

**HYUNDAI HEAVY INDUSTRIES CO., LTD.
AND ITS SUBSIDIARIES**

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 consolidated statements of financial position of Hyundai Heavy Industries Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of 15 and 24 subsidiaries, which statements reflect total assets of ₩ 8,814,269 and ₩ 10,680,554 million of consolidated totals as of December 31, 2009 and 2008 and total revenues of ₩ 5,203,180 and ₩ 5,899,875 million of consolidated totals for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. and its subsidiaries as of December 31, 2009 and 2008 and the results of their operations, changes in its shareholders' equity and their cash flows for the years then ended, in conformity with the accounting principles generally accepted in the Republic of Korea.

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

As explained in Note 1 to the consolidated financial statements, in 2009, the Company included Hyundai Financial Leasing Co., Ltd. and excluded HVIC IT Fund 3rd, Ulsan Hyundai Football Club Co., Ltd., Hyundai Dongan Steel.

Seoul, Korea
March 19, 2010

<p>This report is effective as of March 19, 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 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.</p>

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

As of December 31, 2009 and 2008

(In thousands of Won, except share data)

	<i>Note</i>	2009	2008
Assets			
Cash and cash equivalents	3,28	₩ 1,921,277,940	1,672,784,482
Short-term financial instruments	3	727,339,243	3,786,226,969
Short-term investment securities	5	796,349,283	624,090,236
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 167,175 million in 2009 and ₩ 143,741 million in 2008	18,27,28	6,857,930,991	5,456,731,195
Accounts receivable - other, net of allowance for doubtful accounts of ₩ 139,694 million in 2009 and ₩ 218,693 million in 2008	19,27,28	126,442,669	303,170,634
Inventories	4	2,623,367,584	3,533,418,832
Advanced payments, net of allowance for doubtful accounts of ₩ 16,030 million in 2009 and ₩ 21,366 million in 2008		1,833,535,935	1,574,809,218
Accrued income, net of allowance for doubtful accounts of ₩ 174 million in 2009 and ₩ 75 million in 2008		62,704,254	156,000,376
Financial assets, net of allowance for doubtful accounts of ₩ 550 million in 2009 and ₩ 992 million in 2008		27,174,193	36,397,751
Foreign exchange forward contracts	18	1,999,017,757	2,560,139,449
Deferred income tax assets	24	65,651,956	280,619,161
Other current assets, net of allowance for doubtful accounts of ₩ 4,186 million in 2009 and ₩ 349 million in 2008	6	797,966,560	783,481,046
Total current assets		17,838,758,365	20,767,869,349
Long-term investment securities	7	3,336,280,769	1,801,398,488
Equity method accounted investments	9	1,389,273,020	1,355,846,125
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 27,139 million in 2009 and ₩ 832 million in 2008	18,28	484,497,020	82,368,900
Long-term financial instruments	3,28	3,286,378	15,372,748
Foreign exchange forward contracts	18	1,128,950,586	4,173,369,541
Venture investments	7,8	13,804,552	16,686,211
Property, plant and equipment, net	10,13,15,18	11,044,112,558	8,902,503,544
Intangible assets	11	910,088,671	903,236,499
Deferred income tax assets	24	39,214,650	134,267,829
Other non-current assets, net of allowance for doubtful accounts of ₩ 179 million in 2009 and ₩ 2,262 million in 2008	12	271,914,180	224,733,480
Total non-current assets		18,621,422,384	17,609,783,365
Total assets		₩ 36,460,180,749	38,377,652,714

See accompanying notes to consolidated financial statements.

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

As of December 31, 2009 and 2008

(In thousands of Won, except share data)

	<i>Note</i>	2009	2008
Liabilities			
Short-term borrowings	13	₩ 2,276,082,532	936,853,320
Current maturities of debentures and long-term borrowings	15,28	103,494,378	44,471,402
Trade accounts and notes payable	27,28	2,014,740,567	3,031,809,161
Accounts payable-other	19,27,28	270,797,798	353,061,360
Advances from customers		13,318,545,878	16,698,522,861
Income tax payable		340,754,689	687,259,429
Foreign exchange forward contracts	18	2,188,003,513	3,781,684,566
Deferred income tax liabilities	24	16,702,447	-
Other current liabilities	14	1,165,419,909	1,175,216,622
Total current liabilities		21,694,541,711	26,708,878,721
Debenture and long-term borrowings, net of discount of ₩ 931 million in 2009	15,28	930,752,896	207,908,175
Provision for retirement and severance benefits, net of severance insurance deposits and others of ₩ 1,261,176 million in 2009 and ₩ 1,304,656 million in 2008	16	274,857,850	253,054,708
Provision for product warranties		61,196,303	47,654,776
Foreign exchange forward contracts	18	1,266,271,406	4,230,458,411
Deferred income tax liabilities	24	984,515,579	70,615,855
Other long-term liabilities	17	239,366,211	192,025,205
Total non-current liabilities		3,756,960,245	5,001,717,130
Total liabilities		25,451,501,956	31,710,595,851
Stockholders' equity			
Common stock of ₩ 5,000 par value			
Authorized – 160,000,000 shares			
Issued and outstanding – 76,000,000 shares	1	380,000,000	380,000,000
Capital surplus	20	2,859,431,086	2,805,551,325
Capital adjustments	22	(1,738,662,691)	(1,718,603,079)
Accumulated other comprehensive income	25	1,743,835,780	(463,730,511)
Retained earnings	21	6,555,342,719	4,673,098,378
Minority interests		1,208,731,899	990,740,750
Total stockholders' equity		11,008,678,793	6,667,056,863
Total liabilities and stockholders' equity		₩ 36,460,180,749	38,377,652,714

See accompanying notes to consolidated financial statements.

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

For the year ended December 31, 2009 and 2008

(In thousands of Won, except earnings per share)

	<i>Note</i>	2009	2008
Sales	27,30,31	₩ 29,254,382,089	27,483,590,129
Cost of sales	27,30,31	24,708,119,016	22,837,667,656
Gross profit		<u>4,546,263,073</u>	<u>4,645,922,473</u>
Selling, general and administrative expenses	32	1,521,580,226	1,463,958,268
Operating income		<u>3,024,682,847</u>	<u>3,181,964,205</u>
Interest and dividend income		332,451,603	539,158,579
Gain on foreign currency transactions		1,051,653,686	1,090,128,774
Gain on foreign currency translation		48,498,757	153,697,336
Gain on valuation of equity method investments	9	57,231,894	191,709,467
Gain on disposition of short-term investment securities		11,774,944	-
Gain on disposition of long-term investment securities		3,039,157	-
Gain on disposition of property, plant and equipment		80,459,161	15,862,574
Gain on reversal of provisions	19	7,322,100	10,715,346
Gain on foreign exchange forward contracts	18	1,942,480,879	2,533,356,809
Others		477,606,856	167,850,285
Non-operating income		<u>4,012,519,037</u>	<u>4,702,479,170</u>
Interest expense		86,599,989	34,837,356
Loss on foreign currency transactions		753,326,816	967,021,027
Loss on foreign currency translation		66,453,905	196,718,057
Loss on valuation of equity method accounted investments	9	251,198,493	58,944,423
Loss on disposition of short-term investment securities		4,677,155	-
Loss on disposition of long-term investment securities		1,229,816	-
Loss on disposition of property, plant and equipment		19,664,652	62,229,508
Loss on foreign exchange forward contracts	18	2,559,161,636	2,793,287,815
Others		117,554,600	184,402,186
Non-operating expenses		<u>3,859,867,062</u>	<u>4,297,440,372</u>
Income before income taxes		3,177,334,822	3,587,003,003
Income taxes expense	24	744,094,617	993,203,744
Net income before acquisition of subsidiaries		-	19,600,004
Net income		<u>2,433,240,205</u>	<u>2,574,199,255</u>
Holding company		<u>2,140,748,853</u>	<u>2,254,095,967</u>
Minority interests		<u>292,491,352</u>	<u>320,103,288</u>
Earnings per share			
Basic earnings per share	26	₩ <u>39,603</u>	<u>41,457</u>

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
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	Minority interest	Total stockholders' equity
Balance at January 1, 2009	₩	380,000,000	2,805,551,325	(1,718,603,079)	(463,730,511)	4,673,098,378	990,740,750	6,667,056,863
Dividends		-	-	-	-	(258,504,512)	-	(258,504,512)
Balance after appropriations		<u>380,000,000</u>	<u>2,805,551,325</u>	<u>(1,718,603,079)</u>	<u>(463,730,511)</u>	<u>4,414,593,866</u>	<u>990,740,750</u>	<u>6,408,552,351</u>
Net income		-	-	-	-	2,140,748,853	292,491,352	2,433,240,205
Changes in capital surplus		-	53,879,761	-	-	-	-	53,879,761
Change in the treasury stock		-	-	65,469,292	-	-	-	65,469,292
Change in other capital adjustment		-	-	(85,528,904)	-	-	-	(85,528,904)
Gain on valuation of investment securities		-	-	-	873,309,685	-	-	873,309,685
Negative adjustment of equity in equity method investments		-	-	-	32,502,112	-	-	32,502,112
Change in the valuation of derivatives		-	-	-	352,888,481	-	-	352,888,481
Land revaluation		-	-	-	964,458,487	-	-	964,458,487
Change in the cumulative translation losses		-	-	-	(15,592,474)	-	-	(15,592,474)
Change in other minority interests		-	-	-	-	-	(74,500,203)	(74,500,203)
Balance at December 31, 2009	₩	<u><u>380,000,000</u></u>	<u><u>2,859,431,086</u></u>	<u><u>(1,738,662,691)</u></u>	<u><u>1,743,835,780</u></u>	<u><u>6,555,342,719</u></u>	<u><u>1,208,731,899</u></u>	<u><u>11,008,678,793</u></u>

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
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	Minority interest	Total stockholders' equity
Balance at January 1, 2008	₩	380,000,000	2,800,653,992	(752,628,881)	146,293,006	2,901,453,837	807,183,031	6,282,954,985
Dividends		-	-	-	-	(482,451,426)	-	(482,451,426)
Balance after appropriations		<u>380,000,000</u>	<u>2,800,653,992</u>	<u>(752,628,881)</u>	<u>146,293,006</u>	<u>2,419,002,411</u>	<u>807,183,031</u>	<u>5,800,503,559</u>
Net income		-	-	-	-	2,254,095,967	320,103,288	2,574,199,255
Changes in capital surplus		-	4,897,333	-	-	-	-	4,897,333
Change in the treasury stock		-	-	(892,695,992)	-	-	-	(892,695,992)
Change in other capital adjustment		-	-	(73,278,206)	-	-	-	(73,278,206)
Gain on valuation of investment securities		-	-	-	(492,343,786)	-	-	(492,343,786)
Negative adjustment of equity in equity method investments		-	-	-	97,924,217	-	-	97,924,217
Change in the valuation of derivatives		-	-	-	(297,001,793)	-	-	(297,001,793)
Change in the cumulative translation losses		-	-	-	81,397,845	-	-	81,397,845
Change in other minority interests		-	-	-	-	-	(136,545,569)	(136,545,569)
Balance at December 31, 2008	₩	<u>380,000,000</u>	<u>2,805,551,325</u>	<u>(1,718,603,079)</u>	<u>(463,730,511)</u>	<u>4,673,098,378</u>	<u>990,740,750</u>	<u>6,667,056,863</u>

See accompanying notes to consolidated financial statements.

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

For the years ended December 31, 2009 and 2008

(In thousands of Won)

	2009	2008
Cash flows from operating activities		
Net income	₩ 2,433,240,205	2,574,199,255
Adjustments for:		
Accrual for severance benefits	182,479,991	292,448,546
Accrual for allowance for doubtful accounts	66,570,855	19,660,689
Amortization of intangible assets	91,305,225	61,228,326
Depreciation	581,954,177	496,701,452
Amortization of discount on debentures	271,596	298,966
Loss on foreign currency translation	63,849,551	194,404,139
Loss on disposal of short-term investment securities	4,677,155	-
Loss on disposal of long-term investment securities	1,229,816	-
Loss on disposal of property, plant and equipment	19,664,652	62,229,508
Equity in net loss of equity method investees	251,198,493	58,944,423
Loss on valuation of foreign exchange forward contracts	3,794,806,061	2,000,406,250
Gain on disposition of property, plant and equipment	(80,459,161)	(15,862,574)
Gain on disposition of short-term investment securities	(11,774,944)	-
Gain on disposition of long-term investment securities	(3,039,157)	-
Gain on foreign currency translation	(48,107,597)	(150,702,627)
Equity in net income of equity method investees	(57,231,894)	(183,463,941)
Gain on valuation of foreign exchange forward contracts	(1,604,501,964)	(2,459,049,689)
Gain on reversal of provisions	(7,322,100)	(10,715,346)
Others, net	(146,312,025)	140,158,457
	3,099,258,730	506,686,579
Changes in assets and liabilities:		
Trade accounts and notes receivable	(1,366,068,150)	(2,661,886,045)
Accounts receivable - other	253,724,469	(141,246,555)
Accrued income	94,231,690	(58,671,268)
Advanced payments	(262,876,044)	(703,618,887)
Inventories	836,132,160	(1,594,867,278)
Deferred income tax assets	89,520,181	47,336,020
Trade accounts and notes payable	(893,053,655)	2,020,709,219
Accounts payable - other	(96,050,120)	93,755,926
Advances from customers	(3,281,422,307)	3,301,721,265
Accrued expenses	(76,172,438)	(3,051,140)
Income tax payable	(320,526,334)	(26,740,135)
Long-term accrued expenses	-	(1,029,342)
Payments of retirement and severance benefits	(207,088,956)	(208,481,684)
Deposits for retirement and severance benefits	38,924,200	(27,988,642)
Foreign exchange forward contracts	(2,764,576,997)	472,912,327
Deferred income tax liabilities	81,284,029	(166,078,857)
Others, net	184,237,193	(24,094,703)
Net cash provided by (used in) operating activities	₩ (2,157,282,144)	3,399,566,055

See accompanying notes to consolidated financial statements.

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

For the years ended December 31, 2009 and 2008

(In thousands of Won)

	2009	2008
Cash flows from investing activities		
Withdrawal of short-term financial instruments	₩ 5,609,350,639	5,606,680,512
Disposition of short-term investment securities	774,282,506	2,975,404,695
Withdrawal of long-term financial instruments	11,947,520	2,006,299
Disposition of Investment securities accounted for using the equity method	-	70,937
Disposition of long-term investment securities	54,861,148	20,630,957
Disposition of property, plant and equipment	139,860,339	95,065,021
Disposition of intangible assets	-	134,049
Acquisition of long-term investment securities	-	(760,842,039)
Acquisition of short-term financial instruments	(2,593,998,452)	(4,476,862,525)
Acquisition of short-term investment securities	(622,717,520)	(2,381,462,774)
Acquisition of long-term financial instruments	(51,388)	(6,023,410)
Acquisition of long-term investment securities	(91,323,046)	(179,130,398)
Acquisition of investment securities accounted for using the equity method	(239,014,511)	(160,472,030)
Acquisition of property, plant and equipment	(1,693,965,795)	(2,743,880,418)
Acquisition of intangible assets	(14,062,510)	(6,022,164)
Expenditures for development costs	(73,491,702)	(72,967,513)
Disposition of other non-current assets	62,621,467	39,758,762
Acquisition of other non-current assets	(513,538,075)	(124,523,640)
Net cash provided by (used in) investing activities	810,760,620	(2,172,435,679)
Cash flows from financing activities		
Proceeds from short-term borrowings	3,880,925,198	381,659,347
Increase in long-term borrowings	517,294,252	128,322,378
Issuance of bonds	298,797,600	-
Repayment of current maturities of short-term borrowings	(2,709,982,169)	(101,772,476)
Repayment of current portion of long-term borrowings and other long-term borrowings	(2,346,388)	(189,656,349)
Repayment of long-term borrowings	(8,844,000)	(16,538,850)
Acquisition of the treasury stock	-	(833,142,356)
Payment of cash dividends	(299,667,280)	(482,451,426)
Others, net	(65,179,900)	(205,375,820)
Net cash provided by (used in) financing activities	1,610,997,313	(1,318,955,552)
The effects of changes in foreign exchange rates	(13,706,775)	120,472,648
Effect of change in consolidated subsidiaries	(2,275,556)	53,132,194
Net increase in cash and cash equivalents	248,493,458	81,779,666
Cash and cash equivalents at beginning of year	1,672,784,482	1,591,004,816
Cash and cash equivalents at end of year	₩ 1,921,277,940	1,672,784,482

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Organization and Description of Business

(1) The Company

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated on December 28, 1973, under the Commercial Code of the Republic of Korea to manufacture and sell ships, offshore structures, plants, engines and other items. The head office and the major production plants of the Company are located in Jeonha-dong, Dong-gu, Ulsan and the Seoul office is located in Gye-dong, Jongno-gu, Seoul. The Company operates numerous overseas sales offices and construction site-offices. 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 60,621,202 shares of common stock were outstanding as of December 31, 2009. Of the total issued shares, the company's major stockholders Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd., Hyundai Motor Co., Ltd. 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 and issuing stock to employees under certain circumstances.

(2) Consolidated Subsidiaries

- (a) The consolidated financial statements include the accounts of the Company and its consolidated domestic and foreign subsidiaries over which the Company has control. The consolidated subsidiaries as of December 31, 2009 are as follows:

(In millions of Won)

Company's name	Business	Shareholders' equity	Number	Percentage of ownership	Location	Fiscal year end
Domestic subsidiaries:						
Hyundai Finance Corporation	Financing	140,494	12,350,000	67.49 %	Korea	Dec.31
Hyundai Venture Investment Corporation (*1)	Financing	64,105	4,103,000	68.38 %	Korea	Dec.31
Hyundai Futures Corporation (*1)	Financing	43,081	3,000,000	65.22 %	Korea	Mar.31
Hyundai Investment Fund 1 on Patent Technology(*1)	Financing	18,930	90	50.00 %	Korea	Dec.31
HI Investment & Securities Co., Ltd. (*1)	Financing	269,559	180,811,724	76.15 %	Korea	Mar.31
HI Asset Management Co., Ltd. (*1)	Financing	52,827	6,880,813	98.89 %	Korea	Mar.31
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	2,214,250	37,967,000	94.92 %	Korea	Dec.31
Hyundai Mipo Dockyard Co., Ltd. (*1)	Shipbuilding	2,616,088	9,217,518	46.09 %	Korea	Dec.31
HYMS Co., Ltd.	Shipbuilding	156,333	29,600,000	100.00 %	Korea	Dec.31

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Organization and Description of Business, Continued

(2) Consolidated Subsidiaries, Continued

(In millions of Won)

Company's name	Business	Shareholders' equity	Number	Percentage of ownership	Location	Fiscal year end
Overseas subsidiaries:						
H. C. E. U.S.A	Wholesale	8,210	23,900,000	100.00 %	U.S.A.	Dec.31
Hyundai Heavy Industries Europe N.V.	Wholesale	29,316	10	100.00 %	Belgium	Dec.31
Changzhou Hyundai Construction Machinery Co., Ltd. (*1,2)	Assembly & wholesale	57,347	-	60.00 %	China	Dec.31
Hyundai Jiangsu Construction Machinery Co., Ltd. (*1,2)	Assembly & wholesale	178,197	-	60.00 %	China	Dec.31
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. (*1,2)	Assembly & wholesale	74,953	-	60.00 %	China	Dec.31
Vladivostok Business Center(*2)	Food & lodging	(148,316)	-	57.14 %	Russia	Dec.31
Hyundai Heavy Industries Co. BULGARIA	Electrical equip. manufacturing	47,267	12,155,829	99.09 %	Bulgaria	Dec.31
Hyundai Vinashin Shipyard (*1,2)	Ship repairing	201,487	-	65.00 %	Vietnam	Dec.31
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*1,2)	Electrical equip. manufacturing	36,434	-	54.99 %	China	Dec.31
Hyundai Heavy Industries (China) Electric Co., Ltd. (*1,2)	Electrical equip. manufacturing	42,915	-	100.00 %	China	Dec.31
HHI China Investment Co., Ltd. (*2)	Investment and advisory service	89,945	-	100.00 %	China	Dec.31
Hyundai Financial Leasing Co., Ltd. (*1)	Financing	67,278	44,010,000	88.02 %	China	Dec.31
Hyundai Ideal Electric Co.	Electrical equip. manufacturing	25,494	1,000	100.00 %	U.S.A.	Dec.31
Hyundai Construction Equipment India Private Ltd.	Assembly & wholesale	28,534	17,184,775	100.00 %	India	Dec.31
Changzhou Hyundai Hydraulic Machinery Co., Ltd. (*1, 2)	Assembly & wholesale	21,105	-	100.00 %	China	Dec.31

(*1) Shares and ownership include indirect shares and ownership, of which its subsidiaries hold as of December 31, 2009.

(*2) The number of shares is not disclosed since it has no face value.

(3) Change of consolidated subsidiaries

Details of the change of consolidated subsidiaries are as follows:

Subsidiaries	Note
Hyundai Financial Leasing Co., Ltd.	Increasing of total assets
HVIC IT Fund 3 rd	Decreasing of total assets
Ulsan Hyundai Football Club Co., Ltd.	Decreasing of total assets
Hyundai Dongahn Steel	Missed the control by disposition of shares

1. Organization and Description of Business, Continued

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

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(4) Detailed Information on the Subsidiaries

(a) Domestic consolidated subsidiaries

Hyundai Finance Corporation (“HFC”) was incorporated on February 1, 1996 to engage in the factoring finance and others, and changed its name to the present name on July 15, 1999.

Hyundai Venture Investment Corporation (“HVIC”) was established on April 8, 1997 to engage in investments in venture firms and was registered with the Small and Medium Business Administration as a venture capital firm. The major services of HVIC are investment in new entrepreneurs and venture companies, and establishment and management of venture funds.

Hyundai Futures Corporation (“HFTC”) was incorporated on January 21, 1997 after it had received preparatory license for domestic and overseas futures brokerage business from the Ministry of Finance and Economy on November 19, 1996. HFTC engages mainly in brokerage of futures transactions and other related business activities.

Hyundai Investment Fund 1 on patent Technology (“HIF 1”) was established on August 28, 2007 to engage in investments in promising entrepreneurs and venture companies holding a patent technology.

HI Investment & Securities Co., Ltd. (“HIIS”) was incorporated on October 30, 1989 in the name of Cheil Investment Trust Co., Ltd. and changed its name to Cheil Investment Trust Securities Co., Ltd. with a change of type of business on January 9, 1999. Accordingly, the Company was operated as an agent or intermediary for trading of securities since January 12, 1999. By the confirmation of the Finance Committee on April 13, 2001, the Company was engaged in the sales, underwriting, and collecting of securities.

HI Asset Management Co., Ltd. (“HIAM”) was incorporated in February, 1999 and started its business as an investment trust management company in March, 1999 and was engaged in an indirect investment asset management business.

Hyundai Samho Heavy Industries Co., Ltd. (“HSHI”) was incorporated on March 23, 1998 under the name of RH Heavy Industries Co., Ltd. (“RHC”) as part of the financial restructuring plan of Halla Heavy Industries Co., Ltd. under the Rothschild Program (“the Program”) of Rothschild Inc. Pursuant to the Program, RHC acquired the shipbuilding and construction equipment business units from Halla Heavy Industries Co., Ltd. on September 18, 1999, of which it acquired assets and assumed liabilities. On October 27, 1999, RHC changed its name to Samho Heavy Industries Co., Ltd. (“SHIC”), and on the same date, debts of ₩ 100 billion to financial institutions were converted into equity. Effective October 27, 1999, SHIC entered into a trusteeship agreement with the Company, under which the Company provided management services for a fee equal to ten percent of operating income plus all actual costs incurred. Also, the Company provided guarantees of indebtedness of SHIC. The Company acquired 20,000,000 common shares of SHIC by exercising its call option on May 15, 2002. Accordingly, the Company became a major stockholder of SHIC and the trusteeship agreement between SHIC and the Company was terminated. Pursuant to the resolution at the shareholders’ meeting on December 6, 2002, SHIC changed its name to Hyundai Samho Heavy Industries Co., Ltd. (“HSHI”).

Hyundai Mipo Dockyard Co., Ltd. (“HMD”) was incorporated in 1975 to repair, convert and build the ships. The main business of HMD has been shifted from repair of ship to shipbuilding. The shares of HMD were listed on the Korea Stock Exchange on December 20, 1983.

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Organization and Description of Business, Continued

(4) Detailed Information on the Subsidiaries, Continued

(a) Domestic consolidated subsidiaries, Continued

HYMS Co., Ltd. ("HYMS") was incorporated (in the form of investment in kind) by purchasing ship blocks and certain assets of the Company related to construction of piping as of April 25, 2008 and operates mainly for construction of ship blocks, pipe laying, and shipbuilding materials.

(b) Overseas consolidated subsidiaries

H. C. E. U.S.A., Inc. ("HCEUSA") was established on November 8, 1991 and primarily sells construction equipment (excavators and loaders) and parts principally in U.S.A. and Canada. All equipment and parts are substantially purchased from the Company.

Hyundai Heavy Industries Europe N.V. ("HHIE") was incorporated in Belgium in 1993 and engages in selling of construction equipment.

Changzhou Hyundai Construction Machinery Co., Ltd. ("CHCM") was incorporated in Changzhou, China in 1995 and engages in assembling and selling of construction equipment.

Hyundai Jiangsu Construction Machinery Co., Ltd. ("HJCM") was incorporated in Jiangsu, China in 2003 and engages in assembling and selling of construction equipment.

Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. ("BHCM") was incorporated in Beijing, China in 2002 and engages in assembling and selling of construction equipment.

Vladivostok Business Center ("VBC") was incorporated in Vladivostok, Russia in 1994 and engages in the hotel business.

Hyundai Heavy Industries Co. BULGARIA ("HHIB") was incorporated in Sofia, Bulgaria on May 12, 1997 and engages in the manufacture and sale of power transformers, power-step regulators and others.

Hyundai Vinashin Shipyard ("HVS") was incorporated in Vietnam in September 1996 and the principal activities of HVS are to build and repair ships.

Yantai Hyundai Moon Heavy Industries Co., Ltd. ("YHMH") was incorporated in China in 2004 and engages in the manufacture and sale of generating plant.

Hyundai Heavy Industries (China) Electric Co., Ltd. ("HHIC") was incorporated in China in 2004 and engages in the manufacture and sale of power transformers, automatic voltage regulators and others.

HHI China Investment Co., Ltd. ("HCI") was incorporated in Shanghai, China on May 31, 2005 and engages in providing subsidiaries with various kinds of supporting services in September 2006.

Hyundai Financial Leasing Co., Ltd. ("HFLC") was incorporated in Shanghai, China in June 2007 and engages in leasing of construction machinery equipment manufactured by subsidiaries.

Hyundai Ideal Electric Co. ("HIE") was incorporated in U.S.A. in 2007 and engages in the manufacture, installation and sale of industrial electric appliances such as electric motors, generators and others.

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

1. Organization and Description of Business, Continued

(4) Detailed Information on the Subsidiaries, Continued

(b) Overseas consolidated subsidiaries, Continued

Hyundai Construction Equipment India Private Ltd. ("HCEIP") was incorporated in India in 2007 and engages in the manufacture, installation and sale of construction machinery equipment.

Changzhou Hyundai Hydraulic Machinery Co., Ltd. ("CHHM") was incorporated in China in 2007 and engages in the manufacture and sale of hydraulic cylinders for excavators.

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

(a) Basis of Presenting Financial Statements

The Company prepares the consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the adoption of changes to Statements of Korean Accounting Standards ("SKAS") No.5 *Property, Plant and Equipment*, 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 consolidated financial statements.

The Company stated the consolidated statements of financial position and consolidated statements of income, cash flows and changes in shareholders' equity, which are presented for comparative purposes, in accordance with SKAS No. 25.

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

The investment account of the Company and corresponding equity accounts of subsidiaries are eliminated at the dates the Company obtained control over the subsidiaries. The difference between the investment cost and the fair value of the Company's portion of assets acquired less liabilities assumed of a subsidiary is accounted for as goodwill or negative goodwill. Goodwill is amortized on a straight-line basis over its useful life, not exceeding twenty years. The amount of negative goodwill not exceeding the total fair value of acquired identifiable non-monetary assets is recognized as income on a straight-line basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and the amount of negative goodwill in excess of the total fair value of the acquired identifiable non-monetary assets is recognized as current operation at the date of acquisition.

When the shareholders' equity of the subsidiary after the date of acquisition of control over a subsidiary is changed due to a reduction in capital stock, increase in capital stock and others, the minority interest is calculated on the basis of the changed shareholders' equity of the subsidiary.

In a merger between the Company and its subsidiary or between subsidiaries, the carrying amounts in the consolidated financial statements are transferred.

Inter-company receivables, payables, revenues and expenses arising from transactions between the Company and its subsidiaries or among subsidiaries are eliminated against each other in the consolidated financial statements. On sales from the Company to its subsidiaries (downstream sales), the full amounts of unrealized gains or loss are eliminated in the consolidated income. On sales from a subsidiary to the Company (upstream sales), unrealized gains and losses are eliminated and allocated proportionately between controlling and minority interests.

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

(a) Basis of Presenting Financial Statements, Continued

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

Assets and liabilities of the overseas subsidiaries have been translated at the exchange rate in effect at the end of the fiscal year and equity accounts have been translated at historical rates. Revenues, expenses, gains and losses have been translated at the weighted average rate for the year. Translation adjustments from the translation have been accounted for as a separate component of equity, "accumulated other comprehensive income (loss)," in the consolidated financial statements.

The accounting methods adopted by the Company and its subsidiaries for similar transactions and circumstances are generally the same. However, if the differences resulting from applying different accounting methods are not significant, such different methods are applied.

As of December 31, 2009, we audited the consolidated financial statements of Hyundai Samho Heavy Industries and overseas subsidiaries in China. In addition, the 2009 consolidated financial statements are prepared based on the financial statements of domestic subsidiaries (HI Investment & Securities Co., Ltd., HI Asset Management Co., Ltd., Hyundai Futures Corporation) that have different fiscal year end, which were not audited by an external auditor. The rest of the Company's subsidiaries were audited by other auditors.

(b) 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 result, the timing of revenue recognition of which the Company reports may differ materially from the timing of actual contract payments received. 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.

In addition, in the case of the overseas futures contract, HFTC recognizes revenue at the date of contracting future trade agreement, while in the case of domestic futures contracts; HFTC recognizes revenue at the following date of domestic future trade agreement.

(c) 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 Consolidated Financial Statements

December 31, 2009 and 2008

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

(d) 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.

(e) 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.

(f) Investments in Securities (Excluding Investments in Associates and Subsidiaries)

Classification

Upon acquisition, the Company classifies debt and equity securities (excluding investments in subsidiaries and associates) into the following categories: held-to-maturity, available-for-sale or trading securities. This classification is reassessed at each end of the 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. In accordance with revised SKAS No. 8 *Investments in Securities* which went into effect on July 1, 2008 and which permits the reclassification of assets held for sale to either the held-to-maturity or available-for-sales categories in rare circumstances, the Company reclassified trading securities as held to maturity (or available for sales securities).

Initial recognition

Investments in securities (excluding investments in subsidiaries and associates) 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.

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

(f) Investments in Securities (Excluding Investments in Associates and Subsidiaries), 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

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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.

(g) 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. 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.

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

(g) Investments in Associates and Subsidiaries, Continued

When applying the equity method by translating the financial statements of an investee operating overseas, 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

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comprehensive income.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost. 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.

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	7 ~ 50
Machinery and equipment	3.3 ~ 20
Ships	12
Vehicles	4~10
Tools, furniture and fixtures	3~10
Heavy machinery	10
Others	3 ~ 40

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 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.

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

(i) Lease Transactions

The Company classifies and accounts for leases as either operating or finance, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

With regard to the finance lease, the Company recognized the same amount of net lease investment as lease payment receivables and the difference between net lease investment and book value of the lease assets is recorded as gain or loss on disposition of leased assets. In addition, the Company recognized interest income by the effective interest method.

With regard to the operating lease, the Company recognized lease revenue on a straight-line basis over the period of the lease and any initial direct costs of the operating lease are recognized as a separate asset. In addition, the lease asset is depreciated with the same depreciation method of the property which the Company possesses.

(j) Government Grant Received for Capital Expenditure

Government grant received from third parties for capital expenditure are presented as a reduction of the acquisition cost of the acquired assets and, accordingly, reduce depreciation expense related to the acquired assets over their useful lives.

Income from grants that do not require the Company to fulfill any subsequent obligations and is directly related to the Company's operating activities is recognized as operating income, net of related costs. Other income from grants is recognized as other income.

(k) 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.

	<u>Service lives (years)</u>
Development costs	5
Land appropriation	50
Goodwill	20
Other intangible assets	5 ~ 50

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. Land appropriation is generated from CHCM, HJCM, YHMHI and HHIC. Other intangible assets consist of usage right for donated properties, harbor facility management rights, industrial complex facility management rights, right to use a water supply facility and others.

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

December 31, 2009 and 2008

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

(k) Intangible Assets, Continued

If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of an intangible asset is reduced to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess is recorded as reversal of impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

(l) 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.

(m) 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 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.

(n) 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.

(o) 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.

(p) 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.

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

December 31, 2009 and 2008

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

(q) Retirement and Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company and its domestic subsidiaries, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩ 1,536,034 million and ₩ 1,577,711 million as of December 31, 2009 and 2008, respectively (See Note 16).

Accrued severance benefits are funded approximately 79.90% and 81.30% 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 severance insurance deposits for these insurance plans is deducted from accrued severance benefits. However, some overseas consolidated subsidiaries expense severance insurance paid according to local regulation.

HVIC and HYMS operate defined benefit plans and recognize accrued severance benefits for employees in service and accrued pension liabilities for retired employees who chose to receive pensions, respectively. Retirement annuity asset is deducted from liabilities above. But, if retirement annuity asset is over liabilities above, the excess amount is recognized as investment assets.

(r) 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 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.

(s) 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.

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

December 31, 2009 and 2008

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

(s) Derivative Instruments, Continued

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 hedge 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

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.

(t) Venture Investment Assets

According to the provision for small and medium enterprises on foundation support, venture investments companies (HVIC and HIF 1) must invest more than 20%, 30% and 50% of paid capital within one, two and three years, respectively, from registration date or the date of capital increase of small and medium enterprises.

The Company and its subsidiaries hold equity securities, debt securities, project investment and others as venture investment assets, and the accounting policy is as follows:

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

December 31, 2009 and 2008

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

(t) Venture Investment Assets, Continued

Equity securities other than those accounted for using the equity method:

Unlisted equity securities are valued at fair value and the difference between their fair value and book value is accounted as unrealized gains or losses on valuation of available-for-sales included in accumulated other comprehensive income (loss). Listed equity security is recognized at market price from the closing date of consolidated statements of financial position, while unmarketable security is valued based on acquisition cost except those that can be reliably measured. In the case the recoverable amount from equity securities is less than acquisition cost of security, which can be objectively proven, unless there is clear counter evidences the impairment in unnecessary, the difference is recognized as impairment loss in current operations.

Investment accounted for using the equity method:

Equity securities held for investment in companies in which the Company and its subsidiaries are able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. Under the equity method, the change in the Company and its subsidiaries' portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company and its subsidiaries' net income (loss), retained earnings, capital surplus and accumulated other comprehensive income (loss), 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 and accumulated other comprehensive income (loss).

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 are as follows:

(In millions of Won)

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	₩ -	11,193
Short and long-term financial instruments	214,986	481,531
	<u>₩ 214,986</u>	<u>492,724</u>

4. Inventories

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

(In millions of Won)

	<u>2009</u>	<u>2008</u>
Merchandise	₩ 130,063	219,812
Finished goods	262,632	352,067
Work-in-progress	777,357	710,306
Raw materials	853,037	1,639,819
Supplies	17,051	22,133
Materials-in-transit	583,228	589,282
	<u>₩ 2,623,368</u>	<u>3,533,419</u>

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5. Short-Term Investment Securities

Short-term investment securities as of December 31, 2009 are summarized as follows:

<i>(In millions of Won)</i>		Trading securities	Available-for- sale securities	Total
Government bonds	₩	350,205	1,028	351,233
Corporate bonds		361,926	31,010	392,936
Listed securities		5,507	-	5,507
Beneficiary certificate		13,582	2,943	16,525
Private equity fund		-	30,148	30,148
	₩	<u>731,220</u>	<u>65,129</u>	<u>796,349</u>

Short-term investment securities as of December 31, 2008 are summarized as follows:

<i>(In millions of Won)</i>		Trading securities	Available-for- sale securities	Held-to-maturity securities	Total
Government bonds	₩	421,995	-	3,461	425,456
Corporate bonds		-	41,402	-	41,402
Listed securities		4,294	-	-	4,294
Beneficiary certificate		4,261	108,176	-	112,437
Private equity fund		-	40,501	-	40,501
	₩	<u>430,550</u>	<u>190,079</u>	<u>3,461</u>	<u>624,090</u>

The Company and its subsidiaries have accounted for gain on valuation of available-for-sale securities, which is reported as gain on valuation of investment securities in accumulated other comprehensive income, amounting to ₩ 113 million and ₩ (5,953) million, including portions of minority interests, respectively, as of December 31, 2009 and 2008.

6. Other Current Assets

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

<i>(In millions of Won)</i>		2009	2008
Short-term loans	₩	253,639	169,876
Prepaid expenses		431,930	548,458
Other current deposits		31,249	3,387
Other current assets		36,357	310
Income tax refund receivables		1	2,375
Prepaid value added tax		44,791	59,075
	₩	<u>797,967</u>	<u>783,481</u>

7. Long-Term Investment Securities

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

<i>(In millions of Won)</i>		2009	2008
Marketable securities	₩	3,071,779	1,631,372
Non-marketable securities		86,025	115,117
Debt securities		178,477	54,909
	₩	<u>3,336,281</u>	<u>1,801,398</u>

7. Long-Term Investment Securities, Continued

Hyundai Heavy Industries Co., Ltd.
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- (b) Equity securities stated at fair value included in long-term investment securities as of December 31, 2009 and 2008 consist of the following:

(In millions of Won, except percentage of ownership)

	Percentage of ownership		2009		2008
			Acquisition cost	Fair value	Fair value
Listed equity securities:					
KCC Corporation	12.83 %	₩	268,497	445,800	345,001
POSCO (*8)	3.13 %		1,075,221	1,347,240	828,400
Kia Motors Corp.	0.02 %		2,682	1,769	578
Tong Yang Investment Bank	3.39 %		99,828	47,841	24,120
Mirae Asset Securities Co., Ltd.	0.1 %		6,654	2,728	2,921
SK Broadband Corp.	-		-	-	7
Hyundai Elevator Co., Ltd.	2.16 %		1,632	8,933	10,011
Hyundai Motor Company (*5)	4.69 %		705,772	1,194,079	389,803
Hyundai Corp. (*6)	-		-	-	1,163
Korea Line Co., Ltd.	2.71 %		55,131	12,804	20,611
KJ Pretech Co., Ltd.	-		-	-	188
Hyundai Construction Co., Ltd.	-		-	-	3,018
Dong-yang Chem Co., Ltd.	-		-	-	2,970
Samsung C&T Corp.	-		-	-	2,581
Hae Duk Rudder & R. Stock Co., Ltd.	1.23 %		900	1,069	-
Melfas Inc.	0.93 %		1,130	3,342	-
Korea Environment Technology Co., Ltd. (*7)	10.88 %		2,733	6,174	-
		₩	2,220,180	3,071,779	1,631,372

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

(In millions of Won, except percentage of ownership)

(In millions of Won, except percentage of ownership)		2009		2008
	Percentage of ownership	Acquisition cost	Fair value	Fair value
Unlisted equity securities: (*1)				
Gangwon Football Club. Co., Ltd.	0.01 %	₩ 1	1	1
Keoyang Co., Ltd.	1.39 %	95	-	-
Gamevil Inc.	-	-	-	400
DR Tech Corp.	1.69 %	500	500	500
Digital CNC Co., Ltd.	0.02 %	-	-	-
Mico TN Co., Ltd.	4.88 %	1,000	1,000	1,000
Mipo Engineering Co., Ltd. (*4)	100 %	1,400	1,400	1,400
Aju Hitek Inc.	7.57 %	1,745	1,745	1,745
Piolink, Inc.	4.51 %	178	178	178
Prix Co., Ltd.	2.17 %	67	-	-
The Korea Economic Daily Co., Ltd.	3.25 %	4,050	3,150	3,150
Kuk Dong Heavy Conveyance Co., Ltd.	7.5 %	502	502	502
Novelis Korea Ltd.	0.42 %	16,881	1,405	1,405
Haeduk Rudder & R.Stock Co., Ltd	-	-	-	900
Enuri.Com Co., Ltd.	6.37 %	3,000	3,000	3,000

7. Long-Term Investment Securities, Continued

(In millions of Won, except percentage of ownership)

Percentage of ownership	2009		2008
	Acquisition cost	Fair value	Fair value

Hyundai Heavy Industries Co., Ltd.
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Unlisted equity securities: (*1)

Excion Co., Ltd.	-	₩	-	-	395
New Gene Co., Ltd.	7.52 %		23	23	23
Daehan Oil Pipeline Corp.(*2)	6.39 %		14,512	14,512	30,051
Dong-A Precision Machinery Co., Ltd.	0.01 %		36	-	-
Doosan Capital Co., Ltd.(*3)	9.99 %		10,000	24,762	24,378
Bexco, Ltd.	7.96 %		9,460	9,460	9,460
Chonggu Co., Ltd.	-		188	-	-
Hanchem Co., Ltd.	-		-	-	87
Hyndai Research Institute	14.4 %		1,440	1,440	1,440
Postec Electronic Power Fund Co.	1.75 %		500	500	500
Hanwha Electric Venture Fund.	2 %		500	500	500
Hyundai Climate Control Co., Ltd.	10 %		50	50	50
Enova System Inc.	1.43 %		1,315	1,315	1,315
PT. Golden Hyundai Machinery (*4)	20.83 %		155	155	155
HHI MAURITIUS LIMITED (*4)	100 %		-	-	-
Hynix Semiconductor America Inc.	1.33 %		34,526	-	-
Hyundai Heavy Industries France SAS(*4)	100 %		23	23	23
Hyundai (Malaysia) SDN BHD (*4)	100 %		17	-	-
Hyundai S/V Indonesia(*4)	45 %		262	-	-
Hyundai Technologies Center Hungary Kft.(*4)	100 %		26	26	26
Hyundai-Enova Innovative Technical Center Inc.	-		-	-	3,360
KC Karpovsky BV	10 %		2	2	2
Korea Ship Finance Co., Ltd.	3.54 %		300	300	300
NIKORMA-TRANSPORT LIMITED	11.5 %		11	11	11
PHECO Inc.(*4)	100 %		2,304	237	237
Korea Exchange (KRX)	-		3,000	9,957	9,522
Korea Securities Depository	-		-	-	39
Korea Securities Finance Corp.	-		-	-	452
Korim Co., Ltd.	0.09 %		761	761	-
			<u>108,830</u>	<u>76,915</u>	<u>96,507</u>
Other					
Beneficiary certificate (securities)			205	1,774	12,430
Investments in capital (*1)			<u>7,336</u>	<u>7,336</u>	<u>6,180</u>
			<u>7,541</u>	<u>9,110</u>	<u>18,610</u>
		₩	<u>116,371</u>	<u>86,025</u>	<u>115,117</u>

(*1) The book value of unlisted equity security was recorded at their acquisition cost because the fair value cannot be estimated reliably.

(*2) The fair value in prior year was calculated by using the discounted cash flow and imputed market value methods. In current year, the book value was estimated at the acquisition cost considering future cash inflows.

Hyundai Heavy Industries Co., Ltd.
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7. Long-Term Investment Securities, 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 Company deposited 1,000,000 shares to Ulsan District Court for extending the tax payment due and 650,000 shares to Gunsan City Hall for deposit for performance.

(*6) The securities were accounted for using the equity method since the Company has ability to significantly influence financial and operating policy decision resulting from additional acquisition.

(*7) The securities were accounted for the fair value method since its ownership percentage is under 20% and it has not ability to significantly influence financial and operating policy decision.

(*8) HSHI and HMD provided 170,000 shares of POSCO for the collateral of tax payment.

(d) Debt securities as of December 31, 2009 and 2008, included in long-term investment securities, are as follows:

(In millions of Won)

		2009		2008	
		Acquisition cost	Fair value	Acquisition cost	Fair value
Government and municipal bonds	₩	2,501	2,498	3,461	3,458
Corporate bonds		69,787	175,978	56,003	51,451
Others		1	1	-	-
	₩	<u>72,289</u>	<u>178,477</u>	<u>59,464</u>	<u>54,909</u>

Maturities of debt securities as of December 31, 2009, included in long-term investment securities, are as follows:

	Korean won (in millions)
2011.01 ~ 2014.12	₩ <u>178,477</u>

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7. Long-Term Investment Securities, 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, 2009, is as follows:

(In millions of Won)

		2009	
		Balance at January 1, 2009	Balance at December 31, 2009
		Increase (decrease)	
KCC Corporation	₩	59,673	177,303
POSCO		(192,521)	272,018
Kia Motors Corp.		(1,641)	712
Tong Yang Investment Bank		(59,052)	3,527
Mirae Asset Securities Co., Ltd.		(2,912)	3,063
SK Broadband Corp.		(6,194)	-
Hyundai Elevator Co., Ltd.		6,536	5,694
Hyundai Motor Company		(246,456)	400,138
Hyundai Corp.		(7,850)	-
Daehan Oil Pipeline Corp.		12,120	-
Doosan Capital Co., Ltd.		11,215	11,514
Korea Line Co., Ltd.		-	33,015
Korea Environment Technology Co., Ltd.		-	1,369
Beneficiary certificate (securities) and government and municipal bonds		-	43,956
Others		(8,575)	(3,182)
	₩	(435,657)	949,127

- (f) 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, is as follows:

(In millions of Won)

		2008	
		Balance at January 1, 2008	Balance at December 31, 2008
		Increase (decrease)	
KCC Corporation	₩	263,830	59,673
POSCO		127,727	(192,521)
Kia Motors Corp.		(1,298)	(1,641)
Tong Yang Investment Bank		(20,881)	(59,052)
Mirae Asset Securities Co., Ltd.		160	(2,912)
SK Broadband Corp.		(5,754)	(6,194)
Hyundai Elevator Co., Ltd.		13,890	6,536
Hyundai Motor Company		585	(246,456)
Hyundai Corp.		(6,819)	(7,850)
Daehan Oil Pipeline Corp.		971	12,120
Doosan Capital Co., Ltd.		11,706	11,215
Others		(2,492)	(8,575)
	₩	381,625	(435,657)

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8. Venture Investment Asset

Venture investment assets as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009	2008
Available-for-sale securities	₩ 10,089	16,687
Equity method accounted investments in partnership	3,715	-
	₩ 13,804	16,687

9. Equity Method Accounted Investments (Including Equity Method Accounted Investments in Partnership)

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

(In millions of Won)

Company	2009			
	Number of shares	Percentage of ownership	Historical cost	Book value
Equity Method Accounted Investments:				
Hyundai Oilbank	51,773,834	21.13 %	₩ 312,250	373,657
New Korea Country Club	16,457	20.00 %	500	4,045
Hyundai Merchant Marine Co., Ltd. (Common stock) (*2)	33,903,211	25.47 %	584,794	516,221
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*2)	5,089,943	25.45 %	76,349	87,234
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*1)	-	20.00 %	67,658	128,358
Wartsila Hyundai Engine Company Ltd. (*1)	-	50.00 %	33,930	40,496
Ulsan Hyundai Football Club Co., Ltd.	2,000,000	100.00 %	10,000	913
KAM Cop.	23,520,000	49.00 %	117,600	117,668
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00 %	1,016	1,045
Komas Corp.	754,414	100.00 %	3,772	1,635
Hotel Hyundai Co., Ltd.	80,000	100.00 %	1,397	1,807
Khorol Zerno Ltd. (*1)	-	67.60 %	5,547	5,381
Khorol Agro Ltd. (*1)	-	49.99 %	2,336	2,196
Hyundai Corporation (*3)	4,992,782	22.36 %	105,134	105,134
Taebaek Wind Power Co., Ltd.	703,500	35.00 %	3,518	3,483
			₩ 1,325,801	1,389,273
Equity method accounted investments in partnership:				
HVIC IT Fund 3 rd	55	55.00 %	3,729	3,715
			₩ 1,329,530	1,392,988

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

(*2) 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. Preferred stocks of Hyundai Merchant Marine Co., Ltd. were unlisted equity securities.

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9. Equity Method Accounted Investments (including Equity Method Accounted Investments in Partnership), Continued

(*3) The closing common stock price of Hyundai Corporation on the stock market of the Republic of Korea was ₩ 21,100 per share at December 31, 2009.

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

Company	2008			
	Number of shares	Percentage of ownership	Historical cost	Book value
Equity Method Accounted Investments:				
Hyundai Oilbank (*1)	48,700,540	19.87 %	₩ 266,150	289,761
Incheon Airport Energy	3,284,884	31.00 %	16,424	-
New Korea Country Club	16,457	20.00 %	500	3,613
Koentec Co., Ltd. (*2)	5,440,000	10.88 %	9,493	6,773
Hyundai Merchant Marine Co., Ltd. (Common stock)	33,903,211	25.48 %	584,793	695,714
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	5,089,943	25.45 %	76,349	85,160
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00 %	67,658	164,661
Hyundai Financial Leasing Co., Ltd. (*3)	-	80.03 %	22,649	32,067
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00 %	33,930	32,894
KAM Cop.	8,330,000	49.00 %	41,650	42,482
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00 %	1,017	1,261
Komas Corp.	754,414	100.00 %	3,772	1,460
			₩ 1,124,385	1,355,846

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

(*2) Since the ownership's percentage of the Company is under 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.

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

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9. Equity Method Accounted Investments (including Equity Method Accounted Investments in Partnership), Continued

(c) Changes in goodwill for equity method accounted investments for the years ended December 31, 2009 are as follows:

Company	2009			
	Balance at Jan. 1, 2009	Increase (decrease)	Amortized amount	Balance at Dec. 31, 2009
Hyundai Oilbank	₩ -	25,429	-	25,429
Koentec Co., Ltd.	992	(992)	-	-
Hyundai Merchant Marine Co., Ltd. (Common stock)	52,780	-	(23,459)	29,321
Qinhuangdao Shouqin Metal Materials Co., Ltd.	8,525	-	(2,843)	5,682
Hotel Hyundai Co., Ltd.	-	395	(79)	316
Khorol Zerno Ltd.	-	1,269	(83)	1,186
Khorol Agro Ltd.	-	785	(63)	722
Hyundai Corporation	-	72,335	-	72,335
₩	62,297	99,221	(26,527)	134,991

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

Company	2009				
	Balance at January 1, 2009	Net income (loss)	Acquisition (disposal)	Other increase (decrease)	Balance at December 31, 2009
Equity Method Accounted Investments:					
Hyundai Oilbank	₩ 289,761	44,499	46,099	(6,702)	373,657
Incheon Airport Energy(*1)	-	-	-	-	-
New Korea Country Club	3,613	432	-	-	4,045
Koentec Co., Ltd. (*2)	6,773	-	-	(6,773)	-
Hyundai Merchant Marine Co., Ltd. (Common stock)	695,714	(231,867)	-	52,374	516,221
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	85,159	3,148	-	(1,073)	87,234
Qinhuangdao Shouqin Metal Materials Co., Ltd.	164,663	(18,352)	-	(17,953)	128,358
Hyundai Financial Leasing Co., Ltd.(*3)	32,067	-	-	(32,067)	-
Wartsila Hyundai Engine Company Ltd.	32,894	7,602	-	-	40,496
Ulsan Hyundai Football Club Co., Ltd. (*4)	-	(268)	-	1,181	913
KAM Cop.	42,482	(394)	75,950	(370)	117,668
Grand China Hyundai Shipping Company Ltd.	1,260	(136)	-	(79)	1,045
Komas Corp.	1,460	175	-	-	1,635
Hotel Hyundai Co., Ltd.	-	410	1,397	-	1,807
Khorol Zerno Ltd.	-	(80)	5,547	(86)	5,381
Khorol Agro Ltd.	-	(66)	2,336	(74)	2,196
Hyundai Corporation	-	966	104,168	-	105,134
Taeback Wind Power Co., Ltd.	-	(35)	3,518	-	3,483
₩	1,355,846	(193,966)	239,015	(11,622)	1,389,273

9. Equity Method Accounted Investments (Including Equity Method Accounted Investments in Partnership), Continued

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(In millions of Won)

Company	Balance at January 1, 2009	Net income (loss)	Acquisition (disposal)	Other increase (decrease)	Balance at December 31, 2009
Equity method accounted investments in partnership:					
HVIC IT Fund 3 rd	₩ -	(46)	-	3,761	3,715
	₩ 1,355,846	(194,012)	239,015	(7,861)	1,392,988

(*1) Use of the equity method was discontinued in prior year since the value of investments is less than zero due to accumulated deficit. For year ended December 31, 2009, the Company has disposed of the investments.

(*2) The securities classified as equity method accounted investments in prior year are classified as available-for-sale securities in current year.

(*3) The securities classified as equity method accounted investments in prior year are classified as consolidated subsidiaries in current year since the total asset of Hyundai Financial Leasing Co., Ltd. was increased.

(*4) The securities classified as consolidated subsidiaries in prior year are classified as equity method accounted investments in current year since the total asset of Ulsan Hyundai Football Club Co., Ltd. was decreased.

- (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 profits were ₩ 2,147 million and ₩ 2,306 million respectively.
- (f) For the year ended December 31, 2009, the gain (loss) on valuation of investment securities accounted for using the equity method and equity losses on venture fund (COGS) were ₩ 57,232 million, ₩ (251,198) million and ₩ (46) million respectively. In addition, the cumulative effect of the equity method of accounting in accumulated other comprehensive income was ₩ 104,156 million including the changes and negative adjustment of equity in equity method investments of ₩ 104,586 million and ₩ (430) million, respectively.
- (g) Investments in small affiliates and subsidiaries with total assets amounting to less than ₩ 10,000 million as of the prior fiscal year-end are recorded at cost within available-for-sale securities in accordance with SKAS No. 15 *Equity Method of Accounting*, except where the effect of applying the equity method of accounting is material (See Note 6).

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9. Equity Method Accounted Investments (including Equity Method Accounted Investments in Partnership), Continued

(h) Summarized financial information of equity-accounted investments as of and for the year ended December 31, 2009 is 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
New Korea Country Club	24,819	4,593	13,028	2,138
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)
Wartsila 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)
KAM Cop.	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)
Taebaek Wind Power Co., Ltd.	9,950	-	-	(100)
HVIC IT Fund 3 rd	6,848	93	218	(83)

10. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009	2008
Buildings and structures	₩ 5,749,577	4,602,511
Machinery and equipment	3,990,610	3,283,429
Ships	214,628	211,900
Vehicles	61,213	48,637
Tools, furniture and fixtures	1,663,545	1,519,222
	11,679,573	9,665,699
Less : Accumulated depreciation	(4,583,262)	(4,169,708)
Government subsidy	(6,027)	(7,563)
Accumulated impairment loss	(5,171)	(5,530)
	7,085,113	5,482,898
Land	3,413,227	2,084,054
Construction-in-progress	545,773	1,335,551
	₩ 11,044,113	8,902,503

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10. Property, Plant and Equipment, Continued

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

(In millions of Won)

		2009					
		Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩	2,084,054	3,192,242	1,410,270	3,283,429	3,112,309	13,082,304
Acquisition and other		95,751	542,031	666,582	881,567	(578,435)	1,607,496
Disposal		(2,850)	(33,428)	(729)	(154,560)	(40,086)	(231,653)
Revaluation		1,236,485	-	-	-	-	1,236,485
Effect of change in foreign currency exchange rate		(213)	(25,459)	(896)	(14,834)	(7,950)	(49,352)
Effect of change in consolidated subsidiaries		-	(672)	(365)	(4,992)	(678)	(6,707)
End of period		3,413,227	3,674,714	2,074,862	3,990,610	2,485,160	15,638,573
Depreciation - current portion		-	92,688	45,859	258,941	184,466	581,954
Accumulated depreciation		-	(649,909)	(320,833)	(2,300,066)	(1,312,454)	(4,583,262)
Government subsidy		-	(5,459)	-	-	(568)	(6,027)
Accumulated impairment loss		-	(5,171)	-	-	-	(5,171)
Book value	₩	3,413,227	3,014,175	1,754,029	1,690,544	1,172,138	11,044,113

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

(In millions of Won)

		2008					
		Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩	1,840,177	2,585,768	1,159,926	2,783,631	2,077,311	10,446,813
Acquisition and other		209,691	147,134	35,500	384,539	2,323,195	3,100,059
Disposal		(120,405)	(69,123)	(15,831)	(174,752)	(658,080)	(1,038,191)
Effect of change in foreign currency exchange rate		35,345	509,005	224,613	246,244	(664,350)	350,857
Effect of change in consolidated subsidiaries		119,246	19,458	6,062	43,767	37,233	225,766
End of period		2,084,054	3,192,242	1,410,270	3,283,429	3,115,309	13,085,304
Depreciation - current portion		-	69,368	29,788	258,122	139,423	496,701
Accumulated depreciation		-	(616,285)	(274,097)	(2,133,269)	(1,146,057)	(4,169,708)
Government subsidy		-	(6,918)	-	-	(645)	(7,563)
Accumulated impairment loss		-	(5,171)	-	(359)	-	(5,530)
Book value	₩	2,084,054	2,563,868	1,136,173	1,149,801	1,968,607	8,902,503

(d) As of December 31, 2009 and 2008, the value of land owned by the Company is ₩ 1,912,639 million and ₩ 1,807,277 million, respectively, as announced by the Korean government.

Hyundai Heavy Industries Co., Ltd.
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10. Property, Plant and Equipment, Continued

(e) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩ 4,309,189 million as of December 31, 2009. The Company maintains insurance coverage against fire and other casualty losses of up to ₩ 20,108,425 million for ships and sea structures under construction and the insurance proceed of ₩ 268,314 million is 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 ₩ 7,173,365 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.

(f) The land and buildings of HSHI are pledged as collateral for Kookmin Bank loans up to ₩ 58,106 million as of December 31, 2009.

(g) For the year ended December 31, 2009, construction in progress consists of Ihwa Industrial Estate and the Gunsan Shipbuilding Yard dormitory.

11. Intangible Assets

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

(In millions of Won)

Company	2009			
	Goodwill(*)	Development costs	Land usage right	Other
Beginning balance	₩ 598,120	249,656	7,830	47,631
Acquisition and other	-	74,627	1,949	26,613
Amortized	(33,515)	(46,833)	(198)	(10,759)
Disposal and renewal	-	-	(935)	(2,240)
Impairment losses	-	-	-	-
Effect of change in foreign currency rate	-	(1,906)	(999)	473
Effect of change in consolidated subsidiaries	-	-	-	575
Ending balance	₩ 564,605	275,544	7,647	62,293

(In millions of Won)

Company	2008			
	Goodwill(*)	Development costs	Land usage right	Other
Beginning balance	₩ 13,945	219,402	5,244	43,164
Acquisition and other	593,031	72,968	6,432	9,022
Amortized	(8,098)	(44,028)	(754)	(8,348)
Disposal and renewal	-	-	(268)	(1,312)
Impairment losses	-	-	-	-
Effect of change in foreign currency rate	(758)	523	(2,824)	5,105
Effect of change in consolidated subsidiaries	-	791	-	-
Ending balance	₩ 598,120	249,656	7,830	47,631

Hyundai Heavy Industries Co., Ltd.
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11. Intangible Assets, Continued

(*) The goodwill occurred when Hyundai Samho Heavy Industry Co., Ltd. and Hyundai Mipo Dockyard Co. Ltd. which are subsidiaries of the Company, acquired Halla Heavy Industry Co., Ltd. and HI Investment & Securities Co., Ltd., respectively and has been amortized for 20 years.

(b) Research costs amounting to ₩ 22,117 million and ₩ 23,633 million, and ordinary development costs amounting to ₩ 77,502 million and ₩ 79,638 million are included in selling and administrative expenses for the years ended December 31, 2009 and 2008, respectively. The amortized development costs of ₩ 91,305 million and ₩ 61,228 million are included in the cost of sales and selling and administration expenses for the years ended December 31, 2009 and 2008, respectively.

12. Other Non-Current Assets

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

<i>(In millions of Won)</i>		<u>2009</u>	<u>2008</u>
Long-term loans	₩	20,170	9,323
Guarantee deposits		111,065	102,802
Other non-current assets		140,679	112,608
	₩	<u>271,914</u>	<u>224,733</u>

13. Short-Term Borrowings

Short-term borrowings except for bonds sold under repurchase agreements of the Company as of December 31, 2009 and 2008 are as follows:

<i>(In millions of Won)</i>	<u>Interest rate as of December 31, 2009</u>		<u>2009</u>	<u>2008</u>
The Company and its domestic subsidiaries' borrowings:				
Won short-term borrowings	7.39~5.84 %	₩	301,282	20,000
Network loan	4.02~4.77 %		460,196	-
Mutual loan guarantees	4.86~4.94 %		103,119	-
Draft trade debt	3.1 %		20,000	-
Securities finance loans	4.01 %		30,000	-
CP	4.32~4.6 %		278,600	-
USANCE	1.66~2.98 %		45,931	-
Call money	2.1 %		111,400	111,900
Securities capital currency loan	6.50~7.50 %		18,848	15,112
Repurchase agreements sales	-		602,460	455,645
			<u>1,971,836</u>	<u>602,657</u>
Overseas subsidiaries' borrowings:				
Foreign short-term borrowings	2.00~5.31 %		304,247	334,196
		₩	<u>2,276,083</u>	<u>936,853</u>

Hyundai Heavy Industries Co., Ltd.
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14. Other Current Liabilities

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

<i>(In millions of Won)</i>		2009	2008
Accrued expenses	₩	582,999	693,059
Withholdings		496,099	332,944
Provision for constructions losses		15,305	140,086
Other current liabilities		71,017	9,128
	₩	<u>1,165,420</u>	<u>1,175,217</u>

15. Debentures and Long-Term Borrowings

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

(In millions of Won)

	Maturity	Annual interest rate		2009	2008
112th Non-guaranteed debenture	2012.04.13	5.43 %	₩	300,000	-
Current portion				-	-
			₩	<u>300,000</u>	<u>-</u>

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

(In millions of Won)

	Interest rate as of December 31, 2009		2009	2008
National Housing Fund	3.00 %	₩	48,993	51,256
General fund for equipment	5.11~8.00 %		152,574	72,574
Business loans from Korea National Oil Corporation	2.25 %		5,167	3,315
CP	4.43~4.91 %		265,300	-
Foreign long-term borrowings	2.00~6.80 %		263,144	125,234
			735,178	252,379
Current portion			(103,494)	(44,471)
		₩	<u>631,684</u>	<u>207,908</u>

Certain financial instruments, property, plant and equipment are pledged as collateral for the above long-term borrowings (See Notes 10).

(c) The maturities of debentures and long-term debt as of December 31, 2009, before discounts, are as follows:

(In millions of Won)

	2009
2010. 1. 1 ~ 2010. 12. 31	₩ 103,494
2011. 1. 1 ~ 2011. 12. 31	407,087
2012. 1. 1 ~ 2012. 12. 31	311,675
2013. 1. 1 ~ 2013. 12. 31	53,629
2014. 1. 1 thereafter	154,126
	₩ <u>1,030,011</u>

15. Debentures and Long-Term Borrowings, Continued

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As of December 31, 2009, the maturities of long-term debt amounting to ₩ 5,167 million are not readily determinable since the long-term debt is paid by installment in event of success in the oil development business.

16. Retirement and Severance Benefits

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

<i>(In millions of Won)</i>	2009	2008
Beginning balance	₩ 1,557,711	1,459,508
Increase due to change of subsidiaries	-	10,173
Retirement and severance payment	(207,089)	(208,482)
Continuation	3,078	4,063
Provisions	182,480	292,449
Effect of change in foreign currency rate	(146)	-
	<u>1,536,034</u>	<u>1,557,711</u>
Less: Retirement and severance insurance	(1,224,031)	(1,263,703)
Retirement annuity asset	(3,367)	(2,620)
National pension	(33,778)	(38,333)
Ending balance	<u>₩ 274,858</u>	<u>253,055</u>

Accrued retirement and severance benefits are funded approximately 79.9% and 81.3% 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 retirement and severance benefits.

17. Other Long-Term Liabilities

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

<i>(In millions of Won)</i>	2009	2008
Withholdings	₩ 121,482	22,109
Provision for constructions warranties	76,252	68,370
Provision for constructions losses	144	44,891
Other non-current liabilities	41,488	56,655
	<u>₩ 239,366</u>	<u>192,025</u>

18. Commitments and Contingencies

- (a) The Company and its subsidiaries have entered into bank overdraft agreements and credit agreements with Korea Exchange Bank and others amounting to ₩ 463,100 million and USD 2,430,410 as of December 31, 2009. In addition, the Company and its subsidiaries have entered into borrowing agreements with the Export-Import Bank of Korea and others amounting to ₩ 1,310,700 million as of December 31, 2009.

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18. Commitments and Contingencies, Continued

- (b) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company and its subsidiaries, the Company and its subsidiaries have provided 14 blank checks and notes as of December 31, 2009.
- (c) 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.
- (d) 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 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 HSHI for the construction of 11 ships (Contract amount: USD 1,439,211 thousand).
- (e) In connection with the contract performance guarantees, refund guarantees, bid guarantees and raw materials purchase, the Company and its subsidiaries provided with guarantees up to ₩ 954,946 million and USD 21,773,666 thousand by various banking facilities. Concerning to this, the subsidiary, HSHI provided ships under construction for guarantees to transfer. Also, the subsidiaries, HSHI and HMD have been provided with guarantees up to ₩ 33,634 million by Seoul Guarantee Insurance Company.
- (f) The subsidiary, HMD provided guarantees up to ₩ 39,115 million for HVS to the Export-Import Bank of Korea.
- (g) As the subsidiary, HSHI agreed to wage negotiation, it gave in trust 161,078 shares of stock of Hyundai Mipo Dockyard Co., Ltd. to Korea Exchange Bank in other to support the purchase of treasury stock in the future. The period is from November, 2009 and August, 2013 and withdrawal is limited during that period. (It is available to withdraw in case of the retirement of employees.)
- (h) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales and the payment of imported raw-materials, the Company, HMD and HSHI have entered into currency forward contracts with various banks including Korea Exchange Bank. As of December 31, 2009, the Company and its subsidiaries apply cash flow hedge accounting, out of which the Company and its subsidiaries 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 foreign exchange forward contracts in accumulated other comprehensive income. The expected period of exposure on cash flow risk, where cash flow hedging 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 Company entered into foreign exchange forward contracts and accounted for such contracts as fair value hedge. As a result, net balance of firm commitment assets and liabilities were ₩ (2,614,635) million and related gain and loss on valuation of the firm commitments were recorded as ₩ 515,229 million and ₩ 1,278,945 million, respectively, in non-operating income and expenses.

Besides the above financial derivatives, realized gain and loss on derivatives transactions were recorded as ₩ 337,979 million and ₩ 1,057,972 million and unrealized gain and loss on derivatives valuations were recorded as ₩ 1,089,273 million and ₩ 222,245 million, respectively in non-operating income and expenses. In relation to valuation of derivatives that are not reached to maturity dates, the Company accounted for derivative assets of ₩ 294,068 million and derivative liabilities of ₩ 3,235,009 million.

19. 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 USD 16.96 per share, if CIBC exercised its option. Based

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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 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 to a High Court for claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advanced 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 the litigation for additional settlement of incidental expense claim amounting to ₩ 50,300 million of principal and accrued interest thereon and recovered ₩ 73,700 million. However, HSI filed an appeal and it is 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 under foreign currency exchange crisis in late 1990's. The National Tax Service concluded this capital increase to be unfair financial support for the insolvent affiliate. The Company appealed judgment by National Tax Tribunal; however, it was dismissed. On April 27, 2009, the Company filed administrative litigation.
- (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.

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19. Litigations, Continued

- (d) Pending litigations of Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries as defendants as of December 31, 2009 are as follows:

(In millions of Won)

Plaintiff	Defendant	Descriptions	Amount of damage claim(*)	Progress
HSHI	Goodmorning Shinhan securities	Claim for bankruptcy dividends	₩ 3,467	HSHI won the first trial; currently under appeal
HSHI	Dhumi Heavy Industry	Deletion of the right to collateral security	₩ 1,377	HSHI won the first trial; currently under appeal

- (*) In relation to the above claim for bankruptcy dividends, after the Company won the first trial, a part of amount of damage claim is received and recognized as withholdings.

- (e) As of December 31, 2009, Hyundai Mipo Dockyard Co., Ltd., one of subsidiaries, is in litigation as a defendant in 3 cases for USD 33,447 thousand. The Company has recognized the probable loss as a provision and the subsidiary, Hyundai Mipo Dockyard Co., Ltd. is of the opinion that the lawsuit will not have a material adverse effect on the Company's financial position.

- (f) As of December 31, 2009, HI Investment & Securities Co., Ltd., one of subsidiaries, is in litigation as a plaintiff in 3 cases for ₩ 1,162 million and as a defendant in 11 cases for ₩ 7,015 million. The Company has recognized the probable loss of ₩ 173 million as a provision and the subsidiary, HI Investment & Securities Co., Ltd. is of the opinion that the lawsuit will not have a material adverse effect on the Company's financial position.

The litigations amounting to more than ₩ 100 million as of December 31, 2009, were as follows.

(In millions of Won)

Date	Plaintiff	Defendant	Description	Amount	Progress
August 12, 2009	OO, Cho and other	HIIS	A claim for the loss due to private transactions with employees.	₩ 2,750	The third trial in progress
October 19, 2009	OO, Hwang	HIIS	A claim for incomplete sale of beneficiary certificate.	295	The second trial in progress
July 7, 2009	OO, Kim and others	HIIS	A claim for incomplete sale of beneficiary certificate.	183	The first trial in progress
August 20, 2009	OO, Shin	HIIS	A claim for incomplete sale of beneficiary certificate.	496	The first trial in progress
November 3, 2009	OO, Lee	HIIS	A claim for the loss due to private transactions with employees.	3,000	The first trial in progress
April 30, 2009	HIIS	OO Fire Insurance Co., Ltd.	A claim for finance comprehensive insurance.	1,112	The first trial in progress

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20. Capital Surplus

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

(In millions of Won)

	2009	2008
Paid-in capital in excess of par value	₩ 843,324	843,324
Asset revaluation surplus	1,862,725	1,862,725
Other capital surplus	153,382	99,502
	₩ 2,859,431	2,805,551

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.

21. Retained Earnings

Retained earnings as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

	2009	2008
Legal reserves:		
Earned surplus reserve (*1)	₩ 190,000	211,543
Reserve for business development (*2)	30,000	30,000
	220,000	241,543
Voluntary reserves:		
Reserve for business rationalization	87,277	87,277
Reserve for research and human development (*3)	223,333	230,000
Reserve for investment for facilities (*3)	78,270	78,270
Others	3,748,576	1,763,368
	4,137,456	2,158,915
Retained earning before appropriations	2,197,886	2,272,640
	₩ 6,555,342	4,673,098

(*1) 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 capital stock or used to offset accumulated deficit, if any, through a resolution of shareholders.

(*2) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.

(*3) 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.

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22. Capital Adjustments

(a) Treasury Stock

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

<i>(In millions of Won)</i>		<u>2009</u>	<u>2008</u>
Treasury stock	₩	(1,463,973)	(1,529,442)
Treasury stock owned by subsidiaries		(103,565)	(103,565)
	₩	<u>(1,567,538)</u>	<u>(1,633,007)</u>

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 disposed amounting to ₩ 392,000 million in 2003. In addition, pursuant to the resolution of the board of directors on September 24, 2009, the Company contributed 687,746 shares to Employee Stock Ownership Association.

(b) Other Capital Adjustments

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

<i>(In millions of Won)</i>		<u>2009</u>	<u>2008</u>
Adjustments to equity in equity method investments	₩	(171,125)	(85,596)

- (c) Hyundai Mipo Dockyard Co., Ltd. had 6,063,000 shares of the Company stock and the acquisition cost amounts to ₩ 236,721 million (fair value: ₩ 1,051,931 million). Among the acquisition cost, the portion of controlling interest amounting to ₩ 103,565 million is recorded as treasury stock in capital adjustments as of December 31, 2009.

23. Dividends

(a) The Company's proposed dividends for 2009 and 2008 are summarized below:

(In millions 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	₩ 2,146,489	9.88%
2008	Common stock	59,933,456	₩ 5,000	100 %	₩ 299,667	₩ 2,256,665	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 prices between 9 days prior to the closing date and 2 days prior to the closing date of shareholders' list.

24. Income Taxes

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

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Taxable income		Tax rate			
Prior to 2008	Thereafter	Prior to 2008	2008	2009	Thereafter
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%.

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

(In millions of Won)

	2009	2008
Current income tax	₩ 574,166	1,107,163
Changes in deferred income taxes due to temporary differences	1,199,485	(727,691)
Changes in deferred income taxes directly adjusted in equity	(1,029,556)	613,732
Income tax expense	744,095	993,204
Income before income tax	3,177,335	3,587,003
Effective income tax rate	23.42%	27.69 %

(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 millions of Won)

Description	2009		2008	
	Beginning	Ending	Beginning	Ending
Equity securities accounted for equity method valuation	₩ (1,510,596)	(1,563,921)	(1,110,779)	(1,510,596)
Available-for-sale securities	1,047,341	(1,744,979)	17,402	1,047,341
Impairment loss of investment securities	74,558	67,960	74,558	74,558
Reserve for research and human development	(223,333)	(448,267)	(230,000)	(223,333)
Provision for doubtful account	159,980	105,043	153,021	159,980
Accrued income	(137,541)	(9,184)	(76,139)	(137,541)
Loss on valuation of receivables	860	-	3,222	860
Accrued severance benefits	115,813	142,732	167,144	115,813
Severance insurance deposits	(102,070)	(121,397)	(167,144)	(102,070)
Impairment loss of long-term investment securities	-	-	3,196	-
Goodwill	(14,500)	(13,141)	(15,859)	(14,500)
Impairment loss valuation of property, plant and equipment	8,344	8,344	5,171	8,344
Provision for foreseeable losses from construction contracts	198,547	31,995	39,930	198,547
Provision for construction warranties	75,590	71,374	59,344	75,590
Land revaluation	-	(1,236,485)	-	-

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24. Income Taxes, Continued

(In millions of Won)

Description	2009		2008	
	Beginning	Ending	Beginning	Ending
Depreciation expenses	₩ 14,704	15,944	12,816	14,704
Derivatives	808,569	(196,029)	61,141	808,569
Gain on settlement of futures	-	(2,757)	-	-
Gain on foreign currency translation	42,398	37,178	-	42,398
Unearned revenues	-	-	(6,978)	-
Dividend income	117,997	154,596	48,398	117,997
Government subsidy	2,516	2,761	12,005	2,516
Others	448,278	(1,080,059)	(436,273)	448,278
Tax loss carried forward	-	91,892	-	-
	1,127,455	(4,447,158)	(1,385,824)	1,127,455
Tax rate (*)	27.50%	22.0% (24.2%)	27.50%	27.50%
Cumulative tax effects	344,271	(896,351)	(383,420)	344,271
Deferred income tax assets (current), end of year		65,652		280,619
Deferred income tax assets (non-current), end of year		39,215		134,268
Deferred income tax liabilities (current), end of year		(16,702)		-
Deferred income tax liabilities (non-current), end of year		(984,516)		(70,616)
Deferred income tax assets, beginning of year		(414,887)		(146,566)
Deferred income tax liabilities, beginning of year		70,616		529,986
Changes in deferred income taxes on temporary differences		1,240,622		(727,691)

(*) Income tax rate applied for the Company and its subsidiaries in Korea was 22.0% (24.2%) excluding 34.0% for HCEUSA and 14.3% for HVIC.

25. Statements of Comprehensive Income

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

(In millions of Won)

	2009	2008
Net income	₩ 2,140,749	2,254,096
Gain (loss) on valuation of short-term and long-term investment securities	873,310	(492,344)
Changes in equity arising on application of the equity method	32,932	65,622
Negative changes in equity arising on application of the equity method	(430)	32,302
Loss on valuation of financial derivatives	352,888	(297,002)
Gain on revaluation of land	964,458	-
Overseas operation translation debit	(15,592)	81,398
Other comprehensive income (loss):	2,207,566	(610,024)
Comprehensive income	₩ 4,348,315	1,644,072

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26. Earnings Per Share

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

Basic earnings per share for the years ended December 31, 2009 and 2008 are calculated as follows:

		<u>2009</u>	<u>2008</u>
Net income (In millions of Won)	₩	2,140,749	2,254,096
Weighted average number of outstanding common shares (In thousands of shares)		54,055	54,372
Earnings per share (In Won)	₩	<u>39,603</u>	<u>41,457</u>

The Company and its subsidiaries didn't issue any kind of dilutive potential ordinary shares. Therefore, basic earnings per share and diluted earnings per share are same.

27. Significant Transactions Between Consolidated Companies and Affiliated Companies

(a) Significant transactions and balances between the Company and subsidiaries (affiliated companies) are as follows:

(In millions of Won)

<u>Selling company</u>	<u>Purchasing company</u>	<u>Sales</u>	<u>Receivables</u>
The Company	HSHI	₩ 686,813	226,965
	HMD	404,431	103,577
	HYMS	11,737	2,028
	HIIS	54	-
	HIAM	2	-
	HCI	20	10
	BHCM	96,743	32,698
	HJCM	249,781	67,687
	HHIC	5,108	3,349
	YHMH	463	-
	CHHM	6,028	1,254
	HHIE	45,662	14,113
	HHIB	718	332
	HCEUSA	48,694	10,443
	HIE	7,213	2,887
	HVS	202	-
	HCEIP	35,827	26,866
	VBC	81	18
	Hyundai Oilbank	21,293	18,834
HSHI	The Company	145,555	7,885
HMD	The Company	16,606	1,320
HYMS	The Company	338,502	47,386
HIIS	The Company	50	-
HCI	The Company	8,031	221
CHCM	The Company	157	-
BHCM	The Company	1,277	190
HJCM	The Company	1,806	356

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27. Significant Transactions Between Consolidated Companies and Affiliated Companies, Continued

(In millions of Won)

<u>Selling company</u>	<u>Purchasing company</u>	<u>Sales</u>	<u>Receivables</u>
HHIC	The Company	16,822	529
YHMH	The Company	50,027	-
CHHM	The Company	2	-
HHIE	The Company	6,620	637
HHIB	The Company	6,166	16
HCEUSA	The Company	2,484	156
HIE	The Company	283	276
HCEIP	The Company	226	61
Hyundai Oilbank	The Company	38,528	142
		<u>₩ 2,254,012</u>	<u>570,236</u>

In addition, the Company has entered into rental agreements (deposits received of ₩ 119 million) with HMD and others as of December 31, 2009. Also, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts including joint construction contracts.

- (b) Significant transactions and balances between subsidiaries and companies accounted for using the equity method are as follows:

(In millions of Won)

<u>Selling company</u>	<u>Purchasing company</u>	<u>Sales</u>	<u>Receivables</u>
HSHI	HMD	₩ 20	1
	HYMS	33	35
HMD	HSHI	35	-
	HYMS	-	38
	HVS	51,886	13,992
HYMS	HSHI	6,511	4,141
	HMD	3,501	2,188
HCI	HSHI	2,417	-
	HMD	1,062	-
	BHCM	105	-
	HJCM	156	-
	HHIC	132	120
	YHMH	1	-
	HFLC	399	203
	CHHM	192	-
CHCM	HCI	588	60
BHCM	HCI	167	13
HJCM	HCI	417	31
HHIC	HCI	-	4
YHMH	HCI	63	8
HFLC	HCI	120	-
CHHM	HCI	30	92
HVS	HMD	246,026	56,715
		<u>₩ 313,861</u>	<u>77,641</u>

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27. Significant Transactions between Consolidated Companies and Affiliated Companies, Continued

(c) Significant payment guarantees between consolidated units in 2009 are as follows:

(In millions of Won)

Details	Guarantor	Guarantee	Amount
Debt guarantee	The Company	HCEUSA	₩ 48,572
		HIE	9,341
		HHIE	88,315
		HCEIP	46,821
		BHCM	7,692
	HMD	HVS	39,115
			₩ 239,856

In addition, the Company has provided certain performance guarantees amounting to USD 519,657 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. (See Note 18).

(d) Compensation for key management in 2009 and 2008 are as follows:

(In millions of Won)

Description	2009	2008
Management salary	1,325	2,790

28. Assets and Liabilities Denominated in Foreign Currencies

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

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

Account	Currency	Foreign currencies (in thousands)			Korean Won (in millions)	
		2009	2008		2009	2008
Assets:						
Cash and cash equivalents	USD	644,308	174,096	₩	752,295	218,925
	EUR	6,081	1,568		10,183	2,785
	Others	-	-		25,393	151,917
Trade accounts and notes receivable	USD	5,156,276	3,294,072		6,020,470	4,142,296
	EUR	141,566	104,122		237,022	184,943
	Others	-	-		50,828	636,202
Accounts receivable - other	USD	75,002	65,857		87,572	82,816
	EUR	152	1,766		254	3,136
	Others	-	-		1,290	25,549
Long-term trade accounts and notes receivable	USD	67,131	66,164		78,382	83,201
Long-term financial instruments and others	USD	57,036	7,965		66,616	10,016
	EUR	49,549	3,079		82,959	5,470
	Others	-	-		1,725	8,080
				₩	7,414,989	5,555,336

28. Assets and Liabilities Denominated in Foreign Currencies, Continued

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

Account	Currency	Foreign currencies (in thousands)			Korean Won (in millions)	
		2009	2008		2009	2008
Liabilities:						
Trade accounts and notes payable	USD	152,751	411,169	₩	178,433	517,046
	EUR	280,287	43,611		376,973	77,463
	Others	-	-		318	116,354
Long-term borrowings	USD	4,489	2,929		5,167	3,315
Accounts payable-other and other liabilities	USD	457,123	393,962		533,741	495,407
	EUR	18,868	10,850		31,590	19,272
	Others	-	-		33,514	173,362
				₩	<u>1,159,736</u>	<u>1,402,219</u>

29. Non-Cash Investing and Financing Activities

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

(In millions of Won)

		2009	2008
Transfer of construction-in-progress to plant assets	₩	1,788,079	449,205
Investment in-kind		-	200,527
Gain on revaluation of land (accumulated other comprehensive income)		964,458	-

30. Consolidated Financial Statements by Industry

The consolidated statements of financial position as of December 31, 2009 and 2008, and consolidated statements of income for the years then ended, by industry, under which the Company and its subsidiaries' business are classified, are as follows:

(a) Consolidated statements of financial position as of December 31, 2009 and 2008 are as follows:

(In millions of Won)

(In millions of Won)		Non-financial Industry		Financial Industry	
		2009	2008	2009	2008
Assets					
Current assets	₩	16,514,726	19,682,354	1,324,032	1,085,515
Investments, net of unamortized present value discount		4,533,420	3,022,286	229,395	176,340
Property, plant and equipment, net of accumulated depreciation		11,011,325	8,876,760	32,788	25,744
Intangibles, net of amortization		892,301	902,414	17,788	822
Others		1,357,243	4,520,866	547,163	125,107
Non-current assets		17,794,289	17,322,326	827,134	328,013
Total assets		34,309,015	37,004,680	2,151,166	1,413,528

30. Consolidated Financial Statements by Industry, Continued

(In millions of Won)

Non-financial Industry		Financial Industry	
2009	2008	2009	2008

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Liabilities

Current liabilities	20,419,335	25,914,549	1,275,207	794,331
Non-current liabilities:	3,537,479	4,954,566	219,481	47,151
Total liabilities	<u>₩ 23,956,814</u>	<u>30,869,115</u>	<u>1,494,688</u>	<u>841,482</u>

(b) Consolidated statements of income for the years ended December 31, 2009 and 2008 are as follows:

(In millions of Won)

		Non-financial Industry		Financial Industry	
		2009	2008	2009	2008
Sales	₩	28,825,274	27,158,271	429,108	325,319
Cost of sales		24,515,062	22,699,638	193,057	138,030
Selling and administrative expenses		1,336,080	1,280,727	185,500	183,231
Operating income		2,974,132	3,177,906	50,551	4,058
Other income, net		148,968	394,981	3,684	10,058
Income before income tax		3,123,100	3,572,887	54,235	14,116
Income tax expense		732,452	997,660	11,643	(4,456)
Net income		2,390,648	2,575,227	42,592	18,572
Net income before acquisition of subsidiaries		-	-	-	19,600
Consolidated net income		2,390,648	2,575,227	42,592	(1,028)
Minority interests		283,279	320,410	9,212	(307)
Holding Company		2,107,369	2,254,817	33,380	(721)

(c) The Company and its subsidiaries' industries can be divided into other transportation equipments and others. The status and operation result by industry are as follows:

Industry	Primary products	Affiliated subsidiaries
Other Transportation equipments	Ships, industrial plants and offshore and engineering department	The Company, HSHI, HMD, HYMS, CHCM, BHCM, HJCM, HHIC, YHMHI, CHHM, HHIE, HHIB, HCEUSA, HIE, HVS, HCEIP
Others		HISC and Financial companies, etc.

(d) Results of operations

Results of operations by industries in 2009 are as follows:

(In millions of Won)

		2009			
		Other transportation equipment	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩	31,309,518	452,803	(2,507,939)	29,254,382
Inter-company sales		(2,489,218)	(18,721)	2,507,939	-
Net sales		28,820,300	434,082	-	29,254,382
Operating income		2,996,366	57,463	(29,146)	3,024,683
Total assets		40,227,578	2,334,965	(6,102,362)	36,460,181

30. Consolidated Financial Statements by Industry, Continued

(d) Results of operations, Continued

Results of operations by industries in 2008 are as follows:

(In millions of Won)

2008

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		Other transportation equipment	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩	28,838,424	771,644	(2,126,478)	27,483,590
Inter-company sales		(1,889,731)	(236,747)	2,126,478	-
Net sales		26,948,693	534,897	-	27,483,590
Operating income		3,688,258	(468,184)	(38,110)	3,181,964
Total assets		41,245,748	2,163,665	(4,991,204)	38,418,209

(e) Results of operations by area

Results of operations by area in 2009 are as follows:

(In millions of Won)	2009				
	Domestic	Import	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 4,552,496	26,780,548	429,277	(2,507,939)	29,254,382
Inter-company sales	(1,959,180)	(548,424)	(335)	2,507,939	-
Net sales	2,593,316	26,232,124	428,942	-	29,254,382
Operating income	3,048,401		5,428	(29,146)	3,024,683
Total assets	42,517,950		44,593	(6,102,362)	36,460,181

Results of operations by area in 2008 are as follows:

(In millions of Won)	2008				
	Domestic	Import	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 6,172,099	21,751,350	1,686,619	(2,126,478)	27,483,590
Inter-company sales	(1,144,070)	(877,646)	(104,762)	2,126,478	-
Net sales	5,028,029	20,873,704	1,581,857	-	27,483,590
Operating income	3,090,406		129,668	(38,110)	3,181,964
Total assets	41,632,614		1,776,799	(4,991,204)	38,418,209

(f) Financial information by industry segment of the Company

Results of operations by industry segment in 2009 are as follows:

(In millions of Won)

	2009						
	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 9,002,641	3,423,457	1,897,903	2,771,471	2,712,143	1,190,383	144,199
Operating income(loss)	532,372	462,689	245,456	808,516	453,103	(29,642)	(249,920)
Tangible & intangible assets	2,352,722	577,185	32,824	889,044	625,382	197,625	3,759,200
Depreciation	(150,488)	(53,970)	(4,343)	(75,352)	(36,356)	(20,114)	(59,071)

30. Consolidated Financial Statements by Industry, Continued

Results of operations by industry segment in 2008 are as follows:

(In millions of Won)

	2008						
	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 9,084,857	3,095,132	1,374,442	2,522,060	1,924,489	1,768,563	187,538
Operating	1,066,722	289,031	17,088	613,560	359,682	113,374	(253,284)

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income							
(loss)							
Tangible & intangible assets	2,080,340	579,488	36,789	777,696	385,704	179,427	2,412,807
Depreciation	(130,201)	(47,668)	(5,163)	(65,131)	(30,274)	(17,160)	(51,731)

(g) Financial information by industry segment of HSHI

For the year ended as of December 31, 2009

(In millions of Won)

		<u>Shipbuilding</u>
Sales	₩	4,185,154
Operating income		190,113
Tangible & intangible assets		1,750,536
Depreciation		(92,420)

For the year ended as of December 31, 2008

(In millions of Won)

		<u>Shipbuilding</u>
Sales	₩	3,750,648
Operating income		350,067
Tangible & intangible assets		1,485,295
Depreciation		(71,699)

(h) Financial information by industry segment of HMD

For the year ended as of December 31, 2009:

(In millions of Won)

		<u>Shipbuilding</u>	<u>Construction equipment</u>
Sales	₩	3,636,560	74,404
Operating income		364,734	22,391

For the year ended as of December 31, 2008:

(In millions of Won)

		<u>Shipbuilding</u>	<u>Construction equipment</u>
Sales	₩	3,650,171	154,563
Operating income		494,294	43,401

31. Outstanding Contracts

(a) The Company's outstanding contracts

(In millions of Won)

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

(*) The amount of beginning of the year is recalculated by current year's appropriate exchange rate.

The Company deposited a certain amount of the deposits for the guarantees on outstanding contracts and provided

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performance bonds.

As of December 31, 2009, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

(In millions of Won)

		Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Construction contract receivables not billed
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 on a delivery basis.

(**) The Company recognized estimated loss of ₩ 15,280 million on the construction contracts whose contract costs will exceed contract revenue.

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31. Outstanding Contracts, Continued

(b) Outstanding Contracts of HSHI

(In millions of Won)

		Contract assets
Beginning of the year (*)	₩	16,234,856
Increase during the year		86,055
Recognized as revenue in current operations		(5,706,674)
End of the year		10,614,237

(*) The amount of beginning of the year is recalculated by current year's appropriate exchange rate.

HSHI deposited a certain amount of the deposits for the guarantees on outstanding contracts and provided performance bonds. In addition, the total carrying amounts of provision for construction warranties and provision for construction losses as of December 31, 2009 were ₩ 7,830 million and ₩ 25 million, respectively.

As of December 31, 2009, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

(In millions of Won)

	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable
₩	2,585,883	519,627	2,765,778	1,216,702

(c) Outstanding contracts of HMD

HMD's outstanding contracts before the elimination of transactions between consolidated companies as of December 31, 2009 are summarized as follows:

(In millions of Won)

		Contract assets
Beginning of the year (*)	₩	16,461,943
Increase during the year		(1,432,867)
Recognized as revenue in current operations		(3,710,964)
End of the year		11,318,112

(*) The amount of beginning of the year is recalculated by current year's appropriate exchange rate.

As of December 31, 2009, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

(In millions of Won)

	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Construction contract receivables not billed
₩	4,550,425	5,303,380	1,920,293	711,735	26,988	684,747

32. Selling, General and Administrative Expenses

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

(In millions of Won)

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		2009	2008
Wages	₩	481,206	475,008
Accrual for severance benefits		35,324	45,529
Employee welfare		104,957	101,053
Advertisement		47,670	61,875
Ordinary development expenses (Note 11)		77,502	79,638
Accrual for allowance for doubtful accounts		66,571	19,661
Depreciation (Note 10)		59,142	49,475
Amortization (Notes 11 and 24)		35,263	13,753
Service charges		137,728	122,599
Transportation		63,684	107,602
Sales commission		82,221	64,299
After-service expenses		49,233	57,448
Other		281,079	266,018
	₩	1,521,580	1,463,958

33. 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.

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.

34. Employee Welfare and Contributions to Society

For employee welfare, the Company granted scholarship funds of W 53,785 million for the middle school, high school and college age children of employees and W 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

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provide members of the community and its employees with various art and musical performances.

(In millions of Won)

	2009	2008
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
	₩ 19,111	36,296

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 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 Adoption 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 Koran 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, as in the future other unforeseen differences may appear as a result of future changes. In addition, practical effect of some of the significant differences listed below may not be obtainable.

Area	K-IFRS	Current K-GAAP)
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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	Review of 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	Financial instruments that are valued at acquisition cost after amortization such as account receivables and held-to-maturity are recognized as impairment gain or loss if there is reliable evidence of impairment.	Based on reliable and reasonable standards, estimated bad debt expense is calculated for non-collectable accounts receivable and recognized as allowance for doubtful accounts.