

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

Consolidated Financial Statements

December 31, 2008

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of 24 subsidiaries, which statements reflect total assets of ₩ 10,680,554 million of consolidated totals as of December 31, 2008 and total revenues of ₩ 5,899,875 million of consolidated totals for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors. The accompanying consolidated financial statements of the Company as of December 31, 2007, were audited by other auditors, whose report thereon dated March 21, 2008, expressed an unqualified opinion on those statements.

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

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

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

As explained in Note 1 to the consolidated financial statements, in 2008, the Company included Ulsan Hyundai Football Club Co., Ltd., HYMS Co., Ltd., HI Investment & Securities Co., Ltd. and HI Asset Management Co., Ltd.

Seoul, Korea
March 23, 2009

<p>This report is effective as of March 23, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>

Hyundai Heavy Industries Co., Ltd.

Consolidated Balance Sheets

As of December 31, 2008 and 2007

(In thousands of Won, except share data)

	Note	2008	2007
Assets			
Cash and cash equivalents	3,28	₩ 1,672,784,482	1,591,004,816
Short-term financial instruments	3	3,786,226,969	4,660,447,718
Short-term investment securities	5	624,090,236	919,842,435
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 143,741 million in 2008 and ₩ 86,977 million in 2007	18,27,28	5,456,731,195	3,515,476,980
Accounts receivable-other, net of allowance for doubtful accounts of ₩ 218,693 million in 2008 and ₩ 225,677 million in 2007	19,27,28	303,170,634	135,828,661
Inventories	4	3,533,418,832	1,690,330,093
Advanced payments, net of allowance for doubtful accounts of ₩ 21,366 million in 2008 and ₩ 14,965 million in 2007		1,574,809,218	720,229,508
Accrued income, net of allowance for doubtful accounts of ₩ 75 million in 2008 and ₩ 10 million in 2007		156,000,376	80,092,935
Financial assets, net of allowance for doubtful accounts of ₩ 992million in 2008 and ₩ 360 million in 2007		36,397,751	5,420,361
Foreign exchange forward contracts	18	2,560,139,449	195,615,525
Deferred income tax assets	24	280,619,161	74,570,378
Other current assets, net of allowance for doubtful accounts of ₩ 349 million in 2008 and ₩ 2 million in 2007	6	783,481,046	586,444,700
Total current assets		20,767,869,349	14,175,304,110
Long-term investment securities	7	1,801,398,488	2,768,996,554
Equity method accounted investments	9	1,355,846,125	1,054,063,965
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 832 million in 2008 and ₩ 966 million in 2007	18,28	82,368,900	95,595,244
Long-term financial instruments	3,28	15,372,748	9,052,064
Foreign exchange forward contracts	18	4,173,369,541	17,637,724
Deferred income tax assets	24	134,267,829	71,995,533
Venture investments	8	16,686,211	10,562,575
Property, plant and equipment, net	10,13,15,18	8,902,503,544	6,707,817,706
Intangible assets	11	903,236,499	281,754,832
Other non-current assets, net of allowance for doubtful accounts of ₩ 2,262 million in 2008	12	224,733,480	99,075,617
Total non-current assets		17,609,783,365	11,116,551,814
Total assets		₩ 38,377,652,714	25,291,855,924

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
Consolidated Balance Sheets, Continued

As of December 31, 2008 and 2007

(In thousands of Won, except share data)

	Note	2008	2007
Liabilities			
Short-term borrowings	13	₩ 936,853,320	182,737,012
Current maturities of debentures and long-term borrowings, net of discount of ₩ 299 million in 2007	15,28	44,471,402	194,031,974
Trade accounts and notes payable	27,28	3,031,809,161	1,983,362,577
Accounts payable-other	19,27,28	353,061,360	226,229,237
Advances from customers		16,698,522,861	13,635,935,744
Income tax payable		687,259,429	715,048,743
Deferred income tax liabilities	24	-	13,909,485
Foreign exchange forward contracts	18	3,781,684,566	164,835,035
Other current liabilities	14	1,175,216,622	792,202,584
Total current liabilities		26,708,878,721	17,908,292,391
Debenture and long-term borrowings	15,28	207,908,175	166,480,488
Provision for retirement and severance benefits, net of severance insurance deposits and others of ₩ 1,304,656 million in 2008 and ₩ 1,274,275 million in 2007	16	253,054,708	185,232,960
Long-term accrued expenses		-	1,029,342
Provision for product warranties		47,654,776	37,101,551
Deferred income tax liabilities	24	70,615,855	516,077,461
Foreign exchange forward contracts	18	4,230,458,411	110,424,362
Other long-term liabilities	17	192,025,205	84,262,384
Total non-current liabilities		5,001,717,130	1,100,608,548
Total liabilities		31,710,595,851	19,008,900,939
Stockholders' equity			
Common stock of ₩ 5,000 par value			
Authorized – 160,000,000 shares			
Issued and outstanding – 76,000,000 shares in 2008 and 2007	1	380,000,000	380,000,000
Capital surplus	20	2,805,551,325	2,800,653,992
Capital adjustments	22	(1,718,603,079)	(752,628,881)
Accumulated other comprehensive income	25	(463,730,511)	146,293,006
Retained earnings	21	4,673,098,378	2,901,453,837
Minority interests		990,740,750	807,183,031
Total stockholders' equity		6,667,056,863	6,282,954,985
Total liabilities and stockholders' equity		₩ 38,377,652,714	25,291,855,924

See accompanying notes to consolidated financial statements.

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

For the year ended December 31, 2008 and 2007

(In thousands of Won, except earnings per share)

	<i>Note</i>	2008	2007
Sales	27,30,31	₩ 27,483,590,129	20,892,299,349
Cost of sales	27,30,31	22,837,667,656	17,243,708,609
Gross profit		<u>4,645,922,473</u>	<u>3,648,590,740</u>
Selling, general and administrative expenses	32	1,463,958,268	1,085,045,549
Operating income		<u>3,181,964,205</u>	<u>2,563,545,191</u>
Interest and dividend income		539,158,579	343,354,084
Gain on foreign currency transactions		1,090,128,774	120,704,903
Gain on foreign currency translation		153,697,336	13,864,021
Gain on valuation of equity method accounted investments	9	191,709,467	80,661,725
Gain on impairment of long-term investment securities		-	24,221,320
Gain on disposal of property, plant and equipment		15,862,574	8,253,245
Gain on reversal of provisions	19	10,715,346	9,434,000
Gain on foreign exchange forward contracts	18	2,533,356,809	41,664,188
Others		167,850,285	129,499,799
Non-operating income		<u>4,702,479,170</u>	<u>771,657,285</u>
Interest expense		34,837,356	35,194,930
Loss on foreign currency transactions		967,021,027	103,255,790
Loss on foreign currency translation		196,718,057	10,910,100
Loss on valuation of equity method accounted investments	9	58,944,423	2,093,282
Loss on disposition of long-term investment securities		-	3,604,570
Loss on disposition of property, plant and equipment		62,229,508	34,276,327
Loss on impairment of long-term investment securities	7	-	312,014
Loss on foreign exchange forward contracts	18	2,793,287,815	116,528,025
Others		184,402,186	139,205,345
Non-operating expenses		<u>4,297,440,372</u>	<u>445,380,383</u>
Income before income taxes		3,587,003,003	2,889,822,093
Income taxes expense	24	993,203,744	937,540,183
Net income before acquisition of subsidiaries		19,600,004	-
Net income		<u>2,574,199,255</u>	<u>1,952,281,910</u>
Holding company		<u>2,254,095,967</u>	<u>1,729,549,497</u>
Minority interests	₩	<u>320,103,288</u>	<u>222,732,413</u>
Earnings per share			
Basic earnings per share	26	₩ <u>41,457</u>	<u>30,910</u>

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
Consolidated Statements of Changes in Equity

For the years ended December 31, 2008 and 2007

(In thousands of Won)

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

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2008 and 2007

(In thousands of Won)

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

See accompanying notes to consolidated financial statements.

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

For the years ended December 31, 2008 and 2007

(In thousands of Won)

	2008	2007
Cash flows from operating activities		
Net income	₩ 2,574,199,255	1,952,281,910
Adjustments for:		
Accrual for severance benefits	292,448,546	248,660,350
Accrual for allowance for doubtful accounts	19,660,689	20,885,641
Amortization of intangible assets	61,228,326	48,205,979
Depreciation	496,701,452	485,329,801
Amortization of discount on debentures	298,966	412,314
Loss on foreign currency translation	194,404,139	10,875,456
Loss on impairment of long-term investment securities	-	312,014
Loss on disposal of long-term investment securities	-	3,604,570
Loss on disposal of property, plant and equipment	62,229,508	34,276,327
Loss on valuation of investments accounted for using the equity method	58,944,423	2,093,282
Loss on valuation of foreign exchange forward contracts	2,000,406,250	93,083,416
Gain on disposal of property, plant and equipment	(15,862,574)	(8,253,245)
Gain on disposal of long-term investment securities	-	(24,221,320)
Gain on foreign currency translation	(150,702,627)	(11,693,157)
Gain on valuation of investments using the equity method	(183,463,941)	(80,661,725)
Gain on valuation of foreign exchange forward contracts	(2,459,049,689)	(235,126,459)
Gain on reversal of provisions	(10,715,346)	(68,071,684)
Others, net	188,570,818	37,746,386
	<u>555,098,940</u>	<u>557,457,946</u>
Changes in assets and liabilities:		
Change in trade accounts and notes receivable	(2,661,886,045)	(814,877,874)
Change in accounts receivable-other	(141,246,555)	33,271,156
Change in accrued income	(58,671,268)	(51,029,223)
Change in advanced payments	(703,618,887)	(136,581,358)
Change in deferred income tax assets	47,336,020	(75,419,454)
Change in inventories	(1,594,867,278)	(123,908,229)
Change in trade accounts and notes payable	2,020,709,219	877,972,646
Change in accounts payable-other	93,755,926	7,942,373
Change in advances from customers	3,301,721,265	3,660,624,831
Change in accrued expenses	(3,051,140)	104,539,900
Change in income tax payable	(26,740,135)	457,418,078
Change in deferred income tax liabilities	(166,078,857)	110,360,674
Change in long-term accrued expenses	(1,029,342)	(1,239,893)
Payments of retirement and severance benefits	(208,481,684)	(174,935,651)
Change in deposits for retirement and severance benefits	(27,988,642)	(177,726,263)
Change in foreign exchange forward contracts	472,912,327	340,676,154
Others, net	(72,507,064)	87,504,506
Net cash provided by operating activities	<u>₩ 3,399,566,055</u>	<u>6,634,332,229</u>

See accompanying notes to consolidated financial statements.

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

For the years ended December 31, 2008 and 2007

(In thousands of Won)

	2008	2007
Cash flows from investing activities		
Withdrawal of short-term financial instruments	₩ 5,606,680,512	2,858,149,518
Disposition of short-term investment securities	2,975,404,695	1,684,992,148
Withdrawal of long-term financial instruments	2,006,299	551,393
Disposition of Investment securities accounted for using the equity method	70,937	6,585,516
Disposition of long-term investment securities	20,630,957	60,428,129
Disposition of property, plant and equipment	95,065,021	21,516,413
Disposition of intangible assets	134,049	-
Acquisition of long-term investment securities	(760,842,039)	(7,097,565)
Acquisition of short-term financial instruments	(4,476,862,525)	(5,692,345,199)
Acquisition of short-term investment securities	(2,381,462,774)	(1,998,956,295)
Acquisition of long-term financial instruments	(6,023,410)	(12,367,473)
Acquisition of long-term investment securities	(179,130,398)	(1,443,982,384)
Acquisition of investment securities accounted for using the equity method	(160,472,030)	(93,297,376)
Acquisition of property, plant and equipment	(2,743,880,418)	(1,230,744,264)
Acquisition of intangible assets	(6,022,164)	(2,389,744)
Expenditures for development costs	(72,967,513)	(56,329,512)
Disposition of other non-current assets	39,758,762	7,061,048
Acquisition of other non-current assets	(124,523,640)	(44,310,251)
Net cash used in investing activities	(2,172,435,679)	(5,942,535,898)
Cash flows from financing activities		
Increase in short-term borrowings	381,659,347	31,732,163
Increase in long-term borrowings	128,322,378	18,866,600
Disposition of the treasury stock	-	342,320,782
Repayment of short-term borrowings	(101,772,476)	(123,029,305)
Repayment of current maturities of debentures and long-term borrowings	(189,656,349)	(32,336,707)
Repayment of long-term borrowings	(16,538,850)	-
Acquisition of the treasury stock	(833,142,356)	(379,689,397)
Payment of cash dividends	(482,451,426)	(182,864,662)
Others, net	(205,375,820)	19,129,834
Net cash used in financing activities	(1,318,955,552)	(305,870,692)
Effect of change in consolidated subsidiaries	53,132,194	3,157,420
The Effects of Changes in Foreign Exchange Rates	120,472,648	-
Net increase in cash and cash equivalents	81,779,666	389,083,059
Cash and cash equivalents at beginning of year	1,591,004,816	1,201,921,757
Cash and cash equivalents at end of year	₩ 1,672,784,482	1,591,004,816

See accompanying notes to consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

1. Organization and Description of Business

(1) The Company

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated on December 28, 1973, under the Commercial Code of the Republic of Korea to manufacture and sell ships, offshore structures, plants, engines and other items. The head office and the major production plants of the Company are located in Jeonha-dong, Dong-gu, Ulsan and the Seoul office is located in Gye-dong, Jongno-gu, Seoul. The Company operates numerous oversea sales offices and construction site-offices. The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩ 5,000, authorized: 160,000,000 shares) of common stock were issued and 59,933,456 shares of common stock were outstanding as of December 31, 2008. Of the total issued shares, the company's major stockholders Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd., National Pension Service and Mirae Asset Global Investments Co., Ltd. own 10.80%, 8.15%, 7.98%, 5.01% and 4.50%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩ 400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company's employees and directors, up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company's employees and directors as of December 31, 2008. The Company may also raise capital with obtaining the approval of the Board of Directors by issuing stock to old shareholders, issuing stock through a general public subscription under 30% of outstanding shares, issuing stock through the issue of Depository Receipts under the Securities and Exchange Act and issuing stock to employees under certain circumstances.

(2) Consolidated Subsidiaries

- (a) The consolidated financial statements include the accounts of the Company and its consolidated domestic and foreign subsidiaries over which the Company has control. The consolidated subsidiaries as of December 31, 2008 are as follows:

(In millions of Won)

Company's name	Business	Shareholders' equity	Number	% of ownership	Location	Fiscal year end
Domestic subsidiaries:						
Hyundai Finance Corporation	Financing	131,797	12,350,000	67.49	Korea	Dec.31
Hyundai Venture Investment Corporation (*1)	"	58,745	4,103,000	68.38	"	"
Hyundai Futures Corporation (*1)	"	37,593	3,000,000	65.22	"	Mar.31
HVIC IT Fund 3 rd (*1)	Investment association	6,838	37.3	55.00	"	Dec.31
Hyundai Investment Fund 1 on Patent Technology(*1)	"	20,614	100	50.00	"	"
HI Investment & Securities Co., Ltd. (*1)	Financing	259,135	180,811,724	76.15	"	Mar.31
HI Asset Management Co., Ltd. (*1)	"	57,324	6,776,102	98.89	"	"
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	1,435,238	37,967,000	94.92	"	Dec.31
Hyundai Mipo Dockyard Co., Ltd.(*1)	"	2,260,621	9,218,506	46.09	"	"

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

December 31, 2008 and 2007

(In millions of Won)

Company's name	Business	Shareholders' equity	Number	% of ownership	Location	Fiscal year end
Ulsan Hyundai Football Club. Ltd.	Football Club	1,182	2,000,000	100.00	Korea	Dec.31
HYMS Co., Ltd.	Shipbuilding	149,195	29,600,000	100.00	"	"
Overseas subsidiaries:						
H. C. E. U.S.A	Wholesale	17,003	23,900,000	100.00	U.S.A.	Dec.31
Hyundai Heavy Industries Europe N.V.	Assembly & wholesale	42,622	10	100.00	Belgium	"
Changzhou Hyundai Construction Machinery Co., Ltd. (*1,2)	"	58,954	-	60.00	China	"
Hyundai Jiangsu Construction Machinery Co., Ltd. (*1,2)	"	135,234	-	60.00	China	"
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. (*1,2)	"	69,179	-	60.00	China	"
Vladivostok Business Center(*2)	Food & lodging	(162,897)	-	57.14	Russia	"
Hyundai Dongahn Steel (*2)	Assembly & wholesale	(163)	-	54.99	Vietnam	"
Hyundai Heavy Industries Co. BULGARIA	Electrical equip. manufacturing	38,524	12,155,829	99.09	Bulgaria	"
Hyundai Vinashin Shipyard (*1,2)	Ship repairing	149,822	-	65.00	Vietnam	"
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*1,2)	Electrical equip. manufacturing	33,840	-	54.99	China	"
Hyundai Heavy Industries (China) Electric Co., Ltd. (*1,2)	Electrical equip. manufacturing	42,535	-	100.00	China	"
HHI China Investment Co., Ltd. (*2)	Investment and advisory service	75,250	-	100.00	China	"
Hyundai Ideal Electric Co.	Electrical equip. manufacturing	17,944	1,000	100.00	U.S.A.	"
Hyundai Construction Equipment India Private Ltd. (*2)	Assembly & wholesale	39,104	17,184,775	100.00	India	"
Changzhou Hyundai Hydraulic Machinery Co., Ltd. (*1, 2)	Assembly & wholesale	14,953	-	100.00	China	"

(*1) Shares and ownership include indirect shares and ownership, of which its subsidiaries hold as of December 31, 2008.

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

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

December 31, 2008 and 2007

1. Organization and Description of Business, Continued

(3) Change of consolidated subsidiaries

Details of the change of consolidated subsidiaries are as follows:

Subsidiaries	Note
Ulsan Hyundai Football Club Co., Ltd.	Obtained the control by purchasing shares of each company.
HYMS Co., Ltd.	
HI Investment & Securities Co., Ltd.	
HI Asset Management Co., Ltd.	

(4) Detailed Information on the Subsidiaries

(a) Domestic consolidated subsidiaries

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

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

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

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

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

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

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

Hyundai Samho Heavy Industries Co., Ltd. (“HSHI”) was incorporated on March 23, 1998 under the name of RH Heavy Industries Co., Ltd. (“RHC”) as part of the financial restructuring plan of Halla Heavy Industries Co., Ltd. under the Rothschild Program (“the Program”) of Rothschild Inc. Pursuant to the Program, RHC acquired the shipbuilding and construction equipment business units from Halla Heavy Industries Co., Ltd. on September 18, 1999, of which it acquired assets and assumed liabilities. On October 27, 1999, RHC changed its name to Samho Heavy Industries Co., Ltd. (“SHIC”), and on the same date, debts of ₩100 billion to financial institutions were converted into equity.

1. Organization and Description of Business, Continued

(4) Detailed Information on the Subsidiaries, Continued

(a) Domestic consolidated subsidiaries, Continued

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

December 31, 2008 and 2007

Effective October 27, 1999, SHIC entered into a trusteeship agreement with the Company, under which the Company provided management services for a fee equal to ten percent of operating income plus all actual costs incurred. Also, the Company provided guarantees of indebtedness of SHIC. The Company acquired 20,000,000 common shares of SHIC by exercising its call option on May 15, 2002. Accordingly, the Company became a major stockholder of SHIC and the trusteeship agreement between SHIC and the Company was terminated. Pursuant to the resolution at the shareholders' meeting on December 6, 2002, SHIC changed its name to Hyundai Samho Heavy Industries Co., Ltd. ("HSHI").

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

Ulsan Hyundai Football Club, Ltd. ("FC Ulsan Hyundai") was founded on December 6, 1983 and incorporated on February 22, 2008.

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

(b) Overseas consolidated subsidiaries

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

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

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

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

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

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

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

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

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

1. Organization and Description of Business, Continued

(4) Detailed Information on the Subsidiaries, Continued

(b) Overseas consolidated subsidiaries, Continued

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

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

December 31, 2008 and 2007

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

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

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

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

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

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

(a) Basis of Presenting Financial Statements

The Company prepares the consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items explained Financial Supervisory Services Staff Opinions on Financial Reporting 2008-2 (Forecast transactions contracted in a foreign currency that meet the definition of firm agreement), the Company applied the same accounting policies that were adopted in the previous year's consolidated financial statements. Accordingly, the portion of accumulated other comprehensive income related to fair value hedge is reclassified as firm commitment assets or liabilities. For comparative purpose, the accounts of current and non-current derivative assets and liabilities in the prior year were reclassified to reflect the changes of accounts in current financial statements and these reclassifications have no effect on the prior year's net income or net assets.

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

<u>Statements of Korea Accounting Standards (SKAS)</u>	<u>Major Changes</u>
No. 25 Consolidated Financial Statements	The excess and any further losses attributable to the minority interest are allocated to the minority interest and presented as negative in equity.

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

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

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

(a) Basis of Presenting Financial Statements, Continued

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

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

December 31, 2008 and 2007

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

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

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

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

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

As of December 31, 2008, we audited the consolidated financial statements of Hyundai Samho Heavy Industries and Ulsan Hyundai Football Club. In addition, the 2008 consolidated financial statements are prepared based on the financial statements of a domestic subsidiary (HI Investment & Securities, HI Asset Management, Hyundai Futures) that have different fiscal year end, which were neither audited nor reviewed by an external auditor. The rest of the Company's subsidiaries were audited by other auditors.

(b) Revenue Recognition

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

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

(b) Revenue Recognition, Continued

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

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

(c) Cash and Cash Equivalents

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

December 31, 2008 and 2007

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

(d) Allowance for Doubtful Accounts

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

(e) Inventories

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

(f) Investments in Securities (excluding investments in associates, subsidiaries and joint ventures)

Classification

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

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

(f) Investments in Securities (excluding investments in associates, subsidiaries and joint ventures), Continued

Initial recognition

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

Subsequent measurement and income recognition

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

Fair value information

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

Presentation

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

December 31, 2008 and 2007

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

Impairment

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

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

(g) Investments in Associates and Subsidiaries

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

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

December 31, 2008 and 2007

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

(g) Investments in Associates and Subsidiaries, Continued

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.

(h) Property, Plant and Equipment

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

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred. The interest incurred on borrowings to finance the purchase of construction of property, plant and equipment and manufacture of inventories are charged to current income. Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets as described below.

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

December 31, 2008 and 2007

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

(h) Property, Plant and Equipment, Continued

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

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount as a result of technological obsolescence or rapid decline in market value. When it is determined that a tangible asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss.

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

(i) Lease Transactions

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

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

- (1) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- (2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- (3) the lease term is for the major part of the economic life of the asset even if title is not transferred;
- (4) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- (5) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

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

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

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

(j) Intangible Assets

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

December 31, 2008 and 2007

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

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

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

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

(k) Discount on Debentures

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

(l) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated using the Seoul Money Brokerage Service Ltd. Basic Rate, which was ₩ 1,257.50 and ₩ 938.20 to USD1.00 at December 31, 2008 and 2007, respectively, and translation gains or losses are reflected in current operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at the rate of exchange at the balance sheet date. Foreign currency amounts in the statement of income are translated using an average rate and foreign currency balances in the capital account are translated using the historical rate. Translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are recorded net as accumulated other comprehensive income. These gains and losses are subsequently recognized as income in the year the foreign operations or the companies are liquidated or sold.

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

(m) 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.

(n) Provision for Construction Warranty

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

December 31, 2008 and 2007

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.

(o) Provision for Product Warranty

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

(p) Retirement and Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company and its domestic subsidiaries, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩ 292million and ₩ 249million as of December 31, 2008 and 2007, respectively (See Note 16).

Accrued severance benefits are funded approximately 81.13% and 84.22% as of December 31, 2008 and 2007, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits. However, some overseas consolidated subsidiaries expense severance insurance paid according to local regulation.

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

(q) Income Taxes

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

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

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

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

December 31, 2008 and 2007

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

(q) Income Taxes, Continued

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

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carryforwards and tax credit carryforwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

(r) Derivative Instruments

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

Hedge accounting

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

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

Fair value hedge

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

Cash flow hedge

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

Derivatives that do not qualify for hedge accounting

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

Separable embedded derivatives

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

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

(s) Financial Assets

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

December 31, 2008 and 2007

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

(t) Venture Investment Assets

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

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

Equity securities other than those accounted for using the equity method

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

Investment accounted for using the equity method

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

3. Restricted Financial Instruments

Financial Instruments which are restricted in use subject to withdrawal restrictions in relation to certain short-term and long-term borrowings, and shipbuilding contracts as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

		2008	2007
Cash and cash equivalents	₩	11,193	-
Short-term and Long-term financial instruments		481,531	24,560
	₩	492,724	24,560

4. Inventories

Inventories as of December 31, 2008 and 2007 are summarized as follows:

(In millions of Won)

		2008	2007
Merchandise	₩	219,812	112,992
Finished goods		352,067	177,214
Work-in-progress		710,306	369,332
Raw materials		1,639,819	659,890

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

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Supplies	22,133	21,279
Materials-in-transit	589,282	349,623
₩	<u>3,533,419</u>	<u>1,690,330</u>

5. Short-Term Investment Securities

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

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

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

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

The Company and its subsidiaries have accounted for gain on valuation of available-for-sale securities, which is reported as gain on valuation of investment securities in accumulated other comprehensive income, amounting to ₩ (-)5,953 million and ₩ 11,176 million, including portions of minority interests, respectively, as of December 31, 2008 and 2007, respectively.

6. Other Current Assets

Other current assets as of December 31, 2008 and 2007 are summarized as follows:

<i>(In millions of Won)</i>		2008	2007
Short-term loans	₩	169,876	333
Prepaid expenses		548,458	558,913
Other current deposits		3,387	3,611
Other current assets		310	387
Income tax refund receivables		2,375	728
Prepaid value added tax		59,075	22,473
₩		<u>783,481</u>	<u>586,445</u>

Hyundai Heavy Industries Co., Ltd.
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7. Long-Term Investment Securities

- (a) Long-term investment securities, which consist of available-for-sale securities as of December 31, 2008 and 2007 are summarized as follows:

<i>(In millions of Won)</i>		2008	2007
Marketable securities	₩	1,631,372	2,659,470
Non-marketable securities		115,117	85,624
Debt securities		54,909	23,903
	₩	<u>1,801,398</u>	<u>2,768,997</u>

- (b) Equity securities stated at fair value included in long-term investment securities as of December 31, 2008 and 2007 consist of the following:

(In millions of Won, except percentage of ownership)

			2008		2007
	Percentage of ownership		Acquisition cost	Fair value	Fair value
Listed equity securities:					
KCC Corporation	11.4	₩	268,497	345,001	632,400
POSCO	2.5		1,075,222	828,400	1,219,076
Kia Motors Corp.	0.03		2,682	578	891
Tong Yang Investment Bank	3.4		99,828	24,120	71,026
Mirae Asset Securities Co., Ltd.	0.1		6,654	2,921	6,874
SK Broadband Corp.	-		7,948	7	12
Hyundai Elevator Co., Ltd.	2.16		1,632	10,011	20,791
Hyundai Motor Company	4.48		705,772	389,803	706,579
Hyundai Corp.	0.36		11,227	1,163	1,821
Korea Line Co., Ltd.	2.71		55,131	20,611	-
KJ Pretech Co., Ltd. (*5)	4.9		300	188	-
Hyundai Construction Co., Ltd.	0.05		4,632	3,018	-
Dong-yang Chem Co., Ltd.	0.06		4,449	2,970	-
Samsung C&T Corp.	0.04		4,851	2,581	-
		₩	2,248,825	1,631,372	2,659,470

7. Long-Term Investment Securities, Continued

- (c) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2008 and 2007 consist of the following:

(In millions of Won, except percentage of ownership)

(In millions of Won, except percentage of ownership)		2008		2007
	Percentage of ownership	Acquisition cost	Fair value	Fair value
Unlisted equity securities: (*1)				
Gangwon Football Club. Co., Ltd.	0.02	₩ 1	1	-
Keoyang Co., Ltd.	1.39	95	-	95
Gamevil Inc.	1.73	400	400	400
Neoplan Technology Co., Ltd.	-	-	-	-
DR Tech Corp.	1.69	500	500	500
Digital CNC Co., Ltd.	0.2	445	-	-
Mico TN Co., Ltd.	4.88	1,000	1,000	1,000

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

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(In millions of Won, except percentage of ownership)

	Percentage of ownership	2008		2007
		Acquisition cost	Fair value	Fair value
Unlisted equity securities: (*1)				
Mipo Engineering Co., Ltd. (*4)	100	1,400	1,400	1,400
Aju Hitek Inc.	7.57	1,745	1,745	1,745
Piolink, Inc.	4.51	178	178	178
Prix Co., Ltd.	2.17	67	-	-
The Korea Economic Daily Co., Ltd.	3.25	4,050	3,150	3,150
Kuk Dong Heavy Conveyance Co., Ltd.	7.5	502	502	502
Novelis Korea Ltd.	0.42	16,881	1,405	1,405
Haeduk Rudder & R.Stock Co., Ltd	1.75	900	900	-
KJ Pretech Co., Ltd.(*5)	-	-	-	300
Enuri.Com Co., Ltd.	6.37	3,000	3,000	3,000
Excion Co., Ltd.	1.45	395	395	790
New Gene Co., Ltd.	7.82	23	23	23
Daehan Oil Pipeline Corp.(*2)	6.39	14,512	30,051	15,851
Dong-A Precision Machinery Co., Ltd.	0.74	36	-	-
Doosan Capital Co., Ltd.(*3)	9.99	10,000	24,378	26,146
Bexco, Ltd.	7.96	9,460	9,460	9,460
Chonggu Co., Ltd.	-	188	-	-
Hanchem Co., Ltd.	17.15	300	87	93
Hyndai Research Institute	14.4	1,440	1,440	1,440
Postec Electronic Power Fund Co.	1.75	500	500	500
Hanwha Electric Venture Fund.	2	500	500	500
Hyundai Climate Control Co., Ltd.	10	50	50	50
Enova System Inc.	1.45	1,315	1,315	3,042
PT. Golden Hyundai Machinery	20.83	155	155	-
HHI MAURITIUS (*4)	100	-	-	0.12
Hynix Semiconductor America Inc.	1.33	34,526	-	-
Hyundai Heavy Industries France SAS(*4)	100	23	23	23
Hyundai Malaysia(*4)	100	17	-	-
Hyundai S/V Indonesia(*4)	45	262	-	-
Hyundai Technologies Center Hungary Kft.(*4)	100	26	26	26
Hyundai-Enova Innovative Technical Center Inc.(*4)	60	3,360	3,360	3,360
KC Karpovsky BV	10	2	2	2
Korea Ship Finance Co., Ltd.	3.54	300	300	300
Nikorma-Transport LIMITED	11.5	11	11	-
PHECO Inc.(*4)	100	2,304	237	237
Korea Exchange (KRX)	0.4	3,000	9,522	3,000
Elprome-IEP	-	-	-	0.08
Fund Industry	-	-	-	0.33
Korea Securities Depository	0.01	4	39	-
Korea Securities Finance Corp.	0.09	300	452	-
		114,173	96,507	78,519
Other				
Beneficiary certificate (Securities)		21,092	12,430	124
Investments in capital		6,180	6,180	6,981
		<u>₩ 27,272</u>	<u>18,610</u>	<u>7,105</u>

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

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

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

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

(*4) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hyundai Technologies Center Hungary Kft. and others were not accounted for using the equity method of accounting since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of December 31, 2008 and 2007, is less than ₩ 7,000 million, are not material.

(*5) The securities classified as unlisted in prior year are classified as listed securities in current year.

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

(In millions of Won)		2008		2007	
		Acquisition		Acquisition	
		cost	Fair value	cost	Fair value
Government and municipal bonds	₩	3,461	3,458	1,508	1,514
Corporate bonds		56,003	51,451	26,255	22,389
	₩	59,464	54,909	27,763	23,903

Maturities of debt securities as of December 31, 2008, included in long-term investment securities, are as follows:

	2010.01 ~ 2014.12	₩	Korean won (In millions)
7. Long-Term Investment Securities, Continued			54,909

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

(In millions of Won)		2008		
		Balance at January 1, 2008	Increase (Decrease)	Balance at December 31, 2008
KCC Corporation	₩	263,830	(204,157)	59,673
POSCO		127,727	(320,248)	(192,521)
Kia Motors Corp.		(1,298)	(343)	(1,641)
Tong Yang Investment Bank		(20,881)	(38,171)	(59,052)
Mirae Asset Securities Co., Ltd.		160	(3,072)	(2,912)
SK Broadband Corp.		(5,754)	(440)	(6,194)
Hyundai Elevator Co., Ltd.		13,890	(7,354)	6,536
Hyundai Motor Company		585	(247,041)	(246,456)
Hyundai Corp.		(6,819)	(1,031)	(7,850)
Daehan Oil Pipeline Corp.		971	11,149	12,120
Doosan Capital Co., Ltd.		11,706	(491)	11,215
Others		(2,492)	(6,083)	(8,575)
	₩	381,625	(817,282)	(435,657)

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

December 31, 2008 and 2007

8. Venture Investment Asset

Venture investment assets as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

		2008	2007
Available-for-sale securities	₩	16,686	10,563

9. Equity Method Accounted Investments

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

(In millions of Won)

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

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

(*2) Since the ownership's percentage of the Company is under 20% and the Company is able to exercise significant influence over the operating and financial policies, investment in these securities are accounted for using the equity method of accounting. In addition, the closing common stock price of Koentec Co., Ltd. on the stock market of the Republic of Korea was ₩ 1,080 per share at December 31, 2008.

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

(b) Investments in companies accounted for using the equity method as of December 31, 2007 are as follows:

(In millions of Won)

Company	Number of shares	Percentage of ownership		Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩	266,150	322,490
MOST 3 New Technology Business Investment	130	24.53		123	125

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

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(In millions of Won)

Company	Number of shares	Percentage of ownership	Historical cost	Book value
Partnership				
Incheon Airport Energy	3,284,884	31.00	16,424	3,847
New Korea Country Club	16,457	20.00	500	3,229
Koentec Co., Ltd. (*3)	3,956,800	10.88	9,493	7,634
Hyundai Merchant Marine Co., Ltd. (Common stock)	33,903,211	25.48	584,793	518,130
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	5,089,943	25.45	76,349	81,250
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*2)	-	20.00	67,658	92,649
Hyundai Financial Leasing Co., Ltd. (*2)	-	84.81	3,409	2,740
Wartsila Hyundai Engine(*2)	-	50.00	22,230	21,970
Beijing Halla Construction Machinery Company Limited (*2,4)	-	50.00	4,289	-
			<u>₩ 1,051,418</u>	<u>1,054,064</u>

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

9. Equity Method Accounted Investments, Continued

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

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

(*4) Use of equity method was discontinued since the carrying amount of investments is less than zero due to accumulated deficit in 2002. The company is in progress of liquidation.

(c) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the years ended December 31, 2008 are as follows:

(In millions of Won)

Company	Balance at January 1, 2008	Net income(loss)(*)	Acquisition (disposal)	Other increase (decrease)	Balance at December 31, 2008
Hyundai Oilbank	₩ 322,490	(51,265)	-	18,536	289,761
MOST 3 New Technology Business Investment Partnership	125	-	(125)	-	-
Incheon Airport Energy(*1)	3,847	(3,847)	-	-	-
New Korea Country Club	3,229	484	-	(100)	3,613
Koentec Co., Ltd.	7,634	(743)	-	(118)	6,773
Hyundai Merchant Marine Co., Ltd. (Common stock)	518,130	146,512	-	31,072	695,714

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

Company	Balance at January 1, 2008	Net income(loss)(*)	Acquisition (disposal)	Other increase (decrease)	Balance at December 31, 2008
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	81,250	3,148	-	761	85,159
Qinhuangdao Shouqin Metal Materials Co., Ltd.	92,649	31,413	-	40,601	164,663
Hyundai Financial Leasing Co., Ltd.	2,740	1,071	19,321	8,935	32,067
Wartsila Hyundai Engine Company Ltd.	21,970	(776)	11,700	-	32,894
KAM Cop.	-	832	41,650	-	42,482
Grand China Hyundai Shipping Company Ltd.	-	3	1,016	241	1,260
Komas Corp.	-	(2,312)	3,772	-	1,460
₩	1,054,064	124,520	77,334	99,928	1,355,846

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

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9. Equity Method Accounted Investments, Continued

(*) Gain on valuation of equity method accounted investments amounting to ₩ 8,245 million is occurred before the acquisition of the subsidiary, HI Asset Management Co., Ltd.

(*1) 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 ₩ 3,598 million for the years ended December 31, 2008.

- (d) Gain or loss on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions. For the years ended December 31, 2008 and 2007.
- (e) For the year ended December 31, 2008, the gain (loss) on valuation of investment securities accounted for using the equity method is ₩ 183,464 million and ₩ (-)58,944 million respectively. In addition, the cumulative effect of the equity method of accounting in accumulated other comprehensive income was ₩ 71,654 million including the increase of ₩ 97,924 million for the year ended December 31, 2008.
- (f) Investments in small affiliates and subsidiaries with total assets amounting to less than ₩ 7,000 million as of the prior fiscal year-end are recorded at cost within available-for-sale securities in accordance with SKAS No. 15, Equity Method of Accounting, except where the effect of applying the equity method of accounting is material.
- (g) Summarized financial information of equity-accounted investments as of and for the year ended December 31, 2008 is as follows:

(In millions of Won)

Company		Assets	Liabilities	Sales	Net income (loss)
Hyundai Oilbank	₩	4,807,118	3,333,822	14,766,964	(254,155)
Incheon Airport Energy		157,231	168,839	80,381	(23,976)
New Korea Country Club		23,897	5,831	12,840	2,420
Koentec Co., Ltd.		66,725	13,593	24,227	2,326
Hyundai Merchant Marine Co., Ltd.		8,273,176	5,423,632	8,003,039	681,747
Qinhuangdao Shouqin Metal Materials Co., Ltd.		2,207,053	1,426,372	2,109,211	180,297
Hyundai Financial Leasing Co., Ltd.		138,485	98,419	7,179	1,339
Wartsila Hyundai Engine Company Ltd.		155,853	90,064	31,914	(1,717)
KAM Cop.		92,229	5,531	-	1,709
Grand China Hyundai Shipping Company Ltd.		2,549	26	-	7
Komas Corp.		3,776	11	129	(6)

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

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10. Property, Plant and Equipment

(a) Property, plant and equipment as of December 31, 2008 and 2007 are as follows:

(In millions of Won)		2008	2007
Buildings and structures	₩	4,602,511	3,745,694
Machinery and equipment		3,283,429	2,783,631
Ships		211,900	189,236
Vehicles		48,637	42,099
Tools, furniture and fixtures		1,519,222	1,240,671
		9,665,699	8,001,331
Less : Accumulated depreciation		(4,169,708)	(3,733,844)
Government subsidy		(7,563)	(5,188)
Accumulated impairment loss		(5,530)	(5,418)
		5,482,898	4,256,881
Land		2,089,509	1,845,632
Less: Government subsidy		(5,455)	-
Construction-in-progress		1,335,551	605,305
	₩	8,902,503	6,707,818

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

(In millions of Won)		2008					
		Machinery and equipment					
		Land	Buildings	Structures	Other	Total	
Beginning of period	₩	1,845,632	2,585,768	1,159,926	2,783,631	2,077,311	10,452,268
Acquisition and other		209,691	147,134	35,500	384,539	2,323,195	3,100,059
Disposal		(120,405)	(69,123)	(15,831)	(174,752)	(658,080)	(1,038,191)
Effect of change in foreign currency exchange rate		35,345	509,005	224,613	246,244	(664,350)	350,857
Effect of change in consolidated subsidiaries		119,246	19,458	6,062	43,767	37,233	225,766
End of period		2,089,509	3,192,242	1,410,270	3,283,429	3,115,309	13,090,759
Depreciation		-	69,368	29,788	258,122	139,423	496,701
Government subsidy		(5,455)	(6,918)	-	-	(645)	(13,018)
Accumulated depreciation		-	(616,285)	(274,097)	(2,133,269)	(1,146,057)	(4,169,708)
Accumulated impairment loss		-	(5,171)	-	(359)	-	(5,530)
Book value	₩	2,084,054	2,563,868	1,136,173	1,149,801	1,968,607	8,902,503

10. Property, Plant and Equipment, Continued

Hyundai Heavy Industries Co., Ltd.
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(c) The changes in property, plant and equipment for the year ended December 31, 2007 were as follows:

(In thousands of Won)

		2007					
		Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩	1,649,611	2,492,207	1,079,190	2,667,082	1,491,479	9,379,569
Acquisition and other		203,559	125,340	80,701	180,885	642,115	1,232,600
Disposal		(7,673)	(37,338)	(490)	(68,743)	(57,889)	(172,133)
Effect of change in foreign currency exchange rate		135	5,560	525	4,407	1,605	12,232
End of period		1,845,632	2,585,768	1,159,926	2,783,631	2,077,311	10,452,268
Depreciation		-	67,780	29,106	252,213	136,231	485,330
Government subsidy		-	(5,187)	-	-	-	(5,187)
Accumulated depreciation		-	(504,998)	(241,506)	(1,967,215)	(1,020,126)	(3,733,845)
Accumulated Impairment loss		-	(5,171)	-	(247)	-	(5,418)
Book value	₩	1,845,632	2,070,412	918,420	816,169	1,057,185	6,707,818

(d) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩ 3,775,577 million as of December 31, 2008. The Company maintains insurance coverage against fire and other casualty losses of up to ₩ 11,562,144 million for ships and sea structures under construction and the insurance proceed of ₩ 1,404,530 million is pledged as collateral for loans from the Export-Import Bank of Korea as of December 31, 2008 (See Notes 13 and 15).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩ 1,641,571 million as of December 31, 2008. The Company also maintains insurance on cargo against damage and claims losses of up to ₩ 6,916,250 million for products being exported and imported as of December 31, 2008.

(e) A substantial portion of property, plant and equipment is pledged as collateral for various bank loans up to ₩ 172,882 million as of December 31, 2008 (See Notes 13 and 15).

(f) As of December 31, 2008 and 2007, the value of land owned by the Company is ₩ 1,807,277 million and ₩ 1,651,074 million, respectively, as announced by the Korean government.

(g) For the year ended December 31, 2008, Construction in progress of the Company is block assembling factories and H-Dock construction.

(h) HI Investment & Securities, the subsidiary of the Company, maintains insurance coverage mainly against fire losses of up to ₩ 7,385 million and pilferage losses of up to ₩ 2,550 million from Meritz Fire & Marine Insurance as of December 31, 2008.

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

December 31, 2008 and 2007

11. Intangible Assets

(a) Intangible assets as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

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

(In millions of Won)

Company		2007			
		Goodwill(*)	Development costs	Land usage right	Other
Beginning balance	₩	17,219	199,247	11,866	41,078
Acquisition and other		-	59,817	-	9,917
Amortized		(1,360)	(39,768)	(226)	(3,251)
Disposal/ renewal		(1,896)	-	(6,833)	(5,000)
Impairment losses		-	-	-	-
Effect of change in foreign currency rate		(18)	106	437	420
Effect of change in consolidated subsidiaries		-	-	-	-
Ending balance	₩	13,945	219,402	5,244	43,164

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

- (b) Research costs amounting to ₩ 23,633 million and ₩ 17,648 million, and ordinary development costs amounting to ₩ 79,638 million and ₩ 75,212 million are included in selling and administrative expenses for the years ended December 31, 2008 and 2007, respectively. The amortized development costs of ₩ 61,228 million and ₩ 44,605 million are included in the cost of sales and selling and administration expenses for the years ended December 31, 2008 and 2007, respectively.

11. Intangible Assets, Continued

- (c) Changes in goodwill occurred upon obtaining the control of such subsidiaries are as follows:

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

December 31, 2008 and 2007

(In millions of Won)

Company	Beginning balance	Increase	Decrease/ renewal	Ending balance
HI Investment & Securities Co., Ltd.	₩ -	552,009	6,900	545,109
HI Asset Management Co., Ltd.	-	38,999	487	38,512

Decrease in goodwill is due to its amortization and recognized in selling and administrative account.

12. Other Non-Current Assets

Other non-current assets as of December 31, 2008 and 2007 are summarized as follows:

(In millions of Won)

	2008	2007
Long-term loans	₩ 9,323	6,013
Guarantee deposits	102,802	33,447
Other non-current assets	112,608	59,616
	₩ 224,733	99,076

13. Short-Term Borrowings

- (a) Short-term borrowings except for bonds sold under repurchase agreements of the Company as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	Interest rate as of December 31, 2008 (%)	2008	2007
The Company and its domestic subsidiaries' borrowings:			
Won short-term borrowings	7.39~5.84	₩ 20,000	-
Call Money	3.08~4.30	111,900	-
Securities Capital Currency Loan	6.10~6.85	15,112	-
Overseas subsidiaries' borrowings:			
Foreign short-term borrowings	LIBOR+3.5~5.0	334,196	182,737
		₩ 481,208	182,737

Property, plant and equipment are pledged as collateral for the above short-term borrowings (See Note 10).

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

- (b) The details of bonds sold under repurchase agreements classified as short-term borrowings are as follows:

(In millions of Won)

	Par value	Acquisition value	Fair value	Book value
Government bonds	₩ 351,348	342,812	345,674	345,674

13. Short-Term Borrowings, Continued

Other than the above bond, the bonds with par value of 113,946 million won were borrowed and classified as bonds sold under repurchase agreements and the corresponding book value as of December 31, 2008 is 109,971 million won.

14. Other Current Liabilities

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

December 31, 2008 and 2007

Other Current liabilities as of December 31, 2008 and 2007 are summarized as follows:

<i>(In millions of Won)</i>		2008	2007
Accrued expenses	₩	693,059	501,189
Withholdings		332,944	216,820
Provision for constructions losses		140,086	39,930
Other current liabilities		9,128	34,264
	₩	<u>1,175,217</u>	<u>792,203</u>

15. Debentures and Long-Term Borrowings

(a) Debenture as of 2008 and 2007 are summarized as follows:

<i>(In millions of Won)</i>				2008	2007
	Maturity	Annual interest rate			
111th Non-guaranteed debenture	2008.09.22	6M L+0.475	₩	-	187,640
Current portion				-	(187,640)
			₩	<u>-</u>	<u>-</u>

(b) Long-term borrowings as of December 31, 2008 and 2007 are as follows:

<i>(In millions of Won)</i>		Interest rate as of December 31, 2008 (%)		2008	2007
National Housing Fund		3.00	₩	51,256	53,214
General fund for equipment		8.00		72,574	-
Business loans from Korea National Oil Corporation		2.00		3,315	1,626
H.C.E U.S.A		Prime-0.75%		535	449
Vladivostok Business Center Co., Ltd.		2.00		59,077	99,118
Hyundai Construction Equipment India Private Ltd.		3ML		23,496	-
Hyundai Vinashin Shipyard		3ML+0.34 ~3ML+1.10		42,126	18,764
				252,379	173,171
Current portion				(44,471)	(6,691)
			₩	<u>207,908</u>	<u>166,480</u>

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

15. Debentures and Long-Term Borrowings, Continued

(c) The maturities of long-term debt as of December 31, 2008, before discounts, are as follows:

<i>(In millions of Won)</i>		2008
2010. 1. 1 ~ 2010. 12. 31	₩	9,711
2011. 1. 1 ~ 2011. 12. 31		10,037
2012. 1. 1 ~ 2012. 12. 31		12,724
2013. 1. 1 thereafter		<u>175,436</u>

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

December 31, 2008 and 2007

₩	207,908
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16. Retirement and Severance Benefits

Accrued severance benefits of December 31, 2008 and 2007 are as follows:

<i>(In millions of Won)</i>		2008	2007
Beginning balance	₩	1,459,508	1,386,235
Increase due to change of subsidiaries		10,173	-
Retirement and severance payment		(208,482)	(174,936)
Continuation		4,063	29
Provisions		292,449	248,660
Reversal		-	(480)
		<u>1,557,711</u>	<u>1,459,508</u>
Less: Retirement and severance insurance		(1,263,703)	(1,229,131)
Retirement annuity asset		(2,620)	(1,804)
National pension		(38,333)	(43,340)
Ending balance	₩	<u>253,055</u>	<u>185,233</u>

Accrued retirement and severance benefits are funded approximately 81.3% and 84.3% as of December 31, 2008 and 2007, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of retirement and severance insurance deposits for these insurance plans is deducted from accrued retirement and severance benefits.

17. Other Long-Term Liabilities

Other long-term liabilities as of December 31, 2008 and 2007 are summarized as follows:

<i>(In millions of Won)</i>		2008	2007
Withholdings	₩	22,109	16,577
Provision for constructions warranties		68,370	59,344
Provision for constructions losses		44,891	-
Other non-current liabilities		56,655	8,341
	₩	<u>192,025</u>	<u>84,262</u>

18. Commitments and Contingencies

- (a) The Company and its subsidiaries have entered into bank overdraft agreements with Korea Exchange Bank and others amounting to ₩ 417,100 million as of December 31, 2008. In addition, the Company and its subsidiaries have provided the financial instruments and property as collateral for the above bank overdraft agreements (See Notes 3 and 10).
- (b) As of December 31, 2008, the subsidiary, HI Investment & Securities Co., Ltd. has entered into general borrowing agreements with Pusan bank amounting up to ₩ 10,000 million.
- (c) As of December 31, 2008, borrowing agreements made between the subsidiaries, HI Investment & Securities Co., Ltd. and Korea Securities Finance Corporation are summarized as follows:

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

December 31, 2008 and 2007

(In millions of Won)

Borrowing Type	Limit
Secured loan agreement for financing	130,000
Working capital loan agreement	Deposit from customers and 100,000
Note agreements	Requested deposit and 66,000
Loan agreement on negotiable security	100,000
Call money agreement for a half day	100,000
Bonds agreements	Deposit from customers and capital

- (d) As of December 31, 2008, the Company and its subsidiaries have entered into credit facilities agreements with various banks for the Company's exports and imports, such as letters of credit including local L/C, totaling USD 3,013,430 thousand and ₩ 20,000 million.
- (e) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company and its subsidiaries, the Company and its subsidiaries have provided 13 blank checks and notes as of December 31, 2008. In addition, the Company and its subsidiaries have entered into credit line agreements amounting to maximum of ₩ 225,000 million for general loans with Woori bank, etc. and ₩ 174,000 million for discount of commercial paper with Nonghyup Bank, etc. The Company and its subsidiaries also have entered into collateral loan agreements for electronic transactions limited up to ₩ 169,000 million with Kookmin bank and other 8 banks, and agreements for discount of trade accounts receivables amounting to ₩ 42,000 million with Industrial Bank of Korea, etc.
- (f) The outstanding balance of note receivables, guaranteed by the importers' Government or others and sold to financial institutions with recourse is USD 36,452 thousand, equivalent to ₩ 45,839 million, as of December 31, 2008. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩ 6,634 million as of December 31, 2008.
- (g) As of December 31, 2008, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 130,384 thousand and ₩ 36,844 million. The Company has provided certain performance guarantees amounting to USD 581,093 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd.. Also, the Company entered into joint shipbuilding contracts with HSHI for the construction of 18 ships (Contract amount: USD 2,296,223 thousand). In addition, HMD is contingently liable for guarantees of indebtedness for HVS amounting to USD 28,500 thousand to the Korea Export Import Bank and other banks.
- (h) In connection with the Company and its subsidiaries' loans and contract performance guarantees, the Company and its subsidiaries have also been provided with guarantees up to ₩ 2,481,446 million and USD 28,373,442 thousand by various banking facilities.

18. Commitments and Contingencies, Continued

- (i) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales and the payment of imported raw-materials, the Company, HMD and HSHI have entered into currency forward contracts with various banks including Shinhan Bank. As of December 31, 2008, the Company and its subsidiaries apply cash flow hedge accounting, out of which the Company and its subsidiaries accounted for the effective portion of the hedge amounting to ₩ (-)418,674 million (net of deferred income tax adjustment of ₩ (-)101,193 million), as gain on valuation of foreign exchange forward contracts in accumulated other comprehensive income. The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 36 months, and the amount among gain on valuation of foreign exchange contract that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2008 is ₩ (-)312,999 million.

According to Financial Supervisory Services Staff Opinions on Financial Reporting 2008-2, the Company applied fair value hedge accounting to derivative transactions regarding foreign ship contracts qualifying firm commitment since September 30, 2008. Therefore, forward exchange gain and loss related to fair value hedge which had been recorded in other comprehensive income were reclassified as firm commitment assets and liabilities. For comparative purpose, the accounts of current and non-current derivative assets and liabilities in the prior year were reclassified to reflect the

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changes of accounts in current financial statements and these reclassifications have no effect on the prior year's net income or net assets.

The Company reflected the consequential effects on the deferred tax asset (liability) and changes in unrealized gain on valuation of equity method investments in the financial statements.

(In millions of Won)

Description	Before	After
Firm commitment asset (current)	₩ -	2,479,127
Firm commitment asset (non-current)	-	4,131,110
Firm commitment liability (current)	-	31,096
Firm commitment liability (non-current)	-	19,338
Other cumulative income	5,140,098	313,010

In relation to the shipbuilding contracts in foreign currency as of December 31, 2008, the Company entered into foreign exchange forward contracts and accounted for such contracts as fair value hedge. As a result, net balance of firm commitment assets and liabilities were ₩ (-)6,559,804 million and related gain and loss on valuation of the firm commitments were recorded as ₩ 2,327,205 million and ₩ 74,656 million, respectively, in non-operating income and expenses.

Gain and loss on derivatives transactions that are matured within current year were recorded as ₩ 73,986 million and ₩ 790,601 million, respectively in non-operating income and expense.

Besides the above financial derivatives, the interest swap contract which the Company has entered into with CSFB to hedge the exposure to interest rate risk of floating rate debenture (variable interest rate: 6M Libor, fixed interest rate: 4.50%) amounting to USD 200,000 thousand was matured on September 22, 2008. Related recognized gain and loss on derivatives transactions were recorded as ₩ 321 million and ₩ 2,280 million, respectively in non-operating income and expense.

- (j) HVIC invested in investment venture fund including HVIC IT Fund 3rd and one other fund managed these investment funds as managing partner. Under the partnership Agreement, HVIC recognized management fee amounting to ₩ 621 million and ₩ 386 million in 2008 and 2007 respectively, as sales. Also, HVIC recognized management fee which HVIC didn't receive amounting to ₩ 247 million and ₩ 339 million in 2008 and 2007, respectively, as accrued income.

18. Commitments and Contingencies, Continued

- (k) HFTC has provided reserve to compensate for losses arising from the default of obligations with respect to futures trading in accordance with Article 27 of the Futures Trading Act. The fund is reserved in proportion to the Company's commissions received up to the maximum of ₩ 15,000 million. As of December 31, 2008, certain investment securities are pledged as collateral.

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

- ① If the inappropriate retained earnings are in excess of 1/1,000 of commissions received: 1/1,000 of commissions received.
- ② If the inappropriate retained earnings are less than 1/1,000 of commissions received: equivalent amount to the inappropriate retained earnings.
- ③ If the inappropriate retained earning is null: 0

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

- (l) As of December 31, 2008, one of subsidiaries of the Company, HI Asset Management Co., Ltd. manages beneficiary certificate including subordinated bonds issued by Cheil investment and trust secondary SPC (Special purpose company) Ltd. Since subordinated bonds are estimated as acquisition costs with accrued interest from issuance date, the book value of the subordinates bonds are not equaled to fair value. The expected loss of ₩ 7,029 million is recognized as a

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provision as of December 31, 2008.

19. Litigations

- (a) 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 with affiliated companies, relating to the transactions from 2001 to 2004. 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 litigation for the remainder of the penalty to Seoul High Court.

In addition, the Company has been brought into 4 legal actions by its employees with claims amounting to ₩ 242 million for damages from industrial disasters, all of which are pending as of December 31, 2008.

- (b) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the 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.

19. Litigations, Continued

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, 2006. 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.

- (c) 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 December 31, 2008.
- (d) As of March 25, 2008, the Company determined that International Petroleum Investment Co. (hereafter "IPIC"), the major shareholder of Hyundai Oil Bank, breached the Contract between Shareholders entered into with the former shareholders of the Hyundai Group, including Hyundai Heavy Industries and notified IPIC to exercise IPIC's Deemed Offer (stock purchase option) against its shares of Hyundai Oil Bank of 171,557,695 shares (70%). The Company also filed for arbitration at the International Court of Arbitration of the International Chamber of Commerce, in regard to IPIC's breach of contract and exercise of the Deemed Offer. The arbitration will be processed in Singapore. The notified Deemed Offer may not be rescinded and in case IPIC does not agree to the stock purchase, the offer will need to be determined by the arbitration judgment. As of December 31, 2008, the arbitration period and the exercise price of the stock purchase options are undetermined.

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Notes to Consolidated Financial Statements, Continued

December 31, 2008 and 2007

- (e) Pending litigations of Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries as defendants as of December 31, 2008 are as follows:

(In millions of Won)

Plaintiff	Defendant	Descriptions	Amount of damage claim	Progress
HSHI	Goodmorning Shinhan Securities	Claim for bankruptcy dividends	₩ 3,128	The Company won the first trial; currently under appeal

- (f) Pending litigations of Hyundai Mipo Dockyard Co., Ltd., one of the Company's subsidiaries, as defendants as of December 31, 2008 are as follows:

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

Plaintiff	Claimed amount	Description
CMA CGM	USD 3,969	Claim for damages
Yong-in Corporation employee	₩ 1,277	Claim for retirement allowance
Seok-jin, Kim	₩ 427	Claim for salaries

19. Litigations, Continued

CMA CGM instituted a lawsuit against HMD for a transfer of ship building contract. HMD lost the case at the first trial in court of France. HMD recorded USD 3,696 thousand as of September 29, 2006 as non-operating expense and other accounts payable. HMD is preparing for an intermediate appeal.

The lawsuit brought by employees from Yong-in Corporation in regard to employee rights is annulled the original decision as of July 10, 2008 and the case is determined to be brought to a high court.

The claim brought by a ship owner, DAXIN in regard to the construction of ship by HMD is in process of negotiating compensation.

- (g) As of December 31, 2008, HI Investment & Securities Co., Ltd., one of subsidiaries, is in litigation as a plaintiff in 2 cases for ₩ 251 million and as a defendant in 13 cases for ₩ 11,362 million. The Company has recognized the probable loss of ₩ 1,290 million as a provision and the subsidiary, HI Investment & Securities Co., Ltd. is of the opinion that the lawsuit will not have a material adverse effect on the Company's financial position.

20. Capital Surplus

Capital surplus as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Paid-in capital in excess of par value	₩ 843,324	843,324
Asset revaluation surplus	1,862,725	1,862,725
Other capital surplus	99,502	94,605
	<u>₩ 2,805,551</u>	<u>2,800,654</u>

Other capital surplus is composed of ₩ 33,381 million of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩ 10,123 million thousand of gain on disposal of treasury stock (net of tax effect) and ₩ 21,830 million of gain on business combination and others.

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

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21. Retained Earnings

Retained earnings as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

	2008	2007
Legal reserves:		
Earned surplus reserve (*1,3)	₩ 278,939	208,314
Reserve for business development (*3)	774,227	394,651
Reserve for research and human development (*2)	230,000	247,691
Others	81,558	90,934
	<u>1,364,724</u>	<u>941,590</u>
Voluntary reserves: (*4)		
Reserve for business nationalization	87,277	87,277
Others	2,460,969	837,678
	<u>2,548,246</u>	<u>924,955</u>
Retained earning before appropriations	760,128	1,034,908
	<u>₩ 4,673,098</u>	<u>2,901,453</u>

21. Retained Earnings, Continued

(*1) The Korean Commercial Code requires the Company to appropriate as a legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to offset accumulated deficit, if any, through a resolution of shareholders.

(*2) 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.

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

(*4) 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.

22. Capital Adjustments

(a) Treasury Stock

As of December 31, 2008 and 2007, Treasury Stock are as follows:

(In millions of Won)

	2008	2007
Treasury stock	₩ (1,529,442)	(696,730)
Treasury stock owned by subsidiaries	(103,565)	(43,581)
	<u>₩ (1,633,007)</u>	<u>(740,311)</u>

The Company has been operating special money in trust for treasury stock amounting to ₩ 705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed amounting to ₩ 392,000 million in 2003. In addition, pursuant to the resolution of the board of directors on January 31, 2008, 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 May 2, 2008.

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(b) Other Capital Adjustments

As of December 31, 2008 and 2007, Other Capital Adjustments are as follows:

<i>(In millions of Won)</i>			<u>2008</u>	<u>2007</u>
Capital adjustments on valuation of equity method	₩		(85,596)	(12,318)

- (c) Hyundai Mipo Dockyard Co., Ltd. had 6,063,000 shares of the Company stock and the acquisition cost amounts to ₩ 236,721 million (fair value: ₩ 1,209,568 million). Among the acquisition cost, the portion of controlling interest amounting to ₩ 103,565 million is recorded as treasury stock in capital adjustments as of December 31, 2008.

23. Dividends

- (a) The Company's proposed dividends for 2008 and 2007 are summarized below.

(In thousands of Won except par value)

Year	Description	Number of shares (*)	Par value	Dividend Rate	Cash dividend	Net income	Dividend to net income
2008	Common stock	59,933,456	₩ 5,000	100 %	₩ 299,667,280	₩2,256,664,845	13.28%
2007	Common stock	62,213,456	₩ 5,000	150 %	₩ 466,600,920	₩1,736,060,331	26.88%

(*) Net of 16,066,544 shares and 13,786,544 shares of treasury stock as of December 31, 2008 and 2007

- (b) Yields to market price of proposed dividend for 2008 and 2007 are as follows:

Year	Description	Dividend per share	Closing price	Yield to market price
2008	Common stock	₩ 5,000	₩ 199,500	2.50%
2007	Common stock	₩ 7,500	₩ 442,500	1.70%

24. Income Taxes

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

<u>Taxable income</u>		<u>Tax rate</u>			
<u>Prior to 2008</u>	<u>Thereafter</u>	<u>Prior to 2008</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>
Up to ₩100 million	Up to ₩ 200 million	14.3%	12.1%	12.1%	11%
Over ₩100 million	Over ₩200 million	27.5%	27.5%	24.2%	22%

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

- (b) Income tax expense for the years ended December 31, 2008 and 2007 is as follows:

(In millions of Won)

		<u>2008</u>	<u>2007</u>
Current income tax	₩	1,107,163	899,842
Changes in deferred income taxes due to temporary differences		(727,691)	166,608
Changes in deferred income taxes directly adjusted in equity		613,732	(128,910)

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

December 31, 2008 and 2007

Income tax expense	993,204	937,540
Income before income tax	<u>3,587,003</u>	<u>2,889,822</u>
Effective income tax rate	<u>27.69 %</u>	<u>32.44 %</u>

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

December 31, 2008 and 2007

24. Income Taxes, Continued

(c) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2008 and 2007 are summarized as follows:

(In millions of Won)

Description	2008		2007	
	Beginning	Ending	Beginning	Ending
Equity securities accounted for equity method valuation	₩ (1,110,779)	(1,510,596)	(689,457)	(1,110,779)
Available-for-sale securities	17,402	1,047,341	14,329	17,402
Impairment loss of investment securities	74,558	74,558	73,874	74,558
Reserve for research and human development	(230,000)	(223,333)	(247,691)	(230,000)
Provision for doubtful account	153,021	159,980	195,264	153,021
Accrued income	(76,139)	(137,541)	(25,137)	(76,139)
Loss on valuation of receivables	3,222	860	2,068	3,222
Accrued severance benefits	167,144	115,813	146,865	167,144
Severance insurance deposits	(167,144)	(102,070)	(146,067)	(167,144)
Impairment loss of long-term investment securities	3,196	-	10,602	3,196
Goodwill	(15,859)	(14,500)	(17,219)	(15,859)
Guaranteed repair charges	-	-	3,535	-
Impairment loss valuation of property, plant and equipment	5,171	8,344	5,187	5,171
Provision for foreseeable losses from construction contracts	39,930	198,547	99,772	39,930
Provision for construction warranties	59,344	75,590	59,403	59,344
Depreciation expenses	12,816	14,704	10,995	12,816
Derivatives	61,141	808,569	(506,365)	61,141
Gain on foreign currency Translation	-	42,398	-	-
Unearned revenues	(6,978)	-	(18)	(6,978)
Dividend income	48,398	117,997	21,668	48,398
Government subsidy	12,005	2,516	1,819	12,005
Others	(436,273)	448,278	180,670	(436,273)
Tax loss carried forward	-	-	2,086	-
	(1,385,824)	1,127,455	(803,817)	(1,385,824)
Tax rate (*)	27.50%	27.50%	27.50%	27.50%
Cumulative tax effects	(383,420)	323,563	(216,813)	(383,420)
Effects of income tax rate change	-	20,708	-	-
Deferred income tax assets (current), end of year		280,619		74,570
Deferred income tax assets (non-current), end of year		134,268		71,996
Deferred income tax liabilities (current), end of year		-		(13,909)
Deferred income tax liabilities (non-current), end of year		(70,616)		(516,077)
Deferred income tax assets, beginning of year		(146,566)		(37,607)
Deferred income tax liabilities, beginning of year		529,986		254,420
Changes in deferred income taxes on temporary differences		(727,691)		166,607

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

December 31, 2008 and 2007

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

25. Statements of Comprehensive Income

Statements of comprehensive income for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

		<u>2008</u>	<u>2007</u>
Net income	₩	2,254,096	1,729,549
Other comprehensive income (loss):		(610,024)	(109,004)
Gain (loss) on valuation of short-term and long-term investment securities		(492,344)	213,344
Changes in equity arising on application of the equity method		65,622	915
Negative changes in equity arising on application of the equity method		32,302	(21,167)
Loss on valuation of financial derivatives		(297,002)	(309,927)
Overseas operation translation debit		81,398	7,831
Comprehensive income	₩	<u>1,644,072</u>	<u>1,620,545</u>

26. Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the years ended December 31, 2008 and 2007.

Basic earnings per share for the years ended December 31, 2008 and 2007 are calculated as follows:

		<u>2008</u>	<u>2007</u>
Net income (In millions of Won)	₩	2,254,096	1,729,549
Weighted average number of outstanding common shares (In thousands of shares)		54,372	55,954
Earnings per share (In Won)	₩	<u>41,457</u>	<u>30,910</u>

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

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

December 31, 2008 and 2007

27. Significant Transactions between Consolidated Companies and Affiliated Companies

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

(In millions of Won)

<u>Selling company</u>	<u>Purchasing company</u>	<u>Sales</u>	<u>Receivables</u>
The Company	HSHI	₩ 527,039	307,913
"	HMD	404,903	142,562
"	FC Ulsan Hyundai	762	237
"	HYMS	12,850	4,584
"	CHCM	-	4
"	BHCM	57,484	10,974
"	HJCM	144,245	19,525
"	HHIC	10,228	9,605
"	YHMHI	464	21
"	CHCM	3,858	142
"	HHIE	329,089	67,855
"	HHIB	-	299
"	HCEUSA	122,949	19,809
"	HIE	7,138	4,002
"	HCEIP	19,400	12,891
"	VBC	115	18
HSHI	The Company	27,170	34,129
HMD	"	10,023	1,929
FC Ulsan Hyundai	"	24	-
HYMS	"	80,815	32,188
CHCM	"	5,557	358
BHCM	"	2,154	373
HJCM	"	11,049	863
HHIC	"	17,239	618
YHMHI	"	14,289	-
HCI	"	5,920	547
CHCM	"	-	30
HHIE	"	2,505	1,543
HHIB	"	3,968	-
HCEUSA	"	2,633	867
HDS	"	16,051	2,342
HCEIP	"	-	97
		₩ 1,839,921	676,325

In addition, the Company has entered into rental agreements (guarantee deposits of ₩ 148 million) with HMD and others. Also, the Company entered into joint shipbuilding contracts with HSHI for the construction of 18 ships (Contract amount: USD 2,296,223 thousand).

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

December 31, 2008 and 2007

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

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

(In millions of Won)

<u>Selling company</u>	<u>Purchasing company</u>	<u>Sales</u>	<u>Receivables</u>
HSHI	HMD	₩ 3	-
HMD	HVS	97,226	-
CHCM	HJCM	27,425	34,296
HCI	HSHI	2,537	-
"	HMD	1,549	-
"	BHCM	275	-
"	HJCM	418	31
"	HHIC	69	-
"	CHHM	2,198	-
HHIE	HCEUSA	52	82
HCEUSA	HHIE	50	56
Hyundai Vinashin Shipyard	HMD	49,992	-
		₩ <u>181,794</u>	<u>34,465</u>

(c) Significant payment guarantees between consolidated units in 2008 are as follows:

(In millions of Won)

<u>Guarantor</u>	<u>Guarantee</u>	<u>Amount</u>	<u>Details</u>
The Company	Incheon Airport Energy	₩ 36,844	Debt guarantee
"	HCEUSA	52,312	"
"	HHIE	34,636	"
"	HCEIP	49,193	"
"	BHCM	27,817	"
HMD	HVS	35,839	"
		₩ <u>236,641</u>	

In addition, the Company has provided certain performance guarantees amounting to USD 581,093 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. and HSHI has provided two blank notes to the Company in order to secure the performance of construction contracts (See Note 18).

(d) Compensation for key management in 2008 and 2007 are follows:

(In millions of Won)

<u>Description</u>	<u>2008</u>	<u>2007</u>
Management salary	5,188	5,418

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

December 31, 2008 and 2007

28. Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007 are as follows:

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

Account	Currency	Foreign currencies (In thousands)			Korean won (In millions)	
		2008	2007		2008	2007
Assets:						
Cash and cash equivalents	USD	174,096	142,398	₩	218,925	133,598
	EUR	1,568	243		2,785	335
	Others	-	-		151,917	38,331
Trade accounts and notes receivable	USD	3,294,072	2,882,930		4,142,296	2,704,766
	EUR	104,122	137,445		184,943	189,847
	Others	-	-		636,202	42,288
Accounts receivable-other	USD	65,857	71,074		82,816	66,681
	EUR	1,766	371		3,136	513
	Others	-	-		25,549	15,273
Long-term trade accounts and notes receivable	USD	66,164	102,921		83,201	96,561
Long-term financial instruments & others	USD	7,965	29,606		10,016	27,777
	EUR	3,079	13		5,470	18
	Others	-	-		8,080	1,310
				₩	<u>5,555,336</u>	<u>3,317,298</u>
Liabilities:						
Trade accounts and notes payable	USD	411,169	287,615	₩	517,046	269,839
	EUR	43,611	26,611		77,463	36,757
	Others	-	-		116,354	22,295
Current maturities of long-term borrowings	USD	-	200,000			187,640
Long-term borrowings	USD	2,929	1,733		3,315	1,626
Accounts payable-other and other liabilities	USD	393,962	494,415		495,407	463,859
	EUR	10,850	11,140		19,272	15,387
	Others	-	-		173,362	11,485
				₩	<u>1,402,219</u>	<u>1,008,888</u>

29. Non-Cash Investing and Financing Activities

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

December 31, 2008 and 2007

Significant non-cash investing and financing activities for the years ended December 31, 2008 and 2007 are summarized as follows:

(In millions of Won)

	2008	2007
Transfer of long-term trade accounts to current assets	₩ 34,486	34,170
Transfer of long-term investment securities to current assets	25,012	882
Gain on valuation of investment securities (accumulated other comprehensive income)	213,344	234,765
Transfer of construction-in-progress to plant assets	449,205	414,744
Transfer of debenture	187,640	100
Gain on valuation of derivatives (accumulated other comprehensive income)	309,927	207,924
Reclassification of current portion of long-term borrowings	6,648	33,602
Transfer of property, plant and equipment to other assets	-	6,706
Investment in-kind	200,527	-

30. Consolidated Financial Statements by Industry

The consolidated balance sheets as of December 31, 2008 and 2007, and consolidated statements of income for the years then ended, by industry, under which the Company and its subsidiaries' business are classified, are as follows:

(a) Consolidated balance sheets as of December 31, 2008 and 2007 are as follows:

(In millions of Won)

(In millions of Won)		Non-financial Industry		Financial Industry	
		2008	2007	2008	2007
Assets					
Current assets	₩	19,682,354	13,930,508	1,085,515	255,951
Non-current assets:		17,322,326	11,151,354	328,013	36,286
Investments, net of unamortized present value discount		3,022,286	3,913,933	176,340	22,978
Property, plant and equipment, net of accumulated depreciation		8,876,760	6,706,391	25,744	1,427
Intangibles, net of amortization		902,414	281,240	822	515
Others		4,520,866	249,790	125,107	11,366
Total Assets		37,004,680	25,081,862	1,413,528	292,237
Liabilities					
Current liabilities		25,914,549	17,874,501	794,331	107,873
Non-current liabilities:		4,954,566	1,018,542	47,151	1,502
Total Liabilities	₩	30,869,115	18,893,043	841,482	109,375

30. Consolidated Financial Statements by Industry, Continued

(b) Consolidated statements of income for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

	Non-financial Industry	Financial Industry
	2008	2007

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

December 31, 2008 and 2007

Sales	₩	27,158,271	20,852,352	325,319	39,944
Cost of sales		22,699,638	17,236,975	138,030	6,729
Selling and administrative expenses		1,280,727	1,067,203	183,231	17,843
Operating income		3,177,906	2,548,174	4,058	15,372
Other income, net		394,981	325,864	10,058	4,854
Income before income tax		3,572,887	2,874,038	14,116	20,225
Income tax expense		997,660	934,711	(4,456)	2,829
Net income		2,575,227	1,939,327	18,572	17,397
Net income before acquisition of subsidiaries		-	-	19,600	-
Consolidated net income		2,575,227	1,939,327	(1,028)	17,397
Minority interests		320,410	214,712	(307)	2,829
Holding Company		2,254,817	1,724,615	(721)	14,568

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

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

(d) Results of operations

Results of operations by industries in 2008 are as follows:

(In millions of Won)

	Other transportation equipments	Others	Consolidation adjustments	Consolidated amounts
Total sales	₩ 28,838,424	771,644	(2,126,478)	27,483,590
Inter-company sales	(1,889,731)	(236,747)	2,126,478	-
Net sales	26,948,693	534,896	-	27,483,590
Operating income	3,688,258	(468,184)	(38,110)	3,181,964
Total assets	41,245,748	2,163,665	(4,991,204)	38,418,209

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

December 31, 2008 and 2007

30. Consolidated Financial Statements by Industry, Continued

(d) Results of operations, Continued

Results of operations by industries in 2007 are as follows:

(In millions of Won)

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

(e) Results of operations by area

Results of operations by area in 2008 are as follows

(In millions of Won)

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

Results of operations by area in 2007 are as follows:

(In millions of Won)

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

(f) Financial information by industry segment of the Company

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

(In millions of Won)

		Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩	9,084,857	3,095,132	1,374,442	2,522,060	1,924,489	1,768,563	187,538
Operating income(loss)		1,066,722	289,031	17,088	613,560	359,682	113,374	(253,284)
Tangible & intangible assets		2,080,340	579,488	36,789	777,696	385,704	179,427	2,412,807
Depreciation		(130,201)	(47,668)	(5,163)	(65,131)	(30,274)	(17,160)	(51,731)

30. Consolidated Financial Statements by Industry, Continued

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

December 31, 2008 and 2007

Results of operations by industry segment in 2007 are as follows:

(In millions of Won)

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 7,556,663	2,222,063	1,016,618	1,645,740	1,453,390	1,512,049	126,490
Operating income (loss)	1,037,968	225,679	40,353	345,552	224,069	129,518	(252,441)
Tangible & intangible assets	1,565,526	390,891	49,842	496,453	270,182	149,638	2,282,302
Depreciation	(133,668)	(42,770)	(7,843)	(69,865)	(33,715)	(15,258)	(48,599)

(g) Financial information by industry segment of HSHI

For the year ended as of December 31, 2008

(In millions of Won)

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

For the year ended as of December 31, 2007

(In millions of Won)

	₩	Shipbuilding
Sales		2,616,869
Operating income (loss)		364,389
Tangible & intangible assets		1,025,517
Depreciation		(54,202)

(h) Financial information by industry segment of HMD

For the year ended as of December 31, 2008:

(In millions of Won)

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

For the year ended as of December 31, 2007:

(In millions of Won)

	₩	Shipbuilding	Construction equipment
Sales		2,769,938	78,443
Operating income		352,974	10,128

31. Outstanding Contracts

(a) The Company's outstanding contracts

(In millions of Won)

Description	Shipbuilding	Others	Total
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Hyundai Heavy Industries Co., Ltd.
Notes to Consolidated Financial Statements, Continued

December 31, 2008 and 2007

Beginning of the year (*)	₩	29,841,783	20,839,642	50,681,425
Increase during the year		14,967,517	14,564,095	29,531,612
Recognized as revenue in current operations		(9,084,857)	(10,872,224)	(19,957,081)
End of the year		35,724,443	24,531,513	60,255,956

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

As of December 31, 2008, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

(In millions of Won)

		Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	₩	12,573,320	1,863,332	6,530,773	1,933,989	173,982	1,760,007
Offshore & Engineering		5,715,029	558,399	2,078,578	556,467	109,538	446,929
Industrial Plant & Engineering		4,155,213	144,327	453,058	120,874	16,477	104,397
Engine & Machinery		2,977,279	1,174,449	996,144	561,061	99,230	461,831
Electro Electric Systems		62,251	24,562	117,295	542,345	517,021	25,324
Construction Equipment (*)		-	-	1,069	174,768	174,768	-
Others (**)		-	-	501	705,897	705,897	-
	₩	<u>25,483,092</u>	<u>3,765,069</u>	<u>10,177,418</u>	<u>4,595,401</u>	<u>1,796,913</u>	<u>2,798,488</u>

(*) Industry segment recognized revenues on a delivery basis.

(**) The Company recognized estimated loss of ₩ 104,229 million on the construction contracts whose contract costs will exceed contract revenue.

(b) Outstanding Contracts of HSHI

(In millions of Won)

	Contract asset
Beginning of the year (*)	₩ 12,240,909
Increase during the year	7,975,984
Recognized as revenue in current operations	(3,982,037)
End of the year	16,234,856

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

31. Outstanding Contracts, Continued

(b) Outstanding contracts of HSHI, Continued

As of December 31, 2008, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

(In millions of Won)

	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable
₩	<u>2,084,941</u>	<u>2,441,160</u>	<u>3,715,687</u>	<u>765,576</u>

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

December 31, 2008 and 2007

(c) Outstanding contracts of HMD

HMD's outstanding contracts before the elimination of transactions between consolidated companies as of December 31, 2008 are summarized as follows:

(In millions of Won)

		Contract asset
Beginning of the year (*)	₩	11,329,231
Increase during the year		8,937,446
Recognized as revenue in current operations		(3,804,734)
End of the year		16,461,943

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

As of December 31, 2008, accumulated cost of construction and others connected with construction in progress by major industry segment before the elimination of transactions between consolidated companies are as follows:

	(In millions of Won)	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable
₩		4,005,122	4,814,154	2,667,688	642,132

32. Selling, General and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2008 and 2007 are as follows:

(In millions of Won)

		2008	2007
Wages	₩	475,008	341,937
Accrual for severance benefits		45,529	36,302
Employee welfare		101,053	92,663
Advertisement		61,875	32,879
Ordinary development expenses (Note 11)		79,638	75,212
Accrual for allowance for doubtful accounts		19,661	20,886
Depreciation (Note 10)		49,475	35,432
Amortization (Notes 11 and 24)		13,753	9,477
Service charges		122,599	76,507
Transportation		107,602	73,688
Sales commission		64,299	46,823
After-service expenses		57,448	52,182
Others		266,018	191,058
	₩	1,463,958	1,085,046

33. The Company's Environmental Standards and Policies

The Company has introduced and constructed an environmental management system, operated systematically by its environmental management organization, to effectively manage any environmental effects incurred from its business activities. The Company obtained the ISO-14001 certification for its environmental management system from the DNA-QA (Det Norske Veritas QA Ltd.) and KFQ to ensure transparent environmental management system and also to prepare

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for environmental trade barrier. To maintain and develop its environmental management system, the Company continuously works to minimize the environmental effects from its overall business activities, from research and development, purchase, production, transport and disposal, by adopting advanced environmental management system such as periodic evaluation of activities of environment management, eco-friendly plan, evaluation of environment results and other.

The Company established and applies its own standards, which is twice as strict compared to current regulations for permissible exhaust standards, to the operations of the air exhaustion facility, control facility and waste water disposal plant that treat the polluted substance generated from its manufacturing process. The Company maintains its actual exhaustion density below 20%. In addition, the Company achieved 63.1% of waste reclamation rate by minimizing the generation of wastes and managing proper separate garbage collection. Also, to properly treat wastes, the Company and HSHI operate incinerators that have capacity to treat waste of 400 and 13 tons per day respectively, furnished with advanced equipment to prevent environmental pollution.

34. Employee Welfare and Contributions to Society

For employee welfare, the Company granted scholarship funds of ₩ 54,782 million for the employees' children (middle, high, college students) and ₩ 8,342 million for medical benefits, such as health inspection and medical treatment, to its employees and their families during the years ended December 31, 2008. In addition, the Company provided 16,000 apartment buildings for employee housing and the rate of housing supplied for employees reached approximately 94%. The Company also operates seven culture welfare union halls and the Hyundai Arts Center, established in December 1998, to provide members of the community and its employees with various art and musical performances.

(In millions of Won)

	<u>2008</u>	<u>2007</u>
Expense for human development and discipline	₩ 22,538	12,988
Expense for social welfare facilities and religion donation	13,736	19,587
Donation for Social Overhead Capital and Government	<u>22</u>	<u>135</u>
	₩ <u>36,296</u>	<u>32,710</u>