements of changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

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28. Financial Income and Expenses

Financial income and expenses for the three-month and six-month periods ended June 30, 2018 and 2017, consist of:

<i>(in millions of Korean won)</i>	2018		2017	
	Three months	Six months	Three months	Six months
Interest income:				
Deposits in bank	₩ 11,224	₩ 20,547	₩ 9,117	₩ 22,652
Securities	1,175	2,351	1,175	2,351
Loans	5,209	10,937	5,648	11,161
Overdue interest	4	8	10	18
Present value discounts	533	1,197	861	1,700
Others	5,649	11,092	4,065	11,340
Foreign exchange gain	10,017	13,382	14,569	24,913
Gain on translation of foreign currency	45,667	58,532	(7,771)	43,991
Total financial income	79,478	118,046	27,674	118,126
Interest expenses:				
Short-term borrowings	13,143	26,646	13,722	25,209
Long-term borrowings	8,513	14,618	7,236	14,707
Debentures	16,872	35,391	19,676	43,915
Others	3,815	9,202	3,718	6,958
Capitalized interests	(3,950)	(6,493)	(2,959)	(5,147)
Foreign exchange loss	5,314	10,220	6,059	12,810
Loss on translation of foreign currency	29,434	41,573	1,052	51,577
Total financial expenses	73,141	131,157	48,504	150,029
Financial expenses (income), net	₩ (6,337)	₩ 13,111	₩ 20,830	₩ 31,903

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29. Income Tax Expense

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

30. Earnings per Share

Basic earnings per ordinary share for the six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in Korean won and in shares)</i>	2018		2017	
Profit for the period ¹	₩	764,444 million	₩	333,260 million
Profit for the period attributable to ordinary shares		757,606 million		330,258 million
Weighted average number of ordinary shares outstanding		163,464,540 shares		163,464,540 shares
Basic earnings per ordinary share	₩	4,635	₩	2,020

¹ The amount is the profit attributable to the owners of the Parent Company for the period.

Basic earnings per preferred share for the six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in Korean won and in shares)</i>	2018		2017	
Profit for the period ¹	₩	764,444 million	₩	333,260 million
Profit for the period attributable to preferred shares		6,838 million		3,002 million
Weighted average number of preferred shares outstanding		1,467,591 shares		1,467,591 shares
Basic earnings per preferred share	₩	4,660	₩	2,044

¹ The amount is the profit attributable to the owners of the Parent Company for the period.

Since there is no dilutive potential ordinary share, the diluted earnings per ordinary share and the basic earnings per ordinary share are the same for the six-month periods ended June 30, 2018 and 2017.

31. Related Party Transactions

As at June 30, 2018, the Group's related parties consist of 53 associates and joint ventures, including Samsung Bioepis Co., Ltd. and other related parties (Note 1.3). Meanwhile, the Enterprise Group, which the Group belongs to, in accordance with the Monopoly Regulation and Fair Trade Act of the Republic of Korea, consists of 62 entities including Samsung Electronics Co., Ltd., as at June 30, 2018.

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Significant transactions between the Parent Company and related parties (associates, joint ventures and other related party) for the six-month periods ended June 30, 2018 and 2017, and the related account balances as at June 30, 2018 and December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	Sales ²		Purchases		Receivables ²		Payables ²	
	2018	2017	2018	2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Associates								
Samsung Bioepis Co., Ltd.	₩ 3,701	₩ 7,637	₩ -	₩ -	₩ 1,818	₩ 3,614	₩ -	₩ -
Waris Gigih Engineering & Technology Sdn. Bhd.	48	86	-	-	-	-	-	-
Chongqing Shanxia Technology Textile Co., Ltd.	-	19,468	-	-	-	-	-	-
Dongducheon Dream Power Co., Ltd.	-	119	-	35	30,817	30,817	-	-
Busan Green Energy Co., Ltd.	-	30,447	-	-	-	-	-	-
Gangneung Eco Power Co., Ltd.	4,069	4,182	-	-	37,343	12,970	375,438	-
Gaziantep Hospital Management Investment Company	2,160	-	-	-	60	34	-	-
Rabigh Investment Company	-	-	-	-	52,111	49,774	-	-
Others	296	290	681	382	-	159	-	1
Joint ventures								
FCC Saudi LLC	17,320	9,979	-	-	4,487	80	-	-
Others	5,694	-	5	-	1,141	912	-	-
Other related party								
Samsung Electronics Co., Ltd.	1,375,680	1,149,175	57,064	64,425	113,581	617,069	217,541	218,983
Others¹								
Samsung Display Co., Ltd.	490,822	106,573	1,412	20,672	521,600	99,398	23,333	23,350
Samsung Heavy Industries Co., Ltd.	7,500	7,535	26	7	3,349	104	4,398	4,398
Samsung Life Insurance Co., Ltd. ³	33,776	20,323	688	2,930	2,273	17,771	41,767	41,767
Others	55,211	54,480	98,500	82,650	443,566	972,531	213,889	213,636

¹ The entities are not included in the scope of related parties in accordance with Korean IFRS 1024, but are included in the scope of Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act of the Republic of Korea.

² Unbilled revenue from construction contracts based on the percentage of completion of ₩ 284,571 million (2017: ₩ 337,054 million) is excluded from sales. In addition, Due from customer for contract work amounting to ₩ 369,505 million (December 31, 2017: ₩ 352,712 million) and due to customers for contract work amounting to ₩ 282,489 million (December 31, 2017: ₩ 549,233 million) are excluded from receivables and payables, respectively.

³ As at June 30, 2018, the Group deposited ₩ 461,627 million (December 31, 2017: ₩ 515,323 million) in Samsung Life Insurance Co., Ltd. as plan assets.

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Significant transactions between the Group and related parties (associates, joint ventures and other related parties) (the above transactions are excluded) for the six-month periods ended June 30, 2018 and 2017, and the related account balances as at June 30, 2018 and December 31, 2017, consist of the following:

<i>(in millions of Korean won)</i>	Sales ²		Purchases		Receivables ²		Payables ²		
	2018	2017	2018	2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	
Associates									
Samsung Bioepis Co., Ltd.	₩ 100,895	₩ 6,210	₩ 1	₩ -	₩ 1,314	₩ 3,682	₩ 18,667	₩ -	
Chongqing Shanxia Technology Textile Co., Ltd.	-	-	-	103	116	111	-	-	
KST POWER NORTE S.A. DE C.V.	955	1,002	-	-	40,487	37,720	-	-	
Others	42	-	-	-	2	25	-	-	
Joint ventures									
South Kent Wind LP	224	230	-	-	42	42	-	-	
SP Belle River LP	205	3,828	-	-	32	1,077	-	-	
Windsor Solar LP	-	298	-	-	-	-	-	-	
LJG Green Source Energy Alpha S.R.L.	718	362	-	-	19,218	18,966	-	-	
Kelar S.A.	1,014	976	-	-	29,367	27,099	-	-	
Others	30,416	5,051	9	-	1,267	1,702	108	5	
Other related party									
Samsung Electronics Co., Ltd.	233,198	112,523	5,877	9,531	94,168	79,032	7,725	8,247	
Others¹									
Samsung Display Co., Ltd.	49,691	29,597	25	18	18,954	22,790	473	481	
Samsung Heavy Industries Co., Ltd.	151,809	79,564	8	9	85,651	42,922	360	360	
Samsung Life Insurance Co., Ltd. ³	7,100	4,467	2,332	3,259	975	4,736	1,410	1,410	
Others	174,482	152,552	95,137	213,620	35,013	32,845	54,292	102,523	

¹ The entities are not included in the scope of related parties in accordance with Korean IFRS 1024, but are included in the scope of Enterprise Group in accordance with the Monopoly Regulation and Fair Trade Act of the Republic of Korea.

² Unbilled revenue from construction contracts based on the percentage of completion of ₩ 1,199 million (2017: ₩ 22,369 million) is excluded from sales. In addition, Due from customer for contract work amounting to ₩ 7,155 million (December 31, 2017: ₩ 9,996 million) and due to customers for contract work amounting to ₩ 21,632 million (December 31, 2017: ₩ 22,481 million) are excluded from receivables and payables, respectively.

³ As at June 30, 2018, the Group (except for the Parent Company) deposited ₩ 148,691 million (December 31, 2017: ₩ 138,339 million) and ₩ 27,461 million (December 31, 2017: ₩ 35,445 million) as plan assets in Samsung Life Insurance Co., Ltd. and Samsung Fire & Marine Insurance Co., Ltd., respectively.

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Major fund transactions with a related party for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in millions of Korean won)</i>	2018		2017	
	Loans	Repayments	Loans	Repayments
Kelar S.A.	₩ -	₩ -	₩ 27,495	₩ -

Payment guarantees for the liabilities of associates and joint ventures provided by the Group as at June 30, 2018 are as follows:

	Principal debtor	Guaranteed period	Guaranteed amount	
			Actual borrowings	Guaranteed amount
Associates				
Terminal KMS de GNL, S. de R.L. de C.V.	Santander and others	Sep. 1, 2029	\$ 87,248	\$ 87,248
KST Electric Power Company, SAPI de C.V.	KEB Hana Bank and others	Dec. 30, 2018	13,035	13,035
Joint venture				
Kelar S.A.	BTMU and others	Apr. 30, 2031	13,654	34,654
			<u>\$ 113,937</u>	<u>\$ 134,937</u>

As at June 30, 2018, the Group provided land and buildings, which are located in Seocho-gu, Seoul, Republic of Korea, as collateral to Samsung Fire & Marine Insurance Co., Ltd. and Samsung Life Insurance Co., Ltd. for establishment of the right to collateral security according to lease agreements, with total secured amount of ₩ 31,037 million (Note 15).

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As at June 30, 2018, investments in Dongducheon Dream Power Co., Ltd., (acquisition cost: ₩ 81,191 million), are pledged as collateral to a financial institution against the borrowings (total borrowing limit of ₩ 1,285,000 million) of Dongducheon Dream Power Co., Ltd. (Note 13). In addition, the Group provides fund supplement commitment on expected working capital deficit of Dongducheon Dream Power Co., Ltd. up to ₩ 8,100 million.

As at June 30, 2018, investments in Gaziantep SPV (acquisition cost: ₩ 5,569 million), Rabigh 2 Investment Company (acquisition cost: ₩ 373 million) and Qurayyah Investment Company (acquisition cost: ₩ 52,215 million), are pledged as collateral against borrowings of investees (Note 13).

The Group has entered into a lease agreement in relation to use of land with Incheon Metropolitan City and entered into sublease agreements with Samsung Bioepis Co., Ltd. with the consent of Incheon Metropolitan City.

The Group recognized salaries and post-employment benefits for the key management as expenses, amounting to ₩ 2,798 million and ₩ 441 million, respectively. The key management includes directors (executive and non-executive), auditors and other managements. Meanwhile, the Group introduced long-term incentive plans for its executives based on a three-year management performance criteria and has made a provision for the cumulative estimated incentive cost for the past periods. For the six-month period ended June 30, 2018, the Group recognized expenses amounting to ₩ 1,208 million.

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32. Cash Generated from Operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities, for the six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in Korean won)</i>	2018	2017
Profit for the period	₩ 706,311,639,707	₩ 297,323,934,319
Addition		
Income tax expense	229,870,823,824	149,000,844,780
Interest expense	79,364,889,404	85,642,375,841
Depreciation and amortization	227,926,737,379	238,874,609,611
Post-employment benefits	48,190,952,125	50,866,301,141
Impairment loss	(1,468,325,445)	(8,051,515,006)
Other impairment loss	21,591,414,385	24,307,561,266
Transfer in provision for construction losses	46,886,694,557	54,718,441,545
Transfer in provision for construction warranties	12,871,488,163	17,591,124,301
Loss on foreign currency translation	126,563,193,777	148,224,783,505
Loss on valuation of financial assets at fair value through profit or loss	-	8,190,000
Loss on disposal of investments	108,566,485	1,242,800,393
Impairment loss on investments	-	88,487,642
Loss on disposal of property, plant and equipment	2,875,682,760	12,567,968,467
Impairment loss on property, plant and equipment	4,248,869,620	7,348,500,000
Loss on disposal of intangible assets	62,663,864	88,316,419
Impairment loss on intangible assets	10,756,000	-
Share of loss of associates and joint ventures	110,076,875,092	83,392,070,902
Others expenses	120,878,443,414	20,450,045,051
	<u>1,030,059,725,404</u>	<u>886,360,905,858</u>
Deduction		
Interest income	(46,131,765,442)	(49,222,199,839)
Dividend income	(341,498,653,823)	(266,498,061,092)
Gain on foreign exchange translation	(192,696,146,103)	(128,892,272,458)
Reversal of provision for construction losses	(37,598,038,840)	(105,742,297,656)
Reversal of provision for impairment	(2,766,354,661)	(6,283,184,538)
Gain on disposal of investments	(19,724,635,383)	(6,272,548,697)
Gain on disposal of property, plant and equipment	(50,250,900,080)	(1,165,282,400)
Gain on disposal of intangible assets	(197,237,367)	(2,358,976,281)
Reversal of impairment loss on intangible assets	(3,547,716)	-
Gain on disposal of investment properties	(45,984,420,963)	-
Share of profit of associates and joint ventures	(56,889,319,585)	(70,114,203,418)
Other income	(4,855,864,981)	(3,169,071,858)
	<u>(798,596,884,944)</u>	<u>(639,718,098,237)</u>

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<i>(in Korean won)</i>	2018	2017
Changes in operating assets and liabilities		
Decrease in trade receivables	987,873,191,577	691,562,402,223
Increase in other current assets	(247,445,700,274)	(175,358,877,211)
Increase in inventories	(38,206,206,316)	(93,205,160,441)
Decrease in trade payables	(9,653,412,205)	(62,974,738,627)
Decrease in other current liabilities	(697,188,563,114)	(381,234,258,074)
Decrease in provisions for construction warranties	(10,550,871,637)	(11,652,223,206)
Increase in long-term unearned income	5,049,654,032	-
Increase (decrease) in long-term non-trade payables	20,039,515,693	(922,376,214)
Payment of defined benefit liability	(76,919,490,169)	(44,515,450,007)
Decrease in plan assets	59,538,296,089	28,424,422,174
Transfer in (out) of defined benefit liability	(854,098,950)	2,255,420
Others	(37,316,000,458)	(2,616,481,565)
	<u>(45,633,685,732)</u>	<u>(52,490,485,528)</u>
Cash generated from operations	<u>₩ 892,140,794,435</u>	<u>₩ 491,476,256,412</u>

Changes in liabilities arising from financial activities for the six-month period ended June 30, 2018, are as follows:

	<i>(in millions of Korean won)</i>		<u>Transactions without cash flows</u>		At June 30, 2018
	At January 1, 2018	Cash flows from financial activities	Amortization	Others ²	
Short-term borrowings	₩ 2,093,310	₩ (440,833)	₩ -	₩ (12,314)	₩ 1,640,163
Long-term borrowings ¹	1,314,589	87,833	-	29,332	1,431,754
Debentures	<u>2,626,308</u>	<u>(110,421)</u>	<u>1,094</u>	<u>-</u>	<u>2,516,981</u>
	<u>₩ 6,034,207</u>	<u>₩ (463,421)</u>	<u>₩ 1,094</u>	<u>₩ 17,018</u>	<u>₩ 5,588,898</u>

¹ Long-term borrowings include current portion of borrowings and debentures.

² Others include changes due to exchange differences and others.

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33. Segment Information

The strategic steering committee is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the strategic steering committee for the purposes of allocating resources and assessing performance.

Also, a summary of information on the Group's operations by business segment as at and for the six-month periods ended June 30, 2018 and 2017, is prepared after elimination of intercompany transactions in operating profit, and liabilities of operating segments are not included as those are not periodically reported to the Group's management.

Summary of information on the Group's operations by business segment as at and for the six-month periods ended June 30, 2018 and 2017, is as follows:

(in millions of Korean won)

	2018							
	Construction	Trading	Fashion	Resort	Food and beverages	Bio	Common	Total
External sales	₩ 6,154,723	₩ 8,565,138	₩ 913,976	₩ 313,501	₩ 988,558	₩ 261,331	₩ -	₩ 17,197,227
Internal sales	(26,824)	(1,688,840)	(38,038)	(2,141)	(37,336)	-	-	(1,793,179)
Net sales	6,127,899	6,876,298	875,938	311,360	951,222	261,331	-	15,404,048
Operating profit (loss)	401,461	114,298	5,511	(1,407)	53,586	13,848	-	587,297
Adjusted operating profit	600,761	256,342	101,365	28,430	47,824	10,749	-	1,045,471
Total assets ¹	8,456,187	4,265,375	1,115,124	2,402,581	628,524	7,595,813	21,921,657	46,385,261

¹ For total assets, the common amount is separately presented.

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(in millions of Korean won)

	2017							Total
	Construction	Trading	Fashion	Resort	Food and beverages	Bio	Common	
External sales	₩ 5,907,985	₩ 7,328,583	₩ 906,384	₩ 336,517	₩ 938,917	₩ 170,865	₩ -	₩ 15,589,251
Internal sales	(34,240)	(1,455,856)	(39,727)	(1,017)	(36,865)	-	-	(1,567,705)
Net sales	5,873,745	5,872,727	866,657	335,500	902,052	170,865	-	14,021,546
Operating profit (loss)	238,185	90,418	8,000	10,453	68,856	(27,943)	-	387,969
Adjusted operating profit (loss)	248,089	193,212	42,354	28,581	60,328	(30,577)	-	541,987
Total assets ¹	9,681,381	4,035,322	1,206,327	2,489,826	629,563	7,416,285	21,696,789	47,155,493

¹ For total assets, the common amount is separately presented.

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Summary of information on the Group's operations by geographic areas, where the Parent Company and its subsidiaries are located respectively, for the six-month periods ended June 30, 2018 and 2017, is as follows:

<i>(in millions of Korean won)</i>	2018				
	Domestic	Asia	Europe	The Americas	Total
Total revenue	₩ 11,765,137	₩ 3,961,447	₩ 599,672	₩ 870,971	₩ 17,197,227
Intercompany revenue	(1,170,167)	(450,236)	(119,853)	(52,923)	(1,793,179)
Revenue from external customers	<u>₩ 10,594,970</u>	<u>₩ 3,511,211</u>	<u>₩ 479,819</u>	<u>₩ 818,048</u>	<u>₩ 15,404,048</u>
<i>(in millions of Korean won)</i>	2017				
	Domestic	Asia	Europe	The Americas	Total
Total revenue	₩ 11,265,239	₩ 2,941,894	₩ 603,104	₩ 779,014	₩ 15,589,251
Intercompany revenue	(1,044,946)	(362,439)	(124,714)	(35,606)	(1,567,705)
Revenue from external customers	<u>₩ 10,220,293</u>	<u>₩ 2,579,455</u>	<u>₩ 478,390</u>	<u>₩ 743,408</u>	<u>₩ 14,021,546</u>

34. Financial Risk Management

34.1 Financial Risk Management

The Group is exposed to various financial risks such as market risk, credit risk and liquidity risk while performing various activities. Market risk arises from currency risk, fair value interest rate risk, cash flow interest rate risk and price risk.

As these interim financial statements do not include all the financial risk management and disclosures required for the annual financial statements, please refer to the December 31, 2017 annual financial statements.

There has been no significant change in the risk management department and other risk management policy of the Group since December 31, 2017.

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34.2 Fair Value Measurement

The fair value of the financial instruments traded in wide market, such as available-for-sale financial assets and others, are estimated based on the publicly announced market price as at the reporting date. If there is no market for such financial instruments, the fair value is estimated by using certain valuation methods. For assessing the fair value, the Group uses various valuation methods, and establishes the assumptions based on the market condition as at the reporting date. For long-term liabilities, the official market price or dollar-asking price of the similar instruments is used. In addition, the Group uses various valuation methods such as estimated cash flows discount method to estimate fair value. Fair values of interest rate swap and currency swap are calculated by discounting future estimated cash flows. The fair values of metal futures and currency forward contract are estimated by using the official price and the official forward exchange rate as at the reporting date, respectively. The Group records the net book amount after deducting the provision for impairment from the gross amount as the approximate value of the trade receivables and trade payables. The fair value of the financial liabilities is the discounted amount of the future cash flow under the terms of the contract by using current market interest rate applied on similar financial instruments.

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at June 30, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	₩ 20,638,489	₩ 733	₩ 275,676	₩ 20,914,898
Financial assets at fair value through profit or loss	2,165	390,000	66,882	459,047
Derivative financial instruments:				-
Held for trading	-	16,920	26,393	43,313
Hedging	-	16,749	-	16,749
	<u>₩ 20,640,654</u>	<u>₩ 424,402</u>	<u>₩ 368,951</u>	<u>₩ 21,434,007</u>
Liabilities measured at fair value				
Derivative financial instruments:				
Held for trading	₩ -	₩ 24,801	₩ 1,933,562	₩ 1,958,363
Hedging	-	3,084	-	3,084
	<u>₩ -</u>	<u>₩ 27,885</u>	<u>₩ 1,933,562</u>	<u>₩ 1,961,447</u>

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	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through other comprehensive income	₩ 22,883,966	₩ 815	₩ 319,952	₩ 23,204,733
Financial assets at fair value through profit or loss	2,165	-	22,274	24,439
Derivative financial instruments:				
Held for trading	-	18,149	-	18,149
Hedging	-	6,351	-	6,351
	<u>₩ 22,886,131</u>	<u>₩ 25,315</u>	<u>₩ 342,226</u>	<u>₩ 23,253,672</u>
Liabilities measured at fair value				
Derivative financial instruments:				
Held for trading	₩ -	₩ 14,810	₩ 1,933,562	₩ 1,948,372
Hedging	-	8,788	-	8,788
	<u>₩ -</u>	<u>₩ 23,598</u>	<u>₩ 1,933,562</u>	<u>₩ 1,957,160</u>

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

During the six-month period ended June 30, 2018, there has been no significant change in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities.

There are no reclassification of the financial assets during the six-month period ended June 30, 2018.

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Valuation techniques and the inputs used in the fair value measurement related to recurring and non-recurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy and disclosed fair value are as follows:

<i>(in millions of Korean won)</i>	Fair value	Level	Fair value measurements	Inputs
Financial assets measured at fair value				
Energy industry equities	₩ 72,601	3	Net asset value method, discounted cash flow method and others	Growth rate, discount rate and others
Cooperative contribution	44,707	3	Net asset value method, discounted cash flow method and others	Growth rate, discount rate and others
Other equities	225,250	3	Net asset value method, discounted cash flow method and others	Growth rate, discount rate and others
Investment bonds	390,733	2	Discounted cash flow method	Counterparty credit risk and others
Derivatives (assets)				
Currency forwards and others	33,669	2	Market approach	Currency forwards rate , discount rate and others
Option	26,393	3	LSMC model	Fair value of underlying asset (East Central Tower Building)
Derivatives (liabilities)				
Currency forwards and others	27,885	2	Market approach	Currency forwards rate , discount rate and others
Option ¹	1,933,562	3	Binomial option pricing model	Fair value of underlying asset (Samsung Bioepis Co., Ltd.)

¹ As the Group determined that changes in fair value of derivative liabilities are not significant, fair market valuation was not performed for the six-month period ended June 30, 2018.

Valuation process of fair value measurements classified in level 3

The finance department of the Group's divisions is responsible for fair value measurements which contain fair value measurement categorized in Level 3 for the purpose of financial report and the said department reports periodically the fair value valuation process and its outcome on reporting schedule at the end of every year.

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35. Changes in Accounting Policies

As explained in Note 2, The Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The application of Korean IFRS 1115 has impact on the financial statements as follows.

In summary, the following adjustments were made to the amounts recognized in the statements of financial position at the date of initial application (January 1, 2018):

<i>(in millions of Korean won)</i>	December 31, 2017		January 1, 2018	
	(before adjustments)¹	Adjustments	(after adjustments)¹	
Trade receivables	₩ 4,992,459	₩ (170,035)	₩ 4,822,424	
Other current assets	2,628,872	(81,225)	2,547,647	
Inventories	1,533,034	3,222	1,536,256	
Investments in associates and joint ventures	5,741,754	(143,959)	5,597,795	
Other non-current assets	711,126	31,702	742,828	
Total assets	₩ 49,048,903	₩ (360,295)	₩ 48,688,608	
Other current liabilities	9,180,835	(91,888)	9,088,947	
Deferred tax liabilities	6,295,263	(44,286)	6,250,977	
Provisions	257,025	2,583	259,608	
Other non-current liabilities	234,607	42,720	277,327	
Total liabilities	₩ 23,897,653	₩ (90,871)	₩ 23,806,782	
Retained earnings	5,755,405	(181,400)	5,574,005	
Non-controlling interests	2,594,498	(88,024)	2,506,474	
Total equity	₩ 25,151,250	₩ (269,424)	₩ 24,881,826	

(i) Accounting for returns and refunds

Under the previous standard, when the customer has a right to return the product within a given period, the Group previously recognized a provision for returns which was measured on a net basis at the margin on the sale. Under Korean IFRS 1115, if a customer returns a product, the gross amount for the expected refunds to customers is recognized.

(ii) Accounting for costs to fulfil a contract

Under the previous standard, the cost of obtaining a contract was recognized as asset based on the possibility of obtaining the contract without considering the nature or recoverability of contract amount. Under Korean IFRS 1115, if the costs incurred in fulfilling a contract with a customer are related directly to a contract that the entity can specifically generate resources of the entity that will be used in satisfying performance obligations in the future, and are expected to be recovered, the costs are recognized as assets, and the related trade receivables (due from customer for contract work) and advances received (due to customer for contract work) are adjusted.

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(iii) Offsetting of contract assets and contract liabilities

Under the previous standard, due from customers and advance payments (due to customers) from single contract were reported in gross amounts. Under Korean IFRS 1115, as due from customers and advance payments (due to customers) are contract asset and contract liabilities, respectively, due from customers and advance payments (due to customers) from a single contract were subject to offset and reported in net amounts.

(iv) Accounting for CMO business

Under the previous standards, for sales of biomedical supplies, revenue was recognized considering that the significant risks and rewards of ownership was transferred to customer when the produced goods have obtained quality release from the customer; and for services, revenue was recognized when service was transferred. Under Korean IFRS 1115, only sales of biomedical supplies was identified as performance obligation and accordingly revenue was allocated and recognized over the period of time control over the goods transfer to customers. Due to such changes, contract assets and contract liabilities were newly recognized.

(v) Accounting for CDO business

Under the previous standards, revenue was recognized by allocating the considerations received for each research steps based on period of time spent on each research. Under Korean IFRS 1115, whole research activities are considered as a single performance obligation, which total contract amounts are recognized based on the percentage of completion. Due to such changes, contract assets and contract liabilities are newly recognized.

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Financial statement line items affected by the adoption of the new rules in the current period are as follows:

Consolidated statement of financial position

<i>(in millions of Korean won)</i>	Reported amount		Adjustments		Amount before application of Korean IFRS 1115	
Trade receivables	₩	4,217,707	₩	406,250	₩	4,623,957
Other current assets		2,869,806		102,013		2,971,819
Inventories		1,595,966		16,556		1,612,522
Investments in associates and joint ventures		3,339,495		127,519		3,467,014
Other non-current assets		773,087		(59,531)		713,556
Total assets	₩	46,385,261	₩	592,807	₩	46,978,068
Other current liabilities	₩	8,754,327	₩	363,544	₩	9,117,871
Deferred tax liabilities		5,680,537		34,986		5,715,523
Provisions		309,061		(2,106)		306,955
Other non-current liabilities		297,552		(49,074)		248,478
Total liabilities	₩	22,744,821	₩	347,350	₩	23,092,171
Retained earnings	₩	6,008,216	₩	167,316	₩	6,175,532
Non-controlling interests		2,451,368		78,141		2,529,509
Total equity	₩	23,640,440	₩	245,457	₩	23,885,897

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Consolidated statement of comprehensive income

<i>(in millions of Korean won)</i>	Reported amount		Adjustments		Amount before application of Korean IFRS 1115	
Net sales	₩	15,404,048	₩	24,452	₩	15,428,500
Cost of sales		13,416,835		34,632		13,451,467
Gross profit		1,987,213		(10,180)		1,977,033
Selling and administrative expenses		1,399,916		6,645		1,406,561
Operating profit		587,297		(16,825)		570,472
Non-operating income and expenses		348,885		(16,440)		332,445
Income tax expenses		229,871		(9,300)		220,571
Profit for the period		706,312		(23,965)		682,347
Total comprehensive income (loss)		(903,652)		(23,965)		(927,617)

Consolidated statement of cash flows

<i>(in millions of Korean won)</i>	Reported amount		Adjustments		Amount before application of Korean IFRS 1115	
Profit for the period	₩	706,312	₩	(23,966)	₩	682,346
Adjustments for		231,463		(29,074)		202,389
Income tax expenses		229,871		(9,300)		220,571
Other expenses		120,878		(1,667)		119,211
Share of profit or loss of associates and joint ventures		53,188		(16,440)		36,748
Other income		(4,856)		(1,667)		(6,523)
Changes in operating assets and liabilities		(45,634)		16,825		(28,809)
Decrease in trade receivables		987,873		(8,199)		979,674
Increase in inventories		(38,206)		(20,878)		(59,084)
Increase in other current assets		(247,446)		8,177		(239,269)
Decrease in other current liabilities		(697,189)		37,816		(659,373)
Decrease in provisions for construction warranties		(10,551)		(91)		(10,642)

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The Group has applied Korean IFRS 1109 on January 1, 2017, the date of initial application. The application of Korean IFRS 1109 has following impacts on the financial statements as at June 30, 2017.

Consolidated statement of comprehensive income (for the six-month period ended June 30, 2017)

<i>(in millions of Korean won)</i>	Amount before application of Korean IFRS 1109		Amount after application of Korean IFRS 1109		Difference
Selling and administrative expenses	₩	1,415,072	₩	1,419,552	₩ 4,480
Operating profit		392,449		387,969	(4,480)
Other income		636,570		636,641	71
Other expenses		486,560		482,623	(3,937)
Profit before income tax		446,797		446,325	(472)
Income tax expense		149,665		149,001	(664)
Profit for the period		297,132		297,324	192
Items that may be subsequently reclassified to profit or loss					
Changes in the fair value of available-for-sale securities		3,212,010		-	(3,212,010)
Items that will not be reclassified to profit or loss					
Gain on valuation of financial assets at fair value through other comprehensive income		-		3,209,817	3,209,817
Total comprehensive income		3,429,451		3,427,439	(2,012)
Earnings per share					
Basic earnings per share <i>(in Korean won)</i>		2,019		2,020	1

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Consolidated statement of changes in equity (for the six-month period ended June 30, 2017)

	Amount before application of Korean IFRS 1109			Amount after application of Korean IFRS 1109			Difference		
	Attributable to owners of the Parent Company			Attributable to owners of the Parent Company			Attributable to owners of the Parent Company		
	Consolidated share premium	Other components of equity	Total equity	Consolidated share premium	Other components of equity	Total equity	Consolidated share premium	Other components of equity	Total equity
Cumulative effect of changes in accounting policy	₩ -	₩ -	₩ -	₩ (16,550)	₩ 551	₩ (15,999)	₩ (16,550)	₩ 551	₩ (15,999)
Profit for the period	333,068	-	297,132	333,260	-	333,260	192	-	192
Changes in the fair value of available-for-sale financial assets	-	3,212,010	3,212,010	-	-	-	-	(3,212,010)	(3,212,010)
Gain (loss) on valuation of financial assets at fair value through other comprehensive income	-	-	-	(1,105)	3,210,911	3,209,806	(1,105)	3,210,911	3,209,806
Balance at June 30, 2017	5,472,158	5,738,163	21,697,719	5,454,694	5,737,615	21,679,707	(17,464)	(548)	(18,012)
			24,437,442			24,419,431			(18,011)
									3,209,806
									3,209,806
									(18,011)

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Consolidated statement of cash flows (for the six-month period ended June 30, 2017)

<i>(in millions of Korean won)</i>		Amount before application of Korean IFRS 1109	Amount after application of Korean IFRS 1109		Difference
Profit for the period	₩	297,132	297,324	₩	192
Addition of expenses without cash outflows		886,482	886,361		(121)
Deduction of revenues without cash inflows		(639,647)	(639,718)		(71)
Disposal of available-for-sale financial assets		59,138	-		(59,138)
Disposal of financial assets at fair value through profit or loss		-	11,477		11,477
Disposal of financial assets at fair value through other comprehensive income		-	47,661		47,661
Acquisition of available-for-sale financial assets		(1,555)	-		1,555
Acquisition of financial assets at fair value through profit or loss		-	(1,181)		(1,181)
Acquisition of financial assets at fair value through other comprehensive income		-	(374)		(374)

Notes

Influence of the standards adopted by the Group in 2017 is applied to relevant notes.

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36. Assets Held for Sale

Details of assets held for sale and accumulated other comprehensive income classified as held for sale as at June 30, 2018, are as follows:

<i>(in millions of Korean won)</i>	2018
Assets held for sale:	
Investments in associates and joint ventures (Note 13)	
Samsung Bioepis Co., Ltd. ¹	₩ 2,193,617
Songdo Landmark City Limited	20,522
Chongqing Shanxia Technology Textile Co., Ltd.	29,104
Accumulated other comprehensive income classified as held for sale:	
Share of other comprehensive income of associates and joint ventures (Note 22)	
Samsung Bioepis Co., Ltd. ¹	(1,315)
Chongqing Shanxia Technology Textile Co., Ltd.	(667)

¹ In accordance with the joint venture agreement between Biogen Therapeutics Inc. and the Group, Biogen Therapeutics Inc. had a call option to purchase additional shares of Samsung BioEpi Co., Ltd. that would allow Biogen Therapeutics Inc. to increase its ownership interest up to 50% minus one share, and the option was exercised on June 29, 2018. Accordingly, the Group determined that the contract was committed and classified the related investments as held for sale. As at June 30, 2018, Biogen Therapeutics Inc. plans to complete legal process of the share purchase until the completion date of share transaction (expected date: September 28, 2018).

The assets held for sale are measured the lower of fair value less costs of disposal and its book amount, and no impairment loss was recognized for the six-month period ended June 30, 2018.