

HYUNDAI HEAVY INDUSTRIES CO., LTD

Non-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 non-consolidated balance sheet of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2008, and the related non-consolidated statement of income, appropriation of retained earnings, changes in equity and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The accompanying non-consolidated financial statements of the Company as of December 31, 2007, were audited by other auditors, whose report thereon dated February 22, 2008, expressed an unqualified opinion on those statements.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2008 and the results of its operations, appropriation of its retained earnings, the changes in its equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Seoul, Korea
February 26, 2009

This report is effective as of February 26, 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 non-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.

Hyundai Heavy Industries Co., Ltd.

Non-Consolidated Balance Sheets

As of December 31, 2008 and 2007

(In thousands of Won, except share data)

	<i>Note</i>		2008	2007
Assets				
Cash and cash equivalents	28,34	₩	667,492,156	953,756,858
Short-term financial instruments	3		1,676,394,826	2,154,137,014
Short-term investment securities	5		102,459,800	503,388,199
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 96,532,225 in 2008 and ₩ 70,815,544 in 2007	22,27,28		4,498,868,535	2,740,673,266
Accounts receivable - other, net of allowance for doubtful accounts of ₩ 296,094,108 in 2008 and ₩ 268,303,195 in 2007	17,27,28		162,113,211	147,455,116
Advanced payments, net of allowance for doubtful accounts of ₩ 17,757,919 in 2008 and ₩ 12,567,027 in 2007			852,779,452	336,144,870
Accrued income			58,732,447	30,528,517
Foreign exchange forward contracts	16		1,851,056,213	167,882,896
Deferred income tax assets	16,23		212,461,924	70,990,353
Inventories	4		2,263,296,422	1,119,219,452
Other current assets	6		271,913,270	257,729,822
Total current assets			12,617,568,256	8,481,906,363
Long-term financial instruments	3,28		15,322,748	9,003,360
Long-term investment securities	7		496,260,357	714,663,412
Equity method accounted investments	8,26		2,712,825,310	2,222,730,033
Property, plant and equipment, net	9,29		6,189,953,763	4,968,785,355
Intangible assets	10,29		262,296,296	236,048,362
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩ 832,009 in 2008 and ₩ 965,609 in 2007			82,368,900	95,595,244
Foreign exchange forward contracts			2,815,240,074	17,637,724
Other non-current assets	11,28		88,565,217	52,334,858
Total non-current assets			12,662,832,665	8,316,798,348
Total assets		₩	25,280,400,921	16,798,704,711

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

As of December 31, 2008 and 2007

(In thousands of Won, except share data)

	<i>Note</i>	2008	2007
Liabilities			
Trade accounts and notes payable	27,28	₩ 2,337,258,676	1,495,173,461
Accounts payable - other	27,28	180,439,441	122,492,217
Advances from customers	22	10,177,418,459	8,013,303,994
Accrued expenses	27,28	289,674,793	250,899,632
Income tax payable	23	457,058,997	455,564,205
Current maturities of debentures and long-term borrowings, net of discounts of ₩ in 2008 and ₩ 298,966 in 2007	13,28	-	187,341,034
Foreign exchange forward contracts	16	2,798,264,234	125,422,256
Other current liabilities	12	233,766,414	156,881,303
Total current liabilities		16,473,881,014	10,807,078,102
Debenture and long-term borrowings	13,28	3,314,633	1,625,627
Long-term accrued expenses	17	-	1,029,341
Provision for retirement and severance benefits, net of severance insurance deposits and others of ₩ 1,112,905,108 in 2008 and ₩ 1,079,968,485 in 2007	14	139,018,332	110,865,582
Deferred income tax liabilities	8,16,23,26	133,497,415	276,376,968
Foreign exchange forward contracts	16	2,856,649,956	80,564,196
Other long-term liabilities	15	78,820,055	73,455,854
Total non-current liabilities		3,211,300,391	543,917,568
Total liabilities		19,685,181,405	11,350,995,670
Stockholders' equity			
Common stock of ₩5,000 par value		380,000,000	380,000,000
Authorized – 160,000,000 shares			
Issued and outstanding – 76,000,000 shares in 2008 and 2007			
Capital surplus	18,26	2,818,590,688	2,813,693,355
Capital adjustments	20,26	(1,762,040,031)	(811,302,031)
Accumulated other comprehensive income	5,7,8,16,23,24,26	(498,454,758)	198,258,025
Retained earnings	19	4,657,123,617	2,867,059,692
Total stockholders' equity		5,595,219,516	5,447,709,041
Total liabilities and stockholders' equity	₩	25,280,400,921	16,798,704,711

See accompanying notes to non-consolidated financial statements.

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

For the years ended December 31, 2008 and 2007

(In thousands of Won, except earnings per share)

	<i>Note</i>		2008	2007
Sales	16,22,27,29	₩	19,957,080,881	15,533,013,307
Cost of sales	22,27		16,811,989,016	12,976,118,554
Gross profit			<u>3,145,091,865</u>	<u>2,556,894,753</u>
Selling, general and administrative expenses	30		938,918,930	806,197,217
Operating income			<u>2,206,172,935</u>	<u>1,750,697,536</u>
Interest and dividend income			288,868,980	205,072,125
Gain on foreign currency transactions			677,244,920	87,926,436
Gain on foreign currency translation			140,564,809	12,923,568
Gain on valuation of equity method accounted investments	8		771,497,568	489,179,298
Gain on foreign exchange forward contracts	16		1,773,396,856	40,963,544
Gain on disposition of property, plant and equipment			48,774,129	6,709,012
Others			126,755,536	112,014,629
Non-operating income			<u>3,827,102,798</u>	<u>954,788,612</u>
Interest expense			6,472,122	11,402,580
Loss on foreign currency transactions			642,757,743	78,099,571
Loss on foreign currency translation			119,579,748	8,360,813
Loss on impairment of long-term investments securities			-	105,249
Loss on disposition of property, plant and equipment			57,568,485	33,263,439
Loss on valuation of equity method accounted investments	8		151,574,109	6,643,654
Loss on foreign exchange forward contracts	16		1,995,002,134	74,793,871
Others			110,689,186	98,431,106
Non-operating expenses			<u>3,083,643,527</u>	<u>311,100,283</u>
Income before income taxes			2,949,632,206	2,394,385,865
Income taxes expense	23		692,967,361	658,325,534
Net income		₩	<u>2,256,664,845</u>	<u>1,736,060,331</u>
Earnings per share				
Basic earnings per share	25	₩	<u>37,340</u>	<u>27,778</u>

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2008 and 2007

Date of Appropriation for 2008: March 13, 2009

Date of Appropriation for 2007: March 14, 2008

(In thousands of Won)

	<i>Note</i>	2008	2007
Unappropriated retained earnings			
Balance at beginning of year	₩	4	9
Net income		2,256,664,845	1,736,060,331
Balance at end of year before appropriation		2,256,664,849	1,736,060,340
Transfer from voluntary reserves			
Reserve for research and human development		6,666,667	17,690,636
Reserve for legal reserve		21,543,399	-
Unappropriated retained earnings available for appropriation		2,284,874,915	1,753,750,976
Appropriation of retained earnings			
Legal reserve		-	46,660,092
Reserve for research and human development		1,985,207,630	1,240,489,960
Cash dividends	21	299,667,280	466,600,920
Unappropriated retained earnings to be carried over to subsequent year	₩	5	4

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.
Non-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	Total stockholders' equity
Balance at January 1, 2007	₩	380,000,000	2,771,383,687	(351,821,818)	386,855,426	1,292,233,001	4,478,650,296
Cumulative effect of change in accounting policy		-	-	(135,429,138)	(76,847,171)	-	(212,276,309)
Balance at January 1, 2007, restated		380,000,000	2,771,383,687	(487,250,956)	310,008,255	1,292,233,001	4,266,373,987
Dividends		-	-	-	-	(161,233,640)	(161,233,640)
Balance after appropriations		-	-	-	-	1,130,999,361	4,105,140,347
Net income		-	-	-	-	1,736,060,331	1,736,060,331
Changes in capital surplus on valuation of equity method accounted investments		-	42,309,668	-	-	-	42,309,668
Change in treasury stock		-	-	(344,907,695)	-	-	(344,907,695)
Change in equity method accounted treasury stock		-	-	22,492,574	-	-	22,492,574
Changes in capital adjustments on valuation of equity method accounted investments		-	-	(1,635,954)	-	-	(1,635,954)
Gain on valuation of investment securities		-	-	-	63,184,877	-	63,184,877
Changes in unrealized gain on valuation of equity method accounted investments		-	-	-	102,123,889	-	102,123,889
Negative Changes in unrealized gain on valuation of equity method accounted investments		-	-	-	(9,801,583)	-	(9,801,583)
Change in the valuation of derivatives		-	-	-	(267,257,413)	-	(267,257,413)
Balance at December 31, 2007	₩	<u>380,000,000</u>	<u>2,813,693,355</u>	<u>(811,302,031)</u>	<u>198,258,025</u>	<u>2,867,059,692</u>	<u>5,447,709,041</u>

Hyundai Heavy Industries Co., Ltd.
Non-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	Total stockholders' equity
Balance at January 1, 2008	₩	380,000,000	2,771,383,687	(696,729,513)	169,794,560	2,867,059,692	5,491,508,426
Cumulative effect of change in accounting policy		-	42,309,668	(114,572,518)	28,463,465	-	(43,799,385)
Balance at January 1, 2008, restated		380,000,000	2,813,693,355	(811,302,031)	198,258,025	2,867,059,692	5,447,709,041
Dividends		-	-	-	-	(466,600,920)	(466,600,920)
Balance after appropriations		-	-	-	-	2,400,458,772	4,981,108,121
Net income		-	-	-	-	2,256,664,845	2,256,664,845
Changes in capital surplus on valuation of equity method accounted investments		-	4,897,333	-	-	-	4,897,333
Change in treasury stock		-	-	(832,711,782)	-	-	(832,711,782)
Change in equity method accounted treasury stock		-	-	(11,234,489)	-	-	(11,234,489)
Changes in capital adjustments on valuation of equity method accounted investments		-	-	(106,791,729)	-	-	(106,791,729)
Gain on valuation of investment securities		-	-	-	(262,816,255)	-	(262,816,255)
Changes in unrealized gain on valuation of equity method accounted investments		-	-	-	(20,318,477)	-	(20,318,477)
Negative Changes in unrealized gain on valuation of equity method accounted investments		-	-	-	(102,820,239)	-	(102,820,239)
Change in the valuation of Derivatives		-	-	-	(310,757,812)	-	(310,757,812)
Balance at December 31, 2008	₩	380,000,000	2,818,590,688	(1,762,040,031)	(498,454,758)	4,657,123,617	5,595,219,516

See accompanying notes to non-consolidated financial statements.

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

For the years ended December 31, 2008 and 2007

(In thousands of Won)

	2008	2007
Cash flows from operating activities		
Net income	₩ 2,256,664,845	1,736,060,331
Adjustments for:		
Depreciation	347,327,963	351,718,296
Accrual for severance benefits	230,151,603	198,841,279
Accrual for allowance for doubtful accounts	35,565,244	12,877,187
Loss on foreign currency translation	117,775,185	8,329,771
Loss on disposition of property, plant and equipment	57,568,485	33,263,439
Equity in net loss of equity accounted investees	151,574,109	6,643,654
Amortization of development costs	41,423,910	38,181,230
Loss on valuation of foreign exchange forward contracts	2,966,525,406	59,199,240
Accrual for foreseeable losses on construction contracts	65,158,129	-
Gain on foreign currency translation	-	105,249
Gain on foreign currency translation	(137,571,569)	(11,252,407)
Equity in net income of equity method accounted investees	(771,497,568)	(489,179,298)
Gain on valuation of foreign exchange forward contracts	(1,713,371,925)	(234,959,971)
Gain on reversal of provision	(1,421,861)	(6,392,055)
Others, net	(28,132,693)	(48,750,885)
	3,617,739,263	1,654,685,060
Changes in assets and liabilities:		
Change in trade accounts and notes receivable	(1,724,001,640)	(256,285,468)
Change in accounts receivable-other	(16,578,847)	66,031,312
Change in accrued income	(28,203,930)	(24,969,810)
Change in advanced payments	(552,953,561)	61,724,429
Change in inventories	(1,144,075,525)	9,557,776
Change in foreign exchange forward contracts	(990,190,623)	303,208,956
Change in trade accounts payable	854,632,361	312,601,393
Change in accounts payable-other	49,677,150	(3,826,357)
Change in advances from customers	2,459,903,477	1,768,443,574
Change in accrued expenses	(24,520,129)	60,504,616
Change in income tax payable	1,494,792	287,846,165
Change in long-term accrued expenses	(1,029,342)	(1,239,893)
Change in deposits for retirement and severance benefits	(37,269,107)	(142,655,720)
Payments of retirement and severance benefits	(169,062,230)	(143,195,698)
Change in deferred income tax assets	(42,217,698)	(70,990,353)
Change in deferred income tax liabilities	18,379,478	161,765,351
Others, net	110,987,270	72,803,493
Net cash provided by operating activities	2,382,711,159	4,116,008,826

Hyundai Heavy Industries Co., Ltd.
Non-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	₩ 2,390,621,000	1,030,621,000
Disposition of short-term investment securities	2,382,649,007	1,178,453,619
Disposition of long-term investment securities	13,355,791	17,193,951
Disposition of equity method accounted investments	70,937	6,585,516
Disposition of long-term financial instruments	2,004,095	539,893
Disposition of other non-current assets	4,523,174	1,721,898
Disposition of property, plant and equipment	83,417,532	18,924,381
Acquisition of short-term financial instruments	(1,912,945,045)	(2,950,621,000)
Acquisition of short-term investment securities	(1,960,000,000)	(1,424,000,000)
Acquisition of long-term investment securities	(136,397,826)	(246,507,801)
Acquisition of equity method accounted investments	(148,056,640)	(133,347,454)
Acquisition of long-term financial instruments	(6,003,410)	(367,473)
Acquisition of other non-current assets	(35,805,532)	(9,563,269)
Acquisition of property, plant and equipment	(1,791,434,120)	(910,854,533)
Acquisition of intangible assets	(69,711,129)	(54,750,934)
Net cash used in investing activities	(1,183,712,166)	(3,475,972,206)
Cash flows from financing activities		
Increase in long-term borrowings	1,689,006	282,600
Repayment of current portion of long-term borrowings and other long-term liabilities	(187,640,000)	(341,960)
Payment of cash dividends	(466,600,920)	(161,233,640)
Acquisition of treasury stock	(832,711,781)	(344,907,695)
Net cash used in financing activities	(1,485,263,695)	(506,200,695)
Net increase (decrease) in cash and cash equivalents	(286,264,702)	133,835,925
Cash and cash equivalents at beginning of year	953,756,858	819,920,933
Cash and cash equivalents at end of year	₩ 667,492,156	953,756,858

See accompanying notes to non-consolidated financial statements.

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

December 31, 2008

1. Organization and Description of Business

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

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩ 5,000, authorized: 160,000,000 shares) of common stock 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 Corp., and Mirae Asset investment management 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. Summary of Basis of Presenting Financial Statements and Significant Accounting Policies

(a) Basis of Presenting Financial Statements

The Company prepares the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items explained in note 16 and 26 related to accounting changes and the adoption of changes to Statements of Korean Accounting Standards ("SKAS"), No.15 *Investments in Associates*, Korea Accounting Institute Opinion 06-2 (Deferred Income Taxes on Investments in Subsidiaries, Associates and Interests in Joint Ventures), and 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 non-consolidated financial statements.

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

(b) Cash and Cash Equivalents

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

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

December 31, 2008

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

(c) 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.

(d) 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.

(e) 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.

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.

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

December 31, 2008

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

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

Presentation

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.

(f) Investments in Associates and Subsidiaries

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

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

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

December 31, 2008

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

(f) Investments in Associates and Subsidiaries, Continued

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 overseas investee is operating 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.

(g) 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.

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

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

December 31, 2008

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

(g) Property, Plant and Equipment, Continued

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.

(h) Intangible Assets

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

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

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

(i) 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.

(j) 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.

December 31, 2008

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

(j) Foreign Currency Translation, Continued

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.

(k) 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.

(l) Provision for Construction Warranty

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

(m) Provision for Product Warranty

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

(n) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on salary rates and length of service at the time they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company or the bank in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be paid to the employees when they leave the Company and is accordingly reflected in the accompanying non-consolidated financial statements as a reduction of the retirement and severance benefits liability. However, due to a new regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

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

December 31, 2008

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

(o) Revenue Recognition

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

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

(p) 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.

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.

December 31, 2008

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

(q) 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 hedging 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.

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:

<i>In thousands of Won</i>		2008	2007
Short-term financial instruments	₩	2,257,812	-
Long-term financial instruments		5,460,565	33,000
	₩	<u>7,718,377</u>	<u>33,000</u>

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

December 31, 2008

4 Inventories

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

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Merchandise	₩	70,561,858	48,769,359
Finished goods		198,528,892	125,533,379
Work-in-progress		651,163,931	332,450,119
Raw materials		865,977,551	346,780,441
Supplies		21,243,329	20,392,577
Materials-in-transit		455,820,861	245,293,577
	₩	<u>2,263,296,422</u>	<u>1,119,219,452</u>

5 Short-term Investments Securities

Short-term investments securities consist of available-for-sale securities (current assets only) as of December 31, 2008 and 2007 are summarized as follows:

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Beneficiary certificates	₩	102,459,800	478,376,100
Subordinated Debentures (Dong Yang Securities Inc.)		-	25,012,099
	₩	<u>102,459,800</u>	<u>503,388,199</u>

Available-for-sale securities are stated at fair value with unrealized holding gain on valuation of available-for-sale securities (net of tax effect) amounting to ₩ 1,864,531 thousand and ₩ 3,181,444 thousand in accumulated other comprehensive income 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 thousands of Won</i>		<u>2008</u>	<u>2007</u>
Short-term loans	₩	30,000,000	-
Prepaid expenses		238,690,207	254,860,452
Other current deposits		3,223,063	2,869,370
	₩	<u>271,913,270</u>	<u>257,729,822</u>

7 Long-term Investments Securities

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

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Available-for-sale securities (non-current)			
Marketable securities	₩	359,745,209	645,820,238
Non-marketable securities		136,515,148	68,843,174
	₩	<u>496,260,357</u>	<u>714,663,412</u>

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

December 31, 2008

7 Long-term Investments Securities, Continued

- (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 thousands of Won, except percentage of ownership

		2008		2007
	Percentage of ownership	Acquisition cost	Fair value	Fair value
Listed equity securities:				
Kia Motors Corp.	0.03	₩ 2,681,616	578,005	891,275
Korea Line Corp.	2.71	55,130,663	20,610,678	-
Tong Yang Investment Bank	3.40	99,828,399	24,119,644	71,025,510
Mirae Asset Securities Co., Ltd.	0.10	6,654,173	2,921,441	6,873,980
SK Broadband Corp.	0.00	7,947,667	6,518	12,301
Hyundai Elevator Co., Ltd.	2.16	1,632,339	10,010,585	20,791,215
Hyundai Motor Company	3.45	519,246,924	300,335,090	544,404,872
Hyundai Corp.	0.36	11,227,434	1,163,248	1,821,085
		₩ 704,349,215	359,745,209	645,820,238

- (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 thousands of Won, except percentage of ownership

In thousands 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	₩ 1,000	1,000	-
Kuk Dong Heavy Conveyance Co., Ltd.	7.50	501,720	501,720	501,720
Novelis Korea Ltd.	0.39	14,598,913	1,405,452	1,405,452
Daehan Oil Pipeline Corp.(*2)	6.39	14,511,802	30,051,393	15,851,427
Dong-A Precision Machinery Co., Ltd.	0.74	35,640	-	-
Doosan Capital Co., Ltd.(*3)	9.99	10,000,000	24,378,000	26,146,000
Bexco, Ltd.	7.96	9,460,000	9,460,000	9,460,000
Chonggu Co., Ltd.	0.00	188,260	-	-
Postec Electronic Power Fund Co.	1.75	500,000	500,000	500,000
Hanwha Electric Venture Fund.	2.00	500,000	500,000	500,000
Hyndai Research Institute	14.40	1,440,000	1,440,000	1,440,000
Hyundai Climate Control Co., Ltd.	10.00	50,000	50,000	50,000
Enova System Inc.	1.45	1,314,583	1,314,583	3,042,465
PT. Golden Hyundai Machinery	20.83	155,250	155,250	-
HHI Mauritius Limited(*4)	100.00	122	122	122
Hynix Semiconductor America Inc.	1.33	34,525,619	-	-
Hyundai Heavy Industries France SAS.(*4)	100.00	22,787	22,787	22,787
Hyundai (Malaysia.) SDN BHD (*4)	100.00	17,286	-	-
Hyundai S/V Indonesia.(*4)	45.00	261,864	-	-
Hyundai Technologies Center Hungary Kft.(*4)	100.00	26,302	26,302	26,302
Hyundai-Enova Innovative Technical Center Inc.(*4)	60.00	₩ 3,360,000	3,360,000	3,360,000
KC Karpovsky BV	10.00	2,443	2,443	2,443
Korea Ship Finance Co., Ltd.	2.36	200,000	200,000	200,000
Nikorma-Transport Limited	11.50	10,914	10,914	-

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

December 31, 2008

In thousands of Won, except percentage of ownership

	Percentage of ownership	2008		2007
		Acquisition cost	Fair value	Fair value
Unlisted equity securities: (*1)				
Pheco Inc.(*4)	100.00	2,303,555	236,621	236,621
		93,988,060	73,616,587	62,745,339
Subordinated Debentures				
(Dong Yang Securities Inc.)(*5)		50,000,000	47,776,067	-
Marketable securities		20,110,728	9,964,384	6,097,835
Investments in capital		5,158,110	5,158,110	-
	₩	169,256,898	136,515,148	68,843,174

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

(*5) The fair value is measured at the discounted future cash flows by using a discount rate that appropriately reflects the credit rating of the issuing entity assessed by a publicly reliable independent credit rating agency.

(d) 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 thousands of Won

		2008		
		Balance at January 1, 2008	Increase (Decrease)	Balance at December 31, 2008
Kia Motors Corp.	₩	(1,297,998)	(342,819)	(1,640,817)
Korea Line Corp.		-	(26,925,588)	(26,925,588)
Tong Yang Investment Bank		20,087,727	(35,062,679)	(14,974,952)
Mirae Asset Securities Co.,Ltd.		159,360	(3,070,890)	(2,911,530)
SK Broadband Corp.		8,919	(3,835)	5,084
Hyundai Elevator Co., Ltd.		13,890,185	(7,355,153)	6,535,032
Hyundai Motor Company		18,239,512	(188,990,743)	(170,751,231)
Hyundai Corp.		793,331	(452,929)	340,402
Daehan Oil Pipeline Corp.		971,228	11,149,653	12,120,881
Doosan Capital Co., Ltd.		11,705,850	(491,010)	11,214,840
		64,558,114	(251,545,993)	(186,987,879)
Investments in capital		304,530	(304,530)	-
Subordinated bonds		-	(1,734,668)	(1,734,668)
Marketable securities		-	(7,914,149)	(7,914,149)
	₩	64,862,644	(261,499,340)	(196,636,696)

Hyundai Heavy Industries Co., Ltd.
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December 31, 2008

- (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, 2007, were as follows:

In thousands of Won

		2007		
		Balance at January 1, 2007	Increase (Decrease)	Balance at December 31, 2007
Kia Motors Corp.	₩	(1,083,673)	(214,325)	(1,297,998)
Tong Yang Investment Bank		(1,300,571)	21,388,298	20,087,727
Mirae Asset Securities Co., Ltd.		-	159,360	159,360
SK Broadband Corp.		6,780	2,139	8,919
Hyundai Elevator Co., Ltd.		6,275,209	7,614,976	13,890,185
Hyundai Motor Company		(405,601)	18,645,113	18,239,512
Hyundai Corp.		703,179	90,152	793,331
Daehan Oil Pipeline Corp.		-	971,228	971,228
Doosan Capital Co., Ltd.		-	11,705,850	11,705,850
		<u>4,195,323</u>	<u>60,362,791</u>	<u>64,558,114</u>
Government and municipal		40,390	(40,390)	-
Subordinated bonds		(300,894)	300,894	-
Investments in capital		<u>281,662</u>	<u>22,868</u>	<u>304,530</u>
	₩	<u>4,216,481</u>	<u>60,646,163</u>	<u>64,862,644</u>

8 Equity Method Accounted Investments

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

In thousands of Won

Company	Number of shares	Percentage of ownership		Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩	266,150,343	289,760,570
Hyundai Finance Corp. (*2)	12,350,000	67.49		78,197,738	88,945,279
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92		204,259,700	1,040,405,978
Incheon Airport Energy	3,284,884	31.00		16,424,420	-
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09		11,620,593	38,119,093
New Korea Country Club	16,457	20.00		500,000	3,613,235
Hyundai Dongahn Steel (*2&3)	-	54.99		1,231,036	-
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00		35,656,728	8,884,122
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00		2,543,678	14,982,234
H.C.E U.S.A (*2)	23,900,000	100.00		26,712,810	4,170,513
Vladivostock Business Center (*2&3)	-	57.14		5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58		6,617,040	4,721,024
HHI China Investment Co., Ltd. (*2&3)	-	100.00		154,057,029	246,276,553
Hyundai Merchant Marine Co., Ltd.	23,424,037	17.60		404,039,118	481,689,397

Hyundai Heavy Industries Co., Ltd.
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In thousands of Won

Company	Number of shares	Percentage of ownership	Historical cost	Book value
(Common stock) (*6)				
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*6)	3,516,688	17.58	52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00	67,658,226	164,661,077
Hyundai Ideal Electric Co. (*2)	1,000	100.00	11,241,600	17,943,929
Hyundai Financial Leasing Co., Ltd. (*2&3)	-	60.03	16,988,743	24,053,234
Hyundai Construction Equipment India Private Ltd. (*2)	17,184,775	100.00	39,354,139	34,423,101
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00	33,930,000	32,894,351
Ulsan Hyundai Football Club. Ltd. (*2)	2,000,000	100.00	10,000,000	1,181,505
HYMS(*2)	29,600,000	100.00	148,000,000	114,593,849
KAM Corp.	8,330,000	49.00	41,650,000	42,481,873
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00	1,016,600	1,261,438
Komas Corp.	754,414	100.00	3,772,070	1,459,500
			<u>₩ 1,640,263,598</u>	<u>2,712,825,310</u>

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

In thousands of Won

Company	Number of shares	Percentage of ownership	Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩ 266,150,343	329,826,033
Hyundai Finance Corp. (*2)	12,350,000	67.49	78,197,738	88,223,005
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92	204,259,700	1,043,149,379
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	20,215,057	23,323,703
Beijing Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	15,661,020	13,612,598
MOST #3 Venture Investment	130	24.53	122,630	125,485
Incheon Airport Energy	3,284,884	31.00	16,424,420	3,847,377
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00	28,514,868	40,106,509
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09	11,620,593	22,730,051
New Korea Country Club	16,457	20.00	500,000	3,272,781
Hyundai Dongahn Steel (*2&3)	-	54.99	1,231,036	1,314,368
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00	35,656,728	23,312,570
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00	2,543,678	7,806,652
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99	7,254,254	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (*2&3)	-	55.22	18,256,250	13,739,103
H.C.E U.S.A (*2)	23,900,000	100.00	26,712,810	6,634,931
Vladivostock Business Center (*2&3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58	6,617,040	5,318,298
HHI China Investment Co., Ltd. (*2&3)	-	100.00	28,372,350	27,508,118
Hyundai Merchant Marine Co., Ltd.	23,424,037	17.60	404,039,118	357,350,650

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

December 31, 2008

In thousands of Won

Company	Number of shares	Percentage of ownership	Historical cost	Book value
(Common stock) (*6)				
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*6)	3,516,688	17.58	52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00	67,658,226	92,647,265
Hyundai Ideal Electric Co. (*2)	1,000	100.00	11,241,600	11,378,786
Hyundai Financial Leasing Co., Ltd. (*2&3)	-	60.03	2,496,186	2,020,867
Hyundai Construction Equipment India Private Ltd. (*2)	8,603,025	100.00	18,557,139	20,287,075
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00	22,230,000	21,970,305
			<u>₩ 1,353,174,771</u>	<u>2,222,730,033</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) The Company's subsidiaries.

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

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

(*5) Since the Company is able to exercise significant influence over the operating and financial policies, investment in Koentec Co., Ltd. was accounted for using the equity method of accounting despite its ownership percentage is under 20%. In addition, the closing price of Koentec Co., Ltd. on the KOSDAQ. was ₩ 1,080 per share at December 31, 2008.

(*6) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, investment in these securities are accounted for using the equity method of accounting. In addition, the closing common stock price of Hyundai Merchant Marine Co., Ltd. on the stock market of the Republic of Korea was ₩ 37,100 per share at December 31, 2008. Its preferred stock has no market price because it is unlisted.

Hyundai Heavy Industries Co., Ltd.
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8 Equity Method Accounted Investments, Continued

- (c) Under the equity method of accounting, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences for the year ended December 31, 2008 were as follows:

In thousands of Won

<u>Company</u>	<u>Balance at January 1, 2008</u>	<u>Increase (Decrease)</u>	<u>Amortization</u>	<u>Balance at December 31, 2008</u>
Hyundai Vinashin Shipyard	₩ (99,085)	-	99,085	-
Koentec Co., Ltd.	1,382,971	-	(691,485)	691,486
Hyundai Merchant Marine Co., Ltd.(common stock)	52,673,525	-	(16,207,239)	36,466,286
Qinhuangdao Shouqin Metal Materials Co., Ltd.	11,367,799	-	(2,843,062)	8,524,737
	₩ 65,325,210	-	(19,642,701)	45,682,509

- (d) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2008 were as follows:

In thousands of Won

<u>Company</u>	<u>Balance at January 1, 2008</u>	<u>Net income (loss)</u>	<u>Accumulated other comprehen-sive income</u>	<u>Other increase (decrease)</u>	<u>Balance at December 31, 2008</u>
Hyundai Oilbank	₩ 329,826,033	(58,699,470)	18,634,007	-	289,760,570
Hyundai Finance Corp.	88,223,005	(21,164)	1,978,438	(1,235,000)	88,945,279
Hyundai Samho Heavy Industries Co., Ltd.	1,043,149,379	594,375,706	(521,185,107)	(75,934,000)	1,040,405,978
Changzhou Hyundai Construction Machinery Co., Ltd.	23,323,703	-	-	(23,323,703)	-
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	13,612,598	-	-	(13,612,598)	-
MOST #3 Venture Investment	125,485	-	-	(125,485)	-
Incheon Airport Energy(*2)	3,847,377	(3,847,377)	-	-	-
Hyundai Jiangsu Construction Machinery Co., Ltd.	40,106,509	-	-	(40,106,509)	-
Hyundai Heavy Industries Co. Bulgaria	22,730,051	6,606,628	8,782,414	-	38,119,093
New Korea Country Club	3,272,781	440,454	-	(100,000)	3,613,235

Hyundai Heavy Industries Co., Ltd.
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In thousands of Won

Company	Balance at January 1, 2008	Net income (loss)	Accumulated other comprehen-sive income	Other increase (decrease)	Balance at December 31, 2008
Hyundai Dongahn Steel (*3)	1,314,369	(1,534,453)	220,084	-	-
Hyundai Heavy Industries Europe N.V.	23,312,570	(24,637,991)	10,209,543	-	8,884,122
Hyundai Vinashin Shipyard	7,806,651	4,499,454	3,417,479	(741,350)	14,982,234
Yantai Hyundai Moon Heavy Industries Co., Ltd.	6,920,669	-	-	(6,920,669)	-
Hyundai Heavy Industry (China) Electric Co., Ltd.	13,739,102	-	-	(13,739,102)	-
H.C.E U.S.A.	6,634,931	(6,883,517)	4,419,099	-	4,170,513
Vladivostok Business Center (*1)	-	-	-	-	-
Koentec Co., Ltd.	5,318,298	(498,939)	(3,535)	(94,800)	4,721,024
HHI China Investment Co., Ltd.	27,508,118	25,345,990	67,461,678	125,960,767	246,276,553
Hyundai Merchant Marine Co., Ltd. (Common stock)	357,350,650	102,669,927	33,380,838	(11,712,018)	481,689,397
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,303,455	2,110,013	-	(2,110,013)	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd	92,647,265	31,413,281	40,600,531	-	164,661,077
Hyundai Ideal Electric Co.	11,378,786	2,397,083	4,168,060	-	17,943,929
Hyundai Financial Leasing Co., Ltd.	2,020,867	803,706	6,736,104	14,492,557	24,053,234
Hyundai Construction Equipment India Private Ltd.	20,287,075	(10,138,027)	3,477,053	20,797,000	34,423,101
Wartsila Hyundai Engine Company Ltd.	21,970,306	(775,955)	-	11,700,000	32,894,351
Ulsan Hyundai Football Club. Ltd.	-	(8,818,495)	-	10,000,000	1,181,505
HYMS	-	(33,406,151)	-	148,000,000	114,593,849
KAM Corp.	-	831,873	-	41,650,000	42,481,873
Grand China Hyundai Shipping Company Ltd.	-	3,453	241,385	1,016,600	1,261,438
Komas Corp.	-	(2,312,570)	-	3,772,070	1,459,500
₩	2,222,730,033	619,923,459	(317,461,929)	187,633,747	2,712,825,310

Hyundai Heavy Industries Co., Ltd.
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- (*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 ₩ 93,079 million including ₩ 10,322 million increased for the year ended December 31, 2008, and allowance amounting to ₩ 79,156 million was provided for accounts receivables-other for Vladivostok Business Center.
- (*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩ 3,598 million for the year ended December 31, 2008.
- (*3) 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 ₩ 90 million for the year ended December 31, 2008.
- (e) Gain or loss on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions. For the years ended December 31, 2008 and 2007, unrealized gain eliminated under the equity of accounting method of accounting are ₩ 119,093,738 thousand and ₩ 40,499,079 thousand, respectively.
- (f) Equity securities accounted for using the equity method as of December 31, 2008 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. Those net asset values from using the provisional settlement were as follows:

In thousands of Won

<u>Company</u>	<u>Net asset value before adjustments</u>	<u>Adjustments</u>	<u>Net asset value after adjustments</u>
Hyundai Oilbank	₩ 289,760,570	-	289,760,570
Hyundai Finance Corp.	88,945,279	-	88,945,279
Hyundai Samho Heavy Industries Co., Ltd.(*1)	1,362,291,641	(311,111,503)	1,051,180,138
Incheon Airport Energy	-	-	-
Hyundai Heavy Industries Co. BULGARIA	38,172,499	-	38,172,499
New Korea Country Club	3,613,235	-	3,613,235
Hyundai Dongahn Steel	-	-	-
Hyundai Heavy Industries Europe N.V.	42,550,739	-	42,550,739
Hyundai Vinashin Shipyard	14,982,234	-	14,982,234
H.C.E U.S.A.	17,002,524	-	17,002,524
Vladivostok Business Center	-	-	-
Koentec Co., Ltd.	4,029,538	-	4,029,538
HHI China Investment Co., Ltd.(*1)	274,055,536	(7,599,321)	266,456,215
Hyundai Merchant Marine Co., Ltd. (Common stock)	445,223,111	-	445,223,111
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,303,455	-	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd.	156,136,341	-	156,136,341
Hyundai Ideal Electric Co.	17,943,929	-	17,943,929
Hyundai Financial Leasing Co., Ltd.	24,053,234	-	24,053,234
Hyundai Construction Equipment India Private Ltd.	39,104,008	-	39,104,008
Wartsila Hyundai Engine Company Ltd.	32,894,351	-	32,894,351
Ulsan Hyndai Football Club. Ltd.	1,181,505	-	1,181,505

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

December 31, 2008

In thousands of Won

Company	Net asset value before adjustments	Adjustments	Net asset value after adjustments
HYMS	149,194,656	-	149,194,656
KAM Corp.	42,481,873	-	42,481,873
Grand China Hyundai Shipping Company Ltd.	1,261,438	-	1,261,438
Komas Corp.	3,765,667	-	3,765,667
₩	<u>3,104,947,363</u>	<u>(318,710,824)</u>	<u>2,786,236,539</u>

(*1) The Company adjusted the material difference of accounting principle for similar transactions and accounting events between the Company and investees.

- (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)
Hyundai Finance Corp.	142,857	11,060	6,171	(2,729)
Hyundai Samho Heavy Industries Co., Ltd.	7,427,241	5,992,003	3,750,648	632,545
Incheon Airport Energy	157,231	168,839	80,381	(23,976)
Hyundai Heavy Industries Co. BULGARIA	57,488	18,964	62,711	7,421
New Korea Country Club	23,897	5,831	12,840	2,420
Hyundai Dongahn Steel	16,032	16,195	17,710	(2,952)
Hyundai Heavy Industries Europe N.V.	181,449	138,898	355,816	(5,246)
Hyundai Vinashin Shipyard	377,488	227,666	205,498	44,198
H.C.E U.S.A.	88,002	70,999	135,008	(683)
Vladivostok Business Center	25,912	188,809	13,043	(827)
Koentec Co., Ltd.	66,725	13,593	24,227	2,326
HHI China Investment Co., Ltd.	311,052	36,996	12,618	28,325
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 Ideal Electric Co.	45,688	27,745	57,590	2,879
Hyundai Financial Leasing Co., Ltd.	138,485	98,419	7,179	1,339
Hyundai Construction Equipment India Private Ltd.	79,493	40,389	6,314	(5,457)
Wartsila Hyundai Engine Company Ltd.	155,853	90,064	31,914	(1,717)
Ulsan Hyndai Football Club.Ltd.	1,678	496	2,463	(8,818)
HYMS	253,207	104,013	83,203	1,195
KAM Corp.	92,229	5,531	-	1,709
Grand China Hyundai Shipping Company Ltd.	2,549	26	-	7
Komas Corp.	3,776	11	129	(6)

9. Property, Plant and Equipment

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

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

December 31, 2008

<i>In thousands of Won</i>		2008	2007
Buildings and structures	₩	3,049,528,786	2,572,752,181
Machinery and equipment		2,404,550,660	2,169,947,389
Ships		208,674,068	186,009,863
Vehicles		33,420,855	30,439,712
Tools, furniture and fixtures		1,111,073,115	975,914,777
		<u>6,807,247,484</u>	<u>5,935,063,922</u>
Less: accumulated depreciation		<u>(3,194,142,671)</u>	<u>(2,944,344,006)</u>
		<u>3,613,104,813</u>	<u>2,990,719,916</u>
Land		1,592,414,576	1,550,415,149
Less: government subsidy		<u>(5,455,000)</u>	<u>-</u>
		<u>1,586,959,576</u>	<u>1,550,415,149</u>
Construction-in-progress		989,889,374	427,650,290
	₩	<u><u>6,189,953,763</u></u>	<u><u>4,968,785,355</u></u>

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

December 31, 2008

9. Property, Plant and Equipment, Continued

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

In thousands of Won

		2008				
				Machinery and equipment	Other	Total
	Land	Buildings	Structures			
Beginning of period	₩ 1,550,415,149	1,769,948,921	802,803,260	2,169,947,389	1,620,014,642	7,913,129,361
Acquisition and other	126,424,000	434,394,979	128,142,829	319,250,723	788,675,142	1,796,887,673
Disposal	(84,424,573)	(72,336,515)	(13,424,688)	(84,647,452)	(65,632,372)	(320,465,600)
End of period	1,592,414,576	2,132,007,385	917,521,401	2,404,550,660	2,343,057,412	9,389,551,434
Government subsidy(*1)	(5,455,000)	-	-	-	-	(5,455,000)
Depreciation	-	(50,334,387)	(20,842,084)	(159,234,377)	(116,917,115)	(347,327,963)
Accumulated depreciation	-	(396,796,079)	(180,731,330)	(1,682,561,906)	(934,053,356)	(3,194,142,671)

(*1) The Company established Gun-san shipbuilding yard with the government subsidy received for the amount of ₩ 5,455,000 thousand and accounted for the establishment as a deduction from the land of Gun-san shipbuilding yard.

(c) The changes in property, plant and equipment for the year ended December 31, 2007 were as follows:

In thousands of Won

		2007				
				Machinery and equipment	Other	Total
	Land	Buildings	Structures			
Beginning of period	₩ 1,365,024,824	1,720,045,695	732,649,010	2,093,584,301	1,249,333,286	7,160,637,116
Acquisition and other	193,045,712	84,983,518	70,643,937	138,858,689	423,321,289	910,853,145
Disposal	(7,655,387)	(35,080,292)	(489,687)	(62,495,601)	(52,639,933)	(158,360,900)
End of period	1,550,415,149	1,769,948,921	802,803,260	2,169,947,389	1,620,014,642	7,913,129,361
Depreciation	-	(43,842,312)	(18,753,331)	(186,520,439)	(102,602,214)	(351,718,296)
Accumulated depreciation	-	(360,856,814)	(161,350,202)	(1,559,756,993)	(862,379,997)	(2,944,344,006)

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩ 2,726,878 million as of December 31, 2008. The Company maintains insurance coverage against fire and other casualty losses of up to ₩ 6,945,491 million for ships and sea structures under construction and the insurance proceed of ₩ 1,404,530 million is pledged as collateral for loans from Export-Import Bank of Korea as of December 31, 2008.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩ 1,324,571 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.

Construction in progress is block assembling factories and H-Dock construction for the year ended December 31, 2008.

As of December 31, 2008 and 2007, the value of land owned by the Company is ₩ 1,458,969 million and ₩ 1,364,161 million, respectively, as announced by the Korean government.

Hyundai Heavy Industries Co., Ltd.
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10. Intangible Assets

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

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Development costs	₩	242,161,165	213,873,947
Usage right for donated properties		20,135,131	22,174,415
	₩	<u>262,296,296</u>	<u>236,048,362</u>

(b) Details of changes in Intangible assets for the years ended December 31, 2008 and 2007 are summarized as follows:

		<u>Development Cost</u>		<u>Usage right for donated properties</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Beginning balance	₩	213,873,947	197,304,243	22,174,415	24,213,698
Capitalized		69,711,128	54,750,934	-	-
Amortization		(41,423,910)	(38,181,230)	(2,039,284)	(2,039,283)
Ending balance	₩	<u>242,161,165</u>	<u>213,873,947</u>	<u>20,135,131</u>	<u>22,174,415</u>

Research costs amounting to ₩ 17,857 million and ₩ 17,530 million, and ordinary development costs amounting to ₩ 79,443 million and ₩ 75,060 million are included in selling and administrative expenses for the years ended December 31, 2008 and 2007, respectively. The amortized development costs of ₩ 41,424 million and ₩ 38,181 million are included in the cost of sales and selling and administration expenses for the years ended December 31, 2008 and 2007, respectively.

11 Other Non-current Assets

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

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Guarantee deposits	₩	6,519,197	5,354,714
Other non-current assets		82,046,020	46,980,144
	₩	<u>88,565,217</u>	<u>52,334,858</u>

12 Other Current Liabilities

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

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Withholdings of income taxes	₩	129,518,237	99,603,636
Unearned revenues		19,276	18,206,896
Provision for construction losses		104,228,901	39,070,771
	₩	<u>233,766,414</u>	<u>156,881,303</u>

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

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13 Debentures and Long-term Borrowings

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

In thousands of Won

	<u>Maturity</u>	<u>Annual interest rate</u>		<u>2008</u>	<u>2007</u>
111st Non-guaranteed debenture	2008.09.22	6M L+0.475	₩	-	187,640,000
Current portion				-	(187,640,000)
			₩	-	187,640,000

(b) Foreign currency loans as of December 31, 2008 and 2007 are as follows:

In thousands of Won

	<u>Interest rate as of December 31, 2008 (%)</u>		<u>2008</u>			<u>2007</u>	
			<u>Foreign currency</u>	<u>Won equivalent</u>		<u>Foreign currency</u>	<u>Won equivalent</u>
Business loans from Korea National Oil Corporation	2.00	USD	2,929,258	₩ 3,314,633	USD	1,742,806	₩ 1,625,627
			2,929,258	3,314,633		1,742,806	1,625,627
Current portion			-	-		-	-
		USD	2,929,258	₩ 3,314,633	USD	1,742,806	₩ 1,625,627

(c) The maturities of long-term debt as of December 31, 2008 are not readily determinable since the long-term debt is paid by installment in case of success on oil development business.

14 Retirement and Severance Benefits:

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

In thousands of Won

		<u>2008</u>	<u>2007</u>
Beginning balance	₩	1,190,834,067	1,135,188,486
Retirement and severance payment		(169,062,230)	(143,195,698)
Provisions		230,151,603	198,841,279
		1,251,923,440	1,190,834,067
Less: Retirement and severance insurance		(1,080,063,958)	(1,042,794,852)
National pension		(32,841,150)	(37,173,633)
Ending balance	₩	139,018,332	110,865,582

Accrued retirement and severance benefits are funded approximately 86.3% and 87.6% 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 severance benefits.

15 Other Long-term Liabilities

Hyundai Heavy Industries Co., Ltd.
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Other long-term liabilities as of December 31, 2008 and 2007 are summarized as follows:

<i>In thousands of Won</i>		<u>2008</u>	<u>2007</u>
Deposits received	₩	12,467,827	13,652,846
Provision for construction warranties		22,343,521	23,720,007
Provision for product warranties		44,008,707	36,083,001
	₩	<u>78,820,055</u>	<u>73,455,854</u>

16 Commitments and Contingencies

- (a) The Company has entered into bank overdraft agreements with 8 banks amounting to ₩ 188,100 million as of December 31, 2008.
- (b) As of December 31, 2008, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports such as letter of credit including Usance L/C, totaling USD 2,188,740 thousand.
- (c) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 13 blank checks and notes as of December 31, 2008.
- (d) 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.
- (e) 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 for the bareboat charter 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 Hyundai Samho Heavy Industries Co., Ltd. ("HSHI"), one of the Company's subsidiaries, for the construction of 18 ships (Contract amount: USD 2,296,223 thousand).
- (f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩ 2,461,727 million and USD 15,040,327 thousand by various banking facilities.
- (g) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales amounts and the payment of imported raw-materials, the Company has entered into currency forward contracts with 22 banks including Korea Exchange Bank. As of December 31, 2008, the valuation and gain (loss) on transaction of the forward contracts are as follows:

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16 Commitments and Contingencies, Continued

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

	Description					
	Cash flow hedge		Fair value hedge		For trading	Total
Contract amount	USD	1,829,901	USD	19,440,002	USD 243,265	USD 21,513,168
	EUR	223,425		-	EUR 367	EUR 223,792
	JPY	464,090		-	-	JPY 464,090
Adjustment to sales	₩	(182,836)		(1,374,879)	- ₩	(1,557,715)
Non - operating income (expense)		25,413		(155,356)	(89,704)	(219,647)
Other comprehensive income		(418,674)		-	-	(418,674)
Firm commitment – asset		-		4,559,055	-	4,559,055
Firm commitment – liability		-		38,771	-	38,771
Derivatives – asset						107,241
Derivatives – liability						5,616,143

According to Financial Supervisory Service's practical opinion 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 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)	₩ -	1,782,772
Firm commitment asset (non-current)	-	2,776,283
Firm commitment liability (current)	-	22,735
Firm commitment liability (non-current)	-	16,036
Other comprehensive income	₩ (3,804,582)	(317,481)

As of December 31, 2008, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩ (-)317,481 million (net of deferred income tax adjustment of ₩ (-)101,193 million) as gain on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure on cash flow risk, where cash flow hedge 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 ₩ (-)412,929 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current income.

16 Commitments and Contingencies, Continued

Hyundai Heavy Industries Co., Ltd.
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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 ₩ 4,520,284 million and related gain and loss on valuation of the firm commitments were recorded as ₩ 1,616,949 million and ₩ 39,134 million, respectively, in non-operating income and expenses.

Gain and loss on derivatives transactions that are matured within current year are recorded as ₩ 59,704 million and ₩ 583,912 million, respectively in non-operating income and expense. Gain and loss on valuation of derivatives are recorded as ₩ 96,423 million and ₩ 1,369,676 million, respectively in non-operating income and expense.

In relation to valuation of derivatives that are not reached to maturity dates, the Company accounted for derivative assets of ₩ 107,241 million and derivative liabilities of ₩ 5,616,143 million.

Besides the above financial derivative, 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.

17 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 disaster, 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 USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 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.

Hyundai Heavy Industries Co., Ltd.
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December 31, 2008

17 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 Oilbank, breached the Contract between Shareholders entered into with the former shareholders of the Hyundai Group, including Hyundai Heavy Industries and notified IPIC to exercise IPIC's Deemed Offer (stock purchase option) against its shares of Hyundai Oilbank 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.

18 Capital Surplus

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

In thousands of Won

	<u>2008</u>	<u>2007</u>
Paid-in capital in excess of par value	₩ 843,324,390	843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	65,334,216	65,334,216
Capital surplus on valuation of equity method investments	47,207,001	42,309,668
	<u>₩ 2,818,590,688</u>	<u>2,813,693,355</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.

19 Retained Earnings

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

In thousands of Won

		<u>2008</u>	<u>2007</u>
Appropriated:			
Legal reserve (A & C)	₩	211,543,400	164,883,307
Reserve for corporate development (C)		30,000,000	30,000,000
Reserve for research and human development (B)		230,000,000	247,690,637
Reserve for facilities (B)		78,270,000	78,270,000
Other voluntary reserves (D)		1,850,645,368	610,155,408
Unappropriated retained earnings		2,256,664,849	1,736,060,340
	₩	<u>4,657,123,617</u>	<u>2,867,059,692</u>

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

20 Capital Adjustments

(a) Treasury Stock

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

		<u>2008</u>	<u>2007</u>
Treasury stock	₩	(1,529,441,294)	(696,729,512)

The Company has been operating special money in trust for treasury stock amounting to ₩ 705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed 11,631,580 shares of treasury stock 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.

Hyundai Heavy Industries Co., Ltd.
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20 Capital Adjustments, Continued

(b) Other Capital Adjustments

As of December 31, 2008 and 2007, other capital adjustments are as follows:

<i>In thousands of Won</i>		2008	2007
Treasury stock owned by subsidiaries	₩	(103,565,209)	(92,330,720)
Capital adjustments on valuation of equity method		(129,033,528)	(22,241,799)
	₩	<u>(232,598,737)</u>	<u>(114,572,519)</u>

21 Dividends

(a) Proposed dividends for 2008 and 2007 are summarized as follows.

In thousands of Won except par value

<u>Year</u>	<u>Description</u>	<u>Number of shares (*)</u>	<u>Par value</u>	<u>Dividend Rate</u>	<u>Cash dividend</u>	<u>Net income</u>	<u>Dividend to net income</u>
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:

<u>Year</u>	<u>Description</u>	<u>Dividend per share</u>	<u>Closing price</u>	<u>Yield to market price</u>
2008	Common stock	₩5,500	₩ 199,500	2.5%
2007	Common stock	₩7,500	₩ 442,500	1.7%

22 Sales and Cost of Sales

(a) Sales and cost of sales, by major industry segment, for the years December 31, 2008 and 2007 are as follows:

<i>In thousands of Won</i>		2008		2007	
		<u>Sales</u>	<u>Cost of sales</u>	<u>Sales</u>	<u>Cost of sales</u>
Shipbuilding	₩	9,084,857,132	7,871,919,368	7,556,662,571	6,395,626,876
Offshore & Engineering		3,095,131,826	2,732,624,725	2,222,062,607	1,944,753,420
Industrial Plant & Engineering		1,374,441,667	1,317,494,596	1,016,617,875	941,797,376
Engine & Machinery		2,522,059,761	1,828,995,030	1,645,739,658	1,238,318,869
Electro Electric Systems		1,924,488,853	1,455,189,735	1,453,389,981	1,139,078,373
Construction Equipment		1,768,563,318	1,429,287,892	1,512,048,621	1,192,836,163
Others		187,538,323	176,477,670	126,491,994	123,707,477
	₩	<u>19,957,080,880</u>	<u>16,811,989,016</u>	<u>15,533,013,307</u>	<u>12,976,118,554</u>

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22 Sales and Cost of Sales, Continued

(b) The Company's outstanding contracts as of December 31, 2008 are summarized as follows:

In millions of Won

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

As of December 31, 2008, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 16).

(c) As of December 31, 2008, accumulated cost of construction and others connected with construction in progress by major industry segment 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 by delivery basis. For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩ 104,229 million.

23 Income Taxes

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

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

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

23 Income Taxes, Continued

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

In thousands of Won

		2008	2007
Current income tax	₩	716,805,582	567,550,538
Changes in deferred income taxes due to temporary differences		(284,351,124)	62,405,721
Changes in deferred income taxes directly adjusted in equity		260,512,903	28,369,275
Income tax expense		692,967,361	658,325,534
Income before income tax		2,949,632,206	2,394,385,865
Effective income tax rate	₩	23.50%	27.50%

(c) For the years ended December 31, 2008 and 2007, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

In thousands of Won

		2008	2007
Income before income tax	₩	2,949,632,206	2,394,385,865
Temporary differences		(265,789,847)	(372,702,227)
Non-temporary differences		2,095,326	28,276,727
Taxable income	₩	2,685,937,685	2,049,960,365

(d) 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 thousands of Won

Description		2008		2007	
		Balance at January 1, 2008	Balance at December 31, 2008	Balance at January 1, 2007	Balance at December 31, 2008
Investment securities accounted for using the equity method (*1)	₩	(815,831,141)	(788,296,615)	(334,964,461)	(815,831,141)
Loss on valuation of investment securities		74,558,133	74,558,133	70,374,032	74,558,133
Reserve for technology development		(230,000,000)	(223,333,333)	(247,690,636)	(230,000,000)
Allowance for doubtful accounts (*1)		146,465,573	158,039,183	187,042,333	146,465,573
Accrued income		(28,499,206)	(56,690,429)	(2,824,172)	(28,499,206)
Loss on valuation of receivables		859,903	859,903	859,903	859,903
Loss on valuation of short-term investment securities and others		-	-	121,273	-
Currency forward contracts		37,679,354	710,042,273	(458,399,783)	37,679,354
Other		67,906,967	395,956,287	265,550,983	67,906,967
		(746,860,417)	271,135,402	(519,930,528)	(746,860,417)
Tax rate			27.5%		27.5%
Cumulative tax effects			74,562,236		(205,386,615)
Effects of income tax rate change			4,402,273		-
Deferred income tax assets, end of period			78,964,509		(205,386,615)
Deferred income tax assets, beginning of period			(205,386,615)		(142,980,894)
Changes in deferred income taxes	₩		284,351,124		(62,405,721)

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In thousands of Won

Description	2008		2007	
	Balance at January 1, 2008	Balance at December 31, 2008	Balance at January 1, 2007	Balance at December 31, 2008
on temporary differences				

(*1) The temporary difference amounting to ₩ (-)164,034 million, which were not recognized as deferred income tax asset is included.

(e) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of December 31, 2008 are as follows:

In thousands of Won

		Tax effects
Capital surplus on valuation of equity method investments	₩	2,733,699
Capital adjustments on valuation of equity method investments		28,578,061
Gain(loss) on valuation of short-term and long-term investment securities		80,676,187
Changes in equity arising on application of the equity method		24,009,174
Negative changes in equity arising on application of the equity method		25,873,392
Loss on valuation of foreign exchange forward contract		98,642,390

(f) Deferred income tax assets (liabilities) as of December 31, 2008 are as follows:

In thousands of Won

		Current	Non-current	Total
Accumulated of temporary difference	₩	877,941,835	(606,806,433)	271,135,402
Tax rate		24.2%	22.0%	22.0%(24.2%)
Tax effects		212,461,924	(133,497,415)	78,964,509
Deferred income tax assets (liabilities)	₩	212,461,924	(133,497,415)	78,964,509

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24 Statements of Comprehensive Income

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

In thousands of Won

		<u>2008</u>	<u>2007</u>
Net income	₩	2,256,664,845	1,736,060,330
Other comprehensive income		(696,712,783)	(111,750,230)
Gain (loss) on valuation of short-term and long-term investment securities, net of tax effects of ₩ 80,676,187 in 2008, ₩ (-)23,966,678 in 2007		(262,816,255)	63,184,877
Changes in equity arising on application of the equity method, net of tax effects of ₩ 24,009,174 in 2008, ₩ (-)8,564,757 in 2007		(20,318,477)	102,123,889
Negative changes in equity arising on application of the equity method, net of tax effects of ₩ 25,873,392 in 2008, ₩ 4,724,634 in 2007		(102,820,239)	(9,801,583)
Gain (loss) on valuation of financial derivatives, net of tax effects of ₩ 98,642,390 in 2008, ₩ 101,373,498 in 2007		(310,757,812)	(267,257,413)
Comprehensive income	₩	<u>1,559,952,062</u>	<u>1,624,310,100</u>

25 Earnings Per Share

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

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

		<u>2008</u>	<u>2007</u>
Net income (In thousands of Won)	₩	2,256,664,845	1,736,060,331
Weighted average number of outstanding common shares (In thousands of share)		60,435	62,498
Income per share (In Won)	₩	<u>37,340</u>	<u>27,778</u>

26 Changes in accounting policy

(a) Equity method accounted investment in subsidiaries

The Company put retained earning and capital adjustment from equity method into additional paid-in-capital in conformity with scheme of the Company's consolidated financial statements, because SKAS No. 15 announced was revised the amendment that the amount of net income and net asset of the controlling entity should be identical to the proportional amount of those from the consolidated financial statements in applying equity method of accounting to subsidiaries.

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26 Changes in accounting policy, Continued

(b) Recognition of deferred income tax regarding internally unrealized gain (loss)

The Company adopted the Implementations on SKAS 06-2, 'Accounting appliances on recognizing deferred income tax regarding investment assets on shares from subsidiary, investment on equity method or joint venture'. As allowed by this standard, the Company recognized the deferred income tax liabilities and income tax amounted to 25,648 million, in conformity with the consolidated financial statements.

(c) These changes of accounting policies are included in the restatement of Company's financial statements retrospectively, and related monetary effects are as follows:

In thousands of Won

January 1, 2008		Before	After
Equity method accounted investments	₩	2,248,120,981	2,222,730,033
Deferred income tax liabilities		257,968,531	276,376,968
Capital surplus on valuation of equity method accounted investments		-	42,309,668
Equity method treasury stock		-	(92,330,720)
Capital adjustment on valuation of equity method accounted investments		-	(22,241,798)
Changes in equity arising on application of the equity method of accounting		141,649,351	169,090,934
Negative changes in equity arising on application of the equity method of accounting		(33,175,068)	(32,153,186)

27 Transactions and Balances with Related Companies

(a) The Company is the ultimate holding company and its subsidiaries as of December 31, 2008 are as follows:

Controlled subsidiary	Particulars
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and brokerage of futures transaction
HVIC IT Fund 3 rd	Other financial intermediation
Hyundai Investment Fund 1 on patent Technology	Other financial intermediation
Mipo engineering co., Ltd.	Other engineering service
Changzhou Hyundai Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Dongahn Steel Tower Manufacturing Co., Ltd.	Manufacture of structural metal products
H.C.E U.S.A	Sale of machinery equipment for construction
Hyundai Heavy Industry Co., Bulgaria	Sale and manufacture of transformers
Vladivostok Business Center	Hotels
Hyundai Vinashin Shipyard	Repairing of ships
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Hyundai Heavy Industry (China) Electric Co., Ltd.	Sale and manufacture of switch board for electric distribution

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Controlled subsidiary	Particulars
Hyundai Jiangsu Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
HHI China Investment Co., Ltd.	Holding company
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Sale and manufacture of hydraulic cylinder for construction equipment
Hyundai Technologies Center Hungary Kft	Research and development on technology
Hyundai (Malaysia) SDN BHD	Trading
Hyundai S/V Indonesia	Maintenance and repair services of transformers
HHI Mauritius	Manufacturing
PHECO Inc.	Design services for offshore facilities
Hyundai-Enova Innovative Technical Center Inc.	Research and experimental development on technology
Hyundai Heavy Industries France SAS	Manufacturing
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
Taishan Financial Leasing Co., Ltd.	Financial lease and operating lease
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for construction
Ulsan Hyndai Football Club.Ltd.	Football Club
HYMS	Sale and manufacture of machinery equipment for shipbuilding
Komas Corp.	Shipbuilding
HI Investment & Securities Co., Ltd	Securities brokerage
HI Management Co., Ltd	Asset management

- (b) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai Group for the year ended and as of December 31, 2008 are as follows:

In thousands of Won

Related Party		Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩	527,039,483	27,170,142	307,912,636	34,128,636
Hyundai Mipo Dockyard Co., Ltd.		404,902,668	10,023,019	142,562,203	1,929,002
Hyundai Oilbank		1,322,451	137,747,129	4,216	7,805,577
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		57,483,825	2,153,759	10,974,295	373,395
Hyundai Heavy Industries Europe N.V.		329,088,833	2,504,526	67,854,996	1,543,288
H.C.E U.S.A.		122,949,444	2,633,331	19,809,319	867,160
Hyundai Jiangsu Construction Machinery Co., Ltd.		144,244,654	11,049,011	19,524,887	862,611
Yantai Hyundai Moon Heavy Industries Co., Ltd.		463,572	14,289,478	20,998	-
Hyundai Jiangsu Construction Machinery Co., Ltd.		10,228,138	17,239,081	9,604,580	617,612
HYMS		12,850,061	80,815,171	4,583,809	32,188,186
	₩	1,610,573,129	305,624,647	582,851,939	80,315,467

27 Transactions and Balances with Related Companies, Continued

- (c) The Company has entered into rental agreements (deposits received of ₩ 148 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of December 31, 2008. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction

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

December 31, 2008

contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 16).

(d) The Company has fully provided an allowance for receivable from Vladivostok Business Center amounting to ₩ 79,156 million as of December 31, 2008.

(e) The compensation for the key management of the Company for the year ended December 31, 2008 is as follows:

In thousands of Won

		2008
The compensation for the key management	₩	2,789,679

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

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 thousands of Won and in thousands of foreign currency)

Account	Currency	Foreign currencies (In thousands)		Korean won (In thousands)	
		2008	2007	2008	2007
Assets:					
Cash and cash equivalents	USD	84,777	102,404	₩ 106,606,752	96,075,225
	EUR	1,568	243	2,785,069	335,485
	Others	-	-	23,354,869	38,331,487
Trade accounts and notes receivable	USD	2,695,452	1,971,617	3,389,531,038	1,849,771,383
	EUR	104,122	155,043	184,942,816	214,154,216
	Others	-	-	52,977,506	42,287,627
Accounts receivable-other	USD	65,852	71,016	82,808,521	66,626,817
	EUR	1,766	371	3,136,317	512,935
	Others	-	-	118,799	15,272,851
Long-term trade accounts and notes receivable	USD	66,164	102,921	83,200,909	96,560,853
Long-term financial instruments & others	USD	7,965	7,542	10,016,181	7,076,331
	EUR	3,079	13	5,469,733	17,680
	Others	-	-	2,539,770	1,309,631
				₩ 3,947,488,280	2,428,332,521

Liabilities:

Trade accounts and notes payable	USD	332,382	217,852	₩ 417,970,851	204,388,331
	EUR	41,649	26,985	73,977,828	37,273,968
	Others	-	-	47,487,173	24,251,064
Current maturities of long-term	USD		200,000	-	187,640,000

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

December 31, 2008

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

Account	Currency	Foreign currencies (In thousands)		Korean won (In thousands)	
		2008	2007	2008	2007
borrowings		-			
Long-term borrowings	USD	2,929	1,743	3,314,633	1,625,627
Accounts payable-other and other liabilities	USD	247,260	227,716	310,929,310	213,642,721
	EUR	10,850	10,436	19,272,376	14,414,274
	Others	-	-	27,761,676	11,451,174
			₩	900,713,847	694,687,159

29 Segment Information

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

(a) As of and for the year ended December 31, 2008

In thousands of Won

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 9,084,857,132	3,095,131,826	1,374,441,667	2,522,059,761	1,924,488,853	1,768,563,318	187,538,324
Operating income (loss)	1,066,721,745	289,031,494	17,087,508	613,559,947	359,682,154	113,373,636	(253,283,549)
Tangible & intangible assets	2,080,340,057	579,487,564	36,788,853	777,695,653	385,703,693	179,427,270	2,412,806,969
Depreciation	(130,200,547)	(47,668,281)	(5,163,066)	(65,130,747)	(30,274,234)	(17,160,360)	(51,730,728)

(b) As of and for the year ended December 31, 2007

In thousands of Won

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

30 Selling, General and Administrative Expenses

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

In thousands of Won

2008	2007
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Hyundai Heavy Industries Co., Ltd.
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In thousands of Won

		2008	2007
Wages	₩	269,166,844	254,595,885
Accrual for severance benefits		30,127,495	26,919,167
Employee welfare		67,958,772	69,392,575
Advertisement		37,636,684	21,847,528
Ordinary development expenses		79,443,398	75,059,849
Accrual for allowance for doubtful accounts		35,565,244	12,877,187
Depreciation		32,276,786	26,432,935
Service charges		75,339,184	54,071,315
Transportation		100,266,504	66,384,117
Sales commission		39,665,555	39,554,181
After-service expenses		42,734,638	40,084,111
Others		128,737,826	118,978,367
	₩	938,918,930	806,197,217

31 Financial Performance in the last interim period

The financial performance for the three months ended December 31, 2008 and 2007 (Unaudited) is summarized as follows:

(In thousands, except for share amounts)

		2008	2007
Sales	₩	6,050,872,596	4,252,304,003
Net income		867,323,996	512,884,688
Net income per share		14,471	8,244

32 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.) to ensure transparent environmental management system and also to prepare 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.

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

December 31, 2008

32 The Company's Environmental Standards and Policies, Continued

The Company has 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 operates an incinerator that has a capacity to treat waste of 400 tons per day, furnished with advanced equipment to prevent environmental pollution.

33 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 year 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 7 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>
	₩ 36,296	32,710

34 Non-cash investing and Financing Activities

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

In thousands of Won

	<u>2008</u>	<u>2007</u>
Transfer of long-term trade accounts to current assets	₩ 46,222,745	34,486,027
Transfer of long-term investment securities to current assets	-	25,012,099
Transfer of construction-in-progress to plant assets	817,191,986	372,987,616
Transfer of debenture	-	187,640,000
Investment in kind of equity method accounted investments	130,724,418	-
Unrealized gain (loss) on valuation of available-for-sale securities	262,816,255	63,184,877
Capital surplus on valuation of equity method accounted investments	4,897,333	42,309,668
Equity method treasury stock	11,234,489	22,492,574
Capital adjustment on valuation of equity method accounted investments	106,791,729	1,635,954
Changes in equity arising on application of the equity method	20,318,477	102,123,889
Negative changes in equity arising on application of the equity method	102,820,239	9,801,583
Gain (loss) on valuation of financial derivatives	310,757,812	267,257,413

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of
Hyundai Heavy Industries Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries Co., Ltd (the "Company") as of December 31, 2008. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2008 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2008. We did not review the Company's IACS subsequent to December 31, 2008. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

February 26, 2009

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2008 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Internal Auditor (Audit Committee) of
Hyundai Heavy Industries Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2008.

The Company's management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2008, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

Lee Jai-seong, Internal Accounting Control Officer

Min Keh-sik, Chief Executive officer or President

January 29, 2009