

Deloitte Anjin LLC

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

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 consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These 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 did not audit the financial statements of 19 and 13 subsidiaries, which statements reflect total assets of ₩7,150,810 million and ₩4,401,445 million of consolidated totals as of December 31, 2007 and 2006, respectively, and total revenues of ₩3,841,546 million and ₩3,055,744 million of consolidated totals for the years then ended, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. and its subsidiaries as of December 31, 2007 and 2006, and the results of their operations, changes in its shareholders' equity and their cash flows for the years then ended, in conformity with the accounting principles generally accepted in the Republic of Korea.

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

As explained in Note 1 to the consolidated financial statements, in 2007, the Company included Hyundai Investment Fund 1 on Patent Technology, a domestic company, and Hyundai Ideal Electric Co., Hyundai Construction Equipment India Private Ltd., and Changzhou Hyundai Hydraulic Machinery Co., Ltd., a foreign company, in its consolidated subsidiaries and excluded MIC99-1 IT Venture Investment Partnership, a domestic company, because it was liquidated in 2007.

As explained in Note 14 to the 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 June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company is 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, the 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 June 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 consolidated 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 consolidated 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.

March 21, 2008

Notice to Readers

This report is effective as of March 21, 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. AND ITS SUBSIDIARIES
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 (Notes 3 and 24)	₩ 1,591,004,816	₩ 1,201,921,757
Short-term financial instruments (Notes 3 and 13)	4,660,447,718	1,568,969,791
Short-term investment securities (Note 4)	919,842,435	792,817,689
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩86,977 million in 2007 and ₩99,208 million in 2006 (Notes 13, 23 and 24)	3,515,476,980	3,019,782,700
Accounts receivable-other, net of allowance for doubtful accounts of ₩225,677 million in 2007 and ₩241,908 million in 2006 (Notes 14, 23 and 24)	135,828,661	193,466,146
Inventories (Note 2)	1,690,330,093	1,592,432,649
Advanced payments, net of allowance for doubtful accounts of ₩14,965 million in 2007 and ₩14,885 million in 2006	720,229,508	603,244,721
Accrued income, net of allowance for doubtful accounts of ₩10 million in 2007 and ₩6 million in 2006	80,092,935	28,821,656
Financial assets, net of allowance for doubtful accounts of ₩360 million in 2007 and ₩1,934 million in 2006	5,420,361	17,691,700
Derivatives (Note 13)	213,253,249	644,643,504
Deferred income tax assets (Note 20)	74,570,378	550,152
Other current assets, net of allowance for doubtful accounts of ₩2 million in 2007	586,444,700	570,021,139
Total current assets	<u>14,192,941,834</u>	<u>10,234,363,604</u>
NON-CURRENT ASSETS:		
Long-term investment securities (Note 6)	2,768,996,554	819,938,952
Investment securities accounted for using the equity method (Note 7)	1,054,063,965	939,065,525
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩966 million in 2007 and ₩1,298 million in 2006 (Notes 13 and 24)	95,595,244	128,547,184
Long-term financial instruments (Notes 3 and 24)	9,052,064	9,173,075
Derivatives (Note 13)	-	38,331,112
Deferred income tax assets (Note 20)	71,995,533	37,056,789
Venture investments (Notes 5 and 13)	10,562,575	17,876,421
Property, plant and equipment, net (Notes 8, 10, 11 and 13)	6,707,817,706	6,003,977,727
Intangible assets (Notes 9 and 25)	281,754,832	273,011,476
Other non-current assets, net of allowance for doubtful accounts of ₩2 million in 2006	99,075,617	71,604,304
Total non-current assets	<u>11,098,914,090</u>	<u>8,338,582,565</u>
Total Assets	<u>₩ 25,291,855,924</u>	<u>₩ 18,572,946,169</u>

(Continued)

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
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)	
CURRENT LIABILITIES:		
Short-term borrowings (Notes 10 and 24)	₩ 182,737,012	₩ 261,944,066
Current maturities of debentures and long-term borrowings, net of discount of ₩299 million in 2007 and ₩1 million in 2006 (Notes 11 and 24)	194,031,974	32,349,132
Trade accounts and notes payable (Notes 23 and 24)	1,983,362,577	1,537,101,094
Accounts payable-other (Notes 14, 23 and 24)	226,229,237	183,825,677
Advances from customers	13,635,935,744	10,055,824,610
Income tax payable	715,048,743	257,590,055
Deferred income tax liabilities (Note 20)	13,909,485	90,488,438
Derivatives (Note 13)	245,399,231	2,656,246
Other current liabilities	792,202,584	667,267,955
Total current liabilities	<u>17,988,856,587</u>	<u>13,089,047,273</u>
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discount of ₩711 million in 2006 (Notes 11 and 24)	166,480,488	304,665,362
Accrued severance benefits, net of severance insurance deposits and national pension of ₩1,274,275 million in 2007 and ₩1,101,928 million in 2006 (Note 12)	185,232,960	284,307,181
Long-term accrued expenses	1,029,342	2,269,234
Provision for product warranties	37,101,551	18,847,935
Deferred income tax liabilities (Note 20)	516,077,461	163,931,787
Derivatives (Note 13)	29,860,166	-
Other long-term liabilities	84,262,384	64,891,267
Total long-term liabilities	<u>1,020,044,352</u>	<u>838,912,766</u>
Total Liabilities	<u>19,008,900,939</u>	<u>13,927,960,039</u>
SHAREHOLDERS' EQUITY:		
Capital stock – common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 15)	2,800,653,992	2,758,839,597
Capital adjustments (Note 18)	(752,628,881)	(459,870,771)
Accumulated other comprehensive income (Notes 4, 5, 6, 7, 17 and 21)	146,293,006	255,296,764
Retained earnings (Note 16)	2,901,453,837	1,325,785,724
Minority interests	807,183,031	384,934,816
Total Shareholders' Equity	<u>6,282,954,985</u>	<u>4,644,986,130</u>
Total Liabilities and Shareholders' Equity	<u>₩ 25,291,855,924</u>	<u>₩ 18,572,946,169</u>

See accompanying notes to consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands, except per share amount)	
Sales (Notes 23, 26, 29 and 30)	₩ 20,892,299,349	₩ 16,514,958,482
Cost of sales (Notes 9, 23 and 30)	<u>17,243,708,609</u>	<u>14,302,927,195</u>
Gross profit	3,648,590,740	2,212,031,287
Selling and administrative expenses (Note 27)	<u>1,085,045,549</u>	<u>927,270,974</u>
Operating income	<u>2,563,545,191</u>	<u>1,284,760,313</u>
Non-operating income:		
Interest and dividend income	343,354,084	182,748,696
Gain on foreign currency transactions	120,704,903	102,833,070
Gain on foreign currency translation	13,864,021	44,700,516
Gain on valuation of investments accounted for using the equity method (Note 7)	80,661,725	17,206,867
Gain on disposal of long-term investment securities	24,221,320	1,432,584
Gain on disposal of property, plant and equipment	8,253,245	2,760,633
Gain on valuation of derivatives (Note 13)	5,074,325	41,173,879
Gain on transaction of derivatives (Note 13)	36,589,863	99,581,163
Gain on reversal of provisions (Note 14)	9,434,000	25,285,513
Others	<u>129,499,799</u>	<u>123,319,836</u>
	<u>771,657,285</u>	<u>641,042,757</u>
Non-operating expenses:		
Interest expense	35,194,930	41,444,895
Loss on foreign currency transactions	103,255,790	200,987,152
Loss on foreign currency translation	10,910,100	43,315,489
Loss on valuation of investments accounted for using the equity method (Note 7)	2,093,282	23,108,906
Loss on disposal of long-term investment securities	3,604,570	-
Loss on disposal of property, plant and equipment	34,276,327	15,134,644
Loss on impairment of long-term investment securities (Note 6)	312,014	2,944,852
Loss on valuation of derivatives (Note 13)	93,083,416	1,952,173
Loss on transaction of derivatives (Note 13)	23,444,609	7,416,247
Others	<u>139,205,345</u>	<u>117,652,477</u>
	<u>445,380,383</u>	<u>453,956,835</u>
Net income before income tax	2,889,822,093	1,471,846,235
Income tax expense (Note 20)	<u>937,540,183</u>	<u>610,838,542</u>
Net income:		
Holding company	1,729,549,497	703,569,915
Minority interests	<u>222,732,413</u>	<u>157,437,778</u>
	<u>₩ 1,952,281,910</u>	<u>₩ 861,007,693</u>
Earnings per share (Note 22)	<u>₩ 30,910</u>	<u>₩ 12,353</u>

See accompanying notes to consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Korean won (In thousands)							
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interests	Total amount
January 1, 2006	₩ 380,000,000	₩ 2,749,023,698	₩ (646,216,647)	₩ 186,185,039	₩ 708,073,249	₩ 402,590,217	₩3,779,655,556
Dividend	-	-	-	-	(85,430,184)	-	(85,430,184)
Balance after appropriations	380,000,000	2,749,023,698	(646,216,647)	186,185,039	622,643,065	402,590,217	3,694,225,372
Effect of additional stock acquisition	-	(5,726,357)	-	-	-	-	(5,726,357)
Effect of change in the capital surplus	-	23,282,459	-	-	-	-	23,282,459
Net income	-	-	-	-	703,569,915	157,437,778	861,007,693
Loss in excess of minority interests	-	-	-	-	-	(714,923)	(714,923)
Gain on valuation of investment securities	-	-	-	(92,405,003)	-	-	(92,405,003)
Changes in equity arising on application of the equity method	-	-	-	(7,731,798)	-	-	(7,731,798)
Change in the cumulative translation losses	-	-	-	(288,223)	-	-	(288,223)
Change in the valuation of derivatives	-	-	-	169,536,749	-	-	169,536,749
Change in other capital adjustment	-	-	(3,901,802)	-	-	-	(3,901,802)
Change in discounts on stocks issuance	-	-	6,338	-	-	-	6,338
Change in other minority interests	-	-	-	-	-	(5,014,673)	(5,014,673)
Others	-	-	-	-	6,968,915	-	6,968,915
December 31, 2006	<u>₩ 380,000,000</u>	<u>₩ 2,766,579,800</u>	<u>₩ (650,112,111)</u>	<u>₩ 255,296,764</u>	<u>₩1,333,181,895</u>	<u>₩ 554,298,399</u>	<u>₩4,639,244,747</u>

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HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean won (In thousands)						
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interests	Total amount
January 1, 2007	₩ 380,000,000	₩ 2,766,579,800	₩ (650,112,111)	₩ 255,296,764	₩ 1,333,181,895	₩ 554,298,399	₩ 4,639,244,747
Effect of accounting changes	-	(7,740,203)	190,241,340	-	(7,396,171)	(169,363,583)	5,741,383
January 1, 2007 (adjusted)	380,000,000	2,758,839,597	(459,870,771)	255,296,764	1,325,785,724	384,934,816	4,644,986,130
Dividend	-	-	-	-	(153,881,384)	-	(153,881,384)
Balance after appropriations	380,000,000	2,758,839,597	(459,870,771)	255,296,764	1,171,904,340	384,934,816	4,491,104,746
Effect of additional stock acquisition	-	(1,317,559)	-	-	-	-	(1,317,559)
Gain on sale of treasury stock	-	84,804,201	-	-	-	-	84,804,201
Effect of change in the capital surplus	-	(41,672,247)	-	-	-	-	(41,672,247)
Net income	-	-	-	-	1,729,549,497	222,732,413	1,952,281,910
Loss in excess of minority interests	-	-	-	-	-	(5,233,968)	(5,233,968)
Gain on valuation of investment securities	-	-	-	213,344,075	-	-	213,344,075
Negative changes in equity arising on application of the equity method	-	-	-	(20,251,914)	-	-	(20,251,914)
Change in the cumulative translation losses	-	-	-	7,831,055	-	-	7,831,055
Change in the valuation of derivatives	-	-	-	(309,926,974)	-	-	(309,926,974)
Change in the treasury stock	-	-	(284,341,543)	-	-	-	(284,341,543)
Change in other capital adjustment	-	-	(8,416,567)	-	-	-	(8,416,567)
Change in other minority interests	-	-	-	-	-	204,749,770	204,749,770
December 31, 2007	<u>₩ 380,000,000</u>	<u>₩ 2,800,653,992</u>	<u>₩ (752,628,881)</u>	<u>₩ 146,293,006</u>	<u>₩ 2,901,453,837</u>	<u>₩ 807,183,031</u>	<u>₩ 6,282,954,985</u>

See accompanying notes to consolidated financial statements

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
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	₩ 1,952,284,910	₩ 861,007,693
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	248,660,350	254,936,126
Provision for doubtful accounts	20,885,641	51,958,745
Amortization of intangible assets	48,205,979	41,952,473
Depreciation	485,329,801	453,596,943
Amortization of discount on debentures	412,314	412,701
Loss on foreign currency translation	10,875,456	43,204,439
Loss on impairment of long-term investment securities	312,014	2,944,852
Loss on disposal of long-term investment securities	3,604,570	-
Loss on disposal of property, plant and equipment	34,276,327	15,134,644
Loss on valuation of investments accounted for using the equity method	2,093,282	23,108,906
Loss on valuation of derivatives	93,083,416	1,952,173
Gain on disposal of property, plant and equipment	(8,253,245)	(2,760,633)
Gain on disposal of long-term investment securities	(24,221,320)	(1,432,584)
Gain on foreign currency translation	(11,693,157)	(43,113,844)
Gain on valuation of investments using the equity method	(80,661,725)	(19,733,517)
Gain on valuation of derivatives	(235,126,459)	(397,158,402)
Gain on reversal of provisions	(68,071,684)	(27,967,614)
Income tax expense	-	122,760,704
Others, net	37,746,386	19,979,425
	<u>557,457,946</u>	<u>539,775,537</u>
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts and notes receivable	(814,877,874)	258,362,630
Decrease (increase) in accounts receivable-other	33,271,156	(40,205,264)
Increase in accrued income	(51,029,223)	(1,007,925)
Increase in advanced payments	(136,581,358)	(133,299,125)
Decrease (increase) in deferred income tax assets	(75,419,454)	10,324,270
Increase in inventories	(123,908,229)	(48,360,769)
Increase (decrease) in trade accounts and notes payable	877,972,646	(247,611,604)
Increase (decrease) in accounts payable-other	7,942,373	(27,840,522)
Increase in advances from customers	3,660,624,831	1,413,737,591
Increase in accrued expenses	104,539,900	44,190,056
Increase in income tax payable	457,418,078	201,029,143
Increase in deferred income tax liabilities	110,360,674	184,876,115
Decrease in long-term accrued expenses	(1,239,893)	(50,221,310)
Payments of severance benefits	(174,935,651)	(114,389,676)
Payment of severance insurance deposits	(177,726,263)	(82,971,774)
Decrease in derivatives	340,676,154	283,379,115
Others, net	87,504,506	(29,708,421)
	<u>4,124,592,373</u>	<u>1,620,282,530</u>
Net cash provided by operating activities	<u>6,634,332,229</u>	<u>3,021,065,760</u>

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HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
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	₩ 2,858,149,518	₩ 1,079,164,131
Disposal of short-term investment securities	1,684,992,148	2,741,208,696
Withdrawal of long-term financial instruments	551,393	20,432,607
Disposal of Investment securities accounted for using the equity method	6,585,516	159,032,596
Disposal of long-term investment securities	60,428,129	7,185,261
Disposal of property, plant and equipment	21,516,413	9,275,386
Acquisition of long-term investment securities	(7,097,565)	-
Acquisition of short-term financial instruments	(5,692,345,199)	(1,698,641,484)
Acquisition of short-term investment securities	(1,998,956,295)	(2,966,000,000)
Acquisition of long-term financial instruments	(12,367,473)	(23,215,160)
Acquisition of long-term investment securities	(1,443,982,384)	(154,814,216)
Acquisition of investment securities accounted for using the equity method	(93,297,376)	(660,907,758)
Acquisition of property, plant and equipment	(1,230,744,264)	(607,327,214)
Expenditures for development costs	(56,329,512)	(61,383,137)
Others, net	(39,638,947)	(13,036,308)
Net cash used in investing activities	(5,942,535,898)	(2,169,026,600)
Cash flows from financing activities:		
Proceeds from short-term borrowings	31,732,163	823,522,392
Proceeds from long-term borrowings	18,866,600	1,353,863
Disposal of the treasury stock	342,320,782	-
Repayment of short-term borrowings	(123,029,305)	(1,020,260,001)
Repayment of current maturities of debentures and long-term borrowings	(32,336,707)	(68,201,813)
Repayment of long-term borrowings	-	(10,547,185)
Acquisition of the treasury stock	(379,689,397)	(24,413,966)
Payment of cash dividends	(182,864,662)	(105,859,300)
Others, net	19,129,834	(3,710)
Net cash used in financing activities	(305,870,692)	(404,409,720)
Effect of change in consolidated subsidiaries	3,157,420	(5,216,070)
Net increase in cash and cash equivalents	389,083,059	442,413,370
Cash and cash equivalents at the beginning of the year	1,201,921,757	759,508,387
Cash and cash equivalents at the end of the year	₩ 1,591,004,816	₩ 1,201,921,757

See accompanying notes to consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. General Information:

The Company

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated on December 28, 1973, under the Commercial Code of the Republic of Korea to manufacture and sell ships, offshore structures, plants, engines and other items. The head office and the major production plants of the Company are located in Jeonha-dong, Dong-gu, Ulsan and the Seoul office is located in Gye-dong, Jongno-gu, Seoul. The Company has several operating and construction areas in other countries.

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 stocks, 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 through a depository receipts according to the regulations of issuing of foreign securities, 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.

Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Company and its consolidated domestic and foreign subsidiaries over which the Company has control. The consolidated subsidiaries as of December 31, 2007 are as follows (Korean won in millions):

<u>Company's name</u>	<u>Business</u>	<u>Shareholders' equity</u>	<u>Number of shares</u>	<u>% of ownership</u>	<u>Location</u>	<u>Fiscal year end</u>
Domestic subsidiaries:						
Hyundai Finance Corporation	Financing	138,308	12,350,000	67.49	Korea	Dec.31
Hyundai Venture Investment Corporation (*1)	"	63,709	4,103,000	68.38	"	"
Hyundai Futures Corporation (*1)	"	28,310	3,000,000	65.22	"	Mar.31
HVIC IT Fund 3 rd (*1)	Investment association	11,663	55	55.00	"	Dec.31
Hyundai Investment Fund 1 on Patent Technology	"	20,185	100	50.00	"	"
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	1,714,495	37,967,000	94.92	"	"
Hyundai Mipo Dockyard Co., Ltd. (*1)	"	3,081,985	8,218,506	41.09	"	"

<u>Company's name</u>	<u>Business</u>	<u>Shareholders' equity</u>	<u>Number of shares</u>	<u>% of ownership</u>	<u>Location</u>	<u>Fiscal year end</u>
Foreign subsidiaries:						
H. C. E. U.S.A	Wholesale	13,266	23,900,000	100.00	U.S.A.	Dec.31
Hyundai Heavy Industries Europe N.V.	Assembly & wholesale	38,614	10	100.00	Belgium	"
Changzhou Hyundai Construction Machinery Co., Ltd. (*2)	"	38,611	-	60.00	China	"
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2)	"	79,769	-	60.00	China	"
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. (*2)	"	29,795	-	60.00	China	"
Vladivostok Business Center	Food & lodging	(144,833)	-	57.14	Russia	"
Hyundai Dongahn Steel (*2)	Assembly & wholesale	2,390	-	54.99	Vietnam	"
Hyundai Heavy Industries Co. Bulgaria	Electrical equip. manufacturing	22,951	12,155,829	99.09	Bulgaria	"
Hyundai Vinashin Shipyard (*1&2)	Ship repairing	78,871	-	65.00	Vietnam	"
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2)	Electrical equip. manufacturing	12,584	-	54.99	China	"
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jaingsu Hyundai Nanzi Electric Co., Ltd.) (*1&2)	Electrical equip. manufacturing	25,879	-	100.00	China	"
HHI China Investment Co., Ltd. (*2)	Investment and advisory service	27,508	-	100.00	China	"
Hyundai Ideal Electric Co. (*2)	Electrical equip. manufacturing	11,128	-	100.00	U.S.A.	"
Hyundai Construction Equipment India Private Ltd. (*2)	Assembly & wholesale	20,288	-	100.00	India	"
Changzhou Hyundai Hydraulic Machinery Co., Ltd. (*2)	Assembly & wholesale	13,137	-	100.00	China	"

(*1) Shares and ownership include indirect shares and ownership, of which its subsidiaries hold as of December 31, 2007.

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

In 2007, the Company excluded MIC99-1 IT Venture Investment Partnership, a domestic company, from its consolidated subsidiaries because it was liquidated in 2007.

Detailed Information on the Subsidiaries

- Domestic consolidated subsidiaries

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

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

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

HVIC IT Fund 3rd (“HIF3rd”) was established on July 21, 2004 to engage in investments and financing in new entrepreneurs and venture companies.

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

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

Hyundai Mipo Dockyard Co., Ltd. (“HMD”) was incorporated on April 28, 1975 to repair, convert and build the ships. The main business of HMD has been shifted from repair of ship to shipbuilding. The shares of HMD were listed on the Korea Stock Exchange on December 20, 1983.

- Overseas consolidated subsidiaries

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

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

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

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

Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. (“BHCM”) was incorporated in Beijing, China on August 22, 2002 and engages in assembling and selling of construction equipment.

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

Hyundai Dongahn Steel (“HDS”) was incorporated in Vietnam in March 1996 to produce steel towers and steel structures, and provide zinc galvanizing service.

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

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

Yantai Hyundai Moon Heavy Industries Co., Ltd. (“YHMH”) was incorporated in Yantai, China in 2004 and is presently constructing the manufacturing factory for assembling and selling of electric generator.

Hyundai Heavy Industry (China) Electric Co., Ltd. (“HHIC”) (Formerly Jaingsu Hyundai Nanzi Electric Co., Ltd.) was incorporated in China in 2004 and engages in the manufacture and sale of power transformers, automatic voltage regulators and others.

HHI China Investment Co., Ltd. (“HCI”) was incorporated in Shanghai, China in 2005 and engages in providing subsidiaries with various kinds of supporting services.

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

Hyundai Construction Equipment India Private Ltd. (“HCEIP”) was incorporated in India in 2007 and engages in the manufacture and sale of excavators.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Company and its domestic subsidiaries maintain their official accounting records in Korean won and prepare statutory consolidated 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 and its subsidiaries that conform to financial accounting standards and accounting principles in the Republic of Korea may not conform to generally accepted accounting principles in other countries. Accordingly, these consolidated 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 consolidated financial statements. Certain information included in the Korean language consolidated financial statements, but not required for a fair presentation of the consolidated financial position, results of operations, changes in shareholders’ equity or cash flows, is not presented in the accompanying consolidated financial statements.

The Company and its subsidiaries prepared its 2007 consolidated financial statements 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”, No. 23 “Earnings per Share” and No. 25 “Consolidated Financial Statements”, effective from January 1, 2007. Major changes compared with the standards applied in preparing the 2007 consolidated financial statements are as follows:

<u>Statements of Korea Accounting Standards (SKAS)</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 the balance sheets
No. 23 Earnings per Share	- To present on the face of the income statement basic and diluted earnings per share and disclose earnings per share for profit or loss from discontinued operations
No. 25 Consolidated Financial Statements	- The excess and any further losses attributable to the minority interest are allocated to the minority interest and presented as negative in equity.

The Company restated the consolidated balance sheet as of December 31, 2006 and consolidated statements of income, cash flows and changes in shareholders' equity for the year ended December 31, 2006, which are presented for comparative purposes, in accordance with SKAS No. 16, No. 21, No. 23 and No. 25. Such restatement had no effect on net assets and net income of prior period.

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

Principles of Consolidation

The consolidated financial statements include the individual accounts of the Company and its domestic and foreign subsidiaries over which the Company has control, except for companies with total assets of less than ₩7,000 million at the end of the preceding fiscal year. Under Korea Accounting Standards, control is presumed when the Company is the largest shareholder and owns more than 30 percent of the voting shares. Investments in affiliates in which a consolidated entity is able to exercise significant influence over the operation and financial policies of a non-consolidated company are accounted for using the equity method. Significant influence is deemed to exist when the investor owns more than twenty percent of the investee's voting shares unless there is evidence to the contrary. If the changes in the investment value due to the changes in the net assets of affiliates, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million, are not material, investments in affiliates can be excluded from using the equity method.

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

When the Company acquires additional interests in a subsidiary after obtaining control over the subsidiary, the difference between incremental price paid by the Company and the amount of incremental interest in the shareholders' equity of the subsidiary is reflected in the capital surplus. In case a subsidiary still belongs to a consolidated economic entity after the Company disposes a portion of the stock of subsidiaries to non-subsidiary parties, gain or loss on disposal of the subsidiary's stock is accounted for as capital surplus.

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

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

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

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

As of December 31, 2007, we audited the non-consolidated financial statements of HMD and HCEUSA. In addition, the 2007 consolidated financial statements are prepared based on the financial statements of a domestic subsidiary (HFTC) that have different fiscal year end, which were neither audited nor reviewed by an external auditor. The rest of the Company's subsidiaries were audited by other auditors.

Revenue Recognition

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

Under the percentage-of-completion method, revenues are recognized based on the percentage of costs incurred (including man hours and raw material costs) over total estimated costs for each contract. As a result, the timing of revenue recognition of which the Company reports may differ materially from the timing of actual contract payments received. The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company are reflected as advances from customers. The expenditures incurred before the construction contract is entered into are recognized as prepaid construction costs, if they are directly related to making a contract, separately identifiable and reliably measurable, and an agreement to construction is probable. The prepaid construction costs are transferred to construction cost at the commencement of the construction.

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

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 and its subsidiaries provide an allowance for doubtful accounts based on management's estimate of the collectibility of receivables and prior years' collection experience.

When interest rate and repayment period are changed unfavorably for the Company and its subsidiaries 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. Inventories as of December 31, 2007 and 2006 consist of following:

	Korean won (In millions)	
	2007	2006
Merchandise, net of provision for valuation losses of ₩5,486 million in 2007 and ₩4,113 million in 2006	₩ 112,992	₩ 137,617
Finished products, net of provision for valuation losses of ₩825 million in 2007	177,214	116,707
Semi-finished products	-	40
Work-in-process	369,332	251,853
Materials	659,890	464,290
Supplies	21,279	16,036
Materials in-transit	349,623	605,890
	<u>₩ 1,690,330</u>	<u>₩ 1,592,433</u>

Investments in Securities other than those Accounted for Using the Equity Method

Classification of Securities

At acquisition, the Company and its subsidiaries classify 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 and its subsidiaries have 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 terms 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 the lump-sum cumulative amount of accumulated other comprehensive income (loss) is included in current operations. 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 and its subsidiaries estimate 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 and its subsidiaries are able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. Differences between the initial purchase price and the Company and its subsidiaries' initial proportionate ownership of the net book value of the investee are allocated to identifiable assets and liabilities and any excess of the initial purchase price over the Company and its subsidiaries' initial proportionate ownership in the fair value of the identifiable assets and liabilities acquired at the date of acquisition is recognized as goodwill. Goodwill is amortized over the reasonable periods within 20 years using the straight-line method. Under the equity method, the change in the Company and its subsidiaries' portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company and its subsidiaries' net income (loss), retained earnings, capital surplus and accumulated other comprehensive income (loss), in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and accumulated other comprehensive income (loss). Unrealized profit arising from sales by the Company and its subsidiaries to equity method investees is fully eliminated. The Company and its subsidiaries' proportionate unrealized profit arising from sales by the equity method investees to the Company and its subsidiaries or sales between equity method investees is also eliminated. The subsidiaries, except for Hyundai Oilbank which was audited by us, have been audited by other auditors.

If the amount recoverable from investment securities accounted for using the equity method is less than its carrying amount, impairment loss is recognized. Pursuant to Korea Accounting Standards for investments in securities, the Company and its subsidiaries determine whether there is objective evidence that impairment loss has been incurred, and when such evidence exists, impairment loss is recognized in accordance with Korea Accounting Standards for 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 and its subsidiaries apply (a) the foreign exchange rate as of the Company and its subsidiaries' balance sheet date to the investee's assets and liabilities, (b) the foreign exchange rate as of the date on which the Company and its subsidiaries acquired its equity interest in the investee to the Company and its subsidiaries' 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 and its subsidiaries' acquisition of its equity interest in the investee. For the income statement items, either the foreign exchange rate as of each transaction date or the average rate for the pertinent period may be 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 and its subsidiaries' 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 incidental 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 operation.

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

	<u>Useful lives (years)</u>
Buildings and structures	7 ~ 50
Machinery and equipment	3.3 ~ 20
Ships	12
Vehicles	4 ~ 10
Tools, furniture and fixtures	3 ~ 10
Heavy machinery	10
Others	3 ~ 40

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount as a result of technological obsolescence or rapid decline in market value. When it is determined that a tangible asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

Lease Transactions

The Company and its subsidiaries account for lease transactions as either capital leases or operating leases, depending on the terms of the underlying lease agreements.

Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- (1) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

- (3) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (4) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (5) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

An operating lease is a lease other than a finance lease.

With regard to the operating lease, the minimum lease expenses equally allocated during the lease period are recorded as expenses and contingent lease rental is recorded as income or expenses of the accrued period. For the finance lease, the lower price between the discounted minimum lease price at the implicit interest rate and the fair value of the lease assets is recorded as finance lease assets and finance lease liability, and the lease asset is depreciated with the same depreciation method of the property which the Company possesses. Moreover, the minimum lease expenses are recorded as finance lease interest expenses discounted at the implicit interest rate for the finance lease liability and the principal reimbursement of the finance lease liability.

Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization, which is computed using the straight-line method based on the estimated service lives of the intangibles assets as described below.

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

Development costs are incurred in respect of particular development activities and directly related to new products or technology. The Company's management believes that the value of development costs will be recovered through their future economic benefits. Land appropriation is generated from CHCM, HJCM, HDS and HVS. Goodwill originated when HSHI acquired assets and assumed liabilities of Halla Heavy Industries Co., Ltd. Other intangible assets consist of usage right for donated properties, harbor facility management rights, industrial complex facility management rights, right to use a water supply facility and others.

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

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 and its domestic subsidiaries maintain 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 consolidated 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 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, which may occur due to product liabilities suits as provision for product warranty.

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 and its domestic subsidiaries, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩1,459,508 million and ₩1,386,235 million as of December 31, 2007 and 2006, respectively (See Note 12).

Accrued severance benefits are funded approximately 84.3% and 76.0% 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. However, some overseas consolidated subsidiaries expense severance insurance paid according to local regulation.

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

Income Tax Expense

The Company and its subsidiaries recognize income tax expense determined by adding or deducting changes in deferred income tax assets (liabilities) to or from total income tax and surtaxes to be paid 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 bases of assets on liabilities and the book value reverses in the future. The Company and its subsidiaries recognize deferred tax liabilities basically for all taxable temporary differences, but recognize deferred tax assets for all deductible temporary differences to the extent that it is possible that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company and its subsidiaries recognize 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.

Financial Assets

The financial assets owned by Hyundai Finance Corporation are classified as financing receivable, unsettled financing receivable and general financing fund depending on the nature of the loan financing.

Venture Investment Assets

According to the provision for small and medium enterprises on foundation support, venture investments companies (HVIC, HIF3rd and Hyundai Investment Fund 1 on Patent Technology) must invest more than 20%, 30% and 50% of paid capital within one, two and three years, respectively, from registration date or the date of capital increase of small and medium enterprises.

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

Equity securities other than those accounted for using the equity method

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

Investment accounted for using the equity method

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

Cumulative Effect from Change in Accounting Policy

The Company eliminated in full the investments and dividends of Hyundai Mipo Dockyard Co., Ltd. ("HMD", the subsidiary of Hyundai Samho Heavy Industries Co., Ltd.) in the Company's share which were recognized as a treasury stock and related dividends. 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 allocation to the minority interest exceeding the ratio of the controlling interest.

As a result, the Company's deferred income tax assets decreased by ₩9,673,062 thousand, deferred income tax liabilities decreased by ₩3,161,880 thousand, treasury stock decreased by ₩25,501,709 thousand and retained earnings decreased by ₩8,335,865 thousand as of and for the year ended December 31, 2007, compared to the previous accounting method. In addition, the accompanying consolidated balance sheet as of December 31, 2006 and the 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 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
Deferred income tax liabilities (non-current)	₩ 15,146,251	₩ 14,620,083	₩ 46,792,218	₩ 42,947,963	₩169,673,170	₩163,931,787
Capital surplus	2,815,366,344	2,813,979,175	2,749,023,698	2,741,283,495	2,766,579,800	2,758,839,597
Treasury stock	(495,508,402)	(401,675,006)	(646,210,309)	(455,968,969)	(646,210,309)	(455,968,969)
Retained earnings	575,100,883	575,100,883	708,073,249	705,678,597	1,333,181,894	1,325,785,724
Minority interests	370,228,805	278,308,746	402,590,217	226,327,987	554,298,400	384,934,816

3. RESTRICTED FINANCIAL INSTRUMENTS:

As of December 31, 2007 and 2006, cash and financial instruments amounting to ₩24,560 million and ₩12,336 million, respectively, are subject to withdrawal restrictions in relation to certain ship construction contracts and bank overdraft.

4. SHORT-TERM INVESTMENT SECURITIES:

Short-term investment securities as of December 31, 2007 are as follows:

Account	Korean won (In millions)			
	Trading securities	Available-for-sale securities	Held-to-maturity securities	Total
Government bonds	₩ 10,051	₩ -	₩ 42	₩ 10,093
Corporate bonds	-	152,419	-	152,419
Subordinated bonds	-	25,012	-	25,012
Listed securities	13,353	-	-	13,353
Beneficiary certificate	-	478,376	-	478,376
Private equity fund	-	230,591	-	230,591
Asset backed securities	-	9,998	-	9,998
	₩ 23,404	₩ 896,396	₩ 42	₩ 919,842

Short-term investment securities as of December 31, 2006 are as follows:

Account	Korean won (In millions)			
	Trading securities	Available-for-sale securities	Held-to-maturity securities	Total
Beneficiary certificate	₩ -	₩ 220,635	₩ -	₩ 220,635
Trading securities	8,874	-	-	8,874
Subordinated bonds	-	-	500	500
Commercial paper	-	10,000	-	10,000
Government bonds	9,812	1,153	15	10,980
Convertible bonds	3,086	-	-	3,086
Private equity fund	-	206,742	-	206,742
Asset backed securities	-	20,000	-	20,000
MMF	-	290,000	-	290,000
Others	-	-	22,000	22,000
	₩ 21,772	₩ 748,530	₩ 22,515	₩ 792,817

The Company and its subsidiaries have accounted for gain on valuation of available-for-sale securities, which is reported as gain on valuation of investment securities in accumulated other comprehensive income, amounting to ₩11,176 million and ₩1,905 million, including portions of minority interests, respectively, as of December 31, 2007 and 2006, respectively.

5. VENTURE INVESTMENT ASSETS:

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

	Korean won (In millions)	
	2007	2006
Available-for-sale securities	₩ 10,563	₩ 17,646
Organization investments	-	230
	₩ 10,563	₩ 17,876

6. LONG-TERM INVESTMENT SECURITIES:

- (1) 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 millions)	
	2007	2006
Equity securities stated at fair value	₩ 2,659,470	₩ 695,618
Equity securities stated at acquisition cost	85,624	68,114
Debt securities	23,903	56,207
	₩ 2,768,997	₩ 819,939

- (2) Equity securities stated at fair value, included in long-term investment securities as of December 31, 2007 and 2006, are as follows:

Company	2007 % of ownership	Korean won (In millions)			
		2007		2006	
		Historical cost	Book value	Historical cost	Book value
KCC Corporation	11.40	₩ 268,497	₩ 632,400	₩ 124,368	₩ 195,123
POSCO	2.43	1,042,901	1,219,076	-	-
Kia Motors Corp.	0.03	2,682	891	2,682	1,187
Tong Yang Investment Bank	3.45	99,828	71,026	99,828	41,524
Mirae Asset Securities Co., Ltd	0.10	6,654	6,874	-	-
InfoBank Corporation	-	-	-	1,160	788
Value Added Technology Co., Ltd	-	-	-	400	792
Polyplus Co., Ltd.	-	-	-	490	959
Hanarotelecom Inc.	0.01	7,948	12	7,948	9
Hyundai Elevator Co., Ltd.	2.16	1,632	20,791	1,632	10,288
Hyundai Motor Company	4.49	705,772	706,579	477,675	443,251
Hyundai Corporation	0.36	11,227	1,821	11,227	1,697
		₩ 2,147,141	₩ 2,659,470	₩ 727,410	₩ 695,618

- (3) Equity securities stated at acquisition cost, included in long-term investment securities as of December 31, 2007 and 2006, are as follows:

Company	2007 % of ownership	Korean won (In millions)			
		2007		2006	
		Historical cost	Book value	Historical cost	Book value (**)
Unlisted equity securities: (*1)					
Hynix Semiconductor America Inc.	1.33	34,526	-	34,526	-
Daehan Oil Pipeline Corporation (*2)	6.39	14,512	15,851	14,512	14,512
Doosan Capital Co., Ltd. (*3)	9.99	10,000	26,146	10,000	10,000
Bexco, Ltd.	7.96	9,460	9,460	9,460	9,460
ENOVA Systems Inc.	4.00	3,042	3,042	3,364	3,364
Hyundai-Enova Innovative Technical					
Center Inc. (*4)	60.00	3,360	3,360	3,360	3,360
The Korea Economic Daily	3.25	4,050	3,150	4,050	3,150
PHECO Inc. (*4)	100.00	2,304	237	2,304	237
Others (*4)		<u>33,529</u>	<u>17,273</u>	<u>42,619</u>	<u>17,082</u>
		<u>114,783</u>	<u>78,519</u>	<u>124,195</u>	<u>61,165</u>
Other investments:					
Beneficiary certificate (Securities)		120	124	-	-
Investments in capital		<u>6,562</u>	<u>6,981</u>	<u>6,561</u>	<u>6,949</u>
		₩ 121,465	₩ 85,624	₩ 130,756	₩ 68,114

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

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

(*4) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hunelec Engineering & Technologies Ltd., Hyundai S/V Indonesia, Hyundai Malaysia, HHI Mauritius Ltd., Hyundai-Enova I.T.C, PHECO Inc, HHI France SAS and Mipo Engineering 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.

- (4) Debt securities, included in long-term investment securities as of December 31, 2007 and 2006, are as follows:

		Korean won (In millions)			
		2007		2006	
		Historical cost	Book value	Historical cost	Book value
Government and municipal bonds	₩	1,508	₩ 1,514	₩ 6,172	₩ 6,229
Corporate bonds		<u>26,255</u>	<u>22,389</u>	<u>50,635</u>	<u>49,978</u>
	₩	<u>27,763</u>	<u>₩ 23,903</u>	<u>₩ 56,807</u>	<u>₩ 56,207</u>

Maturities of debt securities as of December 31, 2007, included in long-term investment securities, are as follows:

	Korean won (In millions)	
	Corporate bonds	
2009.01 ~ 2012.12	₩	21,389
2013.01 ~ 2017.12		<u>1,000</u>
	₩	<u>22,389</u>

- (5) Valuation of available-for-sale securities in accumulated other comprehensive income, all of which are classified into long-term investment securities stated at fair value as of December 31, 2007, are as follows:

Company	Korean won (In millions)			
	Beginning balance	Increase (decrease)	Impairment loss	Ending balance
Equity securities:				
Hyundai Motor Company	₩ (24,957)	₩ 25,542	₩ -	₩ 585
Tong Yang Investment Bank	(1,301)	21,388	-	20,088
Hyundai Corporation	703	90	-	793
Hyundai Elevator Co., Ltd.	6,275	7,615	-	13,890
Kia Motors Corp.	(1,084)	(214)	-	(1,298)
Hanarotelecom Inc.	7	2	-	9
Mirae Asset Securities Co., Ltd	-	159	-	159
Daehan Oil Pipeline Corp	-	971	-	971
Doosan Capital Co.,Ltd	-	11,706	-	11,706
KCC Corporation	51,297	212,533	-	263,830
POSCO	-	13,336	-	13,336
Others	545	(863)	-	(318)
Debt securities:				
Government and municipal bonds, and others	124	(2,302)	318	(2,498)
	<u>₩ 31,609</u>	<u>₩ 290,826</u>	<u>₩ 318</u>	<u>₩ 321,571</u>

* Valuation of available-for-sale securities in accumulated other comprehensive income, all of which were classified into long-term investment securities stated at fair value as of December 31, 2006, are as follows:

Company	Korean won (In millions)			
	Beginning balance	Increase (decrease)	Impairment loss	Ending balance
Equity securities:				
Hyundai Motor Company	₩ 94,283	₩ (119,241)	₩ -	₩ (24,958)
Tong Yang Investment Bank	(4,161)	2,860	-	(1,301)
Hyundai Elevator Co., Ltd.	7,314	(1,039)	-	6,275
Kia Motors Corp.	(246)	(838)	-	(1,084)
KCC Corporation	11,813	39,485	-	51,298
Hyundai Corporation	-	703	-	703
Hanarotelecom Inc.	-	7	-	7
Others	544	1	-	545
Debt securities:				
Government and municipal bonds, and others	(838)	962	-	124
	₩ 108,709	₩ (77,100)	₩ -	₩ 31,609

- (6) Long-term investment securities of Novelis Korea Ltd. and Hanchem Inc. have been determined to be impaired and the impairment loss amounting to ₩105,249 thousand and ₩206,765 thousand are accounted as non-operating expenses in 2007.

7. 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	Korean won (In millions)				
	Number of shares	% of ownership	Historical cost	Net equity value	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩ 266,150	₩ 322,490	₩ 322,490
MOST 3 New Technology Business					
Investment Partnership	130	24.53	123	125	125
Incheon Airport Energy	3,284,884	31.00	16,424	3,847	3,847
New Korea Country Club	16,457	20.00	500	3,229	3,229
Beijing Halla Construction Machinery Company Limited (*5)	-	0.50	4,290	-	-
Koentec Co., Ltd. (*4)	3,956,800	10.88	9,493	5,650	7,634
Hyundai Merchant Marine Co., Ltd. (Common stock) (*3)	33,903,211	17.68	584,793	441,892	518,130
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*3)	5,089,943	17.66	76,349	81,250	81,250
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*2)	-	20.00	67,658	81,279	92,649
Taishan Financial Leasing Co., Ltd. (*2)	-	84.81	3,409	2,740	2,740
Wartsila Hyundai Engine Company Ltd. (*2)	-	50.00	22,230	21,970	21,970
			₩1,051,419	₩ 964,472	₩ 1,054,064

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

- (*3) 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 ₩43,000 per share at December 31, 2007. Preferred stock has no market price because it is unlisted stock.
- (*4) 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.
- (*5) Use of equity method was discontinued since the carrying amount of investments is less than zero due to accumulated deficit in 2002. The company is in progress of liquidation.

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

Company	Korean won (In millions)				
	Number of shares	% of ownership	Historical cost	Net equity value	Book value
Hyundai Oilbank	48,700,540	19.87	₩ 266,150	₩ 282,933	₩ 283,305
MOST 3 New Technology Business					
Investment Partnership	130	24.53	2,988	4,310	4,310
Incheon Airport Energy	3,284,884	31.00	16,424	4,414	4,414
New Korea Country Club	16,457	20.00	500	2,968	2,968
Beijing Halla Construction Machinery Company Limited(*1)	-	50.00	4,290	-	-
Hyundai & Terasource					
D-Convergence Venture Investment	910	50.00	9,100	1,674	1,674
Koentec Co., Ltd. (*2)	3,956,800	10.88	7,441	6,284	8,358
Hyundai Merchant Marine Co., Ltd. (Common Stock) (*3)	33,903,211	25.48	584,793	525,436	552,550
Hyundai Merchant Marine Co., Ltd. (Preferred Stock) (*3)	5,089,943	25.45	<u>76,349</u>	<u>79,897</u>	<u>81,486</u>
			<u>₩ 968,035</u>	<u>₩ 907,916</u>	<u>₩ 939,065</u>

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

(*2) 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.

(*3) The Company acquired common stock and preferred stock of Hyundai Merchant Marine Co., Ltd. for year ended December 31, 2006. In addition, the closing 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.

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

Company	Korean won (In millions)				
	Beginning balance	Gain (Loss)(*)	Acquisition (disposal)	Other	Ending balance
Hyundai Oilbank	₩ 283,305	₩ 39,008	₩ -	₩ 177	₩ 322,490
MOST 3 New Technology Business					
Investment Partnership	4,310	141	(3,245)	(1,081)	125
Incheon Airport Energy	4,414	(477)		(90)	3,847
New Korea Country Club	2,968	261	-	-	3,229
Koentec Co., Ltd.	8,358	(551)	-	(173)	7,634
Hyundai Merchant Marine Co., Ltd. (Common Stock)	552,550	17,986	-	(52,406)	518,130
Hyundai Merchant Marine Co., Ltd. (Preferred Stock)	81,486	3,148	-	(3,384)	81,250
Qinhuangdao Shouqin Metal Materials Co., Ltd	-	20,117	67,658	4,874	92,649
Taishan Financial Leasing Co., Ltd.	-	(805)	3,409	136	2,740
Wartsila Hyundai Engine Company Ltd.	-	(260)	22,230	-	21,970
Total	₩ 937,391	₩ 78,568	₩ 90,052	₩ (51,947)	₩ 1,054,064

- (3) Unrealized profits and losses resulting from inter-company sales are calculated based on the average gross margin rate of selling companies and are eliminated in the consolidated financial statements. Unrealized profits related to sales of inventories are nil in 2007 and 2006, respectively.
- (4) The gain (loss) on valuation of investment securities accounted for using the equity method is ₩ 80,622 million and ₩(2,093) million for the year ended December 31, 2007, respectively. In addition, the cumulative effect of the equity method of accounting in accumulated other comprehensive income was ₩(26,270) million including the increase of ₩(20,252) million for the year ended December 31, 2007.
- (5) Financial information of investees for equity securities 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	₩ 5,114,043	₩ 3,479,873	₩ 9,458,996	₩ 198,233
MOST #3 Venture Investment	524	12	3,704	577
Incheon Airport Energy	164,668	152,257	75,651	1,537
New Korea Country Club	20,552	4,406	12,489	1,307
Koentec Co., Ltd.	70,919	18,983	24,842	4,011
Hyundai Merchant Marine Co., Ltd.	5,765,436	3,710,535	5,091,885	177,311
Qinhuangdao Shouqin Metal Materials Co., Ltd	1,238,028	831,630	1,084,852	120,866
Taishan Financial Leasing Co., Ltd.	6,591	3,225	65	(1,019)
Wartsila Hyundai Engine Company Ltd.	50,801	6,860	-	(519)

8. PROPERTY, PLANT AND EQUIPMENT:

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

	Korean won (In millions)	
	2007	2006
Buildings and structures	₩ 3,745,694	₩ 3,571,397
Machinery and equipment	2,783,631	2,667,082
Ships	189,236	187,461
Vehicles	42,099	43,022
Tools, furniture and fixtures	1,197,949	1,012,850
Heavy machinery	25,754	23,166
Others	16,968	80,107
	8,001,331	7,585,085
Less: Accumulated depreciation	(3,733,844)	(3,367,546)
Government subsidy	(5,188)	(2,587)
Accumulated impairment loss	(5,418)	(5,458)
	4,256,881	4,209,494
Land	1,845,632	1,649,611
Construction in-progress	605,304	144,873
	₩ 6,707,818	₩ 6,003,978

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

	Korean won (In millions)					
	Land	Buildings	Structures	Machinery and equipment	Others	Total
Beginning of year	₩ 1,649,611	₩ 2,492,207	₩ 1,079,190	₩ 2,667,082	₩ 1,491,479	₩ 9,379,569
Acquisition and other	203,559	125,340	80,701	180,885	642,115	1,232,600
Disposal	(7,673)	(37,338)	(490)	(68,743)	(57,889)	(172,133)
Effect of change in foreign currency exchange rate	135	5,560	525	4,407	1,605	12,232
End of year	₩ 1,845,632	₩ 2,585,768	₩ 1,159,926	₩ 2,783,631	₩ 2,077,311	₩ 10,452,268
Depreciation	-	67,780	29,106	252,213	136,231	485,330
Accumulated depreciation (*)	-	515,357	241,506	1,967,462	1,020,125	3,744,450

(*) Accumulated depreciation of buildings includes accumulated impairment loss of ₩5,418 million and government subsidy of ₩5,188 million.

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

	Korean won (In millions)					
	Land	Buildings	Structures	Machinery and equipment	Others	Total
Beginning of year	₩ 1,587,628	₩ 2,341,594	₩ 978,168	₩ 2,510,407	₩ 1,407,295	₩ 8,825,092
Acquisition and other	66,258	182,089	101,626	209,508	309,698	869,179
Disposal	(4,261)	(20,329)	(302)	(47,999)	(223,643)	(296,534)
Effect of change in foreign currency exchange rate	(14)	(11,147)	(302)	(4,834)	(1,871)	(18,168)
End of year	₩ 1,649,611	₩ 2,492,207	₩ 1,079,190	₩ 2,667,082	₩ 1,491,479	₩ 9,379,569
Depreciation	-	60,948	27,274	243,604	121,771	453,597
Accumulated depreciation (*)	-	449,548	212,997	1,774,730	938,316	3,375,591

(*) Accumulated depreciation of buildings includes accumulated impairment loss of ₩5,458 million and government subsidy of ₩2,587 million.

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩3,226,790 million as of December 31, 2007. The Company and its subsidiaries maintain insurance coverage against fire and other casualty losses of up to ₩10,960,809 million for ships and sea structures under construction and the insurance proceed of ₩685,939 million is pledged as collateral for loans from the Export-Import Bank of Korea as of December 31, 2007 (See Notes 10 and 11).

In addition to the above insurance, most valuable property owned by the Company and its subsidiaries is covered by a general liability insurance policy up to ₩1,462,347 million as of December 31, 2007. The Company and its subsidiaries also maintain insurance on cargo against damage and claims losses of up to ₩5,160,100 million for products being exported and imported.

A substantial portion of property, plant and equipment is pledged as collateral for various bank loans up to ₩129,682 million as of December 31, 2007 (See Notes 10 and 11).

The value of land owned by the Company and its subsidiaries is ₩1,651,074 million and ₩1,387,886 million as of December 31, 2007 and 2006, respectively, as announced by the Korean government.

9. INTANGIBLE ASSETS:

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

	Korean won (In millions)	
	2007	2006
Goodwill	₩ 13,945	₩ 20,820
Development costs	219,402	199,247
Land usage right	5,244	11,866
Others	43,164	41,078
	<u>₩ 281,755</u>	<u>₩ 273,011</u>

The changes in goodwill, development costs, land usage right and others included in intangible assets for the year ended December 31, 2007 are summarized as follows:

	Korean won (In millions)			
	Goodwill (*)	Development costs	Land usage right	Others
Beginning balance	₩ 17,219	₩ 199,247	₩ 11,866	₩ 41,078
Capitalized	-	59,817	-	9,917
Amortized	(1,360)	(39,768)	(226)	(3,251)
Effect of change in foreign currency rate	(18)	106	437	420
Disposal/ renewal	(1,896)	-	(6,833)	(5,000)
Effect of change in consolidated subsidiaries	-	-	-	-
Ending balance	<u>₩ 13,945</u>	<u>₩ 219,402</u>	<u>₩ 5,244</u>	<u>₩ 43,164</u>

(*) The goodwill of ₩13,945 million occurred when Hyundai Samho Heavy Industry Co., Ltd., which is a subsidiary of the Company, acquired Halla Heavy Industry Co., Ltd. and others, and has been amortized for 20 years.

The changes in goodwill, development costs, land usage right and others included in intangible assets for the year ended December 31, 2006 are summarized as follows:

	Korean won (In millions)			
	Goodwill (*)	Development costs	Land usage right	Others
Beginning balance	₩ 18,577	₩ 167,668	₩ 14,386	₩ 50,053
Capitalized	-	61,384	2,354	4,070
Amortized	(1,358)	(29,805)	(432)	(3,219)
Effect of change in foreign currency rate	-	-	(919)	(78)
Disposal/ renewal	-	-	(3,523)	(9,703)
Impairment loss	-	-	-	(45)
Effect of change in consolidated subsidiaries	-	-	-	-
Ending balance	₩ 17,219	₩ 199,247	₩ 11,866	₩ 41,078

(*) The goodwill of ₩17,219 million occurred when Hyundai Samho Heavy Industry Co., Ltd., which is a subsidiary of the Company, acquired Halla Heavy Industry Co., Ltd. and has been amortized for 20 years. The other goodwill of ₩3,601 million, recorded in the consolidation process, are discussed in Note 25.

Research costs amounting to ₩17,648 million and ₩15,331 million are expensed for the years ended December 31, 2007 and 2006, respectively. Ordinary development costs amounting to ₩75,212 million and ₩52,106 million are expensed for the years ended December 31, 2007 and 2006, respectively. Amortization on intangible assets except for goodwill and negative goodwill, recorded in the consolidation process, is recorded in manufacturing cost and in selling and administrative expenses of ₩35,128 million and ₩9,477 million, respectively, for the year ended December 31, 2007.

10. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2007 and 2006 are as follows:

	Interest rate as of December 31, 2007 (%)	Korean won (In millions)	
		2007	2006
The Company and its domestic subsidiaries' borrowings:			
Notes discounted by banks	4.68~6.14	₩ -	₩ 55,000
Foreign trade financing	3.73~3.95	-	632
		-	55,632
Overseas subsidiaries' borrowings:			
Foreign short-term borrowings	LIBOR+0.63~2.00 4.75~6.12	182,737	206,312
		₩ 182,737	₩ 261,944

Property, plant and equipment are pledged as collateral for the above short-term borrowings (See Note 8).

In addition, the Company has provided overseas subsidiaries with guarantees in connection with the overseas subsidiaries' short-term borrowings.

11. DEBENTURES AND LONG-TERM BORROWINGS:

Debentures and long-term borrowings as of December 31, 2007 and 2006 are as follows:

	Interest rate as of December 31, 2007 (%)	Korean won (In millions)	
		2007	2006
Non-guaranteed debentures	6ML+0.475 ~ 4.50	₩ 187,640	₩ 186,020
Won currency loans	See Details	53,214	54,875
Foreign currency loans	"	119,957	96,832
		360,811	337,727
Less: Discounts of debentures		-	(712)
Current maturities		(194,331)	(32,350)
		₩ 166,480	₩ 304,665

Debentures comprise publicly issued debentures of ₩187,640 million as of December 31, 2007.

Won currency loans as of December 31, 2007 and 2006 are as follows:

	Interest rate as of December 31, 2007 (%)	Korean won (In millions)	
		2007	2006
General fund for equipment	3.0	₩ 53,214	₩ 54,875
Less: current maturities		(1,958)	(1,661)
		₩ 51,256	₩ 53,214

Property, plant and equipment are pledged as collateral for the above won currency loans (See Note 8).

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

	Interest rate as of December 31, 2007 (%)	Korean won (In millions)	
		2007	2006
The Company and its domestic subsidiaries' loans:			
Facility loans from EXIM	6ML+0.675	₩ -	₩ 342
Others	3.25	1,626	1,343
		1,626	1,685
Less: current maturities		-	(342)
		1,626	1,343
Overseas subsidiaries' loans:			
HCEUSA	5.25	449	480
VBC	2	99,118	64,455
HVS	3ML+0.34	18,764	30,212
		118,331	95,147
Less: current maturities		(4,733)	(30,247)
		113,598	64,900
		₩ 115,224	₩ 66,243

Certain financial instruments, property, plant and equipment are pledged as collateral for the above foreign currency loans (See Notes 3 and 8).

In addition, the Company has provided overseas subsidiaries with guarantees in connection with the overseas subsidiaries' foreign currency borrowings.

The maturities of long-term debt as of December 31, 2007, before discounts, are as follows:

	Korean won (In millions)		
	Won currency loans	Foreign currency loans	Total
2009. 1~2009. 12	₩ 2,263	₩ 101,980	₩ 104,243
2010. 1~2010. 12	2,578	4,489	7,067
2011. 1~2011. 12	2,902	2,867	5,769
2012. 1~thereafter	43,513	5,888	49,401
	₩ 51,256	₩ 115,224	₩ 166,480

12. ACCRUED SEVERANCE BENEFITS:

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

	Korean won (In millions)	
	2007	2006
Beginning balance	₩ 1,386,235	₩ 1,268,761
Severance payment	(174,936)	(114,390)
Provisions	248,660	254,936
Continuation	29	383
Reversal	(480)	(23,455)
	1,459,508	1,386,235
Less: Severance insurance	(1,229,131)	(1,053,208)
Retirement annuity asset	(1,804)	-
National pension	(43,340)	(48,720)
	₩ 185,233	₩ 284,307

Accrued severance benefits are funded approximately 84.3% and 76.0% 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.

13. COMMITMENTS AND CONTINGENCIES:

- (1) The Company and its subsidiaries have entered into bank overdraft agreements with Korea Exchange Bank and others amounting to ₩371,000 million as of December 31, 2007. In addition, the Company and its subsidiaries have provided the financial instruments and property as collateral for the above bank overdraft agreements (See Notes 3 and 11).
- (2) As of December 31, 2007, the Company and its subsidiaries have 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 3,776,701 thousand and ₩60,500 million.
- (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 and its subsidiaries, the Company and its subsidiaries have provided 14 blank checks / notes as of December 31, 2007. In addition, the Company and its subsidiaries have entered into credit line agreements to a maximum of ₩40,000 million for general loans with Standard Chartered First Bank Korea Ltd. and others, ₩10,000 million for trade loans and a maximum of ₩370,000 million for discount of commercial paper with Nonghyup Bank and others.
- (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 HSHI for the construction of 19 ships (Contract amount: USD 2,472,360 thousand). In addition, HMD is contingently liable for guarantees of indebtedness for HVS amounting to USD 30,000 thousand to the Korea Export Import Bank and other banks.
- (6) In connection with the Company and its subsidiaries' loans and contract performance guarantees, the Company and its subsidiaries have also been provided with guarantees up to ₩1,978,670 million and USD 15,011,632 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, HMD and HSHI have entered into currency forward contracts with various banks including Shinhan Bank. As of December 31, 2007, the Company and its subsidiaries apply cash flow hedge accounting, out of which the Company and its subsidiaries accounted for the effective portion of the hedge amounting to ₩(16,343) million (net of deferred income tax adjustment of ₩(2,588) million), as gain on valuation of foreign exchange forward contracts in accumulated other comprehensive income. The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 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 ₩28,936 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.

The contracts for the year ended December 31, 2007 resulted in gain (loss) on valuation of foreign exchange forward contracts amounting to ₩4,749 million and ₩(93,083) million as other income and other loss, respectively. In addition, the gain (loss) on expiration of foreign exchange forward contracts amounting to ₩35,199 million and ₩(23,455) million, respectively, was realized in 2007. As of December 31, 2007, in relation with the derivative contracts, the Company and its subsidiaries account for foreign currency forward contracts as current assets and current liabilities amounting to ₩212,465 million and ₩275,259 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 gains (losses) on transaction of foreign currency forward amounting to ₩1,391 million as non-operating income, respectively.

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 derivatives in accumulated other comprehensive income as of December 31, 2007.

- (8) HTI invested in investment venture fund including HVIC IT Fund 3rd and one other fund managed these investment funds as managing partner. Under the partnership Agreement, HTI recognized management fee amounting to ₩386,058 thousand and ₩304,261 thousand in 2007 and 2006 respectively, as sales. Also, HTI recognized management fee which HTI didn't received amounting to ₩339 million and ₩250 million in 2007 and 2006, respectively, as accrued income.
- (9) HTI recognized performance fee related to the liquidation of HVIC IT Fund 2nd amounting to ₩12 million as sales.
- (10) HFTC has provided reserve to compensate for losses arising from the default of obligations with respect to futures trading in accordance with Article 27 of the Futures Trading Act. The fund is reserved in proportion to the Company's commissions received up to the maximum of ₩15,000 million. As of December 31, 2007, certain investment securities are pledged as collateral.

HFTC reserves the following amounts for loss on futures transactions in accordance with the Futures Trading Act.

- (A) If the inappropriate retained earnings are in excess of 1/1,000 of commissions received: 1/1,000 of commissions received
- (B) If the inappropriate retained earnings are less than 1/1,000 of commissions received: equivalent amount to the inappropriate retained earnings
- (C) If the inappropriate retained earning is nil: 0

HFTC cannot use this reserve for loss on futures transaction, except for in the case of compensation for losses due to the default on liabilities, violation of statutes, or negligence by its officers or employees during the course of conducting futures trading business and in the case of returning the unused reserve after three or more fiscal years.

- (11) HFTC has entered into an investment trust contract amounting to ₩2,000 million with Cosmo Investment Co., Ltd.
- (12) HFTC has entered into derivative contracts for the purpose of trading profit unsettled. Unsettled derivative contracts as of December 31, 2007 are as follows:

Type	Number of contracts	Amount
Currency Future (short position)	2	94,010
Currency Future (long position)	2	94,040

14. 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 predicts 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 in 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 the 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 made 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.
- (6) Pending litigations of Hyundai Mipo Dockyard Co., Ltd., one of the Company's subsidiaries, as defendants as of December 31, 2007 are as follows (Korea won in thousands):

<u>Plaintiff</u>	<u>Description</u>	<u>Claimed amount</u>
CMA CGM	Claim for damages	USD 3,969,300
Yong-in Corporation	Claim for retirement allowance	225,201
Ki-Cheol Shin and 29 individuals	Claim for affirmation of status among employee	1,277,106
Seok-jin Kim	Claim for salaries	100,000
DAXIN	Claim for damages	USD 6,250,000

CMA CGM instituted a lawsuit against HMD for a transfer of ship building contract. HMD lost the case at the first trial in court of France. HMD recorded USD 3,696,135 as of December 31, 2006 as non-operating expense and other accounts payable. HMD is preparing for an intermediate appeal.

In connection with the claims above, HMD's management believes that the ultimate outcome of these lawsuits will not have a material adverse impact on HMD's financial position and operations.

15. CAPITAL SURPLUS:

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

	<u>Korean won (In millions)</u>	
	<u>2007</u>	<u>2006</u>
Paid-in capital in excess of par value	₩ 843,324	₩ 843,324
Asset revaluation surplus	1,862,725	1,862,725
Other capital surplus	94,605	52,791
	<u>₩ 2,800,654</u>	<u>₩ 2,758,840</u>

Other capital surplus is mainly composed of ₩65,334 million of the Company's other capital surplus, which consists of ₩33,381 million of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩10,123 million of gain on disposal of treasury stock and ₩21,830 million of gain on business combination and others.

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

16. RETAINED EARNINGS

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

		Korean won (In millions)	
		2007	2006
Legal reserves:			
Earned surplus reserve (A & C)	₩	208,314	₩ 182,815
Reserve for business development (B & C)		394,651	240,425
Reserve for research and human development (D)		247,691	-
Others		90,934	152,703
		<u>941,590</u>	<u>575,943</u>
Voluntary reserves:			
Reserve for business nationalization		87,277	87,277
Others		837,678	305,455
		<u>924,955</u>	<u>392,732</u>
Retained earning before appropriations		<u>1,034,908</u>	<u>357,111</u>
	₩	<u>2,901,453</u>	₩ <u>1,325,786</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.
- (D) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make a reserve for overseas market development, a reserve for export losses and a reserve for research and human development by appropriating retained earnings. These reserves are voluntary reserves, which are available for the payment of dividends when these reserves are properly reversed.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME:

As of December 31, 2007 and 2006, accumulated other comprehensive income is as follows:

		Korean won (In millions)	
		2007	2006
Gain on valuation of short-term and long-term investment securities	₩	221,474	₩ 8,129
Loss on valuation of investment securities accounted for using the equity method		(26,271)	(6,019)
Gain (loss) on valuation of financial derivatives		(16,008)	293,919
Cumulative effect of foreign currency translation		<u>(32,902)</u>	<u>(40,732)</u>
	₩	<u>146,293</u>	₩ <u>255,297</u>

18. CAPITAL ADJUSTMENTS:

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

	Korean won (In millions)	
	2007	2006
Treasury stock	₩ (740,311)	₩ (455,969)
Others	(12,318)	(3,902)
	₩ (752,629)	₩ (459,871)

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.

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.

Hyundai Mipo Dockyard Co., Ltd. had 6,063,000 shares of the Company and the acquisition cost amounts to ₩236,721 million (fair value: ₩2,682,876 million). Among the acquisition cost, the portion of controlling interest amounting to ₩43,581 million is recorded as treasury stock in capital adjustments as of December 31, 2007.

19. DIVIDENDS:

(1) Proposed dividends for 2007 are summarized below.

Description	Number of shares	Par value	Dividend rate	Cash dividends (In millions)
Common stock (*)	62,213,456	₩ 5,000	150%	₩ 466,601
		2007 net income		₩ 1,729,549
		Dividends to net income		26.98%

Proposed dividends for 2006 are summarized below.

Description	Number of shares	Par value	Dividend rate	Cash dividends (In millions)
Common stock (*)	64,493,456	₩ 5,000	50%	₩ 161,234
		2006 net income		₩ 703,570
		Dividends to net income		22.92%

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

(2) Yield to market price of proposed dividend of the Company for 2007 is as follows:

Description	Dividends per share	Closing price in 2007	Yield to market price
Common stock	₩ 7,500	₩ 442,500	1.7%

Yield to market price of proposed dividend of the Company for 2006 is as follows:

Description	Dividends per share	Closing price in 2006	Yield to market price
Common stock	₩ 2,500	₩ 126,000	2.0%

20. INCOME TAX EXPENSE:

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

	Korean won (In millions)	
	2007	2006
Current income tax	₩ 899,842	₩ 423,256
Deferred income taxes	166,608	181,097
Deferred income taxes directly adjusted in equity	(128,910)	6,486
Income tax expense	₩ 937,540	₩ 610,839

(2) Details of changes in cumulative temporary differences are summarized as follows:

	Korean won (In millions)			
	2007		2006	
Description	Beginning	Ending	Beginning	Ending
Equity securities accounted for equity method valuation (*)	₩ (689,457)	₩ (1,110,779)	₩ (200,570)	₩ (689,457)
Available-for-sale securities	14,329	17,402	8,335	14,329
Impairment loss of investment securities	73,874	74,558	106,293	73,874
Reserve for research and human development	(247,691)	(230,000)	(61,524)	(247,691)
Provision for doubtful account	195,264	153,021	160,298	195,264
Accrued income	(25,137)	(76,139)	(20,362)	(25,137)
Loss on valuation of receivables	2,068	3,222	2,367	2,068
Accrued severance benefits	146,865	167,144	142,658	146,865
Severance insurance deposits	(146,067)	(167,144)	(141,988)	(146,067)
Impairment loss of long-term investment securities	10,602	3,196	16,644	10,602
Goodwill	(17,219)	(15,859)	(18,578)	(17,219)
Guaranteed repair charges	3,535	-	2,959	3,535
Impairment loss valuation of property, plant and equipment	5,187	5,171	5,188	5,187
Provision for foreseeable losses from construction contracts	99,772	39,930	5,167	99,772
Provision for construction warranties	59,403	59,344	11,863	59,403
Depreciation expenses	10,995	12,816	10,122	10,995
Derivatives (*)	(506,365)	61,141	(37,199)	(506,365)
Unearned revenues	(18)	(6,978)	(2,202)	(18)
Dividend income	21,668	48,398	9,340	21,668
Government subsidy	1,819	12,005	1,818	1,819
Others (*)	180,670	(436,273)	(140,343)	180,670
Tax loss carried forward	2,086	-	-	2,086
	(803,817)	(1,385,824)	(139,509)	(803,817)
Tax rate (**)	27.50%	27.50%	27.50%	27.50%
Cumulative tax effects	(216,813)	(383,420)	(38,365)	(216,813)
Tax credit carryforward	-	-	2,649	-
Deferred income tax assets (current), end of year		74,570		550
Deferred income tax assets (non-current), end of year		71,996		37,057
Deferred income tax liabilities (current), end of year		(13,909)		(90,488)

Description	Korean won (In millions)			
	2007		2006	
	Beginning	Ending	Beginning	Ending
Deferred income tax liabilities (long-term), end of year		₩ (516,077)		₩ (163,932)
Deferred income tax assets, beginning of year		(37,607)		(18,202)
Deferred income tax liabilities, beginning of year		<u>254,420</u>		<u>53,918</u>
Changes in deferred income taxes on temporary differences		<u>₩ 166,607</u>		<u>₩ 181,097</u>

(*) In accordance with SKAS No. 16, the temporary differences, which were directly adjusted in equity, are included.

(**) Income tax rate applied for the Company and its subsidiaries in Korea was 27.5 percent excluding 34.0 percent for HCEUSA and 14.3 percent for HVIC.

21. 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	₩1,729,549,497	₩703,569,915
Other comprehensive income (loss):		
Gain (loss) on valuation of short-term and long-term investment securities	203,250,231	(82,239,047)
Gain (loss) on valuation of short-term and long-term investment securities	10,093,844	(10,165,956)
Changes in equity arising on application of the equity method	914,926	3,403,657
Negative changes in equity arising on application of the equity method	(21,166,840)	(11,135,456)
Gain (loss) on valuation of financial derivatives	(309,926,974)	169,536,751
Overseas operation translation debit	7,831,055	(288,223)
Sub-total	<u>(109,003,758)</u>	<u>69,111,726</u>
Comprehensive income	<u>₩1,620,545,739</u>	<u>₩772,681,641</u>

22. 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.

Basic income per share for the years ended December 31, 2007 and 2006 is calculated as follows:

	Korean won (In millions)	
	2007	2006
Controlling interest	₩ 1,729,549	₩ 703,570
Weighted average number of outstanding common shares (In thousands)	55,954	56,953
Income per share (In Korean won)	<u>₩ 30,910</u>	<u>₩ 12,353</u>

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

23. SIGNIFICANT TRANSACTIONS BETWEEN CONSOLIDATED COMPANIES AND AFFILIATED COMPANIES:

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

Selling company	Purchasing company	Korean won (In millions)	
		Sales	Receivables
The Company	HSHI	₩ 325,320	₩ 131,462
"	HCEUSA	98,234	5,739
"	HHIE	328,995	24,307
"	CHCM	-	3
"	BHCM	102,417	52,056
"	HMD	316,683	107,438
"	HJCM	125,995	24,583
"	HHIC (Formerly JHNE)	15,094	13,081
"	Hyundai Oilbank	7,243	723
"	Incheon Airport Energy	63	-
"	Hyundai Elprom Trafo Co.	50	131
"	VBC	75	54,521
"	YHMH	899	-
"	Hyundai Ideal Electric Co.	367	366
HSHI	The Company	99,109	17,408
HCEUSA	"	23	59
HHIE	"	692	517
CHCM	"	19,207	584
BHCM	"	1,123	146
HMD	"	7,407	545
HJCM	"	10,139	468
HHIE (Formerly JHNE)	"	16,122	221
Hyundai Oilbank	"	77,504	5,642
Koentec Co., Ltd.	"	1,797	255
Hyundai Elprom Trafo Co.	"	3,522	-
Hyundai Dongahn Steel	"	5,868	588
HFTC	"	63	-
YHMH	"	3,334	1,121
HCI	"	24	176
		₩ 1,567,369	₩ 442,140

In addition, the Company has entered into rental agreements (guarantee deposits of ₩148 million) with HMD and others. Also, the Company entered into joint shipbuilding contracts with HSHI for the construction of 19 ships (Contract amount: USD 2,472,360 thousand).

Above transactions between the Company and its subsidiaries (affiliated companies) are eliminated in the consolidated financial statements as inter-company transactions.

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

Selling company	Purchasing company	Korean won (In millions)	
		Sales	Receivables
HVIC	HVIC IT Fund 3 rd	₩ 125	₩ 125
"	"	214	214
HSHI	HMD	7,690	1
HMD	HVS	35,024	40,578
"	Koentec Co., Ltd.	49	-
"	Mipo Engineering	70	-
CHCM	HJCM	18,780	-
HCEUSA	HHIE	43	30
HHIE	HCEUSA	58	55
"	Hyundai Heavy Industries Co. Bulgaria	45	-
HCI	HMD	476	22
"	HSHI	493	6
"	BHCM	31	-
"	HJCM	27	-
"	Changzhou Hyundai Hydraulic Machinery Co., Ltd.	13	-
"	HVS	66	6
HVS	HCI	2,490	-
"	HMD	25,424	18
Koentec Co., Ltd.	"	235	-
Mipo Engineering Ltd.	"	10,899	1,085
		₩ 102,252	₩ 42,140

- (3) Significant payment guarantees between consolidated units in 2007 are as follows:

Guarantor	Guarantee	Korean won (In millions)	Details
The Company	Incheon Airport Energy	₩ 36,844	Debt guarantee
"	HCEUSA	14,514	Debt guarantee
"	HHIE	61,052	Debt guarantee
"	HJCM	17,983	Debt guarantee
"	BHCM	28,812	Debt guarantee
HMD	HVS	28,146	Debt guarantee
		₩ 187,351	

In addition, the Company has provided certain performance guarantees amounting to USD 738,459 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. and HSHI has provided 2 blank notes to the Company in order to secure the performance of construction contracts (See Note 13).

- (4) Compensation for key management in 2007 and 2006 are follows:

Description	Korean won (In thousands)	
	2007	2006
Management salary	5,417,711	3,577,307

24. 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		Korean won	
		(In thousands)		(In millions)	
		2007	2006	2007	2006
Assets:					
Cash and cash equivalents	USD	142,398	153,215	₩133,598	₩142,428
	EUR	243	107	335	131
	Others			38,331	919
Trade accounts and notes receivable	USD	2,882,930	2,505,578	2,704,766	2,329,187
	EUR	137,445	20,642	189,847	25,229
	Others			42,288	108,481
Accounts receivable- other	USD	71,074	14,415	66,681	13,401
	EUR	371	417	513	509
	Others			15,273	4,170
Long-term trade receivables	USD	102,921	139,679	96,561	129,846
Long-term financial instruments	USD	29,606	60,110	27,777	55,879
	EUR	13	76	18	93
	Others			1,310	26,442
				₩3,317,298	₩2,836,715
Liabilities:					
Trade payables	USD	287,615	248,460	₩269,839	₩230,968
	EUR	26,611	19,956	36,757	24,391
	Others			22,295	5,712
Short-term borrowings	USD	-	679	-	632
Current portion of long-term debentures and long-term borrowings	USD	200,000	368	187,640	342
Debentures	USD	-	200,000	-	185,920
Long-term borrowings in foreign currency	USD	1,733	1,445	1,626	1,343
Accounts payable- others	USD	494,415	336,005	463,859	340,373
	EUR	11,140	8,187	15,387	9,826
	Others			11,485	13,187
				₩1,008,897	₩812,703

25. GOODWILL:

Goodwill, which is the differences between the acquisition cost and the Company's portion of the subsidiaries' net equity at the date when the Company obtained control over the subsidiaries as of December 31, 2007, is as follows:

Consolidated subsidiaries	Korean won (In millions)			
	Beginning balance	Increase	Decrease	Ending balance
HSHI	₩ 3,538	₩ -	₩ 3,538	₩ -
HVS	63	-	63	-
	₩ 3,601	₩ -	₩ 3,601	₩ -

26. SEGMENT INFORMATION:

(1) Consolidated financial statements by industry

The consolidated balance sheets as of December 31, 2007 and 2006, and consolidated statements of income for the years then ended, by industry, under which the Company and its subsidiaries' business are classified, are as follows:

1) Consolidated balance sheets as of December 31, 2007 and 2006 are as follows:

ASSETS	Korean won (In millions)			
	Non-financial Industry		Financial Industry	
	2007	2006	2007	2006
Current assets	₩13,930,508	₩10,065,203	₩ 255,951	₩ 169,161
Non-current assets:				
Investments, net of unamortized present value discount	3,913,933	266,170	22,978	13,468
Property, plant and equipment, net of accumulated depreciation	6,706,391	6,002,617	1,427	1,361
Intangibles, net of amortization	281,240	272,305	515	706
Others	249,790	1,843,745	11,366	27,251
Total non-current assets	11,151,354	8,384,837	36,286	42,786
Total Assets	₩25,081,862	₩18,450,040	₩ 292,237	₩ 211,947
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	₩17,874,501	₩13,042,820	₩ 107,873	₩ 46,227
Long-term liabilities	1,018,542	842,809	1,502	1,845
Total Liabilities	18,893,043	13,885,629	109,375	48,072
Shareholders' equity:				
Capital stock	380,000	380,000	91,500	111,590
Capital surplus	2,797,841	2,763,766	7,691	7,691
Retained earnings	2,832,365	1,274,262	48,520	21,792
Capital adjustments	(752,629)	(650,112)	-	-
Accumulated other comprehensive income (loss)	151,972	261,785	(10,180)	(9,442)
Minority interests	779,270	534,710	45,331	32,244
Total shareholders' equity	6,188,819	4,564,411	182,862	163,875
Total Liabilities and Shareholders' Equity	₩25,081,862	₩18,450,040	₩ 292,237	₩ 211,947

2) Consolidated statements of income for the years ended December 31, 2007 and 2006 are as follows:

	Korean won (In millions)			
	Non-financial Industry		Financial Industry	
	2007	2006	2007	2006
Sales	₩ 20,852,352	₩ 16,476,033	₩ 39,944	₩ 38,925
Cost of sales	17,236,975	14,295,814	6,729	7,113
Selling and administrative expenses	1,067,203	910,467	17,843	16,804
Operating income	2,548,174	1,269,752	15,372	15,008
Other income, net	325,864	68,351	4,854	1,868
Income before income tax	2,874,038	1,338,103	20,225	16,876
Income tax expense	934,711	484,941	2,829	3,137
Net income	1,939,327	853,162	17,397	13,739
Minority interests	214,712	150,596	2,829	3,035
Holding Company	₩ 1,724,615	₩ 702,566	₩ 14,568	₩ 10,704

The above figures are not tally with the consolidated balance sheets and statements of income because the transactions between non-financial and financial companies were not eliminated.

(2) Industrial business situation

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

1) General information of business sectors

Industry	Primary Products	Affiliated subsidiaries
Other Transportation equipments	Ships, industrial plants and offshore & engineering department	The Company HSHI, HMD, BHCM, HHIE, CHCM, HDS, HVS, HJCM, CHHM, HIE, HCEIP
Others		HCEUSA and financial companies

2) Results of operations

Results of operations by industries in 2007 are as follows:

	Korean won (In millions)			
	Other transportation equipments	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 22,418,119	₩ 43,907	₩ (1,569,727)	₩ 20,892,299
Inter-company sales	(1,567,739)	(1,988)	1,569,727	-
Net sales	20,850,380	41,919	-	20,892,299
Operating income	2,553,696	16,227	(6,378)	2,563,545
Total assets	30,744,781	405,114	(5,858,039)	25,291,856

Results of operations by industries in 2006 are as follows:

	Korean won (In millions)			
	Other transportation equipments	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 18,068,132	₩ 197,027	₩ (1,750,201)	₩ 16,514,958
Inter-company sales	(1,749,346)	(855)	1,750,201	-
Net sales	16,318,786	196,172	-	16,514,958
Operating income	1,289,964	16,824	(22,028)	1,284,760
Total assets	21,067,010	371,639	(2,865,703)	18,572,946

3) Results of operations by area

Results of operations by area in 2007 are as follows:

	Korean won (In millions)				
	Domestic	Import	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 1,830,549	₩ 16,591,652	₩ 4,039,825	₩ (1,569,727)	₩ 20,892,299
Inter-company sales	(1,146,516)	(416,583)	(6,628)	1,569,727	-
Net sales	684,033	16,175,069	4,033,197	-	20,892,299
Operating income	2,494,361		75,562	(6,378)	2,563,545
Total assets	₩ 30,135,865		₩ 1,014,030	₩ (5,858,039)	₩ 25,291,856

Results of operations by area in 2006 are as follows:

	Korean won (In millions)				
	Domestic	Import	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 1,681,385	₩ 13,248,477	₩ 3,335,297	₩ (1,750,201)	₩ 16,514,958
Inter-company sales	(980,134)	(649,212)	(120,855)	1,750,201	-
Net sales	701,251	12,599,265	3,214,442	-	16,514,958
Operating income	1,250,026		56,762	(22,028)	1,284,760
Total assets	₩ 20,624,592		₩ 814,057	₩ (2,865,703)	₩ 18,572,946

27. SELLING AND ADMINISTRATIVE EXPENSES:

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

	Korean won (In millions)	
	2007	2006
Wages	₩ 341,937	₩ 281,677
Provision for severance benefits	36,302	38,007
Employee welfare	92,663	76,692
Advertisement	32,879	21,025
Ordinary development expenses (Note 9)	75,212	52,106
Provision for bad debt	20,886	51,959
Depreciation (Note 8)	35,432	33,257
Amortization (Notes 9 and 24)	9,477	12,075
Service charges	76,507	61,059
Transportation	73,688	59,898
Sales commission	46,823	41,332
After-service expenses	52,182	47,841
Others	191,058	150,343
	<u>₩ 1,085,046</u>	<u>₩ 927,271</u>

28. SUBSEQUENT EVENTS:

HSHI announced that the Company will purchase 1,000,000 shares (ownership ratio after acquisition: 46.09%) of HMD Corporation based on the resolution of the board of directors on January 31, 2008.

29. FINANCIAL INFORMATION BY INDUSTRY SEGMENT:

(1) Financial information by industry segment of the Company

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	Electro Electric Systems	Construction Equipment	Others
Sales	₩7,556,662,571	₩2,222,062,607	₩1,016,617,875	₩1,645,739,658	₩1,453,389,981	₩1,512,048,621	₩126,491,994
Operating income (loss)	1,037,967,535	225,679,131	40,353,336	345,551,579	224,069,089	129,518,206	(252,441,340)
Tangible & intangible assets	1,565,525,891	390,891,025	49,841,759	496,453,168	270,181,751	149,637,828	2,282,302,295
Depreciation	(133,667,874)	(42,770,243)	(7,843,103)	(69,864,673)	(33,715,026)	(15,258,311)	(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	Electro Electric Systems	Construction Equipment	Others
Sales	₩6,442,771,607	₩1,934,523,127	₩ 601,608,005	₩1,219,557,846	₩ 1,056,489,317	₩ 1,197,947,106	₩101,847,422
Operating income (loss)	504,412,155	222,527,525	(77,334,078)	205,777,336	149,697,146	98,061,556	(224,275,347)
Tangible & intangible assets	1,415,391,841	314,949,698	56,545,173	448,506,037	252,899,476	142,554,644	2,045,800,386
Depreciation	(128,395,494)	(43,175,738)	(9,356,093)	(69,663,503)	(34,846,567)	(13,811,074)	(48,610,565)

(2) Financial information by industry segment of HSHI

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

	Korean won (In millions)	
	Shipbuilding	Construction equipment
Sales	₩ 2,616,869	₩ -
Operating income (loss)	364,389	-
Property, plant and equipment	1,025,517	-
Depreciation	54,202	-

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

	Korean won (In millions)	
	Shipbuilding	Construction equipment
Sales	₩ 2,218,948	₩ 389
Operating income (loss)	136,611	(194)
Property, plant and equipment	879,343	-
Depreciation	(51,016)	(193)

(3) Financial information by industry segment of HMD

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

	Korean won (In millions)	
	Shipbuilding	Construction equipment
Sales	₩ 2,769,938	₩ 78,443
Operating income	352,974	10,128

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

	Korean won (In millions)	
	Shipbuilding	Construction equipment
Sales	₩ 2,233,286	₩ 102,426
Operating income	204,999	14,843

30. OUTSTANDING CONTRACTS:

(1) The Company's outstanding contracts

The Company's outstanding contracts before the elimination of transactions between consolidated companies 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

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

As of December 31, 2007, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

	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	151,888	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.

(**) The Company recognized estimated loss of ₩39,071 million on the construction contracts whose contract costs will exceed contract revenue.

(2) Outstanding contracts of HSHI

1) HSHI's outstanding contracts before the elimination of transactions between consolidated companies as of December 31, 2007 are summarized as follows:

	Korean won (In millions)
Beginning of year (*)	₩ 8,466,229
Increase during the year	6,337,624
Recognized as revenue in current operations	(2,562,944)
End of year	₩ 12,240,909

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

- 2) As of December 31, 2007, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows (In millions):

Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable
₩ 1,766,746	₩ 2,153,366	₩ 3,143,171	₩ 442,760

(2) Outstanding contracts of HMD

- 1) HMD's outstanding contracts before the elimination of transactions between consolidated companies as of December 31, 2007 are summarized as follows:

	Korean won (In millions)
Beginning of year (*)	₩ 7,746,539
Increase during the year	6,431,073
Recognized as revenue in current operations	(2,848,380)
End of year	₩ 11,329,231

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

- 2) As of December 31, 2007, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows (In millions):

Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable
₩ 3,150,397	₩ 3,719,806	₩ 2,464,243	₩ 438,380