

**HYUNDAI HEAVY INDUSTRIES CO., LTD.**

NON-CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
AND INDEPENDENT AUDITORS' REPORT

# **Independent Auditors' Report**

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. as of December 31, 2007 and 2006, the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, and the non-consolidated statement of changes in shareholders' equity for the years ended December 31, 2007, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2007 and 2006, the results of its operations, changes in its retained earnings and its cash flows for the years then ended, and changes in its shareholders' equity for the years ended December 31, 2007, in conformity with accounting principles generally accepted in the Republic of Korea (Note 2).

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

As discussed in Note 12 to the non-consolidated financial statements, Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") to Canadian Imperial Bank of Commerce ("CIBC") on December 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 on this agreement, the Company was provided with a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") to compensate the Company for any losses incurred in connection with the transaction with CIBC under certain circumstances. On July 24, 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. On January 25, 2002, the Seoul Central District Court decided in favor of the Company and awarded a partial settlement of the claim amounting to ₩172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and also filed additional lawsuit for the advanced payments and related expenses, which are not covered in the prior claim. In relation to the intermediate appeal for a partial settlement of the claim, Seoul High Court decided in favor of the Company and awarded a partial settlement of the intermediate appeal amounting to ₩193 billion of principal and accrued interest thereon on December 14, 2006. As of December 31, 2007, allowance for the balances related to this claim was adjusted in accordance with above settlement and the Company filed an appeal to Supreme Court of Korea. The appeal is in progress as of the date of this report and its ultimate outcome cannot be presently determined. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

February 22, 2008

#### Notice to Readers

This report is effective as of February 22, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

<u>ASSETS</u>	<u>Korean won</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands)	
CURRENT ASSETS:		
Cash and cash equivalents (Note 22)	₩ 953,756,858	₩ 819,920,933
Short-term financial instruments	2,154,137,014	234,137,014
Short-term investment securities (Note 5)	503,388,199	221,788,518
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩70,815,544 thousand in 2007 and ₩80,020,598 thousand in 2006 (Notes 17, 21 and 22)	2,740,673,266	2,445,187,369
Accounts receivable-other, net of allowance for doubtful accounts of ₩268,303,195 thousand in 2007 and ₩291,228,211 thousand in 2006 (Notes 6, 21 and 22)	147,455,116	216,903,840
Inventories (Note 4)	1,119,219,453	1,128,775,840
Advanced payments, net of allowance for doubtful accounts of ₩12,567,027 thousand in 2007 and ₩13,668,291 thousand in 2006	336,144,870	398,635,918
Accrued income	30,528,517	5,558,707
Foreign exchange forward contracts (Note 11)	185,520,620	495,782,386
Deferred income tax assets (Notes 11 and 18)	70,990,353	-
Prepaid expenses and other current assets (Notes 21 and 22)	<u>257,729,822</u>	<u>244,767,722</u>
Total current assets	<u>8,499,544,088</u>	<u>6,211,458,247</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 7 and 23)	4,968,785,355	4,455,129,314
Long-term investment securities (Note 5)	714,663,412	426,736,444
Investment securities accounted for using the equity method (Note 6)	2,248,120,981	1,499,146,077
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩965,609 thousand in 2007 and ₩1,298,456 thousand in 2006 (Notes 11 and 22)	95,595,244	128,547,184
Long-term financial instruments (Notes 3 and 22)	9,003,360	9,112,870
Intangible assets (Notes 8 and 23)	236,048,362	221,517,941
Other non-current assets (Notes 21 and 22)	<u>52,334,857</u>	<u>44,508,801</u>
Total non-current assets	<u>8,324,551,571</u>	<u>6,784,698,631</u>
Total Assets	<u>₩ 16,824,095,659</u>	<u>₩ 12,996,156,878</u>

(Continued)

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2007 AND 2006

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Korean won</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands)	
<b>CURRENT LIABILITIES:</b>		
Current maturities of debentures and long-term borrowings, net of discounts of ₩298,966 thousand in 2007 (Notes 9 and 22)	₩ 187,341,034	₩ 341,960
Trade accounts and notes payable (Notes 21 and 22)	1,495,173,461	1,179,763,488
Accounts payable-other (Notes 21 and 22)	122,492,217	125,989,605
Advances from customers ( Note 17)	8,013,303,994	6,262,761,712
Accrued expenses (Notes 21 and 22)	250,899,632	188,086,233
Income tax payable (Note 18)	455,564,205	167,718,040
Foreign exchange forward contracts (Note 11)	205,986,451	2,267,788
Deferred income tax liabilities (Notes 11 and 18)	-	38,716,339
Withholdings and other current liabilities (Notes 17 and 22)	<u>156,881,303</u>	<u>187,804,932</u>
Total current liabilities	<u>10,887,642,297</u>	<u>8,153,450,097</u>
<b>LONG-TERM LIABILITIES:</b>		
Debentures and long-term borrowings, net of discounts of ₩710,750 thousand in 2006 (Notes 9 and 22)	1,625,627	186,552,277
Accrued severance benefits, net of severance insurance deposits and others of ₩1,079,968,485 thousand in 2007 and ₩941,839,903 thousand in 2006 (Note 10)	110,865,582	193,348,583
Long-term accrued expenses	1,029,342	2,269,234
Deferred income tax liabilities (Notes 11 and 18)	257,968,531	81,371,661
Other long-term liabilities (Note 21)	<u>73,455,854</u>	<u>58,321,740</u>
Total long-term liabilities	<u>444,944,936</u>	<u>521,863,495</u>
Total Liabilities	<u>11,332,587,233</u>	<u>8,675,313,592</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock - common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 13)	2,771,383,687	2,771,383,687
Capital adjustments (Note 15)	(696,729,513)	(351,821,818)
Accumulated other comprehensive income (Notes 5, 6 and 11)	169,794,560	229,048,416
Retained earnings (Note 14)	<u>2,876,059,692</u>	<u>1,292,233,001</u>
Total Shareholders' Equity	<u>5,491,508,426</u>	<u>4,320,843,286</u>
Total Liabilities and Shareholders' Equity	<u>₩ 16,824,095,659</u>	<u>₩ 12,996,156,878</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands, except per share amounts)	
Sales (Notes 17, 21, 23 and 25)	₩ 15,533,013,307	₩ 12,554,744,430
Cost of sales (Notes 17 and 21)	<u>12,976,118,554</u>	<u>10,973,444,547</u>
Gross profit	2,556,894,753	1,581,299,883
Selling and administrative expenses (Note 24)	<u>806,197,217</u>	<u>702,433,590</u>
Operating income (Note 23)	<u>1,750,697,536</u>	<u>878,866,293</u>
Non-operating income:		
Interest and dividend income	205,072,125	96,103,120
Gain on foreign currency transactions	87,926,436	77,473,201
Gain on foreign currency translation	12,923,568	33,106,834
Gain on valuation of investment securities accounted for using the equity method (Note 6)	489,179,298	200,004,281
Gain on disposal of available-for-sales securities	10,676,253	7,003,756
Gain on valuation of foreign exchange forward contracts (Note 11)	4,907,836	38,375,247
Gain on transaction of foreign exchange forward contracts (Note 11)	36,055,708	65,331,493
Gain on reversal of provisions	6,392,055	-
Reversal of provision for construction warranties	6,680,152	793,705
Others	<u>94,975,181</u>	<u>78,347,397</u>
	<u>954,788,612</u>	<u>596,539,034</u>
Non-operating expenses:		
Interest expense	11,402,580	10,721,232
Loss on foreign currency transactions	78,099,571	143,753,092
Loss on foreign currency translation	8,360,813	42,793,599
Loss on valuation of investment securities accounted for using the equity method (Note 6)	6,643,654	20,835,361
Loss on disposal of available-for-sales securities	3,638,864	550
Loss on disposal of property, plant and equipment	33,263,439	11,634,104
Loss on impairment of long-term investment securities (Note 5)	105,249	2,383,171
Loss on valuation of foreign exchange forward contracts (Note 11)	59,199,240	1,194,237
Loss on transaction of foreign exchange forward contracts (Note 11)	15,594,631	6,238,859
Others	<u>94,792,242</u>	<u>86,329,319</u>
	<u>311,100,283</u>	<u>325,883,524</u>
Net income before income tax	2,394,385,865	1,149,521,803
Income tax expense (Note 18)	<u>658,325,534</u>	<u>436,674,245</u>
Net income	<u>₩ 1,736,060,331</u>	<u>₩ 712,847,558</u>
Earnings per share (Note 20)	<u>₩ 27,778</u>	<u>₩ 11,053</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands)	
Retained earnings before appropriations:		
Beginning of year	₩ 9	₩ 2
Net income	<u>1,736,060,331</u>	<u>712,847,558</u>
	<u>1,736,060,340</u>	<u>712,847,560</u>
Transfer from reserve:		
Reserve for research and human development	<u>17,690,636</u>	<u>23,833,333</u>
Appropriations:		
Legal reserve	46,660,092	16,123,364
Reserve for research and human development	-	210,000,000
Voluntary reserve	1,240,489,960	349,323,880
Cash dividends (Note 16)	<u>466,600,920</u>	<u>161,233,640</u>
	<u>1,753,750,972</u>	<u>736,680,884</u>
Unappropriated retained earnings, end of year	<u>₩ 4</u>	<u>₩ 9</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

	Korean won (In thousands)					
	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustments</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total amount</u>
January 1, 2007	₩ 380,000,000	₩ 2,771,383,687	₩ (351,821,818)	₩ 386,855,426	₩ 1,292,233,001	₩4,478,650,296
Accumulated effect of accounting changes	-	-	-	(157,807,010)	-	(157,807,010)
January 1, 2007 (adjusted)	380,000,000	2,771,383,687	(351,821,818)	229,048,416	1,292,233,001	4,320,843,286
Dividends	-	-	-	-	(161,233,640)	(161,233,640)
Balance after appropriations	380,000,000	2,771,383,687	(351,821,818)	229,048,416	1,130,999,361	4,159,609,646
Net income	-	-	-	-	1,736,060,331	1,736,060,331
Change in treasury stock	-	-	(344,907,695)	-	-	(344,907,695)
Gain on valuation of investment securities	-	-	-	63,184,877	-	63,184,877
Changes in equity arising on application of the equity method	-	-	-	128,162,785	-	128,162,785
Negative changes in equity arising on application of the equity method	-	-	-	16,655,895	-	16,655,895
Change in the valuation of derivatives	-	-	-	(267,257,413)	-	(267,257,413)
December 31, 2007	<u>₩ 380,000,000</u>	<u>₩ 2,771,383,687</u>	<u>₩ (696,729,513)</u>	<u>₩ 169,794,560</u>	<u>₩ 2,867,059,692</u>	<u>₩ 5,491,508,426</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	₩ 1,736,060,331	₩ 712,847,558
Adjustments to reconcile net income to net cash provided(used) by operating activities:		
Provision for severance benefits	198,841,279	206,770,353
Provision for doubtful accounts	12,877,187	39,652,997
Amortization of development costs	38,181,230	28,864,045
Depreciation	351,718,296	347,859,034
Loss on foreign currency translation	8,329,771	42,767,981
Provision for construction warranties	17,066,169	14,571,086
Provision for production warranties	9,326,710	5,680,365
Loss on disposal of available-for-sales securities	3,638,864	550
Loss on valuation of investment securities accounted for using the equity method	6,643,654	20,835,361
Loss on disposal of property, plant and equipment	33,263,439	11,634,104
Income tax expense	-	118,420,797
Loss on valuation of foreign exchange forward contracts	59,199,240	1,194,237
Gain on disposal of property, plant and equipment	(6,709,012)	(1,562,414)
Gain on foreign currency translation	(11,252,407)	(33,082,074)
Gain on valuation of investment securities accounted for using the equity method	(489,179,298)	(200,004,281)
Gain on valuation of foreign exchange forward contracts	(234,959,971)	(394,359,769)
Gain on reversal of provision foreseeable losses from construction contracts	(58,590,795)	-
Reversal of provision for construction warranties	(6,680,152)	(793,705)
Others	(13,089,475)	21,148,738
	<u>(81,375,271)</u>	<u>229,597,405</u>
Changes in operating assets and liabilities:		
Increase in trade accounts and notes receivable	(256,285,468)	(184,214,078)
Decrease (Increase) in accounts receivable-other	66,031,312	(94,614,578)
Decrease in inventories	9,557,776	19,541,597
Decrease (Increase) in advanced payments	61,724,429	(126,660,118)
Decrease (Increase) in accrued income	(24,969,810)	2,471,338
Decrease in foreign exchange forward contracts	303,208,956	328,891,317
Decrease in long-term notes receivable in foreign currency	-	19,754,696
Increase in trade accounts payable	312,601,393	72,281,897
Increase (Decrease) in accounts payable-other	(3,826,357)	38,767,196
Increase in advances from customers	1,768,443,574	543,253,806
Increase (Decrease) in accrued expenses	60,504,616	(8,673,244)
Increase in income tax payable	287,846,165	153,771,120
Decrease in long-term accrued expenses	(1,239,893)	(50,221,310)
Payments of severance benefits	(143,195,698)	(90,417,659)
Increase in deposits for severance benefits	(142,655,720)	(77,407,366)
Decrease (Increase) in deferred income tax assets	(70,990,353)	34,411,835
Increase in deferred income tax liabilities	161,765,351	104,335,727
Others, net	72,803,493	11,375,992
	<u>2,461,323,766</u>	<u>696,648,168</u>
Net cash provided by operating activities	<u>4,116,008,826</u>	<u>1,639,093,131</u>

(Continued)

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands)	
Cash flows from investing activities:		
Withdrawal of short-term financial instruments	₩ 1,030,621,000	₩ 160,610,000
Disposal of short-term investment securities	1,178,453,619	874,572,333
Disposal of long-term investment securities	17,193,951	427,511
Disposal of investment securities accounted for using the equity method	6,585,516	157,146,679
Disposal of long-term investment securities	539,893	20,310,107
Disposal of other investment assets	1,721,898	1,229,579
Disposal of property, plant and equipment	18,924,381	5,751,625
Acquisition of short-term financial instruments	(2,950,621,000)	(210,621,000)
Acquisition of short-term investment securities	(1,424,000,000)	(1,070,000,000)
Acquisition of long-term financial instruments	(367,473)	(23,215,160)
Acquisition of long-term investment securities	(246,507,801)	(2,759,958)
Acquisition of investment securities accounted for using the equity method	(133,347,454)	(485,161,788)
Acquisition of property, plant and equipment	(910,854,533)	(529,275,356)
Acquisition of intangible assets	(54,750,934)	(61,278,856)
Acquisition of other investment assets	(9,563,269)	(5,663,504)
Net cash used in investing activities	(3,475,972,206)	(1,167,927,788)
Cash flows from financing activities:		
Proceeds from long-term borrowings	282,600	1,353,863
Repayment of current maturities of long-term borrowings and other long-term liabilities	(341,960)	(372,639)
Payment of cash dividends	(161,233,640)	(96,740,184)
Acquisition of treasury stock	(344,907,695)	-
Net cash used in financing activities	(506,200,695)	(95,758,960)
Net increase in cash and cash equivalents	133,835,925	375,406,383
Cash and cash equivalents at the beginning of the year	819,920,933	444,514,550
Cash and cash equivalents at the end of the year	₩ 953,756,858	₩ 819,920,933

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. THE COMPANY:

Hyundai Heavy Industries Co., Ltd. (the “Company”) was incorporated in 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 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 are issued and 62,213,456 shares of common stock are outstanding as of December 31, 2007. Of the total issued shares, Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd., Funds managed by Mirae Asset Investments Co., Ltd. and Hyundai Motor Company own 10.80%, 8.15 %, 7.98%, 7.33% and 2.88%, 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, 2007. The Company may also raise capital without obtaining the approval of shareholders by issuing stock to foreign individual investors or foreign financial institutions, issuing stock domestically under the Securities and Exchange Act, issuing stock through a general public subscription and issuing stock to employees under certain circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company’s financial position, results of operations, changes in shareholders’ equity or cash flows, is not presented in the accompanying financial statements.

The Company prepared its financial statements as of December 31, 2007 in accordance with the revised Statements of Korea Accounting Standards (“SKAS”) No. 16 “Income Taxes”, new SKAS No. 21 “Preparation and Presentation of Financial Statements”, No. 22 “Share-based Payment” and No. 23 “Earnings per Share”, effective from January 1, 2007. Major changes compared with the standard applied in preparing the 2007 financial statements are as follows:

<u>Statements of Korea Accounting Standards</u>	<u>Major changes</u>
No. 16 Income Taxes	- To include additional income tax and income tax refunds in income tax expenses
No. 21 Preparation and Presentation of Financial Statements	- To prepare the statement of changes in shareholders’ equity as a complete set of financial statements
	- To use accounts, ‘Other non-current assets’, and ‘accumulated other comprehensive income’ in preparing balance sheets
No. 23 Earnings per Share	- To present on the face of the income statement basic and diluted earning per share and disclose earning per share for profit or loss from discontinued operations

The Company restated the non-consolidated balance sheet as of December 31, 2006, and non-consolidated statements of income and cash flows for the year ended December 31, 2006, which are presented for comparative purposes, in accordance with the SKAS No.16, No.21 and No.23. Such restatement had no effect of net assets and net income of comparable period. Also, the Company did not prepare the statement of changes in shareholders’ equity for the year ended December 31, 2006 for comparative purposes in accordance with the transition provision of SKAS No.21

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

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term financial instruments with original maturities of less than ninety days, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

#### Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management’s estimate of the collectability of receivables and prior years’ collection experience.

When interest rate and repayment period are changed unfavorably for the Company by a court imposition such as commencement of reorganization or by mutual agreements and the difference between nominal value and present value is material, the difference is presented as bad debt expenses.

#### Inventories

Inventories are stated at the lower of cost or net realized value. 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. If the net realizable value of inventories is lower than cost, inventories are adjusted to net realizable value and the difference between cost and revalued amount is charged to current operations.

## Investments in Securities Other than those Accounted for Using the Equity Method

### Classification of Securities

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as current assets, whereas available-for-sale and held-to-maturity securities are classified as non-current assets, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as current assets.

### Valuation of Securities

Securities are recognized initially at cost, which includes the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration is not reliably determinable, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in accumulated other comprehensive income (loss), until the securities are sold or if the securities are determined to be impaired and accumulated other comprehensive income (loss) is included in current income. However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When held-to-maturity security is reclassified into available-for-sale security, the difference between the book value and fair value is reported in accumulated other comprehensive income (loss). Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in accumulated other comprehensive income (loss) and amortized over the remaining term of the securities using the effective interest method. If held-to-maturity securities are disposed or redeemed before the maturity date, any securities could not be categorized to held-to-maturity within 3 fiscal years after the disposal and redemption.

#### Investment Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. 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 (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, capital adjustments and accumulated other comprehensive income (loss). Unrealized profit arising from sales by the Company to subsidiaries of investor 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.

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 loss. The recoverable amount is determined as the higher of value in use or expected amount of net cash inflows from disposal of the investment securities accounted for using the equity method. The amount of impairment loss is included in current earnings.

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

#### Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are stated at cost, (except for assets revalued upward in accordance with the Asset Revaluation Law of Korea), net of accumulated depreciation. The acquisition cost of property, plant, and equipment is comprised of its purchase price or manufacturing costs and any other directly attributable costs of bringing the asset to the working condition of its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment. The interest incurred on borrowings to finance the purchase of construction of property, plant and equipment and manufacture of inventories are charged to current income.

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

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

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment 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.

#### 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
Usage right for donated properties	20 - 40

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

#### Discounts on Debentures

Discounts on debentures are amortized over the redemption period of the debentures using the effective interest rate method. Amortization of discounts is recognized as interest expense on the debentures.

#### Foreign Currency Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rates on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Service Ltd. Basic Rate, which was ₩938.20 and ₩929.60 to USD1.00 at December 31, 2007 and 2006, respectively, and translation gains or losses are reflected in current operations.

#### 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 balance sheet as a provision for foreseeable losses from construction contracts.

#### 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.

#### 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 liabilities suits.

#### Accrued 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, 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 ₩1,190,834,067 thousand and ₩1,135,188,486 thousand as of December 31, 2007 and 2006, respectively (see Note 10). Accrued severance benefits are funded approximately 87.6% and 79.3% as of December 31, 2007 and 2006, 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.

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

#### Income Tax Expense

The Company recognizes income tax expenses determined by adding or deducting changes in deferred income tax assets (liabilities) to or from total income tax and surtaxes to be paid by tax law for the current period. The deferred income tax assets or liabilities will be charged or credited to income tax expense in the period each temporary difference (the difference between the tax basis of assets or liabilities and the book value) reverses in the future. The Company recognizes deferred tax liabilities basically for all taxable temporary differences, but recognizes deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting.

### 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. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations.

Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecast transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as an accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as an accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

### Cumulative Effect from Change in Accounting Policy

The Company accounted the investment securities in Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") using the equity method based on the financial statements provided by HSHI, where the investments of Hyundai Mipo Dockyard Co., Ltd. ("HMDC", the subsidiary of HSHI) in the Company's share were included as available-for-sale securities. However, according to the new accounting interpretation (2007-08) announced by Financial Supervisory Service of Korea, the Company has changed its accounting policy from the above method to accounting for as a treasury stock on the HMDC's investment securities in the Company's shares.

As a result, the Company's investment securities accounted for using the equity method decreased by ₩350,772,853 thousand, deferred income tax liabilities decreased by ₩93,401,606 thousand, accumulated other comprehensive income decreased by ₩212,000,650 thousand and net income decreased by ₩45,370,597 thousand as of and for the year ended December 31, 2007, compared to the previous accounting method. In addition, the accompanying non-consolidated balance sheet as of December 31, 2006 and the non-consolidated statements of income and cash flows for the year ended December 31, 2006, which are presented for comparative purposes, were restated in accordance with the new interpretation above.

The effect of the change in the accounting policy on using the equity method on the Company's financial statements for the preceding three years is as follows:

Description	Korean won (In thousands)					
	2004		2005		2006	
	Before	After	Before	After	Before	After
Investment securities accounted for using the equity method	₩ 1,023,448,611	₩971,735,381	₩1,150,538,105	₩1,008,772,609	₩ 1,716,810,918	₩ 1,499,146,077
Deferred income tax assets (non-current)	-	-	-	28,937,557	-	-
Deferred income tax liabilities (non-current)	-	-	10,047,955	-	141,229,492	81,371,661
Changes in equity arising from application of the equity method	40,880,035	-	82,766,836	14,201,449	143,828,856	13,486,566
Negative changes in equity arising from application of the equity method	-	(10,833,195)	(15,203,288)	(49,417,886)	(22,366,243)	(49,830,963)

### 3. RESTRICTED FINANCIAL INSTRUMENTS:

As of December 31, 2007 and 2006, financial instruments amounting to ₩2,037,095 thousand and ₩9,112,870 thousand, respectively, which are included in long-term financial instruments are subject to withdrawal restrictions in relation to certain ship building contracts and bank overdraft.

### 4. INVENTORIES:

Inventories as of December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Merchandise	₩ 48,769,359	₩ 49,701,522
Finished products	125,533,379	70,110,047
Work-in-process	332,450,119	226,823,638
Materials	346,780,441	313,675,691
Supplies	20,392,577	14,760,437
Materials in-transit	245,293,578	453,704,505
	<u>₩ 1,119,219,453</u>	<u>₩ 1,128,775,840</u>

### 5. SHORT-TERM AND LONG-TERM INVESTMENT SECURITIES:

- (1) Short-term investment securities consist of beneficiary certificates and various bonds of ₩503,388,199 thousand and ₩221,788,518 thousand as of December 31, 2007 and 2006, respectively. All short-term investment securities are classified into available-for-sale securities. Available-for-sale securities are stated at fair value with unrealized gain on valuation of available-for-sale securities (net of tax effect) amounting to ₩3,181,444 thousand and ₩642,730 thousand in accumulated other comprehensive income as of December 31, 2007 and 2006, respectively.
- (2) Long-term investment securities as of December 31, 2007 and 2006, all of which are classified into available-for-sale, consist of the following:

	Korean won (In thousands)	
	2007	2006
Available-for-sale:		
Equity securities stated at fair value	₩ 645,820,238	₩ 345,294,901
Equity securities stated at acquisition cost	68,843,174	51,752,344
Debt securities	-	29,689,199
	<u>₩ 714,663,412</u>	<u>₩ 426,736,444</u>

- (3) Equity securities stated at fair value included in long-term investment securities as of December 31, 2007 consist of the following:

		Korean won (In thousands)	
Company	% of ownership	Historical cost	Book value
Hyundai Motor Company	3.46	₩ 519,246,924	₩ 544,404,872
Tong Yang Investment Bank	3.45	99,828,399	71,025,510
Hyundai Corp.	0.36	11,227,434	1,821,085
Hyundai Elevator Co., Ltd.	2.16	1,632,339	20,791,215
Kia Motors Corp.	0.03	2,681,616	891,275
Hanarotelecom Inc.	0.01	7,947,667	12,301
Mirae Asset Securities Co., Ltd.	0.10	6,654,173	6,873,980
		<u>₩ 649,218,552</u>	<u>₩ 645,820,238</u>

Equity securities stated at fair value included in long-term investment securities as of December 31, 2006 consist of the following:

Company	% of Ownership	Korean won (In thousands)	
		Historical cost	Book value
Hyundai Motor Company	1.97	₩ 291,149,158	₩ 290,589,708
Tong Yang Investment Bank	3.54	99,828,399	41,524,408
Hyundai Corp.	0.36	11,227,434	1,696,738
Hyundai Elevator Co., Ltd.	2.16	1,632,339	10,287,801
Kia Motors Corp.	0.03	2,681,616	1,186,895
Hanarotelecom Inc.	0.01	7,947,667	9,351
		<u>₩ 414,466,613</u>	<u>₩ 345,294,901</u>

(4) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2007 are as follows:

Company	% of ownership	Korean won (In thousands)	
		Historical cost	Book value (*1)
Unlisted equity securities (*1):			
Hynix Semiconductor America Inc.	1.33	₩ 34,525,619	₩ -
Daehan Oil Pipeline Corp. (*4)	6.39	14,511,802	15,851,427
Novelis Korea Ltd.	0.39	14,598,913	1,405,452
Doosan Capital Co., Ltd. (*5)	9.99	10,000,000	26,146,000
Bexco, Ltd.	7.96	9,460,000	9,460,000
Hyundai Technologies Center Hungary Kft. (*2&3)	100.00	26,302	26,302
Others (*2&3)	-	<u>12,426,142</u>	<u>9,856,158</u>
		<u>95,548,778</u>	<u>62,745,339</u>
Other investments:			
Investments in capital (*2)	-	<u>5,677,796</u>	<u>6,097,835</u>
		₩ 101,226,574	₩ 68,843,174

Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2006 are as follows:

Company	% of ownership	Korean won (In thousands)	
		Historical cost	Book value
Unlisted equity securities:			
Hynix Semiconductor America Inc.	1.33	₩ 34,525,619	₩ -
Daehan Oil Pipeline Corp.	6.39	14,511,802	14,511,802
Novelis Korea Ltd.	0.39	14,598,913	1,510,701
Doosan Capital Co., Ltd.	9.99	10,000,000	10,000,000
Bexco, Ltd.	7.96	9,460,000	9,460,000
Hyundai Technologies Center Hungary Kft. (*2&3)	100.00	26,302	26,302
Others (*2&3)	-	<u>12,747,227</u>	<u>10,177,243</u>
		<u>95,869,863</u>	<u>45,686,048</u>
Other investments:			
Investments in capital (*2)	-	<u>5,677,796</u>	<u>6,066,296</u>
		₩ 101,547,659	₩ 51,752,344

(\*1) The book value of unlisted equity security was recorded at their acquisition cost because the fair value cannot be reliably estimated, except for Daehan Oil Pipeline Corp., and Doosan Capital Co., Ltd. However, the equity security impaired at year end was devaluated at the net book value based on the most available financial statements.

(\*2) 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 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, 2007 and 2006, is less than ₩7,000 million, are not material.

(\*3) The subsidiaries of related parties

(\*4) The fair value is calculated by using the discounted cash flow and imputed market value method.

(\*5) The fair value is calculated by using the free cash flows to shareholders method and estimation of stock price distribution.

Long-term investment securities of Novelis Korea Ltd. have been determined to be impaired and the impairment loss amounting to ₩105,249 thousand is accounted as non-operating expenses in 2007.

- (5) 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, 2007, is as follows:

Company	Korean won (In thousands)			
	Beginning Balance	Increase (Decrease)	Impairment loss	Ending Balance
Hyundai Motor Company	₩ (405,601)	₩ 18,645,113	₩ -	₩ 18,239,512
Tong Yang Investment Bank	(1,300,571)	21,388,298	-	20,087,727
Hyundai Corp.	703,179	90,152	-	793,331
Hyundai Elevator Co., Ltd.	6,275,209	7,614,976	-	13,890,185
Kia Motors Corp.	(1,083,673)	(214,325)	-	(1,297,998)
Hanarotelecom Inc.	6,780	2,139	-	8,919
Mirae Asset Securities Co., Ltd.	-	159,360	-	159,360
Daehan Oil Pipeline Corp.	-	971,228	-	971,228
Doosan Capital Co., Ltd.	-	11,705,850	-	11,705,850
	4,195,323	60,362,791	-	64,558,114
Government and municipal bonds	40,390	(40,390)	-	-
Subordinated bonds	(300,894)	300,894	-	-
Investments in capital	281,662	22,868	-	304,530
	₩ 4,216,481	₩ 60,646,163	₩ -	₩ 64,862,644

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, 2006, is as follows:

Company	Korean won (In thousands)			
	Beginning balance	Increase (Decrease)	Impairment loss	Ending balance
Hyundai Motor Company	₩ 93,055,206	₩ (93,460,807)	₩ -	₩ (405,601)
Tong Yang Investment Bank	(4,161,246)	2,860,675	-	(1,300,571)
Hyundai Corp.	540,914	162,265	-	703,179
Hyundai Elevator Co., Ltd.	7,313,616	(1,038,407)	-	6,275,209
Kia Motors Corp.	(245,566)	(838,107)	-	(1,083,673)
Hanarotelecom Inc.	-	6,780	-	6,780
	96,502,924	(92,307,601)	-	4,195,323
Government and municipal bonds	(16,579)	56,969	-	40,390
Subordinated bonds	(753,859)	452,965	-	(300,894)
Investments in capital	(30,484)	312,146	-	281,662
	₩ 95,702,002	₩ (91,485,521)	₩ -	₩ 4,216,481

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of December 31, 2007 are as follows:

Company	Number of shares	% of ownership	Korean won (In thousands)	
			Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩ 266,150,343	₩ 329,826,033
Hyundai Finance Corp. (*2)	12,350,000	67.49	78,197,738	88,223,005
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92	204,259,700	1,068,540,327
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	20,215,057	23,323,703
Beijing Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	15,661,020	13,612,598
MOST #3 Venture Investment	130	24.53	122,630	125,485
Incheon Airport Energy	3,284,884	31.00	16,424,420	3,847,377
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00	28,514,868	40,106,509
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09	11,620,593	22,730,051
New Korea Country Club	16,457	20.00	500,000	3,272,781
Hyundai Dongahn Steel (*2&3)	-	54.99	1,231,036	1,314,368
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00	35,656,728	23,312,570
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00	2,543,678	7,806,652
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99	7,254,254	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.) (*2&3)	-	55.22	18,256,250	13,739,103
H.C.E U.S.A (*2)	23,900,000	100.00	26,712,810	6,634,931
Vladivostock Business Center (*2&3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58	6,617,040	5,318,298
HHI China Investment Co., Ltd. (*2&3)	-	100.00	28,372,350	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock) (*6)	23,424,037	17.60	404,039,118	357,350,650
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*6)	3,516,688	17.58	52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00	67,658,226	92,647,265
Hyundai Ideal Electric Co.	1,000	100.00	11,241,600	11,378,786
Taishan Financial Leasing Co., Ltd. (*2&3)	-	60.03	2,496,186	2,020,867
Hyundai Construction Equipment India Private Ltd.	8,603,025	100.00	18,557,139	20,287,075
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00	22,230,000	21,970,305
			<u>₩ 1,353,174,771</u>	<u>₩ 2,248,120,981</u>

(\*1) Although the ownership's percentage of the Company and its subsidiary is under 20%, the Company is able to exercise significant influence over the operating and financial policies. Therefore, equity securities are accounted for using the equity method.

(\*2) The Company's subsidiaries

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

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

(\*5) Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the KOSDAQ of Koentec Co., Ltd. is ₩1,250 per share at December 31, 2007.

(\*6) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing common stock price on the stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd. is ₩43,000 per share at December 31, 2007. Preferred stock is unlisted stock; therefore, no market price exists.

(2) Equity securities accounted for using the equity method as of December 31, 2006 are as follows:

Company	Number of shares	% of ownership	Korean won (In thousands)	
			Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩ 266,150,343	₩ 282,669,089
Hyundai Finance Corp. (*2)	12,350,000	67.49	78,197,738	86,821,048
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92	204,259,700	512,441,521
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	20,215,057	30,488,002
Beijing Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	15,661,020	15,108,858
MOST #3 Venture Investment	130	24.53	2,987,684	4,334,223
Incheon Airport Energy	3,284,884	31.00	16,424,420	4,402,927
Hyundai & Terasource D-Convergence Venture Investment (*2)	910	50.00	9,100,000	2,153,809
MIC99-9 STIC IT Venture Partnership (*2)	820	40.82	8,212,055	2,214,049
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00	17,662,068	15,969,244
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09	11,620,593	17,253,084
New Korea Country Club	16,457	20.00	500,000	2,969,024
Hyundai Dongahn Steel (*2&3)	-	54.99	1,231,036	1,214,109
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00	35,656,728	16,661,324
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00	2,543,678	5,951,387
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99	7,254,254	6,057,925
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.) (*2&3)	-	80.00	18,256,250	13,147,976
H.C.E U.S.A (*2)	23,900,000	100.00	26,712,810	7,875,610
Vladivostok Business Center (*2&3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58	6,617,040	5,819,355
HHI China Investment Co., Ltd. (*2&3)	-	100.00	28,372,350	27,705,843
Hyundai Merchant Marine Co., Ltd. (Common Stock) (*6)	23,424,037	17.60	404,039,118	381,589,498
Hyundai Merchant Marine Co., Ltd. (Preferred Stock) (*6)	3,516,688	17.58	52,750,320	56,298,172
			<u>₩ 1,240,315,929</u>	<u>₩ 1,499,146,077</u>

- (\*1) Although the ownership's percentage of the Company and its subsidiary is under 20%, the Company is able to exercise significant influence over the operating and financial policies. Therefore, equity securities are accounted for using the equity method.
- (\*2) The Company's subsidiaries.
- (\*3) Number of shares is not presented because they are non-par stock.
- (\*4) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method.
- (\*5) Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the KOSDAQ of Koentec Co., Ltd. is ₩840 per share at December 31, 2006.
- (\*6) Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing common stock price on the stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd. is ₩20,300 per share at December 31, 2006. Preferred stock has no market price because it is unlisted stock.

(3) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences in 2007 are as follows:

Company	Korean won (In thousands)			
	Beginning balance	Increase (Decrease)	Amortization	Ending balance
Hyundai Oilbank	₩ 372,067	₩ -	₩ (372,067)	₩ -
Hyundai Samho Heavy Industries Co., Ltd.	3,543,034	-	(3,543,034)	-
Hyundai Heavy Industries Co. Bulgaria	(18,298)	-	9,149	(9,149)
Hyundai Vinashin Shipyard	(297,256)	-	198,171	(99,085)
Koentec Co., Ltd.	2,074,457	-	(691,485)	1,382,972
Hyundai Merchant Marine Co., Ltd.	68,880,763	-	(16,207,238)	52,673,525
Qinhuangdao Shouqin Metal Materials Co., Ltd.	-	14,215,316	(2,847,517)	11,367,799
	<u>₩ 74,554,767</u>	<u>₩ 14,215,316</u>	<u>₩ (23,454,021)</u>	<u>₩ 65,316,062</u>

(4) The movements of investment securities using the equity method for the year ended December 31, 2007 are as follows:

Company	Korean won (In thousands)				
	Beginning balance	Acquisition (Disposal)	Gain (Loss)(*1)	Other	Ending balance
Hyundai Oilbank	₩ 282,669,089	₩ -	₩ 47,079,229	₩ 77,715	₩ 329,826,033
Hyundai Finance Corp.	86,821,048	-	4,440,414	(3,038,457)	88,223,005
Hyundai Samho Heavy Industries Co., Ltd.	512,441,521	-	380,853,422	175,245,384	1,068,540,327
Changzhou Hyundai Construction Machinery Co., Ltd.	30,488,002	-	1,824,887	(8,989,186)	23,323,703
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	15,108,858	-	(1,678,873)	182,613	13,612,598
MOST #3 Venture Investment	4,334,223	(3,244,756)	117,251	(1,081,233)	125,485
Incheon Airport Energy	4,402,927	-	(465,224)	(90,326)	3,847,377
Hyundai & Terasource D-Convergence Venture Investment	2,153,809	(2,153,809)	-	-	-
MIC 99-1 IT Venture Partnership	2,214,049	(2,214,049)	-	-	-
Hyundai Jiangsu Construction Machinery Co., Ltd.	15,969,244	10,852,800	10,229,348	3,055,117	40,106,509
Hyundai Heavy Industries Co. Bulgaria	17,253,084	-	4,131,051	1,345,916	22,730,051
New Korea Country Club	2,969,024	-	303,757	-	3,272,781
Hyundai Dongahn Steel	1,214,109	-	89,027	11,232	1,314,368
Hyundai Heavy Industries Europe N.V.	16,661,324	-	2,479,652	4,171,594	23,312,570
Hyundai Vinashin Shipyard	5,951,387	-	2,246,715	(391,450)	7,806,652
Yantai Hyundai Moon Heavy Industries Co., Ltd.	6,057,925	-	361,409	501,335	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	13,147,976	-	(1,662,510)	2,253,637	13,739,103
H.C.E U.S.A.	7,875,610	-	(1,336,638)	95,959	6,634,931
Vladivostok Business Center (*2)	-	-	-	-	-
Koentec Co., Ltd.	5,819,355	-	(393,827)	(107,230)	5,318,298
HHI China Investment Co., Ltd.	27,705,843	-	553,603	(751,328)	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock)	381,589,498	-	12,123,180	(36,362,028)	357,350,650
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,298,172	-	2,110,013	(2,104,730)	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd.	-	67,658,226	20,117,109	4,871,930	92,647,265
Hyundai Ideal Electric Co.	-	11,241,600	119,231	17,955	11,378,786
Taishan Financial Leasing Co., Ltd.	-	2,496,186	(611,963)	136,644	2,020,867

Company	Korean won (In thousands)				
	Beginning balance	Acquisition (Disposal)	Gain (Loss)(*1)	Other	Ending balance
Hyundai Construction Equipment India Private Ltd.	₩	- ₩ 18,557,139	₩ (234,924)	₩ 1,964,860	₩ 20,287,075
Wartsila Hyundai Engine Company Ltd.	-	22,230,000	(259,695)	-	21,970,305
	<u>₩ 1,499,146,077</u>	<u>₩ 125,423,337</u>	<u>₩ 482,535,644</u>	<u>₩ 141,015,923</u>	<u>₩ 2,248,120,981</u>

(\*1) Gain (loss) on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions. For the years ended December 31, 2007 and 2006, unrealized profit eliminated under the equity method are ₩40,499,079 thousand and ₩33,467,687 thousand, respectively.

(\*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩82,758 million including ₩7,074 million increased for the year ended December 31, 2007, and allowance amounting to ₩54,521 million was provided for accounts receivables-other for Vladivostok Business Center.

- (5) Equity securities accounted for using the equity method as of December 31, 2007 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. The net assets value from using the provisional settlement as of December 31, 2007 is as follows:

Company	Reason for use	Korean won (In thousands)		
		Net asset value before adjustments	Adjustments (*)	Net asset value after adjustments
Hyundai Oilbank	Difference of closing day	₩ 329,826,033	₩ -	₩ 329,826,033
Hyundai Finance Corp.	"	88,223,005	-	88,223,005
Hyundai Samho Heavy Industries Co., Ltd.	"	1,627,356,053	(553,025,900)	1,074,330,153
Changzhou Hyundai Construction Machinery Co., Ltd.	"	23,323,703	-	23,323,703
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	"	17,877,063	-	17,877,063
MOST #3 Venture Investment	"	125,485	-	125,485
Incheon Airport Energy	"	3,847,377	-	3,847,377
Hyundai Jiangsu Construction Machinery Co., Ltd.	"	47,981,856	-	47,981,856
Hyundai Heavy Industries Co. Bulgaria	"	22,741,948	-	22,741,948
New Korea Country Club	"	3,272,781	-	3,272,781
Hyundai Dongahn Steel	"	1,314,368	-	1,314,368
Hyundai Heavy Industries Europe N.V.	"	38,697,182	-	38,697,182
Hyundai Vinashin Shipyard	"	7,905,737	-	7,905,737
Yantai Hyundai Moon Heavy Industries Co., Ltd.	"	7,221,236	(300,567)	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	"	17,156,165	(2,866,786)	14,289,379
H.C.E U.S.A.	"	13,266,736	-	13,266,736
Vladivostok Business Center	"	-	-	-
Koentec Co., Ltd.	"	3,935,326	-	3,935,326
HHI China Investment Co., Ltd.	"	30,338,183	(2,830,065)	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock)	"	304,677,125	-	304,677,125
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	"	56,303,455	-	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd.	"	81,279,466	-	81,279,466
Hyundai Ideal Electric Co.	"	11,378,786	-	11,378,786
Taishan Financial Leasing Co., Ltd.	"	2,020,867	-	2,020,867
Hyundai Construction Equipment India Private Ltd.	"	20,287,075	-	20,287,075
Wartsila Hyundai Engine Company Ltd.	"	21,970,305	-	21,970,305
		<u>₩ 2,782,327,316</u>	<u>₩ (559,023,318)</u>	<u>₩ 2,223,303,998</u>

- (\*) The Company adjusted the material difference of accounting principle for similar transactions and accounting events between the Company and investees. As of December 31, 2007, such adjustments of difference were reflected in the decrease in gain on valuation in current income by ₩59,619 million, the decrease in retained earnings by ₩6,574 million, the decrease in accumulated other comprehensive income by ₩357,302 million and the decrease in deferred income tax liabilities by ₩135,528 million.
- (6) The gain (loss) on valuation of investment securities accounted for using the equity method is ₩489,179,298 thousand and ₩(6,643,654) thousand for the year ended December 31, 2007, respectively. In addition, the cumulative effect of the equity method of accounting on the ending balance of accumulated other comprehensive income (net of tax effect) is ₩108,474,283 thousand which consisted of changes in equity arising on application of the equity method by ₩141,649,351 thousand and negative changes in equity arising on application of the equity method by ₩(33,175,068) thousand as of December 31, 2007 including the increase of ₩144,818,680 thousand for the year ended December 31, 2007.
- (7) Financial information of investees accounted for using the equity method as of and for the year ended December 31, 2007 is as follows:

Company	Korean won (In millions)			
	Assets	Liabilities	Sales	Net income (loss)
Hyundai Oilbank	₩ 5,108,953	₩ 3,437,863	₩ 9,458,996	₩ 235,648
Hyundai Finance Corp.	134,428	3,701	11,992	6,402
Hyundai Samho Heavy Industries Co., Ltd.	5,956,017	4,241,521	2,616,869	466,972
Changzhou Hyundai Construction Machinery Co., Ltd.	41,735	2,863	35,762	3,041
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	164,950	135,155	231,833	3,334
MOST #3 Venture Investment	524	12	3,704	577
Incheon Airport Energy	164,668	152,257	75,651	1,537
Hyundai Jiangsu Construction Machinery Co., Ltd.	207,215	127,245	344,145	19,106
Hyundai Heavy Industries Co. Bulgaria	33,308	10,357	37,714	4,163
New Korea Country Club	20,625	4,261	12,489	1,525
Hyundai Dongahn Steel	16,412	14,022	30,736	160
Hyundai Heavy Industries Europe N.V.	126,348	87,651	361,764	7,042
Hyundai Vinashin Shipyard	172,628	93,571	111,850	20,485
Yantai Hyundai Moon Heavy Industries Co., Ltd.	23,890	10,759	19,495	711
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd)	84,027	52,956	65,718	(169)
H.C.E U.S.A	57,829	44,563	124,117	(2,935)
Vladivostok Business Center	21,976	166,809	9,794	(660)
Koentec Co., Ltd.	71,072	19,182	24,842	3,804
HHI China Investment Co., Ltd.	36,394	6,055	3,100	(199)
Hyundai Merchant Marine Co., Ltd.	5,766,495	3,715,401	5,091,885	172,947
Qinhuangdao Shouqin Metal Materials Co., Ltd.	1,238,028	831,630	1,084,852	120,866
Hyundai Ideal Electric Co.	18,968	7,590	17,816	119
Taishan Financial Leasing Co., Ltd.	6,591	3,225	65	(1,019)
Hyundai Construction Equipment India Private Ltd.	20,440	153	-	(235)
Wartsila Hyundai Engine Company Ltd.	50,801	6,860	-	(519)

## 7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Buildings and structures	₩ 2,572,752,181	₩ 2,452,694,705
Machinery and equipment	2,169,947,389	2,093,584,301
Ships	186,009,863	184,207,582
Vehicles	30,439,712	25,626,764
Tools, furniture and fixtures	975,914,777	904,758,405
	5,935,063,922	5,660,871,757
Less: accumulated depreciation	(2,944,344,006)	(2,705,507,802)
	2,990,719,916	2,955,363,955
Land	1,550,415,148	1,365,024,824
Construction-in-progress	427,650,291	134,740,535
	₩ 4,968,785,355	₩ 4,455,129,314

The changes in property, plant and equipment for the year ended December 31, 2007 are as follows:

	Korean won (In thousands)					
	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of year	₩1,365,024,824	₩ 1,720,045,695	₩ 732,649,010	₩ 2,093,584,301	₩ 1,249,333,286	₩ 7,160,637,116
Acquisition and other	193,045,711	84,983,518	70,643,937	138,858,689	423,321,290	910,853,145
Disposal	(7,655,387)	(35,080,292)	(489,687)	(62,495,601)	(52,639,933)	(158,360,900)
End of year	₩1,550,415,148	₩ 1,769,948,921	₩ 802,803,260	₩ 2,169,947,389	₩ 1,620,014,643	₩ 7,913,129,361
Depreciation	-	43,842,312	18,753,331	186,520,439	102,602,214	351,718,296
Accumulated depreciation	-	360,856,814	161,350,202	1,559,756,993	862,379,997	2,944,344,006

The changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

	Korean won (In thousands)					
	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of year	₩ 1,318,868,326	₩ 1,623,717,238	₩ 651,979,319	₩ 1,951,832,282	₩ 1,185,194,044	₩ 6,731,591,209
Acquisition and other	48,019,218	106,483,361	80,696,774	168,766,834	129,179,200	533,145,387
Disposal	(1,862,720)	(10,154,904)	(27,083)	(27,014,815)	(65,039,958)	(104,099,480)
End of year	₩1,365,024,824	₩1,720,045,695	₩ 732,649,010	₩2,093,584,301	₩1,249,333,286	₩7,160,637,116
Depreciation	-	41,849,008	17,526,556	191,209,969	97,273,501	347,859,034
Accumulated depreciation	-	324,168,130	142,712,348	1,429,236,700	809,390,624	2,705,507,802

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩2,282,928 million as of December 31, 2007. The Company maintains insurance coverage against fire and other casualty losses of up to ₩7,737,306 million for ships and sea structures under construction and the insurance proceed of ₩685,939 million is pledged as collateral for loans from Export-Import Bank of Korea as of December 31, 2007 (See Note 9).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩1,432,347 million as of December 31, 2007. The Company also maintains insurance on cargo against damage and claims losses of up to ₩5,160,100 million for products being exported and imported as of December 31, 2007.

As of December 31, 2007 and 2006, the value of land owned by the Company is ₩1,364,161 million and ₩1,119,749 million, respectively, as announced by the Korean government.

# 8. INTANGIBLE ASSETS:

Intangible assets as of December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Development costs	₩ 213,873,947	₩ 197,304,243
Usage right for donated properties	22,174,415	24,213,698
	₩ 236,048,362	₩ 221,517,941

Intangible assets as of December 31, 2007 and 2006 are summarized as follows:

	Korean won (In thousands)			
	Development Cost		Usage right for donated properties	
	2007	2006	2007	2006
Beginning balance	₩ 197,304,243	₩ 164,889,432	₩ 24,213,698	₩ 26,252,981
Capitalized	54,750,934	61,278,856	-	-
Amortization	(38,181,230)	(28,864,045)	(2,039,283)	(2,039,283)
Ending balance	₩ 213,873,947	₩ 197,304,243	₩ 22,174,415	₩ 24,213,698

Research costs amounting to ₩17,530,156 thousand and ₩15,331,047 thousand, and ordinary development costs amounting to ₩75,059,849 thousand and ₩49,304,575 thousand are included in selling and administrative expenses for the year ended December 31, 2007 and 2006, respectively. The amortized development costs of ₩38,181,230 thousand and ₩28,864,045 thousand are included in the cost of sales and selling and administration expenses for the year ended December 31, 2007 and 2006, respectively.

# 9. DEBENTURES AND LONG-TERM BORROWINGS:

(1) Long-term borrowings as of December 31, 2007 and 2006 are as follows:

	Interest rate as of December 31, 2007 (%)	Korean won (In thousands)	
		2007	2006
Non-guaranteed debentures	6ML+0.475	₩ 187,640,000	₩ 185,920,000
Foreign currency loans	See Detail	1,625,627	1,684,987
		189,265,627	187,604,987
Less: Discounts of debentures		-	(710,750)
Current maturities		(187,640,000)	(341,960)
		₩ 1,625,627	₩ 186,552,277

Debentures comprise privately issued debentures of ₩187,640 million (USD 200,000 thousand) as of December 31, 2007.

(2) Foreign currency loans as of December 31, 2007 and 2006 are as follows:

	Interest rate as of December 31, 2007 (%)	Korean won (In thousands)	
		2007	2006
Facility loans from EXIM Bank of Korea	6ML+0.675	₩ -	₩ 341,960
Business loans from Korea National oil Corporation	3.25	1,625,627	1,343,027
		1,625,627	1,684,987
Less: current maturities		-	(341,960)
		₩ 1,625,627	₩ 1,343,027

- (3) The maturities of long-term debt as of December 31, 2007, before discounts, are as follows (Korean won in thousands):

		<u>Foreign currency loans</u>
2010. 1 thereafter	₩	1,625,627

#### 10. ACCRUED SEVERANCE BENEFITS:

Accrued severance benefits as of December 31, 2007 and 2006 are as follows:

	<u>Korean won (In thousands)</u>	
	<u>2007</u>	<u>2006</u>
Beginning balance	₩ 1,135,188,486	₩ 1,018,835,792
Severance payment	(143,195,698)	(90,417,659)
Provisions	<u>198,841,279</u>	<u>206,770,353</u>
	1,190,834,067	1,135,188,486
Less: Severance insurance	(1,042,794,852)	(900,139,132)
National pension	<u>(37,173,633)</u>	<u>(41,700,771)</u>
Ending balance	<u>₩ 110,865,582</u>	<u>₩ 193,348,583</u>

Accrued severance benefits are funded approximately 87.6% and 79.3% as of December 31, 2007 and 2006, 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.

#### 11. COMMITMENTS AND CONTINGENCIES:

- (1) The Company has entered into bank overdraft agreements with 7 banks amounting to ₩231,000 million as of December 31, 2007.
- (2) As of December 31, 2007, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports such as letter of credit including usance L/C, totaling USD 1,731,701 thousand.
- (3) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 13 blank notes as of December 31, 2007.
- (4) The outstanding balance of the note receivables, guaranteed by the importers' Government or others, sold to financial institutions with recourse is USD 43,962 thousand, equivalent to ₩41,245 million, as of December 31, 2007. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩3,851 million as of December 31, 2007.
- (5) As of December 31, 2007, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 130,417 thousand and ₩36,844 million. The Company has provided certain performance guarantees amounting to USD 738,459 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") for the construction of 19 ships (Contract amount: USD 2,472,360 thousand).
- (6) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩2,320,094 million and USD 14,118,972 thousand by various banking facilities.

- (7) 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 has entered into currency forward contracts with various banks including Korea Exchange Bank. As of December 31, 2007, the valuation and gain (loss) on transaction of the forward contracts is as follows (Korean won in millions, USD, EUR, GBP, JPY and CHF in thousands):

<u>Purpose</u>	<u>Contract amount</u>	<u>Sales</u>	<u>Gain(loss)</u>	<u>Income</u>
Hedging	USD 16,805,790			
	EUR 219,922			
	GBP 2,301			
	JPY 838,800			
	<u>CHF 882</u>	<u>₩ 230,052</u>	<u>₩ (39,000)</u>	<u>₩ (9,736)</u>
Trading	USD 1,149,913			
	<u>EUR 3,327</u>	<u>-</u>	<u>3,454</u>	<u>-</u>
Total	USD 17,955,713			
	EUR 223,249			
	GBP 2,301			
	JPY 838,800			
	<u>CHF 882</u>	<u>₩ 230,052</u>	<u>₩(35,546)</u>	<u>₩ (9,736)</u>

As of December 31, 2007, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩(7,059) million (net of deferred income tax adjustment of ₩(2,677) million) as loss on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 49 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, 2007 is ₩22,463 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current operations.

Such contracts as described above that were incurred for the year ended December 31, 2007 resulted in gain (loss) on settlement of derivatives amounting to ₩34,655 million and ₩(15,594) million and gain (loss) on valuation of unsettled derivatives amounting to ₩4,582 million and ₩(59,199) million in non-operating income (expenses). As of December 31, 2007, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as current assets and liabilities amounting to ₩184,733 million and ₩205,986 million, respectively.

Besides the above financial derivative, the Company has entered into interest swap contract with CSFB to hedge the exposure to interest rate risk of floating rate debenture amounting to USD 200,000 thousands (variable interest rate : 6M Libor+0.475%, fixed interest rate : 4.50%, maturity date : September 22, 2008). As of December 31, 2007, the Company recorded the present value of the forecasted cash flow amounting ₩788 million as derivative assets. The Company accounted for the realized portion of the gain (loss) on transaction of foreign currency forward amounting to ₩1,391 million as non-operating income. Also, the Company accounted for the ineffective portion of the hedge amounting to ₩325 million as non-operating income, the effective portion of the hedge amounting to ₩335 million (net of deferred income tax adjustment of ₩127 million) as gain on valuation of derivative in accumulated other comprehensive income as of December 31, 2007.

## 12. LITIGATIONS:

- (1) A penalty amounting to ₩19,852 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies, relating to the transactions from 1998 to 2000. All litigations the Company filed were finalized with the Supreme Court's judgment in favor of the Company on November 2, 2007. As a result, the Korea Fair Trade Commission refunded ₩ 4,379 million.

Also, the Company has filed a protest against a penalty amounting to ₩19,415 million that had been imposed on the Company by the Korean Fair Trade Commission, relating to the construction equipment sales. As a result, the penalty decreased by ₩4,186 million pursuant to the resolution of the Korea Fair Trade Commission on January 5 and 24, 2006 and the Company filed several litigations for the remainder of the penalty to the Supreme Court.

In addition, the Company has been brought into 6 legal actions by its employees with claims amounting to ₩471 million for damages from industrial disaster, all of which are pending as of December 31, 2007.

- (2) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on December 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 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 24, 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 Seoul 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 to the Supreme Court of Korea. The Company has provided an allowance for doubtful accounts on the above amount as of December 31, 2007. The management of the Company predict that the case will be decided in the Company's favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

- (3) Pursuant to the restructuring of financial institutions, Chohung Bank, Kangwon Bank and Hyundai Investment Bank ("HIB"), a former subsidiary of the Company, were merged in September 1999. A special tax for rural development amounting to ₩47,300 million and a special tax for deemed dividend income amounting to ₩26,100 million were imposed on the liquidation income of HIB, which was paid by the Company.

The Company instituted an administrative litigation to cancel the tax to the Seoul Administrative Court through Chohung Bank, but on April 21, 2005, the Supreme Court ruled against the Company. In addition, the Company filed an assessment petition to National Tax Tribunal (NTT) in order to have the loss incurred in relation with the merger of Kangwon Bank and Chohung Bank included as a deductible item, but the petition was rejected on August 10, 2005. However, the Company filed a lawsuit to cancel of NTT's rejection for reassessment on corporate income tax to Ulsan district court.

According to preceding tax rebate case for deemed dividend income which occurred in the middle of merger, the Company has claimed for rectification relating to corporate income tax on 2004 to the jurisdictional tax office in June 2007 and the jurisdictional tax office refunded related corporate income tax. Therefore, the Company cancelled the lawsuit on NTT's rejection of reassessment on corporate income tax.

- (4) 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 and the case is in progress.
- (5) The Company has been brought into legal action with claim for returning construction expense amounting to ₩2,579 million. The judgment in favor of the Company was given on January 11, 2008; however, an appeal was made to the Supreme Court. Also, the Company filed for demanding construction expense against Lotte Engineering & Construction Co., Ltd.

### 13. CAPITAL SURPLUS:

Capital surplus as of December 31, 2007 and 2006 is as follows:

	Korean won (In thousands)	
	2007	2006
Paid-in capital in excess of par value	₩ 843,324,390	₩ 843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	65,334,216	65,334,216
	<u>₩ 2,771,383,687</u>	<u>₩ 2,771,383,687</u>

Other capital surplus is composed of ₩33,381,253 thousand of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩10,122,896 thousand of gain on disposal of treasury stock (net of tax effect) and ₩21,830,067 thousand of gain on business combination and others.

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

### 14. RETAINED EARNINGS:

Retained earnings as of December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Appropriated:		
Legal reserve (A & C)	₩ 164,883,307	₩ 148,759,943
Reserve for business rationalization (B & C)	87,276,798	87,276,798
Reserve for research and human development (D)	247,690,637	61,523,970
Other voluntary reserves	631,148,610	281,824,730
Retained earnings before appropriation	1,736,060,340	712,847,560
	<u>₩ 2,876,059,692</u>	<u>₩ 1,292,233,001</u>

- (A) The Korean Commercial Code requires the Company to appropriate as a legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to common stock or used to offset accumulated deficit, if any, through a resolution of shareholders.
- (B) 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 technology development and investments is required to be recorded as a reserve for business rationalization.
- (C) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.

15. CAPITAL ADJUSTMENTS:

As of December 31, 2007 and 2006, capital adjustments are as follows:

	Korean won (In thousands)	
	2007	2006
Treasury stock	(696,729,513)	(351,821,818)

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 January 10, 2007, the Company determined to acquire 2,280 thousand shares for the purpose of stabilizing the share price of the Company, and completed the acquisition by March 22, 2007. The acquisition cost of treasury stock amounting to ₩696,729,513 thousand (13,786,544 shares of treasury stock) was recorded as capital adjustments as of December 31, 2007.

Also, pursuant to the resolution of the board of directors on January 31, 2008, the Company determined to acquire 2,280 thousand shares for the purpose of stabilizing the share price of the Company, and will complete the acquisition by May 2, 2008.

16. DIVIDENDS:

(1) Proposed dividends for 2007 and 2006 are summarized below (Korean won in thousand except par value).

Year	Description	Number of shares (*)	Par value	Dividend rate	Cash dividend	Net income	Dividend to net income
2007	Common stock	62,213,456	₩ 5,000	150 %	₩466,600,920	₩1,736,060,331	26.88%
2006	Common stock	64,493,456	₩ 5,000	50 %	₩161,233,640	₩ 712,847,558	22.62%

(\*) Net of 13,786,544 shares and 11,506,544 shares of treasury stock as of December 31, 2007 and 2006

(2) Yields to market price of proposed dividend for 2007 and 2006 is as follows:

Year	Description	Dividend per share	Closing price	Yield to market price
2007	Common stock	₩ 7,500	₩ 442,500	1.7%
2006	Common stock	₩ 2,500	₩ 126,000	2.0%

17. SALES AND COST OF SALES:

- (1) Sales and cost of sales by major industry segment for the years ended December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)			
	2007		2006	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩ 7,556,662,571	₩ 6,395,626,876	₩ 6,442,771,607	₩ 5,827,332,711
Offshore & Engineering	2,222,062,607	1,944,753,420	1,934,523,127	1,677,755,934
Industrial Plant & Engineering	1,016,617,875	941,797,376	601,608,005	632,236,155
Engine & Machinery	1,645,739,658	1,238,318,869	1,219,557,846	965,687,912
Electro Electric Systems	1,453,389,981	1,139,078,373	1,056,489,317	826,014,266
Construction Equipment	1,512,048,621	1,192,836,163	1,197,947,106	948,313,214
Others	126,491,994	123,707,477	101,847,422	96,104,355
	₩15,533,013,307	₩12,976,118,554	₩12,554,744,430	₩10,973,444,547

- (2) The Company's outstanding contracts as of December 31, 2007 are summarized as follows:

	Korean won (In millions)		
	Shipbuilding	Others	Total
Beginning of year	₩ 17,310,818	₩ 12,999,521	₩ 30,310,339
Increase during the year	14,751,624	8,629,987	23,381,611
Recognized as revenue in current operations	(7,556,662)	(7,976,351)	(15,533,013)
End of year	₩ 24,505,780	₩ 13,653,157	₩ 38,158,937

As of December 31, 2007, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 11).

- (3) As of December 31, 2007, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

	Korean won (In millions)					
	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	₩ 10,582,666	₩ 1,576,963	₩5,775,931	₩1,132,191	₩ 466,325	₩ 665,866
Offshore & Engineering	4,688,105	1,646,814	1,514,437	276,181	81,093	195,088
Industrial Plant & Engineering	2,997,988	126,671	229,489	84,150	4,814	79,336
Engine & Machinery	1,992,800	556,991	419,444	341,445	74,590	266,855
Electro Electric Systems	151,588	39,514	63,436	390,749	335,518	55,231
Construction Equipment (*)	-	-	10,155	155,060	155,060	-
Others (**)	-	-	412	431,713	431,713	-
	₩ 20,413,147	₩3,946,953	₩ 8,013,304	₩ 2,811,489	₩ 1,549,113	₩1,262,376

(\*) Industry segment recognized revenues by delivery basis.

(\*\*) For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩39,071 million.

18. INCOME TAX EXPENSE:

(1) Income tax expense for the years ended December 31, 2007 and 2006 is as follows:

	Korean won (In thousands)	
	2007	2006
Current income tax(Including additional income taxes and income tax refunds)	₩ 567,550,537	₩ 297,926,683
Changes in deferred income taxes due to temporary differences	66,890,178	115,514,323
Changes in deferred income taxes directly adjusted in equity	23,884,819	23,233,239
Income tax expense	658,325,534	436,674,245
Income before income tax	2,394,385,865	1,149,521,803
Effective income tax rate	27.5%	38.0%

(2) For the years ended December 31, 2007 and 2006, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

	Korean won (In thousands)	
	2007	2006
Income before income tax	₩ 2,394,385,865	₩ 1,149,521,803
Temporary differences	(372,702,227)	(483,980,823)
Non-temporary differences	28,276,727	1,120,998
Taxable income	₩ 2,049,960,365	₩ 666,661,978

(3) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2007 and 2006 are summarized as follows:

Description	Korean won (In thousands)			
	2007		2006	
	Beginning	Ending	Beginning	Ending
Equity securities accounted for using the equity method (*)	₩ (251,717,574)	₩ (748,891,369)	₩ (41,470,594)	₩ (251,717,574)
Loss on valuation of investment securities	70,374,032	74,558,133	93,502,002	70,374,032
Reserve for technology development	(247,690,636)	(230,000,000)	(61,523,970)	(247,690,636)
Provision for bad debt expense	187,042,333	146,465,573	152,471,780	187,042,333
Accrued income	(2,824,172)	(28,499,206)	(2,364,562)	(2,824,172)
Loss on valuation of receivables	859,903	859,903	859,903	859,903
Gain (loss) on valuation of short-term investment securities and others	121,273	-	189,013	121,173
Foreign exchange forward contracts (*)	(458,399,783)	37,679,354	(203,696,067)	(458,399,783)
Other (*)	265,550,983	67,906,967	186,612,895	265,550,983
	₩ (436,683,641)	₩ (679,920,645)	₩ 124,580,400	₩ (436,683,641)
Tax rate		27.5%		27.5%
Cumulative tax effects		(186,978,178)		(120,088,000)
Tax credit carryforward		-		-
Deferred income tax assets (liabilities), end of period		(186,978,178)		(120,088,000)
Deferred income tax assets (liabilities), beginning of period		(120,088,000)		(4,573,677)
Changes in deferred income taxes on temporary differences		₩ (66,890,178)		₩ (115,514,323)

(\*) The temporary differences amounting to ₩(96,383) million and ₩139,317 million, which were not recognized as deferred income tax assets and liabilities, respectively, are included.

(4) Tax effects of temporary differences, which were directly adjusted in equity, are composed of ₩(23,966,678) thousand occurred from gain on valuation of available-for-sale securities, ₩(47,897,308) thousand and ₩(5,624,693) thousand occurred from changes in accumulated other comprehensive income of investment securities accounted for using the equity method, and ₩101,373,499 thousand occurred from gain on valuation of foreign exchange forward contracts.

(5) Deferred income tax assets (liabilities) as of December 31, 2007 are as follows:

	Korean won (In thousands)		
	Current	Non-current	Total
Accumulated temporary difference	₩ 258,146,739	₩ (938,067,384)	₩ (679,920,645)
Tax rate	27.5%	27.5%	27.5%
Tax effects	70,990,353	(257,968,531)	(186,978,178)
Tax credit carry forward	-	-	-
Deferred income tax assets (liabilities)	₩ 70,990,353	₩ (257,968,531)	₩ (186,978,178)

#### 19. STATEMENTS OF COMPREHENSIVE INCOME:

Statements of comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Net income	₩ 1,736,060,331	₩ 712,847,558
Other comprehensive income (loss):		
Gain (loss) on valuation of short-term and long-term investment securities	63,184,877	(90,954,944)
Changes in equity arising on application of the equity method	128,162,785	(714,884)
Negative changes in equity arising on application of the equity method	16,655,895	(413,077)
Gain (loss) on valuation of financial derivatives	(267,257,413)	138,061,792
Sub-total	(59,253,856)	45,978,887
Comprehensive income	₩ 1,676,806,475	₩ 758,826,445

#### 20. INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the years ended December 31, 2007 and 2006.

	Korean won	
	2007	2006
Net income (In thousands)	₩ 1,736,060,331	₩ 712,847,558
Weighted average number of outstanding common shares (In thousands)	62,498	64,493
Income per share (In Korean won)	₩ 27,778	₩ 11,053

21. TRANSACTIONS WITH RELATED PARTIES:

(1) The Company is the ultimate holding company and its subsidiaries as of December 31, 2007 are as follows:

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

- (2) Significant transactions and outstanding balances with subsidiaries and affiliated companies for the year ended and as of December 31, 2007 are as follows:

Related Party	Korean won (In thousands)			
	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 357,083,434	₩ 102,306,275	₩ 147,993,683	₩ 44,722,682
Hyundai Mipo Dockyard Co., Ltd.	357,037,043	7,407,134	125,024,489	544,612
Hyundai Oilbank	7,242,502	77,503,518	723,064	5,641,964
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	102,417,119	1,122,573	52,056,377	146,045
Hyundai Heavy Industries Europe N.V.	328,995,014	692,190	24,306,755	517,075
H.C.E U.S.A.	98,234,435	22,802	5,739,406	59,261
Hyundai Jiangsu Construction Machinery Co., Ltd.	125,994,529	10,139,313	24,583,058	467,889
Yantai Hyundai Moon Heavy Industries Co., Ltd.	898,694	3,333,626	-	1,121,144
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	15,094,480	16,121,948	13,081,402	221,166
	<u>₩1,392,997,250</u>	<u>₩218,649,379</u>	<u>₩393,508,234</u>	<u>₩ 53,441,838</u>

- (3) Significant transactions and outstanding balances with subsidiaries and affiliated companies for the year ended and as of December 31, 2006 are as follows:

Related Party	Korean won (In thousands)			
	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 332,844,209	₩ 322,867,074	₩ 91,310,117	₩ 12,445,423
Hyundai Mipo Dockyard Co., Ltd.	297,815,001	8,370,073	113,588,224	599,879
Hyundai Oilbank	3,034,595	58,156,587	802	5,091,747
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	72,736,493	892,530	23,062,372	280,944
Hyundai Heavy Industries Europe N.V.	262,298,060	489,849	15,173,497	-
H.C.E U.S.A.	152,386,603	144,028	10,003,956	-
Hyundai Jiangsu Construction Machinery Co., Ltd.	100,501,235	732,347	19,030,488	279,831
Yantai Hyundai Moon Heavy Industries Co., Ltd.	1,927,770	7,286,385	-	1,103,751
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	14,931,191	7,800,026	16,041,186	643,857
	<u>₩1,238,475,157</u>	<u>₩406,738,899</u>	<u>₩288,210,642</u>	<u>₩ 20,445,432</u>

- (3) The Company has entered into rental agreements (deposits received of ₩148 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of December 31, 2007. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 11).
- (4) The Company has fully provided an allowance for receivable from Vladivostock Business Center amounting to ₩54,521 million as of December 31, 2007.

- (5) The compensation for the key management of the Company for the years ended December 31, 2007 and 2006 are as follows (In thousands):

	2007		2006	
The compensation for the key management	₩	2,943,898	₩	1,720,377

The key management of the Company comprises directors and internal auditors who have important right and responsibility of planning, operation and control of the Company.

## 22. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 are as follows:

Account	Currency	Foreign currencies (In thousands)			Korean won (In thousands)		
		2007	2006		2007	2006	
Assets:							
Cash and cash equivalents	USD	102,404	106,443	₩	96,075,225	₩	98,949,128
	EUR	243	107		335,485		131,214
	Others				38,331,487		919,493
Trade accounts and notes receivable	USD	1,971,617	1,762,263		1,849,771,383		1,638,199,564
	EUR	155,043	33,056		214,154,216		40,401,861
	Others				42,287,627		167,721,627
Accounts receivable-other	USD	71,016	67,510		66,626,817		62,757,538
	EUR	371	417		512,935		509,291
	Others				15,272,851		4,169,729
Long-term trade accounts and notes receivable	USD	102,921	139,679		96,560,853		129,845,640
Long-term financial instruments & others	USD	7,542	59,636		7,076,331		55,437,890
	EUR	13	76		17,680		92,736
	Others				1,309,631		26,422,075
					₩ 2,428,332,521	₩	2,225,557,786
Liabilities:							
Trade accounts and notes payable	USD	217,852	199,924	₩	204,388,331	₩	185,849,512
	EUR	26,985	19,956		37,273,968		24,391,286
	Others				24,251,064		9,598,698
Debentures	USD	-	200,000		-		185,920,000
Current maturities of long-term borrowings	USD	200,000	368		187,640,000		341,960
Long-term borrowings	USD	1,743	1,445		1,625,627		1,343,027
Accounts payable-other & others	USD	227,716	208,400		213,642,721		193,728,744
	EUR	10,436	8,734		14,414,274		10,675,024
	Others				11,451,174		17,095,988
				₩	694,687,159	₩	628,944,239

## 23. FINANCIAL INFORMATION BY INDUSTRY SEGMENT:

The Company is classified into industry segments of Shipbuilding, Offshore & Engineering, Industrial Plant & Engineering, Engine & Machinery, Electro Electric Systems, Construction Equipment and others on the basis of product, feature of manufacturing process, market and sales method. Financial information by industry segment is as follows:

(1) For the year ended and as of December 31, 2007

	Korean won (In thousands)						
	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Construction Equipment	Electro Electric Systems	Others
Sales	₩7,556,662,571	₩2,222,062,607	₩1,016,617,875	₩1,645,739,658	₩1,512,048,621	₩1,453,389,981	₩126,491,994
Operating income (loss)	1,037,967,535	225,679,131	40,353,336	345,551,579	129,518,206	224,069,089	(252,441,340)
Tangible & intangible assets	1,565,525,891	390,891,025	49,841,759	496,453,168	149,637,828	270,181,751	2,282,302,295
Depreciation	(133,667,874)	(42,770,243)	(7,843,103)	(69,864,673)	(15,258,311)	(33,715,026)	(48,599,066)

(2) For the year ended and as of December 31, 2006

	Korean won (In thousands)						
	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Construction Equipment	Electro Electric Systems	Others
Sales	₩6,442,771,607	₩1,934,523,127	₩601,608,005	₩1,219,557,846	₩1,197,947,106	₩1,056,489,317	₩101,847,422
Operating income (loss)	504,412,155	222,527,525	(77,334,078)	205,777,336	98,061,556	149,697,146	(224,275,347)
Tangible & intangible assets	1,415,391,841	314,949,698	56,545,173	448,506,037	142,554,644	252,899,476	2,045,800,386
Depreciation	(128,395,494)	(43,175,738)	(9,356,093)	(69,663,503)	(13,811,074)	(34,846,567)	(48,610,565)

## 24. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2007 and 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Wages	₩ 254,595,885	₩ 213,749,388
Provision for severance benefits	26,919,167	29,551,287
Employee benefits	69,392,557	60,998,288
Advertisement	21,847,528	14,799,192
Ordinary development expenses (Note 8)	75,059,849	49,304,575
Provision for doubtful accounts	12,877,187	39,652,997
Depreciation (Notes 7 and 8)	28,324,927	27,270,411
Commission paid	54,071,315	46,819,880
Transportation	66,384,117	53,450,310
Sales commission	39,554,181	30,279,227
After-service expenses	40,048,111	40,697,465
Others	<u>117,122,393</u>	<u>95,860,570</u>
	<u>₩ 806,197,217</u>	<u>₩ 702,433,590</u>

25. FINANCIAL PERFORMANCE IN THE LAST INTERIM PERIOD:

The financial performance for the three months ended December 31, 2007 and 2006 (Unaudited) is summarized as follows (In thousands, except for share amounts):

	Korean won			
		2007		2006
Sales	₩	4,252,304,003	₩	3,595,060,915
Net income		512,884,688		286,930,637
Net income per share		8,244		4,449

# **Independent Accountants' Review Report on Internal Accounting Control System(“IACS”)**

English Translation of a Report Originally Issued in Korean

To the Chief Executive Officer of  
Hyundai Heavy Industries Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2007. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2007, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2007, and we did not review its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

February 22, 2008

## Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2007 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

# **Report on the Assessment of Internal Accounting Control System (“IACS”)**

English Translation of a Report Originally Issued in Korean

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

I, as the Internal Accounting Control Officer (“IACO”) of Hyundai Heavy Industries Co., Ltd. (“the Company”), assessed the status of the design and operation of the Company’s IACS for the year ended December 31, 2007.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS Framework.

January 31, 2008

Lee Jai-seong, Internal Accounting Control Officer

Min Keh-sik, Chief Executive officer or President