HYUNDAI HEAVY INDUSTRIES CO., LTD.

Condensed Separate Interim Financial Statements

June 30, 2011

(With Independent Auditors' Review Report Thereon)

Contents

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 separate statement of financial position of Hyundai Heavy Industries Co., Ltd. (the "Company") as of June 30, 2011, and the related condensed separate statements of comprehensive income for the three and six-month periods ended June 30, 2011 and 2010, and the related condensed separate statements of changes in equity and cash flows for the six-month periods ended June 30, 2011 and 2010, and notes, comprising a summary of significant accounting policies and other explanatory information ("the condensed separate interim financial information").

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed separate interim financial statements in accordance with Korean International Financial Reporting Standards (No. 1034 *Interim Financial Reporting*), and for such internal control as management determines is necessary to enable the preparation of condensed separate 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 separate financial statements based on our reviews. 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, nothing has come to our attention that causes us to believe that the condensed separate interim financial information referred to above is not prepared, in all material respects, in accordance with Korean International Financial Reporting Standards No. 1034 *Interim Financial Reporting*.

The following matters may be helpful to the readers in their understanding of this review report of the condensed separate interim financial statements:

As discussed in note 3, the Company prepared the accompanying condensed separate interim financial statements in accordance with accounting policies effective at the reporting date and applying for its first annual financial statements in accordance with Korean International Financial Reporting Standards. These accounting policies may be changed in the course of preparation of its first annual financial statements in accordance with Korean International Financial Reporting Standards for the year ending December 31, 2011.

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 separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Condensed separate interim statements of financial position

As of June 30, 2011 and December 31, 2010

(In thousands of won, except share data)	***Note***		**2011**	**2010**
Assets				
Cash and cash equivalents	*37*	₩	1,292,323,389	624,479,536
Short-term financial assets	*5,6,23,37*		21,932,321	16,567,401
Trade and other receivables	*7,28,37,40*		3,435,006,806	3,089,062,270
Due from customers for contract work	*7,28,37*		2,670,766,311	3,315,910,832
Inventories	*8*		2,901,363,492	2,423,857,824
Derivative assets	*23,37*		379,777,994	149,878,495
Firm commitment assets	*23*		461,769,641	743,552,271
Other current assets	*9*		1,343,518,981	1,147,770,237
Total current assets			12,506,458,935	11,511,078,866
Investments in subsidiaries and associates	*10,11,37*		6,623,341,950	6,444,034,890
Long-term financial assets	*6,12,13,23,37*		1,957,846,288	1,499,400,833
Long-term trade and other receivables	*7,28,37,40*		12,511,554	16,390,927
Long-term due from customers for contract work	*7,28,37*		207,131,801	251,296,267
Investment property	*14*		316,553,721	354,030,892
Property, plant and equipment	*15*		7,999,678,477	7,844,290,023
Intangible assets	*16*		367,478,472	356,378,540
Derivative assets	*23,37*		231,833,528	135,260,276
Firm commitment assets	*23*		542,805	51,911,895
Other non-current assets			123,376,277	105,977,215
Total non-current assets			17,840,294,873	17,058,971,758
Total assets		₩	30,346,753,808	28,570,050,624

See accompanying notes to the separate interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Condensed separate interim statements of financial position, continued

As of June 30, 2011 and December 31, 2010

(In thousands of won, except share data)	***Note***		**2011**	**2010**
Liabilities				
Short-term financial liabilities	*17,20,23,37,38*	₩	3,507,868,234	3,273,240,827
Trade and other payables	*18,37,40*		2,991,736,685	2,678,618,008
Advances from customers			1,098,610,121	1,048,649,942
Due to customers for contract work	*28*		6,154,116,302	5,844,940,360
Derivative liabilities	*23,37*		126,951,528	479,277,120
Firm commitment liabilities	*23*		342,940,609	133,699,997
Income tax payable	*34*		427,911,313	721,534,903
Total current liabilities			14,650,134,792	14,179,961,157
Long-term financial liabilities	*19,20,23,37*		56,633,762	350,733,209
Long-term trade and other payables	*18,40*		14,501,724	13,498,575
Liabilities for defined benefit obligations	*21*		120,410,088	68,339,915
Long-term provisions	*22*		111,254,697	109,503,104
Derivative liabilities	*23,37*		14,242,429	52,908,250
Firm commitment liabilities	*23*		225,834,542	131,929,040
Deferred tax liabilities	*34*		699,172,181	590,624,188
Total non-current liabilities			1,242,049,423	1,317,536,281
Total liabilities			15,892,184,215	15,497,497,438
Stockholders' equity				
Common stock of ₩5,000 par value	*24*		380,000,000	380,000,000
Authorized - 160,000,000 shares				
Issued and outstanding - 76,000,000 shares in 2011 and 2010				
Capital surplus	*24*		1,044,516,633	1,044,516,633
Capital adjustments	*25*		(1,400,454,947)	(1,400,454,947)
Accumulated other comprehensive income	*23,26*		1,038,107,213	668,836,100
Legal reserves	*27*		2,020,414,202	2,020,414,202
Voluntary reserves	*27*		9,403,891,528	6,071,770,915
Unappropriated retained earnings			1,968,094,964	4,287,470,283
Total stockholders' equity			14,454,569,593	13,072,553,186
Total liabilities and stockholders' equity		₩	30,346,753,808	28,570,050,624

See accompanying notes to the separate interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Condensed separate interim statements of comprehensive income

For the three and six-month periods ended June 30, 2011 and 2010

(In thousands of won, except earnings per share)			2011		2010	
	Note		**Three-month period**	**Six-month period**	**Three-month period**	**Six-month period**
Sales	*23,28,40*	₩	6,055,351,931	12,361,605,192	5,283,495,046	10,676,993,729
Cost of sales	*8,16,23, 30,40*		5,061,843,295	10,081,853,856	4,194,898,458	8,433,961,903
Gross profit			993,508,636	2,279,751,336	1,088,596,588	2,243,031,826
Selling, general and administrative expenses	*16,29,30*		316,484,086	610,939,933	336,424,180	591,906,344
Operating income	*31*		677,024,550	1,668,811,403	752,172,408	1,651,125,482
Finance income	*23,32*		572,711,239	1,090,189,559	410,828,204	670,081,901
Finance costs	*23,32*		199,096,629	458,615,428	1,046,122,522	977,678,332
Other non-operating income	*23,33*		35,502,971	150,339,865	775,837,250	626,255,698
Other non-operating expenses	*23,33*		377,594,494	625,330,250	41,466,893	144,847,125
Income before income taxes			708,547,637	1,825,395,149	851,248,447	1,824,937,624
Income taxes	*34*		169,808,771	383,630,775	205,869,968	434,212,646
Net income		₩	538,738,866	1,441,764,374	645,378,479	1,390,724,978
Other comprehensive income	*26*		187,541,357	369,271,113	106,981,394	63,088,359
Total comprehensive income			726,280,223	1,811,035,487	752,359,873	1,453,813,337
Earnings per share	*35*					
Basic earnings per share		₩	8,790	23,524	10,646	22,941

See accompanying notes to the separate interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Condensed separate interim statements of changes in equity

For the six-month periods ended June 30, 2011 and 2010

(In thousands of won)	Common stock	Capital surplus	Capital adjustments	Gain and loss on valuation of available-for-sale financial assets	Gain and loss on valuation of derivatives	Retained earnings	Total stockholders' equity
Balance at January 1, 2010	₩ 380,000,000	959,645,996	(1,463,972,001)	332,299,494	37,285,440	9,835,332,333	10,080,591,262
Net income for the period	-	-	-	-	-	1,390,724,978	1,390,724,978
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax	-	-	-	133,817,169	-	-	133,817,169
Changes in fair value of cash flow hedges, net of tax	-	-	-	-	(70,728,810)	-	(70,728,810)
Dividends	-	-	-	-	-	(212,174,207)	(212,174,207)
Balance at June 30, 2010	₩ 380,000,000	959,645,996	(1,463,972,001)	466,116,663	(33,443,370)	11,013,883,104	11,322,230,392
Balance at January 1, 2011	₩ 380,000,000	1,044,516,633	(1,400,454,947)	656,130,418	12,705,682	12,379,655,400	13,072,553,186
Net income for the period	-	-	-	-	-	1,441,764,374	1,441,764,374
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax	-	-	-	371,315,487	-	-	371,315,487
Changes in fair value of cash flow hedges, net of tax	-	-	-	-	(2,044,374)	-	(2,044,374)
Dividends	-	-	-	-	-	(429,019,080)	(429,019,080)
Balance at June 30, 2011	₩ 380,000,000	1,044,516,633	(1,400,454,947)	1,027,445,905	10,661,308	13,392,400,694	14,454,569,593

See accompanying notes to the separate interim financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Condensed separate interim statements of cash flows

For the six-month periods ended June 30, 2011 and 2010

(In thousands of won)		2011	2010
Cash flows from operating activities			
Net income for the period	₩	1,441,764,374	1,390,724,978
Adjustments for:			
Post-employment benefit costs		75,109,421	66,551,291
Depreciation		218,502,025	202,682,745
Amortization		28,163,787	24,971,717
Bad debt expenses		51,040,346	120,568,109
Finance income		(725,753,800)	(337,470,133)
Finance costs		179,781,111	593,135,663
Other non-operating income		(13,584,968)	(438,037,081)
Other non-operating expenses		652,751,513	603,904,735
Income taxes		383,630,775	434,212,646
		2,291,404,584	2,661,244,670
Changes in assets and liabilities:			
Short-term financial assets		(5,000,000)	3,533,003
Trade receivables		(325,674,035)	(764,802,672)
Other receivables		(71,778,463)	(24,820,019)
Due from customers for contract work		578,138,304	(498,773,514)
Inventories		(477,505,668)	361,077,802
Derivatives		(350,488,803)	(672,083,683)
Firm commitments		(7,660,072)	38,840,773
Other current assets		(185,909,570)	139,403,056
Long-term trade receivables		-	(44,047,591)
Long-term due from customers for contract work		73,269,576	44,047,591
Trade payables		(127,186,672)	89,313,185
Other payables		454,081,631	289,327,081
Advances from customers		49,960,179	(129,644,996)
Due to customers for contract work		309,175,941	(583,354,044)
Other current liabilities		-	(38,524)
Long-term other payables		1,003,149	(1,207,211)
Long-term provisions		1,751,593	3,559,907
Benefits paid		(77,752,325)	(38,325,427)
Succession of benefits		448,646	-
Plan assets		54,264,431	23,040,730
Cash generated from operations		2,184,542,426	896,290,117
Interest received		73,401,160	19,701,129
Interest paid		(62,505,969)	(24,537,131)
Dividends received		71,780,761	63,065,648
Income taxes paid		(683,030,246)	(260,294,677)
Net cash provided by operating activities		1,584,188,132	694,225,086

See accompanying notes to the separate interim financial statements.

Condensed separate interim statements of cash flows, continued

For the six-month periods ended June 30, 2011 and 2010

(In thousands of won)		2011	2010
Cash flows from investing activities			
Proceeds from sale of long-term financial assets	₩	41,928,648	19,543,862
Proceeds from sale of property, plant and equipment		9,334,622	2,760,287
Proceeds from sale of long-term other receivables		3,593,146	2,111,678
Acquisition of investments in subsidiaries and associates		(179,307,060)	(24,756,517)
Acquisition of long-term financial assets		(25,378,011)	(18,500,936)
Acquisition of property, plant and equipment		(346,019,070)	(157,557,082)
Acquisition of intangible assets		(39,263,719)	(31,661,139)
Acquisition of long-term other receivables		(3,936,366)	(1,620,713)
Acquisition of other non-current assets		(17,399,061)	(3,207,863)
Net cash used in investing activities		(556,446,871)	(212,888,423)
Cash flows from financing activities			
Proceeds from short-term financial liabilities		969,298,259	1,209,418,140
Proceeds from long-term financial liabilities		25,754,298	-
Repayment of short-term financial liabilities		(924,571,245)	(1,506,649,553)
Dividends paid		(429,019,080)	(212,174,207)
Net cash used in financing activities		(358,537,768)	(509,405,620)
Effects of exchange rate changes on cash and cash equivalents		(1,359,640)	148,421
Net increase (decrease) in cash and cash equivalents		667,843,853	(27,920,536)
Cash and cash equivalents at beginning of year		624,479,536	632,578,218
Cash and cash equivalents at June 30, 2011	₩	1,292,323,389	604,657,682

See accompanying notes to the separate interim financial statements.

1. Reporting entity

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%).

2. Basis of preparation

(a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRSs") No. 1034 *Interim Financial Reporting and* do not include all of the information required for full annual financial statements. These are the Company's condensed interim financial statements prepared in accordance with K-IFRSs and K-IFRS 1101 *First-time Adoption of International Financial Reporting Standards* has been applied.

These interim financial statements are separate interim financial statements in accordance with K-IFRS 1027 *Consolidated and Separate Financial Statements* presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

These separate interim financial statements have been prepared in accordance with K-IFRS 1034 *Interim Financial Reporting* as part of the period covered by its first K-IFRS financial statements.

An explanation of how the transition to K-IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 41.

(b) Basis of measurement

The condensed 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 defined benefit obligations are recognized as the net total of the present value of defined benefit obligation less the fair value of plan assets and unrecognized past service cost

(c) Functional and presentation currency

These condensed 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 Company operates.

2. Basis of preparation (continued)

(d) Use of estimates and judgments

The preparation of the condensed 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 consolidated financial statements is included in the following notes:

- Note 14 – 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 21 – measurement of defined benefit obligations
- Note 28 – revenue recognition in proportion to the stage of completion
- Note 34 – measurement of deferred tax
- Notes 22, 38 and 39 – provisions and contingencies

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening K-IFRS statement of financial position at January 1, 2010 for the purposes of the transition to K-IFRSs, unless otherwise indicated. These accounting policies may be changed in the course of preparation of its first annual financial statements in accordance with Korean International Financial Reporting Standards for the year ending December 31, 2011.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. 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. Foreign currency differences arising on retranslation are recognized in profit or loss. 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.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company 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. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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 Company'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.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. The Company 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 Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Share capital

Ordinary shares

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.

Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received results in an increase in equity, and the resulting net amount on the transaction is not recognized in current year profits and losses.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency risk exposures.

On initial designation of the hedge, the Company 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 Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing 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 forecast 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.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast 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 and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. 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 previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

3. Significant accounting policies (continued)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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 net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

● buildings	20~40 years
● structures	20~40 years
● machinery	12~15 years
● ships	15, 25 years
● vehicles	5~10 years
● tools, furniture and fixtures	5~10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The changes are accounted for as changes in accounting estimates.

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iv) Borrowing costs

The Company capitalizes borrowing costs, which includes exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company 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 Company immediately recognizes other borrowing costs as an expense.

(e) Intangible assets

(i) Research and development

Expenditure 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 activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is 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 Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets, which consist of usage rights for the donated properties, membership and others, are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

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

3. Significant accounting policies (continued)

(e) Intangible assets (continued)

(iv) Amortization

Amortization is calculated using the cost of the asset, or other amount substituted for cost, less its residual value. The residual value of intangible assets is zero.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. However, as there are no foreseeable limits to the periods over which membership are expected to be available for use, these intangible assets are regarded as having indefinite useful lives and not amortized. The estimated useful lives for the current and comparative periods are as follows:

● capitalized development costs	5 years
● other	20, 40 years
● membership	indefinite

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The useful lives of intangible assets that are not being amortized are reviewed each period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. If appropriate, the changes are accounted for as changes in accounting estimates.

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

(g) 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.

(h) 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 Company'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.

3. Significant accounting policies (continued)

(i) Impairment

(i) Financial assets (including receivables)

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 Company on terms that the Company 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 Company 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 Company 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.

3. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from construction contracts, assets arising from employee benefits, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

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

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

3. Significant accounting policies (continued)

(j) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company'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 Company'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 Company, 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 Company. An economic benefit is available to the Company 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.

The Company 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 Company 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.

3. Significant accounting policies (continued)

(k) Provisions

A provision is recognized if, as a result of a past event, the Company 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 Company generally provides a warranty within the contract on rectification of defects after the contract's completion and accrues the rectification expense on defects based on actual claims history as provision for construction warranty.

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

(l) 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) 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.

(iii) 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.

3. Significant accounting policies (continued)

(l) Revenue (continued)

(iv) Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease.

(m) 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 Company'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.

(n) Income tax

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.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

(o) Earnings per share

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

(p) Segment reporting

In accordance with K-IFRS 1108 *Operating Segments*, entity wide disclosures of geographic and product revenue information are provided in the consolidated financial statements, not in these financial statements.

4. Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

(b) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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.

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(c) Credit risk

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

(i) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company'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 Company 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 Company does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Company 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.

4. Financial risk management (continued)

(c) Credit risk (continued)

(ii) Investments

The Company 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 Company 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 Company provides financial guarantees to subsidiaries, associates and third parties if necessary.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company has historically been able to satisfy its cash requirements from cash flow from operations and debt and equity financing. To the extent that the Company does not generate sufficient cash flow from operations to meet its capital requirements, the Company may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities. In addition, the Company has entered into credit line agreements with financial institutions amounting to ₩4,590,350 million and USD 28,078,950 thousand as of June 30, 2011.

(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 Company'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 optimising the return.

The Company 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 Company. Generally the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

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

The Company hedges trade receivables and trade payables denominated in a foreign currency in respect of forecast sales and purchases. The Company 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 Company 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.

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

(In millions of won, except equity ratio)		2011	2010
Total liabilities	₩	15,892,184	15,497,497
Total equity		14,454,570	13,072,553
Cash and deposits (*)		1,304,485	632,898
Borrowings (**)		3,501,503	3,447,284
Liability to equity ratio		110.0%	118.5%
Net borrowing to equity ratio		15.2%	21.5%

(*) 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.

5. Short-term financial assets

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

(In millions of won)		2011	2010
Short-term financial instruments	₩	12,129	6,967
Financial assets at fair value through profit or loss		9,803	9,600
	₩	21,932	16,567

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:

(In millions of won)		2011	2010
Short-term financial instruments	₩	2,129	1,468
Long-term financial instruments		33	1,451
	₩	2,162	2,919

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**
Trade receivables:				
Trade receivables	₩ 3,196,711	-	2,933,048	-
Allowance for doubtful accounts	(17,416)	-	(9,929)	-
Long-term trade receivables	-	-	-	4,186
	3,179,295	-	2,923,119	4,186
Other receivables:				
Other accounts receivable	203,941	-	251,114	-
Allowance for doubtful accounts	(5,890)	-	(124,692)	-
Accrued income	55,996	-	38,134	-
Deposits	1,665	-	1,387	-
Long-term loans	-	248	-	262
Guarantee deposits	-	12,264	-	11,943
	255,712	12,512	165,943	12,205
	₩ 3,435,007	12,512	3,089,062	16,391

(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	₩ 2,746,944	-	3,349,387	-
Allowance for doubtful accounts	(76,178)	-	(33,476)	-
Long-term due from customers for contract work	-	390,006	-	463,275
Allowance for doubtful accounts	-	(182,874)	-	(211,979)
	₩ 2,670,766	207,132	3,315,911	251,296

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	₩	73,135	(4,054)	69,081	71,370	(3,931)	67,439
Finished goods		229,107	(455)	228,652	236,261	(320)	235,941
Work-in-progress		1,326,251	(3,928)	1,322,323	1,020,012	(1,432)	1,018,580
Raw materials		610,832	-	610,832	549,103	-	549,103
Supplies		24,779	-	24,779	18,122	-	18,122
Materials-in-transit		645,696	-	645,696	534,673	-	534,673
	₩	2,909,800	(8,437)	2,901,363	2,429,541	(5,683)	2,423,858

The write-down of inventories to net realizable value amounting to ₩2,754 million and nil, and the reversal of write-downs amounting to nil and ₩19,965 million are included in cost of sales for the six-month periods ended June 30, 2011 and 2010, respectively.

9. Other current assets

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

(In millions of won)		2011	2010
Advance payments	₩	1,105,141	975,648
Allowance for doubtful accounts		(175)	(178)
Prepaid expenses		238,553	172,300
	₩	1,343,519	1,147,770

10. Investments in subsidiaries

Investments in subsidiaries as of June 30, 2011 and December 31, 2010 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	2011 Percentage of ownership (%)	2011 Carrying amount	2010 Percentage of ownership (%)	2010 Carrying amount
Hyundai Samho Heavy Industries Co., Ltd.	94.92	₩ 1,817,690	94.92	₩ 1,817,690
Hyundai Oilbank Co., Ltd.	91.13	2,954,745	91.13	2,954,745
Ulsan Hyundai Football Club Co., Ltd.	100.00	4,913	100.00	4,913
Hyundai Heavy Material Service	100.00	122,136	100.00	122,136
KOMAS Corporation	100.00	91,635	100.00	1,635
Hotel Hyundai Co., Ltd.	100.00	2,807	100.00	1,807
Hyundai Finance Corporation	67.49	90,726	67.49	90,726
HHI China Investment Co., Ltd.	100.00	286,425	100.00	286,425
Hyundai Financial Leasing Co., Ltd	41.26	67,403	41.26	44,417
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	100.00	33,183	100.00	33,183
Hyundai Heavy Industries Europe N.V.	100.00	10,322	100.00	10,322
Hyundai Heavy Industries Co. BULGARIA	99.09	46,768	99.09	46,768
Hyundai Construction Equipment Americas, Inc.	100.00	-	100.00	-
Hyundai Ideal Electric Co.	100.00	25,494	100.00	25,494
Hyundai Power Transformers USA, Inc.	100.00	62,609	100.00	29,080
Hyundai Vinashin Shipyard	10.00	20,149	10.00	20,149
Hyundai Construction Equipment India Private Ltd.	100.00	31,200	100.00	22,226
Vladivostok Business Center	100.00	-	100.00	-
Hyundai Khorol Agro Ltd.	80.79	6,475	80.79	6,475
HHI MAURITIUS LIMITED	100.00	-	100.00	-
Hyundai Heavy Industries France SAS	100.00	23	100.00	23
Hyundai Technologies Center Hungary Kft	100.00	26	100.00	26
PHECO Inc.	100.00	237	100.00	237
Jahnel-Kestermann Getriebewerke GmbH	100.00	-	-	-
PCA BGF World Gold Fund A Class	100.00	12,709	100.00	12,709
LS Leading Solution Private Security Investment Trust 22 (Equity)	100.00	86,065	100.00	86,016
LS Leading Solution Private Security Investment Trust 35 (Equity)	100.00	16,933	100.00	16,933
Hyundai Energy & Resources Co., Ltd.	40.00	20,000	-	-
		₩ 5,810,673		₩ 5,634,135

June 30, 2011

11. Investments in associates

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

(In millions of won, except percentage of ownership)

	2011			2010		
Company	**Percentage of ownership (%)**		**Carrying amount**	**Percentage of ownership (%)**		**Carrying amount**
New Korea Country Club	20.00	₩	4,045	20.00	₩	4,045
Hyundai Merchant Marine Co., Ltd.	16.35		360,634	16.35		360,634
Wärtsilä-Hyundai Engine Company Ltd.	50.00		40,496	50.00		40,496
KAM Corporation	49.00		117,668	49.00		117,668
Taebaek Wind Power Co., Ltd.	35.00		3,483	35.00		3,483
Muju Wind Power Co., Ltd.	45.00		5,130	45.00		5,130
Pyeongchang Wind Power Co., Ltd.	35.00		18	35.00		18
Jinan Jangsu Wind Power Co., Ltd.	32.00		128	32.00		128
Changjuk Wind Power Co., Ltd.	43.00		172	43.00		172
Hyundai Corporation	22.36		105,134	22.36		105,134
Hyundai-Avancis Co., Ltd.	50.00		40,000	50.00		40,000
Qinhuangdao Shouqin Metal Materials Co., Ltd.	20.00		128,358	20.00		128,358
Grand China Hyundai Shipping Co., Ltd.	50.00		1,045	50.00		1,045
Hyundai Primorye Ltd.	49.99		6,203	49.99		3,434
PT Golden Hyundai Machinery	20.83		155	20.83		155
		₩	812,669		₩	809,900

12. 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	₩	33	1,451
Financial assets at fair value through profit or loss		10,507	6,462
Available-for-sale financial assets		1,947,306	1,491,488
	₩	1,957,846	1,499,401

13. 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, except percentage of ownership)

Company	Percentage of ownership (%)		2011 Acquisition cost	2011 Carrying amount	2010 Acquisition cost	2010 Carrying amount
Listed equity securities:						
Kia Motors Corporation	0.02	₩	2,682	6,380	2,682	4,465
Korea Line Corporation	1.90		55,131	1,933	55,131	8,166
Mirae Asset Securities Co., Ltd.	0.10		6,654	1,882	6,654	2,514
Hyundai Elevator Co., Ltd.	2.02		6,738	23,131	1,632	25,874
Hyundai Motor Company (*3)	3.45		519,247	1,802,011	519,247	1,319,193
Korea Environment Technology Co., Ltd.	7.58		1,909	7,262	1,909	7,338
Ssangyong Motor Co., Ltd.	0.00		23	13	23	13
HI Special Purpose Acquisition Company	0.21		30	53	30	60
			592,414	1,842,665	587,308	1,367,623
Unlisted equity securities: (*1)						
Gangwon Football Club Co., Ltd.	0.01		1	1	1	1
Kuk Dong Heavy Conveyance Co., Ltd.	7.50		502	502	502	502
Novelis Korea Ltd.	0.45		14,599	1,405	14,599	1,405
Daehan Oil Pipeline Corporation	6.39		14,512	14,512	14,512	14,512
Dong-A Precision Machinery. Co., Ltd.	0.01		35	-	35	-
Doosan Capital Co., Ltd. (*2)	7.14		10,000	22,866	10,000	22,866
Bexco, Ltd.	7.96		9,460	9,460	9,460	9,460
Chonggu Co., Ltd.	0.00		188	-	188	-
Postec Electronic Power Fund Co.	1.75		500	500	500	500
Hanwha Electric Venture Fund	2.00		500	500	500	500
Hyundai Research Institute	14.40		1,440	1,440	1,440	1,440
Hyundai Climate Control Co., Ltd.	10.00		50	50	50	50
Enova System Inc.	1.43		1,315	1,315	1,315	1,315
Hynix Semiconductor America Inc.	1.33		34,525	-	34,525	-
KC Karpovsky BV	10.00		2	-	2	-
Korea Ship Finance Co., Ltd.	2.36		200	200	200	200
Nikorma Transport Limited	11.50		11	11	11	11
Kimpo Solar Co., Ltd.	14.29		50	50	50	50
KCO ENERGY Co., Ltd.	-		3	-	-	-
OSX Construção Naval S.A.	10.01		43,440	43,440	29,969	29,969
			131,333	96,252	117,859	82,781
Beneficiary certificates:						
Korea Investment Private Korea Exim bank Carbon Special Asset Trust I (Carbon Emission Right)	0.08		3,402	3,196	3,402	3,321
Debt securities:						
Hyundai Merchant Marine Co., Ltd. (preferred stock)	-		-	-	26,375	32,570
Investments in capital			5,193	5,193	5,193	5,193
		₩	732,342	1,947,306	740,137	1,491,488

13. Available-for-sale financial assets (continued)

(*1) The carrying amounts of unlisted equity securities were recorded at their acquisition cost because the fair values cannot be estimated reliably.
(*2) The fair value was calculated by using the free cash flows to shareholders method and estimation of stock price distribution at December 31, 2010.
(*3) The Company deposited 650,000 shares of its common stock with the Gunsan city government as a security guarantee for completion of a construction project.

14. 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	₩	199,745	187,064	386,809
Acquisition and other		1,231	(41,159)	(39,928)
Disposals		-	-	-
End of period		200,976	145,905	346,881
Depreciation		-	(1,870)	(1,870)
Accumulated depreciation		-	(30,327)	(30,327)
	₩	200,976	115,578	316,554

(In millions of won)		2010		
		Land	Buildings	Total
Beginning of period	₩	236,750	244,446	481,196
Acquisition and other		(37,005)	(57,382)	(94,387)
Disposals		-	-	-
End of period		199,745	187,064	386,809
Depreciation		-	(5,785)	(5,785)
Accumulated depreciation		-	(32,778)	(32,778)
	₩	199,745	154,286	354,031

(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	₩	5,516	7,612
Operating / maintenance expense		(1,947)	(3,245)

15. 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)

	2011					
	Land	**Buildings**	**Structures**	**Machinery and equipment**	**Others**	**Total**
Beginning of period	₩ 2,657,882	2,298,460	1,482,422	3,313,662	1,727,751	11,480,177
Acquisition and other	109,026	71,887	6,166	94,118	104,748	385,945
Disposals	(7,400)	(21)	-	(11,086)	(7,462)	(25,969)
End of period	2,759,508	2,370,326	1,488,588	3,396,694	1,825,037	11,840,153
Depreciation	-	(29,665)	(18,316)	(102,056)	(66,595)	(216,632)
Accumulated depreciation	-	(498,012)	(264,463)	(1,870,897)	(1,207,103)	(3,840,475)
	₩ 2,759,508	1,872,314	1,224,125	1,525,797	617,934	7,999,678

(In millions of won)

	2010					
	Land	**Buildings**	**Structures**	**Machinery and equipment**	**Others**	**Total**
Beginning of period	₩ 2,634,614	2,264,106	1,420,776	2,945,351	1,874,094	11,138,941
Acquisition and other	54,659	95,707	62,930	376,358	(125,107)	464,547
Disposals	(31,391)	(61,353)	(1,284)	(8,047)	(21,236)	(123,311)
End of period	2,657,882	2,298,460	1,482,422	3,313,662	1,727,751	11,480,177
Depreciation	-	(57,867)	(36,238)	(185,446)	(130,335)	(409,886)
Accumulated depreciation	-	(464,028)	(246,146)	(1,778,755)	(1,146,958)	(3,635,887)
	₩ 2,657,882	1,834,432	1,236,276	1,534,907	580,793	7,844,290

(b) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩2,982,712 million as of June 30, 2011. The Company maintains insurance coverage against fire and other casualty losses of up to ₩13,239,731 million for ships and sea structures under construction. Insurance proceeds of ₩6,495,766 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of June 30, 2011.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩15,392,896 million as of June 30, 2011. The Company also maintains insurance on cargo against damage and claims losses of up to ₩8,498,971 million for products being exported and imported as of June 30, 2011.

(c) There is no impairment in CGU (production facilities) as of June 30, 2011 and December 31, 2010.

(d) Construction-in-progress is related to development of construction of Ihwa industrial park and construction of new buildings as of June 30, 2011.

16. Intangible assets

(a) Changes in intangible assets for the periods ended June 30, 2011 and December 31, 2010 are as follows:

(In millions of won)		Development costs		Other intangible assets	
		2011	2010	2011	2010
Beginning balance	₩	289,987	270,363	66,392	67,393
Capitalized		38,256	69,731	1,007	1,038
Amortization		(27,144)	(50,107)	(1,020)	(2,039)
Ending balance	₩	301,099	289,987	66,379	66,392

(b) Research costs amounting to ₩5,789 million and ₩10,732 million, and ordinary development costs amounting to ₩57,929 million and ₩38,615 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 ₩27,144 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.

17. Short-term financial liabilities

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

(In millions of won)		2011	2010
Short-term borrowings	₩	3,145,581	3,114,982
Financial liabilities at fair value through profit or loss		62,620	158,259
Current portion of debentures		300,000	-
Discount on debentures		(333)	-
	₩	3,507,868	3,273,241

18. Trade and other payables

Trade and other payables 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
Trade payables	₩	1,792,663	-	1,972,634	-
Other accounts payable		275,595	-	204,706	-
Withholdings		273,348	-	247,748	-
Accrued expenses		650,131	-	298,530	-
Long-term deposits received		-	14,502	-	13,499
	₩	2,991,737	14,502	2,678,618	13,499

19. Long-term financial liabilities

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

(In millions of won)

		2011	2010
Financial liabilities at fair value through profit or loss	₩	379	18,431
Long-term borrowings		56,255	32,841
Debentures		-	300,000
Discount on debentures		-	(539)
	₩	56,634	350,733

20. 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
Pre-shipment credit	Export-Import Bank of Korea	4.45	₩	70,000	-
General loan	Shinhan Capital Co., Ltd.	4.70		1,500,000	1,500,000
Network loan	Export-Import Bank of Korea	4.20		-	74,966
Commercial paper	Shinhan Bank	3.26		300,000	1,000,000
Commercial paper	SK Securities Co., Ltd.	4.06		400,000	-
Usance L/C	Shinhan Bank and others	0.67~5.76		875,581	540,016
			₩	3,145,581	3,114,982

(b) Long-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
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
			₩	56,255	32,841

The general loan in foreign currency from the Export-Import Bank of Korea in relation to the Company'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 Company's oil development business.

20. Borrowings and debentures (continued)

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

(In millions of won)

Description	Maturity	Annual interest rate (%)		2011	2010
112th debenture	2012.04.13	5.43	₩	300,000	300,000

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

(In millions of won)

		2011			
Periods		Short-term borrowings	Long-term borrowings	Debentures	Total
2011.07.01 ~ 2012.06.30	₩	3,145,581	-	300,000	3,445,581
2012.07.01 ~ 2016.06.30		-	46,358	-	46,358
2016.07.01 and thereafter		-	9,897	-	9,897
	₩	3,145,581	56,255	300,000	3,501,836

(In millions of won)

		2010			
Periods		Short-term borrowings	Long-term borrowings	Debentures	Total
2011.01.01 ~ 2011.12.31	₩	3,114,982	-	-	3,114,982
2012.01.01 ~ 2015.12.31		-	26,505	300,000	326,505
2016.01.01 and thereafter		-	6,336	-	6,336
	₩	3,114,982	32,841	300,000	3,447,823

21. 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)

		2011	2010
Present value of defined benefit obligations	₩	775,526	768,243
Fair value of plan assets		(655,116)	(699,903)
	₩	120,410	68,340

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

(In millions of won)

		2011	2010
Retirement pension	₩	639,290	-
Deposit for severance benefit insurance		1,258	683,855
Transfer to National Pension Fund		14,568	16,048
	₩	655,116	699,903

21. Employee benefits (continued)

(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)		2011	2010
Current service costs	₩	65,086	51,131
Interest on obligation		19,500	33,945
Losses on curtailments		-	6,975
Expected return on plan assets		(9,477)	(25,500)
	₩	75,109	66,551

(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)		2011	2010
Beginning balance	₩	768,243	1,148,596
Current service costs		65,086	102,262
Interest on obligation		19,500	67,890
Losses on curtailments		-	13,951
Benefits paid		(77,752)	(662,865)
Transfers from (to) related parties		449	(971)
Actuarial (gains) losses in other comprehensive income		-	99,380
Ending balance	₩	775,526	768,243

(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)		2011	2010
Beginning balance	₩	699,903	1,051,672
Benefits paid		(54,295)	(480,546)
Contributions paid into the plan		31	79,552
Expected return on plan assets		9,477	51,001
Actuarial (losses) gains in other comprehensive income		-	(1,776)
Ending balance	₩	655,116	699,903

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

	2011	2010
Discount rate at the reporting date	5.45%	5.45%
Expected return on plan assets at January 1	4.01%	4.01%
Future salary increases	5.00%	5.00%
Future mortality (Males, at age 45)	0.29%	0.29%

22. 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)		2011		2010	
		Provision for construction warranty	**Provision for product warranty**	**Provision for construction warranty**	**Provision for product warranty**
Beginning balance	₩	46,683	62,820	44,266	39,790
Increase (decrease)		7,533	(5,781)	2,417	23,030
Ending balance	₩	54,216	57,039	46,683	62,820

23. Derivative financial instruments

The Company has entered into derivative instrument contracts related to foreign currency forward with 23 banks, including Korea Exchange Bank, to hedge the changes in foreign exchange rate. Derivatives are measured at fair value by using forward exchange rate presented by contract counterparty.

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

Hedge accounting	Type	Description
Cash flow hedge	Foreign exchange forward contracts	Hedge of the variability in cash flows attributable to foreign currency exposure in respect of forecast sales and purchases
Fair value hedge	Foreign exchange forward contracts	Hedge of the risk of changes in the fair value of firm commitments

23. Derivative financial instruments (continued)

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

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

	Description			
	Cash flow hedge	Fair value hedge	For trading	Total
Contract amount	USD 1,145,532	USD 12,585,781	USD 719,873	USD 14,451,186
	EUR 35,877	EUR 17,910	-	EUR 53,787
	KRW 1,603,756	-	KRW 332,339	KRW 1,936,095
Adjustment to sales	43,073	(104,748)	-	₩ (61,675)
Adjustment to cost of sales	(570)	-	-	(570)
Finance income	1,711	684,090	72,845	758,646
Finance costs	-	(11,365)	(76,433)	(87,798)
Other non-operating income	-	7,239	-	7,239
Other non-operating expenses	-	(589,522)	-	(589,522)
Accumulated other comprehensive income	14,397	-	-	14,397
Firm commitment assets	-	462,312	-	462,312
Firm commitment liabilities	-	568,775	-	568,775
Derivative assets	46,036	565,576	-	611,612
Derivative liabilities	28,934	112,260	-	141,194
Financial assets at fair value through profit or loss	-	-	20,310	20,310
Financial liabilities at fair value through profit or loss	-	-	62,999	62,999

As of June 30, 2011, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩10,661 million, net of deferred tax adjustment of ₩3,736 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 35 months, and the amount among gain (loss) on valuation of foreign exchange contracts 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 Company 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 ₩(-)106,463 million and related gain and loss on valuation of firm commitments were recorded as ₩7,239 million and ₩589,522 million, respectively, in other non-operating income and expense.

Gain and loss on derivatives transactions that mature within the current year are recorded as ₩244,099 million and ₩60,452 million, respectively in finance income and costs. Gain and loss on valuation of derivatives are recorded as ₩514,547 million and ₩27,346 million, respectively in finance income and costs.

23. Derivative financial instruments (continued)

In relation to valuation of derivatives that have not reached their maturity dates, the Company recorded derivative assets of ₩611,612 million, derivative liabilities of ₩141,194 million, financial assets at fair value through profit or loss of ₩20,310 million and financial liabilities at fair value through profit or loss of ₩62,999 million as of June 30, 2011.

24. Capital and capital surplus

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

(In millions of won)		2011	2010
Paid-in capital in excess of par value	₩	843,324	843,324
Other capital surplus		201,193	201,193
	₩	1,044,517	1,044,517

Other capital surplus is composed of ₩33,382 million of gain on disposal of investment in Hyundai Mipo Dockyard Co., Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩145,981 million of gain on disposal of treasury stock (net of tax effect) and ₩21,830 million of gain on business combination and others.

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

25. Treasury stock

Treasury stock 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

26. 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	₩	1,027,446	656,130
Gain and loss on valuation of derivatives		10,661	12,706
	₩	1,038,107	668,836

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

(In millions of won)		2011	2010
Gain and loss on valuation of available-for-sale financial assets	₩	476,045	171,560
Gain and loss on valuation of derivatives		(2,287)	(93,388)
Tax effect		(104,487)	(15,084)
	₩	369,271	63,088

27. Retained earnings

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

(In millions of won)

		2011	2010
Legal reserves:			
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
		2,020,414	2,020,414
Voluntary reserves: (*3)			
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
		9,403,892	6,071,771
Unappropriated retained earnings		1,968,095	4,287,470
	₩	13,392,401	12,379,655

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

(*2) 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 Company 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.

28. 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	₩	4,468,593	9,190,477	4,782,858	9,472,586
Goods sold		1,537,691	3,069,460	436,456	1,104,085
Services		49,068	101,668	64,181	100,323
	₩	6,055,352	12,361,605	5,283,495	10,676,994

(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 (*)	₩	15,668,187	19,235,151	34,903,338
Increase during the period		9,387,543	8,842,206	18,229,749
Recognized as revenue in current income		(4,898,387)	(7,463,218)	(12,361,605)
End of period	₩	20,157,343	20,614,139	40,771,482

(*) 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 Company 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	Billed receivables on construction contracts	Unbilled receivables on construction contracts	Due to customers for contract work
Shipbuilding	₩	11,227,447	9,469,265	1,758,182	288,456	2,238,381	4,644,321
Others		17,917,566	14,981,203	2,936,363	573,610	639,517	1,509,795
	₩	29,145,013	24,450,468	4,694,545	862,066	2,877,898	6,154,116

29. 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	₩	76,476	155,362	77,271	148,909
Post-employment benefit costs		5,430	10,922	5,361	10,556
Employee welfare		16,504	37,588	14,618	32,534
Depreciation		8,609	17,312	2,917	5,489
Amortization of development costs		-	-	162	324
Bad debt expenses		29,781	51,040	89,705	120,568
Ordinary development costs		30,218	57,929	18,606	38,615
Advertising		16,498	33,134	13,551	23,896
Printing		786	1,293	409	857
After-sale expenses		23,671	35,100	16,288	25,631
Insurance		743	1,484	834	1,681
Supplies		1,705	3,556	1,422	2,594
Utilities		836	2,386	544	1,284
Repairs		921	1,700	868	1,557
Travel		6,187	11,859	4,095	8,228
Research		2,807	5,789	5,317	10,732
Training		1,716	3,640	919	1,691
Transportation		35,843	71,009	27,478	49,735
Rent		2,598	5,084	2,245	4,591
Data processing		5,490	6,195	3,833	5,791
Entertainment		565	1,250	580	1,085
Taxes and dues		384	831	377	739
Service charges		23,871	46,096	18,173	38,999
Automobile maintenance		1,991	3,955	1,757	3,577
Communications		1,409	2,723	1,143	2,296
Sales commissions		13,958	30,139	21,912	37,982
Others		7,487	13,564	6,039	11,965
	₩	316,484	610,940	336,424	591,906

30. Nature of expenses

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

(In millions of won)		2011	2010
Changes in inventories	₩	(477,506)	361,078
Purchase of inventories		7,764,844	5,642,724
Depreciation		218,502	202,683
Amortization		28,164	24,972
Labor cost		1,033,970	962,953
Other expenses		2,124,820	1,831,458
	₩	10,692,794	9,025,868

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

31. 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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32. 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
Finance income:					
Interest income	₩	60,166	91,263	39,812	77,151
Gain on valuation of financial instruments at fair value through profit or loss		7,382	37,314	30,986	85,948
Gain on disposal of financial instruments at fair value through profit or loss		27,291	35,531	15,861	17,734
Gain on disposal of available-for-sale financial assets		1,471	1,471	507	513
Dividend income		82	73,463	617	63,066
Gain on foreign currency translation		14,479	45,009	144,890	100,424
Gain on foreign currency transactions		70,224	120,337	120,761	180,957
Gain on derivatives transactions		150,975	208,568	57,394	133,921
Gain on valuation of derivatives		240,641	477,233	-	10,368
	₩	572,711	1,090,189	410,828	670,082
Finance costs:					
Interest expense	₩	31,936	63,880	10,898	23,640
Loss on valuation of financial instruments at fair value through profit or loss		1,295	24,946	133,421	137,344
Loss on disposal of financial instruments at fair value through profit or loss		26,091	51,487	35,971	53,146
Loss on disposal of available-for-sale financial assets		205	220	594	607
Impairment loss on available-for-sale financial assets		1,046	6,236	-	-
Loss on foreign currency translation		-	82,099	-	40,492
Loss on foreign currency transactions		133,850	218,382	124,463	233,914
Loss on derivatives transactions		4,673	8,965	53,882	58,873
Loss on valuation of derivatives		-	2,400	686,893	429,662
	₩	199,096	458,615	1,046,122	977,678

33. 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
Other non-operating income:					
Gain on disposal of property, plant and equipment	₩	544	675	1,129	1,264
Reversal of provision for product warranty		855	4,476	-	-
Reversal of provision for construction warranty		1,390	2,306	2,192	4,692
Gain on valuation of firm commitments		1,474	7,239	741,416	436,117
Reversal of allowance for doubtful accounts		3,468	5,671	-	656
Miscellaneous income		27,772	129,973	31,100	183,527
	₩	35,503	150,340	775,837	626,256
Other non-operating expenses:					
Service charges	₩	1,636	3,193	1,966	4,544
Loss on disposal of property, plant and equipment		151	946	117	421
Loss on valuation of firm commitments		351,400	589,522	-	90,662
Other bad debt expenses		-	-	20,825	20,825
Donation		14,505	16,630	5,520	10,565
Miscellaneous expenses		9,902	15,039	13,039	17,830
	₩	377,594	625,330	41,467	144,847

34. Income tax expense

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

(In millions of won)		2011	2010
Current tax expense	₩	379,570	454,927
Changes in deferred taxes due to temporary differences		108,548	(5,630)
Changes in deferred taxes directly adjusted in equity		(104,487)	(15,084)
Income tax expense		383,631	434,213
Income before income taxes		1,825,395	1,824,938
Effective tax rate	%	21.02	23.79

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.

35. Earnings per share

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

		2011		2010	
		Three-month period	Six-month period	Three-month period	Six-month period
Net income *(In millions of won)*	₩	538,739	1,441,764	645,378	1,390,725
Weighted average number of common shares outstanding *(In thousands of shares)*		61,288	61,288	60,621	60,621
Earnings per share *(In won)*	₩	8,790	23,524	10,646	22,941

36. 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)	2011							
	Cash and cash equivalents	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Derivative assets**	**Financial liabilities at fair value through profit or loss**	**Financial liabilities measured at amortised cost**	**Derivative liabilities**
Cash and cash equivalents	₩ 1,292,323	-	-	-	-	-	-	-
Short-term financial assets	-	9,803	-	12,129	-	-	-	-
Trade and other receivables	-	-	-	3,435,007	-	-	-	-
Due from customers for contract work	-	-	-	2,670,766	-	-	-	-
Derivative assets (current)	-	-	-	-	379,778	-	-	-
Long-term financial assets		10,507	1,947,306	33	-	-	-	-
Long-term trade and other receivables	-	-	-	12,512	-	-	-	-
Long-term due from customers for contract work	-	-	-	207,132	-	-	-	-
Derivative assets (non-current)	-	-	-	-	231,834	-	-	-
Short-term financial liabilities	-	-	-	-	-	62,620	3,445,248	-
Trade and other payables	-	-	-	-	-	-	2,991,737	-
Derivative liabilities (current)	-	-	-	-	-	-	-	126,952
Long-term financial liabilities	-	-	-	-	-	379	56,255	-
Long-term trade and other liabilities	-	-	-	-	-	-	14,502	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	14,242
	₩ 1,292,323	20,310	1,947,306	6,337,579	611,612	62,999	6,507,742	141,194

36. Categories of financial instruments and income and costs by categories (continued)

(In millions of won)		2010							
		Cash and cash equivalents	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Derivative liabilities
Cash and cash equivalents	₩	624,480	-	-	-	-	-	-	-
Short-term financial assets		-	9,600	-	6,967	-	-	-	-
Trade and other receivables		-	-	-	3,089,062	-	-	-	-
Due from customers for contract work		-	-	-	3,315,911	-	-	-	-
Derivative assets (current)		-	-	-	-	149,878	-	-	-
Long-term financial assets		-	6,462	1,491,488	1,451	-	-	-	-
Long-term trade and other receivables		-	-	-	16,391	-	-	-	-
Long-term due from customers for contract work		-	-	-	251,296	-	-	-	-
Derivative assets (non-current)		-	-	-	-	135,260	-	-	-
Short-term financial liabilities		-	-	-	-	-	158,259	3,114,982	-
Trade and other payables		-	-	-	-	-	-	2,678,618	-
Derivative liabilities (current)		-	-	-	-	-	-	-	479,277
Long-term financial liabilities		-	-	-	-	-	18,431	332,302	-
Long-term trade and other liabilities		-	-	-	-	-	-	13,499	-
Derivative liabilities (non-current)		-	-	-	-	-	-	-	52,908
	₩	624,480	16,062	1,491,488	6,681,078	285,138	176,690	6,139,401	532,185

36. Categories of financial instruments and income and costs by categories (continued)

(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)		Net gain or loss		Other comprehensive income		Interest income and expense		Impairment loss	
		2011	2010	2011	2010	2011	2010	2011	2010
Cash and cash equivalents	₩	(3,307)	3,015	-	-	10,880	5,771	-	-
Financial assets at fair value through profit or loss		15,342	94,697	-	-	-	-	-	-
Available-for-sale financial assets		6,761	12,901	371,315	133,817	113	3,094	(6,236)	-
Loans and receivables		(142,581)	(75,681)	-	-	80,270	68,286	(45,370)	(140,807)
Financial liabilities at fair value through profit or loss		(18,062)	(181,166)	-	-	-	-	-	-
Financial liabilities measured at amortised cost		300	(29,190)	-	-	(63,880)	(23,640)	-	-
Derivatives		665,922	(321,395)	(2,044)	(70,729)	-	-	-	-

37. 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:

(In millions of won)		2011	2010
Cash and cash equivalents	₩	1,292,323	624,480
Financial assets at fair value through profit or loss		20,310	16,062
Available-for-sale financial assets		1,947,306	1,491,488
Loans and receivables		6,337,579	6,681,078
Derivative assets		611,612	285,139
	₩	10,209,130	9,098,247

The maximum exposure to credit risk for financial guarantee contracts is ₩1,305,338 million as of June 30, 2011(see notes 38 and 40).

37. Risk of financial instruments (continued)

(a) Credit risk (continued)

(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:

(In millions of won)		2011		2010	
		Gross	Impairment	Gross	Impairment
Not past due	₩	4,536,218	(259,051)	4,478,924	(245,455)
Past due 0-6 months		1,811,058	-	2,249,583	-
Past due 6-12 months		155,179	-	120,134	-
Past due 1-3 years		101,257	(10,649)	46,726	(4,231)
More than three years		16,225	(12,658)	165,786	(130,389)
	₩	6,619,937	(282,358)	7,061,153	(380,075)

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:

(In millions of won)		2011	2010
Beginning balance	₩	380,075	318,690
Impairment loss recognized		51,040	201,725
Write off		(143,089)	(81,335)
Reversal of allowance accounts		(5,668)	(59,005)
Ending balance	₩	282,358	380,075

The allowance accounts in respect of loans and receivables is used to record impairment losses unless the Company 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. At June 30, 2011 and December 31, 2010, the Company does not have any collective impairments on its loans and receivables.

(iii) The analysis of the aging 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	₩	2,060,412	1,811,058	155,179	90,608	3,567

(In millions of won)		2010				
		Carrying amount	6 months or less	6-12 months	1-3 years	More than 3 years
Loans and receivables	₩	2,447,609	2,249,583	120,134	42,495	35,397

37. Risk of financial instruments (continued)

(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**
Non-derivative financial liabilities:						
Unsecured bank loans	₩ 3,201,836	3,228,672	2,770,483	400,484	47,808	9,897
Unsecured bond issues	299,667	316,290	8,145	308,145	-	-
Trade and other payables	3,006,239	3,006,239	2,858,885	132,852	14,470	32
Derivative financial liabilities:						
Forward exchange contracts used for hedging:						
Outflow	141,194	145,764	91,770	38,227	15,767	-
Other forward exchange contracts:						
Outflow	62,999	64,399	46,990	16,996	413	-
	₩ 6,711,935	6,761,364	5,776,273	896,704	78,458	9,929

The maximum amount of assurance for financial guarantee contracts is ₩1,305,338 million as of June 30, 2011(see notes 38 and 40).

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

(In millions of won)	2010					
	Carrying amount	**Contractual cash flow**	**6 months or less**	**6-12 months**	**1-3 years**	**More than 3 years**
Non-derivative financial liabilities:						
Unsecured bank loans	₩ 3,147,823	3,204,213	1,653,357	1,516,917	27,603	6,336
Unsecured bond issues	299,461	324,435	8,145	8,145	308,145	-
Trade and other payables	2,692,117	2,692,117	2,678,618	-	13,467	32
Derivative financial liabilities:						
Forward exchange contracts used for hedging:						
Outflow	532,185	547,926	314,286	176,678	56,962	-
Other forward exchange contracts:						
Outflow	176,690	182,150	109,287	53,150	19,713	-
	₩ 6,848,276	6,950,841	4,763,693	1,754,890	425,890	6,368

37. 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)		2011				
		Carrying amount	**Expected cash flows**	**6 months or less**	**6-12 months**	**1-3 years**
Forward exchange contracts						
Assets	₩	46,036	47,090	36,438	8,332	2,320
Liabilities		(28,934)	(30,840)	(7,451)	(8,230)	(15,159)
	₩	17,102	16,250	28,987	102	(12,839)

(In millions of won)		2010				
		Carrying amount	**Expected cash flows**	**6 months or less**	**6-12 months**	**1-3 years**
Forward exchange contracts						
Assets	₩	28,628	29,377	24,512	1,674	3,191
Liabilities		(6,342)	(6,535)	(2,736)	(3,613)	(186)
	₩	22,286	22,842	21,776	(1,939)	3,005

(c) Currency risk

(i) Exposure to currency risk

The Company'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	₩	211,142	587	2	401	39,594	251,726
Loans and receivables		4,141,933	350,870	262,181	5,818	255,739	5,016,541
Trade and other payables		(580,611)	(85,767)	-	(16,396)	(81,839)	(764,613)
Borrowings		(737,240)	(137,359)	-	(45,236)	(12,002)	(931,837)
Gross statement of financial position exposure		3,035,224	128,331	262,183	(55,413)	201,492	3,571,817
Forward exchange contracts		422,917	4,812	-	-	-	427,729
Net exposure	₩	3,458,141	133,143	262,183	(55,413)	201,492	3,999,546

(In millions of won)		2010					
		USD	**EUR**	**CNY**	**JPY**	**Others**	**Total**
Cash and cash equivalents	₩	200,819	480	1	223	32,253	233,776
Loans and receivables		4,684,016	359,677	132,694	997	172,527	5,529,911
Trade and other payables		(615,638)	(84,478)	(8)	(13,099)	(74,219)	(787,442)
Borrowings		(396,716)	(112,384)	-	(56,573)	(7,183)	(572,856)
Gross statement of financial position exposure		4,052,481	163,295	132,687	(68,452)	123,378	4,403,389
Forward exchange contracts		(416,103)	8,429	-	-	-	(407,674)
Net exposure	₩	3,636,378	171,724	132,687	(68,452)	123,378	3,995,715

37. Risk of financial instruments (continued)

(c) Currency risk (continued)
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

(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 Company 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)	₩	103,744	109,091
EUR (3 percent weakening)		3,994	5,152
CNY (3 percent weakening)		7,865	3,981
JPY (3 percent weakening)		(1,662)	(2,054)

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 Company's interest-bearing financial instruments as of June 30, 2011 and December 31, 2010 is as follows:

(In millions of won)		2011	2010
Fixed rate instruments:			
Financial assets	₩	154,249	92,709
Financial liabilities		(1,875,248)	(1,914,443)
	₩	(1,720,999)	(1,821,734)
Variable rate instruments:			
Financial assets	₩	1,150,236	572,759
Financial liabilities		(1,626,255)	(1,532,841)
	₩	(476,019)	(960,082)

37. Risk of financial instruments (continued)

(d) Interest rate risk (continued)

(ii) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(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:

(In millions of won)		Profit or loss	
		100 bp increase	**100 bp decrease**
Variable rate instruments			
2011	₩	(2,380)	2,380
2010		(9,601)	9,601

(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**
Assets carried at fair value:					
Financial assets at fair value through profit or loss	₩	20,310	20,310	16,062	16,062
Available-for-sale financial assets (*)		1,947,306	1,947,306	1,491,488	1,491,488
Derivative assets		611,612	611,612	285,139	285,139
	₩	2,579,228	2,579,228	1,792,689	1,792,689
Cash and cash equivalents	₩	1,292,323	1,292,323	624,480	624,480
Assets carried at amortized cost:					
Loans and receivables	₩	6,337,579	6,337,579	6,681,078	6,681,078
Liabilities carried at fair value:					
Financial liabilities at fair value through profit or loss		62,999	62,999	176,690	176,690
Derivative liabilities		141,194	141,194	532,185	532,185
	₩	204,193	204,193	708,875	708,875
Liabilities carried at amortized:					
Unsecured bank loans	₩	3,201,836	3,201,836	3,147,823	3,147,823
Unsecured bond issues		299,667	307,137	299,461	310,399
Trade and other payables		3,006,239	3,006,239	2,692,117	2,692,117
	₩	6,507,742	6,515,212	6,139,401	6,150,339

(*) 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 ₩78,579 million and ₩97,677 million, respectively.

37. Risk of financial instruments (continued)

(e) Fair values (continued)
(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%
Unsecured bond issues	3.89%	3.64%

(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)

		Level 1	Level 2	Level 3	Total
June 30, 2011:					
Financial assets at fair value through profit or loss	₩	-	20,310	-	20,310
Available-for-sale financial assets		1,842,665	-	26,062	1,868,727
Derivative assets		-	611,612	-	611,612
Financial liabilities at fair value through profit or loss		-	(62,999)	-	(62,999)
Derivative liabilities		-	(141,194)	-	(141,194)
December 31, 2010:					
Financial assets at fair value through profit or loss		-	16,062	-	16,062
Available-for-sale financial assets		1,367,623	-	26,188	1,393,811
Derivative assets		-	285,139	-	285,139
Financial liabilities at fair value through profit or loss		-	(176,690)	-	(176,690)
Derivative liabilities		-	(532,185)	-	(532,185)

38. Commitments and contingencies

(a) The Company has entered into bank overdraft agreements with eight banks amounting to ₩238,000 million as of June 30, 2011.

(b) As of June 30, 2011, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 2,367,602 thousand.

(c) In order to secure bank loans and construction contract performance guarantees, the Company has provided seven blank notes 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 Company'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 Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies amounting to USD 668,795 thousand. The Company 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 Company 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 Company's subsidiaries, for the construction of six ships at a contract amount of USD 655,179 thousand.

(f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩1,466,932 million and USD 11,670,349 thousand by various banking facilities.

39. Litigation

(a) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a share option agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note, which was rejected by HSI and HSC. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company partially won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal claiming the whole amount of the principal and accrued interest. Also, the Company 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 Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Company 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 Company won its claim amounting to ₩241,200 million of principal, excluding ₩4,300 million and accrued interest thereon, and recovered ₩86,200 million. The Company 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 Company. 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 Company's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Company filed administrative litigation. However, the Company lost the first trial on January 5, 2011 and appealed on January 25, 2011. The litigation is currently pending as of June 30, 2011.

40. Related parties

(a) The Company is the ultimate controlling party and its subsidiaries as of June 30, 2011 are as follows:

Company	Particulars
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products
Ulsan Hyundai Football Club Co., Ltd.	Football club
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding
KOMAS Corporation	Shipping
Hotel Hyundai Co., Ltd.	Hotel operation
Mipo Engineering Co., Ltd.	Other engineering services
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and brokerage of futures transactions
Hyundai Investment Fund 1 on Patent Technology	Other financial intermediation
HI Investment & Securities Co., Ltd.	Securities brokerage
HI Management Co., Ltd	Asset management
Hyundai Energy & Resources Co., Ltd.	Services for crude oil and natural gas mining
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Jiangsu Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Heavy Industries (China) Electric Co., Ltd.	Sale and manufacture of switchboards for electric distribution
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
HHI China Investment Co., Ltd.	Holding company
Hyundai Financial Leasing Co., Ltd.	Financial and operating leases
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Sale and manufacture of hydraulic cylinders for construction equipment
Weihai Hyundai Wind Power Technology Co., Ltd.	Sale and manufacture of facilities for wind power generation
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	Sale and manufacture of wheel loaders
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.	Research and development of technology of construction machinery, engine and electric equipment
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Hyundai Heavy Industries Co. BULGARIA	Sale and manufacture of transformers
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
Hyundai Power Transformers USA, Inc.	Sale and manufacture of industrial electric equipment
Hyundai Vinashin Shipyard	Repairing of ships
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for construction
Vladivostok Business Center	Hotel operation
Hyundai Khorol Agro Ltd.	Agriculture
HHI MAURITIUS LIMITED	Manufacturing

40. Related parties (continued)

Company	Particulars
Hyundai Heavy Industries France SAS	Manufacturing
Hyundai Technologies Center Hungary Kft	Research and development of technology
PHECO Inc.	Design services for offshore facilities
Jahnel-Kestermann Getriebewerke GmbH	Design and manufacture of gearbox
HDO Singapore Pte. Ltd.	Sale of crude oil and petroleum products, chartering
PCA BGF World Gold Fund A Class	Other financial business
LS Leading Solution Private Security Investment Trust 22 (Equity)	Other financial business
LS Leading Solution Private Security Investment Trust 35 (Equity)	Other financial business
Tribridge Asian Special Situation Fund	Other financial business
HI Dynamic Asia Private Securities Investment Trust 1 (Stock)	Other financial business
HI Gold Ocean Ship Private Special Assets Investment Trust No. 2 (Beneficiary Right)	Other financial business
Tribridge Great China IPO Fund	Other financial business
HI K2-100 Private Securities Investment Trust 24 (ELS-Derivative]	Other financial business

40. 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 with related parties are as follows:

(In millions of won)	Sales and other		Purchases and other		Receivables		Payables	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Subsidiaries:								
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
	1,410,144	939,956	520,666	253,782	791,310	543,415	120,443	187,281
Associates:								
Hyundai Corporation	601,275	314,705	661	460	302,326	332,227	495	1,200
KAM Corporation	2	-	44,340	-	-	-	7,027	8,338
	601,277	314,705	45,001	460	302,326	332,227	7,522	9,538
	₩2,011,421	1,254,661	565,667	254,242	1,093,636	875,642	127,965	196,819

40. Related parties (continued)

(c) Details of guarantees which the Company had provided for related companies as of June 30, 2011 are as follows:

(In thousands of foreign currency)

Guarantee recipient	Provider	Type of guarantees	Currency	Guaranteed Amount
Subsidiaries:				
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
	Woori Bank	Payment	CNY	65,000
Hyundai Construction Equipment India Private Ltd.	HSBC	Payment	USD	10,000
	SCB and others	Payment	INR	1,900,000
Jahnel-Kestermann Getriebewerke GmbH	Shinhan Bank and others	Payment	EUR	81,500
Hyundai Power Transformers USA, Inc.	Woori Bank and others	Payment	USD	113,500
			USD	214,000
			EUR	117,750
			CNY	1,565,000
			INR	1,900,000
Associates:				
Hyundai Merchant Marine Co., Ltd.	H&K Shipping S.A and others	Performance	USD	455,994
			USD	669,994
			EUR	117,750
			CNY	1,565,000
			INR	1,900,000

(d) The Company has entered into rental agreements (deposits received of ₩1,245 million) with Hyundai Mipo Dockyard Co., Ltd. and other related parties as of June 30, 2011. In addition, the Company has also entered into joint shipbuilding contracts with subsidiaries (see note 38).

(e) Compensation for key management of the Company for the six-month periods ended June 30, 2011 and 2010 is ₩823 million and ₩1,350 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 Company.

41. Explanation of transition to K-IFRSs

As stated in note 2(a), these are the Company's condensed 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 Company's date of transition).

In preparing its opening K-IFRS statement of financial position, the Company 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 Company'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 Company
The Company 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 Company 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 Company 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 Company 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.

(iv) Investments in subsidiaries and associates
The Company has elected to use the carrying amounts under previous K-GAAP on the date of transition as deemed costs for the investments in subsidiaries and associates.

41. Explanation of transition to K-IFRSs (continued)

(b) Reconciliation of equity

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

(In millions of won)

		Total assets	Total liabilities	Total equity
Previous K-GAAP	₩	24,872,583	15,064,182	9,808,401
Adjustments for:				
Impairment on financial assets (*1)		36,922	-	36,922
Change in revenue recognition criteria (*2)		185,147	305,017	(119,870)
Property, plant and equipment (*3)		174,184	-	174,184
Accumulating compensated absences (*4)		-	73,738	(73,738)
Provision for construction warranty (*5)		-	20,511	(20,511)
Due from customers for contract work and due to customers for contract work (*6)		33,972	33,972	-
Defined benefit obligations (*7)		-	(77,553)	77,553
Convertible preferred stock (*8)		4,841	-	4,841
Deferred tax (*11)		-	(192,809)	192,809
Total adjustment		435,066	162,876	272,190
K-IFRSs	₩	25,307,649	15,227,058	10,080,591

(ii) The effects of the adoption of K-IFRSs on the Company's financial position as of June 30, 2010 are as follows:

(In millions of won)

		Total assets	Total liabilities	Total equity
Previous K-GAAP	₩	25,477,751	14,078,787	11,398,964
Adjustments for:				
Impairment on financial assets (*1)		39,354	-	39,354
Change in revenue recognition criteria (*2)		138,091	280,281	(142,190)
Property, plant and equipment (*3)		186,665	-	186,665
Accumulating compensated absences (*4)		-	73,738	(73,738)
Provision for construction warranty (*5)		-	24,267	(24,267)
Due from customers for contract work and due to customers for contract work (*6)		411,191	411,191	-
Defined benefit obligations (*7)		-	(55,281)	55,281
Convertible preferred stock (*8)		6,794	-	6,794
Private equity fund (*9)		(96,858)	-	(96,858)
Equity method investments (*10)		(286,908)	-	(286,908)
Deferred tax (*11)		(23,804)	(282,937)	259,133
Total adjustment		374,525	451,259	(76,734)
K-IFRSs	₩	25,852,276	14,530,046	11,322,230

41. Explanation of transition to K-IFRSs (continued)

(b) Reconciliation of equity (continued)

(iii) The effects of the adoption of K-IFRSs on the Company's financial position as of December 31, 2010 are as follows:

(In millions of won)

		Total assets	Total liabilities	Total equity
Previous K-GAAP	₩	28,888,131	15,069,099	13,819,032
Adjustments for:				
Impairment on financial assets (*1)		43,922	-	43,922
Change in revenue recognition criteria (*2)		191,812	320,291	(128,479)
Property, plant and equipment (*3)		198,163	-	198,163
Accumulating compensated absences (*4)		-	73,494	(73,494)
Provision for construction warranty (*5)		-	27,334	(27,334)
Due from customers for contract work and due to customers for contract work (*6)		409,004	409,004	-
Defined benefit obligations (*7)		-	(24,729)	24,729
Convertible preferred stock (*8)		4,418	-	4,418
Private equity fund (*9)		(61,970)	-	(61,970)
Equity method investments (*10)		(1,094,786)	-	(1,094,786)
Deferred tax (*11)		(8,644)	(376,996)	368,352
Total adjustment		(318,081)	428,398	(746,479)
K-IFRSs	₩	28,570,050	15,497,497	13,072,553

(iv) The effects of the adoption of K-IFRSs on the Company's financial performance for the period ended June 30, 2010 are as follows:

(In millions of won)

		Net income	Total comprehensive income
Previous K-GAAP	₩	1,836,727	1,802,737
Adjustments for:			
Impairment on financial assets (*1)		2,432	2,432
Change in revenue recognition criteria (*2)		(22,320)	(22,320)
Property, plant and equipment (*3)		11,987	12,482
Provision for construction warranty (*5)		(3,756)	(3,756)
Defined benefit obligations (*7)		(22,272)	(22,272)
Convertible preferred stock (*8)		1,953	1,953
Private equity fund (*9)		(750)	(96,858)
Equity method investments (*10)		(506,197)	(286,908)
Deferred tax (*11)		92,921	66,323
Total adjustment		(446,002)	(348,924)
K-IFRSs	₩	1,390,725	1,453,813

41. Explanation of transition to K-IFRSs (continued)

(b) Reconciliation of equity (continued)

(v) The effects of the adoption of K-IFRSs on the Company's financial performance for the year ended December 31, 2010 are as follows:

(In millions of won)

		Net income	Total comprehensive income
Previous K-GAAP	₩	3,761,140	4,145,595
Adjustments for:			
Impairment on financial assets (*1)		49,316	6,999
Change in revenue recognition criteria (*2)		(8,609)	(8,609)
Property, plant and equipment (*3)		12,900	23,979
Accumulating compensated absences (*4)		244	244
Provision for construction warranty (*5)		(6,822)	(6,822)
Defined benefit obligations (*7)		48,332	(52,824)
Convertible preferred stock (*8)		(2,199)	(423)
Private equity fund (*9)		(750)	(61,970)
Equity method investments (*10)		(1,165,952)	(1,186,039)
Deferred tax (*11)		147,799	195,618
Total adjustment		(925,741)	(1,089,847)
K-IFRSs	₩	2,835,399	3,055,748

(*1) Difference in impairment losses on financial 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 subsidiaries and associates under K-IFRSs.

(*10) Investments in subsidiaries and associates, which are accounted for using the equity method under previous K-GAAP, are accounted for using the cost method under K-IFRSs.

(*11) 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.

41. Explanation of transition to K-IFRSs (continued)

(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.