

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

**June 30, 2011**

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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# Independent Auditors' Review Report

Based on a report originally issued in Korean

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

## **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of Hyundai Heavy Industries Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of June 30, 2011, the condensed consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2011, the condensed consolidated statements of changes in equity and cash flows for the six-month period ended June 30, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

## **Management's responsibility**

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' review responsibility**

Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our reviews. We did not review the financial statements of three consolidated subsidiaries, including Hyundai Mipo Dockyard Co., Ltd, whose financial statements, reflect total combined assets of ₩18,343,135 million as of June 30, 2011, and total combined revenues of ₩11,010,643 million for the six-month period ended June 30, 2011. Those financial statements were reviewed by other auditors whose reports have been furnished to us and our review report, insofar as it related to the amounts which include these subsidiaries, is based solely on the review reports of the other accountants.

We conducted our reviews in accordance with Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our reviews and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No. 1034 *Interim Financial Reporting*.

## **Highlights**

The following matters may be helpful to the readers in their understanding of the condensed consolidated interim financial statements:

As discussed in note 3, the Group prepared the accompanying condensed consolidated interim financial statements in accordance with accounting policies effective at the reporting date, which it plans to apply for its first annual consolidated as of and for the year ending December 31, 2011. However, the Group may change its accounting policies when preparing its first annual consolidated financial statements, as permitted by K-IFRS.

**Other matters**

The condensed consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2010, and the condensed consolidated statements of changes in equity and cash flows for the six-month period ended June 30, 2010, which are presented for comparative purposes, have not been reviewed.

The accompanying consolidated statement of financial position of the Group as of December 31, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were not audited.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
August 26, 2011

This report is effective as of August 26, 2011, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position  
As of June 30, 2011 and December 31, 2010  
(Unaudited)

<i>(In thousands of won)</i>	<b>Note</b>	<b>2011</b>	<b>2010 (Unreviewed)</b>
<b>Assets</b>			
Cash and cash equivalents	39,40	₩ 2,356,894,996	1,878,801,076
Short-term financial assets	5,6,12,16,24,39,40	2,469,256,109	2,479,840,233
Trade and other receivables	7,16,30,39,40,43	6,231,396,830	5,383,188,830
Due from customers for contract work	7,30,39,40	3,965,909,672	4,830,966,695
Inventories	8,16	6,211,225,856	5,039,417,149
Derivative assets	24,39,40	520,027,282	245,892,231
Firm commitment assets	24	589,926,670	1,011,292,510
Prepaid income taxes	37	17,201,199	59,965,722
Other current assets	9	2,155,422,392	1,839,969,646
<b>Total current assets</b>		<u>24,517,261,006</u>	<u>22,769,334,092</u>
Investments in associates	10	1,005,783,604	1,177,767,036
Long-term financial assets	6,11,12,16,24,39,40	4,376,709,879	3,722,186,931
Long-term trade and other receivables	7,16,30,39,40,43	1,781,634,052	1,330,967,968
Long-term due from customers for contract work	7,30,39,40	239,619,105	251,296,267
Investment property	13	368,760,697	406,135,167
Property, plant and equipment	14,16	15,177,675,185	14,670,403,447
Intangible assets	15,29	2,357,784,248	2,323,492,713
Derivative assets	24,39,40	298,523,702	168,883,507
Firm commitment assets	24	560,695	59,271,754
Deferred tax assets	37	72,750,158	102,536,001
Other non-current assets	9	163,151,272	115,286,066
<b>Total non-current assets</b>		<u>25,842,952,597</u>	<u>24,328,226,857</u>
<b>Total assets</b>		<u>₩ 50,360,213,603</u>	<u>47,097,560,949</u>

See accompanying notes to condensed consolidated interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position, Continued  
As of June 30, 2011 and December 31, 2010  
(Unaudited)

<i>(In thousands of won)</i>	<b>Note</b>	<b>2011</b>	<b>2010 (Unreviewed)</b>
<b>Liabilities</b>			
Short-term financial liabilities	16, 17, 21, 24, 39, 40, 41	8,110,937,154	7,765,088,121
Trade and other payables	18, 39, 40, 43	7,211,679,358	5,901,489,534
Advances from customers		1,241,270,696	1,035,637,563
Due to customers for contract work	30	9,346,765,185	9,525,396,762
Derivative liabilities	24, 39, 40	163,269,038	700,374,426
Firm commitment liabilities	24	458,107,540	193,682,835
Income tax payable	37	645,099,494	1,064,625,147
Other current liabilities	20	14,884,000	122,278,454
<b>Total current liabilities</b>		<u>27,192,012,465</u>	<u>26,308,572,842</u>
Long-term financial liabilities	16, 19, 21, 24, 39, 40, 41	2,756,451,818	2,665,295,279
Long-term trade and other payables	18, 39, 40, 43, 44	299,519,591	244,353,131
Liabilities for defined benefit obligations	22	179,735,610	131,320,517
Long-term provisions	23	233,474,722	203,329,518
Derivative liabilities	24, 39, 40	17,225,453	62,407,040
Firm commitment liabilities	24	292,524,715	165,151,781
Deferred tax liabilities	37	1,333,676,636	1,158,879,097
Other non-current liabilities	20	66,845,869	63,028,732
<b>Total non-current liabilities</b>		<u>5,179,454,414</u>	<u>4,693,765,095</u>
<b>Total liabilities</b>		<u>32,371,466,879</u>	<u>31,002,337,937</u>
<b>Equity</b>			
Common stock	25	380,000,000	380,000,000
Capital surplus	25	1,099,792,874	1,099,792,874
Capital adjustments	26	(1,795,471,015)	(1,796,194,398)
Accumulated other comprehensive income	24, 27	1,570,745,055	1,352,638,795
Retained earnings	28	14,919,574,060	13,358,827,785
<b>Equity attributable to owners of the Company</b>		<u>16,174,640,974</u>	<u>14,395,065,056</u>
<b>Non-controlling interests</b>		<u>1,814,105,750</u>	<u>1,700,157,956</u>
<b>Total equity</b>		<u>17,988,746,724</u>	<u>16,095,223,012</u>
<b>Total liabilities and equity</b>		<u>₩50,360,213,603</u>	<u>47,097,560,949</u>

See accompanying notes to condensed consolidated interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Comprehensive Income  
For the three- and six-month periods ended June 30, 2011 and 2010  
(Unaudited)

(In thousands of won, except earnings per share)

	Note	2011		2010 (Unreviewed)	
		Three-month period	Six-month period	Three-month period	Six-month period
Sales	24,30,31, 39,43	₩ 13,394,682,418	26,095,763,049	7,774,219,002	15,240,947,582
Cost of sales	24,30,33, 39,43	11,771,551,948	22,184,283,572	5,903,393,645	11,643,150,991
<b>Gross profit</b>		1,623,130,470	3,911,479,477	1,870,825,357	3,597,796,591
Selling, general and administrative expenses	32,33,39	592,807,221	1,170,282,977	532,049,363	931,526,835
<b>Operating income</b>	31,34	1,030,323,249	2,741,196,500	1,338,775,994	2,666,269,756
Finance income	24,35,39	887,613,533	1,682,499,051	560,409,781	918,152,313
Finance costs	24,35,39	335,352,167	749,999,612	1,536,151,503	1,419,329,305
Other non-operating income	24,36,39	51,802,775	199,145,030	1,075,218,356	895,818,733
Other non-operating expenses	24,36,39	517,883,878	900,754,594	55,900,240	298,464,924
Share of profit of equity method accounted investees	10	5,661,138	(12,876,444)	38,824,428	70,390,600
<b>Profit before income tax</b>		1,122,164,650	2,959,209,931	1,421,176,816	2,832,837,173
Income tax expense	37	334,676,686	752,893,401	382,809,351	753,065,120
<b>Profit for the period</b>	31	₩ 787,487,964	2,206,316,530	1,038,367,465	2,079,772,053
<b>Other comprehensive income (loss)</b>	27,39	(11,436,837)	180,503,753	96,596,163	(119,790,128)
<b>Total comprehensive income</b>		₩ 776,051,127	2,386,820,283	1,134,963,628	1,959,981,925
<b>Profit attributable to:</b>					
Owners of the Company		710,458,115	1,989,765,355	902,044,734	1,837,085,879
Non-controlling interests		77,029,849	216,551,175	136,322,731	242,686,174
		₩ 787,487,964	2,206,316,530	1,038,367,465	2,079,772,053
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		728,397,638	2,207,871,615	1,013,426,817	1,786,421,525
Non-controlling interests		47,653,489	178,948,668	121,536,811	173,560,400
		₩ 776,051,127	2,386,820,283	1,134,963,628	1,959,981,925
<b>Earnings per share</b>					
Basic and diluted earnings per share (won)	38	₩ 12,865	36,030	16,533	33,672

See accompanying notes to condensed consolidated interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Changes in Equity  
For the six-month periods ended June 30, 2011 and 2010  
(Unaudited)

<i>(In thousands of won)</i>	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non- controlling interests	Total equity
<b>Balance at January 1, 2010</b>	₩ 380,000,000	1,011,707,868	(1,811,125,229)	850,879,676	9,472,900,536	1,144,683,706	11,049,046,557
<b>Total comprehensive income for the period</b>							
Profit for the period	-	-	-	-	1,837,085,879	242,686,174	2,079,772,053
Change in fair value of available-for-sale financial assets	-	-	-	30,802,830	-	(78,086,945)	(47,284,115)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(70,728,810)	-	-	(70,728,810)
Exchange differences on translating foreign operations	-	-	-	18,345,581	-	9,400,114	27,745,695
Change in equity of equity method investments	-	-	-	(29,083,955)	-	(438,943)	(29,522,898)
<b>Transactions with owners of the Company, recognized directly in equity</b>							
Dividends	-	-	-	-	(212,174,207)	-	(212,174,207)
Others	-	-	(67,239,699)	-	-	(2,845,491)	(70,085,190)
<b>Balance at June 30, 2010 (Unreviewed)</b>	₩ <u>380,000,000</u>	<u>1,011,707,868</u>	<u>(1,878,364,928)</u>	<u>800,215,322</u>	<u>11,097,812,208</u>	<u>1,315,398,615</u>	<u>12,726,769,085</u>
<b>Balance at January 1, 2011</b>	₩ 380,000,000	1,099,792,874	(1,796,194,398)	1,352,638,795	13,358,827,785	1,700,157,956	16,095,223,012
<b>Total comprehensive income for the period</b>							
Profit for the period	-	-	-	-	1,989,765,355	216,551,175	2,206,316,530
Change in fair value of available-for-sale financial assets	-	-	-	346,550,062	-	(17,707,550)	328,842,512
Effective portion of changes in fair value of cash flow hedges	-	-	-	(11,914,406)	-	(961,271)	(12,875,677)
Exchange differences on translating foreign operations	-	-	-	(17,254,788)	-	(16,577,758)	(33,832,546)
Change in equity of equity method investments	-	-	-	(99,274,608)	-	(2,355,928)	(101,630,536)
<b>Transactions with owners of the Company, recognized directly in equity</b>							
Dividends	-	-	-	-	(429,019,080)	-	(429,019,080)
Others	-	-	723,383	-	-	(65,000,874)	(64,277,491)
<b>Balance at June 30, 2011</b>	₩ <u>380,000,000</u>	<u>1,099,792,874</u>	<u>(1,795,471,015)</u>	<u>1,570,745,055</u>	<u>14,919,574,060</u>	<u>1,814,105,750</u>	<u>17,988,746,724</u>

*See accompanying notes to condensed consolidated interim financial statements.*



HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows  
For the six-month periods ended June 30, 2011 and 2010  
(Unaudited)

<i>(In thousands of won)</i>	<b>2011</b>	<b>2010 (Unreviewed)</b>
<b>Cash flows from operating activities</b>		
Profit for the period	₩ 2,206,316,530	2,079,772,053
Adjustments for:		
Post-employment benefit costs	103,297,550	96,385,038
Depreciation	383,720,763	288,034,492
Amortization	37,679,893	26,712,824
Bad debt expenses	76,087,714	125,538,261
Compensation expenses associated with stock option	1,718,354	8,458,180
Finance income	(1,035,420,219)	(399,066,971)
Finance costs	276,523,069	905,637,034
Other non-operating income	(29,569,569)	(694,740,235)
Other non-operating expenses	882,572,711	753,753,678
Share of profit of equity accounted investees	12,876,444	(70,390,600)
Income tax expense	752,893,401	753,065,120
Finance income (sales)	(62,202,657)	(54,786,850)
Finance costs (cost of sales)	50,278,271	17,484,816
	<u>3,656,772,255</u>	<u>3,835,856,840</u>
Changes in assets and liabilities:		
Short-term financial assets	5,113,822	(307,438,790)
Trade receivables	(783,306,049)	22,094,535
Other receivables	(416,486,059)	(398,089,276)
Due from customers for contract work	772,706,432	(519,521,160)
Inventories	(1,151,422,956)	(1,059,363,643)
Derivatives	(502,590,108)	(1,321,636,493)
Firm commitments	(31,620,657)	364,218,449
Other current assets	(293,740,969)	207,155,730
Long-term trade receivables	(393,025,097)	(51,920,646)
Long-term due from customers for contract work	40,339,332	44,047,591
Other non-current assets	(16,379,189)	52,975,323
Trade payables	530,233,087	383,566,149
Other payables	721,346,902	845,551,701
Advances from customers	186,801,298	(194,377,313)
Due to customers for contract work	(114,451,296)	(1,007,255,977)
Other current liabilities	1,077,219	10,100,592
Long-term other payables	32,568,498	(943,183)
Long-term provisions	30,145,204	(9,843,163)
Other non-current liabilities	2,834,013	-
Benefits paid	(94,489,495)	(52,082,550)
Succession of benefits	1,867,059	424,867
Plan assets	33,641,824	30,504,569
Cash generated from operations	<u>2,217,935,070</u>	<u>874,024,152</u>
Interest received	175,941,758	81,121,071
Interest paid	(171,666,450)	(72,637,562)
Dividends received	108,206,913	90,738,711
Income taxes paid	(1,059,371,380)	(408,569,721)
<b>Net cash provided by operating activities</b>	<u>1,271,045,911</u>	<u>564,676,651</u>

See accompanying notes to condensed consolidated interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows, Continued  
For the six-month periods ended June 30, 2011 and 2010  
(Unaudited)

<i>(In thousands of won)</i>	<b>2011</b>	<b>2010 (Unreviewed)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of short-term financial assets	₩ 866,214,927	975,735,804
Proceeds from sale of other receivables	2,790,874	2,607,333
Proceeds from sale of long-term financial assets	1,305,834	52,767,883
Proceeds from sale of investments in associates	20,201,275	-
Proceeds from sale of investments in subsidiaries	64,924,649	-
Proceeds from sale of long-term other receivables	52,035,717	7,839,349
Proceeds from sale of property, plant and equipment	43,197,008	38,004,723
Proceeds from sale of intangible assets	3,539,368	333,540
Acquisition of short-term financial assets	(643,753,579)	(1,165,919,405)
Acquisition of other receivables	-	(11,096,705)
Acquisition of long-term financial assets	(294,115,282)	(40,082,078)
Acquisition of investments in associates	(9,069,513)	(2,551,274)
Acquisition of investments in subsidiaries	(2)	(6,301,709)
Acquisition of long-term other receivables	-	(2,780,481)
Acquisition of property, plant and equipment	(899,323,205)	(197,959,617)
Acquisition of intangible assets	(54,189,939)	(38,641,547)
Acquisition of other non-current assets	(18,064,519)	(6,661,857)
<b>Net cash used in investing activities</b>	<b>(864,306,387)</b>	<b>(394,706,041)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term financial liabilities	3,028,453,000	2,161,517,064
Proceeds from long-term financial liabilities	1,827,191,909	184,498,119
Increase of non-controlling interests	15,482,833	-
Repayment of short-term financial liabilities	(2,916,952,606)	(2,248,220,452)
Repayment of long-term financial liabilities	(1,374,961,069)	(154,029,724)
Dividends paid	(429,019,080)	(212,174,207)
Decrease of non-controlling interests	(73,458,502)	(39,811,595)
<b>Net cash provided by (used in) financing activities</b>	<b>76,736,485</b>	<b>(308,220,795)</b>
Effects of exchange rate changes on cash and cash equivalents	(5,382,089)	3,358,908
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>478,093,920</b>	<b>(134,891,277)</b>
Cash and cash equivalents at beginning of year	1,878,801,076	1,937,411,574
<b>Cash and cash equivalents at June 30, 2011</b>	<b>₩ 2,356,894,996</b>	<b>1,802,520,297</b>

See accompanying notes to condensed consolidated interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
**June 30, 2011**  
(Unaudited)

**1. Reporting Entity**

**(a) The Company**

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

On August 1999, the Company was listed on the Korea Exchange. As of June 30, 2011, the Company's major stockholders consist of Mong-Joon Chung (10.80%) and Hyundai Mipo Dockyard Co., Ltd. (7.98%).

**(b) Consolidated subsidiaries**

Subsidiaries as of June 30, 2011 are summarized as follows:

*(In millions of won)*

<b>Company</b>	<b>Business</b>	<b>Equity</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>	<b>Location</b>
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	3,222,794	37,967,000	94.92	Korea
Hyundai Mipo Dockyard Co., Ltd. (*1,3)	Shipbuilding	4,193,484	9,204,900	46.02	Korea
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products	2,595,208	223,331,529	91.13	Korea
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding	196,365	29,600,000	100.00	Korea
KOMAS Corporation	Shipping	93,860	18,754,414	100.00	Korea
Hyundai Energy & Resources Co., Ltd.	Services for crude oil and natural gas mining	49,348	9,000,000	90.00	Korea
Mipo Engineering Co., Ltd. (*1)	Other engineering services	7,830	280,000	100.00	Korea
Ulsan Hyundai Football Club Co., Ltd.	Football club	6,705	2,800,000	100.00	Korea
Hotel Hyundai Co., Ltd.	Hotel operation	4,499	280,000	100.00	Korea
HI Investment&Securities Co., Ltd. (*1)	Securities brokerage	572,550	292,493,502	83.24	Korea
HI Management Co., Ltd. (*1)	Asset management	46,769	6,880,613	99.99	Korea
Hyundai Finance Corporation	Granting of credit	147,458	12,350,000	67.49	Korea
Hyundai Venture Investment Corporation (*1)	Granting of credit	70,489	4,103,000	68.38	Korea
Hyundai Futures Corporation (*1)	Entrust and brokerage of futures transactions	46,911	3,000,000	65.22	Korea
Hyundai Investment Fund 1 on Patent Technology (*1)	Other financial business	20,862	144	50.00	Korea
LS Leading Solution Private Security Investment Trust 22 (Equity) (*2)	Other financial business	92,771	-	100.00	Korea
LS Leading Solution Private Security Investment Trust 35 (Equity) (*2)	Other financial business	18,091	-	100.00	Korea
PCA BGF World Gold Fund A Class (*2)	Other financial business	14,738	-	100.00	Korea
HI Gold Ocean Ship Private Special Assets Investment Trust No. 2 (Beneficiary Right) (*1, 2)	Other financial business	33,599	-	100.00	Korea
HI Dynamic Asia Private Securities Investment Trust 1 (Stock) (*1, 2)	Other financial business	10,260	-	100.00	Korea

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
**June 30, 2011**  
(Unaudited)

**1. Reporting Entity, Continued**

**(b) Consolidated subsidiaries, continued**

(In millions of won)

<b>Company</b>	<b>Business</b>	<b>Capital</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>	<b>Location</b>
HI K2-100 Private Securities Investment Trust 24 (ELS-Derivative) (*1, 2)	Other financial business	9,923	-	100.00	Korea
Hyundai Jiangsu Construction Machinery Co., Ltd. (*1, 2)	Sale and manufacture of machinery equipment for construction	262,683	-	60.00	China
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd. (*1, 2)	Sale and manufacture of machinery equipment for construction	109,964	-	60.00	China
HHI China Investment Co., Ltd. (*2)	Holding company	198,043	-	100.00	China
Hyundai Financial Leasing Co., Ltd. (*1, 2)	Financial and operating lease	179,581	-	88.02	China
Hyundai Heavy Industries (China) Electric Co., Ltd. (*1, 2)	Sale and manufacture of switchboards for electric distribution	45,014	-	100.00	China
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*1, 2)	Sale and manufacture of industrial boilers	38,314	-	54.99	China
Changzhou Hyundai Hydraulic Machinery Co., Ltd. (*1, 2)	Sale and manufacture of hydraulic cylinders for construction equipment	36,902	-	100.00	China
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. (*2)	Sale and manufacture of wheel loaders	17,886	-	100.00	China
Weihai Hyundai Wind Power Technology Co., Ltd. (*1, 2)	Sale and manufacture of facilities for wind power generation	22,146	-	80.00	China
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd. (*1, 2)	Research and development of technology of construction machinery, engine and electric equipment	2,289	-	100.00	China
Tribridge Asian Special Situation Fund (*1, 2)	Other financial business	12,604	-	78.30	Hong Kong
Tribridge Great China IPO Fund (*1, 2)	Other financial business	9,240	-	100.00	Hong Kong
HDO Singapore Pte. Ltd. (*1)	Trade crude oil and petrochemical products, chartering	1,623	164,000	100.00	Singapore
Hyundai Vinashin Shipyard (*1, 2)	Repairing of ships	245,416	-	65.00	Vietnam
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for construction	38,227	20,762,135	100.00	India
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction	24,312	23,900,000	100.00	America

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**1. Reporting Entity, Continued**

**(b) Consolidated subsidiaries, continued**

(In millions of won)

<b>Company</b>	<b>Business</b>	<b>Capital</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>	<b>Location</b>
Hyundai Power Transformers USA, Inc.	Sale and manufacture of industrial electric equipment	56,503	100	100.00	America
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment	24,947	1,000	100.00	America
PHECO Inc.	Design services for offshore facilities	268	2,350	100.00	America
Vladivostok Business Center (*2)	Hotel operation	26,762	-	100.00	Russia
Hyundai Khorol Agro Ltd. (*2)	Agriculture	6,164	-	80.79	Russia
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction	38,418	10	100.00	Belgium
Hyundai Heavy Industries Co. BULGARIA	Sale and manufacture of transformers	46,409	12,155,829	99.09	Bulgaria
Hyundai Technologies Center Hungary Kft (*2)	Research and development of technology	429	-	100.00	Hungary
Hyundai Heavy Industries France SAS	Manufacturing	403	1,850	100.00	France
Jahnel-Kestermann Getriebewerke GmbH (*2)	Designing and manufacture of gearbox	(28,183)	-	100.00	Germany
HHI MAURITIUS LIMITED	Manufacturing	(3,360)	100	100.00	Mauritius

(\*1) The number of shares and percentage of ownership include indirect ownership

(\*2) The number of shares is not disclosed since no shares have been issued.

(\*3) The entity is consolidated although ownership is less than 50% because it is substantially under control of the Group

**(c) Changes in scope of consolidation**

(i) Subsidiaries newly subject to consolidation are as follows:

<b>Company</b>	<b>Reason</b>
Hyundai Energy & Resources Co., Ltd.	Commencing control resulting from the newly acquired shares
HI Gold Ocean Ship Private Special Assets Investment Trust No. 2 (Beneficiary Right)	
HI K2-100 Private Securities Investment Trust 24 (ELS-Derivative)	
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.	
Tribridge Great China IPO Fund	
Jahnel-Kestermann Getriebewerke GmbH	

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**1. Reporting Entity, Continued**

**(c) Changes in scope of consolidation, continued**

(ii) Subsidiaries no longer subjected to consolidation are as follows:

<b>Company</b>	<b>Reason</b>
KB-Hanaro Private Securities Investment Trust 31 (Bond)	Ceasing control upon liquidation
Hi-Smart Private Securities Investment Trust 2 (Hybrid bond)	
HVIC IT Fund 3 <sup>rd</sup>	
Hyundai (Malaysia) SDN BHD	

**2. Basis of Preparation**

**(a) Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations*.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS (No. 1034 *Interim Financial Reporting*) as part of the period covered by the Group's first K-IFRS annual consolidated financial statements, and do not include all of the disclosures required for full annual financial statements.

The Group's date of transition to K-IFRS in accordance with K-IFRS No. 1101 *First-time adoption of K-IFRS*, is January 1, 2010, and the effect of the transition from Korean Generally Accepted Accounting Principles ("K-GAAP") to K-IFRS on the Group's reported financial position and financial performance is explained in note 45.

**(b) Basis of measurement**

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

**(c) Functional and presentation currency**

These condensed consolidated interim financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates.

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**2. Basis of Preparation, Continued**

**(d) Use of estimates and judgments**

The preparation of the condensed consolidated interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in the following notes:

- Note 13 – classification of investment property

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 22 – measurement of defined benefit obligations
- Notes 23, 41 and 42 – provisions and contingencies
- Note 30 – revenue recognition in proportion to the stage of completion
- Note 37 – measurement of deferred tax

**3. Significant Accounting Policies**

The significant accounting policies applied by the Group in preparation of its condensed consolidated interim financial statements are included below. The accounting policies applied for the condensed consolidated interim financial statements may be changed by management if considered necessary in the course of preparing its first annual consolidated financial statements in accordance with the K-IFRS for the year ending December 31, 2011.

**(a) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

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**3. Significant Accounting Policies, Continued**

**(a) Basis of consolidation, continued**

(ii) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interests holders, even when the allocation reduces the non-controlling interest balance below zero.

(iii) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

**(b) Foreign currency**

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on the settlement of monetary items and on retranslation are recognized in profit or loss. When gains and losses on non-monetary items are recognized in other comprehensive income, the Group recognizes any exchange component of that gain or loss in other comprehensive income. Conversely, when gains and losses on non-monetary items are recognized in profit or loss, the Group recognizes any exchange component of that gain or loss in profit or loss.



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**3. Significant Accounting Policies, Continued**

**(b) Foreign currency, continued**

(ii) Foreign operations

When functional currency of foreign operations is different from presentation currency of the Group, its operational performance and financial position is translated using following methods;

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are recorded in functional currency of foreign operations, and then being translated into Korean won(KRW) at exchange rates at the reporting date with other assets and liabilities.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(iii) Settlement of net investment in foreign operations

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve. The relevant portion in other comprehensive income is reclassified to profit or loss when the net investment is disposed.

**(c) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents. Preferred stocks acquired within a short period of its maturity and with a specified redemption date are considered to be cash and cash equivalent.

**(d) Non-derivative financial assets**

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the condensed consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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**3. Significant Accounting Policies, Continued**

**(d) Non-derivative financial assets, continued**

(ii) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and doesn't retain control of the transferred asset, the Group derecognizes the transferred asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. If the Group has not retained control, it derecognizes the financial asset. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. When the Group continues to recognize an asset to the extent of its continuing involvement, it also recognizes an associated liability.

If the Group transfers the rights to receive the contractual cash flows on the financial asset and the transfer does not result in de-recognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset and recognizes a financial liability for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the condensed consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously

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**3. Significant Accounting Policies, Continued**

**(e) Non-derivative financial liabilities**

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. The Group classifies liabilities into two categories in accordance with the substance of the contractual arrangement and the definitions of a financial liability: financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition at fair value through profit or loss. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

Non-derivative financial liabilities other than financial liabilities classified as fair value through profit or loss are classified as other financial liabilities and measured initially at fair value minus transaction costs that are directly attributable to the issue. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

**(f) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

**(g) Derivative financial instruments, including hedge accounting**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

**(i) Hedge accounting**

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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**3. Significant Accounting Policies, Continued**

**(g) Derivative financial instruments, including hedge accounting, continued**

*Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the condensed consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

*Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

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**3. Significant Accounting Policies, Continued**

**(h) Property, plant and equipment**

Property, plant and equipment are initially measured at cost, and the cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated an useful life that appropriately reflects the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

● Buildings	15~50 years
● Structures	15~50 years
● Machinery	2~40 years
● Heavy machinery	12~15 years
● Ships	15 and 25 years
● Vehicles	4~10 years
● Tools, furniture and fixtures	3~13 years
● Other property, plant and equipment ("Others")	3~5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**(i) Borrowing costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

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**3. Significant Accounting Policies, Continued**

**(j) Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

● Capitalized development expenses	5 years
● Land usage right	50 years
● Other intangible assets	3~50 years
● Membership	indefinite

Land usage right is generated from Hyundai Jiangsu Construction Machinery Co., Ltd., Yantai Hyundai Moon Heavy Industries Co., Ltd., Hyundai Heavy Industries (China) Electric Co., Ltd. and Changzhou Hyundai Hydraulic Machinery Co., Ltd., and being depreciated while using the land.

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at each financial year-end. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

**(i) Goodwill**

Goodwill recorded on the acquisition of subsidiaries is included in intangible assets. The Group retroactively restated amounts related to business combinations that occurred after January 1, 2010, in accordance with K-IFRS. Goodwill related to business combinations that occurred before January 1, 2010 is included on the basis of its deemed cost, which represents the amount recognized under K-GAAP. Goodwill acquired after January 1, 2010 is recognized as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the Group's interest in the fair value of the acquiree's net identifiable assets acquired and liabilities assumed exceeds consideration, the difference is immediately recognized in the statement of income for the period.

Goodwill is measured at cost less accumulated impairment losses. The acquisition of additional non-controlling interest while retaining control is accounted for as a shareholder transaction and, as a result, no additional goodwill is recognized.

**(ii) Research and development**

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

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**3. Significant Accounting Policies, Continued**

**(j) Intangible assets, continued**

(iii) Subsequent expenditure

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

**(k) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses

Investment property is depreciated using straight line method over following useful lives;

- Buildings 25~50 years

**(l) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the moving-average method with the exception of cost of materials-in-transit, which is determined on the specific identification method. Cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(m) Due from customers for contract work and due to customers for contract work**

Due from customers for contract work represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

The gross amount due from customers for contract work is presented as an asset in the statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the gross amount due to customers for contract work is presented as a liability in the statement of financial position.

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**3. Significant Accounting Policies, Continued**

**(n) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.



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**3. Significant Accounting Policies, Continued**

**(o) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(p) Employee benefits**

**(i) Defined benefit plans**

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

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**3. Significant Accounting Policies, Continued**

**(p) Employee benefits, continued**

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(q) Share-based payment transactions**

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

**(r) Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The risks and uncertainties that inevitably surround events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

(i) Provision for construction warranty

The Group 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.

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**3. Significant Accounting Policies, Continued**

**(r) Provisions, continued**

(ii) Provision for product warranty

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

(iii) Other provision

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration is recognized.

A provision is used only for expenditures for which the provision was originally recognized.

**(s) Revenue**

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

(ii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits ("P-points") and the other components of the sale. The amount allocated to the P-points is estimated by reference to the fair value of the products for which they could be redeemed, since the fair value of the P-points themselves is not directly observable. The fair value of the products is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the P-points are redeemed and the Group has fulfilled its obligations to supply the products. The amount of revenue recognized in those circumstances is based on the number of P-points that have been redeemed in exchange for products, relative to the total number of P-points that is expected to be redeemed.

(iii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iv) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

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**3. Significant Accounting Policies, Continued**

**(s) Revenue, continued**

(v) Commissions

In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the net amount of commission made by the Group.

(vi) Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease. The Group recognizes total cost of the lease incentives as a reduction of rental income over the lease term using straight-line method.

**(t) Incidental loan income and expenses**

The Group recognizes loan commission as deferred incidental loan income, and the incremental cost arising from acquisitions or disposals of loans is treated as deferred incidental loan expenses, which is adjusted in interest revenues on loans after being amortized using effective interest rate method.

**(u) Accounting for disposal of loans**

The Group determines the selling price as reasonably derived and measured by independent trusted third party and recognizes the difference between carrying value and selling price as profit or loss.

**(v) Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are presented deducting the carrying amount of the asset and recognized in profit or loss on a systematic and rational basis over the life of a depreciable asset. Government grants which are intended to compensate the Group for expenses incurred shall be recognized as deduction to related expenses in profit or loss over the periods in which the Group recognizes the related costs as expenses. Government grants that becomes receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss of the period in which it becomes receivable.

**(w) Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

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**3. Significant Accounting Policies, Continued**

**(x) Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

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**3. Significant Accounting Policies, Continued**

**(y) Earnings per share**

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the period, adjusted for own shares held.

**(z) Operating segment**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's chief executive officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As discussed in note 31, the Group has ten and eight reportable segments as of June 30, 2011 and 2010 respectively, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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**4. Financial Risk Management**

**(a) Overview**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**(b) Risk management framework**

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**(c) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

**(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

The Group establishes credit limits for each customer and each new customer is analysed quantitatively and qualitatively before determining whether to utilize third party guarantees, insurance or factoring as appropriate.

The Group does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Group establishes an allowance for impairment of trade and other receivables that have been individually or collectively evaluated for impairment and estimated on the basis of historical loss experience for assets.

**(ii) Investments**

The Group limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have high credit ratings. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect a significant risk that any counterparty fails to meet its obligations.

**(iii) Guarantees**

The Group provides financial guarantees to subsidiaries, associates and third parties if necessary. The guarantees provided by the Group as of June 30, 2011 are discussed in note 41.

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**4. Financial Risk Management, Continued**

**(d) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has historically been able to satisfy its cash requirements from cash flow from operations and debt and equity financing. To the extent that the Group does not generate sufficient cash flow from operations to meet its capital requirements, the Group may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities.

**(e) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Group. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group, Korean won (KRW). The currencies in which these transactions primarily are denominated are USD, EUR and JPY.

The Group hedges trade receivables and trade payables denominated in a foreign currency in respect of forecast sales and purchases. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than two year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

Trade receivables denominated in a foreign currency have been hedged using forward contracts that mature on the same dates that the receivables are due for collection. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**(ii) Interest rate risk**

The Group hedges the interest rate risk arising from loan and bond with floating interest rates through interest rate swaps.

**(iii) Other market price risk**

The Group is exposed to a price risk arising from available-for-sale securities. Available-for-sale securities measured at fair value as of June 30, 2011 are ₩3,972,771 million.



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**4. Financial Risk Management, Continued**

**(f) Capital management**

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's debt to capital ratio at the end of the reporting period is as follows:

<i>(In millions of won, except equity ratio)</i>	<b>2011</b>	<b>2010</b>
Total liabilities	₩ 32,371,467	31,002,338
Total equity	17,988,747	16,095,223
Cash and deposits (*)	2,974,694	2,644,118
Borrowings (**)	10,339,881	9,844,364
Liability to equity ratio	179.95%	192.62%
Net borrowing to equity ratio (***)	40.94%	44.74%

(\*) Cash and deposits consists of cash and cash equivalents and short-term and long-term financial instruments.

(\*\*) Discount on debentures is deducted from the face value of debentures.

(\*\*\*) Net borrowing represents borrowings net of cash and deposits

**5. Short-term Financial Assets**

Short-term financial assets as of June 30, 2011 and December 31, 2010 are summarized as follows:

<i>(In millions of won)</i>	<b>2011</b>	<b>2010</b>
Short-term financial instruments	₩ 587,160	761,970
Held for trading investments	1,712,007	1,486,029
Financial assets at fair value through profit or loss	143,926	171,038
Available-for-sale financial assets	13,068	60,803
Others	13,095	-
	₩ <u>2,469,256</u>	<u>2,479,840</u>

**6. Restricted Financial Instruments**

Financial instruments, which are restricted in use subject to withdrawal restrictions in relation to construction contracts as of June 30, 2011 and December 31, 2010 are summarized as follows:

<i>(In millions of won)</i>	<b>2011</b>	<b>2010</b>
Short-term financial instruments	₩ 29,052	26,773
Long-term financial instruments	124	1,541
	₩ <u>29,176</u>	<u>28,314</u>

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**7. Trade and Other Receivables and Due from Customers for Contract Work**

(a) Trade and other receivables as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	2011		2010	
	Current	Non-current	Current	Non-current
<b>Trade receivables:</b>				
Trade receivables	₩ 5,027,345	-	4,420,209	-
Allowance for doubtful accounts	(48,944)	-	(46,739)	-
Long-term trade receivables	-	1,505,996	-	1,066,908
Allowance for doubtful accounts	-	(46,798)	-	(26,632)
	<u>4,978,401</u>	<u>1,459,198</u>	<u>4,373,470</u>	<u>1,040,276</u>
<b>Loan receivables:</b>				
Loan receivables	186,012	-	160,140	-
Allowance for doubtful accounts	(3,798)	-	(3,788)	-
Long-term loan receivables	-	69,931	-	46,818
Allowance for doubtful accounts	-	(1,000)	-	(927)
	<u>182,214</u>	<u>68,931</u>	<u>156,352</u>	<u>45,891</u>
<b>Other receivables:</b>				
Other accounts receivable	713,498	-	600,005	-
Allowance for doubtful accounts	(7,140)	-	(132,842)	-
Accrued income	109,133	-	87,488	-
Allowance for doubtful accounts	(401)	-	(370)	-
Short-term loans	83,277	-	65,728	-
Allowance for doubtful accounts	-	-	(3)	-
Guarantee deposits	46,763	-	4,020	-
VAT advance payments	41,635	-	46,791	-
Deposits	84,017	-	182,254	-
Long-term loans	-	129,729	-	119,768
Allowance for doubtful accounts	-	-	-	(86)
Long-term deposits provided	-	123,852	-	125,119
Allowance for doubtful accounts	-	(76)	-	-
Others	-	-	296	-
	<u>1,070,782</u>	<u>253,505</u>	<u>853,367</u>	<u>244,801</u>
₩	<u><u>6,231,397</u></u>	<u><u>1,781,634</u></u>	<u><u>5,383,189</u></u>	<u><u>1,330,968</u></u>

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**7. Trade and Other Receivables and Due from Customers for Contract Work, Continued**

(b) Due from customers for contract work as of June 30, 2011 and December 31, 2010 is summarized as follows:

(In millions of won)

	2011		2010	
	Current	Non-current	Current	Non-current
Due from customers for contract work	₩ 4,042,087	-	4,862,165	-
Allowance for doubtful accounts	(76,177)	-	(31,198)	-
Long-term due from customers for contract work	-	422,493	-	463,275
Allowance for doubtful accounts	-	(182,874)	-	(211,979)
	<u>₩ 3,965,910</u>	<u>239,619</u>	<u>4,830,967</u>	<u>251,296</u>

**8. Inventories**

Inventories as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	2011			2010		
	Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Merchandise	₩ 55,137	(5,074)	50,063	115,957	(12,581)	103,376
Finished goods	1,131,637	(4,510)	1,127,127	1,006,823	(5,323)	1,001,500
Work-in-progress	1,638,583	(6,109)	1,632,474	1,144,625	(1,392)	1,143,233
Raw materials	1,576,328	(5,073)	1,571,255	1,294,212	-	1,294,212
Supplies	38,442	(1,373)	37,069	28,300	-	28,300
Materials-in-transit	1,793,237	-	1,793,237	1,468,796	-	1,468,796
	<u>₩ 6,233,364</u>	<u>(22,139)</u>	<u>6,211,225</u>	<u>5,058,713</u>	<u>(19,296)</u>	<u>5,039,417</u>

The write-down of inventories to net realizable value amounting to ₩2,843 million and nil, and the reversal of write-down amounting to nil and ₩25,104 million are included in cost of sales for the six-month periods ended June 30, 2011 and 2010, respectively.

**9. Other Assets**

Other assets as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	2011		2010	
	Current	Non-current	Current	Non-current
Advance payments	₩ 1,708,086	-	1,420,291	-
Allowance for doubtful accounts	(460)	-	(60)	-
Prepaid expenses	446,187	-	352,021	-
Long-term prepaid expenses	-	3,001	-	1,386
Others	1,609	160,150	67,718	113,900
	<u>₩ 2,155,422</u>	<u>163,151</u>	<u>1,839,970</u>	<u>115,286</u>

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**10. Investments in Associates**

(a) Investments in associates as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	2011		2010	
	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
New Korea Country Club	20.00	₩ 4,663	20.00	₩ 4,492
Hyundai Merchant Marine Co., Ltd. (*1)	23.66	519,976	23.66	693,794
Wärtsilä-Hyundai Engine Company Ltd.	50.00	48,907	50.00	44,126
KAM Corporation	49.00	123,174	49.00	112,987
Taebaek Wind Power Co., Ltd.	35.00	3,373	35.00	3,446
Muju Wind Power Co., Ltd.	45.00	4,969	45.00	5,045
Pyeongchang Wind Power Co., Ltd.	35.00	11	35.00	15
Jinan Jangsu Wind Power Co., Ltd.	32.00	101	32.00	101
Changjuk Wind Power Co., Ltd.	43.00	138	43.00	171
Hyundai Corporation (*1)	22.36	121,968	22.36	115,664
Hyundai-Avancis Co., Ltd.	50.00	39,660	50.00	39,830
Qinhuangdao Shouqin Metal Materials Co., Ltd.	20.00	101,588	20.00	109,886
Grand China Hyundai Shipping Co., Ltd.	50.00	827	50.00	897
PT Golden Hyundai Machinery	20.83	569	20.83	240
Hyundai Primorye Ltd.	49.99	6,248	49.99	3,357
HC Petrochem Co., Ltd. (*2)	50.00	-	50.00	-
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	40.00	3,068	40.00	3,142
KP Fund of Hedge Fund	-	-	40.00	20,538
The Second Partners Win-win Investment Fund	23.33	6,411	-	-
Truston Dynamic Korea Fund	27.70	20,133	30.40	20,036
		₩ <u>1,005,784</u>		₩ <u>1,177,767</u>

(\*1) The total market value of Hyundai Merchant Marine Co., Ltd. and Hyundai Corporation at June 30, 2011 is ₩1,071,341 million and ₩158,271 million, respectively.

(\*2) Unrecognized cumulative losses and decrease in equity due to the discontinuance of the equity method as of June 30, 2011 are ₩72,652 million and ₩2,473 million, respectively.

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**10. Investments in Associates, Continued**

- (b) Condensed financial information of associates as of and for the six-month period ended June 30, 2011 and as of and for the year ended December 31, 2010 are summarized as follows:

(In millions of won)

Company	2011			
	Assets	Liabilities	Sales	Profit
New Korea Country Club	₩ 29,452	6,133	5,623	1,357
Hyundai Merchant Marine Co., Ltd.	7,806,240	5,853,212	3,444,498	(252,910)
Wärtsilä-Hyundai Engine Company Ltd.	212,998	114,939	55,690	9,481
KAM Corporation	433,654	182,279	79,904	20,789
Taebaek Wind Power Co., Ltd.	9,794	157	-	(207)
Muju Wind Power Co., Ltd.	11,066	23	-	(169)
Pyeongchang Wind Power Co., Ltd.	32	-	-	(12)
Jinan Jangsu Wind Power Co., Ltd.	319	5	-	(1)
Changjuk Wind Power Co., Ltd.	324	2	-	(77)
Hyundai Corporation	1,702,641	1,480,658	2,577,366	33,278
Hyundai-Avancis Co., Ltd.	91,206	11,887	-	(340)
Qinhuangdao Shouqin Metal Materials Co., Ltd.	2,086,805	1,607,270	956,587	(24,513)
Grand China Hyundai Shipping Co., Ltd.	1,763	108	-	(4)
PT Golden Hyundai Machinery	26,105	23,379	25,762	1,602
Hyundai Primorye Ltd.	11,074	20	501	44
HC Petrochem Co., Ltd.	939,169	656,276	996,497	12,647
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	7,672	2	50	(185)
KP Fund of Hedge Fund	-	-	-	-
The Second Partners Win-win Investment Fund	27,626	150	765	476
Truston Dynamic Korea Fund	76,443	3,764	744	4,362
	₩ <u>13,474,383</u>	<u>9,940,264</u>	<u>8,143,987</u>	<u>(194,382)</u>

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**10. Investments in Associates, Continued**

(In millions of won)

Company	2010			
	Assets	Liabilities	Sales	Profit
New Korea Country Club	₩ 26,919	4,457	12,067	2,499
Hyundai Merchant Marine Co., Ltd.	9,190,279	6,279,331	8,233,501	372,104
Wärtsilä-Hyundai Engine Company Ltd.	229,504	140,926	130,990	7,585
KAM Corporation	450,763	220,178	68,447	(9,529)
Taebaek Wind Power Co., Ltd.	9,858	13	-	(111)
Muju Wind Power Co., Ltd.	11,250	38	-	(188)
Pyeongchang Wind Power Co., Ltd.	43	-	-	(7)
Jinan Jangsu Wind Power Co., Ltd.	319	4	-	(83)
Changjuk Wind Power Co., Ltd.	399	1	-	(2)
Hyundai Corporation	1,018,102	824,314	3,633,796	46,852
Hyundai-Avancis Co., Ltd.	80,796	1,137	-	44
Qinhuangdao Shouqin Metal Materials Co., Ltd.	2,166,581	1,645,559	1,538,418	(97,876)
Grand China Hyundai Shipping Co., Ltd.	1,863	68	6	(232)
PT Golden Hyundai Machinery	11,787	10,637	10,528	49
Hyundai Primorye Ltd.	5,293	22	173	30
HC Petrochem Co., Ltd.	883,034	612,563	1,145,084	(81,234)
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	7,857	1	25	(145)
KP Fund of Hedge Fund	86,755	34,793	-	-
The Second Partners Win-win Investment Fund	-	-	-	-
Truston Dynamic Korea Fund	71,193	5,287	496	3,018
	₩ <u>14,252,595</u>	<u>9,779,329</u>	<u>14,773,531</u>	<u>242,774</u>

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**10. Investments in Associates, Continued**

(c) Equity method information as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

Associates	2011				
	Beginning balance	Acquisition (disposal)	Share of profit of equity accounted investees	Others (*)	Ending balance
New Korea Country Club	₩ 4,492	-	271	(100)	4,663
Hyundai Merchant Marine Co., Ltd.	693,794	-	(34,066)	(139,752)	519,976
Wärtsilä-Hyundai Engine Company Ltd.	44,126	-	4,781	-	48,907
KAM Corporation	112,987	-	10,187	-	123,174
Taebaek Wind Power Co., Ltd.	3,446	-	(73)	-	3,373
Muju Wind Power Co., Ltd.	5,045	-	(76)	-	4,969
Pyeongchang Wind Power Co., Ltd.	15	-	(4)	-	11
Jinan Jangsu Wind Power Co., Ltd.	101	-	-	-	101
Changjuk Wind Power Co., Ltd.	171	-	(33)	-	138
Hyundai Corporation	115,664	-	9,544	(3,240)	121,968
Hyundai-Avancis Co., Ltd.	39,830	-	(170)	-	39,660
Qinhuangdao Shouqin Metal Materials Co., Ltd.	109,886	-	(4,903)	(3,395)	101,588
Grand China Hyundai Shipping Co., Ltd.	897	-	(24)	(46)	827
PT Golden Hyundai Machinery	240	-	334	(5)	569
Hyundai Primorye Ltd.	3,357	2,770	22	99	6,248
HC Petrochem Co.,Ltd.	-	-	-	-	-
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	3,142	-	(74)	-	3,068
KP Fund of Hedge Fund	20,538	(20,538)	-	-	-
The Second Partners Win-win Investment Fund	-	6,300	111	-	6,411
Truston Dynamic Korea Fund	20,036	-	1,297	(1,200)	20,133
	₩ <u>1,177,767</u>	<u>(11,468)</u>	<u>(12,876)</u>	<u>(147,639)</u>	<u>1,005,784</u>

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**10. Investments in Associates, Continued**

(In millions of won)

Associates	2010				
	Beginning balance	Acquisition (disposal)	Share of profit of equity accounted investees	Others (*)	Ending balance
New Korea Country Club	₩ 4,045	-	497	(50)	4,492
Hyundai Merchant Marine Co., Ltd.	426,003	29,878	95,154	142,759	693,794
Wärtsilä-Hyundai Engine Company Ltd.	40,496	-	3,630	-	44,126
KAM Corporation	117,668	-	(4,681)	-	112,987
Taebaek Wind Power Co., Ltd.	3,483	-	(37)	-	3,446
Muju Wind Power Co., Ltd.	-	5,130	(85)	-	5,045
Pyeongchang Wind Power Co., Ltd.	-	17	(2)	-	15
Jinan Jangsu Wind Power Co., Ltd.	-	128	(27)	-	101
Changjuk Wind Power Co., Ltd.	-	172	(1)	-	171
Hyundai Corporation	105,134	-	10,476	54	115,664
Hyundai-Avancis Co., Ltd.	-	40,000	22	(192)	39,830
Qinhuangdao Shouqin Metal Materials Co., Ltd.	128,358	-	(19,291)	820	109,887
Grand China Hyundai Shipping Co., Ltd.	1,045	-	(125)	(23)	897
PT Golden Hyundai Machinery	224	-	10	5	239
Hyundai Primorye Ltd.	2,196	1,238	15	(92)	3,357
HC Petrochem Co., Ltd.	-	80,000	(80,000)	-	-
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	-	3,200	(57)	-	3,143
KP Fund of Hedge Fund	19,752	-	786	-	20,538
Truston Dynamic Korea Fund	-	20,055	917	(937)	20,035
Hyundai Oilbank Co., Ltd.	447,700	-	71,854	(519,554)	-
Tribridge Asian Special Situation Fund	9,865	-	1,290	(11,155)	-
HDO Singapore Pte. Ltd.	-	-	228	(228)	-
	₩ 1,305,969	179,818	80,573	(388,593)	1,177,767

(\*) Others consist of changes in equity of equity method investments, dividends, and changes in scope of consolidation (i.e. reclassification from investment in associates to subsidiaries under consolidation).

**11. Long-term Financial Assets**

Long-term financial assets as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	2011	2010
Long-term financial instruments	₩ 30,639	3,347
Held for trading investments	10,507	6,462
Available-for-sale financial assets	4,335,564	3,712,378
	₩ 4,376,710	3,722,187



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**12. Available-for-sale Financial Assets**

Available-for-sale financial assets as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	2011		2010	
	Current	Non-current	Current	Non-current
Listed equity securities	₩ -	3,903,470	-	3,466,008
Unlisted equity securities	-	158,429	-	133,352
Beneficiary certificates	12,917	47,567	60,490	40,965
Debt securities	151	211,947	313	59,135
Investments in capital	-	14,151	-	12,918
	₩ <u>13,068</u>	<u>4,335,564</u>	<u>60,803</u>	<u>3,712,378</u>

**13. Investment property**

(a) Changes in investment property for the six-month period ended June 30, 2011 and the year ended December 31, 2010 are as follows:

(In millions of won)

	2011		
	Land	Buildings	Total
Beginning of period	₩ 245,226	201,700	446,926
Acquisition and other	1,244	(40,950)	(39,706)
Disposals	-	-	-
End of period	246,470	160,750	407,220
Depreciation	-	(1,971)	(1,971)
Accumulated depreciation	-	(33,288)	(33,288)
Accumulated impairment loss	-	(5,171)	(5,171)
	₩ <u>246,470</u>	<u>122,291</u>	<u>368,761</u>

(In millions of won)

	2010		
	Land	Buildings	Total
Beginning of period	₩ 238,996	257,458	496,454
Acquisition and other	(10,706)	1,124	(9,582)
Disposals	(26,286)	(58,226)	(84,512)
Changes in scope of consolidation	43,222	1,344	44,566
End of period	245,226	201,700	446,926
Depreciation	-	(5,981)	(5,981)
Accumulated depreciation	-	(35,620)	(35,620)
Accumulated impairment loss	-	(5,171)	(5,171)
	₩ <u>245,226</u>	<u>160,909</u>	<u>406,135</u>

(b) Revenue (expense) of investment property for the periods ended June 30, 2011 and 2010 is as follows:

(In millions of won)

	2011	2010
Rental income	₩ 5,603	7,696
Operating / maintenance expense	2,024	3,324

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**14. Property, Plant and Equipment**

- (a) Changes in property, plant and equipment for the periods ended June 30, 2011 and December 31, 2010 are as follows:

(In millions of won)

	<b>2011</b>					
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Others</b>	<b>Total</b>
Beginning of period	₩ 4,211,272	3,493,275	2,996,188	4,797,358	4,503,055	20,001,148
Acquisition and other	96,852	231,882	254,296	2,065,530	(1,708,146)	940,414
Disposals	(18,652)	(3,147)	(1,410)	(37,824)	(11,845)	(72,878)
Effect of movements in exchange rates	54	(4,888)	(7,798)	(7,117)	(6,383)	(26,132)
Changes in scope of consolidation	4,123	6,508	-	15,835	7,567	34,033
End of period	4,293,649	3,723,630	3,241,276	6,833,782	2,784,248	20,876,585
Depreciation	-	(46,617)	(39,135)	(189,967)	(106,031)	(381,750)
Government grants	-	(5,634)	-	(575)	(889)	(7,098)
Accumulated depreciation	-	(755,568)	(733,364)	(2,499,710)	(1,703,170)	(5,691,812)
	₩ <u>4,293,649</u>	<u>2,962,428</u>	<u>2,507,912</u>	<u>4,333,497</u>	<u>1,080,189</u>	<u>15,177,675</u>

(In millions of won)

	<b>2010</b>					
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Others</b>	<b>Total</b>
Beginning of period	₩ 3,206,590	3,416,016	2,074,530	3,981,764	2,485,987	15,164,887
Acquisition and other	159,566	154,922	266,505	468,468	1,083,973	2,133,434
Disposals	(61,117)	(228,928)	(62,501)	(216,346)	(73,324)	(642,216)
Effect of movements in exchange rates	(307)	(8,536)	(2,069)	2,731	(11,510)	(19,691)
Changes in scope of consolidation	906,540	159,801	719,723	560,741	1,017,929	3,364,734
End of period	4,211,272	3,493,275	2,996,188	4,797,358	4,503,055	20,001,148
Depreciation	-	(94,228)	(76,260)	(348,115)	(213,173)	(731,776)
Government grants	-	(5,497)	-	(387)	(468)	(6,352)
Accumulated depreciation	-	(733,926)	(665,729)	(2,313,769)	(1,610,969)	(5,324,393)
	₩ <u>4,211,272</u>	<u>2,753,852</u>	<u>2,330,459</u>	<u>2,483,202</u>	<u>2,891,618</u>	<u>14,670,403</u>

- (b) No impairment is recorded for CGU (production facilities) as of June 30, 2011 and December 31, 2010.

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**15. Intangible Assets**

(a) Changes in goodwill for the period ended June 30, 2011 are as follows:

(In millions of won)

		<u>2011</u>
<b>Cost</b>		
Balance at January 1, 2011	₩	1,842,003
Acquisition through business combinations		17,455
Balance at June 30, 2011	₩	<u>1,859,458</u>
<b>Impairment</b>		
Balance at January 1, 2011	₩	-
Balance at June 30, 2011	₩	<u>-</u>
<b>Carrying amounts</b>		
Balance at January 1, 2011	₩	1,842,003
Balance at June 30, 2011	₩	<u>1,859,458</u>

The goodwill has been recognized from the following transactions: 1) the acquisition of securities of Hyundai Oilbank Co., Ltd. by the Company, 2) the acquisition of all the assets and liabilities of Halla Heavy Industry Co., Ltd. by a subsidiary of the Company, Hyundai Samho Heavy Industry Co., Ltd., and 3) the acquisition of securities of HI Investment & Securities Co., Ltd. by a subsidiary of the Company, Hyundai Mipo Dockyard Co., Ltd.

(b) Changes in development costs, land usage right, and other intangible assets for the periods ended June 30, 2011 and December 31, 2010 are as follows:

(In millions of won)

		<u>2011</u>			
		<u>Development costs</u>	<u>Land usage right</u>	<u>Other intangible assets</u>	<u>Total</u>
Beginning balance	₩	297,590	7,527	176,372	481,489
Acquisition and other		39,737	3,310	14,954	58,001
Depreciation		(28,420)	(201)	(9,059)	(37,680)
Disposals		-	-	(3,952)	(3,952)
Effect of movements in exchange rates		(90)	(322)	(1,239)	(1,651)
Changes in scope of consolidation		-	-	2,119	2,119
Ending balance	₩	<u>308,817</u>	<u>10,314</u>	<u>179,195</u>	<u>498,326</u>

(In millions of won)

		<u>2010</u>			
		<u>Development costs</u>	<u>Land usage right</u>	<u>Other intangible assets</u>	<u>Total</u>
Beginning balance	₩	275,544	7,647	137,595	420,786
Acquisition and other		72,415	-	33,786	106,201
Depreciation		(54,447)	(182)	(8,896)	(63,525)
Disposals		(738)	-	(6,106)	(6,844)
Effect of movements in exchange rates		31	62	(3,039)	(2,946)
Changes in scope of consolidation		4,785	-	23,032	27,817
Ending balance	₩	<u>297,590</u>	<u>7,527</u>	<u>176,372</u>	<u>481,489</u>

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**15. Intangible Assets, Continued**

- (c) Research costs amounting to ₩6,446 million and ₩10,829 million, and ordinary development costs amounting to ₩61,966 million and ₩41,081 million are included in selling, general and administrative expenses for the six-month periods ended June 30, 2011 and 2010, respectively. Amortized development costs of ₩28,420 million and ₩23,952 million are included in the cost of sales and selling, general and administrative expenses for the six-month periods ended June 30, 2011 and 2010, respectively.

**16. Pledged Assets**

- (a) Assets pledged as collateral for the Group's borrowings as of June 30, 2011 are summarized as follows:

*(In millions of won and in thousands of foreign currency)*

<u>Asset</u>	<u>Carrying amount</u>	<u>Collateralized amount</u>	<u>Type of borrowings</u>	<u>Borrowings amount</u>	<u>Lender</u>
Land	31,404	31,404	Borrowings in won	45,005	KB Kookmin Bank
Buildings	83,820	26,702			
Land	266,466	USD 150,000	Short-term borrowings	430,698	The Korea
Buildings	64,942	JPY 34,000,000	in foreign currency		Development Bank
Structures	141,956	197,000	and long-term		
Machinery	71,328		borrowings in won		
Land	115,945	1,440,000	Long-term borrowings	1,200,000	The Korea
Machinery	2,207,012				Development Bank
Inventories and trade receivables	USD 45,538	USD 3,000	General purpose loans	USD 3,000	BNP Paribas Fortis Bank, Belgium
Buildings	USD 750	USD 750	Secured loans	USD 351	Center Bank
	KRW 2,982,873	KRW 1,695,106		KRW 1,675,703	
	USD 46,288	USD 153,750		USD 3,351	
		JPY 34,000,000			

- (b) The Group receives guarantees on payment of foreign currency from 10 financial institutions covering advanced payments on ships, refunding advanced payments, and bid deposit. Regarding this, the Group collateralizes its ships under construction and construction materials (see note 41).
- (c) The Group collateralized 140,000 shares of POSCO to Korea Securities Finance Corporation to obtain loans, and ₩20,475 million of financial assets at fair value through profit or loss for loan transactions and warranty money for derivative instruments and margin loan. The Group deposited 650,000 shares of its common stock with the Gunsan city government as a security guarantee for completion of a construction project.
- (d) Guarantees provided and assets pledged as collateral as of June 30, 2011 are summarized as follows:

*(In millions of won)*

<u>Guarantee recipient</u>	<u>Asset</u>	<u>Carrying amount</u>	<u>Collateralized amount</u>	<u>Borrowings amount</u>	<u>Lender</u>
HC Petrochem Co.,Ltd.	Land, buildings	₩ 140,983	444,000	370,000	The Korea Development Bank

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**17. Short-term Financial Liabilities**

Short-term financial liabilities as of June 30, 2011 and December 31, 2010 are summarized as follows:

<i>(In millions of won)</i>		<u>2011</u>	<u>2010</u>
Short-term borrowings	₩	6,930,430	6,546,224
Held for trading liabilities		272,403	321,979
Current portion of debentures		650,000	336,668
Discount on debentures		(537)	(108)
Current portion of long-term borrowings		3,915	321,548
Deposit liabilities		239,878	227,629
Others		14,848	11,148
	₩	<u>8,110,937</u>	<u>7,765,088</u>

**18. Trade and Other Payables**

Trade and other payables as of June 30, 2011 and December 31, 2010 are summarized as follows:

<i>(In millions of won)</i>		<u>2011</u>		<u>2010</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Trade payables	₩	4,555,766	-	3,895,858	-
Other accounts payable		1,524,690	-	1,080,721	-
Withholdings		40,385	-	328,780	-
Dividends payable		1,649	-	14	-
Accrued expenses		1,077,304	-	596,117	-
Leasehold deposits		11,885	-	-	-
Long-term other payables		-	5,712	-	-
Long-term accrued expenses		-	271,387	-	223,277
Long-term leasehold deposits		-	6,941	-	6,759
Long-term deposits received		-	15,480	-	14,317
	₩	<u>7,211,679</u>	<u>299,520</u>	<u>5,901,490</u>	<u>244,353</u>

**19. Long-term Financial Liabilities**

Long-term financial liabilities as of June 30, 2011 and December 31, 2010 are summarized as follows:

<i>(In millions of won)</i>		<u>2011</u>	<u>2010</u>
Held for trading liabilities	₩	379	25,263
Long-term borrowings		2,008,027	1,442,783
Debentures		750,000	1,200,000
Discount on debentures		(1,954)	(2,751)
	₩	<u>2,756,452</u>	<u>2,665,295</u>

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**20. Other Liabilities**

Other liabilities as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	2011		2010	
	Current	Non-current	Current	Non-current
Unearned revenues	₩ 3,091	-	2,093	-
Deferred revenues	-	55,550	-	54,881
Others	11,793	11,296	120,185	8,148
	₩ <u>14,884</u>	<u>66,846</u>	<u>122,278</u>	<u>63,029</u>

**21. Borrowings and Debentures**

(a) Short-term borrowings as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

Type of borrowing	Lender	Annual interest rate (%)	2011	2010
Network loan	Export-Import Bank of Korea	4.20	₩ -	184,792
Pre-shipment credit	Export-Import Bank of Korea	4.30 ~ 4.65	180,000	60,000
General loan	Shinhan Capital Co., Ltd. and others	4.30 ~ 5.61	1,503,000	1,528,000
Commercial paper	Shinhan Bank and others	3.26 ~ 4.06	700,000	1,000,000
Usance L/C	Shinhan Bank and others	0.67 ~ 5.76	1,643,650	1,408,898
CP	Woori Investment & Securities Co., Ltd. and others	3.39 ~ 5.95	750,750	527,500
Call money	KB Kookmin Bank and others	3.35	264,900	308,200
Bank overdraft	Kyongnam Bank and others	6.37 ~ 6.69	34,871	-
Borrowings from margin loans	Korea Securities Finance Corporation	4.65	13,124	32,652
Other borrowings from KSFC	Korea Securities Finance Corporation	3.40	30,000	30,000
Repurchase agreements sales	Korea Securities Finance Corporation	3.25 ~ 3.30	1,239,344	1,045,591
General loan in foreign currency	HSBC BANK PLC and others	3.56 ~ 6.10	570,791	420,591
			₩ <u>6,930,430</u>	<u>6,546,224</u>

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**21. Borrowings and Debentures, Continued**

(b) Long-term borrowings as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

<b>Type of borrowing</b>	<b>Lender</b>	<b>Annual interest rate (%)</b>	<b>2011</b>	<b>2010</b>
General loan in foreign currency	Export-Import Bank of Korea	2.05	₩ 46,358	26,505
Business loans	Korea National Oil Corporation	1.00~3.75	9,897	6,336
National Housing Fund	KB Kookmin Bank	3.00	45,005	46,416
CP	Samsung Securities Co., Ltd. and others	3.09~4.26	-	265,300
General fund for equipment	The Korea Development Bank and others	5.10	1,203,000	862,574
Energy rationalization Environment improvement fund	The Korea Development Bank	2.00	3,812	4,235
Long-term borrowings in foreign currency	The Korea Development Bank	3.88	2,686	2,686
	Standard Chartered Bank and others	3.56~6.80	701,184	550,279
	Current portion		(3,915)	(321,548)
			₩ <u>2,008,027</u>	<u>1,442,783</u>

The general loan in foreign currency from the Export-Import Bank of Korea in relation to the Group's overseas resource development business has a three-year maturity. Payments will be made in lump sum on the loan maturity date of October 1, 2013. The maturities of business loans from Korea National Oil Corporation as of June 30, 2011 are not readily determinable since the business loans are paid by installment in the event of successful commercial production by the Group's oil development business.

(c) Debentures as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

<b>Description</b>	<b>Maturity</b>	<b>Annual interest rate (%)</b>	<b>2011</b>	<b>2010</b>
112 <sup>th</sup> debenture	2012.04.13	5.43	₩ 300,000	300,000
95 <sup>th</sup> debenture	2011.04.14	5.54	-	100,000
97 <sup>th</sup> debenture	2011.10.25	4.98	100,000	100,000
98 <sup>th</sup> debenture	2014.02.02	5.44	100,000	100,000
99 <sup>th</sup> debenture	2012.03.27	5.23	100,000	100,000
100 <sup>th</sup> debenture	2011.02.20	5.45	-	136,668
101 <sup>st</sup> debenture	2013.03.20	6.05	150,000	150,000
102 <sup>nd</sup> debenture	2012.01.22	7.65	150,000	150,000
103 <sup>rd</sup> debenture	2014.07.03	6.80	100,000	100,000
104 <sup>th</sup> debenture	2012.09.30	5.79	100,000	100,000
105 <sup>th</sup> debenture	2015.06.28	5.75	200,000	200,000
106 <sup>th</sup> debenture	2014.04.14	4.36	100,000	-
	Current portion		(650,000)	(336,668)
			₩ <u>750,000</u>	<u>1,200,000</u>

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**21. Borrowings and Debentures, Continued**

- (d) Aggregate maturities of the Group's borrowings and debentures as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

		<b>2011</b>			
<b>Periods</b>		<b>Short-term borrowings</b>	<b>Long-term borrowings</b>	<b>Debentures</b>	<b>Total</b>
2011.07.01 ~ 2012.06.30	₩	6,930,430	3,915	650,000	7,584,345
2012.07.01 ~ 2016.06.30		-	1,293,318	750,000	2,043,318
2016.07.01 and thereafter		-	714,709	-	714,709
	₩	<u>6,930,430</u>	<u>2,011,942</u>	<u>1,400,000</u>	<u>10,342,372</u>

(In millions of won)

		<b>2010</b>			
<b>Periods</b>		<b>Short-term borrowings</b>	<b>Long-term borrowings</b>	<b>Debentures</b>	<b>Total</b>
2011.01.01 ~ 2011.12.31	₩	6,546,224	321,548	336,668	7,204,440
2012.01.01 ~ 2015.12.31		-	510,613	1,200,000	1,710,613
2016.01.01 and thereafter		-	932,170	-	932,170
	₩	<u>6,546,224</u>	<u>1,764,331</u>	<u>1,536,668</u>	<u>9,847,223</u>



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**22. Employee Benefits**

- (a) Recognized liabilities for defined benefit obligations as of June 30, 2011 and December 31, 2010 are as follows:

*(In millions of won)*

	<u>2011</u>	<u>2010</u>
Present value of defined benefit obligations	₩ 1,057,158	1,033,030
Fair value of plan assets	<u>(877,422)</u>	<u>(901,709)</u>
	<u>₩ 179,736</u>	<u>131,321</u>

- (b) Plan assets as of June 30, 2011 and December 31, 2010 are as follows:

*(In millions of won)*

	<u>2011</u>	<u>2010</u>
Retirement pension	₩ 772,453	7,113
Deposit for severance benefit insurance	88,714	876,755
Transfer to National Pension Fund	<u>16,255</u>	<u>17,841</u>
	<u>₩ 877,422</u>	<u>901,709</u>

- (c) Expenses recognized in profit or loss for the six-month periods ended June 30, 2011 and 2010 are as follows:

*(In millions of won)*

	<u>2011</u>	<u>2010</u>
Current service costs	₩ 91,024	72,242
Interest on obligation	25,726	42,305
Losses on curtailments	-	12,740
Expected return on plan assets	<u>(13,452)</u>	<u>(30,902)</u>
	<u>₩ 103,298</u>	<u>96,385</u>

- (d) Changes in the present value of the defined benefit obligations for the periods ended June 30, 2011 and December 31, 2010 are as follows:

*(In millions of won)*

	<u>2011</u>	<u>2010</u>
Beginning balance	₩ 1,033,030	1,441,070
Current service costs	91,024	149,480
Interest on obligation	25,726	86,970
Losses on curtailments	-	25,479
Benefits paid	(94,489)	(880,914)
Transfers from (to) related parties	1,867	1,108
Actuarial (gains) losses in other comprehensive income	-	132,186
Changes in scope of consolidation	-	77,651
Ending balance	<u>₩ 1,057,158</u>	<u>1,033,030</u>

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**22. Employee Benefits, Continued**

(e) Changes in the fair value of plan assets for the periods ended June 30, 2011 and December 31, 2010 are as follows:

(In millions of won)

		<u>2011</u>	<u>2010</u>
Beginning balance	₩	901,709	1,266,880
Benefits paid		(63,889)	(606,302)
Contributions paid into the plan		26,150	118,478
Expected return on plan assets		13,452	64,130
Actuarial (losses) gains in other comprehensive income		-	(4,823)
Changes in scope of consolidation		-	63,346
Ending balance	₩	<u>877,422</u>	<u>901,709</u>

(f) Principal actuarial assumptions at the reporting date are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate at the reporting date	4.35% ~ 5.69%	4.04% ~ 5.69%
Expected return on plan assets at January 1	3.98% ~ 4.50%	3.98% ~ 4.90%
Future salary increases	3.82% ~ 7.28%	3.00% ~ 7.28%
Future mortality (Males, at age 45)	0.06% ~ 0.29%	0.06% ~ 0.29%

**23. Long-term Provisions**

Changes in long-term provisions for the periods ended June 30, 2011 and December 31, 2010 are as follows:

(In millions of won)

	<u>2011</u>			
	<u>Provision for construction warranty</u>	<u>Provision for product warranty</u>	<u>Other Provision</u>	<u>Total</u>
Beginning balance	₩ 105,715	86,360	11,255	203,330
Increase (decrease)	16,998	2,829	10,318	30,145
Ending balance	₩ <u>122,713</u>	<u>89,189</u>	<u>21,573</u>	<u>233,475</u>

(In millions of won)

	<u>2010</u>			
	<u>Provision for construction warranty</u>	<u>Provision for product warranty</u>	<u>Other Provision</u>	<u>Total</u>
Beginning balance	₩ 99,554	66,512	850	166,916
Increase (decrease)	6,161	19,848	(20)	25,989
Changes in scope of consolidation	-	-	10,425	10,425
Ending balance	₩ <u>105,715</u>	<u>86,360</u>	<u>11,255</u>	<u>203,330</u>

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**24. Derivative Financial Instruments**

The Group has entered into derivative instrument contracts with various banks, including Korea Exchange Bank, to hedge the risk related to changes in foreign exchange rate and changes in crude oil price and so on. Derivatives are measured at fair value by using forward exchange rate presented by contract counterparty and so on.

(a) The description of derivative instrument and hedge accounting is as follows:

<b>Hedge accounting</b>	<b>Type</b>	<b>Description</b>
Cash flow hedge	Foreign currency forward	Hedge of the variability in cash flows attributable to foreign currency exposure in respect of forecast sales and purchases
	Foreign currency futures	Hedge of currency exchange rate fluctuation risk on foreign currency reserves
	Interest rate swap	Hedge of cash flow risk on interest rate fluctuation
Fair value hedge	Foreign currency forward	(i) Hedge of the risk of changes in the fair value of firm commitments (ii) Hedge of the risk of changes in foreign currency exchange rate for payables in foreign currency

(b) Gain and loss on valuation and transaction of derivatives for the six-month period ended June 30, 2011 are as follows:

(i) Terms of derivative contracts

*(In millions of won and in thousands of foreign currency)*

<b>Description</b>	<b>Type</b>	<b>Currency</b>		<b>Contract amount</b>	<b>Number of contracts</b>	<b>Weighted average exchange rate</b>	<b>Average maturities</b>
		<b>Sell</b>	<b>Buy</b>				
Cash flow hedge	Foreign currency forward	EUR	KRW	35,877	350	1,637	2012-04-03
		USD	KRW	1,145,532		1,125	2011-12-23
		KRW	EUR	18,212		1,582	2012-06-21
		KRW	USD	1,585,544		1,091	2012-10-10
	Foreign currency futures	KRW	USD	500	46	1,089	2011-09-30
	Interest rate swap	KRW	KRW	80,000	1	-	2020-11-30
Fair value hedge	Foreign currency forward	EUR	KRW	17,910	2,798	1,701	2012-06-10
		USD	KRW	16,426,265		1,136	2012-08-12

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**24. Derivative Financial Instruments, Continued**

(b) Gain and loss on valuation and transaction of derivatives for the six-month period ended June 30, 2011 are as follows, continued

(i) Terms of derivative contracts, continued

*(In millions of won and in thousands of foreign currency)*

Description	Type	Currency		Contract amount	Number of contracts	Weighted average exchange rate	Average maturities
		Sell	Buy				
For trading	Foreign currency forward	KRW	USD	332,339	124	1,140	2011-11-22
		USD	KRW	1,035,613		1,042	2011-12-10
	Foreign currency futures	USD	KRW	2,568	24	1,077	2011-09-20
		KRW	USD	109		1,091	2011-09-20
	Interest rate futures	USD	USD	1,110	10	1,077	2011-09-30
		KRW	KRW	516		-	2011-09-20
	Index futures	USD	USD	1,373	17	1,080	2011-09-13
		KRW	KRW	138		-	2011-09-20
	Index number option	KRW	KRW	2,256	82	-	2011-07-14
	Interest rate swap	KRW	KRW	50,000	3	-	2015-04-06
	Stock warrants	KRW	KRW	2,500	1	-	2016-03-29
	Commodity futures sell	USD	USD	3,299	44	1,082	2011-09-30
	Commodity futures buy	USD	USD	324	2	1,074	2011-09-15
	Product forward	USD	USD	122,527	37	1,081	2011-10-31
	Foreign currency forward	EUR	KRW	53,787	3,272	1,658	2012-04-26
		USD	KRW	18,607,410		1,130	2012-07-15
		KRW	EUR	18,212		1,582	2012-06-21
		KRW	USD	1,917,883		1,099	2012-08-15
	Foreign currency futures	KRW	USD	609	70	1,089	2011-09-28
		USD	KRW	2,568		1,077	2011-09-20
	Interest rate futures	USD	USD	1,110	10	1,077	2011-09-30
		KRW	KRW	516		-	2011-09-20
	Index futures	USD	USD	1,373	17	1,080	2011-09-13
		KRW	KRW	138		-	2011-09-20
	Index number option	KRW	KRW	2,256	82	-	2011-07-14
	Interest rate swap	KRW	KRW	130,000	4	-	2018-09-28
	Stock warrants	KRW	KRW	2,500	1	-	2016-03-29
	Commodity futures sell	USD	USD	3,299	44	1,082	2011-09-30
	Commodity futures buy	USD	USD	324	2	1,074	2011-09-15
	Product forward	USD	USD	122,527	37	1,081	2011-10-31

(\*) Terms of collection: Netting the settlement or collecting total

(\*\*) The contract amount is denominated in selling currency

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**24. Derivative Financial Instruments, Continued**

(b) Gain and loss on valuation and transaction of derivatives for the six-month period ended June 30, 2011 are as follows, continued

(ii) Gain and loss on valuation and transaction of derivatives

(In millions of won)

Description	Type	Sales	Cost of sales	Finance income	Finance costs	Other non-operating income	Other non-operating expenses	Accumulated other comprehensive income	Firm commitment		Derivatives		Financial assets or liabilities at fair value through profit or loss	
									Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Cash flow</b>	Foreign currency forward	₩ 43,073	(570)	1,711	-	-	-	14,397	-	-	46,036	28,934	-	-
<b>hedge</b>	Foreign currency futures	8	-	-	-	-	-	-	-	-	-	-	-	-
	Interest rate swap	-	-	-	-	-	-	(2,965)	-	-	-	2,965	-	-
<b>Fair value</b>	Foreign currency forward													
<b>hedge</b>		(125,493)	-	937,612	(54,694)	9,700	(810,407)	-	590,487	750,632	772,515	148,596	-	-
<b>For trading</b>	Foreign currency forward	3,400	(281)	91,466	(77,186)	-	-	-	-	-	-	-	27,053	94,152
	Foreign currency futures	2,517	(2,249)	-	-	-	-	-	-	-	-	-	-	-
	Interest rate futures	893	(983)	-	-	-	-	-	-	-	-	-	-	-
	Index futures	107	(98)	-	-	-	-	-	-	-	-	-	-	-
	Index number option	78,108	(67,946)	-	-	-	-	-	-	-	-	-	18	16
	Interest rate swap	163	-	-	-	-	-	-	-	-	-	-	163	-
	Stock warrants	307	(151)	-	-	-	-	-	-	-	-	-	583	-
	Commodity futures sell	314	(216)	-	-	-	-	-	-	-	-	-	-	-
	Commodity futures buy	-	-	-	-	-	-	-	-	-	-	-	-	-
	Product forward	-	-	41,307	(4,268)	-	-	-	-	-	-	-	25,559	38
		₩ 3,397	(72,494)	1,072,096	(136,148)	9,700	(810,407)	11,432	590,487	750,632	818,551	180,495	53,376	94,206

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**24. Derivative Financial Instruments, Continued**

As of June 30, 2011, the Group applies cash flow hedge accounting, out of which the Group accounted for the effective portion of the hedge amounting to ₩(-)13,410 million, after netting off deferred tax adjustment of ₩3,084 million and non-controlling interest portion of ₩(-)21,758 million, as gain (loss) on valuation of derivatives in accumulated other comprehensive income.

The expected period of exposure to cash flow risk, where cash flow hedge accounting is applied, is approximately within 112 months, and the amount among gain (loss) on valuation of derivatives that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from June 30, 2011 is ₩19,695 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.

In relation to the shipbuilding contracts in foreign currency as of June 30, 2011, the Group entered into foreign exchange forward contracts and accounted for such contracts as fair value hedges. As a result, the net balance of firm commitment assets and liabilities was ₩(-)160,145 million and related gain and loss on valuation of firm commitments were recorded as ₩9,700 million and ₩810,407 million, respectively, in other non-operating income and expense.

Gain and loss on derivatives transactions that mature within the current year are recorded as ₩339,956 million and ₩107,976 million, respectively in finance income and costs. Gain and loss on valuation of derivatives are recorded as ₩732,140 million and ₩28,172 million, respectively in finance income and costs.

In relation to valuation of derivatives that have not reached their maturity dates, the Group recorded derivative assets of ₩818,551 million, derivative liabilities of ₩180,495 million, financial assets at fair value through profit or loss of ₩53,376 million and financial liabilities at fair value through profit or loss of ₩94,206 million as of June 30, 2011.

**25. Capital and capital surplus**

- (a) The Group is authorized to issue 160,000,000 shares of capital stock (par value ₩5,000), and as of June 30, 2011 and December 31, 2010, the number of issued common shares is 76,000,000.

There have been no changes in the capital stock for the six-month period ended June 30, 2011.

- (b) Capital surplus

Capital surplus is comprised of paid-in capital in excess of par value, consolidated capital surplus related to acquisition or disposal of interests in subsidiaries and investments in associates, and other capital surplus of the Company. Other capital surplus of the Company is derived from various sources including profits arising from previous business combination, and gains on disposal of treasury stocks and others. Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

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**26. Treasury Stock**

(a) Treasury stock of the Company as of June 30, 2011 and December 31, 2010 is summarized as follows:

(In millions of won)

	2011			2010		
	Number of shares	Acquisition cost	Fair value	Number of shares	Acquisition cost	Fair value
Treasury stock	14,711,560	₩ 1,400,455	6,524,577	14,711,560	₩ 1,400,455	6,517,221

(b) As of June 30, 2011, among the Company's shares, 6,063,000 shares, ₩236,721 million at acquisition cost and ₩2,688,941 million in fair value are owned by Hyundai Mipo Dockyard Co., Ltd., a subsidiary of the Group. The Group recorded its portion as treasury stock in capital adjustments, in the amount of ₩103,565 million.

**27. Accumulated Other Comprehensive Income**

(a) Accumulated other comprehensive income as of June 30, 2011 and December 31, 2010 is summarized as follows:

(In millions of won)

	2011	2010
Gain and loss on valuation of available-for-sale financial assets	₩ 1,521,437	1,174,887
Gain and loss on valuation of derivatives	(13,410)	(1,496)
Exchange differences on translating foreign operations	28,929	46,184
Change in equity of equity method investments	33,789	133,064
	₩ 1,570,745	1,352,639

(b) Other comprehensive income for the six-month periods ended June 30, 2011 and 2010 is as follows:

(In millions of won)

	2011		
	Other comprehensive income	Owners of the Company	Non-controlling interests
Gain and loss on valuation of available-for-sale financial assets, net of tax	₩ 328,842	346,550	(17,708)
Gain and loss on valuation of derivatives, net of tax	(12,875)	(11,914)	(961)
Exchange differences on translating foreign operations, net of tax	(33,833)	(17,255)	(16,578)
Change in equity of equity method investments, net of tax	(101,631)	(99,275)	(2,356)
	₩ 180,503	218,106	(37,603)

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**27. Accumulated Other Comprehensive Income, Continued**

(In millions of won)

	<b>2010</b>		
	<b>Other comprehensive income</b>	<b>Owners of the Company</b>	<b>Non-controlling interests</b>
Gain and loss on valuation of available-for-sale financial assets	₩ (47,284)	30,803	(78,087)
Gain and loss on valuation of derivatives	(70,729)	(70,729)	-
Exchange differences on translating foreign operations	27,746	18,346	9,400
Change in equity of equity method investments	(29,523)	(29,084)	(439)
	<u>₩ (119,790)</u>	<u>(50,664)</u>	<u>(69,126)</u>

**28. Retained Earnings**

Retained earnings as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	<b>2011</b>	<b>2010</b>
<b>Legal reserves:</b>		
Legal appropriated retained earnings (*1)	₩ 190,000	190,000
Reserve for corporate development (*2)	30,000	30,000
Asset revaluation surplus	1,800,414	1,800,414
	<u>2,020,414</u>	<u>2,020,414</u>
<b>Voluntary reserves: (*3)</b>		
Reserve for business rationalization	87,277	87,277
Reserve for facilities	78,270	78,270
Reserve for research and human development	470,000	446,667
Others	8,768,345	5,459,557
	<u>9,403,892</u>	<u>6,071,771</u>
<b>Unappropriated retained earnings</b>	<u>3,495,268</u>	<u>5,266,643</u>
	<u>₩ 14,919,574</u>	<u>13,358,828</u>

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

(\*2) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws

(\*3) Pursuant to the Tax Exemption and Reduction Control Law, the Group is allowed to make a reserve for research and human development, a reserve for facilities and others, which are appropriated in accordance with related laws.



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**29. Acquisitions of Subsidiary and Non-controlling Interests**

(a) General information

On January 26, 2011, the Group gained control of Jahnel-Kestermann Getriebewerke GmbH, which designs and manufactures gearboxes for ships, by acquiring 100% shares of the entity. The Group invested in Hyundai Energy & Resources Co., Ltd. for mine, energy and new renewable energy developments. The Group also invested in Hyundai Heavy Industries (Shanghai) R&D Co., Ltd. for research and development of technology of construction machinery, engine and electric equipment. Other than above investments, the Group invested in private equity fund for short term capital management purpose.

(b) The following summarizes the major classes of consideration transferred, and the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

(i) Consideration transferred

*(In millions of won)*

		<u>Cash and cash equivalents</u>
Jahnel-Kestermann Getriebewerke GmbH	₩	-
HI Gold Ocean Ship Private Special Assets Investment Trust No. 2 (Beneficiary Right)		33,517
Tribridge Great China IPO Fund		10,084
HI K2-100 Private Securities Investment Trust 24 (ELS-Derivative)		10,000
Hyundai Energy & Resources Co., Ltd.		20,000
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.		2,289

(ii) Fair value of identifiable assets acquired and liabilities assumed on acquisition date

*(In millions of won)*

		<u>Jahnel-Kestermann Getriebewerke GmbH</u>
Short-term financial assets	₩	1,188
Trade receivables		10,406
Inventories		36,549
Property, plant and equipment		21,088
Other assets		10,243
Trade payables and other payables		(60,310)
Borrowings		(36,619)
Net assets	₩	<u>(17,455)</u>

(c) Goodwill

Goodwill was recognized as a result of the acquisition of Jahnel-Kestermann Getriebewerke GmbH for the period ended June 30, 2011, and the goodwill amounted to ₩17,455 million, net of consideration transferred amounted to one euro and fair value of net assets amounted to ₩(-)17,455 million.

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**30. Outstanding Contracts**

(a) Sales for the three and six-month periods ended June 30, 2011 and 2010 are as follows:

(In millions of won)

	2011		2010	
	Three-month period	Six-month period	Three-month period	Six-month period
Construction contracts	₩ 7,199,991	13,048,946	7,287,183	12,906,047
Goods sold	5,984,457	12,506,675	204,852	1,881,556
Services	38,627	213,515	148,943	210,633
(Finance) Interest income	8,483	51,086	18,368	33,490
(Finance) Dividend income	7,119	7,295	1,431	1,969
(Finance) Commission income	49,344	96,086	53,958	84,789
(Finance) Gain and loss on valuation of financial instruments	(6,219)	9,945	146	610
(Finance) Gain and loss on disposal of financial instruments	73,936	121,364	56,176	103,031
(Finance) Other operating income	38,944	40,851	3,162	18,822
	₩ <u>13,394,682</u>	<u>26,095,763</u>	<u>7,774,219</u>	<u>15,240,947</u>

(b) Changes in outstanding contracts for the six-month period ended June 30, 2011 are as follows:

(In millions of won)

	Shipbuilding	Others	Total
Beginning of period (*)	₩ 33,521,396	17,816,424	51,337,820
Increase during the period	13,852,656	18,147,277	31,999,933
Recognized as revenue in current income	(10,746,201)	(15,349,562)	(26,095,763)
End of period	₩ <u>36,627,851</u>	<u>20,614,139</u>	<u>57,241,990</u>

(\*) The beginning of period balances for backlog were recalculated with the appropriate exchange rate in effect at the end of 2010.

As of June 30, 2011, in connection with construction contracts, the Group has provided a certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers.

(c) Accumulated profit and loss of construction and others connected with construction in progress as of June 30, 2011 are as follows:

(In millions of won)

		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit and loss of construction	Receivables on construction contracts		Due to customers for contract work
					Billed	Unbilled	
Shipbuilding	₩	21,415,321	17,676,428	3,738,893	1,034,311	3,566,012	7,836,970
Others		17,917,566	14,981,203	2,936,363	573,610	639,517	1,509,795
	₩	<u>39,332,887</u>	<u>32,657,631</u>	<u>6,675,256</u>	<u>1,607,921</u>	<u>4,205,529</u>	<u>9,346,765</u>

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**31. Operating Segments**

The Group has 10 reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- (i) Shipbuilding: Manufacturing and sale of VLCC, containerships, P/C ships, LNG ships, and warships
- (ii) Offshore and engineering: Manufacturing and installation of offshore facilities and floating units.
- (iii) Industrial plant and engineering: Manufacturing and installation of thermal power plants, co-generating power plants, and processing equipments
- (iv) Engine and machinery: Manufacturing and sale of engines for ships, diesel power plants, industrial and marine pumps, fluid machineries, and industrial robots
- (v) Construction equipment: Manufacturing and sale of construction equipments and wheel loaders
- (vi) Electro electric system: Manufacturing and sale of transformers, low and medium voltage circuit breakers, switchgears, and power electronics and control system
- (vii) Green energy: Services related to solar power system, wind turbine system, and new renewable energy system
- (viii) Financing: Financing services
- (ix) Oil refining: Oil refining business.
- (x) Others: Hotel operation, football club and others

Information about reportable segments is as follows:

- (a) Financial performance of each segment for the six-month periods ended June 30, 2011 and 2010 is as follows:

(In millions of won)

		<b>2011</b>				
		<b>Sales</b>	<b>Inter-segment revenue</b>	<b>Operating income</b>	<b>Profit</b>	<b>Depreciation</b>
Shipbuilding	₩	9,610,969	(362,238)	1,396,294	1,456,562	146,288
Offshore and engineering		1,575,685	(44)	182,710	186,777	23,319
Industrial plant and engineering		1,462,853	(63,417)	209,235	215,797	3,888
Engine and machinery		1,474,719	(485,110)	338,488	365,771	47,301
Construction equipment		3,416,277	(855,057)	368,272	327,865	17,528
Electro electric system		1,002,086	(82,676)	74,544	48,479	17,579
Green energy		226,647	(8,872)	4,688	6,924	12,181
Financing		330,948	(9,929)	50,081	51,093	4,002
Oil refining		10,056,541	(1,321,140)	255,715	286,307	83,561
Others		530,237	(402,716)	(120,318)	(422,069)	29,445
Consolidation adjustments (*)		(3,591,199)	3,591,199	(18,513)	(317,190)	(1,371)
	₩	26,095,763	-	2,741,196	2,206,316	383,721

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**31. Operating Segments, Continued**

(In millions of won)

		2010				
		Sales	Inter-segment revenue	Operating income	Profit	Depreciation
Shipbuilding	₩	7,882,799	(196,642)	1,414,790	1,383,327	154,208
Offshore and engineering		1,470,620	(25)	250,073	253,819	22,207
Industrial plant and engineering		1,332,888	(33,881)	182,986	180,433	2,481
Engine and machinery		1,288,794	(327,451)	331,571	321,213	34,824
Construction equipment		2,366,823	(529,885)	217,185	203,081	10,421
Electro electric system		1,694,544	(65,382)	302,809	300,866	25,090
Financing		246,662	(11,856)	63,444	44,727	3,906
Others		388,184	(265,244)	(91,618)	(495,831)	36,103
Consolidation adjustments (*)		(1,430,366)	1,430,366	(4,970)	(111,863)	(1,206)
	₩	<u>15,240,948</u>	<u>-</u>	<u>2,666,270</u>	<u>2,079,772</u>	<u>288,034</u>

(\*) Consolidation adjustments are made through eliminating inter-segment transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using equity method.

(b) Assets and liabilities of each segment as of June 30, 2011 and December 31, 2010 are as follows:

(In millions of won)

		2011		2010	
		Total assets	Total liabilities	Total assets	Total liabilities
Shipbuilding	₩	21,388,156	12,836,364	20,216,907	12,879,764
Offshore and engineering		1,339,223	1,150,339	1,334,341	1,320,693
Industrial plant and engineering		1,307,070	1,055,662	991,081	950,925
Engine and machinery		1,740,673	1,392,520	1,225,257	1,296,596
Construction equipment		2,162,765	1,408,245	1,540,893	1,040,944
Electro electric system		781,156	552,932	702,383	513,439
Green energy		96,825	67,755	-	-
Financing		4,793,540	3,507,694	4,110,687	2,846,563
Oil refining		8,427,545	5,830,714	7,389,038	5,067,568
Others		19,346,643	6,259,284	19,912,417	6,512,587
Consolidation adjustments (*)		(11,023,382)	(1,690,042)	(10,325,443)	(1,426,741)
	₩	<u>50,360,214</u>	<u>32,371,467</u>	<u>47,097,561</u>	<u>31,002,338</u>

(\*) Consolidation adjustments are made through eliminating inter-segment transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using equity method.

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**31. Operating Segments, Continued**

(c) Geographical information by subsidiary's location is as follows:

(i) Sales for the six-month periods ended June 30, 2011 and 2010

(In millions of won)

	2011		2010	
	Total sales	Inter-segment revenue	Total sales	Inter-segment revenue
Korea	₩ 26,115,740	(2,010,863)	15,081,827	(1,240,140)
North America	248,020	(1,164)	113,203	(1,369)
Asia	3,120,644	(1,576,438)	1,342,666	(180,255)
Europe	202,558	(2,734)	127,013	(1,997)
Consolidation adjustments (*)	(3,591,199)	3,591,199	(1,423,761)	1,423,761
	₩ 26,095,763	-	15,240,948	-

(\*) Consolidation adjustments are made through eliminating inter-segment transactions and unrealized profits and losses.

(ii) Non-current assets as of June 30, 2011 and December 31, 2010

(In millions of won)

	2011	2010
Korea	₩ 15,600,238	15,175,777
North America	89,147	21,322
Asia	472,205	473,849
Europe	57,972	35,410
	16,219,562	15,706,358
Consolidation adjustments	1,684,658	1,693,673
Total (*)	₩ 17,904,220	17,400,031

(\*) Sum of property, plant and equipment, intangible assets and investment properties

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**32. Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the three and six-month periods ended June 30, 2011 and 2010 are as follows:

(In millions of won)

	2011		2010	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 162,488	327,990	145,555	272,714
Post-employment benefit costs	12,709	16,936	2,183	12,079
Employee welfare	36,971	71,798	24,345	50,866
Depreciation	17,644	42,940	3,328	15,364
Bad debt expenses	41,231	76,088	90,254	125,538
Ordinary development costs	32,640	61,966	19,819	41,081
Advertising	25,468	47,249	18,617	30,465
Printing	1,111	1,817	669	1,324
After-sale expenses	40,496	76,887	23,266	34,765
Insurance	3,311	5,849	2,645	5,112
Supplies	2,940	5,667	2,265	3,999
Utilities	2,572	5,874	1,454	2,948
Repairs	4,868	7,499	3,675	4,980
Travel	9,496	16,948	5,666	10,860
Research	3,127	6,446	5,374	10,829
Training	3,525	6,513	1,407	2,647
Service contract expenses	19,109	34,265	5,299	9,657
Transportation	55,919	113,473	29,446	52,461
Rent	10,586	21,252	6,302	12,008
Data processing	7,479	10,319	5,871	9,627
Entertainment	3,344	6,673	3,529	6,409
Taxes and dues	9,517	19,044	4,559	8,345
Service charges	55,593	100,650	77,217	110,859
Automobile maintenance	2,673	5,358	2,338	4,694
Communications	3,680	6,992	3,060	6,007
Sales commissions	19,641	42,680	25,802	44,771
Others	4,669	31,110	18,104	41,118
	₩ <u>592,807</u>	<u>1,170,283</u>	<u>532,049</u>	<u>931,527</u>

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**33. Nature of Expenses**

The classification of expenses by nature for the six-month periods ended June 30, 2011 and 2010 is as follows:

<i>(In millions of won)</i>	<u>2011</u>	<u>2010</u>
Changes in inventories	₩ (1,171,809)	357,448
Purchase of inventories	20,776,939	8,646,845
Depreciation	383,721	288,034
Amortization	37,680	26,713
Labor cost	1,506,624	1,313,845
Other expenses	1,821,412	1,941,793
	<u>₩ 23,354,567</u>	<u>12,574,678</u>

Total expenses consist of cost of sales and selling, general and administrative expenses.

**34. Operating Income and Loss**

Operating income and loss consists of sales, cost of sales and selling, general and administrative expenses. It is identical to the amount under the previous K-GAAP ("Korean GAAP").

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**35. Finance Income and Finance Costs**

Finance income and finance costs for the three and six-month periods ended June 30, 2011 and 2010 are as follows:

(In millions of won)

	2011		2010	
	Three-month period	Six-month period	Three-month period	Six-month period
<b>Finance income:</b>				
Interest income	₩ 87,125	143,898	57,293	114,162
Dividend income	89	85,987	249	61,236
Gain on foreign currency transactions	184,949	307,121	199,948	291,116
Gain on foreign currency translation	-	69,876	167,527	121,431
Gain on disposal of available-for-sale financial assets	1,458	3,520	586	592
Gain on valuation of financial instruments at fair value through profit or loss	34,981	76,429	28,470	87,414
Gain on disposal of financial instruments at fair value through profit or loss	34,881	56,344	15,861	18,074
Gain on valuation of derivatives	342,208	655,711	-	14,233
Gain on derivatives transactions	201,921	283,611	90,476	209,894
Other finance income	2	2	-	-
	₩ <u>887,614</u>	<u>1,682,499</u>	<u>560,410</u>	<u>918,152</u>
<b>Finance costs:</b>				
Interest expense	₩ 61,909	112,020	28,429	59,236
Loss on foreign currency transactions	210,291	365,500	188,181	366,163
Loss on foreign currency translation	5,671	129,624	-	54,552
Loss on disposal of available-for-sale financial assets	82	220	655	668
Impairment loss on available-for-sale financial assets	1,296	6,486	-	-
Loss on valuation of financial instruments at fair value through profit or loss	414	24,984	143,559	147,482
Loss on disposal of financial instruments at fair value through profit or loss	25,752	56,471	36,116	53,327
Loss on valuation of derivatives	-	3,189	1,060,829	654,331
Loss on derivatives transactions	29,937	51,506	78,383	83,570
	₩ <u>335,352</u>	<u>750,000</u>	<u>1,536,152</u>	<u>1,419,329</u>



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**36. Other Non-operating Income and Other Non-operating Expenses**

Other non-operating income and other non-operating expenses for the three and six-month periods ended June 30, 2011 and 2010 are as follows:

(In millions of won)

	2011		2010	
	Three-month period	Six-month period	Three-month period	Six-month period
<b>Other non-operating income:</b>				
Gain on disposal of property, plant and equipment	₩ 686	4,562	3,289	3,930
Gain on disposal of intangible assets	48	48	-	-
Gain on disposal of investment assets	-	-	236	513
Reversal of provision for product warranty	1,303	4,942	-	-
Reversal of provision for construction warranty	2,502	4,817	3,412	6,144
Gain on valuation of firm commitments	2,382	9,700	1,035,532	683,453
Reversal of allowance for doubtful accounts	3,825	8,763	-	703
Miscellaneous income	41,057	166,313	32,749	201,076
	₩ <u>51,803</u>	<u>199,145</u>	<u>1,075,218</u>	<u>895,819</u>
<b>Other non-operating expenses:</b>				
Service charges	₩ 7,321	9,139	3,825	6,845
Loss on disposal of property, plant and equipment	249	9,030	378	17,689
Loss on disposal of intangible assets	428	428	2	2
Loss on disposal of investments in associates	337	337	-	-
Loss on valuation of firm commitments	480,012	810,407	-	216,781
Other bad debt expenses	-	7	31,532	26,750
Donation	18,451	22,254	7,520	14,104
Miscellaneous expenses	11,086	49,153	12,643	16,294
	₩ <u>517,884</u>	<u>900,755</u>	<u>55,900</u>	<u>298,465</u>

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**37. Income Tax Expense**

Income tax expense for the six-month periods ended June 30, 2011 and 2010 is as follows:

<i>(In millions of won)</i>		<u>2011</u>	<u>2010</u>
Current tax expense	₩	625,871	628,215
Changes in deferred taxes due to temporary differences		204,583	59,461
Changes in deferred taxes directly adjusted in equity		(77,561)	65,389
Income tax expense		<u>752,893</u>	<u>753,065</u>
Profit before income tax		2,959,210	2,832,837
Effective tax rate	%	<u>25.44</u>	<u>26.58</u>

The income taxes are calculated at the estimated effective tax rates that are expected to apply for the year ended December 31, 2011 and 2010, based on the management's best estimate. The change in the effective tax rate for the six-month periods ended June 30, 2011 and 2010 is due to the increase of tax credit.

**38. Earnings per Share**

Basic earnings per share for the three and six-month periods ended June 30, 2011 and 2010 are as follows:

		<u>2011</u>		<u>2010</u>	
		<u>Three-month period</u>	<u>Six-month period</u>	<u>Three-month period</u>	<u>Six-month period</u>
Profit attributable to owners of the Company	₩	710,458	1,989,765	902,045	1,837,086
Weighted average number of common shares outstanding		55,225	55,225	54,558	54,558
Earnings per share	₩	<u>12,865</u>	<u>36,030</u>	<u>16,533</u>	<u>33,672</u>

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**39. Categories of Financial Instruments and Income and Costs by Categories**

(a) Categories of financial instruments as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won)

	<b>2011</b>								
	<b>Cash and cash equivalents</b>	<b>Held for trading investments</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Available-for- sale financial assets</b>	<b>Loans and receivables</b>	<b>Derivative assets</b>	<b>Held for trading liabilities</b>	<b>Financial liabilities measured at amortised cost</b>	<b>Derivative liabilities</b>
Cash and cash equivalents	₩ 2,356,895	-	-	-	-	-	-	-	-
Short-term financial assets	-	1,712,007	143,926	13,068	600,255	-	-	-	-
Trade and other receivables	-	-	-	-	6,231,397	-	-	-	-
Due from customers for contract work	-	-	-	-	3,965,910	-	-	-	-
Derivative assets (current)	-	-	-	-	-	520,027	-	-	-
Long-term financial assets	-	10,507	-	4,335,564	30,639	-	-	-	-
Long-term trade and other receivables	-	-	-	-	1,781,634	-	-	-	-
Long-term due from customers for contract work	-	-	-	-	239,619	-	-	-	-
Derivative assets (non-current)	-	-	-	-	-	298,524	-	-	-
Short-term financial liabilities	-	-	-	-	-	-	272,403	7,838,534	-
Trade and other payables	-	-	-	-	-	-	-	7,211,679	-
Derivative liabilities (current)	-	-	-	-	-	-	-	-	163,269
Long-term financial liabilities	-	-	-	-	-	-	379	2,756,073	-
Long-term trade and other liabilities	-	-	-	-	-	-	-	299,520	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	17,225
	<u>₩ 2,356,895</u>	<u>1,722,514</u>	<u>143,926</u>	<u>4,348,632</u>	<u>12,849,454</u>	<u>818,551</u>	<u>272,782</u>	<u>18,105,806</u>	<u>180,494</u>

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**39. Categories of Financial Instruments and Income and Costs by Categories, Continued**

(In millions of won)

	<b>2010</b>								
	<b>Cash and cash equivalents</b>	<b>Held for trading investments</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Loans and receivables</b>	<b>Derivative assets</b>	<b>Held for trading liabilities</b>	<b>Financial liabilities measured at amortised cost</b>	<b>Derivative liabilities</b>
Cash and cash equivalents	₩ 1,878,801	-	-	-	-	-	-	-	-
Short-term financial assets	-	1,486,029	171,038	60,803	761,970	-	-	-	-
Trade and other receivables	-	-	-	-	5,383,189	-	-	-	-
Due from customers for contract work	-	-	-	-	4,830,967	-	-	-	-
Derivative assets (current)	-	-	-	-	-	245,892	-	-	-
Long-term financial assets	-	6,462	-	3,712,378	3,347	-	-	-	-
Long-term trade and other receivables	-	-	-	-	1,330,968	-	-	-	-
Long-term due from customers for contract work	-	-	-	-	251,296	-	-	-	-
Derivative assets (non-current)	-	-	-	-	-	168,884	-	-	-
Short-term financial liabilities	-	-	-	-	-	-	321,979	7,443,109	-
Trade and other payables	-	-	-	-	-	-	-	5,901,490	-
Derivative liabilities (current)	-	-	-	-	-	-	-	-	700,374
Long-term financial liabilities	-	-	-	-	-	-	25,263	2,640,032	-
Long-term trade and other liabilities	-	-	-	-	-	-	-	244,353	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	62,407
	<u>₩ 1,878,801</u>	<u>1,492,491</u>	<u>171,038</u>	<u>3,773,181</u>	<u>12,561,737</u>	<u>414,776</u>	<u>347,242</u>	<u>16,228,984</u>	<u>762,781</u>

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**39. Categories of Financial Instruments and Income and Costs by Categories**

(b) Financial instruments income and costs by categories for the six-month periods ended June 30, 2011 and 2010 are as follows:

*(In millions of won)*

	<b>Net income</b>		<b>Other comprehensive income</b>		<b>Interest income and interest expense (*)</b>		<b>Fee income and fee expense</b>		<b>Impairment loss</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	₩ 48,724	23,763	-	-	26,878	9,141	-	-	-	-
Held for trading investments	97,458	(57,637)	-	-	32,569	20,524	(725)	(977)	-	-
Financial assets at fair value through profit or loss	2,575	2,148	-	-	-	-	-	-	-	-
Available-for-sale financial assets	91,291	75,373	346,550	30,803	2,035	3,094	-	-	(6,486)	-
Loans and receivables	(192,253)	(53,959)	-	-	133,498	114,883	-	-	(66,989)	(151,145)
Held for trading liabilities	1,643	346	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	44,811	(78,873)	-	-	(155,018)	(72,854)	-	-	-	-
Derivatives	843,198	(495,672)	(11,914)	(70,729)	-	-	-	-	-	-

(\*) Interest income and interest expense includes interest income and interest expense arising from effective interest rate amortization.

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**40. Risk of Financial Instruments**

(a) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of June 30, 2011 and December 31, 2010 is as follows:

<i>(In millions of won)</i>		<u>2011</u>	<u>2010</u>
Cash and cash equivalents	₩	2,356,895	1,878,801
Held for trading investments		1,722,514	1,492,491
Financial assets at fair value through profit or loss		143,926	171,038
Available-for-sale financial assets		4,348,632	3,773,181
Loans and receivables		12,849,454	12,561,737
Derivative assets		818,551	414,776
	₩	<u>22,239,972</u>	<u>20,292,024</u>

The maximum exposure to credit risk for financial guarantee contracts is ₩584,310 million as of June 30, 2011 (see notes 41 and 43).

(ii) Impairment loss

The aging of loans and receivables and the related allowance for impairment as of June 30, 2011 and December 31, 2010 are as follows:

<i>(In millions of won)</i>		<u>2011</u>		<u>2010</u>	
		<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Not past due	₩	9,373,234	(272,836)	9,408,665	(293,526)
Past due 0-6 months		2,261,219	(4,387)	3,039,616	(5,837)
Past due 6-12 months		259,345	(4,882)	287,267	(11,513)
Past due 1-3 years		1,288,448	(56,067)	114,967	(13,299)
More than three years		34,418	(29,038)	165,786	(130,389)
	₩	<u>13,216,664</u>	<u>(367,210)</u>	<u>13,016,301</u>	<u>(454,564)</u>

The movement in the allowance for impairment in respect of loans and receivables during the six-month period ended June 30, 2011 and the year ended December 31, 2010 is as follows:

<i>(In millions of won)</i>		<u>2011</u>	<u>2010</u>
Beginning balance	₩	454,564	306,500
Impairment loss recognized		75,989	240,628
Write off		(154,343)	(33,091)
Reversal of allowance accounts		(9,000)	(59,473)
Ending balance	₩	<u>367,210</u>	<u>454,564</u>

The allowance accounts in respect of loans and receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

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**40. Risk of Financial Instruments, Continued**

(a) Credit risk, continued

(iii) The analysis of the ageing of financial assets that are past due as at June 30, 2011 and December 31, 2010 but not impaired is summarised as follows:

(In millions of won)

		2011				
		Carrying amount	6 months or less	6-12 months	1-3 years	More than 3 years
Loans and receivables	₩	3,749,056	2,256,832	254,463	1,232,381	5,380

(In millions of won)

		2010				
		Carrying amount	6 months or less	6-12 months	1-3 years	More than 3 years
Loans and receivables	₩	3,446,598	3,033,779	275,754	101,668	35,397

(b) Liquidity risk

(i) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of June 30, 2011 and December 31, 2010 are summarised as follows:

(In millions of won)

		2011					
		Carrying amount	Contractual cash flow	6 months or less	6-12 months	1-3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>							
Held for trading liabilities	₩	178,575	178,575	178,575	-	-	-
Bank loans		8,942,372	9,345,236	6,333,525	695,068	530,957	1,785,686
Bond issues		1,397,509	1,548,614	140,470	583,804	611,155	213,185
Trade and other payables		7,511,199	7,511,199	6,895,218	316,461	226,815	72,705
Deposit liabilities		239,878	239,878	239,878	-	-	-
Others		14,848	14,848	14,848	-	-	-
<b>Derivative financial liabilities:</b>							
Interest rate swaps used for hedging:							
Outflow		2,965	3,324	-	-	1,257	2,067
Forward exchange contracts used for hedging:							
Outflow		177,530	182,454	114,643	52,026	15,785	-
Other forward exchange contracts:							
Outflow		94,152	95,552	49,539	45,600	413	-
Other derivative contracts:							
Outflow		54	54	54	-	-	-
	₩	<u>18,559,082</u>	<u>19,119,734</u>	<u>13,966,750</u>	<u>1,692,959</u>	<u>1,386,382</u>	<u>2,073,643</u>

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**40. Risk of Financial Instruments, Continued**

(b) Liquidity risk, continued

(In millions of won)

	<b>2010</b>					
	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-3 years</b>	<b>More than 3 years</b>
<b>Non-derivative financial liabilities:</b>						
Held for trading liabilities	₩ 96,217	96,217	96,217	-	-	-
Bank loans	8,310,555	8,331,968	5,089,067	1,821,749	266,692	1,154,460
Bond issues	1,533,809	1,561,103	244,813	108,145	808,145	400,000
Trade and other payables	6,145,843	6,145,843	5,740,067	161,423	178,463	65,890
Deposit liabilities	227,629	227,629	227,629	-	-	-
Others	11,148	11,148	11,148	-	-	-
<b>Derivative financial liabilities:</b>						
Interest rate swaps used for hedging:						
Outflow	2,088	2,342	-	-	886	1,456
Forward exchange contracts used for hedging:						
Outflow	760,693	779,114	424,982	289,494	64,375	263
Other forward exchange contracts:						
Outflow	251,026	256,486	117,490	112,450	26,546	-
	<u>₩ 17,339,008</u>	<u>17,411,850</u>	<u>11,951,413</u>	<u>2,493,261</u>	<u>1,345,107</u>	<u>1,622,069</u>

The maximum amount of assurance for financial guarantee contracts is ₩584,310 million as of June 30, 2011(see notes 41 and 43).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.



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**40. Risk of Financial Instruments, Continued**

(b) Liquidity risk, continued

(ii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of June 30, 2011 and December 31, 2010 are summarised as follows:

(In millions of won)

		<b>2011</b>				
	<b>Carrying amount</b>	<b>Expected cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-3 years</b>	<b>More than 3 years</b>
<b>Interest rate swaps</b>						
Assets	₩ -	-	-	-	-	-
Liabilities	(2,965)	(3,324)	-	-	(1,257)	(2,067)
<b>Forward exchange contracts</b>						
Assets	46,036	47,090	36,438	8,332	2,320	-
Liabilities	(28,934)	(30,840)	(7,451)	(8,230)	(15,159)	-
	₩ <u>14,137</u>	<u>12,926</u>	<u>28,987</u>	<u>102</u>	<u>(14,096)</u>	<u>(2,067)</u>

(In millions of won)

		<b>2010</b>				
	<b>Carrying amount</b>	<b>Expected cash flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-3 years</b>	<b>More than 3 years</b>
<b>Interest rate swaps</b>						
Assets	₩ -	-	-	-	-	-
Liabilities	(2,088)	(2,342)	-	-	(886)	(1,456)
<b>Forward exchange contracts</b>						
Assets	28,628	29,377	24,512	1,674	3,191	-
Liabilities	(6,342)	(6,535)	(2,736)	(3,613)	(186)	-
	₩ <u>20,198</u>	<u>20,500</u>	<u>21,776</u>	<u>(1,939)</u>	<u>2,119</u>	<u>(1,456)</u>

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**40. Risk of Financial Instruments, Continued**

(c) Currency risk

(i) Exposure to currency risk

The Group's exposure to foreign currency risk based on notional amounts as of June 30, 2011 and December 31, 2010 is as follows:

(In millions of won)

		2011					
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	263,353	590	2	401	39,594	303,940
Loans and receivables		5,499,185	350,878	262,181	5,818	255,739	6,373,801
Trade and other payables		(772,295)	(86,594)	-	(16,553)	(83,565)	(959,007)
Borrowings		(956,780)	(137,401)	(852)	(45,236)	(12,002)	(1,152,271)
Gross statement of financial position exposure		4,033,463	127,473	261,331	(55,570)	199,766	4,566,463
Derivative contracts		594,630	4,812	-	-	-	599,442
Net exposure	₩	4,628,093	132,285	261,331	(55,570)	199,766	5,165,905

(In millions of won)

		2010					
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	244,347	481	1	223	32,253	277,305
Loans and receivables		7,559,993	359,685	132,694	1,001	172,527	8,225,900
Trade and other payables		(756,093)	(85,457)	(861)	(13,105)	(74,229)	(929,745)
Borrowings		(713,053)	(112,408)	-	(58,182)	(7,183)	(890,826)
Gross statement of financial position exposure		6,335,194	162,301	131,834	(70,063)	123,368	6,682,634
Derivative contracts		(587,205)	8,429	-	-	-	(578,776)
Net exposure	₩	5,747,989	170,730	131,834	(70,063)	123,368	6,103,858

Significant exchange rates applied for the six-month periods ended June 30, 2011 and 2010 are as follows:

(In won)

		Average rate		Spot rate	
		2011	2010	June 30, 2011	December 31, 2010
USD	₩	1,101.84	1,153.85	1,078.10	1,138.90
EUR		1,545.62	1,532.78	1,560.50	1,513.60
CNY		168.47	169.03	166.80	172.50
JPY(100)		1,344.23	1,262.50	1,335.69	1,397.08

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**40. Risk of Financial Instruments, Continued**

- (c) Currency risk, continued  
(ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and others as of June 30, 2011 and December 31, 2010 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010. The changes in profit or loss are as follows:

*(In millions of won)*

		Profit or loss	
		2011	2010
USD (3 percent weakening)	₩	138,843	172,440
EUR (3 percent weakening)		3,969	5,122
CNY (3 percent weakening)		7,840	3,955
JPY (3 percent weakening)		(1,667)	(2,102)

A strengthening of the won against the above currencies as of June 30, 2011 and December 31, 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

- (d) Interest rate risk  
(i) The interest rate profile of the Group's interest-bearing financial instruments as of June 30, 2011 and December 31, 2010 is as follows:

*(In millions of won)*

		2011	2010
<b>Fixed rate instruments:</b>			
Financial assets	₩	1,041,675	1,530,953
Financial liabilities		(6,483,571)	(6,483,060)
	₩	<u>(5,441,896)</u>	<u>(4,952,107)</u>
<b>Variable rate instruments:</b>			
Financial assets	₩	1,949,233	1,625,449
Financial liabilities		(3,856,310)	(3,361,303)
	₩	<u>(1,907,077)</u>	<u>(1,735,854)</u>

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**40. Risk of Financial Instruments, Continued**

(d) Interest rate risk, continued

(ii) Interest rate risk arises from savings and borrowings with floating interest rate. The Group properly hedges the risk borrowings with floating interest rate through interest rate swaps. Interest rate swap contracts as of June 30, 2011 are as follows:

(In millions of won)

<b>Counterparties</b>	<b>Amount</b>	<b>Interest rate</b>	<b>Expiration date</b>
The Korea Development Bank	₩ 80,000	Receives floating interest rate Pays fixed interest rate 6.73%	CD (91 days)+1.95% 2020.11.21
KB Kookmin Bank	10,000	Receives floating interest rate Pays fixed interest rate 3.68%	CD (91 days) 2012.05.21
KB Kookmin Bank	20,000	Receives floating interest rate Pays fixed interest rate 3.57%	CD (91 days) 2011.08.10
KB Kookmin Bank	20,000	Receives floating interest rate Pays fixed interest rate 3.88%	CD (91 days) 2011.08.11

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates as of June 30, 2011 and December 31, 2010 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010. The changes in profit or loss are as follows:

		<b>Profit or loss</b>		<b>Equity</b>	
		<b>100 bp increase</b>	<b>100 bp decrease</b>	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>2011</b>					
Variable rate instruments	₩	(9,535)	9,535	-	-
Interest rate swaps		250	(250)	(3,227)	3,227
Net cash flow sensitivity	₩	(9,285)	9,285	(3,227)	3,227
<b>2010</b>					
Variable rate instruments	₩	(17,359)	17,359	-	-
Interest rate swaps		-	-	(3,211)	3,211
Net cash flow sensitivity	₩	(17,359)	17,359	(3,211)	3,211

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**40. Risk of Financial Instruments, Continued**

- (e) Fair values  
(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

(In millions of won)

	June 30, 2011		December 31, 2010	
	Carrying amounts	Fair values	Carrying amounts	Fair values
<b>Assets carried at fair value:</b>				
Held for trading investments	₩ 1,722,514	1,722,514	1,492,491	1,492,491
Financial assets at fair value through profit or loss	143,926	143,926	171,038	171,038
Available-for-sale financial assets (*)	4,348,632	4,348,632	3,773,181	3,773,181
Derivative assets	818,551	818,551	414,776	414,776
	<u>₩ 7,033,623</u>	<u>7,033,623</u>	<u>5,851,486</u>	<u>5,851,486</u>
<b>Cash and cash equivalents</b>				
	₩ 2,356,895	2,356,895	1,878,801	1,878,801
<b>Assets carried at amortized cost:</b>				
Loans and receivables	₩ 12,849,454	12,849,454	12,561,736	12,561,736
<b>Liabilities carried at fair value:</b>				
Held for trading liabilities	272,782	272,782	347,242	347,242
Derivative liabilities	180,494	180,494	762,781	762,781
	<u>₩ 453,276</u>	<u>453,276</u>	<u>1,110,023</u>	<u>1,110,023</u>
<b>Liabilities carried at amortized cost:</b>				
Bank loans	₩ 8,942,372	8,942,372	8,310,554	8,310,554
Bond issues	1,397,509	1,397,509	1,533,809	1,533,809
Trade and other payables	7,511,199	7,511,199	6,145,843	6,145,843
Deposit liabilities	239,878	239,878	227,629	227,629
Others	14,848	14,848	11,148	11,148
	<u>₩ 18,105,806</u>	<u>18,105,806</u>	<u>16,228,983</u>	<u>16,228,983</u>

(\*) The available-for-sale financial assets that were recorded at their acquisition cost because the fair values cannot be estimated reliably as of June 30, 2011 and December 31, 2010 are ₩375,861 million and ₩239,286 million, respectively.

- (ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. The interest rates applied for as of June 30, 2011 and December 31, 2010 are as follows:

	2011	2010
Derivatives	6.38%	6.09%
Bond issues	3.89%	3.64%

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**40. Risk of Financial Instruments, Continued**

(e) Fair values, continued

(iii) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*(In millions of won)*

		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>June 30, 2011:</b>					
Held for trading investments	₩	179,305	1,502,527	40,682	1,722,514
Financial assets at fair value through profit or loss		143,926	-	-	143,926
Available-for-sale financial assets		3,903,470	-	69,301	3,972,771
Derivative assets		-	818,551	-	818,551
Held for trading liabilities		(108,270)	(164,512)	-	(272,782)
Derivative liabilities		-	(180,494)	-	(180,494)
<b>December 31, 2010:</b>					
Held for trading investments		66,435	1,363,643	62,413	1,492,491
Financial assets at fair value through profit or loss		171,038	-	-	171,038
Available-for-sale financial assets		3,466,008	-	67,887	3,533,895
Derivative assets		-	414,776	-	414,776
Held for trading liabilities		(65,515)	(281,727)	-	(347,242)
Derivative liabilities		-	(762,781)	-	(762,781)

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**41. Commitments and Contingencies**

- (a) The Group has entered into bank overdraft agreements with Korea Exchange Bank and others amounting to ₩598,000 million and borrowing agreements such as general loan for corporation facilities amounting to ₩1,022,207 million as of June 30, 2011.
- (b) As of June 30, 2011, the Group has entered into credit facilities agreements such as letters of credit with various banks for the Group's exports and imports totaling USD 6,209,082 thousand and ₩20 million.
- (c) In order to secure bank loans and construction contract performance guarantees, the Group has provided seven blank notes and one check as of June 30, 2011.
- (d) The outstanding balance of note receivables guaranteed by the importers' Government or others and sold to financial institutions with recourse is USD 5,867 thousand, equivalent to ₩6,325 million, as of June 30, 2011. The Group's outstanding balance of trade receivables sold with recourse amount to ₩4,123 million as of June 30, 2011.
- (e) As of June 30, 2011, the Group is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies amounting to RMB 2,920,366 thousand, EUR 117,750 thousand, USD 316,750 thousand and INR 1,900,000 thousand. The Group has provided certain performance guarantees for bareboat charter amounting to USD 455,994 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Furthermore, the Group has provided performance guarantees for the mining business in relation to overseas resource developments amounting to USD 61,930 thousand and guarantees on debt obligations for the business participant, Sherritt International Corporation, amounting to USD 24,058 thousand. The Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Group's subsidiaries, for the construction of six ships at a contract amount of USD 655,179 thousand.
- (f) In connection with the Group's contract performance guarantees, the Group has also been provided with guarantees up to ₩1,508,432 million and USD 11,670 thousand by various financial institutions. The Group receives guarantees up to USD 29,414,786 thousand and ₩2,381 million from Export-Import Bank of Korea and other financial institutions related to the advances received for the ship. Regarding this, the Group collateralizes its ships under construction and construction materials. The Group also receives guarantees up to ₩1,212,899 million and USD 38,751 thousand from Seoul Guarantee Insurance Co. related to maintenance bond.
- (g) The Group enters into purchase guarantees with Hi Prugio No. 1 Co. Ltd. and nine other companies amounting to ₩391,000 million as of June 30, 2011.
- (h) On May 25, 2011, Fair Trade Commission issued rectification orders, and orders of paying fines to four oil companies including Hyundai Oilbank Co., Ltd. for illegal collusion on securing new gas station sites. Fair Trade Commission plans to issue the deliberation letters to the defendants.

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**42. Litigation**

- (a) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for \$13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Group made a share option agreement with CIBC under which the Group was obligated to buy back the 13 million shares of HITS for \$16.96 per share, if CIBC exercised its option. Based on this agreement, the Group was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Group for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the Group repurchased the 13 million shares from CIBC for \$220,480 thousand. The Group required HSI and HSC to honor their written promissory note, which was rejected by HSI and HSC. Accordingly, the Group 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 Group 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. Pursuant to the resolution of the board of directors on January 27, 2002, the Group filed an appeal claiming the whole amount of the principal and accrued interest. Also, the Group has filed a lawsuit for the advance payments and reimbursable expenses from those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Group 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 Group did not accept the Court's decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Group won its claim amounting to ₩241,200 million of principal, excluding ₩4,300 million and accrued interest thereon, and recovered ₩86,200 million. The Group filed an appeal to the Supreme Court claiming the principal amount of ₩4,300 million, which was pending as of June 30, 2011.
- (b) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006, which has been settled by the Group. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Group's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Group filed administrative litigation. However, the Group lost the first trial on January 5, 2011 and appealed on January 25, 2011. The litigation is currently pending as of June 30, 2011.
- (c) As of June 30, 2011, a significant pending legal proceeding filled by Hyundai Samho Heavy Industries Co. Ltd., which is a subsidiary of the Group is as follows:

*(In millions of won)*

<u>Plaintiff</u>	<u>Defendant</u>	<u>Case</u>	<u>Litigation amount (*)</u>	<u>Progress</u>
Hyundai Samho Heavy Industries Co., Ltd.	Shinhan Investment Corp.	Appeal to the case claiming dividends due to bankruptcy	₩ 3,467	Partially won the second trial (Third trial in progress)

(\*) Related to the above case, the Group recognizes ₩3,482 million as withholdings adjusting interests from the litigation amount after the partial won of the second trial.



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**42. Litigation, Continued**

- (d) In February 2001, the Ministry of National Defense filed a lawsuit against the five domestic oil refinery companies, including the Group, for alleged collusive bidding for the supply of oil products to the Korean military, with total claim amount of ₩158,420 million. The five domestic oil refinery companies paid ₩130,992 million on December 30, 2009 under the decision of Seoul High Court, and appealed to the Supreme Court in January 2010. The Group recorded the effect as a loss in its financial statements.
- (e) The Saeseoul Oil Corporation filed litigation in Seoul Central District Court in June 2010 for the Group, amounting to ₩4,944 million, for the error in the settlement of the transaction from April 1, 2003 to May 31, 2009. The litigation is still pending.
- (f) Fair Trade Commission imposed fine on two LPG importers and four domestic oil refinery companies including the Group for alleged collusive price-fixing on LPG price from January 1, 2003 to December 31, 2008. The Group was imposed of a fine amounting to ₩26,314 million, and the Group paid the fine on June 29, 2010. However, the Group appealed the decision of Fair Trade Commission to Seoul High Court on May, 2010, and the case is currently pending. The Group recorded the effect as a loss in its financial statements.

Additionally, 80,365 private cab drivers, 1,574 corporate cab drivers and 1,137 handicapped persons jointly filed a lawsuit against four domestic oil refinery companies including the Group and two LPG importers claiming total ₩9,842 million based on Fair Trade Commission's decision, and the case is currently pending.

- (g) In February 2007, the Fair Trade Commission imposed fine amounting to ₩9,311 million on the four domestic oil refinery companies, including the Group, for alleged collusive price-fixing, and the Group paid the fine on July 16, 2007. With regard to the imposition, the Group filed an official protest to Fair Trade Commission in May 2007, but Fair Trade Commission announced the rejection of the protest in July 2007. The Group filed to Seoul High Court for the administrative litigation in September 2007 and the case is currently pending. The Group recorded the effect as a loss in its financial statements.
- (h) As of June 30, 2011, there are 27 pending cases, including Hyundai Heavy Industries (China) Electric Co., Ltd.'s bond withdrawal lawsuit against Shanxi Yinhe Electric Switch Co., Ltd. amounting to RMB 10,053 thousand, filed by foreign subsidiaries of the Group as a plaintiff, and one pending case, Hyundai Construction Equipment Americas., Inc. vs Kevin Maher amounting to USD 20 thousand, is filed against foreign subsidiaries of the Group as a defendant.
- (i) As of June 30, 2011, there is one case claiming USD 3,696 thousand filed against the Group, and the case is currently being settled. The Group recorded reasonably estimated amount on its financial statements, and as of June 30, 2011, it is expected that there is no material impact on the Group's financial statements.
- (j) As of June 30, 2011, there is no lawsuit filed by the Group's subsidiary, HI Investment & Securities Co., Ltd., as a plaintiff, and three lawsuits amounting to ₩581 million are filed against HI Investment & Securities Co., Ltd. as a defendant. The Group's management expects that there is no material impact on the Group's financial statements related to the matter.

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**43. Related Parties**

- (a) Significant transactions for the six-month periods ended June 30, 2011 and 2010, and outstanding balances as of June 30, 2011 and December 31, 2010 between the Company and subsidiaries or associates are as follows:

(In millions of won)

	<b>Sales and other</b>		<b>Purchases and other</b>		<b>Receivables and other</b>		<b>Payables and other</b>		
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	
<b>Subsidiaries:</b>									
Hyundai Samho Heavy Industries Co., Ltd.	₩ 332,385	246,813	125	1,086	189,712	198,834	28	81,292	
Hyundai Mipo Dockyard Co., Ltd.	230,182	144,357	7,652	6,961	133,910	108,809	1,263	39,335	
Hyundai Oilbank Co., Ltd.	11,243	15,844	751	1,607	897	727	47	918	
Hyundai Heavy Material Service	5,113	4,215	446,532	200,222	2,525	2,456	110,822	63,618	
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	116,345	103,461	334	715	63,726	30,149	35	38	
Hyundai Jiangsu Construction Machinery Co., Ltd.	359,517	255,879	366	600	207,189	110,056	75	80	
Hyundai Heavy Industries (China) Electric Co., Ltd.	4,415	2,180	8,405	6,054	4,615	4,446	1,403	1,151	
Yantai Hyundai Moon Heavy Industries Co., Ltd.	9	-	53,848	33,881	-	-	6,117	-	
Hyundai Heavy Industries Europe N.V.	112,585	54,759	1,200	1,045	64,277	9,584	383	387	
Hyundai Construction Equipment Americas, Inc.	177,398	66,287	757	1,272	60,588	25,503	80	210	
Hyundai Ideal Electric Co.	8,693	4,935	384	97	5,108	5,660	105	187	
Hyundai Construction Equipment India Private Ltd.	52,259	41,226	312	242	58,763	47,191	85	65	
	<u>1,410,144</u>	<u>939,956</u>	<u>520,666</u>	<u>253,782</u>	<u>791,310</u>	<u>543,415</u>	<u>120,443</u>	<u>187,281</u>	
<b>Associates:</b>									
Hyundai Corporation	601,275	314,705	661	460	302,326	332,227	495	1,200	
KAM Corporation	2	-	44,340	-	-	-	7,027	8,338	
	<u>601,277</u>	<u>314,705</u>	<u>45,001</u>	<u>460</u>	<u>302,326</u>	<u>332,227</u>	<u>7,522</u>	<u>9,538</u>	
₩	<u>2,011,421</u>	<u>1,254,661</u>	<u>565,667</u>	<u>254,242</u>	<u>1,093,636</u>	<u>875,642</u>	<u>127,965</u>	<u>196,819</u>	

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**43. Related Parties, Continued**

- (b) Significant transactions for the six-month periods ended June 30, 2011 and 2010, and outstanding balances as of June 30, 2011 and December 31, 2010 between subsidiaries and associates are as follows:

(In millions of won)

Selling company	Purchasing company	Sales and other		Receivables and other	
		2011	2010	2011	2010
Hyundai Oilbank Co., Ltd.	Hyundai Samho Heavy Industries Co., Ltd.	16,198	-	2,713	2,006
	Hyundai Mipo Dockyard Co., Ltd.	3,765	-	2	1,535
	Hyundai Heavy Material Service	86,455	-	18,785	10,851
	HDO Singapore Pte. Ltd.	159	524	159	561
	Hyundai Corporation	186,496	-	14,506	7,052
	HC Petrochem Co., Ltd.	950,887	1,076,014	171,859	153,433
Hyundai Mipo Dockyard Co., Ltd.	Hyundai Vinashin Shipyard	59,039	21,900	61,163	-
Hyundai Heavy Material Service	Hyundai Samho Heavy Industries Co., Ltd.	20,501	16,082	10,128	4,335
	Hyundai Mipo Dockyard Co., Ltd.	42,037	28,881	13,462	16,686
Beijing Hyundai	Hyundai Financial Leasing Co., Ltd.	-	-	-	6,845
Jingcheng Construction Machinery Co., Ltd.	Hyundai Heavy Industries (China) Electric Co., Ltd.	-	-	-	1,178
Hyundai Jiangsu Construction Machinery Co., Ltd.	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	91	-	-	25
	Hyundai Financial Leasing Co., Ltd.	-	-	-	8,743
	Hyundai Heavy Industries (China) Electric Co., Ltd.	-	-	-	58,388
HHI China Investment Co., Ltd.	Hyundai Samho Heavy Industries Co., Ltd.	981	2,633	76	231
	Hyundai Mipo Dockyard Co., Ltd.	509	159	-	-
	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	205	112	22	-
	Hyundai Jiangsu Construction Machinery Co., Ltd.	642	202	45	17
	Hyundai Heavy Industries (China) Electric Co., Ltd.	285	93	948	9
	Yantai Hyundai Moon Heavy Industries Co., Ltd.	110	21	21	1
	Hyundai Financial Leasing Co., Ltd.	647	340	108	86
	Changzhou Hyundai Hydraulic Machinery Co., Ltd.	74	146	6	130
	Hyundai Financial Leasing Co., Ltd.	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	1,293	-	-
Hyundai Jiangsu Construction Machinery Co., Ltd.		4,315	-	-	43,296
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	3,385	-	88	-
	Hyundai Jiangsu Construction Machinery Co., Ltd.	23,445	-	11,067	-
Hyundai Heavy Industries Europe N.V.	Hyundai Construction Equipment Americas, Inc.	37	-	14	482
Hyundai Construction Equipment Americas, Inc.	Hyundai Heavy Industries Europe N.V.	54	-	24	23
Hyundai Vinashin Shipyard	Hyundai Mipo Dockyard Co., Ltd.	257,222	134,899	82,017	-
HDO Singapore Pte. Ltd.	Hyundai Oilbank Co., Ltd.	1,217,712	1,398,023	215,726	224,278
HC Petrochem Co., Ltd.	Hyundai Oilbank Co., Ltd.	588,492	252,842	109,258	85,687
Hyundai Corporation	Hyundai Oilbank Co., Ltd.	3,427	-	-	-
		<u>3,468,463</u>	<u>2,932,871</u>	<u>712,197</u>	<u>625,878</u>

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**43. Related Parties, Continued**

(c) Details of guarantees between the Company, subsidiaries and associates as of June 30, 2011 are as follows:

*(In thousands of foreign currency)*

<b>Guarantee provider</b>	<b>Guarantee recipient</b>	<b>Provider</b>	<b>Type of guarantees</b>	<b>Currency</b>	<b>Guaranteed Amount</b>
<b>Subsidiaries:</b>					
Hyundai Heavy Industries Co., Ltd.	Hyundai Financial Leasing Co., Ltd.	SMBC and others	Payment	CNY	1,500,000
	Hyundai Heavy Industries Europe N.V.	Korea Exchange Bank and others	Payment	EUR	36,000
		Fortis Bank	Performance	EUR	250
	Hyundai Construction Equipment Americas, Inc.	Hana Bank	Payment	USD	54,600
	Hyundai Ideal Electric Co.	Liberty Mutual	Performance	USD	8,000
	Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	SCB	Payment	USD	27,900
	Hyundai Construction Equipment India Private Ltd.	Woori Bank	Payment	CNY	65,000
	Jahnel-Kestermann Getriebewerke GmbH	HSBC	Payment	USD	10,000
	Hyundai Power Transformers USA, Inc.	SCB and others	Payment	INR	1,900,000
		Shinhan Bank and others	Payment	EUR	81,500
	Hyundai Mipo Dockyard Co., Ltd.	Woori Bank and others	Payment	USD	113,500
	Hyundai Oilbank Co., Ltd.	Export-Import Bank of Korea	Payment	USD	10,000
	HDO Singapore Pte.Ltd.	Korea Exchange Bank and others	Payment	USD	92,500
	HHI China Investment Co., Ltd.	Korea Exchange Bank and others	Payment	CNY	554,382
		Hyundai Financial Leasing Co., Ltd.	Payment	USD	250
		Korea Exchange Bank and others	Payment	CNY	3,164
	Hyundai Jiangsu Construction Machinery Co., Ltd.	HSBC	Payment	CNY	797,820
				USD	316,750
				EUR	117,750
				CNY	2,920,366
				INR	1,900,000
<b>Associates:</b>					
Hyundai Heavy Industries Co., Ltd.	Hyundai Merchant Marine Co., Ltd.	H&K Shipping S.A and others	Performance	USD	455,994
				USD	772,744
				EUR	117,750
				CNY	2,920,366
				INR	1,900,000

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**43. Related Parties, Continued**

- (d) Assets collateralized as pledged assets for obligations of the Group's related parties as of June 30, 2011 are as follows:

*(In millions of won)*

<b>Guarantee provider</b>	<b>Guarantee recipient</b>	<b>Pledged assets</b>	<b>Book value</b>	<b>Pledged amount</b>	<b>Borrowings amount</b>	<b>Type</b>	<b>Lender</b>
<b>Associates:</b>							
Hyundai Oilbank Co., Ltd.	HC Petrochem Co., Ltd.	Land, Buildings	₩ 140,983	444,000	370,000	Long-term borrowings	The Korea Development Bank

- (e) Compensation for key management of the Group for the six-month periods ended June 30, 2011 and 2010 is ₩9,485 million and ₩8,960 million, respectively. Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Group.

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**44. Trust Securities**

In accordance with 2009 and 2010 wage bargaining agreements, the Group contributed a portion of Hyundai Mipo Dockyard Co., Ltd. shares to trust securities account of bank in order to support employee stock ownership plan. The trust of securities as of reporting date is as followings:

(In millions of won)

	<u>Shares</u>	<u>Number of shares</u>	<u>Exercise price</u>	<u>Periods</u>	<u>Financial institution</u>	<u>Note</u>
First	Common stock of Hyundai Mipo	154,446	₩ 76,759	2009.11 ~ 2013.08	Korea Exchange	Withdrawal is limited during the period. (It is available to withdraw in case of the retirement of employees.)
Second	Dockyard Co., Ltd.	177,596	81,486	2010.11 ~ 2014.08	Bank	

The above trust securities transaction is classified as cash-settled share-based payment arrangements, which compensate employee service with cash or other assets based on the value of the Group's stocks and other equity instruments, and it is applied to employees, who are unconditionally become entitled to stock appreciation rights as soon as it is granted. Thus, the amount that falls under the wage bargaining agreements is recognized as wage expense, and additional cost arising from stock appreciation right is recognized as compensation expenses associated with stock option.

(In millions of won, except share data)

		<u>First trust securities</u>		<u>Second trust securities</u>		<u>Total</u>	
		<u>Number of stocks</u>	<u>Long-term accrued expenses</u>	<u>Number of stocks</u>	<u>Long-term accrued expenses</u>	<u>Number of stocks</u>	<u>Long-term accrued expenses</u>
Beginning balance	₩	156,387	18,887	179,469	25,464	335,856	44,351
Issuance		-	-	-	-	-	-
Expiration of options due to exercising the rights and others		(1,941)	(386)	(1,873)	(341)	(3,814)	(727)
Compensation expenses associated with stock option (*)		-	9,972	-	12,264	-	22,236
Ending balance	₩	154,446	28,473	177,596	37,387	332,042	65,860

(\*) Compensation expenses are adjusted by considering volatility in stock price and other factors in accordance with Black Scholes option pricing model. Significant assumptions under Black Scholes option pricing model are as follows:

(In won)

		<u>Fair value of stocks</u>	<u>Exercise price</u>	<u>Expected volatility in stock price</u>	<u>Expected dividend</u>	<u>Expected exercise period</u>	<u>Risk free rate</u>
First trust securities	₩	184,354	76,759	63.91%	-	2.1 years	3.76%
Second trust securities		210,523	81,486	97.98%	-	3.1 years	3.76%

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**45. Explanation of Transition to K-IFRSs**

As stated in note 2(a), these are the Group's condensed consolidated interim financial statements prepared in accordance with K-IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the period ended June 30, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening K-IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

In preparing its opening K-IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Korean GAAP (previous K-GAAP). An explanation of how the transition from previous K-GAAP to K-IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

- (a) Exemptions elected from K-IFRS 1101 by the Group  
The Group has elected to use one or more of the exemptions in accordance with K-IFRS 1101 for the preparation of statements of financial position at the date of transition and applied the following optional exemptions.
  - (i) Business combinations  
The Group has elected to apply K-IFRSs retrospectively to all business combinations that occurred on or after the date of transition.
  - (ii) Fair value or revaluation as deemed cost  
The Group has elected to use the revaluations under previous K-GAAP prior to the date of transition as deemed costs for certain items of property, plant and equipment.
  - (iii) Borrowing costs  
The Group has elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization is on or after the date of transition.

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**45. Explanation of Transition to K-IFRSs, Continued**

(b) Reconciliation of equity

(i) The effects of the adoption of K-IFRSs on the Group's financial position as of January 1, 2010, the transition date to K-IFRSs, are as follows:

*(In millions of won)*

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total equity</u>
<b>Previous K-GAAP</b>	₩ 36,460,181	25,451,502	11,008,679
<b>Adjustments for:</b>			
Impairment on assets (*1)	(114,012)	-	(114,012)
Change in revenue recognition criteria (*2)	121,724	241,594	(119,870)
Property, plant and equipment (*3)	260,406	-	260,406
Accumulating compensated absences (*4)	-	81,388	(81,388)
Provision for construction warranty (*5)	-	28,617	(28,617)
Due from customers for contract work and due to customers for contract work (*6)	80,386	80,386	-
Defined benefit obligations (*7)	-	(103,131)	103,131
Convertible preferred stock (*8)	1,264	-	1,264
Equity method investments (*10)	(16,174)	-	(16,174)
Receivables and liabilities arising on consignment (*12)	75,169	75,169	-
Others	6,384	852	5,532
Deferred tax (*13)	(34,633)	(59,180)	24,547
Changes in scope of consolidation	34,762	29,213	5,549
<b>Total adjustment</b>	<u>415,276</u>	<u>374,908</u>	<u>40,368</u>
<b>K-IFRSs</b>	<u>₩ 36,875,457</u>	<u>25,826,410</u>	<u>11,049,047</u>



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**45. Explanation of Transition to K-IFRSs, Continued**

- (b) Reconciliation of equity, continued  
(ii) The effects of the adoption of K-IFRSs on the Group's financial position as of December 31, 2010 are as follows:

*(In millions of won)*

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Total equity</u>
<b>Previous K-GAAP</b>	₩ 45,576,148	30,124,696	15,451,452
<b>Adjustments for:</b>			
Impairment on assets (*1)	(106,632)	-	(106,632)
Change in revenue recognition criteria (*2)	121,170	249,649	(128,479)
Property, plant and equipment (*3)	262,263	-	262,263
Accumulating compensated absences (*4)	-	87,480	(87,480)
Provision for construction warranty (*5)	-	36,038	(36,038)
Due from customers for contract work and due to customers for contract work (*6)	511,710	511,710	-
Defined benefit obligations (*7)	-	(44,414)	44,414
Convertible preferred stock (*8)	4,208	-	4,208
Private equity fund (*9)	(63,566)	-	(63,566)
Equity method investments (*10)	51,892	-	51,892
Good will (*11)	466,789	-	466,789
Receivables and liabilities arising on consignment (*12)	96,690	96,690	-
Others	84,075	831	83,244
Deferred tax (*13)	(22,140)	(98,359)	76,219
Changes in scope of consolidation	114,954	38,017	76,937
<b>Total adjustment</b>	<u>1,521,413</u>	<u>877,642</u>	<u>643,771</u>
<b>K-IFRSs</b>	₩ <u>47,097,561</u>	<u>31,002,338</u>	<u>16,095,223</u>

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**45. Explanation of Transition to K-IFRSs, Continued**

- (b) Reconciliation of equity, continued  
(iii) The effects of the adoption of K-IFRSs on the Group's financial performance for the year ended December 31, 2010 are as follows:

(In millions of won)

	Net income	Total comprehensive income
<b>Previous K-GAAP</b>	₩ 4,060,018	4,340,927
<b>Adjustments for:</b>		
Impairment on assets (*1)	49,697	16,690
Change in revenue recognition criteria (*2)	(8,609)	(8,609)
Property, plant and equipment (*3)	23,129	6,536
Accumulating compensated absences (*4)	169	169
Provision for construction warranty (*5)	(7,421)	(7,421)
Defined benefit obligations (*7)	59,715	(45,157)
Convertible preferred stock (*8)	(2,829)	2,132
Private equity fund (*9)	(898)	(49,747)
Equity method investments (*10)	31,322	122,475
Good will (*11)	336,740	336,740
Others	84,180	177,287
Deferred tax (*13)	(15,814)	89,350
Changes in scope of consolidation	11,521	73,161
<b>Total adjustment</b>	560,902	713,606
<b>K-IFRSs</b>	₩ 4,620,920	5,054,533

- (\*1) Difference in impairment losses on assets is adjusted.  
(\*2) Revenue of large engines for vessels, which is recognized based on the percentage of completion method under previous K-GAAP, is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.  
(\*3) Effectiveness review of the expected pattern and term of consumption of the future economic benefits embodied in the asset is adjusted, and the optional exemption is applied.  
(\*4) In the case of accumulating compensated absences, the cost and liability is recognized when the employees render service that increases their entitlement to future compensated absences.  
(\*5) Expected warranty costs are excluded from costs incurred to date for determining the stage of completion and recognized based on the percentage of completion method.  
(\*6) The gross amount due from customers for contract work is presented as an asset for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the gross amount due to customers for contract work is presented as a liability.  
(\*7) Employee benefits are assessed using actuarial assumptions.  
(\*8) Convertible preferred stock, which is regarded as equity security under previous K-GAAP, is regarded as debt security under K-IFRSs.  
(\*9) Private equity fund, which is regarded as available-for-sale security under previous K-GAAP, is regarded as investment in associates under K-IFRSs.  
(\*10) Differences in accounting standards on investments in associates are adjusted.  
(\*11) Reversal of amortization of goodwill and reconciliations made due to the differences in accounting standards on business combination.  
(\*12) Financial investment companies recognize receivables obligated to customers and liabilities obligated to Korea Exchange, which are arising on consignment on transition date, respectively.

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**45. Explanation of Transition to K-IFRSs, Continued**

(b) Reconciliation of equity, continued

(\*13) Deferred tax on differences in accounting balances under previous K-GAAP and K-IFRSs, and difference in deferred taxes on change in capital adjustment arising from equity method investments are adjusted.

(c) Materials adjustments to the statement of cash flows

Interest received, interest paid, dividends received and income taxes paid which were presented using indirect method under the previous K-GAAP are presented using direct method as separate line items of cash flows from operating activities under K-IFRSs.

There are no other material differences between the statement of cash flows presented under K-IFRSs and the statement of cash flows presented under previous K-GAAP.