

**HYUNDAI HEAVY INDUSTRIES CO., LTD**

**Non-Consolidated Financial Statements**

**December 31, 2009 and 2008**

(With Independent Auditors' Report Thereon)

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Stockholders  
Hyundai Heavy Industries Co., Ltd:

We have audited the accompanying non-consolidated statements of financial position of Hyundai Heavy Industries Co., Ltd., (the "Company") as of December 31, 2009 and 2008 and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2009 and 2008 and the results of its operations, appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As described in note 9 to the non-consolidated financial statements, the Company adopted the revaluation model for land. As a result of this adoption, the assets were increased by ₩ 1,236,485 million.

Seoul, Korea  
February 25, 2010

This report is effective as of February 25, 2010, 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 non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Financial Position

As of December 31, 2009 and 2008

(In thousands of Won, except share data)

	<i>Note</i>		<b>2009</b>	<b>2008</b>
<b>Assets</b>				
Cash and cash equivalents	2,27,34	₩	632,578,218	667,492,156
Short-term financial instruments	3		109,033,003	1,676,394,826
Short-term investment securities	5		-	102,459,800
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 109,816,750 in 2009 and ₩ 96,532,225 in 2008	22,26,27		4,973,543,411	4,498,868,535
Accounts receivable - other, net of allowance for doubtful accounts of ₩ 206,364,299 in 2009 and ₩ 296,094,108 in 2008	17,26,27		117,586,658	162,113,211
Advance payments, net of allowance for doubtful accounts of ₩ 13,125,144 in 2009 and ₩ 17,757,919 in 2008			1,228,556,767	852,779,452
Accrued income			37,495,883	58,732,447
Foreign exchange forward contracts	16		1,377,159,343	1,851,056,213
Deferred income tax assets	16,23		-	212,461,924
Inventories	4		1,928,558,515	2,263,296,422
Other current assets	6		205,402,613	271,913,270
<b>Total current assets</b>			<b>10,609,914,411</b>	<b>12,617,568,256</b>
Long-term financial instruments	3,27		3,224,878	15,322,748
Long-term investment securities	7		1,174,080,691	496,260,357
Equity method investments	8		3,689,107,855	2,712,825,310
Property, plant and equipment, net	9,28		8,145,522,809	6,189,953,763
Intangible assets	10,28		288,459,041	262,296,296
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 27,138,889 in 2009 and ₩ 832,009 in 2008			51,243,264	82,368,900
Foreign exchange forward contracts			805,264,651	2,815,240,074
Other non-current assets	11,27		105,765,901	88,565,217
<b>Total non-current assets</b>			<b>14,262,669,090</b>	<b>12,662,832,665</b>
<b>Total assets</b>		₩	<b>24,872,583,501</b>	<b>25,280,400,921</b>

See accompanying notes to non-consolidated financial statements

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Financial Position, Continued

As of December 31, 2009 and 2008

(In thousands of Won, except share data)

	Note	2009	2008
<b>Liabilities</b>			
Trade accounts and notes payable	26,27	₩ 1,427,589,252	2,337,258,676
Short-term borrowings		585,320,608	-
Accounts payable - other	26,27	146,908,841	180,439,441
Advances from customers	22	8,583,478,070	10,177,418,459
Accrued expenses	26,27	251,590,915	289,674,793
Income tax payable	23	263,311,110	457,058,997
Foreign exchange forward contracts	16	1,405,086,993	2,798,264,234
Deferred income tax liabilities		16,682,139	-
Other current liabilities	12	229,133,419	233,766,414
<b>Total current liabilities</b>		<b>12,909,101,347</b>	<b>16,473,881,014</b>
 Bonds payable		300,000,000	-
Discount on bonds		(930,804)	-
Long-term borrowings	13,27	5,166,671	3,314,633
Long-term accrued expenses	17	-	-
Provision for retirement and severance benefits, net of severance insurance deposits and others of ₩ 1,051,671,743 in 2009 and ₩ 1,112,905,108 in 2008	14	174,477,102	139,018,332
Deferred income tax liabilities	8,16,23	691,066,287	133,497,415
Foreign exchange forward contracts	16	907,835,125	2,856,649,956
Other long-term liabilities	15	77,466,586	78,820,055
<b>Total non-current liabilities</b>		<b>2,155,080,967</b>	<b>3,211,300,391</b>
<b>Total liabilities</b>		<b>15,064,182,314</b>	<b>19,685,181,405</b>
 <b>Stockholders' equity</b>			
Common stock of ₩ 5,000 par value		380,000,000	380,000,000
Authorized – 160,000,000 shares			
Issued and outstanding – 76,000,000 shares			
Capital surplus	18	2,869,578,078	2,818,590,688
Capital adjustments	20	(1,697,794,475)	(1,762,040,031)
Accumulated other comprehensive income	5,7,8,16,23,24	1,752,672,452	(498,454,758)
Retained earnings	19	6,503,945,132	4,657,123,617
<b>Total stockholders' equity</b>		<b>9,808,401,187</b>	<b>5,595,219,516</b>
 <b>Total liabilities and stockholders' equity</b>		<b>₩ 24,872,583,501</b>	<b>25,280,400,921</b>

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Income

For the years ended December 31, 2009 and 2008

(In thousands of Won, except earnings per share )

	<i>Note</i>	<b>2009</b>	<b>2008</b>
Sales	2,16,22,26,28	₩ 21,142,196,736	19,957,080,881
Cost of sales	2,22,26	17,997,442,921	16,811,989,016
<b>Gross profit</b>		<u>3,144,753,815</u>	<u>3,145,091,865</u>
Selling, general and administrative expenses	2,10,29,33	922,179,896	938,918,930
<b>Operating income</b>		<u>2,222,573,919</u>	<u>2,206,172,935</u>
Interest and dividend income		174,725,132	288,868,980
Gain on foreign currency transactions		718,752,290	677,244,920
Gain on foreign currency translation		29,819,200	140,564,809
Gain on valuation of equity method investments	8	479,596,159	771,497,568
Gain on foreign exchange forward contracts	16	1,415,583,922	1,773,396,856
Gain on disposition of property, plant and equipment		79,100,524	48,774,129
Others		411,984,109	126,755,536
<b>Non-operating income</b>		<u>3,309,561,336</u>	<u>3,827,102,798</u>
Interest expense		34,129,364	6,472,122
Loss on foreign currency transactions		543,822,224	642,757,743
Loss on foreign currency translation		62,965,784	119,579,748
Loss on disposition of property, plant and equipment		16,463,892	57,568,485
Loss on valuation of equity method investments	8	194,614,208	151,574,109
Loss on foreign exchange forward contracts	16	1,920,402,241	1,995,002,134
Others		111,674,307	110,689,186
<b>Non-operating expenses</b>		<u>2,884,072,020</u>	<u>3,083,643,527</u>
<b>Income before income taxes</b>		2,648,063,235	2,949,632,206
Income taxes expense	23	501,574,440	692,967,361
<b>Net income</b>		<u>₩ 2,146,488,795</u>	<u>2,256,664,845</u>
<b>Earnings per share</b>			
Basic earnings per share	25	<u>₩ 35,705</u>	<u>37,340</u>

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2009 and 2008

Date of Appropriation for 2009: March 12, 2010

Date of Appropriation for 2008: March 13, 2009

(In thousands of Won)

	<i>Note</i>	<b>2009</b>	<b>2008</b>
<b>Unappropriated retained earnings</b>			
Balance at beginning of year	₩	5	4
Net income		2,146,488,795	2,256,664,845
<b>Balance at end of year before appropriation</b>		2,146,488,800	2,256,664,849
<b>Transfer from voluntary reserves</b>			
Reserve for research and human development		76,666,667	6,666,667
Reserve for legal reserve		-	21,543,399
<b>Unappropriated retained earnings available for appropriation</b>		2,223,155,467	2,284,874,915
<b>Appropriation of retained earnings</b>			
Legal reserve		300,000,000	-
Reserve for research and human development		1,710,981,250	1,985,207,630
Dividends – 70% on par value at ₩ 3,500 per share			
100% on par value at ₩ 5,000 per share	21	212,174,207	299,667,280
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	₩	10	5

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Changes in Equity  
For the years ended December 31, 2009 and 2008

(In thousands of Won)

		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
<b>Balance at January 1, 2009</b>	₩	380,000,000	2,818,590,688	(1,762,040,031)	(498,454,758)	4,657,123,617	5,595,219,516
Dividends		-	-	-	-	(299,667,280)	(299,667,280)
<b>Balance after appropriations</b>		380,000,000	2,818,590,688	(1,762,040,031)	(498,454,758)	4,357,456,337	5,295,552,236
Net income		-	-	-	-	2,146,488,795	2,146,488,795
Changes in capital surplus on valuation of other investments		-	50,987,390	-	-	-	50,987,390
Change in treasury stock		-	-	65,469,293	-	-	65,469,293
Changes in capital adjustments on valuation of equity method investments		-	-	(1,223,737)	-	-	(1,223,737)
Gain on valuation of investment securities		-	-	-	534,950,242	-	534,950,242
Changes in unrealized gain on valuation of equity method investments		-	-	-	263,582,652	-	263,582,652
Negative changes in unrealized gain on valuation of equity method investments		-	-	-	133,368,767	-	133,368,767
Change in the valuation of derivatives		-	-	-	354,767,062	-	354,767,062
Land revaluation		-	-	-	964,458,487	-	964,458,487
<b>Balance at December 31, 2009</b>	₩	<u>380,000,000</u>	<u>2,869,578,078</u>	<u>(1,697,794,475)</u>	<u>1,752,672,452</u>	<u>6,503,945,132</u>	<u>9,808,401,187</u>

See accompanying notes to non-consolidated financial statements.



Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Changes in Equity, Continued  
For the years ended December 31, 2009 and 2008

(In thousands of Won)

		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
<b>Balance at January 1, 2008</b>	₩	380,000,000	2,771,383,687	(696,729,513)	169,794,560	2,867,059,692	5,491,508,426
Cumulative effect of change in accounting policy		-	42,309,668	(114,572,518)	28,463,465	-	(43,799,385)
<b>Balance at January 1, 2008, restated</b>		380,000,000	2,813,693,355	(811,302,031)	198,258,025	2,867,059,692	5,447,709,041
Dividends		-	-	-	-	(466,600,920)	(466,600,920)
<b>Balance after appropriations</b>		380,000,000	2,813,693,355	(811,302,031)	198,258,025	2,400,458,772	4,981,108,121
Net income		-	-	-	-	2,256,664,845	2,256,664,845
Changes in capital surplus on valuation of equity method investments		-	4,897,333	-	-	-	4,897,333
Change in treasury stock		-	-	(832,711,782)	-	-	(832,711,782)
Change in equity method accounted treasury stock		-	-	(11,234,489)	-	-	(11,234,489)
Changes in capital adjustments on valuation of equity method investments		-	-	(106,791,729)	-	-	(106,791,729)
Gain on valuation of investment securities		-	-	-	(262,816,255)	-	(262,816,255)
Changes in unrealized gain on valuation of equity method investments		-	-	-	(20,318,477)	-	(20,318,477)
Negative changes in unrealized gain on valuation of equity method investments		-	-	-	(102,820,239)	-	(102,820,239)
Change in the valuation of Derivatives		-	-	-	(310,757,812)	-	(310,757,812)
<b>Balance at December 31, 2008</b>	₩	<u>380,000,000</u>	<u>2,818,590,688</u>	<u>(1,762,040,031)</u>	<u>(498,454,758)</u>	<u>4,657,123,617</u>	<u>5,595,219,516</u>

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(n thousands of Won)

	2009	2008
<b>Cash flows from operating activities</b>		
Net income	₩ 2,146,488,795	2,256,664,845
Adjustments for:		
Depreciation	399,694,162	347,327,963
Accrual for severance benefits	138,734,091	230,151,603
Accrual for allowance for doubtful accounts	48,943,879	35,565,244
Loss on foreign currency translation	61,923,820	117,775,185
Loss on disposition of property, plant and equipment	16,463,892	57,568,485
Equity in net loss of equity method investees	194,614,208	151,574,109
Amortization of development costs	43,937,229	41,423,910
Loss on valuation of foreign exchange forward contracts	3,465,964,718	2,966,525,406
Accrual for foreseeable losses on construction contracts	-	65,158,129
Gain on foreign currency translation	(29,530,267)	(137,571,569)
Equity in net income of equity method investees	(479,596,159)	(771,497,568)
Gain on valuation of foreign exchange forward contracts	(1,123,079,572)	(1,713,371,925)
Gain on reversal of provision	(91,734,801)	(1,421,861)
Others, net	(143,154,232)	(28,132,693)
	4,649,669,763	3,617,739,263
Changes in assets and liabilities:		
Trade accounts and notes receivable	(495,606,386)	(1,724,001,640)
Accounts receivable-other	125,837,400	(16,578,847)
Accrued income	21,236,562	(28,203,930)
Advance payments	(379,742,025)	(552,953,561)
Inventories	303,820,209	(1,144,075,525)
Long-term trade receivable	(44,047,591)	-
Foreign exchange forward contracts	(2,781,147,823)	(990,190,623)
Trade accounts payable	(900,841,316)	854,632,361
Accounts payable-other	(34,330,548)	49,677,150
Advances from customers	(1,545,942,898)	2,459,903,477
Accrued expenses	(23,925,895)	(24,520,129)
Income tax payable	(210,026,183)	1,494,792
Long-term accrued expenses	-	(1,029,342)
Deposits for retirement and severance benefits	57,442,086	(37,269,107)
Payments of retirement and severance benefits	(164,508,686)	(169,062,230)
Deferred income tax assets	99,969,668	(42,217,698)
Deferred income tax liabilities	41,635,138	18,379,478
Provision for product warranties	(12,465,667)	
Others, net	334,983,938	110,987,270
<b>Net cash provided by (used in) operating activities</b>	<b>(957,990,254)</b>	<b>2,382,711,159</b>

See accompanying notes to non-consolidated financial statements

Hyundai Heavy Industries Co., Ltd.  
Non-Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2009 and 2008

(In thousands of Won)

	2009	2008
<b>Cash flows from investing activities</b>		
Withdrawal of short-term financial instruments	₩ 1,687,213,470	2,390,621,000
Disposition of short-term investment securities	102,966,108	2,382,649,007
Withdrawal of short-term loans	30,000,000	-
Disposition of long-term investment securities	54,916,202	13,355,791
Disposition of equity method investments	19,773	70,937
Disposition of long-term financial instruments	11,947,520	2,004,095
Disposition of other non-current assets	24,744,631	4,523,174
Disposition of property, plant and equipment	128,172,881	83,417,532
Acquisition of short-term financial instruments	(119,852,680)	(1,912,945,045)
Acquisition of short-term investment securities	-	(1,960,000,000)
Acquisition of long-term investment securities	(41,682,718)	(136,397,826)
Acquisition of equity method investments	(272,547,011)	(148,056,640)
Acquisition of long-term financial instruments	(43,008)	(6,003,410)
Acquisition of long-term loans	(2,107,387)	-
Acquisition of other non-current assets	(15,975,956)	(35,805,532)
Acquisition of property, plant and equipment	(1,178,859,217)	(1,791,434,120)
Acquisition of intangible assets	(72,139,257)	(69,711,129)
<b>Net cash provided by (used in) investing activities</b>	<b>336,773,351</b>	<b>(1,183,712,166)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	2,024,861,331	-
Issuance of bonds	298,797,600	-
Increase in long-term borrowings	1,852,037	1,689,006
Repayment of current maturities of short-term borrowings	(1,439,540,723)	-
Repayment of current portion of long-term borrowings and other long-term liabilities	-	(187,640,000)
Payment of cash dividends	(299,667,280)	(466,600,920)
Acquisition of treasury stock	-	(832,711,781)
<b>Net cash provided by (used in) financing activities</b>	<b>586,302,965</b>	<b>(1,485,263,695)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(34,913,938)</b>	<b>(286,264,702)</b>
Cash and cash equivalents at beginning of year	667,492,156	953,756,858
<b>Cash and cash equivalents at end of year</b>	<b>₩ 632,578,218</b>	<b>667,492,156</b>

See accompanying notes to non-consolidated financial statement

# Hyundai Heavy Industries Co., Ltd.

## Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008

### 1. Organization and Description of Business

Hyundai Heavy Industries Co., Ltd. (the “Company”) was incorporated in 1973, under the Commercial Code of the Republic of Korea and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other items.

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩ 5,000, authorized: 160,000,000 shares) of common stock were issued and 59,933,456 shares of common stock were outstanding as of December 31, 2008. Of the total issued shares, the company’s major stockholders Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd., Hyundai Motor Company, and National Pension Service own 10.80%, 8.15%, 7.98%, 2.88% and 2.71%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩ 400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company’s employees and directors, up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company’s employees and directors as of December 31, 2009. The Company may also raise capital with obtaining the approval of the Board of Directors by issuing stock to old shareholders, issuing stock through a general public subscription under 30% of outstanding shares, issuing stock through the issue of Depository Receipts under the Securities and Exchange Act and issuing stock to employees under certain circumstances

### 2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued

#### (a) Basis of Presenting Financial Statements

The Company prepares the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items explained in note 9 related to accounting changes and the adoption of changes to Statements of Korean Accounting Standards (SKAS) No.5 *Property, Plant and Equipment* and Financial Supervisory Service Staff Opinions on Financial Reporting 2009-1 (Accounting for the adoption of the revaluation model for property, plant and equipment), the Company applied the same accounting policies that were adopted in the previous year’s non-consolidated financial statements.

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

#### (b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term deposits and short-term financial instruments with maturities of three months or less on acquisition date, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

Hyundai Heavy Industries Co., Ltd.  
Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(c) Allowance for Doubtful Accounts**

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection. When the terms of trade accounts and notes receivable (the principal, interest rate or term) are varied, either through a court order, such as a reorganization, or by mutual formal agreement, resulting in a reduction in the present value of the future cash flows due to the Company, the difference between the carrying value of the relevant accounts and notes receivable and the present value of the future cash flows is recognized as bad debt expense.

**(d) Inventories**

Inventories are stated at the lower of cost or net realized value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. Cost is determined using the moving average method, except for materials in-transit for which cost is determined using the specific identification method. Quantities of inventories at year-end are determined based on physical counts.

**(e) Investments in Securities (Excluding Investments in Associates, Subsidiaries and Joint Ventures)**

**Classification**

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries, associates and joint ventures) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at the end of each reporting period. Investments in debt securities where the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are acquired principally for the purpose of selling in the short term are classified as trading securities. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

**Initial recognition**

Investments in securities (excluding investments in subsidiaries, associates and joint ventures) are initially recognized at cost.

**Subsequent measurement and income recognition**

Trading securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of trading securities are included in the income statement in the period in which they arise. Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized as accumulated other comprehensive income, net of tax, directly in equity. Investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost less impairment, if any. Held-to-maturity investments are carried at amortized cost with interest income and expense recognized in the income statement using the effective interest method.

**Fair value information**

The fair value of marketable securities is determined using quoted market prices as of the period end. Non-marketable debt securities are fair valued by discounting cash flows using the prevailing market rates for debt with a similar credit risk and remaining maturity. Credit risk is determined using the Company's credit rating as announced by accredited credit rating agencies in Korea. The fair value of investments in money market funds is determined by investment management companies.

Hyundai Heavy Industries Co., Ltd.  
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**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(e) Investments in Securities (Excluding Investments in Associates, Subsidiaries and Joint Ventures), Continued**

**Presentation**

Trading securities are presented as current assets. Available-for-sale securities, which mature within one year from the end of the reporting period or where the likelihood of disposal within one year from the end of the reporting period is probable, are presented as current assets. Held-to-maturity securities, which mature within one year from the end of the reporting period, are presented as current assets. All other available-for-sale securities and held-to-maturity securities are presented as long-term investments.

**Impairment**

The Company reviews investments in securities whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. Impairment losses are recognized when the reasonably estimated recoverable amounts are less than the carrying amount and it is not obviously evidenced that impairment is unnecessary.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized and a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the asset in prior years. For financial assets measured at amortized cost and available-for-sale assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

**(f) Investments in Associates and Subsidiaries**

Associates are entities of the Company and its subsidiaries that have the ability to significantly influence the financial and operating policies. It is presumed to have significant influence if the Company holds directly or indirectly 20 percent or more of the voting power unless it can be clearly demonstrated that this is not the case. Subsidiaries are entities controlled by the Company.

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over the reasonable periods within 20 years using the straight-line method. Under the equity method, the change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and accumulated other comprehensive income, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus, capital adjustments and accumulated other comprehensive income. Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated. The Company has used the most available financial statements of the controlled investees, which have not been audited and reviewed due to the timing of closing of the controlled investees' financial statements.

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**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(f) Investments in Associates and Subsidiaries, Continued**

If the amount recoverable from investment securities accounted for using the equity method is less than its carrying amount, impairment loss is recognized. The Company determines whether there is objective evidence that impairment loss has been incurred, and when such evidence exists, impairment loss is recognized as impairment losses. The recoverable amount is determined as the higher of value in use or expected amount of net cash inflows from disposal of the investment securities accounted for using the equity method. The amount of impairment loss is included in current earnings.

When applying the equity method by translating the financial statements of an overseas investee is operating the Company applies (a) the foreign exchange rate as of the Company's end of the reporting period to the investee's assets and liabilities, (b) the foreign exchange rate as of the date on which the Company acquired its equity interest in the investee to the Company's share of the investee's equity interest, and (c) the foreign exchange rate as of each transaction date to the remaining equity interest in the investee after excluding any increase in retained earnings after the Company's acquisition of its equity interest in the investee. For the income statement items, the average rate for the pertinent period is applied in the translation. After translating into Korean Won (KRW), from the difference between the total equity and the amount obtained by deducting liabilities from assets, the amount relating to the Company's share of the investee's equity interest is accounted for as accumulated other comprehensive income.

**(g) Property, Plant and Equipment**

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law, which allowed for asset revaluation prior to the Law being revoked, net of accumulated depreciation. The acquisition cost of property, plant, and equipment is comprised of its purchase price or manufacturing costs and any other directly attributable costs of bringing the asset to the working condition of its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred. The interest incurred on borrowings to finance the purchase of construction of property, plant and equipment and manufacture of inventories are charged to current income.

Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets as described below.

	<u>Useful lives (years)</u>
Buildings and structures	20 – 40
Machinery and equipment	10
Ships	12
Vehicles	5
Tools, furniture and fixtures	5

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(g) Property, Plant and Equipment, Continued**

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount as a result of technological obsolescence or rapid decline in market value. When it is determined that a tangible asset may

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have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss.

If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

As of January 1, 2009, the Company adopted the revaluation model in accordance with the revised SKAS No.5 *Property, Plant and Equipment*. The book value of buildings and equipment are accounted at fair value as of the date of the revaluation less accumulated depreciation thereafter and accumulated impairment loss. If an asset's book value increases as a result of the revaluation, the amount of the increase is recognized in other comprehensive income, of which, the amount of the increase that reverses a revaluation decrease of the same asset previously recognized in profit and loss is recognized in profit and loss in the current period. On the other hand, if an asset's book value decreases as a result of the revaluation, that decrease is recognized as a loss for the current period, and the portion of the amount of decrease included in the credit balance in the revaluation surplus recorded in other comprehensive income is deducted from other comprehensive income. According to the transitional provision to this Standard, the accounting change will be applied prospectively and the prior period non-consolidated financial statements presented for comparative purposes have not been restated.

### (h) Intangible Assets

Intangible assets, such as development costs and usage rights for the donated properties, are stated at cost, net of accumulated amortization, which is computed using the straight-line method based on the estimated service lives of the intangibles assets as described below.

	Service lives (years)
Development costs	5
Usage right for donated properties	20 - 40

Development costs are incurred in respect of particular development activities and directly related to new products or technology. The Company's management believes that the value of development costs will be recovered through their future economic benefits.

### (i) Discount on Debentures

Discount on debentures issued, which represents the difference between the face value and issuance price of debentures, is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

## 2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued

### (j) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the foreign exchange rate on the end of the reporting period, with the resulting gains or losses recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction. Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the end of the reporting period. Foreign currency amounts in the statement of income are translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as



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accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

**(k) Provision for Foreseeable Losses from Construction Contracts**

When a loss on construction is expected based on cost estimates, the expected loss is charged to current operations and is included in the statements of financial position as a provision for foreseeable losses from construction contracts.

**(l) Provision for Construction Warranty**

The Company generally provides a warranty within the contract on rectification of defects after the contract's completion and accrues the rectification expense on defects based on actual claims history as provision for construction warranty.

**(m) Provision for Product Warranty**

The Company generally provides a warranty relating to product defects for a specified period of time after sales and accrues estimated costs as provision for product warranty, which may occur due to product liability suits.

**(n) Retirement and Severance Benefits**

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left at the end of the reporting period is accrued in the accompanying non-consolidated statements of financial position. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company or the bank in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated statements of financial position as a reduction of the liability for retirement and severance benefits.

**2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

**(n) Retirement and Severance Benefits, Continued**

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to a new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

**(o) Revenue Recognition**

Revenues from long-term contracts, including shipbuilding contracts, are recognized using the percentage-of-completion method, measured by the units of work performed. Revenues from other sales are recognized upon delivery of goods.

Under the percentage-of-completion method, revenues are recognized based on the percentage of costs incurred (including man hours and raw material costs) over total estimated costs for each contract. As a

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result, the timing of revenue recognition of which the Company reports may differ materially from the timing of actual contract payments received. The Company's estimates reflect information during construction activities. In addition, since most contracts are completed over several months, the timing of the recognition of related revenues could have a significant impact on quarterly operating results. The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company are reflected as advances from customers. The expenditures incurred before the construction contract is entered into are recognized as prepaid construction costs, if they are directly related to making a contract, separately identifiable and reliably measurable, and an agreement to construction is probable. The prepaid construction costs are transferred to construction cost at the commencement of the construction.

### **(p) Income Taxes**

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary

## **2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies, Continued**

### **(p) Income Taxes, Continued**

difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

### **(q) Derivative Instruments**

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

#### **Hedge accounting**

Where a derivative, which meets certain criteria, is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative, which meets certain criteria, is used for hedging the exposure to the variability of the future cash flows of a forecasted transaction it is designated as a cash flow hedge.

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

#### **Fair value hedge**

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Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to any ineffective portion is recognized immediately in the statement of income. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

### Derivatives that do not qualify for hedge accounting

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of income.

### Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income.

## 3 . Restricted Financial Instruments

Financial instruments which are restricted in use subject to withdrawal restrictions in relation to certain short-term and long-term borrowings, and shipbuilding contracts as of December 31, 2009 and 2008 were as follows:

(In thousands of Won)

		2009	2008
Short-term financial instruments	₩	16,989	2,257,812
Long-term financial instruments		3,224,878	5,460,565
	₩	3,241,867	7,718,377

## 4 . Inventories

Inventories as of December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		2009	2008
Merchandise	₩	53,801,673	70,561,858
Finished goods		96,185,730	198,528,892
Work-in-progress		720,372,588	651,163,931
Raw materials		556,500,478	865,977,551
Supplies		16,308,403	21,243,329
Materials-in-transit		485,389,643	455,820,861
	₩	1,928,558,515	2,263,296,422

The valuation of inventories as of December 31, 2009 is summarized as follows:

(In thousands of Won)

2009			2008		
Provision for inventory valuation			Provision for inventory valuation		
Acquisition	valuation	Book value	Acquisition	valuation	Book value

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Merchandise	₩	57,010,702	3,209,029	53,801,673	73,634,174	3,072,316	70,561,858
Finished goods		101,230,615	5,044,885	96,185,730	198,720,096	191,204	198,528,892
Work-in-progress		737,474,333	17,101,745	720,372,588	651,163,931	-	651,163,931
	₩	<u>895,715,650</u>	<u>25,355,659</u>	<u>870,359,991</u>	<u>923,518,201</u>	<u>3,263,520</u>	<u>920,254,681</u>

Loss on valuation of inventories was ₩ 22,092,000 thousand and it was added in cost of sales.

5. Short-Term Investments

Short-term investment securities consist of available-for-sale securities (current assets only) as of December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		2009	2008
Beneficiary certificates	₩	-	102,459,800
	₩	<u>-</u>	<u>102,459,800</u>

5. Short-term Investments, Continued

Available-for-sale securities are stated at fair value with unrealized holding gain on valuation of available-for-sale securities (net of tax effect) amounting to ₩ 1,864,529 thousand in accumulated other comprehensive income as of December 31, 2008.

6. Other Current Assets

Other current assets as of December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		2009	2008
Short-term loans	₩	-	30,000,000
Prepaid expenses		203,375,407	238,690,207
Other current deposits		2,027,206	3,223,063
	₩	<u>205,402,613</u>	<u>271,913,270</u>

7. Long-Term Investments

- (a) Long-term investment securities, which consist of available-for-sale securities (non-current assets only) as of December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		2009	2008
<b>Available-for-sale securities (non-current)</b>			
Marketable securities	₩	998,391,388	359,745,209
Non-marketable securities		175,689,303	136,515,148
	₩	<u>1,174,080,691</u>	<u>496,260,357</u>

- (b) Equity securities stated at fair value included in long-term investment securities as of December 31, 2009 and 2008 consisted of the following:

(In thousands of Won, except percentage of ownership)

	2009	2008
--	------	------

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	Percentage of ownership		Acquisition cost	Fair value	Fair value
<b>Listed equity securities:</b>					
Kia Motors Corp.	0.02	₩	2,681,616	1,769,312	578,005
Korea Line Corp.	2.71		55,130,663	12,803,603	20,610,678
Tong Yang Securities	3.39		99,828,399	47,840,616	24,119,644
Mirae Asset Securities Co., Ltd.	0.10		6,654,173	2,727,595	2,921,441
SK Broadband Corp.	-		-	-	6,518
Hyundai Elevator Co., Ltd.	2.16		1,632,339	8,932,522	10,010,585
Hyundai Motor Company	3.45		519,246,924	920,013,820	300,335,090
Hyundai Corp.	-		-	-	1,163,248
Korea Environment Technology Co., Ltd.	7.58		1,909,389	4,303,920	-
		₩	687,083,503	998,391,388	359,745,209

**7 . Long-Term Investments, Continued**

- (c) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2009 and 2008 consisted of the following:

(In thousands of Won, except percentage of ownership)

	Percentage of ownership		2009 Acquisition cost	Fair value	2008 Fair value
<b>Unlisted equity securities: (*1)</b>					
Gangwon Football Club Co., Ltd.	0.02	₩	1,000	1,000	1,000
Kuk Dong Heavy Conveyance Co., Ltd.	7.50		501,720	501,720	501,720
Novelis Korea Ltd.	0.39		14,598,913	1,405,452	1,405,452
Daehan Oil Pipeline Corp.(*2)	6.39		14,511,802	14,511,802	30,051,393
Dong-A Precision Machinery Co., Ltd.	0.74		35,640	-	-
Doosan Capital Co., Ltd.(*3)	9.99		10,000,000	24,762,000	24,378,000
Bexco, Ltd.	7.96		9,460,000	9,460,000	9,460,000
Chonggu Co., Ltd.	0.00		188,260	-	-
Postec Electronic Power Fund Co.	1.75		500,000	500,000	500,000
Hanwha Electric Venture Fund	2.00		500,000	500,000	500,000
Hyundai Research Institute	14.40		1,440,000	1,440,000	1,440,000
Hyundai Climate Control Co., Ltd.	10.00		50,000	50,000	50,000
Enova System Inc.	1.45		1,314,583	1,314,583	1,314,583
PT. Golden Hyundai Machinery(*4)	20.83		155,250	155,250	155,250
HHI Mauritius Limited(*4)	100.00		122	122	122
Hynix Semiconductor America Inc.	1.33		34,525,619	-	-
Hyundai Heavy Industries France SAS (*4)	100.00		22,787	22,787	22,787
Hyundai (Malaysia.) SDN BHD (*4)	100.00		17,286	-	-
Hyundai S/V Indonesia (*4)	45.00		261,864	-	-
Hyundai Technologies Center Hungary Kft (*4)	100.00		26,302	26,302	26,302
Hyundai-Enova Innovative Technical Center Inc.	60.00	₩	-	-	3,360,000
KC Karpovsky BV	10.00		2,443	2,443	2,443
Korea Ship Finance Co., Ltd.	2.36		200,000	200,000	200,000

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	Percentage of ownership	2009		2008
		Acquisition cost	Fair value	Fair value
<b>Unlisted equity securities: (*1)</b>				
Nikorma-Transport Limited	11.50	10,914	10,914	10,914
PHECO Inc.(*4)	100.00	2,303,555	236,621	236,621
		<u>90,628,060</u>	<u>55,100,996</u>	<u>73,616,587</u>
Subordinated debentures (Tong Yang Securities Inc.)(*5)		-	-	47,776,067
Marketable securities		59,073,003	115,427,397	9,964,384
Investments in capital		5,160,910	5,160,910	5,158,110
	₩	<u>154,861,973</u>	<u>175,689,303</u>	<u>136,515,148</u>

(\*1) The book values of unlisted equity securities were recorded as their acquisition cost because their fair values cannot be estimated reliably.

(\*2) The fair value was calculated by using the discounted cash flow and imputed market value methods. In 2009, the fair value is calculated by using the acquisition cost based on considering future cash inflow.

## 7. Long-Term Investments, Continued

(\*3) The fair value is calculated by using the free cash flows to shareholders method and estimation of stock price distribution.

(\*4) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hyundai Technologies Center Hungary Kft. and others were not accounted for using the equity method of accounting since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of December 31, 2009 and 2008, is less than ₩ 10,000 million, are not material.

(\*5) The fair value is measured at the discounted future cash flows by using a discount rate that appropriately reflects the credit rating of the issuing entity assessed by a publicly reliable independent credit rating agency.

(\*6) The Company deposited 1,000,000 shares in Ulsan District Court for the purpose of pledging to extend the interim tax prepayment period. In addition, for the purpose of a construction performance deposit, the Company deposited 650,000 shares with Gunsan City Hall.

(\*7) Since additional shares of Hyundai Corporation were acquired additional shares in 2009, the Company was able to exercise significant influence over the operating and financial policies, equity securities were accounted for using the equity method.

(\*8) Since the percentage of ownership of the Company and its subsidiary was less than 20% and the Company was not able to exercise significant influence over the operating and financial policies, equity securities were accounted for using the fair value method.

(d) Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of December 31, 2009, was as follows:

(In thousands of Won)

		2009		
		Balance at January 1, 2009	Increase (decrease)	Balance at December 31, 2009
Kia Motors Corp.	₩	(1,640,817)	929,220	(711,597)
Korea Line Corp.		(26,925,588)	(6,089,519)	(33,015,107)
Tong Yang Securities		(14,974,952)	18,502,358	3,527,406

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(In thousands of Won)

	2009		
	Balance at January 1, 2009	Increase (decrease)	Balance at December 31, 2009
Mirae Asset Securities Co.,Ltd.	(2,911,530)	(151,200)	(3,062,730)
SK Broadband Corp.	5,084	(5,084)	-
Hyundai Elevator Co., Ltd.	6,535,032	(840,889)	5,694,143
Hyundai Motor Company	(170,751,231)	483,349,410	312,598,179
Hyundai Corp.	340,402	(340,402)	-
Korea Environment Technology Co., Ltd.	-	(323,006)	(323,006)
Daehan Oil Pipeline Corp.	12,120,881	(12,120,881)	-
Doosan Capital Co., Ltd.	11,214,840	299,520	11,514,360
	(186,987,879)	483,209,527	296,221,648
Subordinated bonds	(1,734,668)	1,734,668	-
Marketable securities	(7,914,149)	51,870,576	43,956,427
₩	(196,636,696)	536,814,771	340,178,075

7. Long-Term Investments, Continued

- (e) Valuation of available-for-sale securities in accumulated other comprehensive income net of tax effect, all of which are classified into long-term investment securities stated at fair value as of December 31, 2008, was as follows:

(In thousands of Won)

	2008		
	Balance at January 1, 2008	Increase (decrease)	Balance at December 31, 2008
Kia Motors Corp.	(1,297,998)	(342,819)	(1,640,817)
Korea Line Corp.	-	(26,925,588)	(26,925,588)
Tong Yang Securities	20,087,727	(35,062,679)	(14,974,952)
Mirae Asset Securities Co.,Ltd.	159,360	(3,070,890)	(2,911,530)
SK Broadband Corp.	8,919	(3,835)	5,084
Hyundai Elevator Co., Ltd.	13,890,185	(7,355,153)	6,535,032
Hyundai Motor Company	18,239,512	(188,990,743)	(170,751,231)
Hyundai Corp.	793,331	(452,929)	340,402
Daehan Oil Pipeline Corp.	971,228	11,149,653	12,120,881
Doosan Capital Co., Ltd.	11,705,850	(491,010)	11,214,840
	64,558,114	(251,545,993)	(186,987,879)
Investments in capital	304,530	(304,530)	-
Subordinated bonds	-	(1,734,668)	(1,734,668)
Marketable securities	-	(7,914,149)	(7,914,149)
₩	64,862,644	(261,499,340)	(196,636,696)

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8. Equity Method Investments

(a) Investments in companies accounted for using the equity method as of December 31, 2009 were as follows:

(In thousands of Won)

Company	Number of shares	Percentage of ownership		Historical cost	Book value
Hyundai Oilbank (*1)	51,773,884	21.13%	₩	312,249,753	373,656,633
Hyundai Finance Corp. (*2)	12,350,000	67.49%		78,197,738	90,726,376
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92%		204,259,700	1,817,689,776
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09%		11,620,593	46,768,262
New Korea Country Club	16,457	20%		500,000	4,045,252
Hyundai Heavy Industries Europe N.V. (*2)	10	100%		35,656,728	10,322,118
Hyundai Vinashin Shipyard (*2)(*3)(*4)	-	10%		2,543,678	20,148,716
H.C.E U.S.A (*2)	23,900,000	100%		26,712,810	-
Vladivostok Business Center (*2)(*3)	-	57.14%		5,891,667	-
HHI China Investment Co., Ltd. (*2)(*3)	-	100%		160,804,529	286,425,278
Hyundai Merchant Marine Co., Ltd. (Common stock) (*5)	23,424,037	17.6%		404,039,118	360,633,965
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*5)	3,516,688	17.58%		52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20%		67,658,226	128,357,731
Hyundai Ideal Electric Co. (*2)	1,000	100%		18,119,600	25,493,855
Hyundai Financial Leasing Co., Ltd. (*2)(*3)	-	66.02%		37,622,743	44,416,791
Hyundai Construction Equipment India Private Ltd. (*2)	17,184,775	100%		39,354,139	22,226,238
Wärtsilä-Hyundai Engine Company Ltd. (*3)	-	50%		33,930,000	40,496,305
Ulsan Hyundai Football Club Co.,Ltd.	2,000,000	100%		10,000,000	913,199
HYMS(*2)	29,600,000	100%		148,000,000	122,135,871
KAM Corp.	23,520,000	49%		117,600,000	117,667,618
Grand China Hyundai Shipping Company Ltd.	1,000,000	50%		1,016,600	1,045,336
KOMAS Corp.	754,414	100%		3,772,070	1,634,795
Hotel Hyundai Co.,Ltd.	80,000	100%		1,397,000	1,806,723
Khorol Zerno Ltd. (*3)	-	67.6%		5,546,562	5,380,910



Hyundai Heavy Industries Co., Ltd.  
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(In thousands of Won)

Company	Number of shares	Percentage of ownership	Historical cost	Book value
Khorol Agro Ltd. (*3)	-	49.99%	2,335,741	2,196,010
Hyundai Corporation	4,992,782	22.36%	105,134,024	105,134,024
Taebaek Wind Power Co., Ltd.	703,500	35%	3,517,500	3,482,618
			<b>₩ 1,890,230,839</b>	<b>3,689,107,855</b>

8. Equity Method Investments, Continued

(b) Investments in companies accounted for using the equity method as of December 31, 2008 were as follows:

(In thousands of Won)

Company	Number of shares	Percentage of ownership	Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87%	₩ 266,150,343	289,760,570
Hyundai Finance Corp. (*2)	12,350,000	67.49%	78,197,738	88,945,279
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92%	204,259,700	1,040,405,978
Incheon Airport Energy	3,284,884	31.00%	16,424,420	-
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09%	11,620,593	38,119,093
New Korea Country Club	16,457	20.00%	500,000	3,613,235
Hyundai Donganh Steel (*2, 3)	-	54.99%	1,231,036	-
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00%	35,656,728	8,884,122
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00%	2,543,678	14,982,234
H.C.E U.S.A (*2)	23,900,000	100.00%	26,712,810	4,170,513
Vladivostok Business Center (*2, 3)	-	57.14%	5,891,667	-
Koentec Co., Ltd.	3,792,000	7.58%	6,617,040	4,721,024
HHI China Investment Co., Ltd. (*2, 3)	-	100.00%	154,057,029	246,276,553
Hyundai Merchant Marine Co., Ltd. (Common stock) (*5)	23,424,037	17.60%	404,039,118	481,689,397
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*5)	3,516,688	17.58%	52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00%	67,658,226	164,661,077
Hyundai Ideal Electric Co. (*2)	1,000	100.00%	11,241,600	17,943,929
Hyundai Financial Leasing Co., Ltd. (*2, 3)	-	60.03%	16,988,743	24,053,234
Hyundai Construction Equipment India Private Ltd. (*2)	17,184,775	100.00%	39,354,139	34,423,101
Wärtsilä-Hyundai Engine Company Ltd. (*3)	-	50.00%	33,930,000	32,894,351
Ulsan Hyundai Football Club Co., Ltd. (*2)	2,000,000	100.00%	10,000,000	1,181,505
HYMS(*2)	29,600,000	100.00%	148,000,000	114,593,849
KAM Corp.	8,330,000	49.00%	41,650,000	42,481,873
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00%	1,016,600	1,261,438

Hyundai Heavy Industries Co., Ltd.  
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(In thousands of Won)

Company	Number of shares	Percentage of ownership	Historical cost	Book value
KOMAS Corp.	754,414	100.00%	3,772,070	1,459,500
			₩ 1,640,263,598	2,712,825,310

(\*1) The Company accounted for its investment using the equity method of accounting despite the fact that its ownership percentage is under 20% as it has the ability to significantly influence financial and operating policy decisions.

(\*2) Company subsidiary

(\*3) Number of shares is not presented because they are non-par stock.

### 8. Equity Method Investments, Continued

(\*4) Since the percentage of ownership of the Company and its subsidiary is more than 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method.

(\*5) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, investment in these securities are accounted for using the equity method of accounting. In addition, the closing common stock price of Hyundai Merchant Marine Co., Ltd. on the stock market of the Republic of Korea was ₩ 26,700 per share at December 31, 2009. Its preferred stock has no market price because it is unlisted.

(c) Under the equity method of accounting, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences for the year ended December 31, 2009 were as follows:

(In thousands of Won)

Company	Balance at January 1, 2009	Increase (decrease)	Amortization	Balance at December 31, 2009
Hyundai Oilbank	₩ -	25,428,599	-	25,428,599
Koentec Co., Ltd.	691,486	(691,486)	-	-
Hyundai Merchant Marine Co., Ltd. (Common stock)	36,466,286	-	(16,207,238)	20,259,048
Qinhuangdao Shouqin Metal Materials Co., Ltd.	8,524,737	-	(2,843,064)	5,681,673
Hotel Hyundai Co., Ltd.	-	394,700	(78,940)	315,760
Khorol Zerno Ltd.	-	1,268,883	(83,239)	1,185,644
Khorol Agro Ltd.	-	785,368	(63,505)	721,863
Hyundai Corporation	-	72,334,654	-	72,334,654
	₩ 45,682,509	99,520,718	(19,275,986)	125,927,241

Hyundai Heavy Industries Co., Ltd.  
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8. Equity Method Investments, Continued

- (d) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2009 were as follows:

(In thousands of Won)

Company		Balance at January 1, 2009	Net income (loss)	Accumulated other comprehensive income	Other increase (decrease)	Balance at December 31, 2009
Hyundai Oilbank	₩	289,760,570	44,498,651	(6,701,998)	46,099,410	373,656,633
Hyundai Finance Corp.		88,945,279	524,341	1,256,756	-	90,726,376
Hyundai Samho Heavy Industries Co., Ltd.		1,040,405,978	325,007,870	509,226,428	(56,950,500)	1,817,689,776
Incheon Airport Energy Co., Ltd. (*1)		-	-	-	-	-
Hyundai Heavy Industries Co. Bulgaria		38,119,093	13,764,516	(2,752,946)	(2,362,401)	46,768,262
New Korea Country Club		3,613,235	432,017	-	-	4,045,252
Hyundai Donganh Steel Tower Co., Ltd. (*2)		-	-	-	-	-
Hyundai Heavy Industries Europe N.V.		8,884,122	3,279,989	(1,841,993)	-	10,322,118
Hyundai Vinashin Shipyard		14,982,234	6,818,811	(1,652,329)	-	20,148,716
H.C.E U.S.A. (*3)		4,170,513	(4,170,348)	(165)	-	-
Vladivostok Business Center(*4)		-	-	-	-	-
Koentec Co., Ltd. (*5)		4,721,024	-	-	(4,721,024)	-
HHI China Investment Co., Ltd.		246,276,553	58,336,234	(24,935,009)	6,747,500	286,425,278
Hyundai Merchant Marine Co., Ltd. (Common stock)		481,689,397	(160,133,545)	50,790,132	(11,712,019)	360,633,965
Hyundai Merchant Marine Co., Ltd. (Preferred stock)		56,303,455	2,110,013	-	(2,110,013)	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd		164,661,077	(18,351,612)	(8,441,657)	(9,510,077)	128,357,731
Hyundai Ideal Electric Co.		17,943,929	3,326,150	(2,654,224)	6,878,000	25,493,855
Hyundai Financial Leasing Co., Ltd.		24,053,234	4,802,680	(5,073,123)	20,634,000	44,416,791
Hyundai Construction Equipment India Private Ltd.		34,423,101	(10,978,554)	(1,218,309)	-	22,226,238
Wärtsilä-Hyundai Engine Company Ltd.		32,894,351	7,601,954	-	-	40,496,305
Ulsan Hyundai Football Club Co., Ltd.		1,181,505	(268,306)	-	-	913,199
HYMS		114,593,849	7,542,022	-	-	122,135,871
KAM Corp.		42,481,873	(394,117)	(370,138)	75,950,000	117,667,618
Grand China Hyundai Shipping Company Ltd.		1,261,438	(137,321)	(78,781)	-	1,045,336
KOMAS Corp.		1,459,500	175,295	-	-	1,634,795
Hotel Hyundai Co.,Ltd.		-	409,723	-	1,397,000	1,806,723
Khorol Zerno Ltd.		-	(79,805)	(85,848)	5,546,563	5,380,910

Hyundai Heavy Industries Co., Ltd.  
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December 31, 2009 and 2008

(In thousands of Won)

Company	Balance at January 1, 2009	Net income (loss)	Accumulated other comprehensive income	Other increase (decrease)	Balance at December 31, 2009
Khorol Agro Ltd.	-	(65,716)	(74,015)	2,335,741	2,196,010
Hyundai Corporation	-	965,891	-	104,168,133	105,134,024
Taeback Wind Power Co., Ltd.	-	(34,882)	-	3,517,500	3,482,618
	₩ 2,712,825,310	284,981,951	505,392,781	185,907,813	3,689,107,855

8. Equity Method Investments, Continued

- (\*1) Use of the equity method was discontinued since the value of investments for Incheon Airport Energy Co., Ltd. is less than zero due to accumulated deficit and completed to be disposed in 2009.
- (\*2) Use of the equity method was discontinued since the value of investments for Hyundai Donganh Steel Tower Co., Ltd. is less than zero due to accumulated deficit and completed to be disposed in 2009.
- (\*3) Use of the equity method was discontinued since the loss on valuation using equity method is more than the value of investments. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩ (4,622) million for the year ended December 31, 2009.
- (\*4) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩ (84,748) million including ₩ 8,332 million increased for the year ended December 31, 2009, and allowance amounting to ₩ 74,725 million was provided for accounts receivables-other for Vladivostok Business Center.
- (\*5) Equity securities in Korea Environment Technology Co., LTD. were transferred to available-for-sale securities in 2009.
- (e) Gain or loss on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions. For the years ended December 31, 2009 and 2008, unrealized gain eliminated under the equity of accounting method of accounting are ₩ 119,825 thousand and ₩ 119,094 thousand, respectively.

Hyundai Heavy Industries Co., Ltd.  
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8. Equity Method Investments, Continued

- (f) Equity securities accounted for using the equity method as of December 31, 2009 are valued based on the financial statements of the investees as of the same reporting period, which were neither audited nor reviewed by an external auditor. Those net asset values from using the provisional settlement were as follows:

(In thousands of Won)

Company	Net asset value before adjustments	Adjustments	Net asset value after adjustments
Hyundai Oilbank	₩ 348,228,034	-	348,228,034
Hyundai Finance Corp.	90,726,376	-	90,726,376
Hyundai Samho Heavy Industries Co., Ltd. (*1)	2,101,710,715	(271,208,488)	1,830,502,227
Hyundai Heavy Industries Co. Bulgaria	46,835,481	-	46,835,481
New Korea Country Club	4,045,252	-	4,045,252
Hyundai Heavy Industries Europe N.V.	30,069,043	-	30,069,043
Hyundai Vinashin Shipyard	20,148,716	-	20,148,716
H.C.E U.S.A.	12,832,011	-	12,832,011
Vladivostok Business Center	-	-	-
HHI China Investment Co., Ltd. (*1)	249,297,277	68,820,786	318,118,063
Hyundai Merchant Marine Co., Ltd. (Common stock)	340,374,917	-	340,374,917
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,303,455	-	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd	122,676,058	-	122,676,058
Hyundai Ideal Electric Co.	25,493,855	-	25,493,855
Hyundai Financial Leasing Co., Ltd.	44,416,791	-	44,416,791
Hyundai Construction Equipment India Private Ltd.	28,533,825	-	28,533,825
Wärtsilä-Hyundai Engine Company Ltd.	40,496,305	-	40,496,305
Ulsan Hyundai Football Club Co., Ltd.	913,199	-	913,199
HYMS	156,355,195	-	156,355,195
KAM Corp.	117,667,618	-	117,667,618
Grand China Hyundai Shipping Company Ltd.	1,045,336	-	1,045,336
KOMAS Corp.	3,781,916	-	3,781,916
Hotel Hyundai Co., Ltd.	1,490,963	-	1,490,963
Khorol Zerno Ltd.	4,195,266	-	4,195,266
Khorol Agro Ltd.	1,474,147	-	1,474,147
Hyundai Corporation	32,799,370	-	32,799,370
Taeback Wind Power Co., Ltd.	3,482,618	-	3,482,618
	₩ 3,885,393,739	(202,387,702)	3,683,006,037

- (\*1) The Company adjusted the material difference of accounting principle for similar transactions and accounting events between the Company and investees.

Hyundai Heavy Industries Co., Ltd.  
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8. Equity Method Investments, Continued

- (g) Summarized financial information of equity method investments as of and for the year ended December 31, 2009 was as follows:

(In millions of Won)

Company	Assets	Liabilities	Sales	Net income (loss)
Hyundai Oilbank ₩	5,611,575	3,963,548	10,867,969	222,858
Hyundai Finance Corp.	151,096	16,660	7,102	777
Hyundai Samho Heavy Industries Co., Ltd.	7,387,250	5,173,000	4,185,154	346,725
Hyundai Heavy Industries Co. Bulgaria	62,991	15,725	90,912	13,905
New Korea Country Club	24,819	4,593	13,028	2,138
Hyundai Heavy Industries Europe N.V.	95,302	65,233	137,219	(10,640)
Hyundai Vinashin Shipyard	410,796	209,309	304,507	68,092
H.C.E U.S.A.	66,359	53,527	69,988	(8,283)
Vladivostok Business Center	23,549	171,864	11,604	(1,401)
HHI China Investment Co., Ltd.	319,603	70,306	11,921	13,852
Hyundai Merchant Marine Co., Ltd.	8,338,894	6,085,042	6,115,482	(804,360)
Qinhuangdao Shouqin Metal Materials Co., Ltd	1,929,877	1,316,497	1,450,821	(77,543)
Hyundai Ideal Electric Co.	44,593	19,099	70,436	3,450
Hyundai Financial Leasing Co., Ltd.	438,781	371,504	31,174	7,275
Hyundai Construction Equipment India Private Ltd.	82,243	53,709	54,074	(9,352)
Wärtsilä-Hyundai Engine Company Ltd.	237,414	156,421	152,411	15,204
Ulsan Hyundai Football Club Co., Ltd.	1,944	1,031	16,112	(268)
HYMS	300,520	144,165	357,326	7,161
KAM Corp.	398,814	158,677	-	(804)
Grand China Hyundai Shipping Company Ltd.	2,154	64	-	(270)
KOMAS Corp.	3,802	20	280	21
Hotel Hyundai Co.,Ltd.	5,385	3,894	28,280	489
Khorol Zerno Ltd.	9,726	3,520	2,116	168
Khorol Agro Ltd.	3,398	449	59	(5)
Hyundai Corporation	808,779	662,086	2,577,549	(52,562)
Taeback Wind Power Co., Ltd.	9,950	-	-	(100)

9. Property, Plant and Equipment

Hyundai Heavy Industries Co., Ltd.  
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(a) Property, plant and equipment as of December 31, 2009 and 2008 were as follows:

<i>(In thousands of Won)</i>		2009	2008
Buildings and structures	₩	3,929,329,068	3,049,528,786
Machinery and equipment		2,945,351,323	2,404,550,660
Ships		211,401,759	208,674,068
Vehicles		35,148,987	33,420,855
Tools, furniture and fixtures		1,223,446,599	1,111,073,115
Less: Accumulated depreciation		(3,474,615,628)	(3,194,142,671)
		4,870,062,108	3,613,104,813
Land		2,871,363,776	1,592,414,576
Less: Government subsidy		-	(5,455,000)
		2,871,363,776	1,586,959,576
Construction-in-progress		404,096,925	989,889,374
	₩	8,145,522,809	6,189,953,763

(b) The changes in property, plant and equipment for the year ended December 31, 2008 were as follows:

<i>(In thousands of Won)</i>		2009				
		Machinery and equipment				
		Land	Buildings	Structures	Other	Total
Beginning of period	₩	1,586,959,576	2,132,007,385	917,521,401	2,343,057,412	9,384,096,434
Acquisition and other		49,377,185	405,362,786	503,983,391	(446,430,398)	1,184,314,218
Disposal		(1,458,224)	(28,817,132)	(728,763)	(22,532,744)	(184,757,454)
Revaluation		1,236,485,239	-	-	-	1,236,485,239
End of period		2,871,363,776	2,508,553,039	1,420,776,029	1,874,094,270	11,620,138,437
Depreciation		-	(60,944,830)	(29,758,181)	(132,337,629)	(399,694,162)
Accumulated depreciation		-	(450,454,692)	(210,230,889)	(1,047,703,827)	(3,474,615,628)

## 9. Property, Plant and Equipment, Continued

(c) The changes in property, plant and equipment for the year ended December 31, 2009 were as follows:

Hyundai Heavy Industries Co., Ltd.  
Notes to Non-Consolidated Financial Statements

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(In thousands of Won)

(In thousands of Won)		2008					
		Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩	1,550,415,149	1,769,948,921	802,803,260	2,169,947,389	1,620,014,642	7,913,129,361
Acquisition and other		120,969,000	434,394,979	128,142,829	319,250,723	788,675,142	1,796,887,673
Disposal		(84,424,573)	(72,336,515)	(13,424,688)	(84,647,452)	(65,632,372)	(320,465,600)
End of period		1,586,959,576	2,132,007,385	917,521,401	2,404,550,660	2,343,057,412	9,389,551,434
Depreciation		-	(50,334,387)	(20,842,084)	(159,234,377)	(116,917,115)	(347,327,963)
Accumulated depreciation		-	(396,796,079)	(180,731,330)	(1,682,561,906)	(934,053,356)	(3,194,142,671)

The Company adopted the revaluation model in current year and land was stated at revalued amounts as of December 1, 2009. The fair value of the assets was based on the results of an appraisal by the Korea Appraisal Board, an independent appraiser. As the result of land revaluation, the book value of land is ₩ 2,871,364 million including revaluation gain of ₩ 1,236,485. In addition, other comprehensive income of ₩ 964,458 and deferred income tax liabilities of ₩ 272,027 million were recognized respectively.

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩ 2,866,174 million as of December 31, 2009. The Company maintains insurance coverage against fire and other casualty losses of up to ₩ 12,428,457 million for ships and sea structures under construction. Insurance proceeds of ₩ 268,314 million are pledged as collateral for loans from the Export Import Bank of Korea as of December 31, 2009.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩ 7,000,702 million as of December 31, 2009. The Company also maintains insurance on cargo against damage and claims losses of up to ₩ 7,706,160 million for products being exported and imported as of December 31, 2009.

Construction in progress is development construction of Ihwa industrial park and Gunsan shipyard dormitory construction for the year ended December 31, 2009.

As of December 31, 2009 and 2008, the value of land owned by the Company is ₩ 1,461,080 million and ₩ 1,458,969 million, respectively, as announced by the Korean government.

## 10. Intangible Assets

(a) Intangible assets as of December 31, 2009 and 2008 were as follows:

(In thousands of Won)		2009	2008
Development costs	₩	270,363,193	242,161,165
Usage right for donated properties		18,095,848	20,135,131



Hyundai Heavy Industries Co., Ltd.  
Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008

₩	<u>288,459,041</u>	<u>262,296,296</u>
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(b) Details of changes in intangible assets for the years ended December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		Development Cost		Usage right for donated properties	
		2009	2008	2009	2008
Beginning balance	₩	242,161,165	213,873,947	20,135,131	22,174,415
Capitalized		72,139,257	69,711,128	-	-
Amortization		(43,937,229)	(41,423,910)	(2,039,283)	(2,039,284)
Ending balance	₩	<u>270,363,193</u>	<u>242,161,165</u>	<u>18,095,848</u>	<u>20,135,131</u>

Research costs amounting to ₩ 19,629 million and ₩ 17,857 million, and ordinary development costs amounting to ₩ 72,728 million and ₩ 79,443 million are included in selling and administrative expenses for the years ended December 31, 2009 and 2008, respectively. The amortized development costs of ₩ 43,937 million and ₩ 41,424 million are included in the cost of sales and selling and administration expenses for the years ended December 31, 2009 and 2008, respectively.

# 11. Other Non-Current Assets

Other non-current assets as of December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		2009	2008
Guarantee deposits	₩	9,933,113	6,519,197
Long-term loans		2,019,948	-
Other non-current assets		93,812,840	82,046,020
	₩	<u>105,765,901</u>	<u>88,565,217</u>

# 12. Other Current Liabilities

Other current liabilities as of December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

		2009	2008
Withholdings of income taxes	₩	213,815,078	129,518,237
Unearned revenues		38,523	19,276
Provision for construction losses		15,279,818	104,228,901
	₩	<u>229,133,419</u>	<u>233,766,414</u>

# 13. Bonds, Short-Term and Long-Term Borrowings

(a) Bonds payable as of 2009 and 2008 are summarized as follows:

(In thousands of Won)

	Maturity	Annual interest rate		2009	2008
112 <sup>th</sup> non-guaranteed debenture	2012.04.13	5.43%	₩	300,000,000	-

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₩	<u>300,000,000</u>	<u>-</u>
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(b) Short-term borrowings as of December 31, 2009 and 2008 are as follows:

(In thousands of Won)

Type of borrowings	Lender	Annual interest rate		2009	2008
Network loan	Export-Import Bank of Korea	4.63~4.64%	₩	301,916,695	-
Collaborated guaranty loan	Korea Exchange Bank (KEB)	4.86~ 4.94%		103,118,913	-
Pre-shipment credit	Export-Import Bank of Korea	4.65~4.70%		<u>180,285,000</u>	-
			₩	<u>585,320,608</u>	-

(c) Long-term borrowings as of December 31, 2009 and 2008 were as follows:

(In thousands of Won)

	Interest rate as of December 31, 2009	2009		2008	
		Foreign currency	Won equivalent	Foreign currency	Won equivalent
Business loans from Korea National Oil Corporation	2.25%	USD	<u>4,888,535</u>	USD	<u>2,929,258</u>
		USD	<u>5,166,671</u>	USD	<u>3,314,633</u>
			₩		₩
			<u>5,166,671</u>		<u>3,314,633</u>

(d) The maturities of long-term debt as of December 31, 2009 are not readily determinable since the long-term debt is paid by installment in event of success in the oil development business.

#### 14. Retirement and Severance Benefits

Accrued severance benefits of December 31, 2009 and 2008 were as follows:

(In thousands of Won)

	2009	2008
Beginning balance	₩ 1,251,923,440	1,190,834,067
Retirement and severance payment	(164,508,686)	(169,062,230)
Provisions	<u>138,734,091</u>	<u>230,151,603</u>
	1,226,148,845	1,251,923,440
Less: Retirement and severance insurance	(1,022,621,872)	(1,080,063,958)

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National pension		(29,049,871)	(32,841,150)
Ending balance	₩	<u>174,477,102</u>	<u>139,018,332</u>

Accrued retirement and severance benefits are funded approximately 83.4% and 86.3% as of December 31, 2009 and 2008, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of retirement and severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

**15. Other Long-Term Liabilities**

Other long-term liabilities as of December 31, 2009 and 2008 are summarized as follows:

<i>(In thousands of Won)</i>		<b>2009</b>	<b>2008</b>
Deposits received	₩	13,922,260	12,467,827
Provision for construction warranties		29,070,486	22,343,521
Provision for product warranties		34,473,840	44,008,707
	₩	<u>77,466,586</u>	<u>78,820,055</u>

**16. Commitments and Contingencies**

- (a) The Company has entered into bank overdraft agreements with 7 banks amounting to ₩ 188,100 million as of December 31, 2009.
- (b) As of December 31, 2009, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 1,596,828 thousand.
- (c) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 14 blank checks and notes as of December 31, 2009.
- (d) The outstanding balance of note receivables, guaranteed by the importers' Government or others and sold to financial institutions with recourse is USD 25,747 thousand, equivalent to ₩ 30,062 million, as of December 31, 2009. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩ 5,622 million as of December 31, 2009.

**16. Commitments and Contingencies, Continued**

- (e) As of December 31, 2009, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 171,926 thousand and ₩ 28,584 million. The Company has provided certain performance guarantees for bareboat charters amounting to USD 519,657 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI"), one of the Company's subsidiaries, for the construction of 11 ships at a contract amount of USD 1,439,211 thousand.
- (f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩ 954,946 million and USD 13,597,564 thousand by various banking facilities.
- (g) In an effort to alleviate fluctuations in future cash flows that would be incurred out of the timing difference between the receipt of the ship sales amounts and the payment of imported raw-materials, the Company has

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entered into currency forward contracts with 21 banks including Korea Exchange Bank. As of December 31, 2009, the valuation and gain (loss) on transaction of the forward contracts are as follows:

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

	Description			Total
	Cash flow hedge	Fair value hedge	For trading	
<b>Contract amount</b>	USD 796,663	USD 13,841,910	USD 1,030,357	USD 15,668,930
	EUR 30,922	EUR 14,425	EUR 91	EUR 45,438
	KRW 310,858	-	-	KRW 310,858
Adjustment to sales	₩ (416,726)	(1,876,890)	-	₩ (2,293,616)
Non-operating income (expense)	13,244	(193,670)	(324,392)	(504,818)
Other comprehensive income	49,180	-	-	49,180
Firm commitment asset	-	1,922,321	-	1,922,321
Firm commitment liability	-	186,335	-	186,335
<b>Derivatives asset</b>				260,103
<b>Derivatives liability</b>				2,126,587

As of December 31, 2009, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩ 37,285 million (net of deferred income tax adjustment of ₩ 11,895 million) as gain on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure on cash flow risk, where cash flow hedge accounting is applied, is approximately within 36 months, and the amount among gain on valuation of foreign exchange contract that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2009 is ₩ 46,136 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current income.

In relation to the shipbuilding contracts in foreign currency as of December 31, 2008, the Company entered into foreign exchange forward contracts and accounted for such contracts as fair value hedges. As a result, the net balance of firm commitment assets and liabilities was ₩ (1,735,986) million and related gain and loss on valuation of the firm commitments were recorded as ₩ 342,587 million and ₩ 951,535 million, respectively, in non-operating income and expenses.

### 16. Commitments and Contingencies, Continued

Gain and loss on derivatives transactions that mature within the current year are recorded as ₩ 292,504 million and ₩ 748,054 million, respectively in non-operating income and expense. Gain and loss on valuation of derivatives are recorded as ₩ 780,493 million and ₩ 220,813 million, respectively in non-operating income and expense.

In relation to valuation of derivatives that have not reached maturity, the Company accounted for derivative assets of ₩ 260,103 million and derivative liabilities of ₩ 2,126,587 million.

### 17. Litigations

- (a) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a share option agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the

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Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company partially won the litigation for the settlement of claim amounting to ₩ 171,800 million of principal and accrued interest thereon and recovered ₩ 220,933 million. However, the Company didn't accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advance payments and reimbursable expenses for those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩ 192,900 million of principal and accrued interest. However, the Company didn't accept the Court's decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Company won its claim amounting to ₩ 241,200 million of principal excluding ₩ 4,300 million and accrued interest thereon and recovered ₩ 86,200 million. The Company filed an appeal to the Supreme Court claiming the amount of ₩ 4,300 million principal and it is pending as of December 31, 2009. In addition, on October 22, 2009, the Company won its claim for incidental expenses amounting to ₩ 50,300 million of principal and accrued interest thereon and recovered ₩ 73,700 million. However, Hynix Semiconductor Inc. filed an appeal which was pending as of December 31, 2009.

- (b) The National Tax Service imposed additional income tax amounting to ₩ 107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Company appealed the judgment to the National Tax Tribunal; however, it was dismissed (partially won). On April 27, 2009, the Company filed administrative litigation.

### 17. Litigations, Continued

- (c) As of March 25, 2008, the Company determined that International Petroleum Investment Co. (hereafter "IPIC"), the major shareholder of Hyundai Oilbank, breached the contract between shareholders entered into with the former shareholders of the Hyundai Group, including Hyundai Heavy Industries and notified IPIC to exercise IPIC's Deemed Offer (stock purchase option) against its 171,557,695 shares (70%) of Hyundai Oilbank. The Company also filed for arbitration at the International Court of Arbitration of the International Chamber of Commerce (hereafter "ICC"), in regard to IPIC's breach of contract and exercise of the deemed offer. The case is in progress according to the laws of the ICC and in the event that IPIC does not agree to the stock purchase, the offer will be determined by the arbitration judgment. On November 12, 2009, the arbitrators passed judgment on IPIC's significant breach of contract. According to the deemed offer that the Company was notified of based on IPIC's breach of contract, IPIC was ordered to sell its 171,557,695 shares (70%) of Hyundai Oilbank in the price of ₩ 15,000. However, IPIC didn't accept the arbitration decision and the Company has filed a lawsuit in Seoul Central District Court for the approval of the arbitration decision and enforcement claim, which was in progress as of December 31, 2009. The Company is expected to be able to acquire the shares of IPIC after the Court's decision.

### 18. Capital Surplus

Capital surplus as of December 31, 2009 and 2008 was as follows:

<i>(In thousands of Won)</i>	<b>2009</b>	<b>2008</b>
Paid-in capital in excess of par value	₩ 843,324,390	843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081

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Other capital surplus	116,321,606	65,334,216
Capital surplus on valuation of equity method investments	47,207,001	47,207,001
	<u>₩ 2,869,578,078</u>	<u>2,818,590,688</u>

Other capital surplus is composed of ₩ 33,381 million of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩ 61,111 million of gain on disposal of treasury stock (net of tax effect) and ₩ 21,830 million of gain on business combination and others.

Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

### 19. Retained Earnings

(a) Retained earnings as of December 31, 2009 and 2008 were as follows:

(In thousands of Won)

	2009	2008
Appropriated:		
Legal reserve (A & C)	₩ 190,000,000	211,543,400
Reserve for corporate development (C)	30,000,000	30,000,000
Reserve for research and human development (B)	223,333,334	230,000,000
Reserve for facilities (B)	78,270,000	78,270,000
Other voluntary reserves (D)	3,835,852,998	1,850,645,368
Unappropriated retained earnings	2,146,488,800	2,256,664,849
	<u>₩ 6,503,945,132</u>	<u>4,657,123,617</u>

### 19. Retained Earnings, Continued

- (b) The Korean Commercial Code requires the Company to appropriate as a legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to common stock or used to offset accumulated deficit, if any, through a resolution of shareholders.
- (c) Under provisions of the Tax Exemption and Reduction Control Law, an amount equivalent to the amount of income tax benefits to which the Company is entitled in connection with tax credits for research and human development and investment for facilities is required to be recorded as a reserve for research and human development and investment for facilities.
- (d) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.
- (e) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make a reserve for overseas market development, a reserve for export losses and a reserve for research and human development by appropriating retained earnings. These reserves are voluntary reserves, which are available for the payment of dividends when these reserves are properly reversed.

### 20. Capital Adjustments

(a) Treasury stock

As of December 31, 2009 and 2008, treasury stock was as follows:

	2009	2008
Treasury stock	₩ (1,463,972,001)	(1,529,441,294)

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The Company has been operating special money in trust for treasury stock amounting to ₩ 705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and canceled special money in trust as the amount of ₩ 122,000 million on October 17, 2003 and ₩ 270,000 million on November 3, 2003, respectively. In addition, pursuant to the resolution of the board of directors on September 24, 2009, the Company disposed of 687,746 shares to transfer into an employee stock ownership plan.

#### (b) Other capital adjustments

As of December 31, 2009 and 2008, other capital adjustments were as follows:

(In thousands of Won)

		<u>2009</u>	<u>2008</u>
Treasury stock owned by subsidiaries	₩	(103,565,209)	(103,565,209)
Capital adjustments on valuation of equity method		<u>(130,257,265)</u>	<u>(129,033,528)</u>
	₩	<u>(233,822,474)</u>	<u>(232,598,737)</u>

## 21. Dividends

#### (a) Proposed dividends for 2009 and 2008 are summarized as follows:

(In thousands of Won) except par value

<u>Year</u>	<u>Description</u>	<u>Number of shares (*)</u>	<u>Par value</u>	<u>Dividend Rate</u>	<u>Cash dividend</u>	<u>Net income</u>	<u>Dividend to net income</u>
2009	Common stock	60,621,202	₩ 5,000	70 %	₩ 212,174,207	₩2,146,488,795	9.88%
2008	Common stock	59,933,456	₩ 5,000	100 %	₩ 299,667,280	₩2,256,664,845	13.28%

(\*) Net of 15,378,798 shares and 16,066,544 shares of treasury stock as of December 31, 2009 and 2008

#### (b) Yields to market price of proposed dividend for 2009 and 2008 are as follows:

<u>Year</u>	<u>Description</u>	<u>Dividend per share</u>	<u>Standard price (*)</u>	<u>Yield to market price</u>
2009	Common stock	₩3,500	₩ 166,625	2.1%
2008	Common stock	₩5,000	₩ 201,750	2.5%

(\*) Standard price was calculated based on the arithmetic mean of final price between 9 days prior to the closing date and 2 days prior to the closing date of shareholders' list.

## 22. Sales and Cost of Sales

#### (a) Sales and cost of sales, by major industry segment, for the years December 31, 2009 and 2008 were as follows:

(In thousands of Won)

(In thousands of Won)		2009		2008	
		Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩	9,002,641,240	8,315,385,400	9,084,857,132	7,871,919,368
Offshore & Engineering		3,423,456,902	2,876,852,425	3,095,131,826	2,732,624,725
Industrial Plant & Engineering		1,897,902,597	1,607,475,797	1,374,441,667	1,317,494,596
Engine & Machinery		2,771,471,593	1,886,042,960	2,522,059,761	1,828,995,030

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Electro Electric Systems	2,712,142,548	2,138,464,785	1,924,488,853	1,455,189,735
Construction Equipment	1,190,382,638	1,037,553,822	1,768,563,318	1,429,287,892
Others	144,199,218	135,667,732	187,538,324	176,477,670
	<u>₩ 21,142,196,736</u>	<u>17,997,442,921</u>	<u>19,957,080,881</u>	<u>16,811,989,016</u>

(b) The Company's outstanding contracts as of December 31, 2009 are summarized as follows:

(In millions of Won)

		<b>Shipbuilding</b>	<b>Others</b>	<b>Total</b>
Beginning of period (*)	₩	33,280,785	18,530,280	51,811,065
Increase during the period		546,329	12,928,505	13,474,834
Recognized as revenue in current income		(9,002,641)	(12,139,556)	(21,142,197)
End of period	₩	<u>24,824,473</u>	<u>19,319,229</u>	<u>44,143,702</u>

(\*) The balances of beginning of period were recalculated with appropriate exchange rate based on the backlog calculated in foreign currency rate at the end of 2008.

## 22. Sales and Cost of Sales, Continued

As of December 31, 2009, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 16).

(c) As of December 31, 2009, accumulated cost of construction and others connected with construction in progress by major industry segment was as follows:

(In millions of Won)

		<b>Accumulated cost of construction</b>	<b>Accumulated profit and loss</b>	<b>Advances on construction contracts</b>	<b>Accounts receivable</b>	<b>Billed receivables on construction contracts</b>	<b>Not billed receivables on construction contracts</b>
Shipbuilding	₩	13,193,570	2,554,418	5,381,389	2,652,251	53,967	2,598,284
Offshore & Engineering		7,627,159	951,713	1,357,329	315,515	56,045	259,470
Industrial Plant & Engineering		5,190,294	375,126	844,828	131,851	9,163	122,688
Engine & Machinery		4,076,539	2,025,638	896,745	406,978	128,996	277,982
Electro Electric Systems		57,996	23,906	101,924	836,002	663,542	172,460
Construction Equipment (*)		-	-	759	239,941	239,941	-
Others (*)		-	-	504	544,869	544,869	-
	₩	<u>30,145,558</u>	<u>5,930,801</u>	<u>8,583,478</u>	<u>5,127,407</u>	<u>1,696,523</u>	<u>3,430,884</u>

(\*) Industry segment recognized revenues by delivery basis. For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩ 15,280 million.

## 23. Income Taxes

(a) The Company was subject to income taxes on taxable income at the following normal tax rates.

<b>Taxable income</b>		<b>Tax rate</b>			
<b>Prior to 2008</b>	<b>Thereafter</b>	<b>Prior to 2008</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>



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Up to ₩100 million	Up to ₩ 200 million	14.3%	12.1%	12.1%	11%
Over ₩100 million	Over ₩200 million	27.5%	27.5%	24.2%	22%

In December 2008, the Korean government reduced the corporate income tax rate (including resident tax) and increased the tax base from ₩ 100 million to ₩ 200 million beginning in 2008. Effective January 1, 2008, the income tax rate for those having their taxable income less than ₩ 200 million was reduced from 14.3 % to 12.1%.

23. Income Taxes, Continued

- (b) Income tax expense for the years ended December 31, 2009 and 2008 was as follows:

(In thousands of Won)

		2009	2008
Current income tax	₩	376,247,930	716,805,582
Changes in deferred income taxes due to temporary differences		786,712,935	(284,351,124)
Changes in deferred income taxes directly adjusted in equity		(661,386,425)	260,512,903
Income tax expense		501,574,440	692,967,361
Income before income tax		2,648,063,235	2,949,632,206
Effective income tax rate	₩	18.9%	23.50%

- (c) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2009 and 2008 are summarized as follows:

(In thousands of Won)

Description		2009		2008	
		Balance at January 1, 2009	Balance at December 31, 2009	Balance at January 1, 2008	Balance at December 31, 2008
Investment securities accounted for using the equity method (*1)	₩	(788,296,615)	(1,177,392,317)	(815,831,141)	(788,296,615)
Loss on valuation of investment securities		74,558,133	66,610,466	74,558,133	74,558,133
Reserve for technology development		(223,333,333)	(446,666,667)	(230,000,000)	(223,333,333)
Allowance for doubtful accounts (*1)		158,039,183	98,663,216	146,465,573	158,039,183
Accrued income		(56,690,429)	(825,057)	(28,499,206)	(56,690,429)
Loss on valuation of receivables		-	(1,236,485,239)	859,903	859,903
Loss on valuation of short-term investment securities and others		859,903	-	-	-
Currency forward contracts		710,042,273	(196,074,996)	37,679,354	710,042,273
Other		395,956,287	(310,701,132)	67,906,967	395,956,287
		271,135,402	(3,202,871,726)	(746,860,417)	271,135,402
Tax rate			22.0% (24.2%)		22.0% (24.2%)
Deferred income tax assets, end of period			(707,748,426)		78,964,509
Deferred income tax assets, beginning of period			78,964,509		(205,386,615)

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(In thousands of Won)

Description	2009		2008	
	Balance at January 1, 2009	Balance at December 31, 2009	Balance at January 1, 2008	Balance at December 31, 2008
Changes in deferred income taxes on temporary differences	₩	(786,712,935)		284,351,124

(\*1) The temporary difference amounting to ₩ (480,489) million, which were not recognized as deferred income tax asset is included.

### 23. Income Taxes, Continued

- (d) Deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2009 were as follows:

(In thousands of Won)

		Tax effects
Capital surplus on valuation of equity method investments	₩	(16,278,296)
Capital adjustments on valuation of equity method investments		345,157
Gain (loss) on valuation of short-term and long-term investment securities		(150,814,023)
Changes in equity arising on application of the equity method		(71,908,150)
Negative changes in equity arising on application of the equity method		(37,616,832)
Loss on valuation of foreign exchange forward contracts		(113,087,528)
Loss on revaluation of land		(272,026,753)

- (e) Deferred income tax assets (liabilities) as of December 31, 2009 were as follows:

(In thousands of Won)

		Current	Non-current	Total
Accumulated of temporary difference	₩	(68,934,457)	(3,133,937,269)	(3,202,871,726)
Tax rate		24.2%	22.0% (24.2%)	22.0% (24.2%)
Tax effects		(16,682,139)	(691,066,287)	(707,748,426)
Deferred income tax liabilities	₩	(16,682,139)	(691,066,287)	(707,748,426)

### 24. Statements of Comprehensive Income

Statements of comprehensive income for the years ended December 31, 2009 and 2008 were as follows:

(In thousands of Won)

		2009	2008
Net income	₩	2,146,488,795	2,256,664,845
Other comprehensive income		2,251,127,210	(696,712,783)
Gain (loss) on valuation of short-term and long-term investment securities, net of tax effects of			
₩ (150,814,023) in 2009, ₩ 80,676,187 in 2008		534,950,242	(262,816,255)

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Changes in equity arising on application of the equity method, net of tax effects of ₩ (71,908,150) in 2009, ₩ 24,009,174 in 2008	263,582,652	(20,318,477)
Negative changes in equity arising on application of the equity method, net of tax effects of ₩ (37,616,832) in 2009, ₩ 25,873,392 in 2008	133,368,767	(102,820,239)
Gain (loss) on valuation of financial derivatives, net of tax effects of ₩ (113,087,528) in 2009, ₩ 98,642,390 in 2008	354,767,062	(310,757,812)
Gain on revaluation of land, net of tax effects of ₩ (272,026,753) in 2009	964,458,487	-
Comprehensive income	<u>₩ 4,397,616,005</u>	<u>1,559,952,062</u>

**25. Earnings Per Share**

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the years ended December 31, 2009 and 2008.

Basic income per share as of December 31, 2009 and 2008 was calculated as follows:

*(In thousands of Won except per share information)*

	<b>2009</b>	<b>2008</b>
Net income	₩ 2,146,488,795	2,256,664,845
Weighted average number of outstanding common shares	60,118,111	60,435,234
Income per share	<u>₩ 35,705</u>	<u>37,340</u>

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**26. Transactions and Balances with Related Companies**

(a) The Company is the ultimate holding company and its subsidiaries as of December 31, 2009 were as follows:

<b>Controlled subsidiary</b>	<b>Particulars</b>
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and brokerage of futures transactions
HVIC IT Fund 3 <sup>rd</sup>	Other financial intermediation
Hyundai Investment Fund 1 on Patent Technology	Other financial intermediation
Mipo Engineering Co., Ltd.	Other engineering services
Changzhou Hyundai Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Donganh Steel Tower Manufacturing Co., Ltd.	Manufacture of structural metal products
H.C.E U.S.A	Sale of machinery equipment for construction
Hyundai Heavy Industry Co., Bulgaria	Sale and manufacture of transformers
Vladivostok Business Center	Hotels
Hyundai Vinashin Shipyard	Repairing of ships
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Hyundai Heavy Industry (China) Electric Co., Ltd.	Sale and manufacture of switch board for electric distribution
Hyundai Jiangsu Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
HHI China Investment Co., Ltd.	Holding company
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Sale and manufacture of hydraulic cylinders for construction equipment
Hyundai Technologies Center Hungary Kft	Research and development
Hyundai (Malaysia) SDN BHD	Trading
Hyundai S/V Indonesia	Maintenance and repair services for transformers
HHI Mauritius	Manufacturing
PHECO Inc.	Design services for offshore facilities
Hyundai-Enova Innovative Technical Center Inc.	Research and experimental development on technology
Hyundai Heavy Industries France SAS	Manufacturing
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
Taishan Financial Leasing Co., Ltd.	Financial lease and operating lease
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for construction
Ulsan Hyundai Football Club Ltd.	Football club
HYMS	Sale and manufacture of machinery equipment for

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Controlled subsidiary	Particulars
KOMAS Corp.	shipbuilding
HI Investment & Securities Co., Ltd	Shipbuilding
HI Management Co., Ltd	Securities brokerage
	Asset management

**26. Transactions and Balances with Related Companies, Continued**

- (b) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai Group for the year ended and as of December 31, 2009 were as follows:

(In thousands of Won)

Related Party	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 682,817,635	145,554,894	226,965,074	7,885,456
Hyundai Mipo Dockyard Co., Ltd.	376,550,671	16,605,677	103,576,597	1,319,913
Hyundai Oilbank	21,292,725	38,527,697	18,833,949	142,415
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	96,743,148	1,276,672	32,697,541	190,077
Hyundai Heavy Industries Europe N.V.	45,661,768	6,620,451	14,113,307	636,812
H.C.E U.S.A.	48,693,759	2,484,023	10,443,125	155,979
Hyundai Jiangsu Construction Machinery Co., Ltd.	249,781,251	1,806,333	67,686,945	355,675
Yantai Hyundai Moon Heavy Industries Co., Ltd.	462,572	50,026,861	-	-
Hyundai Jiangsu Construction Machinery Co., Ltd.	5,108,149	16,821,692	3,348,536	529,437
HYMS	11,737,028	338,501,603	2,028,486	47,385,610
Hyundai Construction Equipment India Private Ltd.	35,826,708	226,150	26,865,630	60,929
Hyundai Ideal Electric Co.	7,212,532	283,375	2,886,604	275,816
₩	1,581,887,946	618,735,428	509,445,794	58,938,119

- (c) The Company has entered into rental agreements (deposits received of ₩ 119 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of December 31, 2009. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 16).
- (d) The Company has fully provided an allowance for receivable from Vladivostok Business Center amounting to ₩ 74,725 million as of December 31, 2009.
- (e) Compensation for key management of the Company for the year ended December 31, 2009 was as follows:

(In thousands of Won)

	2009
Compensation for key management	₩ 1,324,978

Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation, and control of the Company.

Hyundai Heavy Industries Co., Ltd.  
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**27. Assets and Liabilities Denominated in Foreign Currencies**

Assets and liabilities denominated in foreign currencies as of December 31, 2009 and 2008 were as follows:

*(In thousands of Won and in thousands of foreign currency)*

Account	Currency	Foreign currencies		Korean won	
		2009	2008	2009	2008
Assets:					
Cash and cash equivalents	USD	277,682	84,777	₩ 324,221,114	106,606,752
	EUR	261	1,568	436,968	2,785,069
	Others	-	-	25,287,818	23,354,869
Trade accounts and notes receivable	USD	3,366,566	2,695,452	3,930,802,482	3,389,531,038
	EUR	133,112	104,122	222,867,012	184,942,816
	Others	-	-	50,664,138	52,977,506
Accounts receivable - other	USD	69,816	65,852	81,516,735	82,808,521
	EUR	152	1,766	254,014	3,136,317
	Others	-	-	1,228,246	118,799
Long-term trade accounts and notes receivable	USD	67,131	66,164	78,382,153	83,200,909
Long-term financial instruments	USD	33,319	7,965	38,903,482	10,016,181
	EUR	1,993	3,079	3,336,687	5,469,733
	Others	-	-	1,718,940	2,539,770
				₩ 4,759,619,789	3,947,488,280
Liabilities:					
Trade accounts and notes payable	USD	239,544	332,382	₩ 279,691,138	417,970,851
	EUR	29,624	41,649	49,598,089	73,977,828
	Others	-	-	29,068,430	47,487,173
Long-term borrowings	USD	4,489	2,929	5,166,671	3,314,633
Accounts payable - other and other liabilities	USD	197,281	247,260	230,345,491	310,929,310
	EUR	15,469	10,850	25,899,375	19,272,376
	Others	-	-	33,472,623	27,761,676
				₩ 653,241,817	900,713,847

**28. Segment Information**

The Company is classified into industry segments of Shipbuilding, Offshore & Engineering, Industrial Plant &

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Engineering, Engine & Machinery, Electro Electric Systems, Construction Equipment and others on the basis of product, feature of manufacturing process, market and sales method. Financial information by industry segment is as follows:

(a) As of and for the year ended December 31, 2009

(In thousands of Won)

	<b>Shipbuilding</b>	<b>Offshore &amp; Engineering</b>	<b>Industrial Plant &amp; Engineering</b>	<b>Engine &amp; Machinery</b>	<b>Electro Electric Systems</b>	<b>Construction Equipment</b>	<b>Others</b>
Sales	₩ 9,002,641,240	3,423,456,902	1,897,902,597	2,771,471,593	2,712,142,548	1,190,382,638	144,199,218
Operating income (loss)	532,372,130	462,688,727	245,456,361	808,516,177	453,102,965	(29,642,594)	(249,919,847)
Tangible and intangible assets	2,352,722,389	577,184,489	32,823,913	889,044,181	625,381,518	197,625,043	3,759,200,317
Depreciation	150,487,993	53,970,096	4,343,587	75,351,840	36,355,565	20,114,450	59,070,631

(b) As of and for the year ended December 31, 2008

(In thousands of Won)

	<b>Shipbuilding</b>	<b>Offshore &amp; Engineering</b>	<b>Industrial Plant &amp; Engineering</b>	<b>Engine &amp; Machinery</b>	<b>Electro Electric Systems</b>	<b>Construction Equipment</b>	<b>Others</b>
Sales	₩ 9,084,857,132	3,095,131,826	1,374,441,667	2,522,059,761	1,924,488,853	1,768,563,318	187,538,324
Operating income (loss)	1,066,721,745	289,031,494	17,087,508	613,559,947	359,682,154	113,373,636	(253,283,549)
Tangible and intangible assets	2,080,340,057	579,487,564	36,788,853	777,695,653	385,703,693	179,427,270	2,412,806,969
Depreciation	(130,200,547)	(47,668,281)	(5,163,066)	(65,130,747)	(30,274,234)	(17,160,360)	(51,730,728)

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

Selling and administrative expenses for the years ended December 31, 2009 and 2008 were as follows:

Hyundai Heavy Industries Co., Ltd.  
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December 31, 2009 and 2008

(In thousands of Won)

		2009	2008
Wages	₩	284,957,403	269,166,844
Accrual for severance benefits		20,692,285	30,127,495
Employee welfare		70,534,297	67,958,772
Advertising		37,384,930	37,636,684
Ordinary development expenses		72,727,985	79,443,398
Accrual for allowance for doubtful accounts		48,943,879	35,565,244
Depreciation		39,414,918	32,276,786
Service charges		87,083,387	75,339,184
Transportation		58,444,377	100,266,504
Sales commissions		54,544,572	39,665,555
After-service expenses		28,870,517	42,734,638
Others		118,581,346	128,737,826
	₩	922,179,896	938,918,930

### 30. Financial Performance in the Last Interim Period

The financial performance for the three months ended December 31, 2009 and 2008 is summarized as follows:

(In thousands, except for share amounts)

		2009	2008
Sales	₩	5,331,696,473	6,050,872,596
Net income		721,318,978	867,323,996
Net income per share		11,899	14,471

### 31. The Company's Environmental Standards and Policies

The Company has adopted and implemented an environmental management system, run by its environmental management group, to effectively manage any environmental effects occurring as a result of its business activities. The Company obtained the ISO 14001 certification for its environmental management system from DNV-QA (Det Norske Veritas QA Ltd.) to ensure transparency in the environmental management system and also to prepare for the expected imposition of environmental standards-based trade barriers. To maintain and develop its environmental management system, the Company continuously works to minimize the environmental effects from its overall business activities, from research and development, purchase, and production to transport and disposal by adopting advanced environmental management practices such as the periodic evaluation of the activities of the environment management group, environmental protection plans, and the evaluation of environmental performance.



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**31. The Company's Environmental Standards and Policies, Continued**

The Company has established and applies its own standards, which are twice as strict as current regulations for permissible exhaust standards in the Republic of Korea, to the operation of air exhaust facilities, control facilities and wastewater disposal plants that treat the polluted substances generated from its manufacturing processes. The Company maintains emissions below 20% of the legal mandate. In addition, the Company achieved a waste reclamation rate of 51% by minimizing the generation of waste and sorting garbage at the source. Also, to properly treat wastes, the Company operates an incinerator equipped with advanced emissions control equipment that has the capacity to treat 400 tons of waste per day.

**32. Employee Welfare and Contributions to Society**

For employee welfare, the Company granted scholarship funds of ₩ 53,785 million for the middle school, high school and college age children of employees and ₩ 9,804 million for medical benefits, such as health examinations and medical treatment, to its employees and their families during the year ended December 31, 2009. In addition, the Company provided 16,000 apartment units for employee housing, achieving a 94% housing-supply ratio. The Company also operates 7 culture welfare union halls and the Hyundai Arts Center, established in December 1998, to provide members of the community and its employees with various art and musical performances.

(In millions of Won)

	<b>2009</b>	<b>2008</b>
Expense for human development and discipline	₩ 13,596	22,538
Expense for social welfare facilities and religion donation	5,432	13,736
Donation for Social Overhead Capital and Government	83	22
	<b>₩ 19,111</b>	<b>36,296</b>

**33. Value Added Information**

Details of accounts included in the computation of value added for the years ended December 31, 2009 and 2008 were as follows:

(In millions of Won)

	<b>2009</b>	<b>2008</b>
Income before income taxes	2,648,063	2,949,632
Salaries and wages	₩ 2,472,399	2,486,931
Financial expenses	(133,138)	(273,441)
Rent	25,289	24,926
Depreciation and amortization	399,694	347,328
Taxes and dues	16,026	17,718
	<b>₩ 5,428,333</b>	<b>5,553,094</b>

(\*) Includes amortization and depreciation expense for assets not in use.

**34. Non-cash investing and Financing Activities**

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Significant non-cash investing and financing activities for the years ended December 31, 2009 and 2008 are summarized as follows:

*(In thousands of Won)*

	<b>2009</b>	<b>2008</b>
Transfer of long-term trade accounts to current assets	₩ 42,918,226	46,222,745
Transfer of construction-in-progress to plant assets	1,263,083,487	817,191,986
Investment in kind of equity method investments	-	130,724,418
Unrealized gain on valuation of available-for-sale securities	534,950,242	262,816,255
Capital surplus on valuation of equity method investments	-	4,897,333
Equity method treasury stock	-	11,234,489
Capital adjustment on valuation of equity method investments	1,223,737	106,791,729
Changes in equity arising on application of the equity method	263,582,652	20,318,477
Negative changes in equity arising on application of the equity method	133,368,767	102,820,239
Gain on valuation of financial derivatives	354,767,062	310,757,812
Gain on revaluation of land	964,458,487	-

**35. Planning and Adoption of K-IFRS (International Financing Reporting Standards)**

- (a) ) The Company subsequently plans to issue financial statements prepared in accordance with K-IFRS from 2011.  
The Company organized a task force team to perform preliminary analysis of the effects of K-IFRS adoption

Hyundai Heavy Industries Co., Ltd.  
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and establish accounting systems to apply the new accounting treatments, and trained its relevant personnel internally and externally. The task force team regularly reports the details and status of the adoption plan to its board of directors and management. The details of the K-IFRS adoption plan are as follows:

Main Activities	Preparation Plan	State at December 31, 2009
Formation of the K-IFRS  Establishment of the task force team and analysis of the likely effects of K-IFRS adoption	Complete the K-IFRS adoption plan by the end of 2010  (Prepare 2010 comparative information and the ‘explanation of transition to IFRS’ called for under IFRS 1011 by the end of Q3 2010)	June 2008 – Established the K-IFRS adoption task force team  Oct-Dec 2008 - Engaged an accounting firm to carry out an analysis of the likely effects of K-IFRS adoption  Apr-Aug 2009 – Engaged an accounting firm to carry out an establishment of closing process and basic design of IT.
Training	Acquire the skills required for IFRS conversion by the end of Q1 2010	Oct 2008-present – Held training for in-charge staff (training provided by the Korean Accounting Standards Board)
Alignment of accounting systems	Complete the establishment of accounting systems to apply the new accounting treatments under K-IFRS by the end of Q3 2010	Sep-Dec 2009 - Completed the analysis of the scope of required changes to the system

**35. Planning and Adoption of K-IFRS (International Financing Reporting Standards), Continued**

- (b) Differences between accounting under K-IFRS and under K-GAAP expected to have a material effect on the Company

Below is a list of notable differences between the financial statements as of and for the year ended December 31, 2009 as presented and as they would have been prepared under K-IFRS. The below list is not exhaustive,

Hyundai Heavy Industries Co., Ltd.  
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as in the future other unforeseen differences may appear as a result of future changes. In addition, the practical effect of some of the significant differences listed below may not be obtainable.

Area	K-IFRS	Current K-GAAP)
Employee benefits	Under the projected unit credit method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation	The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period.
Property, plant, and equipment	The Company reviews residual value, estimated useful life and depreciation method at the end of fiscal year and any change is recognized as accounting estimation change.	Review process is not required. The change of depreciation method is recognized as accounting policy change and the change of residual value and useful life is recognized as accounting estimation change.
Allowance for doubtful accounts	An impairment gain or loss is recognized for financial instruments that are valued at acquisition cost after amortization such as accounts receivable and held-to-maturity securities if there is reliable evidence of impairment.	Based on reliable and reasonable standards, estimated bad debt expense is calculated for non-collectable account receivables and recognized as an allowance for doubtful accounts.
Equity method	Equity method is not applied to subsidiaries in the preparation of the consolidated financial statements. The Company applies the cost or fair value methods when preparing separate financial statements.	When consolidated financial statement is prepared, the equity method is applied to subsidiaries.

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

### **English translation of a Report Originally Issued in Korean**

To the President of  
Hyundai Heavy Industries Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries Co., Ltd (the "Company") as of December 31, 2009. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2009, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operations of Internal Accounting Control System as of December 31, 2009 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2009. We did not review the Company's IACS subsequent to December 31, 2009. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

February 25, 2010

### **Notice to Readers**

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2009 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.