

HYUNDAI HEAVY INDUSTRIES CO., LTD.

NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED
JUNE 30, 2007 AND 2006
AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Independent Accountants' Review 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 reviewed the accompanying non-consolidated balance sheet of Hyundai Heavy Industries Co., Ltd. (the "Company") as of June 30, 2007, the related non-consolidated statements of income for the three months and six months ended June 30, 2007 and 2006, the non-consolidated statements of cash flows for the six months ended June 30, 2007 and 2006, and the non-consolidated statements of changes in shareholders' equity for the six months ended June 30, 2007, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with the standards for review of interim financial statements in the Republic of Korea. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the financial statements referred to above are not presently fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea (Note 2).

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the non-consolidated balance sheet of the Company as of December 31, 2006, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended (not presented herein); and in our report dated February 9, 2007, we expressed an unqualified opinion on those financial statements. The accompanying balance sheet as of December 31, 2006, which is comparatively presented, does not differ in material respects from such audited non-consolidated balance sheet except for the cumulative effect of applying a new accounting policy as discussed in Note 2.

Without affecting our conclusion, we draw attention to the following:

As discussed in Note 12 to the non-consolidated financial statements, Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided with a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") to compensate the Company for any losses incurred in connection with the transaction with CIBC under certain circumstances. On July 24, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the Seoul Central District Court decided in favor of the Company and awarded a partial settlement of the claim amounting to ₩172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and also filed additional lawsuit for the advanced payments and related expenses, which are not covered in the prior claim. In relation to the intermediate appeal for a partial settlement of the claim, Seoul High Court decided in favor of the Company and awarded a partial settlement of the intermediate appeal amounting to ₩193 billion of principal and accrued interest thereon on June 14, 2006. As of

June 30, 2007, allowance for the balances related to this claim was adjusted in accordance with above settlement and the Company filed an appeal to Supreme Court of Korea. The appeal is in progress as of the date of this report and its ultimate outcome cannot be presently determined. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, cash flows and changes in shareholder's equity 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 review 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 review standards and their application in practice.

July 25, 2007

Notice to Readers

This report is effective as of July 25, 2007, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the accountants' review report.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006

<u>ASSETS</u>	<u>Korean won</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands)	
CURRENT ASSETS:		
Cash and cash equivalents (Notes 21)	₩ 1,188,936,978	₩ 819,920,933
Short-term financial instruments	1,044,137,014	234,137,014
Short-term investment securities (Note 5)	205,478,015	221,788,518
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩94,590,310 thousand as of June 30, 2007 and ₩80,020,598 thousand as of December 31, 2006 (Notes 16, 20 and 21)	2,403,109,849	2,445,187,369
Accounts receivable-other, net of allowance for doubtful accounts of ₩292,021,749 thousand as of June 30, 2007 and ₩291,228,211 thousand as of December 31, 2006 (Notes 20 and 21)	284,082,543	216,903,840
Inventories (Note 4)	1,097,488,513	1,128,775,840
Advanced payments, net of allowance for doubtful accounts of ₩11,959,440 thousand as of June 30, 2007 and ₩13,668,291 thousand as of December 31, 2006	277,464,478	398,635,918
Accrued income (Note 21)	29,074,400	5,558,707
Foreign exchange forward contracts (Note 11)	295,694,412	495,782,386
Deferred income tax assets (Notes 11 and 17)	12,262,864	-
Prepaid expenses and other current assets (Notes 20 and 21)	<u>250,265,941</u>	<u>244,767,722</u>
Total current assets	<u>7,087,995,007</u>	<u>6,211,458,247</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 7 and 22)	4,525,871,211	4,455,129,314
Long-term investment securities (Note 5)	456,278,998	426,736,444
Investment securities accounted for using the equity method (Note 6)	1,958,263,447	1,499,146,077
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩1,124,210 thousand as of June 30, 2007 and ₩1,298,456 thousand as of December 31, 2006 (Notes 11 and 21)	111,296,834	128,547,184
Long-term financial instruments (Notes 3 and 21)	8,734,991	9,112,870
Intangible assets (Notes 8 and 22)	229,325,199	221,517,941
Other non-current assets (Notes 20 and 21)	<u>47,922,527</u>	<u>44,508,801</u>
Total non-current assets	<u>7,337,693,207</u>	<u>6,784,698,631</u>
Total Assets	<u>₩ 14,425,688,214</u>	<u>₩ 12,996,156,878</u>

(Continued)

HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Korean won</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands)	
CURRENT LIABILITIES:		
Current maturities of long-term borrowings and other long-term liabilities (Notes 9 and 21)	₩ -	₩ 341,960
Trade accounts and notes payable (Notes 20 and 21)	1,330,233,450	1,179,763,488
Accounts payable-other (Notes 20 and 21)	85,878,838	125,989,605
Advances from customers (Note 16)	6,915,695,020	6,262,761,712
Accrued expenses (Notes 20 and 21)	388,695,167	188,086,233
Income tax payable (Note 17)	250,186,872	167,718,040
Foreign exchange forward contracts (Note 11)	6,059,811	2,267,788
Deferred income tax liabilities (Notes 11 and 17)	-	38,716,339
Withholdings and other current liabilities (Note 21)	<u>165,034,278</u>	<u>187,804,932</u>
Total current liabilities	<u>9,141,783,436</u>	<u>8,153,450,097</u>
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discounts of ₩506,551 thousand as of June 30, 2007 and ₩710,750 thousand as of December 31, 2006 (Notes 9 and 21)	186,192,430	186,552,277
Accrued severance benefits, net of severance insurance deposits and others of ₩1,013,491,061 thousand as of June 30, 2007 and ₩941,839,903 thousand as of December 31, 2006 (Note 10)	166,084,071	193,348,583
Long-term accrued expenses (Note 12)	1,029,342	2,269,234
Deferred income tax liabilities (Notes 11 and 17)	189,944,943	81,371,661
Other long-term liabilities (Note 21)	<u>66,960,947</u>	<u>58,321,740</u>
Total long-term liabilities	<u>610,211,733</u>	<u>521,863,495</u>
Total Liabilities	<u>9,751,995,169</u>	<u>8,675,313,592</u>
SHAREHOLDERS' EQUITY:		
Capital stock - common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 13)	2,771,383,687	2,771,383,687
Capital adjustments (Note 15)	(696,729,513)	(351,821,818)
Accumulated other comprehensive income (Notes 4, 5, 6 and 11)	299,518,012	229,048,416
Retained earnings (Note 14)		
(Net income of ₩788,521,498 thousand for the six months ended June 30, 2007 and ₩712,847,558 thousand for the year ended December 31, 2006)	<u>1,919,520,859</u>	<u>1,292,233,001</u>
Total Shareholders' Equity	<u>4,673,693,045</u>	<u>4,320,843,286</u>
Total Liabilities and Shareholders' Equity	<u>₩ 14,425,688,214</u>	<u>₩ 12,996,156,878</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won			
	Three months		Six months	
	(In thousands except per share amounts)			
	2007	2006	2007	2006
Sales (Notes 16, 20 and 22)	₩ 3,876,882,950	₩ 2,972,837,615	₩ 7,553,294,016	₩ 5,821,045,765
Cost of sales (Notes 16 and 20)	<u>3,293,922,330</u>	<u>2,662,735,539</u>	<u>6,390,950,470</u>	<u>5,163,581,564</u>
Gross profit	582,960,620	310,102,076	1,162,343,546	657,464,201
Selling and administrative expenses (Note 23)	<u>214,130,566</u>	<u>159,857,362</u>	<u>391,098,551</u>	<u>333,019,423</u>
Operating income (Note 22)	368,830,054	150,244,714	771,244,995	324,444,778
Non-operating income:				
Interest and dividend income	35,663,492	19,249,856	68,657,245	44,203,458
Gain on foreign currency transactions	13,272,047	25,023,952	37,441,257	43,677,965
Gain on foreign currency translation	2,787,752	14,563,285	5,218,065	22,820,029
Gain on valuation of investment securities accounted for using the equity method (Note 6)	149,184,151	67,721,475	234,116,983	113,529,761
Gain on valuation of foreign exchange forward contracts (Note 11)	29,104,392	10,135,550	25,178,973	45,161,410
Gain on transaction of foreign exchange forward contracts (Note 11)	6,148,756	24,211,402	11,876,010	47,684,145
Others	<u>23,554,785</u>	<u>29,294,981</u>	<u>39,577,485</u>	<u>37,872,317</u>
	<u>259,715,375</u>	<u>190,200,501</u>	<u>422,066,018</u>	<u>354,949,085</u>
Non-operating expenses:				
Interest expense	2,827,418	2,603,331	5,749,905	4,833,990
Loss on foreign currency transactions	12,208,366	50,186,297	27,535,308	99,176,257
Loss on foreign currency translation	6,949,226	-	3,339,879	26,202,331
Loss on valuation of investment securities accounted for using the equity method (Note 6)	-	1,090,762	745,651	8,069,075
Loss on disposal of property, plant and equipment	14,609,565	3,079,305	20,775,812	3,966,556
Loss on impairment of long-term investments securities (Note 5)	58,456	304,620	98,676	336,686
Additional payment of income tax (Note 12)	6,919,720	-	14,827,600	118,420,797
Loss on valuation of foreign exchange forward contracts (Note 11)	-	3,924,203	2,655,504	8,710,505
Loss on transaction of foreign exchange forward contracts (Note 11)	1,146,176	191,892	11,387,620	1,998,864
Others	<u>16,222,492</u>	<u>20,165,405</u>	<u>30,455,132</u>	<u>52,054,870</u>
	<u>60,941,419</u>	<u>81,545,815</u>	<u>117,571,087</u>	<u>323,769,931</u>
Net income before income tax	567,604,010	258,899,400	1,075,739,926	355,623,932
Income tax expense (Note 17)	<u>150,090,022</u>	<u>66,534,042</u>	<u>287,218,428</u>	<u>140,357,336</u>
Net income	<u>₩ 417,513,988</u>	<u>₩ 192,365,358</u>	<u>₩ 788,521,498</u>	<u>₩ 215,266,596</u>
Earnings per share (Note 18)	<u>₩ 6,650</u>	<u>₩ 2,983</u>	<u>₩ 12,558</u>	<u>₩ 3,338</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	₩ 788,521,498	₩ 215,266,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	85,025,215	85,453,496
Provision for doubtful accounts	15,348,344	11,951,999
Amortization of development costs	18,577,314	12,530,178
Depreciation	178,277,144	172,256,569
Provision for foreseeable losses on construction contracts	-	14,630,731
Loss on foreign currency translation	3,167,999	26,201,847
Loss on impairment of long-term investment securities	98,676	336,686
Loss on valuation of investment securities accounted for using the equity method	745,651	8,069,075
Loss on disposal of property, plant and equipment	20,775,812	3,966,556
Additional payment of income tax	-	118,420,797
Loss on valuation of foreign exchange forward contracts	2,655,504	8,710,505
Gain on foreign currency translation	(4,361,986)	(22,820,029)
Gain on valuation of investment securities accounted for using the equity method	(234,116,983)	(113,529,761)
Gain on valuation of foreign exchange forward contracts	(189,797,491)	(241,535,831)
Gain on reversal of provision	(27,008,711)	-
Others	5,374,151	11,248,576
	<u>(125,239,361)</u>	<u>95,891,394</u>

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HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands)	
Changes in operating assets and liabilities:		
Decrease in trade accounts and notes receivable	₩ 43,224,948	₩ 35,256,172
Increase in accounts receivable-other	(67,804,870)	(84,024,175)
Increase in accrued income	(23,182,234)	(12,309,308)
Decrease (Increase) in advanced payments	121,012,788	(147,722,795)
Decrease in foreign exchange forward contracts	249,761,965	231,422,917
Decrease in inventories	31,287,326	37,193,691
Decrease in long-term notes receivable in foreign currency	-	19,754,695
Increase (Decrease) in trade accounts payable	151,335,106	(22,929,010)
Increase (Decrease) in accounts payable-other	(40,070,916)	125,961,152
Increase in advances from customers	667,040,895	188,050,841
Increase in accrued expenses	201,383,671	103,947,527
Increase in income tax payable	82,468,832	56,582,022
Decrease in long-term accrued expenses	(1,239,893)	(50,090,852)
Payments of severance benefits	(40,638,568)	(42,865,786)
Decrease (Increase) in deposits for severance benefits	(73,017,526)	29,170,699
Decrease (Increase) in deferred income tax assets	(12,262,864)	5,474,278
Decrease in deferred income tax liabilities	43,065,136	62,227,364
Others, net	43,551,559	(172,279,388)
	<u>1,375,915,355</u>	<u>362,820,044</u>
Net cash provided by operating activities	<u>2,039,197,492</u>	<u>673,978,034</u>
Cash flows from investing activities:		
Withdrawal of short-term financial instruments	310,500,000	160,500,000
Disposal of short-term investment securities	524,367,518	20,772,623
Disposal of long-term investment securities	7,190,063	19
Disposal of investment securities accounted for using the equity method	4,811,498	149,843,470
Disposal of long-term financial instruments	539,893	20,000,000
Disposal of other non-current assets	932,067	607,030
Disposal of property, plant and equipment	6,598,654	3,308,862
Acquisition of short-term financial instruments	(1,120,500,000)	(500,000)

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HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won	
	2007	2006
	(In thousands)	
Acquisition of short-term investment securities	₩ (480,000,000)	₩ (40,000,000)
Acquisition of long-term financial instruments	(184,465)	(20,182,163)
Acquisition of long-term investment securities	(3,017,700)	(232,324)
Acquisition of investment securities accounted for using the equity method	(108,981,317)	(408,319,068)
Acquisition of property, plant and equipment	(274,198,907)	(212,606,688)
Acquisition of intangible assets	(27,404,214)	(30,947,374)
Acquisition of other non-current assets	<u>(4,351,242)</u>	<u>(535,275)</u>
Net cash used in investing activities	<u>(1,163,698,152)</u>	<u>(358,290,888)</u>
Cash flows from financing activities:		
Repayment of current maturities of long-term borrowings and other long-term liabilities	(341,960)	(372,639)
Payment of cash dividends	(161,233,640)	(96,740,184)
Acquisition of treasury stock	<u>(344,907,695)</u>	<u>-</u>
Net cash used in financing activities	<u>(506,483,295)</u>	<u>(97,112,823)</u>
Net increase in cash and cash equivalents	369,016,045	218,574,323
Cash and cash equivalents at the beginning of the period	<u>819,920,933</u>	<u>444,514,550</u>
Cash and cash equivalents at the end of the period	<u>₩ 1,188,936,978</u>	<u>₩ 663,088,873</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2007

Korean won (In thousands)						
	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustments</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total amount</u>
January 1, 2007	₩ 380,000,000	₩ 2,771,383,687	₩ (351,821,818)	₩ 386,855,426	₩ 1,292,233,001	₩4,478,650,296
Accumulated effect of accounting changes	-	-	-	(157,807,010)	-	(157,807,010)
January 1, 2007 (adjusted)	380,000,000	2,771,383,687	(351,821,818)	229,048,416	1,292,233,001	4,320,843,286
Dividends	-	-	-	-	(161,233,640)	(161,233,640)
Retained earnings after appropriation	-	-	-	-	1,130,999,361	4,159,609,646
Net income	-	-	-	-	788,521,498	788,521,498
Change in treasury stock	-	-	(344,907,695)	-	-	(344,907,695)
Gain on valuation of investment securities	-	-	-	42,978,897	-	42,978,897
Changes in equity arising on application of the equity method	-	-	-	91,829,522	-	91,829,522
Negative changes in equity arising on application of the equity method	-	-	-	27,846,692	-	27,846,692
Change in the valuation of derivatives	-	-	-	(92,185,515)	-	(92,185,515)
June 30, 2007	<u>₩ 380,000,000</u>	<u>₩ 2,771,383,687</u>	<u>₩ (696,729,513)</u>	<u>₩ 299,518,012</u>	<u>₩ 1,919,520,859</u>	<u>₩4,673,693,045</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

1. THE COMPANY:

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

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩5,000, authorized: 160,000,000 shares) of common stock are issued and 62,213,456 shares of common stock are outstanding as of June 30, 2007. Of the total issued shares, Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd. and Hyundai Motor Company own 10.80%, 8.15%, 7.98 % and 2.88%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company’s employees and directors, up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company’s employees and directors as of June 30, 2007. The Company may also raise capital without obtaining the approval of shareholders by issuing stock to foreign individual investors or foreign financial institutions, issuing stock domestically under the Securities and Exchange Act, issuing stock through a general public subscription and issuing stock to employees under certain circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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

The Company prepared its financial statements as of June 30, 2007 in accordance with the new Statements of Korea Accounting Standards (“SKAS”) No. 21 “Preparation and Presentation of Financial Statements”, No. 22 “Share-based Payment” and No. 23 “Earnings per Share”, effective from January 1, 2007. Also, the Company early applied revised SKAS No. 2 “Interim Financial Reporting”, which has been revised in May 25, 2007. Major changes compared with the standard applied in preparing the 2006 financial statements are as follows:

Statements of Korea Accounting Standards	Major changes
No. 2 Interim Financial Reporting	<ul style="list-style-type: none"> - To prepare the interim statements of cash flows and changes in shareholders’ equity only in cumulative period, not in the last interim period.
No. 21 Preparation and Presentation of Financial Statements	<ul style="list-style-type: none"> - To prepare the statement of changes in shareholders’ equity as a complete set of financial statements - To use accounts, ‘Other non-current assets’, and ‘accumulated other comprehensive income’ in preparing balance sheets - To use account ‘profit or loss from discontinued operations’ when discontinued business occurred

Statements of Korea Accounting Standards

No. 23 Earnings per Share

Major changes

- To organize definitions of terminologies related to earnings per share
- To specify standards of preferred stock and diluted earnings per share
- To present on the face of the income statement basic and diluted earning per share and disclose earning per share for profit or loss from discontinued operations

The Company restated the non-consolidated balance sheet as of December 31, 2006, and non-consolidated statements of income and cash flows for the six months ended June 30, 2006, which are presented for comparative purposes, in accordance with the new SKAS No.21 and No.23. Such restatement had no effect of net assets and net income of comparable period. Also, the Company did not prepare the statement of changes in shareholders' equity for the six months ended June 30, 2006 for comparative purposes, in accordance with the transition provision of SKAS No.21

In addition to the accounting changes above, the significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

Revenue Recognition

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

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

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

Inventories

Inventories are stated at the lower of cost or net realized value. Cost is determined using the moving average method, except for materials in-transit for which cost is determined using the specific identification method. Quantities of inventories at year-end are determined based on physical counts. If the net realizable value of inventories is lower than cost, inventories are adjusted to net realizable value and the difference between cost and revalued amount is charged to current operations.

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

Classification of Securities

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

Valuation of Securities

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

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

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

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

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

Investment Securities Accounted for Using the Equity Method

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

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

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

Property, Plant and Equipment and Related Depreciation

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

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

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

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

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

Intangible Assets

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

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

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

Discounts on Debentures

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

Foreign Currency Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rates on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Service Ltd. Basic Rate, which was ₩926.80 and ₩929.60 to USD1.00 at June 30, 2007 and December 31, 2006, respectively, and translation gains or losses are reflected in current operations.

Provision for Foreseeable Losses from Construction Contracts

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

Provision for Construction Warranty

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

Provision for Product Warranty

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩1,179,575,132 thousand and ₩1,135,188,486 thousand as of June 30, 2007 and December 31, 2006, respectively (see Note 10). Accrued severance benefits are funded approximately 82.5% and 79.3% as of June 30, 2007 and December 31, 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.

Income Tax Expense

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

Derivative Instruments

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations.

Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecast transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as an accumulated other comprehensive income and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as an accumulated other comprehensive income 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 is added to or deducted from the asset or the liability.

Cumulative Effect from Change in Accounting Policy

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

As a result, the Company's investment securities accounted for using the equity method decreased by ₩229,579,900 thousand, deferred income tax liabilities decreased by ₩60,073,353 thousand, and accumulated other comprehensive income decreased by ₩124,135,759 thousand as of June 30, 2007, compared to the previous accounting method. In addition, the accompanying balance sheet as of December 31, 2006 and the statements of income and cash flows for the six months ended June 30, 2006, which are presented for comparative purposes, were restated in accordance with the new interpretation above.

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

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

3. RESTRICTED FINANCIAL INSTRUMENTS:

As of June 30, 2007 and December 31, 2006, financial instruments amounting to ₩8,734,991 thousand and ₩9,112,870 thousand, respectively, which are included in long-term financial instruments are subject to withdrawal restrictions in relation to certain short-term and long-term borrowings, and shipbuilding contracts (see Note 9).

4. INVENTORIES:

Inventories as of June 30, 2007 and December 31, 2006 consist of the following:

	Korean won (In thousands)	
	2007	2006
Merchandise	₩ 42,609,031	₩ 49,701,522
Finished products	95,670,834	70,110,047
Work-in-process	229,063,486	226,823,638
Materials	305,807,534	313,675,691
Supplies	20,848,407	14,760,437
Materials in-transit	403,489,221	453,704,505
	<u>₩ 1,097,488,513</u>	<u>₩ 1,128,775,840</u>

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

- (1) Short-term investment securities consist of beneficiary certificates and various bonds of ₩205,478,015 thousand and ₩221,788,518 thousand as of June 30, 2007 and December 31, 2006, respectively. All short-term investment securities are classified into available-for-sale securities. Available-for-sale securities are stated at fair value with unrealized holding gain on valuation of available-for-sale securities (net of tax effect) amounting to ₩346,561 thousand and ₩642,730 thousand in accumulated other comprehensive income as of June 30, 2007 and December 31, 2006, respectively.
- (2) Long-term investment securities as of June 30, 2007 and December 31, 2006, all of which are classified into available-for-sale, consist of the following:

	Korean won (In thousands)	
	2007	2006
Available-for-sale:		
Equity securities stated at fair value	₩ 404,572,295	₩ 345,294,901
Equity securities stated at acquisition cost	51,706,703	51,752,344
Debt securities	-	29,689,199
	<u>₩ 456,278,998</u>	<u>₩ 426,736,444</u>

- (3) Equity securities stated at fair value included in long-term investment securities as of June 30, 2007 consist of the following:

Company	% of ownership	Korean won (In thousands)	
		Historical cost	Book value
Hyundai Motor Company	1.97	₩ 291,149,158	₩ 314,733,660
Tong Yang Investment Bank	3.48	99,828,399	70,831,980
Hyundai Corp.	0.36	11,227,434	2,370,619
Hyundai Elevator Co., Ltd.	2.16	1,632,339	15,354,697
Kia Motors Corp.	0.03	2,681,616	1,270,728
Hanarotelecom Inc. (*)	0.01	7,947,667	10,611
		<u>₩ 414,466,613</u>	<u>₩ 404,572,295</u>

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

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

(*) Equity securities of Korea Thrunet Co., Ltd. stated at acquisition cost were substituted for equity securities of Hanarotelecom Inc. stated at fair value because of the merger of Hanarotelecom Inc. and Korea Thrunet Co., Ltd.

- (4) Equity securities stated at acquisition cost included in long-term investment securities as of June 30, 2007 consist of the following:

Company	% of ownership	Korean won (In thousands)	
		Historical cost	Book value (*1)
Unlisted equity securities: (*1)			
Hynix Semiconductor America Inc.	1.33	₩ 34,525,619	₩ -
Daehan Oil Pipeline Corp.	6.39	14,511,802	14,511,802
Novelis Korea Ltd.	0.39	14,598,913	1,412,025
Yunhap Capital Co., Ltd.	9.99	10,000,000	10,000,000
Bexco, Ltd.	7.96	9,460,000	9,460,000
Hunelec Engineering & Technologies (*2&3)	100.00	26,302	26,302
Others (*2&3)	-	12,747,227	14,177,243
		<u>95,869,863</u>	<u>45,587,372</u>
Other investments:			
Investments in capital (*2)	-	5,677,796	6,119,331
		<u>₩ 101,547,659</u>	<u>₩ 51,706,703</u>

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

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

(*1) The book value of unlisted equity security was recorded at their acquisition cost because the fair value cannot be reliably estimated. However, the equity security impaired at year end was devaluated at the net book value of the most available financial statements.

(*2) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hunelec Engineering & Technologies and others were not accounted for using the equity method since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of June 30, 2007 and December 31, 2006 is less than ₩7,000 million, are not material.

(*3) The subsidiaries of related parties.

Long-term investment securities of Novelis Korea Ltd., which was renamed from Alcan Taihan Aluminum Ltd., has been determined to be impaired and the impairment loss amounting to ₩98,676 thousand is accounted for as non-operating expenses for the six months ended June 30, 2007.

- (5) Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of June 30, 2007, are as follows:

Company	Korean won (In thousands)			
	Beginning Balance	Increase (Decrease)	Impairment loss	Ending Balance
Hyundai Motor Company	₩ (405,601)	₩ 17,504,365	₩ -	₩ 17,098,764
Tong Yang Investment Bank	(1,300,571)	21,247,989	-	19,947,418
Hyundai Corp.	703,179	488,564	-	1,191,743
Hyundai Elevator Co., Ltd.	6,275,209	3,673,500	-	9,948,709
Kia Motors Corp.	(1,083,673)	60,779	-	(1,022,894)
Hanarotelecom Inc.	<u>6,780</u>	<u>913</u>	-	<u>7,693</u>
	4,195,323	42,976,110	-	47,171,433
Government and municipal bonds	40,390	(40,390)	-	-
Subordinated bonds	(300,894)	300,894	-	-
Investments in capital	<u>281,662</u>	<u>38,452</u>	-	<u>320,114</u>
	<u>₩ 4,216,481</u>	<u>₩ 43,275,066</u>	<u>₩ -</u>	<u>₩ 47,491,547</u>

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, 2006, are as follows:

Company	Korean won (In thousands)			
	Beginning balance	Increase (Decrease)	Impairment loss	Ending balance
Hyundai Motor Company	₩ 93,055,206	₩ (93,460,807)	₩ -	₩ (405,601)
Tong Yang Investment Bank	(4,161,246)	2,860,675	-	(1,300,571)
Hyundai Corp.	540,914	162,265	-	703,179

Company	Korean won (In thousands)			
	Beginning balance	Increase (Decrease)	Impairment loss	Ending balance
Hyundai Elevator Co., Ltd.	7,313,616	(1,038,407)	-	6,275,209
Kia Motors Corp.	(245,566)	(838,107)	-	(1,083,673)
Hanarotelecom Inc.	-	6,780	-	6,780
	96,502,924	(92,307,601)	-	4,195,323
Government and municipal bonds	(16,579)	56,969	-	40,390
Subordinated bonds	(753,859)	452,965	-	(300,894)
Investments in capital	(30,484)	312,146	-	281,662
	<u>₩ 95,702,002</u>	<u>₩ (91,485,521)</u>	<u>₩ -</u>	<u>₩ 4,216,481</u>

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of June 30, 2007 are as follows:

Company	Korean won (In thousands)			
	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank (*5)	48,700,540	19.87	₩ 266,150,343	₩ 311,786,676
Hyundai Finance Corp. (*3)	12,350,000	67.49	78,197,738	84,924,556
Hyundai Samho Heavy Industries Co., Ltd. (*3)	37,967,000	94.92	204,259,700	822,387,067
Changzhou Hyundai Construction Machinery Co., Ltd. (*3)	-	60.00	20,215,057	31,903,194
Beijing Hyundai Construction Machinery Co., Ltd. (*3)	-	60.00	15,661,020	16,036,959
MOST #3 Venture Investment	130	24.53	665,385	1,726,748
Incheon Airport Energy	3,284,884	31.00	16,424,420	4,564,615
MIC 99-1 IT Venture Partnership (*3)	820	40.82	8,212,055	1,941,692
Hyundai Jiangsu Construction Machinery Co., Ltd. (*3)	-	60.00	17,662,068	26,233,249
Hyundai Heavy Industries Co. Bulgaria (*3)	12,155,829	99.09	11,620,593	19,022,143
New Korea Country Club	16,457	20.00	500,000	3,263,526
Hyundai Dongahn Steel (*3)	-	54.99	1,231,036	1,275,533
Hyundai Heavy Industries Europe N.V. (*3)	10	100.00	35,656,728	19,027,510
Hyundai Vinashin Shipyard (*1& 3)	-	10.00	2,543,678	7,600,372
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*3)	-	54.99	7,254,254	6,215,556
Jiangsu Hyundai Nanzi Electric Co., Ltd. (*3)	-	80.00	18,256,250	14,481,984
H.C.E U.S.A (*3)	23,900,000	100.00	26,712,810	9,571,542
Vladivostock Business Center (*3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*2)	3,792,000	7.58	6,617,040	5,521,464
HHI China Investment Co., Ltd. (*3)	-	100.00	28,372,350	27,231,350
Hyundai Merchant Marine Co., Ltd. (Common stock) (*4)	23,424,037	17.60	404,039,118	372,215,654
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*4)	3,516,688	17.58	52,750,320	55,243,166
Qinhuangdao Shouqin Metal Materials Co., Ltd.	-	20.00	49,308,117	56,125,462
Hyundai Ideal Electric Co.	-	100.00	11,241,600	11,236,106
Taishan financial Leasing Co., Ltd.	-	60.03	2,496,186	2,533,565
Hyundai Construction Equipment India Private Ltd.	-	100.00	45,935,414	46,193,758
			<u>₩1,337,874,947</u>	<u>₩1,958,263,447</u>

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

(*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 ₩1,300 per share at June 30, 2007.

(*3) The Company's subsidiaries

(*4) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd.

is ₩36,000 per share at June 30, 2007.

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

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

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

- (*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 subsidiaries of related parties

- (*4) The Company acquired 19,000 thousand shares of Hyundai Merchant Marine Co., Ltd.'s common stock pursuant to the resolution of the board of directors. Also the Company acquired 4,424,037 shares of common stock by paid in capital increase, and 3,516,688 shares of preferred stock. 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 stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd. is ₩20,300 per share at December 31, 2006.

- (*5) 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.

- (3) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences for the six months ended June 30, 2007 are as follows:

Company	Korean won (In thousands)			
	Beginning balance	Increase (Decrease)	Amortization	Ending balance
Hyundai Oilbank	₩ 372,067	₩ -	₩ (186,033)	₩ 186,034
Hyundai Samho Heavy Industries Co., Ltd.	3,543,034	-	(3,543,034)	-
Hyundai Heavy Industries Co. Bulgaria	(18,298)	-	4,575	(13,723)
Hyundai Vinashin Shipyard	(297,256)	-	99,085	(198,171)
Koentec Co., Ltd.	2,074,457	-	(345,743)	1,728,714
Hyundai Merchant Marine Co., Ltd.	68,880,763	-	(8,103,619)	60,777,144
Qinhuangdao Shouqin Metal Materials Co., Ltd.	-	14,245,006	(1,424,500)	12,820,506
	<u>₩ 74,554,767</u>	<u>₩ 14,245,006</u>	<u>₩ (13,499,269)</u>	<u>₩ 75,300,504</u>

- (4) The changes of investment securities using the equity method for the six months ended June 30, 2007 are as follows:

Company	Korean won (In thousands)				
	Beginning balance	Acquisition (Disposal)	Gain (Loss)(*1)	Other	Ending balance
Hyundai Oilbank	₩ 282,669,089	₩ -	₩ 28,990,641	₩ 126,946	₩ 311,786,676
Hyundai Finance Corp.	86,821,048	-	751,439	(2,647,931)	84,924,556
Hyundai Samho Heavy Industries Co., Ltd.	512,441,521	-	174,584,141	135,361,405	822,387,067
Changzhou Hyundai Construction Machinery Co., Ltd.	30,488,002	-	708,746	706,446	31,903,194
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	15,108,858	-	787,662	140,439	16,036,959
MOST #3 Venture Investment	4,334,223	(2,322,299)	(285,176)	-	1,726,748
Incheon Airport Energy	4,402,927	-	204,858	(43,170)	4,564,615
Hyundai & Terasource D-Convergence Venture Investment	2,153,809	(2,153,809)	-	-	-
MIC 99-1 IT Venture Partnership	2,214,049	-	(272,357)	-	1,941,692
Hyundai Jiangsu Construction Machinery Co., Ltd.	15,969,244	-	9,696,550	567,455	26,233,249
Hyundai Heavy Industries Co. Bulgaria	17,253,084	-	2,234,970	(465,911)	19,022,143
New Korea Country Club	2,969,024	-	294,502	-	3,263,526
Hyundai Dongahn Steel	1,214,109	-	65,592	(4,168)	1,275,533
Hyundai Heavy Industries Europe N.V.	16,661,324	-	1,816,523	549,663	19,027,510
Hyundai Vinashin Shipyard	5,951,387	-	1,680,128	(31,143)	7,600,372
Yantai Hyundai Moon Heavy Industries Co., Ltd.	6,057,925	-	18,059	139,572	6,215,556
Jiangsu Hyundai Nanzi Electric Co., Ltd.	13,147,976	-	1,018,938	315,070	14,481,984
H.C.E U.S.A.	7,875,610	-	1,762,896	(66,964)	9,571,542
Vladivostok Business Center (*2)	-	-	-	-	-
Koentec Co., Ltd.	5,819,355	-	(188,118)	(109,773)	5,521,464
HHI China Investment Co., Ltd.	27,705,843	-	233,905	(708,398)	27,231,350
Hyundai Merchant Marine Co., Ltd. (Common stock)	381,589,498	-	2,131,805	(11,505,649)	372,215,654
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,298,172	-	1,055,006	(2,110,012)	55,243,166
Qinhuangdao Shouqin Metal Materials Co., Ltd.	-	49,308,117	5,965,216	852,129	56,125,462
Hyundai Ideal Electric Co.	-	11,241,600	115,406	(120,900)	11,236,106
Taishan financial Leasing Co., Ltd.	-	2,496,186	-	37,379	2,533,565
Hyundai Construction Equipment India Private Ltd.	-	45,935,414	-	258,344	46,193,758
	<u>₩ 1,499,146,077</u>	<u>₩ 104,505,209</u>	<u>₩ 233,371,332</u>	<u>₩ 121,240,829</u>	<u>₩ 1,958,263,447</u>

(*1) Gain (loss) on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-

company transactions. For the six months ended June 30, 2007 and for the year ended December 31, 2006, unrealized profit eliminated under the equity method are ₩30,966,518 thousand and ₩33,467,687 thousand, respectively.

- (*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩77,390 million including ₩1,706 million increased for the six months period ended June 30, 2007, and allowance amounting to ₩49,696 million was provided for accounts receivables-other for Vladivostok Business Center.

Equity securities accounted for using the equity method as of June 30, 2007 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. However, the Company adjusted the material difference between the Company and investees, relating to accounting principle of similar transactions and accounting events. As of June 30, 2007, such adjustments of difference were reflected in the decrease in gain on valuation in current operations by ₩59,080 million, the decrease in retained earnings by ₩5,174 million, the decrease in accumulated other comprehensive income by ₩269,538 million, and the increase in deferred income tax liabilities by ₩102,238 million.

- (5) Equity securities accounted for using the equity method as of June 30, 2007 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. Those net assets value from using the provisional settlement is as follows:

Company	Reason for use	Korean won (In thousands)		
		Net asset value before adjustments	Adjustments(*)	Net asset value after adjustments
Hyundai Oilbank	Difference of closing day	₩ 311,600,642	₩ -	₩ 311,600,642
Hyundai Finance Corp.	“	84,924,556	-	84,924,556
Hyundai Samho Heavy Industries Co., Ltd.	“	1,257,786,084	(430,804,866)	826,981,218
Changzhou Hyundai Construction Machinery Co., Ltd.	“	31,903,194	-	31,903,194
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	“	17,359,145	-	17,359,145
MOST #3 Venture Investment	“	1,726,748	-	1,726,748
Incheon Airport Energy	“	4,564,615	-	4,564,615
MIC 99-1 IT Venture Partnership	“	1,941,692	-	1,941,692
Hyundai Jiangsu Construction Machinery Co., Ltd.	“	30,920,550	-	30,920,550
Hyundai Heavy Industries Co. Bulgaria	“	19,039,565	-	19,039,565
New Korea Country Club	“	3,263,526	-	3,263,526
Hyundai Dongahn Steel	“	1,275,533	-	1,275,533
Hyundai Heavy Industries Europe N.V.	“	33,406,385	-	33,406,385
Hyundai Vinashin Shipyard	“	7,798,543	-	7,798,543
Yantai Hyundai Moon Heavy Industries Co., Ltd.	“	7,656,514	(1,440,958)	6,215,556
Jiangsu Hyundai Nanzi Electric Co., Ltd.	“	17,449,428	(2,702,141)	14,747,287
H.C.E U.S.A.	“	15,286,545	-	15,286,545
Vladivostok Business Center	“	-	-	-
Koentec Co., Ltd.	“	3,792,750	-	3,792,750
HHI China Investment Co., Ltd.	“	28,313,761	(1,082,411)	27,231,350
Hyundai Merchant Marine Co., Ltd. (Common stock)	“	311,438,510	-	311,438,510
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	“	55,243,166	-	55,243,166
Qinhuangdao Shouqin Metal Materials Co., Ltd.	“	43,304,956	-	43,304,956
Hyundai Ideal Electric Co.	“	11,236,106	-	11,236,106
Taishan financial Leasing Co., Ltd.	“	2,533,565	-	2,533,565
Hyundai Construction Equipment India Private Ltd.	“	46,193,758	-	46,193,758
		<u>₩ 2,349,959,837</u>	<u>₩ (436,030,376)</u>	<u>₩ 1,913,929,461</u>

- (*) The Company adjusted the material difference of accounting principle for similar transactions and accounting events between the Company and investees. As of June 30, 2007, such adjustments of difference were reflected in the decrease in gain on valuation in current income by ₩59,080 million, the decrease in retained earnings by ₩5,174 million, the decrease in accumulated other comprehensive income by ₩269,538 million, the increase in deferred income tax liabilities by ₩102,238 million.
- (6) The gain and loss on valuation of investment securities accounted for using the equity method are ₩234,116,983 thousand and ₩(745,651) thousand for the six months ended June 30, 2007, respectively. In addition, the cumulative effect of the equity method of accounting on the ending balance of accumulated other comprehensive income (net of tax effect) is ₩83,331,817 thousand which is consisted of changes in equity arising on application of the equity method by ₩105,316,088 thousand and negative changes in equity arising on application of the equity method by ₩(21,984,271) thousand as of June 30, 2007 including the increase of ₩119,676,214 thousand for the six months ended June 30, 2007.
- (7) Financial information of investees for equity securities accounted for using the equity method as of and for the six months ended June 30, 2007 is as follows:

Company	Korean won (In millions)			
	Assets	Liabilities	Sales	Net income(loss)
Hyundai Oilbank	₩ 4,469,386	₩ 2,890,151	₩ 4,401,528	₩ 143,545
Hyundai Finance Corp.	129,318	3,478	3,651	935
Hyundai Samho Heavy Industries Co., Ltd.	4,861,310	3,536,174	1,183,838	247,315
Changzhou Hyundai Construction Machinery Co., Ltd.	62,382	9,210	19,311	1,181
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	141,013	112,081	143,603	2,255
MOST #3 Venture Investment	7,102	62	915	(1,063)
Incheon Airport Energy	173,074	158,349	38,322	624
MIC 99-1 IT Venture Partnership	5,207	450	33	(667)
Hyundai Jiangsu Construction Machinery Co., Ltd.	202,029	150,495	223,694	12,905
Hyundai Heavy Industries Co. Bulgaria	27,796	8,581	15,802	2,255
New Korea Country Club	21,680	5,362	5,770	1,478
Hyundai Dongahn Steel	18,634	16,315	13,080	119
Hyundai Heavy Industries Europe N.V.	116,404	82,997	169,467	5,374
Hyundai Vinashin Shipyard	158,117	80,132	62,687	15,810
Yantai Hyundai Moon Heavy Industries Co., Ltd.	21,316	7,394	5,822	17
Jiangsu Hyundai Nanzi Electric Co., Ltd.	69,134	47,322	31,140	1,239
H.C.E U.S.A	63,551	48,264	69,451	(752)
Vladivostok Business Center	21,329	156,768	4,073	(584)
Koentec Co., Ltd.	70,201	20,191	11,777	1,957
HHI China Investment Co., Ltd.	32,374	4,060	835	(30)
Hyundai Merchant Marine Co., Ltd.	5,553,234	3,469,757	2,353,272	64,148
Qinhuangdao Shouqin Metal Materials Co., Ltd	977,012	760,488	468,561	36,949
Hyundai Ideal Electric Co.	15,330	4,094	5,337	115

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of June 30, 2007 and December 31, 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Buildings and structures	₩ 2,479,760,274	₩ 2,452,694,705
Machinery and equipment	2,122,015,944	2,093,584,301
Ships	185,627,931	184,207,582
Vehicles	28,293,373	25,626,764

Korean won (In thousands)		
	2007	2006
Tools, furniture and fixtures	933,729,239	904,758,405
	5,749,426,761	5,660,871,757
Less: accumulated depreciation	(2,828,508,699)	(2,705,507,802)
	2,920,918,062	2,955,363,955
Land	1,385,713,091	1,365,024,824
Construction-in-progress	219,240,058	134,740,535
	<u>₩ 4,525,871,211</u>	<u>₩ 4,455,129,314</u>

The changes in property, plant and equipment for the six months ended June 30, 2007 are as follows:

Korean won (In thousands)						
	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩ 1,365,024,824	₩ 1,720,045,695	₩ 732,649,010	₩ 2,093,584,301	₩ 1,249,333,286	₩ 7,160,637,116
Acquisition and other	24,184,643	24,832,489	23,401,685	57,577,192	144,202,899	274,198,908
Disposal	(3,496,376)	(20,678,919)	(489,686)	(29,145,549)	(26,645,584)	(80,456,114)
End of period	<u>₩ 1,385,713,091</u>	<u>₩ 1,724,199,265</u>	<u>₩ 755,561,009</u>	<u>₩ 2,122,015,944</u>	<u>₩ 1,366,890,601</u>	<u>₩ 7,354,379,910</u>
Depreciation	-	21,653,344	9,358,312	96,563,157	50,702,331	178,277,144
Accumulated depreciation	-	341,536,662	151,955,183	1,501,351,788	833,665,066	2,828,508,699

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

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

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩2,145,046 million as of June 30, 2007. The Company maintains insurance coverage against fire and other casualty losses of up to ₩7,940,769 million for ships and sea structures under construction and the insurance proceed of ₩1,417,900 million is pledged as collateral for loans from Export-Import Bank of Korea as of June 30, 2007 (See Note 9).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩1,435,396 million as of June 30, 2007. The Company also maintains insurance on cargo against damage and claims losses of up to ₩5,097,400 million for products being exported and imported as of June 30, 2007.

As of June 30, 2007 and December 31, 2006, the value of land owned by the Company is ₩1,188,984 million and ₩1,119,749 million, respectively, as announced by the Korean government.

8. INTANGIBLE ASSETS:

Intangible assets as of June 30, 2007 and December 31, 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Development costs	₩ 206,131,143	₩ 197,304,243
Usage right for donated properties	23,194,056	24,213,698
	<u>₩ 229,325,199</u>	<u>₩ 221,517,941</u>

Intangible assets as of June 30, 2007 and December 31, 2006, are summarized as follows:

	Korean won (In thousands)			
	Development Cost		Usage right for donated properties	
	2007	2006	2007	2006
Beginning balance	₩ 197,304,243	₩ 164,889,432	₩ 24,213,698	₩ 26,252,981
Capitalized	27,404,214	61,278,856	-	-
Amortization	(18,577,314)	(28,864,045)	(1,019,642)	(2,039,283)
Ending balance	<u>₩ 206,131,143</u>	<u>₩ 197,304,243</u>	<u>₩ 23,194,056</u>	<u>₩ 24,213,698</u>

Research costs amounting to ₩8,367,707 thousand and ₩7,101,184 thousand, and ordinary development costs amounting to ₩32,733,886 thousand and ₩22,045,930 thousand are included in selling and administrative expenses for the six months ended June 30, 2007 and 2006, respectively. The amortized development costs of ₩18,577,314 thousand and ₩12,530,178 thousand are included in the cost of sales and selling and administration expenses for the six months ended June 30, 2007 and 2006, respectively.

9. DEBENTURES AND LONG-TERM BORROWINGS:

Debentures and long-term borrowings as of June 30, 2007 and December 31, 2006 are as follows:

	Interest rate as of June 30, 2007 (%)	Korean won (In thousands)	
		2007	2006
Non-guaranteed debentures	6ML+0.475	₩ 185,360,000	₩ 185,920,000
Foreign currency loans	See detail	1,338,981	1,684,987
		186,698,981	187,604,987
Less: Discounts of debentures		(506,551)	(710,750)
Current maturities		-	(341,960)
		<u>₩ 186,192,430</u>	<u>₩ 186,552,277</u>

Debentures comprise privately issued debentures of ₩185,360 million (USD 200,000 thousand) as of June 30, 2007.

Foreign currency loans as of June 30, 2007 and December 31, 2006 are as follows:

	Interest rate as of June 30, 2007 (%)	Korean won (In thousands)	
		2007	2006
Facility loans from EXIM bank of Korea	6ML+0.675	₩ -	₩ 341,960
Business loans from Korea National Oil Corporation	2.5	1,338,981	1,343,027
		1,338,981	1,684,987
Less: current maturities		-	(341,960)
		<u>₩ 1,338,981</u>	<u>₩ 1,343,027</u>

The maturities of long-term debt as of June 30, 2007, before discounts, are as follows:

	Korean won (In thousands)		
	Debentures	Foreign currency loans	Total
2008. 7~2009. 6	₩ 185,360,000	₩ -	₩ 185,360,000
2009. 7 thereafter	-	1,338,981	1,338,981
	<u>₩ 185,360,000</u>	<u>₩ 1,338,981</u>	<u>₩ 186,698,981</u>

10. ACCRUED SEVERANCE BENEFITS:

Accrued severance benefits of June 30, 2007 and December 31, 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Beginning balance	₩ 1,135,188,486	₩ 1,018,835,792
Severance payment	(40,638,568)	(90,417,659)
Provisions	<u>85,025,214</u>	<u>206,770,353</u>
	1,179,575,132	1,135,188,486
Less: Severance insurance	(973,156,658)	(900,139,132)
National pension	<u>(40,334,403)</u>	<u>(41,700,771)</u>
Ending balance	<u>₩ 166,084,071</u>	<u>₩ 193,348,583</u>

11. COMMITMENTS AND CONTINGENCIES:

- (1) The Company has entered into bank overdraft agreements with 8 banks amounting to ₩231,000 million as of June 30, 2007.
- (2) As of June 30, 2007, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports such as letter of credit including usance L/C, totaling USD 1,640,876 thousand.
- (3) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 11 blank checks and notes as of June 30, 2007.
- (4) The outstanding balance of note receivables, guaranteed by the importers' Government or others, sold to financial institutions with recourse is USD 46,589 thousand, equivalent to ₩43,179 million, as of June 30, 2007. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩4,182 million as of June 30, 2007.
- (5) As of June 30, 2007, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 188,453 thousand and ₩36,844 million. The Company has provided certain performance guarantees for the bareboat charter amounting to USD 866,443 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI"), one of the Company's subsidiaries, for the construction of 25 ships (Contract amount: USD 2,760,455 thousand).
- (6) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩2,165,157 million and USD 11,500,286 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 amounts and the payment of imported raw-materials, the Company has entered into currency forward contracts with various banks including Korea Exchange Bank. As of June 30, 2007, the valuation and gain (loss) on transaction of the forward contracts is as follows (Won in millions, USD in thousands, EUR in thousands and JPY in thousands):

Purpose	Contract amount	Sales	Gain(loss)	Accumulated other comprehensive income
Hedging	USD 12,918,590			
	EUR 127,409	₩ 164,619	₩ 7,731	₩ 230,064
	JPY 113,700			
Trading	USD 752,265	-	14,429	-
Total	USD 13,670,855			
	EUR 127,409			
	JPY 113,700	₩ 164,619	₩ 22,160	₩ 230,064

As of June 30, 2007, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩166,797 million (net of deferred income tax adjustment of ₩63,267 million) as gain on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 45 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 June 30, 2007 is ₩130,878 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current income.

Such contracts as described above that were incurred for the six months ended June 30, 2007 resulted in gain (loss) on settlement of derivatives amounting to ₩11,512 million and ₩(11,388) million and gain (loss) on valuation of unsettled derivatives amounting to ₩24,691 million and ₩(2,656) million in non-operating income (expenses). As of June 30, 2007, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as current assets and liabilities amounting to ₩293,067 million and ₩6,060 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 thousand (variable interest rate : 6M Libor+0.475%, fixed interest rate : 4.50%, maturity date : September 22, 2008). As of June 30, 2007, the Company recorded the present value of the forecasted cash flow amounting ₩2,627 million as derivative assets. The Company accounted for the realized portion of the losses on transaction of foreign currency forward amounting to ₩364 million as non-operating income. Also, the Company accounted for the ineffective portion of the hedge amounting to ₩487 million as non-operating income, the effective portion of the hedge amounting to ₩1,551 million (net of deferred income tax adjustment of ₩589 million) as gain on valuation of derivative in accumulated other comprehensive income as of June 30, 2007.

- (8) Hynix Semiconductor Inc. ("HSI") has entered into a Purchase Agreement (off-take agreement) with Hynix Semiconductor Manufacturing America Inc. ("HSMA"), an overseas subsidiary of HSI, as collateral for the long-term borrowings of HSMA. In addition, the Company has entered into a Group Support Agreement with HSMA together with two other companies within the Hyundai Group of companies, and provided this agreement as collateral for the long-term borrowings of HSMA. Under the Borrowing Agreement between HSMA and J.P. Morgan Chase Bank ("JPMC") mentioned above, JPMC can require HSMA to early redeem the long-term borrowing according to the off-take agreement and also based on the financial condition of the three guarantors.

HSMA has redeemed all amounts of long-term borrowings from JPMC at maturity as of June 30, 2007. Accordingly, the Borrowing Agreement between HSMA and JPMC was substantially terminated and the off-take agreement mentioned above became invalid.

12. LITIGATIONS:

- (1) A penalty amounting to ₩19,852 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies, relating to the transactions from 1998 to 2000. However, the Company has filed an administrative appeal and the case is pending in the Supreme Court and the High Court as of June 30, 2007. Some of the pending litigations above were finalized with the Supreme Court's judgment in favor of the Company on April 9, 2004. As a result, the Korea Fair Trade Commission refunded ₩3,371 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 Seoul High Court.

In addition, the Company has been brought into 6 legal actions by its employees with claims amounting to ₩488 million for damages from industrial disaster, all of which are pending as of June 30, 2007.

- (2) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 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 a High Court for claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advanced payments and reimbursable expenses for those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Company didn't accept the Court's decision and filed an appeal to the Supreme Court of Korea. The Company has provided an allowance for doubtful accounts on the above amount as of June 30, 2007. The management and legal advisor of the Company predict that the case will be decided in the Company's favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.
- (3) Pursuant to the restructuring of financial institutions, Chohung Bank, Kangwon Bank and Hyundai Investment Bank ("HIB"), a former subsidiary of the Company, were merged in September 1999. A special tax for rural development amounting to ₩43,700 million and a special tax for deemed dividend income amounting to ₩26,073 million were imposed on the liquidation income of HIB, which was paid by the Company. The Company instituted an administrative litigation to cancel the tax to the Seoul Administrative Court through Chohung Bank, but on April 21, 2005, the Supreme Court ruled against the Company. In addition, the Company filed an assessment petition to National Tax Tribunal (NTT) in order to have the loss incurred in relation with the merger of Kangwon Bank and Chohung Bank included as a deductible item, but the petition was rejected on August 10, 2005. However, the Company filed a lawsuit to cancel of NTT'S rejection for reassessment on corporate income tax to Ulsan district court. According to preceding tax rebate case for deemed dividend income which occurred in the middle of merger, the Company has claimed for rectification relating to corporate income tax on 2004 to the jurisdictional tax office in June, 2007 and the jurisdictional tax office refunded related corporate income tax. Therefore, the Company cancelled the lawsuit on NTT's rejection of reassessment on corporate income tax. Refunded corporate income tax is offset on additional income tax through the Company's revised corporate income tax report.
- (4) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was under foreign currency exchange crisis in late 1990's. The National Tax Service concluded this capital increase to be unfair financial support for the insolvent affiliate. The Company appealed judgment by National Tax Tribunal and the case is in progress as of June 30, 2007.
- (5) The Company has been brought into legal action with claim for returning construction expense amounting to ₩2,579 million, which is pending as of June 30, 2007 and filed for demanding construction expense amounting to ₩1,960 million against Lotte Engineering & Construction Co., Ltd.

13. CAPITAL SURPLUS:

Capital surplus as of June 30, 2007 and December 31, 2006 is as follows:

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

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

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

14. RETAINED EARNINGS:

Retained earnings as of June 30, 2007 and December 31, 2006 are as follows:

	Korean won (In thousands)	
	2007	2006
Appropriated:		
Legal reserve (A & C)	₩ 164,883,308	₩ 148,759,943
Reserve for corporate development (C)	30,000,000	30,000,000
Reserve for research and human development (B)	247,690,636	61,523,970
Reserve for facilities (B)	78,270,000	78,270,000
Other voluntary reserves (D)	610,155,408	260,831,528
	<u>₩ 1,130,999,352</u>	<u>₩ 579,385,441</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 research and human development and investment for facilities is required to be recorded as a reserve for research and human development and investment for facilities.
- (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.

15. CAPITAL ADJUSTMENTS:

As of June 30, 2007 and December 31, 2006, capital adjustments are as follows:

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

The Company has been operating special money in trust for treasury stock amounting to ₩705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed 11,631,580 shares of treasury stock in October 2003. In addition, pursuant to the resolution of the board of directors on January 10, 2007, the Company determined to acquire 2,280 thousand shares for the purpose of stabilizing the share price of the Company, and has completed the acquisition by March 22, 2007. The acquisition cost of treasury stock amounting to ₩696,729,513 thousand (13,786,544 shares of treasury stock) was recorded as capital adjustments as of June 30, 2007.

16. SALES AND COST OF SALES:

- (1) Sales and cost of sales, by major industry segment, for the six months ended June 30, 2007 and 2006 are as follows:

	Korean won (In thousands)			
	2007		2006	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩ 3,745,148,840	₩ 3,189,684,598	₩ 3,167,475,471	₩ 2,848,643,498
Offshore & Engineering	1,087,143,943	1,016,589,090	707,242,051	650,208,650
Industrial Plant & Engineering	432,086,769	402,682,082	174,223,954	272,040,970
Engine & Machinery	782,886,906	599,594,854	586,253,139	465,901,281
Electro Electric Systems	722,537,440	557,085,364	503,099,480	386,233,328
Construction Equipment	725,022,942	571,179,139	633,524,785	493,898,590
Others	58,467,176	54,135,343	49,226,885	46,655,247
	₩ 7,553,294,016	₩ 6,390,950,470	₩ 5,821,045,765	₩ 5,163,581,564

- (2) The Company's outstanding contracts as of June 30, 2007 are summarized as follows:

	Korean won (In millions)		
	Shipbuilding	Others	Total
Beginning of period	₩ 18,928,666	₩ 10,303,788	₩ 29,232,454
Increase during the period	6,890,625	4,656,605	11,547,230
Recognized as revenue in current income	(3,745,149)	(3,808,145)	(7,553,294)
End of period	₩ 22,074,142	₩ 11,152,248	₩ 33,226,390

As of June 30, 2007, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 11).

- (3) As of June 30, 2007, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

	Korean won (In millions)					
	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	₩ 7,398,307	₩ 972,223	₩5,165,265	₩ 1,085,370	₩ 84,751	₩ 1,000,619
Offshore & Engineering	3,763,877	200,371	1,151,512	138,323	5,956	132,367
Industrial Plant & Engineering	2,811,691	47,665	214,871	84,376	8,841	75,535
Engine & Machinery	1,355,915	342,337	338,186	311,198	66,582	244,616
Electro Electric Systems	150,363	38,744	43,970	324,070	230,378	93,692
Construction Equipment (*)	-	-	1,462	152,889	152,889	-
Others (*)	-	-	429	401,474	401,474	-
	<u>₩15,480,153</u>	<u>₩1,601,340</u>	<u>₩6,915,695</u>	<u>₩ 2,497,700</u>	<u>₩ 950,871</u>	<u>₩ 1,546,829</u>

(*) Industry segment recognized revenues by delivery basis.

For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩70,653 million.

17. INCOME TAX EXPENSE:

- (1) Income tax expense for the six months ended June 30, 2007 and 2006 is as follows:

	Korean won (In thousands)	
	2007	2006
Current income tax	₩ 256,416,156	₩ 72,655,694
Changes in deferred income taxes due to temporary differences	57,594,079	77,399,824
Changes in deferred income taxes directly adjusted in equity	(26,791,809)	(9,698,182)
Income tax expense	287,218,428	140,357,336
Income before income tax	1,075,739,926	355,623,932
Effective income tax rate	26.7%	39.5%

- (2) For the six months ended June 30, 2007 and 2006, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

	Korean won (In thousands)	
	2007	2006
Income before income tax	₩ 1,075,739,926	₩ 355,623,932
Temporary differences	(122,393,258)	(197,476,369)
Non-temporary differences	9,712,994	112,248,032
Taxable income	<u>₩ 963,059,662</u>	<u>₩ 270,395,595</u>

- (3) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the six months ended June 30, 2007 and 2006 are summarized as follows:

Description	Korean won (In thousands)			
	2007		2006	
	Beginning	Ending	Beginning	Ending
Investment securities accounted for using the equity method (*1 & *2)	₩ (251,717,574)	₩ (626,911,115)	₩ (41,470,594)	₩ (198,707,922)
Loss on valuation of investment securities	70,374,032	74,551,560	93,502,002	69,313,951
Reserve for technology development	(247,690,636)	(238,845,318)	(61,523,970)	(49,607,303)
Provision for doubtful accounts (*2)	187,042,333	200,468,784	152,471,780	160,054,110
Accrued income	(2,824,172)	(7,468,837)	(2,364,562)	(1,587,319)
Loss on valuation of receivables	859,903	859,903	859,903	859,903
Loss on valuation of short-term investment securities and others	121,273	-	189,013	160,321
Currency forward contracts (*1)	(458,399,783)	(268,627,373)	(203,696,067)	(305,091,138)
Other (*1)	<u>265,550,983</u>	<u>219,855,743</u>	<u>186,612,895</u>	<u>168,285,437</u>
	<u>₩ (436,683,641)</u>	<u>(646,116,653)</u>	<u>₩ 124,580,400</u>	<u>(156,319,960)</u>
Tax rate		27.5%		27.5%
Cumulative tax effects		(177,682,079)		(42,987,989)
Tax credit carryforward		-		-
Deferred income tax assets, end of period		(177,682,079)		(42,987,989)
Deferred income tax assets, beginning of period		<u>(120,088,000)</u>		<u>34,411,835</u>
Changes in deferred income taxes on temporary differences		<u>₩ (57,594,079)</u>		<u>₩ (77,399,824)</u>

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

(*2) The temporary differences amounting to ₩90,500 million and ₩97,329 million, which were not recognized as deferred income tax assets and liabilities, respectively, are included.

- (4) Tax effects of temporary differences, which were directly adjusted in equity, are composed of ₩(16,302,340) thousand occurred from gain on valuation of available-for-sale securities, ₩(45,456,384) thousand occurred from changes in accumulated other comprehensive income of investment securities accounted for using the equity method and ₩34,966,917 thousand occurred from gain on valuation of currency forward contracts.

- (5) Deferred income tax assets (liabilities) as of June 30, 2007 are as follows:

	Korean won (In thousands)		
	Current	Non-current	Total
Accumulated of temporary difference	₩ 44,592,232	₩ (690,708,885)	₩ (646,116,653)
Tax rate	27.5%	27.5%	27.5%
Tax effects	12,262,864	(189,944,943)	(177,682,079)
Tax credit carry forward	-	-	-
Deferred income tax assets (liabilities)	<u>₩ 12,262,864</u>	<u>₩ (189,944,943)</u>	<u>₩ (177,682,079)</u>

18. STATEMENTS OF COMPREHENSIVE INCOME:

Statements of comprehensive income for the three months and six months ended June 30, 2007 and 2006 are as follows:

	Korean won (In thousands)			
	Three months		Six months	
	2007	2006	2007	2006
Net income	₩417,513,988	₩192,365,358	₩788,521,498	₩215,266,596
Other comprehensive income				
Gain(loss) on valuation of short-term and long-term investment securities	67,682,488	2,802,346	59,281,237	(63,300,898)
Tax effects	(18,612,684)	(770,645)	(16,302,340)	17,407,747
Changes in equity arising on application of the equity method	125,159,270	(2,357,560)	126,684,524	(4,017,702)
Tax effects	(34,479,340)	648,329	(34,855,002)	1,104,868
Negative changes in equity arising on application of the equity method	71,274,881	2,636,273	38,448,074	(2,965,640)
Tax effects	(19,881,885)	(1,899,678)	(10,601,382)	(712,815)
Gain(loss) on valuation of financial derivatives	72,599,048	(8,617,069)	(127,152,432)	99,992,663
Tax effects	(19,964,738)	2,369,694	34,966,917	(27,497,982)
Sub-total	243,777,040	(5,188,310)	70,469,596	20,010,241
Comprehensive income	<u>₩661,291,028</u>	<u>₩187,177,048</u>	<u>₩858,991,094</u>	<u>₩235,276,837</u>

19. INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the six months ended June 30, 2007 and 2006.

Basic income per share and for the three months and six months ended June 30, 2007 and 2006 are calculated as follows:

	Korean won			
	Three months		Six months	
	2007	2006	2007	2006
Net income (In thousands)	₩ 417,513,988	₩ 192,365,358	₩ 788,521,498	₩ 215,266,596
Weighted average number of outstanding common shares (In thousands)	62,788	64,493	62,788	64,493
Income per share per share (In Korea won)	<u>₩ 6,650</u>	<u>₩ 2,983</u>	<u>₩ 12,558</u>	<u>₩ 3,338</u>

20. TRANSACTIONS WITH RELATED PARTIES:

(1) The Company is the ultimate holding company and its subsidiaries as of June 30, 2007 are as follows:

Company	Particulars
Hyundai Samho Heavy Industries Co., Ltd.	Building of ships
Hyundai Mipo Dockyard Co., Ltd.	Building of ships
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and intermediate transaction of futures
HVIC IT Fund 3 rd	Investment association
Changzhou Hyundai Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for building
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for building
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for building
Hyundai Dongahn Steel Tower Manufacturing Co., Ltd.	Manufacture of structural metal products
H.C.E U.S.A	Sale of machinery equipment for building
Hyundai Heavy Industry Co., Bulgaria	Sale and manufacture of transformers
Vladivostok Business Center	Hotels
MIC 99-1 IT Venture Partnership	Other financial intermediation
Hyundai Vinashin Shipyard	Repairing of ships
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Jiangsu Hyundai Nanzi Electric Co., Ltd.	Sale and manufacture of boards for electric distribution
Hyundai Jiangsu Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for building
HHI China Investment Co., Ltd.	Holding company
Hyundai Technologies Center Hungary Kft	Research and experimental development on technique
Hyundai Malaysia	Trading
Hyundai S/V Indonesia	Maintenance and repair services of transformers
HHI Mauritius	Manufacturing
PHECO Inc.	Architectural services
Hyundai-Enova Innovative Technical Center Inc.	Research and experimental development on technology
Hyundai Heavy Industries France SAS	Manufacturing
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
Taishan financial Leasing Co., Ltd.	Financial lease and operating lease
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for building

(2) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai Group for the six months ended and as of June 30, 2007 are as follows:

Related Party	Korean won (In thousands)			
	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 169,319,082	₩ 59,160,288	₩ 124,230,512	₩ 1,679,048
Hyundai Mipo Dockyard Co., Ltd.	180,098,514	4,350,382	128,866,895	2,046,543
Hyundai Oilbank	2,563,095	27,883,556	966,810	4,664,685
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	55,405,654	526,490	37,207,249	49,833
Hyundai Heavy Industries Europe N.V.	161,077,102	187,648	32,919,294	710,565
H.C.E U.S.A.	52,911,598	5,375	8,757,473	182,997
Hyundai Jiangsu Construction Machinery Co., Ltd.	67,811,888	748,861	13,175,388	166,111
Yantai Hyundai Moon Heavy Industries Co., Ltd.	361,990	9,373	-	-
Jiangsu Hyundai Nanzi Electric Co., Ltd.	9,246,606	7,213,242	15,903,635	18,849
	₩ 698,795,529	₩ 100,085,215	₩ 362,027,256	₩ 9,518,631

- (3) The Company has entered into rental agreements (deposits received of ₩148 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of June 30, 2007. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 11).
- (4) The Company has fully provided an allowance for receivable from Vladivostok Business Center amounting to ₩49,696 million as of June 30, 2007.
- (5) The compensation for the key management of the Company for the six months ended June 30, 2007 is as follows (In thousands):

	2007
The compensation for the key management	₩ 902,720

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

21. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of June 30, 2007 and December 31, 2006 are as follows:

Account	Currency	Foreign currencies (In thousands)		Korean won (In thousands)			
		2007	2006	2007	2006		
Assets:							
Cash and cash equivalents	USD	175,002	106,443	₩	162,192,212	₩	98,949,128
	EUR	211	107		263,252		131,214
	Others				65,011,437		919,493
Trade accounts and notes receivable	USD	1,677,885	1,762,263		1,555,063,389		1,638,199,564
	EUR	157,146	33,056		195,802,283		40,401,861
	Others				35,517,099		167,721,627
Accounts receivable-other	USD	68,774	67,510		63,739,481		62,757,538
	EUR	696	417		867,220		509,291
	Others				7,441,021		4,169,729
Long-term trade accounts and notes receivable	USD	121,300	139,679		112,421,044		129,845,640
Long-term financial instruments & others	USD	7,523	59,636		6,972,011		55,437,890
	EUR	13	76		15,949		92,736
	Others				1,366,980		26,422,075
				₩	2,206,673,378	₩	2,225,557,786
Liabilities:							
Trade accounts and notes payable	USD	203,798	199,924	₩	188,879,692	₩	185,849,512
	EUR	14,372	19,956		17,907,529		24,391,286
	Others				8,012,004		9,598,698
Debentures	USD	200,000	200,000		185,360,000		185,920,000
Current maturities of long-term borrowings	USD	-	368		-		341,960
Long-term borrowings	USD	1,445	1,445		1,338,981		1,343,027
Accounts payable-other & others	USD	174,648	208,400		161,864,220		193,728,744
	EUR	5,589	8,734		6,963,276		10,675,024
	Others				12,339,372		17,095,988
				₩	582,665,074	₩	628,944,239

22. FINANCIAL INFORMATION BY INDUSTRY SEGMENT:

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

(1) As of and for the six months ended June 30, 2007

	Korean won (In thousands)						
	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Construction Equipment	Electro Electric Systems	Others
Sales	₩ 3,745,148,840	₩ 1,087,143,943	₩ 432,086,769	₩ 782,886,906	₩ 725,022,942	₩ 722,537,440	₩ 58,467,176
Operating income (loss)	495,031,438	34,129,795	12,419,708	156,061,169	64,484,175	122,909,640	(113,790,930)
Tangible & intangible assets	1,442,808,740	338,613,889	53,725,018	442,256,750	148,551,030	257,623,565	2,071,617,418
Depreciation	(67,254,865)	(21,492,086)	(4,148,914)	(35,538,713)	(7,478,364)	(17,311,499)	(25,052,703)

(2) As of and for the six months ended June 30, 2006

	Korean won (In thousands)						
	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Construction Equipment	Electro Electric Systems	Others
Sales	₩ 3,167,475,471	₩ 707,242,051	₩ 174,223,954	₩ 586,253,139	₩ 633,524,785	₩ 503,099,480	₩ 49,226,885
Operating income (loss)	268,203,442	40,522,034	(112,414,278)	98,283,717	65,114,726	76,092,572	(111,357,435)
Tangible & intangible assets	1,374,783,228	312,114,284	61,235,612	449,644,330	125,414,692	238,013,684	1,967,187,234
Depreciation	(62,157,763)	(21,309,830)	(4,880,173)	(34,095,110)	(6,670,309)	(19,555,955)	(23,587,429)

23. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the three months and six months ended June 30, 2007 and 2006 are as follows:

	Korean won (In thousands)			
	Three months		Six months	
	2007	2006	2007	2006
Wages	₩ 67,748,775	₩ 56,422,514	₩ 124,068,808	₩ 114,009,241
Provision for severance benefits	5,814,917	5,725,648	11,757,524	11,672,011
Employee welfare	15,217,415	12,035,114	34,771,510	27,262,626
Advertisement	5,341,053	3,440,497	9,660,743	5,616,303
Ordinary development expenses (Note 8)	19,129,495	11,187,998	32,733,886	22,045,930
Provision for doubtful accounts	14,260,066	-	15,348,344	11,951,999
Depreciation (Notes 7 and 8)	6,739,688	6,192,045	13,455,732	12,428,279
Service charges	13,277,114	10,722,445	25,990,499	22,531,399
Transportation	3,423,414	2,533,147	6,000,659	4,767,957
Sales commission	10,005,093	6,488,667	20,672,587	12,363,125
After-service expenses	8,843,780	8,486,164	18,984,442	17,369,708
Others	44,329,756	36,623,123	77,653,817	71,000,845
	₩ 214,130,566	₩ 159,857,362	₩ 391,098,551	₩ 333,019,423