

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2012**

(With Independent Auditors' Report Thereon)

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# Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statements of financial position of Hyundai Heavy Industries Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, whose financial statements reflect total combined assets of ₩28,696,684 million and ₩28,062,191 million as of December 31, 2012 and 2011, and total combined revenues of ₩38,976,158 million and ₩31,443,769 million for the years then ended. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiaries, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

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

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

Seoul, Korea  
March 11, 2013

<p>This report is effective as of March 11, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Financial Position  
 As of December 31, 2012 and 2011

(In thousands of won)

	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Assets</b>			
Cash and cash equivalents	38,39	₩ 1,107,690,153	1,609,979,453
Short-term financial assets	5,6,12,16,23,28,38,39,42	2,512,370,330	2,188,261,278
Trade and other receivables	6,7,8,16,28,29,38,39,42	6,798,105,217	5,748,433,314
Due from customers for contract work	7,29,38,39	4,967,727,757	4,181,091,074
Inventories	9,16,28	6,191,140,271	6,478,092,980
Derivative assets	23,38,39	444,343,127	146,052,887
Firm commitment assets	23	78,871,247	496,421,602
Prepaid income taxes		28,491,109	14,083,278
Other current assets	10,28	3,149,888,036	2,213,954,234
<b>Total current assets</b>		<u>25,278,627,247</u>	<u>23,076,370,100</u>
Investments in associates and jointly controlled entities	11	851,041,163	972,857,274
Long-term financial assets	5,6,12,16,23,38,39	3,062,837,772	3,697,005,167
Long-term trade and other receivables	7,8,29,38,39,40,42	1,375,259,690	2,385,789,828
Long-term due from customers for contract work	7,29,38,39	-	50,649,454
Investment property	13,30	322,681,120	327,272,561
Property, plant and equipment	14,16,28,30,42	15,556,464,149	15,564,732,167
Intangible assets	15,28,30	2,297,410,938	2,323,669,491
Derivative assets	23,38,39	171,213,578	53,844,171
Firm commitment assets	23	1,986,905	231,983,141
Deferred tax assets	35	71,525,459	79,161,115
Other non-current assets	10,40	284,127,873	237,481,629
<b>Total non-current assets</b>		<u>23,994,548,647</u>	<u>25,924,445,998</u>
<b>Total assets</b>		<u>₩ 49,273,175,894</u>	<u>49,000,816,098</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2012 and 2011

<i>(In thousands of won)</i>	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Liabilities</b>			
Short-term financial liabilities	<i>16,17,20,23,28,38,39,40</i>	₩ 8,998,435,509	8,478,567,847
Trade and other payables	<i>18,28,38,39,42,43</i>	5,788,038,173	6,330,231,675
Advances from customers		899,696,291	939,659,423
Due to customers for contract work	<i>16,29,40</i>	5,735,064,891	8,686,004,506
Derivative liabilities	<i>23,38,39</i>	43,582,929	285,899,035
Firm commitment liabilities	<i>23</i>	275,635,986	138,316,003
Income tax payable		387,210,785	599,307,248
Other current liabilities	<i>19</i>	46,322,358	32,765,218
<b>Total current liabilities</b>		<u>22,173,986,922</u>	<u>25,490,750,955</u>
Long-term financial liabilities	<i>16,17,20,23,38,39,40,42</i>	6,301,794,319	2,943,925,653
Long-term trade and other payables	<i>18,38,39,42,43</i>	195,824,540	246,929,901
Liabilities for defined benefit plans	<i>21</i>	250,179,553	155,392,494
Long-term provisions	<i>22</i>	395,047,136	309,939,020
Derivative liabilities	<i>23,38,39</i>	26,913,284	250,397,356
Firm commitment liabilities	<i>23</i>	163,719,454	29,697,197
Deferred tax liabilities	<i>35</i>	978,566,475	1,340,445,233
Other non-current liabilities	<i>19</i>	45,793,016	56,819,222
<b>Total non-current liabilities</b>		<u>8,357,837,777</u>	<u>5,333,546,076</u>
<b>Total liabilities</b>		<u>30,531,824,699</u>	<u>30,824,297,031</u>
<b>Equity</b>			
Common stock	<i>24</i>	380,000,000	380,000,000
Capital surplus	<i>24</i>	1,109,309,014	1,099,792,874
Capital adjustments	<i>25</i>	(1,778,129,902)	(1,797,036,283)
Accumulated other comprehensive income	<i>23,26</i>	1,071,626,631	1,296,943,571
Retained earnings	<i>27</i>	16,098,025,119	15,399,437,474
<b>Equity attributable to owners of the Company</b>		<u>16,880,830,862</u>	<u>16,379,137,636</u>
<b>Non-controlling interests</b>		<u>1,860,520,333</u>	<u>1,797,381,431</u>
<b>Total equity</b>		<u>18,741,351,195</u>	<u>18,176,519,067</u>
<b>Total liabilities and equity</b>		<u>₩ 49,273,175,894</u>	<u>49,000,816,098</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
For the years ended December 31, 2012 and 2011

<i>(In thousands of won, except per share information)</i>	<i>Note</i>	<b>2012</b>	<b>2011 (Restated)</b>
Sales	23,29,30,42	₩ 54,973,701,392	53,711,665,784
Cost of sales	9,15,23,32,42	(50,330,946,876)	(46,784,445,382)
<b>Gross profit</b>		<u>4,642,754,516</u>	<u>6,927,220,402</u>
Selling, general and administrative expenses	15,31,32	(2,649,589,875)	(2,366,179,781)
<b>Operating income</b>	2,30	<u>1,993,164,641</u>	<u>4,561,040,621</u>
Finance income	23,33,38	2,744,384,316	1,875,996,522
Finance costs	23,33,38	(1,745,961,743)	(2,141,894,383)
Other non-operating income	23,34	219,190,566	816,287,551
Other non-operating expenses	15,23,34	(1,405,591,284)	(1,086,836,594)
Share of loss of equity accounted investees	11	(369,332,032)	(148,295,552)
<b>Profit before income taxes</b>		<u>1,435,854,464</u>	<u>3,876,298,165</u>
Income taxes	35	(415,256,256)	(1,132,861,777)
<b>Profit for the year</b>	30	<u>₩ 1,020,598,208</u>	<u>2,743,436,388</u>
<b>Other comprehensive loss</b>	26,35,38	<u>(285,606,252)</u>	<u>(126,593,113)</u>
<b>Total comprehensive income</b>		<u>₩ 734,991,956</u>	<u>2,616,843,275</u>
<b>Profit attributable to:</b>			
Owners of the Company		984,272,157	2,559,005,824
Non-controlling interests		<u>36,326,051</u>	<u>184,430,564</u>
		<u>₩ 1,020,598,208</u>	<u>2,743,436,388</u>
<b>Comprehensive income attributable to:</b>			
Owners of the Company		707,618,065	2,498,433,861
Non-controlling interests		<u>27,373,891</u>	<u>118,409,414</u>
		<u>₩ 734,991,956</u>	<u>2,616,843,275</u>
<b>Earnings per share</b>			
Basic and diluted earnings per share (won)	36	<u>₩ 17,823</u>	<u>46,337</u>

See accompanying notes to the consolidated financial statements.

**HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2012 and 2011**

<i>(In thousands of won)</i>	Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	Total equity
<b>Balance at January 1, 2011</b> <b>(Unaudited)</b>	₩ 380,000,000	1,099,792,874	(1,796,194,398)	1,260,906,459	13,347,529,398	1,730,888,691	16,022,923,024
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	2,559,005,824	184,430,564	2,743,436,388
Change in fair value of available-for-sale financial assets	-	-	-	55,305,327	-	(68,265,138)	(12,959,811)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(34,193,457)	-	(1,089,227)	(35,282,684)
Exchange differences on translating foreign operations	-	-	-	29,364,992	-	11,665,985	41,030,977
Change in equity of equity method investments	-	-	-	(14,439,750)	-	(321,450)	(14,761,200)
Defined benefit plan actuarial losses	-	-	-	-	(96,609,075)	(8,011,320)	(104,620,395)
<b>Transactions with owners of the Company, recognized directly in equity</b>							
Dividends	-	-	-	-	(410,488,673)	(97,698,571)	(508,187,244)
Changes in ownership in subsidiaries	-	-	(841,885)	-	-	45,781,897	44,940,012
<b>Balance at December 31, 2011</b>	<u>₩ 380,000,000</u>	<u>1,099,792,874</u>	<u>(1,797,036,283)</u>	<u>1,296,943,571</u>	<u>15,399,437,474</u>	<u>1,797,381,431</u>	<u>18,176,519,067</u>
<b>Balance at January 1, 2012</b>	₩ 380,000,000	1,099,792,874	(1,797,036,283)	1,296,943,571	15,399,437,474	1,797,381,431	18,176,519,067
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	984,272,157	36,326,051	1,020,598,208
Change in fair value of available-for-sale financial assets	-	-	-	(179,754,834)	-	16,832,857	(162,921,977)
Effective portion of changes in fair value of cash flow hedges	-	-	-	12,634,720	-	(1,532,489)	11,102,231
Exchange differences on translating foreign operations	-	-	-	(70,099,321)	-	(21,740,958)	(91,840,279)
Change in equity of equity method investments	-	-	-	11,902,495	-	217,074	12,119,569
Retained earnings of equity method investments	-	-	-	-	(2,528,715)	(41,727)	(2,570,442)
Defined benefit plan actuarial losses	-	-	-	-	(48,808,437)	(2,686,917)	(51,495,354)
<b>Transactions with owners of the Company, recognized directly in equity</b>							
Dividends	-	-	-	-	(234,347,360)	(15,447,958)	(249,795,318)
Changes in ownership in subsidiaries	-	9,516,140	18,906,381	-	-	51,212,969	79,635,490
<b>Balance at December 31, 2012</b>	<u>₩ 380,000,000</u>	<u>1,109,309,014</u>	<u>(1,778,129,902)</u>	<u>1,071,626,631</u>	<u>16,098,025,119</u>	<u>1,860,520,333</u>	<u>18,741,351,195</u>

*See accompanying notes to the consolidated financial statements.*

**HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2012 and 2011**

(In thousands of won)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>			
Net income for the year	₩	1,020,598,208	2,743,436,388
Adjustments		(3,487,393,898)	(903,473,665)
Cash generated from (used in) operations	37	(2,466,795,690)	1,839,962,723
Interest received		385,506,984	468,988,719
Interest paid		(504,180,991)	(398,764,791)
Dividends received		56,100,614	67,147,385
Income taxes paid		(929,706,325)	(1,473,790,613)
<b>Net cash provided by (used in) operating activities</b>		<u>(3,459,075,408)</u>	<u>503,543,423</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets		229,519,157	1,242,958,916
Proceeds from collection of other receivables		347,754	60,652,540
Proceeds from sale of investments in associates		490,807	39,869,909
Proceeds from sale of investments in subsidiaries		27,725,094	161,442,459
Proceeds from sale of long-term financial assets		947,186,881	80,702,648
Proceeds from collection of long-term other receivables		17,580,620	90,862,139
Proceeds from sale of property, plant and equipment		42,408,096	43,596,212
Proceeds from sale of intangible assets		4,629,691	3,494,680
Proceeds from government grants		1,455,839	6,960,397
Proceeds from collection of other non-current assets		426,576	-
Acquisition of short-term financial assets		(411,822,011)	(788,161,613)
Acquisition of other receivables		(6,020,000)	-
Acquisition of investments in associates		(213,608,446)	(69,924,255)
Acquisition of investments in subsidiaries		-	(2)
Acquisition of long-term financial assets		(216,789,770)	(512,101,811)
Acquisition of long-term other receivables		(34,333,795)	-
Acquisition of investment property		(664,383)	(481,937)
Acquisition of property, plant and equipment		(1,095,371,977)	(1,626,702,018)
Acquisition of intangible assets		(81,790,855)	(70,527,207)
Acquisition of other non-current assets		(20,656,454)	(29,436,442)
<b>Net cash used in investing activities</b>		<u>(809,287,176)</u>	<u>(1,366,795,385)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term financial liabilities		26,389,375,077	13,098,949,870
Proceeds from long-term financial liabilities		4,624,950,579	1,484,775,397
Capital contribution from non-controlling interests		85,666,448	20,958,284
Repayment of short-term financial liabilities		(27,066,247,362)	(13,231,735,845)
Repayment of long-term financial liabilities		(3,916,617)	(293,176,438)
Dividends paid		(234,347,360)	(410,488,673)
Dividend and distribution to non-controlling interests		(21,431,942)	(70,497,979)
<b>Net cash provided by financing activities</b>		<u>3,774,048,823</u>	<u>598,784,616</u>
Effects of exchange rate changes on cash and cash equivalents		(7,975,539)	(4,354,277)
<b>Net decrease in cash and cash equivalents</b>		<u>(502,289,300)</u>	<u>(268,821,623)</u>
Cash and cash equivalents at 1 January		<u>1,609,979,453</u>	<u>1,878,801,076</u>
<b>Cash and cash equivalents at 31 December</b>	₩	<u><u>1,107,690,153</u></u>	<u><u>1,609,979,453</u></u>

See accompanying notes to the consolidated financial statements.



**HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**1. Reporting Entity**

**(1) Description of the controlling company**

Hyundai Heavy Industries Co., Ltd. (the “Company”) was incorporated in 1973, under the Commercial Code of the Republic of Korea, and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other products. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities.

On August 1999, the Company was listed on the Korea Exchange. As of December 31, 2012, the Company’s major stockholders consist of Mong-Joon Chung (10.15%) and Hyundai Mipo Dockyard Co., Ltd. (7.98%).

**(2) Consolidated subsidiaries**

Subsidiaries as of December 31, 2012 are summarized as follows:

<u>Company</u>	<u>Main business</u>	<u>Percentage of ownership (%)</u>	<u>Location</u>	<u>Fiscal year end</u>
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	94.92	Korea	December
Hyundai Mipo Dockyard Co., Ltd.(*1,2)	Shipbuilding	45.97	Korea	December
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products	91.13	Korea	December
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding	100.00	Korea	December
KOMAS Corporation	Shipping	100.00	Korea	December
Hyundai Energy & Resources Co., Ltd.(*1)	Services for crude oil and natural gas mining	90.00	Korea	December
Mipo Engineering Co., Ltd.(*1)	Other engineering services	100.00	Korea	December
Ulsan Hyundai Football Club Co., Ltd.	Football club	100.00	Korea	December
Hotel Hyundai Co., Ltd.	Hotel operation	100.00	Korea	December
HI Investment & Securities Co., Ltd.(*1)	Securities brokerage	83.24	Korea	March
HI Asset Management Co., Ltd.(*1)	Asset management	99.99	Korea	March
Hyundai Finance Corporation	Granting of credit	67.49	Korea	December
Hyundai Venture Investment Corporation(*1)	Granting of credit	68.38	Korea	December
Hyundai Futures Corporation(*1)	Entrust and brokerage of futures transactions	65.22	Korea	March
Hyundai Investment Fund 1 on Patent Technology(*1)	Other financial business	50.00	Korea	December
LS Leading Solution Private Security Investment Trust 22 (Equity)	Other financial business	100.00	Korea	December
LS Leading Solution Private Security Investment Trust 35 (Equity)	Other financial business	100.00	Korea	December
Eastspring Private Global Asset Allocation & Mining & Gold Fund of Funds Investment Trust A-1(*3)	Other financial business	100.00	Korea	December
HI Gold Ocean Ship Private Special Assets Investment Trust No.2 (Beneficiary Right)(*1)	Other financial business	100.00	Korea	March
HI Dynamic Asia Private Securities Investment Trust 1 (Stock)(*1)	Other financial business	100.00	Korea	March
Hyundai Ship Private Fund 1(*1)	Other financial business	100.00	Korea	March

**1. Reporting Entity, Continued**

**(2) Consolidated subsidiaries, continued**

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2012 and 2011

<u>Company</u>	<u>Main business</u>	<u>Percentage of ownership (%)</u>	<u>Location</u>	<u>Fiscal year end</u>
HI Gold Index Linked Private Securities Investment Trust 1(*1)	Other financial business	100.00	Korea	March
HI Himsen Private Funds Investment Trust 1(*1)	Other financial business	75.00	Korea	December
HI Gold Ocean Kmarin No. 8 Ship Investment Company (*1)	Chartering	52.25	Korea	December
Hyundai Oil Terminal Co., Ltd.(*1)	Oil storage business	70.00	Korea	December
Hyundai and Shell Base Oil Co., Ltd.(*1)	Manufacturing of base oil	60.00	Korea	December
Hyundai (Jiangsu) Construction Machinery Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction	60.00	China	December
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction	60.00	China	December
HHI China Investment Co., Ltd.	Holding company	100.00	China	December
Hyundai Financial Leasing Co., Ltd.(*1)	Finance and operating leases	88.02	China	December
Hyundai Heavy Industries (China) Electric Co., Ltd.(*1)	Sale and manufacture of switchboards for electric distribution	100.00	China	December
Yantai Hyundai Moon Heavy Industries Co., Ltd.(*1)	Sale and manufacture of industrial boilers	55.00	China	December
Changzhou Hyundai Hydraulic Machinery Co., Ltd.(*1)	Sale and manufacture of hydraulic cylinders for construction equipment	100.00	China	December
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	Sale and manufacture of wheel loaders	100.00	China	December
Weihai Hyundai Wind Power Technology Co., Ltd.(*1)	Sale and manufacture of facilities for wind power generation	80.00	China	December
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.(*1)	Research and development of technology for construction machinery, engine and electric equipment	100.00	China	December
HYUNDAI OILBANK (SHANGHAI) CO., LTD.(*1)	Trade in petrochemical products	100.00	China	December
HDO Singapore Pte. Ltd.(*1)	Trade in crude oil and petrochemical products, chartering	100.00	Singapore	December
Hyundai Vinashin Shipyard (*1)	Ship repair	65.00	Vietnam	December
Hyundai Construction Equipment India PVT., Ltd.	Sale and manufacture of machinery equipment for construction	100.00	India	March
Hyundai Transformers and Engineering India Pvt. Ltd.	Sale and manufacture of transformers	100.00	India	March

**1. Reporting Entity, Continued**

**(2) Consolidated subsidiaries, continued**

**HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2012 and 2011**

<u>Company</u>	<u>Main business</u>	<u>Percentage of ownership (%)</u>	<u>Location</u>	<u>Fiscal year end</u>
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction	100.00	America	December
Hyundai Power Transformers USA, INC	Sale and manufacture of industrial electric equipment	100.00	America	December
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment	100.00	America	December
PHECO Inc.	Design services for offshore facilities	100.00	America	December
HHI Battery CO., Ltd.	Manufacturing	100.00	Canada	December
Hyundai Heavy Industries Brasil - Real Estate Developments	Real estate development	100.00	Brazil	December
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Manufacture, trade and repair of heavy equipment	100.00	Brazil	December
HI Gold Ocean Kmarin No. 8 S.A.(*1)	Ship investment	100.00	Panama	December
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing	100.00	Panama	December
Vladivostok Business Center	Hotel operation	100.00	Russia	December
Hyundai Khorol Agro Ltd.	Agriculture	94.26	Russia	December
Hyundai Mikhailovka Agro Ltd.	Agriculture	100.00	Russia	December
Hyundai Electrosystems Co., Ltd.	Manufacture of high-voltage circuit breakers	100.00	Russia	December
Hyundai Heavy Industries Europe N.V..	Sale of machinery equipment for construction	100.00	Belgium	December
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers	99.09	Bulgaria	December
Hyundai Technologies Center Hungary Kft.	Research and development of technology	100.00	Hungary	December
Hyundai Heavy Industries France SAS	Manufacturing	100.00	France	December
Jahnel-Kestermann Getriebewerke GmbH	Designing and manufacture of gearboxes	100.00	Germany	December
JaKe Service GmbH(*1)	Gearbox repair	100.00	Germany	December
HHI MAURITIUS LIMITED	Manufacturing	100.00	Mauritius	December
MS Dandy Ltd.(*1)	Ship rental service	100.00	Marshall Islands	December
Hyundai West Africa Limited	Manufacture of other transport equipment	100.00	Nigeria	December
Hyundai Arabia Company LLC.	Industrial plant construction	70.00	Saudi Arabia	December

**1. Reporting Entity, Continued**

**(2) Consolidated subsidiaries, continued**

(\*1) The percentage of ownership includes indirect ownership.

(\*2) Even though the Group does not have a majority ownership of Hyundai Mipo Dockyard Co., Ltd., the Group is considered to have control of Hyundai Mipo Dockyard Co., Ltd., considering that the rest of shareholders are

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minority shareholders and widely dispersed, and the Group exerted majority voting rights in the past stockholders' meetings.

(\*3) PCA BGF World Gold Fund A Class changed its name to Eastspring Private Global Asset allocation & Mining & Gold Fund of Funds Investment Trust A-1 in 2012.

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

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

<b>Company</b>	<b>Reason</b>
HI Gold Index Linked Private Securities Investment Trust 1	
HI Himsen Private Funds Investment Trust 1	
HI Gold Ocean Kmarin No. 8 Ship Investment Company	
Hyundai Oil Terminal Co., Ltd.	
Hyundai and Shell Base Oil Co., Ltd.	
HYUNDAI OILBANK (SHANGHAI) CO., LTD.	Commenced control resulting from the newly acquired shares
HHI Battery CO., Ltd.	
HI Gold Ocean Kmarin No. 8 S.A.	
Hyundai Heavy Industries Miraflores Power Plant Inc.	
Hyundai West Africa Limited	
Hyundai Arabia Company LLC.	

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

<b>Company</b>	<b>Reason</b>
HI K2-100 Private Securities Investment Trust 24 (ELS-Derivative)	
Tribridge Asian Special Situation Fund	Ceased control upon liquidation
Tribridge Greater China IPO Fund	

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**1. Reporting Entity, Continued**

**(4) Condensed financial information of consolidated subsidiaries**

- (i) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2012 is summarized as follows:

*(In millions of won)*

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Sales</u>	<u>Profit (loss)</u>
Hyundai Samho Heavy Industries Co., Ltd.	₩ 6,978,860	3,641,126	3,337,734	4,231,840	(13,358)
Hyundai Mipo Dockyard Co., Ltd.	5,032,466	1,838,036	3,194,430	4,003,285	111,289
Hyundai Oilbank Co., Ltd.	8,475,789	5,588,164	2,887,625	21,523,872	156,477
Hyundai Heavy Material Service	292,985	88,884	204,101	815,601	11,013
KOMAS Corporation	143,061	1,446	141,615	365	1,067
HI Investment & Securities Co., Ltd.	3,038,604	2,472,065	566,539	451,514	4,490
Hyundai Finance Corporation	193,301	43,221	150,080	16,805	3,599
Hyundai Venture Investment Corporation	72,415	991	71,424	8,260	2,794
Hyundai Futures Corporation	159,655	112,991	46,664	16,137	(1,102)
LS Leading Solution Private Security Investment Trust 22 (Equity)	105,199	14	105,185	3,227	3,132
HI Gold Ocean Kmarin No. 8 Ship Investment Company	72,940	-	72,940	8,036	1,515
Hyundai Oil Terminal Co., Ltd.	76,112	1,365	74,747	23	(120)
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	614,248	351,075	263,173	419,426	611
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	250,237	137,149	113,088	254,680	1,661
HHI China Investment Co., Ltd.	412,734	65,726	347,008	25,156	12,677
Hyundai Financial Leasing Co., Ltd.	954,285	701,511	252,774	126,457	49,617
Hyundai Heavy Industries (China) Electric Co., Ltd.	152,690	105,051	47,639	142,761	988
Yantai Hyundai Moon Heavy Industries Co., Ltd.	55,093	16,572	38,521	60,995	3,475
Hyundai (Shandong) Heavy Industries Machinery. Co., Ltd.	94,116	71,370	22,746	39,109	(16,458)
Weihai Hyundai Wind Power Technology Co., Ltd.	52,193	34,936	17,257	481	(3,321)
HDO Singapore Pte. Ltd.	169,951	168,369	1,582	4,889,922	294
Hyundai Vinashin Shipyard	398,978	220,162	178,816	467,578	(19,858)
Hyundai Construction Equipment India PVT., Ltd.	158,584	146,234	12,350	174,708	(15,457)
Hyundai Construction Equipment Americas, Inc.	305,354	271,739	33,615	679,625	9,877
Hyundai Power Transformers USA, INC	149,221	119,253	29,968	14,538	(22,301)
Hyundai Ideal Electric Co.	75,772	47,694	28,078	99,383	1,979
Hyundai Heavy Industries Brasil	194,522	133,467	61,055	159,006	(3,189)
HI Gold Ocean Kmarin No. 8 S.A.	66,815	69,287	(2,472)	34	(2,601)
Hyundai Electrosystems Co., Ltd.	80,471	37,923	42,548	-	(461)
Hyundai Heavy Industries Europe N.V.	134,506	82,586	51,920	290,290	8,659
Hyundai Heavy Industries Co. Bulgaria	64,855	24,076	40,779	54,061	(3,017)
Jahnel-Kestermann Getriebewerke GmbH	54,666	86,245	(31,579)	31,700	(35,092)

**1. Reporting Entity, Continued**

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**(4) Condensed financial information of consolidated subsidiaries, continued**

(ii) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2011 is summarized as follows:

*(In millions of won)*

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Sales</u>	<u>Profit (loss)</u>
Hyundai Samho Heavy Industries Co., Ltd.	₩ 6,954,715	3,741,672	3,213,043	4,828,651	550,958
Hyundai Mipo Dockyard Co., Ltd.	5,520,989	2,309,118	3,211,871	4,173,777	227,864
Hyundai Oilbank Co., Ltd.	8,642,625	5,899,464	2,743,161	18,958,623	360,737
Hyundai Heavy Material Service	303,190	109,801	193,389	795,244	32,960
KOMAS Corporation	187,522	1,974	185,548	249	7,353
HI Investment & Securities Co., Ltd.	2,664,577	2,102,849	561,728	514,327	8,641
HI Asset Management Co., Ltd.	51,087	2,405	48,682	19,646	5,071
Hyundai Finance Corporation	176,735	29,729	147,006	12,442	2,941
Hyundai Venture Investment Corporation	71,929	668	71,261	10,989	8,676
Hyundai Futures Corporation	106,251	59,293	46,958	22,807	1,090
LS Leading Solution Private Security Investment Trust 22 (Equity)	141,688	24	141,664	2,830	2,726
HI Gold Ocean Ship Private Special Assets Investment Trust No.2 (Beneficiary Right)	52,705	43	52,662	1,545	1,390
Hyundai Jiangsu Construction Machinery Co., Ltd.	794,618	515,793	278,825	1,084,356	51,530
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	293,710	175,325	118,385	394,534	15,413
HHI China Investment Co., Ltd.	410,930	55,416	355,514	21,580	61,491
Hyundai Financial Leasing Co., Ltd.	1,287,543	1,066,858	220,685	124,366	33,878
Hyundai Heavy Industries (China) Electric Co., Ltd.	171,178	121,602	49,576	120,617	(2,031)
Yantai Hyundai Moon Heavy Industries Co., Ltd.	68,872	22,322	46,550	89,826	7,100
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	80,426	56,839	23,587	6,587	(1,242)
Weihai Hyundai Wind Power Technology Co., Ltd.	59,501	37,782	21,719	-	(2,362)
HDO Singapore Pte. Ltd.	143,753	142,350	1,403	2,548,976	(234)
Hyundai Vinashin Shipyard	431,962	219,100	212,862	534,255	4,320
Hyundai Construction Equipment India PVT., Ltd.	159,125	140,505	18,620	178,883	(16,375)
Hyundai Construction Equipment Americas, Inc.	184,537	158,452	26,085	542,179	10,834
Hyundai Power Transformers USA, INC	141,962	86,870	55,092	674	(7,600)
Hyundai Ideal Electric Co.	59,254	31,048	28,206	72,331	2,063
Hyundai Heavy Industries Europe N.V..	117,089	71,249	45,840	268,344	18,524
Hyundai Heavy Industries Co. Bulgaria	65,291	19,264	46,027	81,095	(490)
Jahnel-Kestermann Getriebewerke GmbH	79,733	76,844	2,889	48,714	(41,080)

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**2. Basis of Preparation**

**(1) Statement of compliance**

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2013 and will be submitted for approval to the shareholders’ meeting to be held on March 22, 2013.

**(2) Basis of measurement**

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

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

**(3) Functional and presentation currency**

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

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

The preparation of the consolidated 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 judgments 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 8 – Classification of leases
- Note 13 – Classification of investment property

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

- Note 21 – Measurement of defined benefit obligations
- Notes 22, 40 and 41 – Provisions and contingencies
- Note 29 – Revenue recognition in proportion to stage of completion
- Note 35 – Measurement of deferred tax

**2. Basis of Preparation, Continued**

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**(5) Changes in accounting policies**

1) Changes in accounting policies

(i) Financial Instruments: Disclosures

The Group has applied the amendments to K-IFRS No. 1107, 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Group derecognizes transferred financial assets but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

(ii) Presentation of financial statements

The Group adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Group's operating profit is calculated as revenue less: (1) cost of goods sold, and (2) selling, general and administrative expenses, and is presented separately in the statement of comprehensive income.

2) Impact of changes in accounting policy

The Group retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Operating profit before adoption of the amendment	₩ 1,969,397	4,535,739
Changes		
Reversal of provision for product warranty	4,744	8,690
Reversal of provision for construction warranty	7,189	11,559
Reversal of other provision	2,748	-
Reversal of allowance for doubtful accounts	9,087	5,053
Operating profit after adoption of the amendment	₩ 1,993,165	4,561,041

**3. Significant Accounting Policies**



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The significant accounting policies applied by the Group in the preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in Note 2 (5).

**(1) Operating segments**

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

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

**(2) Basis of consolidation**

**(i) Subsidiaries**

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

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

**(ii) Intra-group transactions**

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

**(iii) Non-controlling interests**

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

**(iv) Changes in the Parent Company's ownership interest in a subsidiary**

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Parent Company.

**3. Significant Accounting Policies, Continued**

**(3) Business combination**

**(i) Business combination**

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

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Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012 Income Taxes
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No. 1019 Employee Benefits
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract.
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No. 1102 Share-based Payment
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105 Non-current Assets Held for Sale

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032 Financial Instruments: Presentation and K-IFRS No. 1039 Financial Instruments: Recognition and Measurement.

### 3. Significant Accounting Policies, Continued

#### (3) Business combination, continued

##### (ii) Goodwill

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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As part of its transition to K-IFRS, the Group elected to restate only those business combinations which occurred on or after January 1, 2010 in accordance with K-IFRS. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP, K-GAAP.

**(4) Associates and jointly controlled entities**

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

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

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

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

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

**(5) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in the management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

**3. Significant Accounting Policies, Continued**

**(6) Inventories**

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 expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

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

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

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

- (i) **Financial assets at fair value through profit or loss**  
Financial assets are classified at fair value through profit or loss if they are held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.
- (ii) **Held-to-maturity investments**  
Non-derivative financial assets with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.
- (iii) **Loans and receivables**  
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.
- (iv) **Available-for-sale financial assets**  
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, are recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

### **3. Significant Accounting Policies, Continued**

#### **(7) Non-derivative financial assets, continued**

- (v) **De-recognition of financial assets**  
The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

- (vi) **Offsetting between financial assets and financial liabilities**  
Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.
- #### **(8) Derivative financial instruments, including hedge accounting**
- Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

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(i) Hedge accounting

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

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

*Fair value hedge*

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

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

**3. Significant Accounting Policies, Continued**

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

*Cash flow hedge*

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

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

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) The hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

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(iii) Other derivative financial instruments

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

**(9) Impairment of financial assets**

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

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.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

(i) Financial assets measured at amortized cost

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 its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

**3. Significant Accounting Policies, Continued**

**(9) Impairment of financial assets, continued**

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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

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

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

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.



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**3. Significant Accounting Policies, Continued**

**(10) Property, plant and equipment, continued**

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

The estimated useful lives of the Group's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	15~50
Structures	15~50
Machinery	2~40
Heavy machinery	12~15
Ships	15, 25
Vehicles	4~10
Tools, furniture and fixtures	3~20
Other property, plant and equipment ("Others")	3~5

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

**(11) Intangible assets**

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

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

	Useful lives (years)
Capitalized development costs	5
Networks	20
Customer relationships	9
Brands	Indefinite
Industrial property right	4~10
Know-how	16
Other intangible assets	3~50
Membership	Indefinite

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

(i) Research and development

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

**3. Significant Accounting Policies, Continued**

**(11) Intangible assets, continue**

(ii) Subsequent expenditures



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

**(12) Government grants**

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

If the Group received grants related to assets, government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

If the Group received grants related to income, government grants which are intended to compensate the Group for expenses incurred are deducted from the related expenses.

**(13) Investment property**

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

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property is depreciated using the straight-line method over the following estimated useful lives:

	Useful lives (years)
Buildings	20~50
Structures	20~40

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

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

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

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**3. Significant Accounting Policies, Continued**

**(14) Impairment of non-financial assets, continue**

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

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

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

**(15) Leases**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

The Group recognizes assets held under a finance lease and presents them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

(ii) Operating leases

Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable leased assets is consistent with the Group's normal depreciation policy for similar assets.

**(16) 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 expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

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

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**3. Significant Accounting Policies, Continued**

**(17) Borrowing costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. In addition, the Group capitalized borrowing costs amounting to ₩28,422 million, applying capitalization rate of 3.23%~4.80% for the year ended December 31, 2012.

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

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to 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.

(ii) Other financial liabilities

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

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**3. Significant Accounting Policies, continued**

**(19) Employee benefits**

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the

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period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: Defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

### 3. Significant Accounting Policies, Continued

#### (19) Employee benefits, continued

(v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

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**(20) Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many 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.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

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

(i) Provision for construction warranty

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

(ii) Provision for product warranty

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

(iii) Other provision

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

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

**3. Significant Accounting Policies, Continued**

**(21) Foreign currency**

(i) Foreign currency transactions

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

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.

(ii) Foreign operations

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If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to the presentation currency using the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency using the exchange rates at the dates of the transaction. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

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

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

**(22) Equity capital**

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

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

**3. Significant Accounting Policies, Continued**

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

The Group has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot reliably estimate the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Group measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

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**(24) Revenue**

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of 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.

(ii) Customer loyalty programs

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

(iii) Services

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

**3. Significant Accounting Policies, Continued**

**(24) Revenue, continued**

(iv) Construction contracts

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

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

(v) Commissions

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

(vi) Rental income

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



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

The Group recognizes loan commissions as deferred incidental loan income, and incremental costs arising from the acquisition or disposal of loans are treated as deferred incidental loan expenses, which is adjusted in interest revenues on loans after being amortized using the effective interest method.

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

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

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

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

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, 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.

**3. Significant Accounting Policies, Continued**

**(28) Income taxes**

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

(i) Current tax

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

(ii) Deferred tax

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

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying



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amount of its assets and liabilities

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

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

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

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

### 3. Significant Accounting Policies, Continued

#### (29) Earnings per share

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

#### (30) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

- (i) K-IFRS No. 1110, 'Consolidated Financial Statements'  
The standard introduces a single control model to determine whether an investee should be consolidated. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.
- (ii) K-IFRS No. 1111, 'Joint Arrangements'  
The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.
- (iii) K-IFRS No. 1112, 'Disclosure of Interests in Other Entities'  
The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing

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the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iv) Amendments to K-IFRS No. 1019, 'Employee Benefits'

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013.

(v) K-IFRS No. 1113, 'Fair Value Measurement'

The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013.

(vi) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'

The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

#### **4. Risk Management**

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

- Credit risk
- Liquidity risk
- Market risk

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

##### **(1) Financial risk management**

###### **1) Risk management framework**

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

###### **2) Credit risk**

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

###### **(i) Trade and other receivables**

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

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

The Group does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Group establishes an allowance for impairment of trade and other

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receivables that have been individually or collectively evaluated for impairment and estimated on the basis of historical loss experience for assets.

(ii) Investments

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

(iii) Guarantees

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

#### 4. Risk Management, Continued

##### (1) Financial risk management, continued

###### 3) Liquidity risk

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

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

###### 4) Market risk

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

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

###### (i) Currency risk

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

The Group hedges trade receivables and trade payables denominated in a foreign currency in respect of forecasted sales and purchases. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than two years from the reporting date. When necessary, forward exchange contracts are rolled over at maturity. Trade receivables denominated in a foreign currency have been hedged using forward contracts that mature on the same dates that the receivables are due for collection. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

###### (ii) Interest rate risk

The Group hedges the interest rate risk arising from loans and bonds with floating interest rates through interest rate

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swaps.

(iii) Other market price risk

The Group is exposed to the price risk arising from available-for-sale equity securities.

**4. Risk Management, Continued**

**(2) Capital management**

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the liability to equity ratio and net borrowing to equity ratio, which the Group defines as total liabilities divided by total equity and net borrowing divided by total equity.

The Group's liability to equity ratio and net borrowing to equity ratio at the end of the reporting period are as follows:

(In millions of won, except equity ratio)

		<u>2012</u>	<u>2011</u>
Total liabilities	₩	30,531,825	30,824,297
Total equity		18,741,351	18,176,519
Cash and deposits(*1)		1,509,644	1,822,285
Borrowings(*2)		14,826,526	11,057,001
Liability to equity ratio		162.91%	169.58%
Net borrowing to equity ratio(*3)		71.06%	50.81%

(\*1) Cash and deposits consist of cash and cash equivalents and short-term and long-term financial instruments.

(\*2) Discount on debentures is deducted from the face value of debentures.

(\*3) Net borrowing represents borrowings net of cash and deposits.

**5. Short-term and Long-term Financial Assets**

Short-term and long-term financial assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		<u>2012</u>		<u>2011</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Financial instruments	₩	386,325	15,629	210,177	2,129
Held-for-trading investments		1,789,908	3,936	1,538,120	10,184
Financial assets at fair value through profit or loss		189,085	-	167,571	-
Available-for-sale financial assets		136,616	3,043,273	262,882	3,684,692
Others		10,436	-	9,511	-
	₩	<u>2,512,370</u>	<u>3,062,838</u>	<u>2,188,261</u>	<u>3,697,005</u>

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**6. Restricted Financial Instruments and Others**

Financial instruments and others, which are restricted in use, as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	Description	Financial institutions	2012	2011	Restrictions
Short-term financial assets	Investor deposits and others	Korea Securities Finance Corporation and others	₩ 112,765	188,894	Investor deposits and others
Trade and other receivables			216,833	45,287	
Long-term financial assets	Deposits in won	Korea Exchange Bank and others	129	129	Guarantee deposits for checking accounts
			₩ <u>329,727</u>	<u>234,310</u>	

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

(1) Trade and other receivables as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012		2011	
	Current	Non-current	Current	Non-current
<b>Trade receivables:</b>				
Trade receivables	₩ 5,749,114	870,193	4,927,704	1,086,059
Allowance for doubtful accounts	(609,830)	(169,175)	(229,013)	(180,210)
	<u>5,139,284</u>	<u>701,018</u>	<u>4,698,691</u>	<u>905,849</u>
<b>Loan receivables:</b>				
Loan receivables	210,178	74,487	151,393	71,028
Allowance for doubtful accounts	(3,798)	(1,000)	-	(1,000)
	<u>206,380</u>	<u>73,487</u>	<u>151,393</u>	<u>70,028</u>
<b>Other receivables:</b>				
Other accounts receivable	838,042	243	628,332	261
Allowance for doubtful accounts	(158,080)	(243)	(54,477)	(261)
Accrued income	53,148	-	68,765	-
Allowance for doubtful accounts	(102)	-	(102)	-
Loans	7,430	239,370	488	232,800
Guarantee deposits	6,908	115,425	23,465	109,334
Allowance for doubtful accounts	-	-	-	(70)
Deposits	216,833	-	110,558	-
Assets under finance lease	499,247	251,619	121,320	1,118,958
Allowance for doubtful accounts	(10,985)	(5,659)	-	(51,109)
	<u>1,452,441</u>	<u>600,755</u>	<u>898,349</u>	<u>1,409,913</u>
	₩ <u>6,798,105</u>	<u>1,375,260</u>	<u>5,748,433</u>	<u>2,385,790</u>

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

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(2) Due from customers for contract work as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>	2012		2011	
	Current	Non-current	Current	Non-current
Due from customers for contract work	₩ 4,969,296	-	4,181,091	51,957
Allowance for doubtful accounts	(1,568)	-	-	(1,308)
	₩ 4,967,728	-	4,181,091	50,649

## 8. Finance Leases

(1) Gross investment in leases and the present value of minimum lease payments receivable as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>	2012		2011	
	Minimum lease payments	Unguaranteed residual value	Minimum lease payments	Unguaranteed residual value
Less than one year	₩ 499,247	-	121,320	-
Later than one year between five years	251,619	-	1,118,958	-
Total	750,866	-	1,240,278	-
Unearned finance income	-	-	-	-
Net investment in the lease	₩ 750,866	-	1,240,278	-

(2) There are no contingent rents incurred for the years ended December 31, 2012 and 2011.

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9. Inventories

Inventories as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011		
	Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Merchandise	₩ 255,579	(16,910)	238,669	153,202	(15,265)	137,937
Finished goods	1,033,933	(45,197)	988,736	1,254,122	(55,715)	1,198,407
Work-in-progress	1,628,819	(86,972)	1,541,847	1,825,825	(70,040)	1,755,785
Raw materials	1,921,313	(12,985)	1,908,328	1,808,868	(20,937)	1,787,931
Supplies	49,377	(1,184)	48,193	38,937	(2,156)	36,781
Materials-in-transit	1,465,367	-	1,465,367	1,561,252	-	1,561,252
	₩ 6,354,388	(163,248)	6,191,140	6,642,206	(164,113)	6,478,093

The reversal of write-down of inventories to net realizable value amounting to ₩865 million and nil, and the write-downs amounting to nil and ₩144,817 million are included in cost of sales for the years ended December 31, 2012 and 2011, respectively.

10. Other Assets

Other assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012		2011	
	Current	Non-current	Current	Non-current
Advance payments	₩ 2,283,548	-	1,802,652	-
Allowance for doubtful accounts	(294)	-	(312)	-
Prepaid expenses	479,585	103,387	408,014	46,844
Others	387,049	180,741	3,600	190,638
	₩ 3,149,888	284,128	2,213,954	237,482



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11. Investments in Associates and Jointly Controlled Entities

(1) Investments in associates and jointly controlled entities as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	Location	Fiscal year end	Business	2012		2011	
				Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)	Carrying amount
New Korea Country Club	Korea	December	Country club	40.00	₩ 33,305	20.00	₩ 4,968
Hyundai Merchant Marine Co., Ltd.	Korea	December	Shipping	21.98	219,645	23.66	407,320
Wärtsilä-Hyundai Engine Company Ltd.	Korea	December	Manufacture, assemble and test of marine engines and parts	50.00	58,087	50.00	45,046
HyundaiCummins Engine Company	Korea	December	Manufacture of engines	50.00	12,522	-	-
KAM Corporation	Korea	December	Sale and manufacture of polysilicon	49.00	1,989	49.00	112,105
Taebaek Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	35.00	4,772	35.00	5,153
Muju Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	45.00	4,879	45.00	4,922
Pyeongchang Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	35.00	859	35.00	877
Jinan Jangsu Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	32.00	99	32.00	100
Changjuk Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	43.00	5,838	43.00	5,373
Hyundai Corporation	Korea	December	Exporting	22.36	168,896	22.36	158,190
Hyundai-Avancis Co., Ltd.	Korea	December	Sale and manufacture of solar module	50.00	104,288	50.00	67,799
Daesung Win-Win Fund	Korea	December	Investment service in culture contents field	23.81	10,061	23.81	10,004
Hyundai Cosmo Petrochemical Co., Ltd.	Korea	December	Manufacturing of petrochemicals	50.00	146,294	50.00	24,544
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	Korea	December	Venture capital	40.00	6,324	40.00	5,056
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	Korea	December	Venture capital	37.50	3,395	37.50	2,399
The Second Partners Win-Win Investment Fund	Korea	December	Collective investment	23.33	4,648	23.33	5,885
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	Korea	December	Collective investment	21.21	3,354	21.21	1,385
Qinhuangdao Shouqin Metal Materials Co., Ltd.	China	December	Thick plate-oriented comprehensive iron manufacturing	20.00	37,645	20.00	98,412
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	December	Acquisition, rental, lease and charter of bulk carriers	50.00	833	50.00	886
PT. HYUNDAI MACHINERY INDONESIA	Indonesia	December	Import and wholesale of machinery equipment for construction	20.83	69	20.83	516
Hyundai Primorye Ltd.	Russia	December	Farmland leasing service	49.99	4,963	49.99	5,235
Hyundai Green Industries Co., W.L.L.	Kuwait	December	Education	49.00	992	-	-
Tribridge Capital Management	Cayman	December	Asset management	23.93	6,478	23.93	6,682
Mahy E-Cell	Canada	December	Manufacture of electric vehicle batteries	40.00	10,806	-	-
				₩	851,041	₩	972,857

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**11. Investments in Associates and Jointly Controlled Entities, Continued**

- (2) The fair value of marketable securities of associates and jointly controlled entities as of December 31, 2012 and 2011 is summarized as follows:

<i>(In millions of won)</i>	2012	2011
Hyundai Merchant Marine Co., Ltd.	₩ 800,116	850,971
Hyundai Corporation	103,351	115,084

- (3) Condensed financial information of associates and jointly controlled entities as of and for the years ended December 31, 2012 and 2011 is summarized as follows:

<i>(In millions of won)</i>	2012				2011			
	Assets	Liabilities	Sales	Profit (loss)	Assets	Liabilities	Sales	Profit (loss)
New Korea Country Club	₩ 31,169	4,581	12,413	2,289	30,110	5,268	12,432	2,880
Hyundai Merchant Marine Co., Ltd.	8,968,466	7,887,136	8,046,895	(987,589)	8,799,440	7,052,977	7,420,767	(534,314)
Wärtsilä-Hyundai Engine Company Ltd.	415,557	298,888	251,417	26,444	321,600	231,220	91,077	1,802
Hyundai Cummins Engine Company	33,880	8,836	-	(759)	-	-	-	-
KAM Corporation	197,714	193,655	23,697	(227,275)	406,396	177,429	121,990	749
Taebaek Wind Power Co., Ltd.	51,901	36,988	3,849	194	38,452	23,732	-	(315)
Muju Wind Power Co., Ltd.	10,843	-	-	(96)	10,970	32	-	(274)
Pyeongchang Wind Power Co., Ltd.	2,455	1	-	(53)	2,922	415	-	(36)
Jinan Jangsu Wind Power Co., Ltd.	310	-	-	-	313	-	-	(2)
Changjuk Wind Power Co., Ltd.	40,922	27,835	1,750	591	23,521	11,026	-	(172)
Hyundai Corporation	1,644,499	1,257,785	4,717,179	52,000	2,079,044	1,692,870	5,448,882	43,879
Hyundai-Avancis Co., Ltd.	229,811	19,249	-	(6,510)	142,704	5,119	-	(1,787)
Daesung Win-Win Fund	42,423	165	1,678	241	42,059	43	61	17
Hyundai Cosmo Petrochemical Co., Ltd.	1,336,299	792,277	2,102,157	30,881	923,791	634,808	1,948,878	11,296
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	15,954	5	161	(722)	12,735	95	145	(3,216)
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	9,056	2	196	(544)	6,405	7	5	(2)
The Second Partners Win-Win Investment Fund	20,076	156	7,169	3,006	36,270	157	1,568	951
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	15,996	183	115	(615)	6,608	80	8	(72)
Qinhuangdao Shouqin Metal Materials Co., Ltd.	1,944,200	1,755,975	1,580,352	(238,667)	2,289,624	1,825,971	1,730,528	(82,318)
Grand China Hyundai Shipping Co., Ltd.	1,665	-	-	20	1,888	116	-	(2)
PT. HYUNDAI MACHINERY INDONESIA	32,011	31,681	50,295	(1,645)	43,605	41,129	78,204	1,315
Hyundai Primorye Ltd.	8,539	55	386	176	9,042	15	718	186
Hyundai Green Industries Co., W.L.L.	2,024	-	-	-	-	-	-	-
Tribridge Capital Management	1,141	205	142	(822)	3,957	2,115	2,401	(2,722)
Mahy E-Cell	32,190	5,175	-	(5,921)	-	-	-	-
	₩ 15,089,101	12,320,833	16,799,851	(1,355,376)	15,231,456	11,704,624	16,857,664	(562,157)

**11. Investments in Associates and Jointly Controlled Entities, Continued**

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- (4) Changes in equity-method accounted investees for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Associates	2012					
	Beginning balance	Acquisition (disposal)	Share of profit of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
New Korea Country Club	₩ 4,968	27,500	937	-	(100)	33,305
Hyundai Merchant Marine Co., Ltd.	407,320	29,280	(231,613)	14,658	-	219,645
Wärtsilä-Hyundai Engine Company Ltd.	45,046	-	13,041	-	-	58,087
Hyundai Cummins Engine Company	-	12,959	(380)	(57)	-	12,522
KAM Corporation	112,105	-	(111,645)	1,529	-	1,989
Taebaek Wind Power Co., Ltd.	5,153	-	(381)	-	-	4,772
Muju Wind Power Co., Ltd.	4,922	-	(43)	-	-	4,879
Pyeongchang Wind Power Co., Ltd.	877	-	(18)	-	-	859
Jinan Jangsu Wind Power Co., Ltd.	100	-	(1)	-	-	99
Changjuk Wind Power Co., Ltd.	5,373	-	465	-	-	5,838
Hyundai Corporation	158,190	-	13,885	(683)	(2,496)	168,896
Hyundai-Avancis Co., Ltd.	67,799	40,000	(3,319)	(192)	-	104,288
Daesung Win-Win Fund	10,004	-	57	-	-	10,061
Hyundai Cosmo Petrochemical Co., Ltd.	24,544	112,600	9,610	(460)	-	146,294
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	5,056	1,600	(332)	-	-	6,324
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	2,399	1,200	(204)	-	-	3,395
The Second Partners Win-Win Investment Fund	5,885	(491)	773	-	(1,519)	4,648
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	1,385	2,100	(131)	-	-	3,354
Qinhuangdao Shouqin Metal Materials Co., Ltd.	98,412	-	(57,149)	(3,618)	-	37,645
Grand China Hyundai Shipping Co., Ltd.	886	-	11	(64)	-	833
PT. HYUNDAI MACHINERY INDONESIA	516	-	(418)	(29)	-	69
Hyundai Primorye Ltd.	5,235	764	74	(1,110)	-	4,963
Hyundai Green Industries Co., W.L.L.	-	992	-	-	-	992
Tribridge Capital Management	6,682	-	(182)	(22)	-	6,478
Mahy E-Cell	-	13,894	(2,369)	(719)	-	10,806
	₩ 972,857	242,398	(369,332)	9,233	(4,115)	851,041

**11. Investments in Associates and Jointly Controlled Entities, Continued**

(In millions of won)

2011

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Associates	Beginning balance	Acquisition (disposal)	Share of profit of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
New Korea Country Club	₩ 4,492	-	576	-	(100)	4,968
Hyundai Merchant Marine Co., Ltd.	619,699	-	(141,920)	(53,507)	(16,952)	407,320
Wärtsilä-Hyundai Engine Company Ltd.	44,126	-	920	-	-	45,046
KAM Corporation	112,987	-	277	(1,159)	-	112,105
Taebaek Wind Power Co., Ltd.	3,446	1,817	(110)	-	-	5,153
Muju Wind Power Co., Ltd.	5,045	-	(123)	-	-	4,922
Pyeongchang Wind Power Co., Ltd.	15	875	(13)	-	-	877
Jinan Jangsu Wind Power Co., Ltd.	101	-	(1)	-	-	100
Changjuk Wind Power Co., Ltd.	171	5,276	(74)	-	-	5,373
Hyundai Corporation	116,029	-	8,397	35,012	(1,248)	158,190
Hyundai-Avancis Co., Ltd.	39,830	30,000	(1,887)	(144)	-	67,799
Daesung Win-Win Fund	-	10,000	4	-	-	10,004
Hyundai Cosmo Petrochemical Co., Ltd.	21,197	-	4,654	(1,307)	-	24,544
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	3,143	3,200	(1,287)	-	-	5,056
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	-	2,400	(1)	-	-	2,399
KP Fund of Hedge Fund	20,538	(20,538)	-	-	-	-
The Second Partners Win-Win Investment Fund	-	5,887	222	-	(224)	5,885
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	-	1,400	(15)	-	-	1,385
Qinhuangdao Shouqin Metal Materials Co., Ltd.	109,887	-	(16,464)	4,989	-	98,412
Grand China Hyundai Shipping Co., Ltd.	876	-	(1)	11	-	886
PT. Hyundai Machinery Indonesia	239	-	274	3	-	516
Hyundai Primorye Ltd.	3,357	2,140	93	(355)	-	5,235
Tribridge Capital Management	-	6,930	(304)	56	-	6,682
Truston Dynamic Korea Fund	20,035	(19,459)	(1,513)	937	-	-
	₩ 1,125,213	29,928	(148,296)	(15,464)	(18,524)	972,857

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12. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012			2011		
	Percentage of ownership (%)	Acquisition Cost	Carrying amount	Percentage of ownership (%)	Acquisition Cost	Carrying amount
<b>Listed equity securities:</b>						
Kia Motors Corporation	0.02 ₩	2,682 ₩	4,986	0.02 ₩	2,682 ₩	5,886
Korea Line Corporation	0.34	55,131	339	0.47	55,131	1,999
Mirae Asset Securities Co., Ltd.	0.10	6,654	1,494	0.10	6,654	1,324
Sewoo Tech Co., Ltd.	4.80	1,193	1,063	5.15	1,228	1,177
CJ HelloVision Co., Ltd.	1.43	15,883	13,848	-	-	-
KCC Corporation	11.41	268,497	356,400	11.41	268,497	342,600
Korea Environment Technology Co., Ltd.	10.88	2,733	11,560	10.88	2,733	18,686
Posco (*1)	2.50	1,075,221	760,820	2.50	1,075,221	828,400
Hanjin Heavy Industries & Construction Co., Ltd.	0.12	2,201	750	0.21	3,668	1,855
KEPCO Engineering & Construction Company, Inc.	0.00	38,712	125,635	0.00	38,712	165,960
Hyundai Elevator Co. Ltd.	1.81	6,738	24,543	2.02	6,738	28,344
Hyundai Motor Company	3.03	487,007	1,456,303	4.48	705,772	2,101,973
Others		579	535		3,566	1,658
		<u>1,963,231</u>	<u>2,758,276</u>		<u>2,170,602</u>	<u>3,499,862</u>
<b>Unlisted equity securities:(*2)</b>						
Enova Systems Inc.	0.95	1,315	1,315	0.95	1,315	1,315
Hynix Semiconductor America Inc.	1.33	34,525	-	1.33	34,525	-
KoFC IBK Hi Investment Hyundai Heavy Industries Shared Growth No.1. Private Equity Fund	10.00	1,068	1,068	10.00	510	510
LS Cable Ltd.	0.50	6,565	6,080	0.50	6,565	7,637
OSX Construcao Naval S.A.	10.01	57,498	57,498	10.01	50,454	50,454
Novelis Korea Limited	-	-	-	0.48	16,881	1,405
Lumantek Co., Ltd.	6.41	500	500	12.82	1,000	1,000
Sejin Heavy Industries Co., Ltd	14.53	22,500	22,500	-	-	-
AnyGen Co.,Ltd.	6.18	1,000	1,000	6.25	1,000	1,000
Enuri	4.78	2,248	2,248	4.78	2,248	2,248
Optopac Inc.	15.10	2,224	2,224	4.81	1,899	1,899
Nepes Display	5.43	2,000	2,000	-	-	-
Daehan Oil Pipeline Corporation	6.39	14,512	32,678	6.39	14,512	14,512
Doosan Capital Co., Ltd.	7.14	10,000	13,508	7.14	10,000	16,406
Maeil Business TV News(mbn)	0.95	4,000	4,000	0.95	4,000	4,000
Mecharonics	3.32	1,000	1,000	3.32	1,000	1,000
Busan Exhibition & Convention Center Ltd.	7.96	9,460	9,460	7.96	9,460	9,460
SaehwaIMC Co., Ltd.	0.00	1,019	1,019	-	-	-
Channel A Corporation	1.20	5,000	5,000	1.20	5,000	5,000
Ajuhitek Inc.	8.87	1,745	1,562	8.87	1,745	1,562
Entaz	5.39	1,500	1,500	5.39	1,500	1,500
Okins Electronics Co., Ltd.	13.04	2,039	2,039	13.04	2,039	2,039
J-Micron	2.38	1,001	1,001	2.38	1,001	1,001
Taejin Technology Co., Ltd	11.64	1,714	1,714	19.22	1,750	1,750
		<u>2012</u>		<u>2011</u>		

(In millions of won)

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	Percentage of ownership (%)	Acquisition Cost	Carrying amount	Percentage of ownership (%)	Acquisition Cost	Carrying amount
Tesna Inc.	4.29	116	116	4.57	1,377	1,377
The Korea Economic Daily	3.25	4,050	3,150	3.25	4,050	3,150
Hyundai Research Institute	14.40	1,440	1,440	14.40	1,440	1,440
Quantum Device, Inc.	9.69	1,625	1,625	9.85	1,625	1,625
Panax Etec Co., Ltd.	0.84	1,150	1,150	-	-	-
Tesna Inc.	-	-	-	6.63	1,998	1,998
Korea Exchange	0.40	3,000	12,931	0.40	3,000	12,025
The Korea Securities Finance Corporation	0.14	484	1,261	0.14	484	1,123
Others		15,938	8,467		17,370	10,166
		<u>212,236</u>	<u>201,054</u>		<u>199,748</u>	<u>158,602</u>
<b>Beneficiary certificates:</b>						
HI Global Top Picks China Securities Feeder Investment Trust		54,881	45,235		64,374	56,012
<b>Debt securities</b>						
Monetary Stabilization Bond and others		157,755	158,121		218,477	216,758
<b>Investments in capital</b>						
Damage compensation joint fund and others(*3)		14,999	17,203		9,299	16,340
		<u>₩ 2,403,102</u>	<u>3,179,889</u>		<u>2,662,500</u>	<u>3,947,574</u>

(\*1) During 2012, an impairment loss of ₩314,401 million was recognized due to significant or prolonged decline in the fair value of the investee below its cost.

(\*2) The carrying amounts of unlisted equity securities were recorded at their acquisition cost because the fair values cannot be estimated reliably.

(\*3) As of December 31, 2012 and 2011, this includes a damage compensation joint fund, for the use of which is restricted, in the amounts of ₩7,654 million and ₩7,041 million, respectively. The damage compensation joint fund is the amount the Group accumulates in Korea Exchange in order to compensate for the damages that occurs from the breach of selling agreements, pursuant to the Financial Investment Services and Capital Markets Act, Section 394 and others.

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**13. Investment Property**

(1) Changes in investment property for the years ended December 31, 2012 and 2011 are as follows:

*(In millions of won)*

	<b>2012</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 241,440	85,833	327,273
Acquisition and other	1,784	(2,122)	(338)
Disposals	-	-	-
Depreciation	-	(4,140)	(4,140)
Effects of movements in exchange rates	-	(114)	(114)
Ending balance	₩ 243,224	79,457	322,681
Acquisition cost	243,224	116,090	359,314
Accumulated depreciation	-	(31,462)	(31,462)
Accumulated impairment loss	-	(5,171)	(5,171)

*(In millions of won)*

	<b>2011</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 228,638	81,393	310,031
Acquisition and other	12,802	8,470	21,272
Disposals	-	-	-
Depreciation	-	(4,030)	(4,030)
Ending balance	₩ 241,440	85,833	327,273
Acquisition cost	241,440	118,593	360,033
Accumulated depreciation	-	(27,589)	(27,589)
Accumulated impairment loss	-	(5,171)	(5,171)

(2) Revenue (expense) from investment property for the years ended December 31, 2012 and 2011 is as follows:

*(In millions of won)*

	<b>2012</b>	<b>2011</b>
Rental income	₩ 8,792	7,914
Operating and maintenance expense arising from investment property that generated rental income	(3,587)	(3,422)
Operating and maintenance expense arising from investment property that did not generate rental income	(58)	(42)

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**14. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2012 and 2011 are as follows:

*(In millions of won)*

		<b>2012</b>						
		<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery and equipment</b>	<b>Construction in-progress</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩	4,435,683	3,127,262	2,545,241	4,384,470	401,951	670,125	15,564,732
Acquisitions and other		32,367	274,829	127,073	355,815	47,408	252,769	1,090,261
Disposals		(25,918)	(11,477)	(2,114)	(5,916)	(3,846)	(4,190)	(53,461)
Depreciation		-	(102,843)	(90,506)	(480,737)	-	(232,690)	(906,776)
Impairment		-	-	-	(83,035)	-	(1,387)	(84,422)
Effect of movements in exchange rates		(2,193)	(17,357)	(9,244)	(13,389)	(7,846)	(3,841)	(53,870)
Ending balance	₩	<u>4,439,939</u>	<u>3,270,414</u>	<u>2,570,450</u>	<u>4,157,208</u>	<u>437,667</u>	<u>680,786</u>	<u>15,556,464</u>
Acquisition cost		4,441,439	4,186,060	3,430,973	7,524,248	437,667	2,593,779	22,614,166
Government grants		(1,500)	(8,969)	(2,092)	(503)	-	(1,057)	(14,121)
Accumulated depreciation		-	(906,677)	(858,431)	(3,283,502)	-	(1,910,549)	(6,959,159)
Accumulated impairment		-	-	-	(83,035)	-	(1,387)	(84,422)

*(In millions of won)*

		<b>2011</b>						
		<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery and equipment</b>	<b>Construction in-progress</b>	<b>Others</b>	<b>Total</b>
Beginning balance	₩	4,227,861	2,833,367	2,330,459	2,483,203	2,269,006	635,236	14,779,132
Acquisitions and other		236,657	390,481	299,818	2,350,553	(1,868,607)	249,568	1,658,470
Changes in scope of consolidation		4,123	5,003	-	7,199	1,516	3,247	21,088
Disposals		(31,878)	(12,066)	(2,521)	(4,913)	(366)	(3,182)	(54,926)
Depreciation		-	(94,353)	(84,970)	(452,712)	-	(216,431)	(848,466)
Effect of movements in exchange rates		(1,080)	4,830	2,455	1,140	402	1,687	9,434
Ending balance	₩	<u>4,435,683</u>	<u>3,127,262</u>	<u>2,545,241</u>	<u>4,384,470</u>	<u>401,951</u>	<u>670,125</u>	<u>15,564,732</u>
Acquisition cost		4,437,297	3,947,178	3,321,226	7,229,836	401,951	2,437,153	21,774,641
Government grants		(1,614)	(9,603)	(2,253)	(551)	-	(783)	(14,804)
Accumulated depreciation		-	(810,313)	(773,732)	(2,844,815)	-	(1,766,245)	(6,195,105)

- (2) During 2012, due to the low profitability of the solar energy industry caused by oversupply, the Group assessed the recoverable amount of the related product line (CGU). The recoverable amount of the CGU was estimated based on its value in use. As a result, the carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of ₩84,248 million was recognized. Of the total, ₩83,035 million was allocated to machinery and equipment, and ₩1,213 million to others. The estimate of value in use was determined using an after-tax discount rate of 6.61%.
- (3) Construction-in-progress is related to the development and construction of Ihwa Industrial Park, the manufacturing of a bulk milk vat, the optimization of a hydrogen plant and the construction of Ulsan New Port oil storage facilities as of December 31, 2012.



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15. Intangible Assets

(1) Changes in goodwill for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>	<u>2011</u>
Beginning balance	₩	1,428,566	1,498,453
Acquisition through business combinations		-	17,455
Impairment loss		<u>(11,197)</u>	<u>(87,342)</u>
Ending balance	₩	<u>1,417,369</u>	<u>1,428,566</u>
Acquisition cost		1,515,408	1,515,908
Accumulated impairment loss		(98,039)	(87,342)

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

On annual basis, the Group conducts impairment test for goodwill, and assesses the recoverability of the cash generating unit.

The recoverable amount of the cash generating unit is allocated based on the value in use.

As of December 31, 2012, assumptions used in estimating value in use of the CGU are as follows:

	<u>Hyundai Oilbank Co., Ltd.</u>	<u>HI Investment &amp; Securities Co., Ltd.</u>	<u>HI Asset Management Co., Ltd.</u>
Pre-tax discount rate (%)	14.90	18.60	6.50
Permanent growth rate (%)	2.80	2.00	2.00

(2) Changes in development costs, networks and other intangible assets for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>		<u>2012</u>						
		<u>Development costs</u>	<u>Networks</u>	<u>Customer relationships</u>	<u>Brands</u>	<u>Know-how</u>	<u>Other intangible assets</u>	<u>Total</u>
Beginning balance	₩	321,279	95,257	93,568	192,220	43,933	148,846	895,103
Acquisitions and other		60,902	-	-	-	-	16,507	77,409
Disposals		-	-	-	-	-	(4,778)	(4,778)
Amortization		(57,400)	(5,126)	(12,339)	-	(3,013)	(6,548)	(84,426)
Impairment loss		(1,059)	-	-	-	-	(910)	(1,969)
Effect of movements in exchange rates		(121)	-	-	-	-	(1,177)	(1,298)
Ending balance(*)	₩	<u>323,601</u>	<u>90,131</u>	<u>81,229</u>	<u>192,220</u>	<u>40,920</u>	<u>151,940</u>	<u>880,041</u>
Acquisition cost		759,889	102,519	111,048	192,220	48,201	221,451	1,435,328
Accumulated amortization		(435,229)	(12,388)	(29,819)	-	(7,281)	(68,601)	(553,318)
Accumulated impairment		(1,059)	-	-	-	-	(910)	(1,969)

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15. Intangible Assets, Continued

(In millions of won)

	2011							
	Development		Customer			Other intangible		Total
	costs	Networks	relationships	Brands	Order backlogs	Know-how	assets	
Beginning balance	₩ 297,590	100,383	105,907	192,220	2,562	46,946	167,038	912,646
Acquisitions and other	80,106	-	-	-	-	-	(9,579)	70,527
Changes in scope of consolidation	-	-	-	-	-	-	665	665
Disposals	-	-	-	-	-	-	(4,280)	(4,280)
Amortization	(56,545)	(5,126)	(12,339)	-	(2,562)	(3,013)	(5,576)	(85,161)
Effect of movements in exchange rates	128	-	-	-	-	-	578	706
Ending balance(*)	₩ 321,279	95,257	93,568	192,220	-	43,933	148,846	895,103
Acquisition cost	700,037	102,519	111,048	192,220	4,392	48,201	207,694	1,366,111
Accumulated amortization	(378,758)	(7,262)	(17,480)	-	(4,392)	(4,268)	(58,848)	(471,008)

(\*) The carrying amount of intangible assets with indefinite useful lives is ₩283,143 million and ₩281,840 million as of December 31, 2012 and 2011, respectively.

- (3) The Group recognized impairment losses of goodwill and memberships amounting to ₩13,166 million for the year ended December 31, 2012.
- (4) Research costs amounting to ₩8,440 million and ₩10,989 million, and ordinary development costs amounting to ₩164,347 million and ₩132,903 million are included in selling, general and administrative expenses for the years ended December 31, 2012 and 2011, respectively. Amortization of capitalized development costs of ₩57,400 million and ₩56,545 million are included in the manufacturing cost and selling, general and administrative expenses for the years ended December 31, 2012 and 2011, respectively.

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**16. Pledged Assets**

(1) Assets pledged as collateral for the Group's borrowings as of December 31, 2012 are summarized as follows:

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

Asset	Carrying amount	Collateralized amount	Type of borrowings	Borrowings amount	Lender
Land and buildings	KRW 89,023	KRW 76,919	Long-term borrowings	KRW 40,276	KB Kookmin Bank
Land	KRW 115,773	KRW 1,440,000	Long-term borrowings	KRW 1,200,000	The Korea Development Bank and Others
Buildings	KRW 100,845				
Machinery and structures	KRW 2,160,121				
Inventories and trade receivables	EUR 5,500	EUR 5,500	General purpose loans	EUR 3,000	BNP Paribas Fortis Bank, Belgium
Buildings	USD 750	USD 750	Secured loans	USD 271	Center Bank
Stocks of MS Dandy Ltd.	-	USD 4,860	Long-term borrowings	USD 8,800	National Federation of Fisheries Cooperatives
	KRW 2,465,762	KRW 1,516,919		KRW 1,240,276	
	USD 750	USD 5,610		USD 9071	
	EUR 5,500	EUR 5,500		EUR 3,000	

- (2) The Group received payment guarantees from financial institutions covering advance payments on ships as of December 31, 2012. Regarding this, the Group collateralized its ships under construction and construction materials (see note 40).
- (3) The Group collateralized ₩1,422,657 million of held for trading investments and ₩143,593 million of available-for-sale financial assets for loan transactions, warranty for derivative instruments and margin loans to Korea Exchange and others.
- (4) The Group collateralized stocks of HI Gold Ocean Kmarin No. 8 S.A for operation and derivatives investment contracts as of December 31, 2012.

**17. Short-term and Long-term Financial Liabilities**

Short-term and long-term financial liabilities as of December 31, 2012 and 2011 are summarized as follows:

*(In millions of won)*

		2012		2011	
		Current	Non-current	Current	Non-current
Borrowings	₩	8,374,755	3,758,724	7,368,934	2,289,886
Held for trading liabilities		102,399	-	120,790	5,516
Financial liability at fair value through profit or loss		38,283	-	-	-
Debentures		150,000	2,550,000	750,000	650,000
Discount on debentures		(23)	(6,930)	(343)	(1,476)
Deposit liabilities		317,788	-	224,591	-
Others		15,234	-	14,596	-
	₩	8,998,436	6,301,794	8,478,568	2,943,926

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**18. Trade and Other Payables**

Trade and other payables as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>	2012		2011	
	Current	Non-current	Current	Non-current
Trade payables	₩ 3,915,917	-	4,402,579	-
Other accounts payable	1,276,411	4,648	1,330,828	5,857
Accrued expense	595,710	36,340	596,825	45,945
Deposits received	-	154,837	-	195,128
	₩ <u>5,788,038</u>	<u>195,825</u>	<u>6,330,232</u>	<u>246,930</u>

**19. Other Liabilities**

Other liabilities as of December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>	2012		2011	
	Current	Non-current	Current	Non-current
Unearned revenues	₩ 35,754	-	22,307	-
Deferred revenues	-	40,441	2	56,610
Others	10,568	5,352	10,456	209
	₩ <u>46,322</u>	<u>45,793</u>	<u>32,765</u>	<u>56,819</u>

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**20. Borrowings and Debentures**

(1) Short-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

*(In millions of won)*

Type of borrowing	Lender	Annual interest rate (%)	2012	2011
General loan	IBK Securities Co., Ltd. and others	3.11, 3.66	₩ 150,000	-
Call money	KB Kookmin Bank and others	2.87, 2.97	141,600	171,800
Commercial paper	Shinhan Bank and others	2.94~5.58	2,069,000	3,406,000
Repurchase agreements sales	Korea Securities Finance Corporation and others	2.75~4.05	1,398,416	1,313,619
Invoice Loan	Deutsche Bank and others	0.63~1.62	852,270	114,242
Import loan	Agricultural Bank of China and others	0.83~2.07	81,442	-
Usance L/C	Shinhan Bank and others	0.52~3.54	1,180,290	1,030,602
Transferred export receivables	Korea Exchange Bank and others	1.21~1.75	3,598	-
Network loan	Export-Import Bank of Korea	-	-	96,338
Pre-shipment credit	Export-Import Bank of Korea and others	3.49~3.82	895,000	410,000
Other borrowings from KSFC	Korea Securities Finance Corporation	2.87	30,000	40,000
Borrowings from margin loans	Korea Securities Finance Corporation	3.15	28,998	11,644
Loan in foreign currency	Mizuho Corporate Bank and others	1.22~12.75	751,979	618,038
			₩ 7,582,593	7,212,283

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20. Borrowings and Debentures, Continued

(2) Long-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Type of borrowing	Lender	Annual interest rate (%)	2012	2011
General loan	Kyongnam Bank	CD+2.00	₩ 3,000	-
Commercial paper	Woori Investment & Securities Co., Ltd and others	3.01~3.93	2,240,000	240,000
General loan in foreign currency	Export-Import Bank of Korea	2.11	46,057	49,592
National Housing Fund	KB Kookmin Bank	3.00	40,276	43,513
Energy rationalization	The Korea Development Bank	1.75	5,419	6,266
Environment improvement fund	The Korea Development Bank	3.04	2,686	2,686
General fund for equipment	The Korea Development Bank and others	4.80	1,200,000	1,203,000
Business loans(*)	Korea National Oil Corporation and others	0.75~3.75	13,610	12,174
Pre-shipment credit	Export-Import Bank of Korea	3.70~4.55	310,000	-
Loan in foreign currency	Standard Chartered Bank and others	Libor(1M)+ 1.10~12.50	689,838	889,306
Current portion			(792,162)	(156,651)
			₩ 3,758,724	2,289,886

(\*) The maturities of business loans (₩11,307 million and ₩12,174 million as of December 31, 2012 and 2011, respectively) from Korea National Oil Corporation are not readily determinable since the business loans are paid by installment in the event of successful commercial production by the Group's oil development business.

20. Borrowings and Debentures, Continued

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(3) Debentures as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Description	Maturity	Annual interest rate (%)	2012	2011
112 <sup>th</sup> debenture	2012-04-13	-	₩ -	300,000
113 <sup>th</sup> debenture	2015-02-17	3.96	500,000	-
114 <sup>th</sup> -1 debenture	2015-07-24	3.23	300,000	-
114 <sup>th</sup> -2 debenture	2017-07-24	3.35	400,000	-
98 <sup>th</sup> debenture	2014-02-02	5.44	100,000	100,000
99 <sup>th</sup> debenture	2012-03-27	-	-	100,000
101 <sup>st</sup> debenture	2013-03-20	6.05	150,000	150,000
102 <sup>nd</sup> debenture	2012-01-22	-	-	150,000
103 <sup>rd</sup> debenture	2014-07-03	6.80	100,000	100,000
104 <sup>th</sup> debenture	2012-10-02	-	-	100,000
105 <sup>th</sup> debenture	2015-06-28	5.75	200,000	200,000
106 <sup>th</sup> debenture	2014-04-14	4.36	100,000	100,000
107 <sup>th</sup> debenture	2012-10-25	-	-	100,000
108 <sup>th</sup> debenture	2015-01-25	3.98	150,000	-
109 <sup>th</sup> debenture	2015-03-27	4.08	100,000	-
110 <sup>th</sup> debenture	2017-07-20	3.52	300,000	-
111 <sup>th</sup> -1 debenture	2016-10-23	3.24	100,000	-
111 <sup>th</sup> -2 debenture	2019-10-23	3.52	100,000	-
1 <sup>st</sup> -1 subordinated bonds	2018-03-11	4.88	60,000	-
1 <sup>st</sup> -2 subordinated bonds	2019-09-11	5.18	40,000	-
Current portion			(150,000)	(750,000)
			₩ 2,550,000	650,000

(4) Aggregate maturities of the Group's borrowings and debentures as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Periods	2012		
	Borrowings	Debentures	Total
2013.01.01~2013.12.31	₩ 8,374,755	150,000	8,524,755
2014.01.01~2017.12.31	3,265,527	2,350,000	5,615,527
2018.01.01 and thereafter	493,197	200,000	693,197
	₩ 12,133,479	2,700,000	14,833,479

(In millions of won)

Periods	2011		
	Borrowings	Debentures	Total
2012.01.01~2012.12.31	₩ 7,368,934	750,000	8,118,934
2013.01.01~2016.12.31	1,654,078	650,000	2,304,078
2017.01.01 and thereafter	635,808	-	635,808
	₩ 9,658,820	1,400,000	11,058,820

## 21. Employee Benefits

**HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES**  
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- (1) Recognized liabilities for defined benefit obligations as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Present value of defined benefit obligations	₩ 1,395,997	1,171,191
Fair value of plan assets	(1,145,817)	(1,015,798)
	₩ 250,180	155,393

- (2) Plan assets as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Retirement pension	₩ 1,122,208	900,605
Deposit for severance benefit insurance	8,977	100,363
Transfer to National Pension Fund	14,632	14,830
	₩ 1,145,817	1,015,798

- (3) Expenses recognized in profit or loss for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Current service costs	₩ 195,549	173,659
Interest on obligations	48,480	52,727
Gain on curtailments	-	(4,706)
Past service costs	(3,680)	(71)
Expected return on plan assets	(35,351)	(37,457)
Contribution	168	(3,684)
	₩ 205,166	180,468

- (4) Changes in the defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Beginning balance	₩ 1,171,191	1,033,030
Current service costs	195,549	173,659
Interest on obligations	48,480	52,727
Gain on curtailments	-	(4,706)
Past service costs	(3,680)	(71)
Benefits paid	(81,574)	(239,247)
Transfers from related parties	391	1,300
Actuarial losses in other comprehensive income	66,308	154,575
Changes in scope of consolidation	-	42
Effect of movements in exchange rates	(668)	(118)
Ending balance	₩ 1,395,997	1,171,191



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**21. Employee Benefits, Continued**

(5) Changes in the plan assets for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Beginning balance	₩ 1,015,798	901,709
Benefits paid	(65,589)	(143,135)
Contributions paid into the plan	153,038	213,818
Expected return on plan assets	35,351	37,457
Actuarial gains in other comprehensive income	7,219	5,949
Ending balance	<u>₩ 1,145,817</u>	<u>1,015,798</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate at December 31	2.99%~4.47%	3.49%~5.42%
Expected return on plan assets at January 1	2.99%~3.93%	3.28%~4.30%
Future salary increases	1.40%~7.06%	3.00%~7.05%
Future mortality (Males, at age 45)	0.27%~0.30%	0.18%~0.30%

(7) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

<i>(In millions of won)</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Defined benefit obligations	₩ 1,395,997	1,171,191	1,033,030	1,441,070
Plan assets	(1,145,817)	(1,015,798)	(901,709)	(1,266,880)
Deficit	250,180	155,393	131,321	174,190
Experience adjustments on plan liabilities	66,308	154,575	132,186	
Experience adjustments on plan assets	(7,219)	(5,949)	4,823	N/A

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**22. Long-term Provisions**

Changes in long-term provisions for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012				2011			
		Provision for construction warranty	Provision for product warranty	Other Provision	Total	Provision for construction warranty	Provision for product warranty	Other Provision	Total
Beginning balance	₩	99,968	157,151	52,820	309,939	105,715	86,360	11,255	203,330
Additions		163,934	67,328	384	231,646	46,484	117,766	43,264	207,514
Reversals		(8,115)	(4,744)	(2,813)	(15,672)	(11,559)	(8,690)	(436)	(20,685)
Utilization		(21,780)	(91,047)	(11,776)	(124,603)	(40,221)	(41,590)	(1,773)	(83,584)
Effect of movements									
in exchange rates		(137)	(4,436)	(1,690)	(6,263)	(451)	3,305	510	3,364
Ending balance	₩	233,870	124,252	36,925	395,047	99,968	157,151	52,820	309,939

**23. Derivative Financial Instruments**

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

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

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

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**23. Derivative Financial Instruments, Continued**

(2) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2012 are as follows:

(i) Terms of derivative contracts

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

Description	Type	Currency		Contract amount	Number of contracts	Weighted average exchange rate	Average maturities	
		Sell	Buy					
Cash flow hedge	Foreign currency forward	EUR	KRW	19,831	359	1,445.14	2013-11-28	
		USD	KRW	827,009		1,116.22	2013-05-26	
		USD	EUR	548		0.76	2013-05-05	
		USD	GBP	4,981		0.63	2013-04-12	
		KRW	EUR	15,607		1,565.33	2013-08-08	
		KRW	USD	1,990,856		1,125.23	2013-12-27	
		USD	KRW	53,391		4	1,153.00	2017-06-20
KRW	USD	74,529	1,153.00	2017-06-20				
	Interest rate swap	KRW	KRW	80,000	1	-	2020-11-20	
Fair value hedge	Foreign currency forward	EUR	KRW	20,147	1,729	1,455.14	2014-01-06	
		USD	KRW	13,671,802		1,133.73	2014-01-30	
For trading	Foreign currency forward	USD	KRW	207,166	40	1,154.07	2013-08-24	
		USD	CNY	100,000		6.67	2013-11-08	
		KRW	USD	383,756		1,074.95	2013-01-08	
		JPY	CNY	3,500,000		0.08	2013-06-17	
	Foreign currency futures	USD	KRW	1,940	194	1,071.80	2013-01-21	
	Interest rate futures	KRW	KRW	163,680	1,495	-	2013-03-19	
	Index futures	KRW	KRW	80,505	610	-	2013-01-10	
	Interest rate swap	USD	USD	37,500	2	-	2014-03-01	
		KRW	KRW	50,000		-	2014-11-08	
	Stock warrants	KRW	KRW	100	1	-	2013-06-28	
	Product forward	USD	USD	61,461	10	-	2013-02-21	
	Index number option	KRW	KRW	1,000	1	-	2013-12-09	
	Commodity futures	USD	USD	3,181	64	-	2013-02-01	
	Foreign currency forward	EUR	KRW	39,978	2,128	1,450.18	2013-12-17	
		USD	KRW	14,705,977		1,133.03	2014-01-14	
		USD	EUR	548		0.76	2013-05-05	
		USD	GBP	4,981		0.63	2013-04-12	
		USD	CNY	100,000		6.67	2013-11-08	
		KRW	EUR	15,607		1,565.33	2013-08-08	
		KRW	USD	2,374,612		1,117.10	2013-10-30	
JPY		CNY	3,500,000	0.08		2013-06-17		
Foreign currency futures		USD	KRW	1,940		194	1,071.80	2013-01-21
Foreign currency swap		USD	KRW	53,391		4	1,153.00	2017-06-20
		KRW	USD	74,529			1,153.00	2017-06-20
Interest rate futures		KRW	KRW	163,680		1,495	-	2013-03-19
Index futures		KRW	KRW	80,505		610	-	2013-01-10
Interest rate swap		USD	USD	37,500		3	-	2014-03-01
		KRW	KRW	130,000			-	2018-07-26
Stock warrants		KRW	KRW	100		1	-	2013-06-28
Product forward	USD	USD	61,461	10	-	2013-02-21		
Index option	KRW	KRW	1,000	1	-	2013-12-09		
Commodity futures	USD	USD	3,181	64	-	2013-02-01		

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23. Derivative Financial Instruments, Continued

(2) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2012 are as follows, continued

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

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

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

(In millions of won)

Description	Type	Increase (decrease) to sales	Increase (decrease) to cost of sales	Increase to finance income	Increase to finance costs	Increase to other non- operating income	Increase to other non- operating expenses	Accumulated other comprehensive income	Firm commitment		Derivatives		Financial assets or liabilities at fair value through profit or loss		
									Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	
<b>Cash flow</b>	Foreign currency														
<b>hedge</b>	forward	₩ (7,476)	(7,298)	691	645	-	-	(28,291)	-	-	30,235	61,974	-	-	-
	Foreign currency swap	5,371	2	-	-	-	-	(1,819)	-	-	3,501	-	-	-	-
	Interest rate swap	-	-	-	-	-	-	(5,941)	-	-	-	5,941	-	-	-
<b>Fair value</b>	Foreign currency														
<b>hedge</b>	forward	59,410	-	1,120,242	37,241	17,937	1,046,351	-	80,858	439,355	581,821	2,581	-	-	-
<b>For trading</b>	forward	7,532	10,739	84,128	100,640	-	-	-	-	-	-	-	14,583	7,188	-
	Foreign currency futures	2,180	2,007	-	224	-	-	-	-	-	-	-	-	-	318
	Interest rate futures	4,134	7,754	-	-	-	-	-	-	-	-	-	-	-	-
	Index futures	69,868	64,610	-	-	-	-	-	-	-	-	-	-	-	-
	Interest rate swap	280	(964)	-	452	-	-	-	-	-	-	-	70	428	-
	Stock warrants	-	61	-	-	-	-	-	-	-	-	-	100	-	-
	Product forward	-	-	2,941	5,922	-	-	-	-	-	-	-	221	876	-
	Index number option	529	766	-	-	-	-	-	-	-	-	-	22	5	-
	Commodity futures	53,338	47,239	-	-	-	-	-	-	-	-	-	71	38	-
		₩ 195,166	124,916	1,208,002	145,124	17,937	1,046,351	(36,051)	80,858	439,355	615,557	70,496	15,067	8,853	-

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**23. Derivative Financial Instruments, Continued**

As of December 31, 2012, the Group applies cash flow hedge accounting, out of which the Group accounted for the effective portion of the hedge amounting to ₩(-)22,593 million, after netting off deferred tax adjustment of ₩8,284 million and non-controlling interest portion of ₩(-)5,174 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 95 months, and the amount among gain (loss) on valuation of derivatives that is expected to be realized as an addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2012 is ₩(-)7,063 million.

**24. Capital and Capital Surplus**

- (1) The Group is authorized to issue 160,000,000 shares of capital stock (par value ₩5,000), and as of December 31, 2012 and 2011, the number of issued common shares is 76,000,000.

There have been no changes in the capital stock for the years ended December 31, 2012 and 2011.

- (2) Capital surplus

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

Capital surplus as of December 31, 2012 and 2011 is summarized as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Paid-in capital in excess of par value	₩ 843,324	843,324
Gains on disposal of treasury stocks	204,339	204,339
From business combination	21,830	21,830
Other capital surplus	39,816	30,300
	<u>₩ 1,109,309</u>	<u>1,099,793</u>

**25. Treasury Stock**

- (1) Treasury stock of the Company as of December 31, 2012 and 2011 is summarized as follows:

<i>(In millions of won)</i>	<u>2012</u>			<u>2011</u>		
	<u>Number of shares</u>	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Number of shares</u>	<u>Acquisition cost</u>	<u>Fair value</u>
Treasury stock	14,711,560	₩ 1,400,455	3,560,198	14,711,560	₩ 1,400,455	3,780,871

- (2) As of December 31, 2012, 6,063,000 of the Company's shares valued at ₩236,721 million at acquisition cost and ₩1,467,246 million at fair value are owned by Hyundai Mipo Dockyard Co., Ltd., a subsidiary of the Group. The Group recorded its portion as treasury stock in capital adjustments, in the amount of ₩105,456 million.

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**26. Accumulated Other Comprehensive Income**

(1) Accumulated other comprehensive income as of December 31, 2012 and 2011 is summarized as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Gain on valuation of available-for-sale financial assets	₩ 1,050,437	1,230,192
Loss on valuation of derivatives	(22,593)	(35,228)
Exchange differences on translating foreign operations	5,451	75,550
Change in equity of equity method investments	38,332	26,430
	₩ 1,071,627	1,296,944

(2) Other comprehensive income (loss) for the years ended December 31, 2012 and 2011 is as follows:

<i>(In millions of won)</i>	<b>2012</b>			<b>2011</b>		
	<b>Other comprehensive income</b>	<b>Owners of the Company</b>	<b>Non- controlling interests</b>	<b>Other comprehensive income</b>	<b>Owners of the Company</b>	<b>Non- controlling interests</b>
Gain and loss on valuation of available for-sale financial assets, net of tax	₩ (162,922)	(179,755)	16,833	(12,960)	55,305	(68,265)
Gain and loss on valuation of derivatives, net of tax	11,102	12,634	(1,532)	(35,282)	(34,193)	(1,089)
Exchange differences on translating foreign operations, net of tax	(91,840)	(70,099)	(21,741)	41,031	29,365	11,666
Change in equity of equity method investments, net of tax	12,119	11,902	217	(14,762)	(14,440)	(322)
Retained Earnings of equity method investments, net of tax	(2,570)	(2,528)	(42)	-	-	-
Defined benefit plan actuarial losses, net of tax	(51,495)	(48,808)	(2,687)	(104,620)	(96,609)	(8,011)
	₩ (285,606)	(276,654)	(8,952)	(126,593)	(60,572)	(66,021)

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27. Retained Earnings

(1) Retained earnings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
<b>Legal reserves:</b>		
Legal appropriated retained earnings(*1)	₩ 190,000	190,000
Reserve for corporate development(*2)	30,000	30,000
Asset revaluation surplus	1,800,414	1,800,414
	<u>2,020,414</u>	<u>2,020,414</u>
<b>Voluntary reserves:(*3)</b>		
Reserve for business rationalization	87,277	87,277
Reserve for facilities	78,270	78,270
Reserve for research and human development	510,000	470,000
Others	10,901,453	8,768,344
	<u>11,577,000</u>	<u>9,403,891</u>
<b>Unappropriated retained earnings</b>	<u>2,500,611</u>	<u>3,975,132</u>
	<u>₩ 16,098,025</u>	<u>15,399,437</u>

(\*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 reserves for research and human development, facilities and others, which are appropriated in accordance with related laws.

(2) Changes in retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
Beginning balance	₩ 15,399,437	13,347,529
Profit for the year	1,020,598	2,743,436
Less: non-controlling interests	(36,326)	(184,430)
Retained earnings of equity method	(2,529)	-
Actuarial losses	(48,808)	(96,609)
Dividends	(234,347)	(410,489)
Ending balance	<u>₩ 16,098,025</u>	<u>15,399,437</u>

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

(1) General information

On January 26, 2011, the Group gained control of Jahnel-Kestermann Getriebewerke GmbH, which designs and manufactures gearboxes for ships, by acquiring 100% of that entity's shares.

(2) Consideration transferred

The consideration transferred for Jahnel-Kestermann Getriebewerke GmbH for the year ended December 31, 2011 amounts to one euro.

(3) Fair value of identifiable assets acquired and liabilities assumed

*(In millions of won)*

		<b>Jahnel-Kestermann Getriebewerke GmbH</b>
Short-term financial assets	₩	1,188
Trade receivables		10,406
Inventories		36,549
Property, plant and equipment		21,088
Intangible assets		665
Other assets		9,578
Trade payables and other payables		(60,310)
Borrowings		(36,619)
Net assets	₩	<u>(17,455)</u>

(4) Goodwill

Goodwill was recognized as a result of the acquisition of Jahnel-Kestermann Getriebewerke GmbH for the year ended December 31, 2011 in the amount of ₩17,455 million, which represents consideration transferred (one euro) less fair value of net assets of ₩(-)17,455 million.



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**29. Outstanding Contracts**

(1) Sales for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Construction contracts	₩ 23,426,815	25,015,750
Goods sold	30,493,929	27,329,867
Services	418,846	674,279
Financial service		
Interest income	198,412	197,124
Dividend income	4,649	16,109
Commission income	149,787	162,375
Gain on valuation of financial instruments	20,771	10,731
Gain on disposal of financial instruments	238,295	296,855
Other operating income	22,197	8,576
	<u>₩ 54,973,701</u>	<u>53,711,666</u>

(2) Changes in outstanding contracts for the year ended December 31, 2012 are as follows:

<i>(In millions of won)</i>	<u>Shipbuilding</u>	<u>Others</u>	<u>Total</u>
Beginning balance(*)	₩ 31,351,398	16,948,727	48,300,125
Increase during the period	12,406,223	37,522,680	49,928,903
Recognized as revenue	(17,787,669)	(37,186,032)	(54,973,701)
Ending balance	<u>₩ 25,969,952</u>	<u>17,285,375</u>	<u>43,255,327</u>

(\*) The beginning balance includes the impact from changes in the exchange rate.

As of December 31, 2012, the Group has provided a certain amount of financial institution guarantee deposits or letters of guarantee from various financial institutions to the customers, in connection with construction contracts.

(3) Accumulated profit and loss of construction and others connected with construction in progress as of December 31, 2012 are as follows:

<i>(In millions of won)</i>	<u>Accumulated revenue of construction</u>	<u>Accumulated cost of construction</u>	<u>Accumulated profit and loss of construction</u>	<u>Billed receivables on construction contracts</u>	<u>Unbilled receivables on construction contracts</u>	<u>Due to customers for contract work</u>
Shipbuilding	₩ 11,724,693	10,957,316	767,377	1,590,948	3,913,471	4,380,235
Others	18,070,900	15,706,737	2,364,163	358,641	1,054,257	1,354,830
	<u>₩ 29,795,593</u>	<u>26,664,053</u>	<u>3,131,540</u>	<u>1,949,589</u>	<u>4,967,728</u>	<u>5,735,065</u>

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**30. Operating Segments**

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

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

Information about these reportable segments is as follows:

- (1) The financial performance of each segment for the years ended December 31, 2012 and 2011 is as follows:

*(In millions of won)*

		2012				
		Sales	Inter-segment revenue	Operating income	Profit (loss)	Depreciation
Shipbuilding	₩	18,527,056	(739,387)	1,041,449	840,597	319,361
Offshore and Engineering		4,383,851	(2,045)	318,193	336,342	50,838
Industrial Plant and Engineering		1,540,716	(109,566)	106,002	114,394	8,996
Engine and Machinery		2,999,063	(988,002)	346,844	356,981	99,930
Electro Electric Systems		3,158,601	(285,172)	(75,309)	(130,860)	49,774
Construction Equipment		5,152,252	(1,361,046)	276,140	206,292	40,961
Green Energy		344,680	(7,675)	(106,448)	(202,609)	29,799
Financial Services		654,443	(20,332)	94,706	68,978	7,369
Oil Refining		26,434,791	(4,936,004)	307,213	156,524	247,794
Others		1,079,580	(852,103)	(279,096)	(415,492)	61,932
Consolidation adjustments(*)		(9,301,332)	9,301,332	(36,529)	(310,549)	(5,838)
	₩	<u>54,973,701</u>	<u>-</u>	<u>1,993,165</u>	<u>1,020,598</u>	<u>910,916</u>

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**30. Operating Segments, Continued**

(1) Financial performance of each segment for the years ended December 31, 2012 and 2011 is as follows, continued

(In millions of won)

		2011				
		Sales	Inter-segment revenue	Operating income	Profit (loss)	Depreciation
Shipbuilding	₩	19,069,824	(717,925)	2,494,255	2,301,185	309,156
Offshore and Engineering		3,887,603	(158,733)	390,964	394,971	47,499
Industrial Plant and Engineering		2,850,771	(157,020)	252,416	249,813	7,850
Engine and Machinery		3,144,369	(989,372)	602,215	610,067	97,330
Electro Electric Systems		2,599,181	(203,339)	153,212	147,433	38,245
Construction Equipment		5,567,782	(1,304,766)	461,914	425,113	35,590
Green Energy		398,855	(18,426)	(174,994)	(225,710)	25,553
Financial Services		721,154	(29,384)	89,712	61,479	7,742
Oil Refining		21,507,599	(2,689,179)	595,619	343,067	220,484
Others		1,068,322	(835,650)	(251,462)	(1,016,505)	76,384
Consolidation adjustments(*)		(7,103,794)	7,103,794	(52,810)	(547,477)	(13,337)
	₩	<u>53,711,666</u>	<u>-</u>	<u>4,561,041</u>	<u>2,743,436</u>	<u>852,496</u>

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

(2) The assets and liabilities of each segment as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		2012		2011	
		Total assets	Total liabilities	Total assets	Total liabilities
Shipbuilding	₩	20,027,070	9,764,623	19,150,076	11,745,492
Offshore and Engineering		2,333,748	1,139,261	1,942,616	1,315,255
Industrial Plant and Engineering		877,196	1,171,589	820,626	868,846
Engine and Machinery		2,004,336	1,036,652	2,099,264	1,274,528
Electro Electric Systems		2,200,608	751,720	2,281,719	692,969
Construction Equipment		2,958,870	1,371,095	2,832,852	1,298,446
Green Energy		942,310	76,861	1,105,791	122,534
Financial Services		4,813,893	3,404,659	4,652,308	3,265,049
Oil Refining		8,769,280	5,773,833	8,786,378	6,041,814
Others		15,248,161	7,709,078	15,967,517	5,864,006
Consolidation adjustments(*)		(10,902,296)	(1,667,546)	(10,638,331)	(1,664,642)
	₩	<u>49,273,176</u>	<u>30,531,825</u>	<u>49,000,816</u>	<u>30,824,297</u>

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

**30. Operating Segments, Continued**

(3) Geographical information by subsidiary location is as follows:

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(i) Sales for the years ended December 31, 2012 and 2011

(In millions of won)

	2012		2011	
	Total sales	Inter-segment revenue	Total sales	Inter-segment revenue
Korea	₩ 56,275,488	(7,334,720)	54,478,355	(3,945,559)
North America	793,547	(131,498)	615,184	(2,098)
Asia	6,637,905	(1,821,062)	5,145,480	(2,979,837)
Europe	409,089	(13,965)	418,784	(18,643)
Others	159,004	(87)	157,657	(157,657)
Consolidation adjustments(*)	(9,301,332)	9,301,332	(7,103,794)	7,103,794
	₩ <u>54,973,701</u>	<u>-</u>	<u>53,711,666</u>	<u>-</u>

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

(ii) Non-current assets as of December 31, 2012 and 2011

(In millions of won)

	2012	2011
Korea	₩ 15,772,994	15,830,976
North America	139,196	142,988
Asia	445,163	523,614
Europe	111,162	56,460
Others	73,696	15,312
	<u>16,542,211</u>	<u>16,569,350</u>
Consolidation adjustments(*1)	<u>1,634,345</u>	<u>1,646,324</u>
Total(*2)	₩ <u>18,176,556</u>	<u>18,215,674</u>

(\*1) Consolidation adjustments are made by eliminating inter-segment transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using the equity method.

(\*2) Represents the sum of investment property, property, plant and equipment and intangible assets.

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

Selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Salaries	₩ 658,997	667,212
Post-employment benefit costs	58,717	33,846
Employee welfare	143,504	134,839
Depreciation	89,925	89,864
Bad debt expenses	459,976	201,576
Ordinary development costs	164,347	132,903
Advertising	81,829	78,467
Printing	3,206	3,107
Warranty expenses	133,218	139,250
Insurance	16,422	13,633
Supplies	18,178	18,052
Utilities	11,595	10,058
Repairs	8,308	6,063
Travel	33,538	33,135
Research	8,440	10,989
Training	16,132	12,320
Service contract expenses	70,562	86,487
Transportation	243,234	218,424
Rent	45,706	44,482
Data processing	18,112	17,645
Entertainment	15,656	15,120
Taxes and dues	39,008	46,799
Service charges	101,553	122,300
Automobile maintenance	12,957	10,899
Sales commissions	78,599	77,827
Others	117,871	140,883
	₩ <u>2,649,590</u>	<u>2,366,180</u>

**32. Nature of Expenses**

The classification of expenses by nature for the years ended December 31, 2012 and 2011 is as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Changes in inventories	₩ 226,599	(1,442,432)
Purchase of inventories	38,420,552	36,385,563
Depreciation	910,916	852,496
Amortization	84,426	85,161
Labor cost	3,250,879	3,128,066
Other expenses	10,087,165	10,141,771
	₩ <u>52,980,537</u>	<u>49,150,625</u>

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

**33. Finance Income and Finance Costs**

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Finance income and finance costs for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
<b>Finance income:</b>		
Interest income	₩ 178,218	236,948
Gain on valuation of financial instruments at fair value through profit or loss	15,312	8,244
Gain on disposal of financial instruments at fair value through profit or loss	71,756	212,899
Gain on disposal of available-for-sale financial assets	486,421	1,544
Dividend income	47,311	46,219
Gain on foreign currency translation	162,517	98,046
Gain on foreign currency transactions	660,273	810,539
Gain on valuation of derivatives	793,500	15,376
Gain on derivatives transactions	327,433	444,174
Others	1,643	2,008
	<u>₩ 2,744,384</u>	<u>1,875,997</u>
<b>Finance costs:</b>		
Interest expense	₩ 392,293	288,504
Loss on valuation of financial instruments at fair value through profit or loss	2,324	16,391
Loss on disposal of financial instruments at fair value through profit or loss	104,965	218,909
Loss on disposal of available-for-sale financial assets	24	549
Impairment loss on available-for-sale financial assets	316,081	7,773
Loss on foreign currency translation	246,209	95,065
Loss on foreign currency transactions	646,175	991,894
Loss on valuation of derivatives	11,041	422,546
Loss on derivatives transactions	26,845	100,262
Others	5	1
	<u>₩ 1,745,962</u>	<u>2,141,894</u>

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

Other non-operating income and other non-operating expenses for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
<b>Other non-operating income:</b>		
Gain on disposal of investments in associates	₩ 29,280	210
Gain on disposal of property, plant and equipment	6,264	6,784
Gain on disposal of intangible assets	654	12
Gain on valuation of firm commitments	17,937	499,625
Others	165,056	309,657
	₩ 219,191	816,288
<b>Other non-operating expenses:</b>		
Service charges	₩ 10,127	172
Loss on disposal of investments in associates	-	337
Loss on disposal of property, plant and equipment	17,317	18,107
Impairment loss on property, plant and equipment	84,422	-
Loss on disposal of intangible assets	802	814
Impairment loss on intangible assets	13,166	87,342
Loss on valuation of firm commitments	1,046,351	470,436
Other bad debt expenses	855	13,200
Donation	132,927	297,182
Others	99,624	199,247
	₩ 1,405,591	1,086,837

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**35. Income Tax Expense**

- (1) The components of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Current tax expense	₩ 733,080	1,080,079
Adjustment for prior periods	(15,537)	(53,446)
Origination and reversal of temporary differences	(358,309)	81,119
Income tax recognized in other comprehensive income	56,022	25,110
Total income tax expense	₩ 415,256	1,132,862

- (5) Income tax recognized directly in other comprehensive income for the years ended December 31, 2012 and 2011 is as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Gains (losses) on valuation of available-for-sale financial assets	₩ 38,947	(29,813)
Gains (losses) on valuation of derivatives	(3,201)	10,869
Defined benefit plan actuarial losses	19,313	44,325
Others	963	(271)
Income tax recognized directly in other comprehensive income	₩ 56,022	25,110

Income taxes related to gains/losses on valuation of available-for-sale financial assets, gains/losses on valuation of derivatives and defined benefit plan actuarial gains/losses and others are recognized in other comprehensive income.

- (3) Reconciliation of the effective tax rate for the years ended December 31, 2012 and 2011 is as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Profit before income tax	₩ 1,435,854	3,876,298
Income tax using the each component's statutory tax rate	441,237	1,050,673
Adjustment for:		
- Tax effect of non-deductible expenses	14,652	85,154
- Tax effect of non-taxable incomes	(19,479)	(56,439)
- Tax credits	(18,159)	(51,283)
- Current adjustments for prior periods	(15,537)	(53,446)
- Others	12,542	158,203
Income tax expenses	₩ 415,256	1,132,862
Effective tax rate	% 28.92	29.23



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**35. Income Tax Expense, Continued**

- (4) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>2012</b>	<b>2011</b>
Deferred assets (liabilities) at the end of the period	₩ (907,041)	(1,261,284)
Less: Deferred assets (liabilities) at the beginning of the period	(1,261,284)	(1,183,846)
Others	(4,066)	3,681
Deferred tax expenses by origination and reversal of temporary differences	(358,309)	81,119

- (5) As of December 31, 2012, the tax effects of temporary difference were calculated using the enacted statutory tax rate for the fiscal period when the temporary differences are expected to be reversed.
- (6) The Group sets off a deferred tax asset against a deferred tax liability only if it relates to income taxes levied by the same taxation authority and has a legally enforceable right to set off current tax assets against current tax liabilities.
- (7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<b>Beginning balance</b>	<b>Change</b>	<b>Ending balance</b>
<b>December 31, 2012</b>			
Investments in subsidiaries and associates	₩ (286,451)	22,579	(263,872)
Available-for-sale financial assets	(627,851)	143,091	(484,760)
Reserve for research and human development	(124,410)	(14,027)	(138,437)
Trade and other receivables	101,182	102,245	203,427
Asset revaluation	(416,176)	7,332	(408,844)
Property, plant and equipment	(79,023)	24,352	(54,671)
Derivatives	(81,922)	37,188	(44,734)
Accrued expenses	27,329	103	27,432
Provisions	83,341	79,518	162,859
Others	142,697	(48,138)	94,559
	₩ (1,261,284)	354,243	(907,041)
<b>December 31, 2011</b>			
Investments in subsidiaries and associates	₩ 51,042	(337,493)	(286,451)
Available-for-sale financial assets	(845,617)	217,766	(627,851)
Reserve for research and human development	(105,622)	(18,788)	(124,410)
Trade and other receivables	56,594	44,588	101,182
Asset revaluation	(397,375)	(18,801)	(416,176)
Property, plant and equipment	(63,168)	(15,855)	(79,023)
Derivatives	(113,464)	31,542	(81,922)
Accrued expenses	25,925	1,404	27,329
Provisions	27,239	56,102	83,341
Others	180,600	(37,903)	142,697
	₩ (1,183,846)	(77,438)	(1,261,284)

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**36. Earnings per Share**

(1) Basic earnings per share for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Profit attributable to owners of the Company <i>(In millions of won)</i>	₩ 984,272	2,559,006
Weighted average number of ordinary shares outstanding <i>(In thousands of shares)</i>	<u>55,225</u>	<u>55,225</u>
Earnings per share <i>(In won)</i>	<u>₩ 17,823</u>	<u>46,337</u>

(2) The weighted average number of ordinary shares for the year ended December 31, 2012 is as follows:

<i>(In shares)</i>	Number of shares outstanding	Weighted average	Weighted average number of shares outstanding
<b>December 31, 2012</b>			
Beginning balance	55,225,440	366/366	55,225,440

(3) Since there are no dilutive potential common shares for the years ended December 31, 2012 and 2011, diluted earnings per share have not been calculated.

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**37. Cash Flows from Operation Activity**

Cash generated from operations for the years ended December 31, 2012 and 2011 are summarized as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Profit for the year	₩ 1,020,598	2,743,436
Adjustments for:		
Post-employment benefit costs	204,998	214,241
Depreciation	910,916	852,496
Amortization	84,426	85,161
Bad debt expenses	459,976	201,577
Compensation expenses associated with stock options	(374)	1,404
Finance income	(1,683,279)	(406,377)
Finance costs	992,013	830,828
Other non-operating income	(64,737)	(523,756)
Other non-operating expenses	1,207,747	662,272
Share of profit of equity accounted investees	369,332	148,296
Income tax expense	415,256	1,132,862
Finance income (sales)	(248,175)	(240,517)
Finance costs (cost of sales)	137,774	119,800
Changes in assets and liabilities:		
Short-term financial assets	(266,966)	(54,199)
Trade receivables	(862,972)	(210,419)
Other receivables	66,988	(800,672)
Due from customers for contract work	(781,853)	480,590
Inventories	226,599	(1,442,432)
Derivatives	(118,542)	(691,575)
Firm commitments	(107,121)	163,091
Other current assets	(909,573)	(1,206,426)
Long-term financial assets	(613)	(3,020)
Long-term trade receivables	(110,678)	(397,789)
Long-term other receivables	-	(2,816)
Long-term due from customers for contract work	-	(50,649)
Other non-current assets	26,145	(51,251)
Short-term financial liabilities	98,507	147,127
Trade payables	(362,929)	448,689
Other payables	(28,168)	176,981
Advances from customers	(33,512)	441,714
Due to customers for contract work	(2,953,740)	(812,285)
Other current liabilities	(31,283)	35,890
Long-term other payables	(30,432)	92,935
Benefits paid	(81,574)	(239,247)
Succession of benefits	391	1,300
Plan assets	(87,449)	(103,476)
Long-term provisions	91,366	106,610
Other non-current liabilities	(15,858)	(10,432)
	<u>(3,487,394)</u>	<u>(903,474)</u>

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38. Categories of Financial Instruments and Income and Costs by Categories

(1) Categories of financial instruments as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

	2012									
	Cash and cash equivalents	Held for trading investments	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Held for trading liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities
Cash and cash equivalents	₩ 1,107,690	-	-	-	-	-	-	-	-	-
Short-term financial assets	-	1,789,908	189,085	136,616	396,761	-	-	-	-	-
Trade and other receivables	-	-	-	-	6,798,105	-	-	-	-	-
Due from customers for contract work	-	-	-	-	4,967,728	-	-	-	-	-
Derivative assets (current)	-	-	-	-	-	444,343	-	-	-	-
Long-term financial assets	-	3,936	-	3,043,273	15,629	-	-	-	-	-
Long-term trade and other receivables	-	-	-	-	1,375,260	-	-	-	-	-
Derivative assets (non-current)	-	-	-	-	-	171,214	-	-	-	-
Short-term financial liabilities	-	-	-	-	-	-	102,399	38,283	8,857,754	-
Trade and other payables	-	-	-	-	-	-	-	-	5,788,038	-
Derivative liabilities (current)	-	-	-	-	-	-	-	-	-	43,583
Long-term financial liabilities	-	-	-	-	-	-	-	-	6,301,794	-
Long-term trade and other liabilities	-	-	-	-	-	-	-	-	195,825	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	-	26,913
	₩ 1,107,690	1,793,844	189,085	3,179,889	13,553,483	615,557	102,399	38,283	21,143,411	70,496

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38. Categories of Financial Instruments and Income and Costs by Categories, Continued

(1) Categories of financial instruments as of December 31, 2012 and 2011 are summarized as follows, continued

(In millions of won)

	2011									
	Cash and cash equivalents	Held for trading investments	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Held for trading liabilities	Financial liabilities measured at amortized cost	Derivative liabilities	
Cash and cash equivalents	₩ 1,609,979	-	-	-	-	-	-	-	-	
Short-term financial assets	-	1,538,120	167,571	262,882	219,688	-	-	-	-	
Trade and other receivables	-	-	-	-	5,748,433	-	-	-	-	
Due from customers for contract work	-	-	-	-	4,181,091	-	-	-	-	
Derivative assets (current)	-	-	-	-	-	146,053	-	-	-	
Long-term financial assets	-	10,184	-	3,684,692	2,129	-	-	-	-	
Long-term trade and other receivables	-	-	-	-	2,385,790	-	-	-	-	
Long-term due from customers for contract work	-	-	-	-	50,649	-	-	-	-	
Derivative assets (non-current)	-	-	-	-	-	53,844	-	-	-	
Short-term financial liabilities	-	-	-	-	-	-	120,790	8,357,778	-	
Trade and other payables	-	-	-	-	-	-	-	6,330,232	-	
Derivative liabilities (current)	-	-	-	-	-	-	-	-	285,899	
Long-term financial liabilities	-	-	-	-	-	-	5,516	2,938,410	-	
Long-term trade and other liabilities	-	-	-	-	-	-	-	246,930	-	
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	250,397	
	₩	1,609,979	1,548,304	167,571	3,947,574	12,587,780	199,897	126,306	17,873,350	536,296

38. Categories of Financial Instruments and Income and Costs by Categories, Continued

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(2) Financial instruments income and costs by categories for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)

		Net income		Other comprehensive income		Interest income and interest expense(*)		Fee income and fee expense		Impairment loss	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
		Cash and cash equivalents	₩	16,788	84,119	-	-	52,447	67,174	(30)	(42)
Held for trading investments		79,014	241,038	-	-	67,299	68,942	(1)	(32)	-	-
Financial assets at fair value through profit or loss		6,872	5,447	-	-	-	-	-	-	-	-
Available-for-sale financial assets		229,464	63,676	(162,922)	(12,960)	7,631	12,541	1,331	3,942	(319,323)	(11,583)
Loans and receivables		(543,121)	15,760	-	-	249,253	296,911	19,075	32,413	(450,162)	(214,828)
Held for trading liabilities		(9,106)	(173,212)	-	-	(7)	(6)	-	-	-	-
Financial liabilities at fair value through profit or loss		(1,789)	(50)	-	-	-	-	-	-	-	-
Financial liabilities measured at amortized cost		(161,722)	(474,645)	-	-	(499,564)	(389,912)	-	-	-	-
Derivatives		1,074,033	(66,592)	11,102	(35,282)	-	-	-	-	-	-

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

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39. Financial Instruments

(1) 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 December 31, 2012 and 2011 is as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Held for trading investments	₩ 1,793,844	1,548,304
Financial assets at fair value through profit or loss	189,085	167,571
Available-for-sale financial assets	3,179,889	3,947,574
Loans and receivables	13,553,483	12,587,780
Derivative assets	615,557	199,897
	<u>₩ 19,331,858</u>	<u>18,451,126</u>

The maximum exposure to credit risk for financial guarantee contracts is ₩32,133 million as of December 31, 2012 (see notes 40 and 42).

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region is as follows:

<i>(In millions of won)</i>	<u>2012</u>	<u>2011</u>
Korea	₩ 4,897,611	3,890,665
North America	844,935	539,672
Asia	3,441,146	3,679,033
Europe	2,804,731	1,547,976
Others	1,565,060	2,930,434
	<u>₩ 13,553,483</u>	<u>12,587,780</u>

(ii) Impairment loss

The aging of loans and receivables and the related allowance for impairment as of December 31, 2012 and 2011 are as follows:

<i>(In millions of won)</i>	<u>2012</u>		<u>2011</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Not past due	₩ 12,835,605	(482,438)	11,626,869	(392,263)
Past due up to 6 months	796,769	(99,917)	1,104,715	(13,026)
Past due 6~12 months	559,910	(219,993)	200,795	(8,046)
Past due 1~3 years	270,618	(118,821)	124,049	(59,772)
More than three years	51,022	(39,272)	48,902	(44,443)
	<u>₩ 14,513,924</u>	<u>(960,441)</u>	<u>13,105,330</u>	<u>(517,550)</u>

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**39. Financial Instruments, Continued**

(1) Credit risk, continued

(ii) Impairment loss, continued

The movement in the allowance for impairment in respect of loans and receivables during the years ended December 31, 2012 and 2011 is as follows:

<i>(In millions of won)</i>		<b>2012</b>	<b>2011</b>
Beginning balance	₩	517,550	454,563
Impairment loss recognized		469,920	219,829
Reversal of allowance accounts		(19,759)	(5,053)
Write offs		(7,270)	(151,789)
Ending balance	₩	960,441	517,550

The allowance accounts in respect of loans and receivables is used to record impairment losses unless the Group is satisfied that all collection measures have been exhausted. At that point, the amounts are considered irrecoverable and are written off against the financial asset directly.

(iii) The analysis of the aging of financial assets that are past due as of December 31, 2012 and 2011 but not impaired is summarized as follows:

<i>(In millions of won)</i>		<b>2012</b>				
		<b>Carrying amount</b>	<b>6 months or less</b>	<b>6~12 months</b>	<b>1~3 years</b>	<b>More than 3 years</b>
Loans and receivables	₩	1,200,316	696,852	339,917	151,797	11,750

<i>(In millions of won)</i>		<b>2011</b>				
		<b>Carrying amount</b>	<b>6 months or less</b>	<b>6~12 months</b>	<b>1~3 years</b>	<b>More than 3 years</b>
Loans and receivables	₩	1,353,174	1,091,689	192,749	64,277	4,459



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39. Financial Instruments, Continued

(2) Liquidity risk

- (i) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012					
		Carrying amount	Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>							
Held for trading liabilities	₩	131,830	131,830	94,960	36,870	-	-
Bank loans		12,133,479	12,483,665	7,532,111	929,228	2,564,570	1,457,756
Bond issues		2,693,047	2,981,445	194,815	49,180	1,678,200	1,059,250
Trade and other payables		5,983,863	5,984,532	5,725,198	63,131	195,715	488
Deposit liabilities		317,788	317,788	317,788	-	-	-
Others		15,234	15,234	15,234	-	-	-
<b>Derivative financial liabilities:</b>							
Derivative contracts used for hedging:							
Outflow		70,496	73,605	24,475	21,908	24,708	2,514
Other derivative contracts:							
Outflow		8,853	8,862	8,654	208	-	-
	₩	<u>21,354,590</u>	<u>21,996,961</u>	<u>13,913,235</u>	<u>1,100,525</u>	<u>4,463,193</u>	<u>2,520,008</u>

The maximum amount of assurance for financial guarantee contracts is ₩32,133 million as of December 31, 2012 (see Notes 40 and 42).

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)

		2011					
		Carrying amount	Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>							
Held for trading liabilities	₩	89,485	89,485	89,485	-	-	-
Bank loans		9,658,820	10,058,273	6,851,061	619,321	1,452,747	1,135,144
Bond issues		1,398,181	1,515,494	586,220	222,165	501,285	205,824
Trade and other payables		6,577,162	6,579,695	6,005,132	326,932	245,252	2,379
Deposit liabilities		224,591	224,591	224,591	-	-	-
Others		14,596	14,596	14,596	-	-	-
<b>Derivative financial liabilities:</b>							
Derivative contracts used for hedging:							
Outflow		536,297	564,364	203,836	87,301	270,978	2,249
Other derivative contracts:							
Outflow		36,820	37,628	30,636	1,085	5,907	-
	₩	<u>18,535,952</u>	<u>19,084,126</u>	<u>14,005,557</u>	<u>1,256,804</u>	<u>2,476,169</u>	<u>1,345,596</u>

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39. Financial Instruments, Continued

(2) Liquidity risk, continued

(ii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012				
	Carrying amount	Expected cash flows	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Forward exchange contracts</b>						
Assets	₩ 33,683	34,024	28,443	5,568	13	-
Liabilities	(61,974)	(64,456)	(23,439)	(20,581)	(20,435)	(1)
<b>Foreign currency swaps</b>						
Liabilities	(1,819)	(1,819)	-	-	-	(1,819)
<b>Interest rate swaps</b>						
Liabilities	(5,941)	(6,373)	(710)	(1,056)	(2,404)	(2,203)
	₩ (36,051)	(38,624)	4,294	(16,069)	(22,826)	(4,023)

(In millions of won)

		2011				
	Carrying amount	Expected cash flows	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Forward exchange contracts</b>						
Assets	₩ 66,822	70,845	15,174	22,914	32,757	-
Liabilities	(80,416)	(83,126)	(50,326)	(20,237)	(12,563)	-
<b>Foreign currency swaps</b>						
Liabilities	-	-	-	-	-	-
<b>Interest rate swaps</b>						
Liabilities	(4,953)	(4,953)	(484)	(577)	(2,046)	(1,846)
	₩ (18,547)	(17,234)	(35,636)	2,100	18,148	(1,846)

(3) Currency risk

(i) Exposure to currency risk

The Group's exposure to foreign currency risk based on notional amounts as of December 31, 2012 and 2011 is as follows:

(In millions of won)

		2012					
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	206,515	411	-	264	10,737	217,927
Loans and receivables		8,854,766	172,271	39,507	15,551	378,918	9,461,013
Trade and other payables		(2,699,895)	(147,175)	(239)	(7,448)	(87,982)	(2,942,739)
Borrowings		(2,056,207)	(178,370)	-	(81,956)	(21,928)	(2,338,461)
Gross statement of financial position exposure		4,305,179	(152,863)	39,268	(73,589)	279,745	4,397,740
Derivative contracts		558,826	(889)	-	-	141	558,078
Net exposure	₩	4,864,005	(153,752)	39,268	(73,589)	279,886	4,955,818

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39. Financial Instruments, Continued

(3) Currency risk, continued

(In millions of won)

		2011					Total
		USD	EUR	CNY	JPY	Others	
Cash and cash equivalents	₩	510,839	268	5	365	25,378	536,855
Loans and receivables		7,999,063	275,301	94,531	5,412	317,199	8,691,506
Trade and other payables		(3,198,877)	(99,894)	(1,066)	(27,736)	(116,952)	(3,444,525)
Borrowings		(1,034,587)	(113,458)	-	(72,180)	(13,503)	(1,233,728)
Gross statement of financial position exposure		4,276,438	62,217	93,470	(94,139)	212,122	4,550,108
Derivative contracts		(349,573)	5,901	-	-	(1,409)	(345,081)
Net exposure	₩	3,926,865	68,118	93,470	(94,139)	210,713	4,205,027

Significant exchange rates applied for the years ended December 31, 2012 and 2011 are as follows:

(In won)

		Average rate		Spot rate	
		2012	2011	2012	2011
USD	₩	1,126.88	1,108.11	1,071.10	1,153.30
EUR		1,448.20	1,541.42	1,416.26	1,494.10
CNY		178.58	171.50	171.88	182.51
JPY(100)		1,413.14	1,391.31	1,247.50	1,485.16

(ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and other currencies as of December 31, 2012 and 2011 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011. The changes in profit or loss are as follows:

(In millions of won)

		Profit or loss	
		2012	2011
USD (3 percent weakening)	₩	145,920	117,806
EUR (3 percent weakening)		(4,613)	2,044
CNY (3 percent weakening)		1,178	2,804
JPY (3 percent weakening)		(2,208)	(2,824)

A strengthening of the won against the above currencies as of December 31, 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above assuming all other variables remain constant.

39. Financial Instruments, Continued

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(4) Interest rate risk

- (i) The interest rate profile of the Group's interest-bearing financial instruments as of December 31, 2012 and 2011 is as follows:

(In millions of won)

	<u>2012</u>	<u>2011</u>
<b>Fixed rate instruments:</b>		
Financial assets	₩ 3,082,659	2,302,347
Financial liabilities	(11,831,334)	(6,755,037)
	<u>₩ (8,748,675)</u>	<u>(4,452,690)</u>
<b>Variable rate instruments:</b>		
Financial assets	₩ 491,188	683,402
Financial liabilities	(3,006,666)	(2,988,345)
	<u>₩ (2,515,478)</u>	<u>(2,304,943)</u>

- (ii) Interest rate risk arises from savings and borrowings with floating interest rates. The Group properly hedges the risk borrowings with floating interest rates through interest rate swaps. Interest rate swap contracts as of December 31, 2012 are as follows:

(In millions of won and In thousand of foreign currency)

<u>Counterparties</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Expiration date</u>
			CD (91 days)
The Korea Development Bank	KRW 80,000	Receives floating interest rate	+1.95%
		Pays fixed interest rate	6.73%
Samsung Securities Co., Ltd.	KRW 50,000	Receives floating interest rate	CD (91 days)
		Pays fixed interest rate	2.72%
Standard Chartered Bank	USD 37,500	Receives floating interest rate	LIBOR+2.7%
		Pays fixed interest rate	4.00%

- (iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates as of December 31, 2012 and 2011 would have increased (decreased) equity and 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 2011. The changes in equity and profit or loss are as follows:

(In millions of won)

	<u>Profit or loss</u>		<u>Equity</u>	
	<u>100 bp increase</u>	<u>100 bp decrease</u>	<u>100 bp increase</u>	<u>100 bp decrease</u>
<b>2012</b>				
Variable rate instruments	₩ (25,155)	25,155	-	-
Interest rate swaps	1,702	(1,702)	533	(559)
Net cash flow sensitivity	<u>₩ (23,453)</u>	<u>23,453</u>	<u>533</u>	<u>(559)</u>
<b>2011</b>				
Variable rate instruments	₩ (23,049)	23,049	-	-
Interest rate swaps	900	(900)	595	(626)
Net cash flow sensitivity	<u>₩ (22,149)</u>	<u>22,149</u>	<u>595</u>	<u>(626)</u>

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(5) 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)

	2012		2011	
	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Assets carried at fair value:</b>				
Held for trading investments	₩ 1,793,844	1,793,844	1,548,304	1,548,304
Financial assets at fair value through profit or loss	189,085	189,085	167,571	167,571
Available-for-sale financial assets(*)	3,179,889	3,179,889	3,947,574	3,947,574
Derivative assets	615,557	615,557	199,897	199,897
	<u>₩ 5,778,375</u>	<u>5,778,375</u>	<u>5,863,346</u>	<u>5,863,346</u>
<b>Cash and cash equivalents</b>	₩ 1,107,690	1,107,690	1,609,979	1,609,979
<b>Assets carried at amortized cost:</b>				
Loans and receivables	₩ 13,553,483	13,553,483	12,587,780	12,587,780
<b>Liabilities carried at fair value:</b>				
Held for trading liabilities	₩ 102,399	102,399	126,306	126,306
Financial liabilities at fair value through profit or loss	38,283	38,283	-	-
Derivative liabilities	70,496	70,496	536,296	536,296
	<u>₩ 211,178</u>	<u>211,178</u>	<u>662,602</u>	<u>662,602</u>
<b>Liabilities carried at amortized cost:</b>				
Bank loans	₩ 12,133,479	12,133,479	9,658,820	9,658,820
Bond issues	2,693,047	2,693,047	1,398,181	1,398,181
Trade and other payables	5,983,863	5,983,863	6,577,162	6,577,162
Deposit liabilities	317,788	317,788	224,591	224,591
Others	15,234	15,234	14,596	14,596
	<u>₩ 21,143,411</u>	<u>21,143,411</u>	<u>17,873,350</u>	<u>17,873,350</u>

(\*) The amounts of available-for-sale financial assets that were recorded at their acquisition cost because the fair values cannot be estimated reliably as of December 31, 2012 and 2011 are ₩141,400 million and ₩134,165 million, respectively.

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. The interest rates applied as of December 31, 2012 and 2011 are as follows:

	2012	2011
Available-for-sale financial assets	6.57%~17.90%	7.37%~20.31%
Derivatives	3.25%~5.30%	2.90%~6.11%

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(5) Fair values, continued

(iii) Fair value hierarchy

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).

The financial instruments carried at fair value, by fair value hierarchy as of December 31, 2012 and 2011 are as follows:

(In millions of won)

		Level 1	Level 2	Level 3	Total
<b>2012</b>					
Held for trading investments	₩	241,462	1,490,036	62,346	1,793,844
Financial assets at fair value through profit or loss		-	140,931	48,154	189,085
Available-for-sale financial assets		2,764,082	181,579	92,828	3,038,489
Derivative assets		-	615,557	-	615,557
Held for trading liabilities		53,229	49,170	-	102,399
Financial liabilities at fair value through profit or loss		-	-	38,283	38,283
Derivative liabilities		-	70,496	-	70,496
<b>2011</b>					
Held for trading investments		139,888	1,389,443	18,973	1,548,304
Financial assets at fair value through profit or loss		-	167,571	-	167,571
Available-for-sale financial assets		3,513,264	243,728	56,417	3,813,409
Derivative assets		-	199,897	-	199,897
Held for trading liabilities		50,601	75,705	-	126,306
Derivative liabilities		-	536,296	-	536,296

The changes of level 3 financial instruments are as follows:

(In millions of won)

		Beginning Balance	Acquisition	Disposal	Valuation	Ending Balance
Held for trading investments	₩	18,973	62,163	(19,013)	223	62,346
Financial assets at fair value through profit or loss		-	87,836	(40,576)	894	48,154
Available-for-sale financial assets		56,417	22,887	(1,614)	15,138	92,828
Financial liabilities at fair value through profit or loss		-	77,909	(40,570)	944	38,283

39. Financial Instruments, Continued

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(5) Fair values, continued

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 are comprised primarily of listed equity investments.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fairly value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Unlisted equity securities, investments in capital and others investments in companies newly established or having no comparative company are excluded from the fair value valuation because their fair value cannot be measured reliably.

(6) Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety as of December 31, 2012 are as follows:

<i>(In millions of won)</i>	<b>Financial assets at fair value through profit or loss</b>		<b>Loans and receivables</b>	
	<b>Held for trading investments</b>	<b>Trade receivables</b>	<b>Long-term other receivables</b>	
Carrying amount of assets	₩ 102,653	3,598	69,923	
Carrying amount of associated liabilities	104,700	3,598	65,145	
<b>For those liabilities that have recourse only to the transferred assets:</b>				
Fair value of assets	102,653	3,598	69,923	
Fair value of associated liabilities	104,700	3,598	65,145	
Net position	₩ (2,047)	-	4,778	

**40. Commitments and Contingencies**

- (1) As of December 31, 2012, the Group has entered into bank overdraft agreements with Korea Exchange Bank and others amounting to ₩612,000 million, USD 20,000 thousand, EUR 9,247 thousand, CNY 325,624 thousand, INR 700,000 thousand and BGN 1,695 thousand and general loan agreements amounting to ₩530,000 million, USD 752,170 thousand, EUR 21,200 thousand, CNY 7,234,072 thousand and JPY 3,500,000 thousand.

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- (2) As of December 31, 2012, the Group has entered into credit facilities agreements such as letters of credit with various banks for the Group's exports and imports totaling ₩85,500 million, USD 8,746,784 thousand and INR 1,850,000 thousand.
- (3) As of December 31, 2012, the Group has entered into credit facilities agreements such as pre-shipment credit with various banks amounting to ₩4,726,404 million, USD 218,516 thousand, CNY 3,467,608 thousand and INR 16,659 thousand.
- (4) In order to secure bank loans and construction contract performance guarantees, the Group has provided seven blank notes and two checks as of December 31, 2012.
- (5) As of December 31, 2012, the Group is contingently liable for loan guarantees of its foreign subsidiaries amounting to USD 1,412,393 thousand, EUR 81,750 thousand, CNY 8,344,481 thousand, INR 1,400,000 thousand and BRL 109,956 thousand and purchase loans of customers amounting to CNY 777,729 thousand of solidarity with local dealers. The Group has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 286,240 thousand) which is being built by Hyundai Arabia Company LLC., one of the Group's subsidiaries. The Group has also provided certain performance guarantees for bareboat charter amounting to USD 396,126 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Furthermore, the Group has provided performance guarantees for the mining business in relation to overseas resource developments amounting to USD 61,925 thousand and guarantees on debt obligations for the business participant, Sherritt International Corporation, amounting to USD 24,058 thousand. The Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Group's subsidiaries, for the construction of two ships at a contract amount of USD 121,000 thousand.
- (6) In connection with the Group's contract performance guarantees, the Group has been provided with maximum guarantees amounting to ₩3,879,380 million and USD 32,241,583 thousand by various banking facilities, of which regarding ships advance from customers, the Group has also been provided with maximum guarantees amounting to USD 25,990,564 thousand by various banking facilities. Regarding this, the Group collateralizes its ships under construction and construction materials.



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**40. Commitments and Contingencies, Continued**

- (7) As of December 31, 2012, the Group entered into a conditional commercial paper purchase guarantee contract guaranteed by Hyundai Engineering & Construction Co., Ltd. and other companies amounting to ₩557,500 million. In relation to the project financing loan of the Andong Ok-dong apartment construction project, the Group also entered into another guarantee contract, which guarantees the Group is able to borrow up to ₩17,500 million collateralized by unsold apartment units of Naro Development Company, the borrower, should Naro Development fail to repay the loan. In addition, in regards to the loan for the Chungju Bongbang-dong apartment construction project, the Group entered into a guarantee contract with Hi Chungju Prugio No.2, the borrower, which guarantees the Group is able to borrow up to ₩19,000 million collateralized by the priority beneficiary right. In relation to the project financing loan of the Incheon Songdo apartment complex project, the Group also entered into another guarantee contract, which guarantees the Group is able to borrow up to ₩50,700 million collateralized by unsold apartment units of Astro Development Co., Ltd., the borrower, should Astro Development fail to repay the loan. In relation to the loan of the Seoul Munjeong-dong efficiency apartment construction project, the Group also entered into another guarantee contract, which guarantees the Group is able to borrow up to ₩50,000 million collateralized by unsold apartment units of DWPFV Co., Ltd., the borrower, should DWPFV fail to repay the loan.
- (8) The Group entered into a consortium agreement on a natural resource development project with various organizations including Korea National Oil Corporation, and recorded ₩150,454 million and ₩135,078 million as other non-current assets as of December 31, 2012 and 2011, respectively. The Group also obtained borrowings from the Export-Import Bank, Korea National Oil Corporation and Korea Mineral Resources Corporation (see Note 20).
- (9) As of December 31, 2012, in relation to the project financing loan of the Seoul Yeoksam-dong Diodeca Building construction project, the Group entered into a purchase contract with Yeonwoo, the borrower, which guarantees the Group is able to purchase loan obligations up to ₩30,000 million collateralized by the prior beneficiary right, should the borrower fail to repay the loan. In addition, in regards to the project financing loan for the Goyang Samsung Knowledge Industry Center, the Group entered into another purchase contract with Miraesamsong 1st Private Company, the borrower, which guarantees the Group is able to purchase loan obligation up to ₩13,000 million collateralized by the prior beneficiary right, should the borrower fails to repay the loan.
- (10) HI Gold Ocean Ship Private Special Asset Trust No.11 entered into a currency interest swap contract for ship building and chartering with Korea Exchange Bank. When HI Gold Ocean Ship Private Special Asset Trust No.11 pays settlement amount for contract termination, HI Gold Ocean Ship Private Special Asset Trust No.11 is able to get a loan from Korea Exchange Bank. Additionally, the Group entered into a guarantee contract, which ensures it is able to borrow up to ₩40,000 million if the above loan is made.
- (11) The Group entered into a stock purchase agreement with Busan Bank, which is an investment trust company of Hyundai Ship Private Fund 2, on December 28, 2012. The Group, pursuant to the agreement, sold stocks of HI Gold Ocean Kmarin No. 8 Ship Investment Company (7,788,229 shares of common stock) in January 2013. In connection with this transaction, the Group made a beneficiary contract with Hanwha Life Insurance Co., Ltd. on December 27, 2012, retaining the right of first refusal to purchase a beneficiary certificate of Hyundai Ship Private Fund 2, within an exercise period and amount of contracted price for sale. The Group also entered into a guarantee contract to ensure its ability to pay the difference between the contracted price for sale and the actual price, should Hanwha Life Insurance Co., Ltd. sells this beneficiary certificate to a third parties for less than the price.
- (12) The Group entered into convertible loan agreements with ship owners in Liberia. As of December 31, 2012, the loan balance is USD 119,100 thousand.

**41. Litigation**

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- (1) SK Hynix Inc. (“SHI”, formerly Hynix Semiconductor Inc.) sold 13 million shares of Prudential Investment & Securities (“PIS”, formerly Hyundai Investment Trust & Securities Co., Ltd.) for USD 13.46 per share to Canadian Imperial Bank of Commerce (“CIBC”) on June 4, 1997. In relation to this transaction, the Group made a share option agreement with CIBC under which the Group was obligated to buy back the 13 million shares of PIS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Group was provided a written promissory note from SHI and Hyundai Securities Co., Ltd. (“HSC”) on July 1, 1997 to compensate the Group for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the Group repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Group required SHI and HSC to honor their written promissory note, which was rejected by SHI and HSC. Accordingly, the Group filed a lawsuit against SHI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Group partially won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million. Pursuant to the resolution of the board of directors on January 27, 2002, the Group filed an appeal claiming the whole amount of the principal and accrued interest. The Group also filed a lawsuit for the advance payments and reimbursable expenses from those companies that were not covered in the above litigation. In relation to the intermediate appeal for a partial settlement of the claim, the Group partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Group did not accept the Court’s decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Group won its claim amounting to ₩241,200 million of principal, excluding ₩4,300 million and accrued interest thereon, and recovered ₩86,200 million. On September 10, 2009, the Group filed an appeal to the Supreme Court claiming the principal amount of ₩4,300 million, and the Supreme Court of Korea annulled the original judgment on February 9, 2012. On July 13, 2012, the Group won its remaining claim amounting to ₩4,300 million and recovered ₩8,900 million from SHI, bringing the litigation to an end. In addition, on October 22, 2009, the Group won its claim for incidental expenses amounting to ₩50,300 million of principal and accrued interest thereon and recovered ₩73,700 million. However, on November 11, 2009, SHI and other companies filed an appeal to the court, and the court ruled partially in favor of the plaintiff on November 10, 2011. The Group returned ₩2,600 million on November 14, 2011, and filed an appeal to the Supreme Court on November 25, 2011, which is currently pending as of December 31, 2012.
- (2) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006, which has been settled by the Group. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Group’s appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Group filed administrative litigation. However, the Group lost the first trial on January 5, 2011 and appealed on January 25, 2011. In relation to the intermediate appeal, the Group partially won the litigation on February 15, 2013 for the settlement of the claim amounting to ₩52,700 million. However, the Group and the National Tax Service did not accept the Court’s decision and filed appeal on February 27, 2013 and February 28, 2013, respectively.

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**41. Litigation, Continued**

- (3) In connection with orders for submarine pipeline and equipment installation construction from PTT Public Group Limited. ("PTT") on June 25, 2011, the Group engaged a subcontractor ("Britoil") that owned a tugboat. While the tugboat was moving a barge, for reasons unknown, an existing gas pipeline owned by PTT, was damaged resulting in a gas leak. At the request of the PTT, the Group worked on recovery and repair, which was completed around October 2011, and billed PTT for the cost of repairs. PTT in turn asked for compensations for damages related to the gas leak and loss of gas. The Group and PTT were unable to reach an agreement regarding the cause of accident, amount of damages, contractual limitations of liability, and distribution of insurance proceeds. On June 22, 2012, PTT filed a lawsuit in Thai court claiming damages amounting to USD 143 million against the Group, Britoil and PTT's insurer ("Dhipaya") as a co-defendants. The Group intends to vigorously defend itself and has filed a counterclaim. The impact on the Group's financial statements, if any, cannot be reliably estimated.
- (4) In February 2001, the Ministry of National Defense filed a lawsuit against the five domestic oil refinery companies, including the Group, for alleged collusive bidding for the supply of oil products to the Korean military, with total claim amount of ₩167,000 million. The five domestic oil refinery companies paid ₩130,992 million on December 30, 2009 in compliance with the decision of Seoul High Court, and appealed to the Supreme Court in January 2010. The Supreme Court of Korea annulled the original judgment.
- (5) The Fair Trade Commission imposed fines on two LPG importers and four domestic oil refinery companies including the Group for alleged collusive price-fixing on LPG prices from January 1, 2003 to December 31, 2008. A fine of ₩26,314 million was imposed on the Group, which it paid on June 29, 2010. However, the Group appealed the Fair Trade Commission decision to Seoul High Court in May 2010. After losing the second trial, the Group appealed to the Supreme Court, where the case is currently pending.

Additionally, 99,351 private cab drivers and others jointly filed a lawsuit against four domestic oil refinery companies including the Group and two LPG importers claiming damages of ₩10,300 million based on the Fair Trade Commission's decision. The case is currently pending. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.

- (6) Hankook Shell Oil Co., Ltd. filed litigation in Seoul Central District Court in February 2012 against the Group, amounting to ₩14,800 million, in damages for contamination cleanup costs due to fuel spills at the Group's refinery on the site of the Hankook Shell Oil Co., Ltd.,. The case is currently pending. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.
- (7) In February 2007, the Fair Trade Commission imposed a fine amounting to ₩9,311 million on the four domestic oil refinery companies, including the Group, for alleged collusive price-fixing. The Group paid the fine on July 16, 2007. With regard to the imposition, the Group filed an official protest to the Fair Trade Commission in May 2007, but the Commission announced the rejection of the protest in July 2007. The Group lost the second trial and the case is currently pending in the Supreme Court. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.
- (8) The Fair Trade Commission concluded on September 16, 2011, that the employees of four refineries, including our retail sales staff, were engaged in arrangement on the restrictions of admission of gas stations, which was conducted in a task force meeting held in March 2000. The Fair Trade Commission ordered the Group to pay fines amounting to ₩75,400 million, and brought criminal charges against it. The Group paid the fine and appealed the case. The appeal is pending in the Seoul High Court. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.

**41. Litigation, Continued**

- (9) Korea National Oil Corporation ("KNOC") imposed a fine amounting to ₩9,656 million in regards to the refund of the excessive tax on oil imports. The Group filed litigation seeking the revocation of the administrative fine order

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to by KNOC. The case is now pending in Suwon District Court. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.

- (10) The Defense Acquisition Program Administration ("DAPA") offset to payment of oil amounting to ₩9,300 million on the Group, for alleged collusive bidding for the supply of military fuel. With regard to the redemption, the Group filed a lawsuit against DAPA for non-payment of oil amounting to ₩9,300 million in December 2012. The case is currently pending in the Seoul Central District Court. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.
- (11) As of December 31, 2012, the Group's costs of repair for delivered equipment in the amount of ₩11,042 million and the other party's claim for damages amounting to ₩6,195 million is now in arbitration at the Korean Commercial Arbitration Board. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.
- (12) In addition to the cases mentioned above, the Group is currently a defendant in 56 lawsuits involving claims totaling ₩114,500 million. Currently, the impact on the Group's financial statements, if any, cannot be reliably estimated.

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**42. Related Parties**

- (1) Significant transactions for the years ended December 31, 2012 and 2011, and outstanding balances as of December 31, 2012 and 2011 between the Company and subsidiaries or associates are as follows:

		Sales and other		Purchases and other		Receivables and other		Payables and other	
		2012	2011	2012	2011	2012	2011	2012	2011
<i>(In millions of won)</i>									
<b>Subsidiaries:</b>									
Hyundai Samho Heavy Industries Co., Ltd.	₩	719,181	698,165	7,146	9,921	192,086	221,956	111,565	174,696
Hyundai Mipo Dockyard Co., Ltd.		487,906	443,475	40,135	14,900	115,891	123,247	46,900	92,097
Hyundai Oilbank Co., Ltd.		64,412	70,269	4,124	1,582	1,114	12,446	5,545	5,472
Hyundai Heavy Material Service		9,333	18,001	640,859	761,871	3,850	2,226	81,512	83,813
Hotel Hyundai Co., Ltd.		199	65	38,672	32,954	15	5	2,268	2,926
Hyundai (Jiangsu) Construction Machinery Co., Ltd.		80,376	437,170	1,436	1,019	31,872	79,114	125	115
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		63,184	152,114	575	665	10,374	23,331	71	49
Hyundai Heavy Industries (China) Electric Co., Ltd.		6,312	7,766	64,058	27,704	213	1,517	7,239	4,025
Yantai Hyundai Moon Heavy Industries Co., Ltd.		5,099	46	54,010	100,365	24,244	38,001	-	-
Hyundai Construction Equipment India PVT., Ltd.		94,603	94,032	4,473	1,579	52,161	56,763	236	336
Hyundai Construction Equipment Americas, Inc.		630,251	349,071	3,276	3,211	131,319	78,750	670	553
Hyundai Ideal Electric Co.		47,872	23,594	2,349	1,628	14,223	12,743	1,500	162
Hyundai Heavy Industries Brasil		51,356	-	87	-	47,399	-	26	-
Hyundai Heavy Industries Europe N.V..		272,038	230,967	4,935	2,713	46,198	38,284	1,200	585
Others		21,305	37,929	83,385	61,301	11,495	18,096	7,176	5,442
		<u>2,553,427</u>	<u>2,562,664</u>	<u>949,520</u>	<u>1,021,413</u>	<u>682,454</u>	<u>706,479</u>	<u>266,033</u>	<u>370,271</u>
<b>Associates(*):</b>									
Wärtsilä-Hyundai Engine Company Ltd.		3,155	2,436	47,375	-	62,902	29,764	26,002	-
KAM Corporation		-	2	-	44,340	66,278	64,278	-	-
Hyundai Corporation		1,105,351	1,156,602	22,201	3,488	328,905	234,908	16,696	59,448
Others		35,711	30,821	13	523	1,458	17,533	10,446	9,845
		<u>1,144,217</u>	<u>1,189,861</u>	<u>69,589</u>	<u>48,351</u>	<u>459,543</u>	<u>346,483</u>	<u>53,144</u>	<u>69,293</u>
<b>Associates of subsidiaries:</b>									
Hyundai Cosmo Petrochemical Co., Ltd.		233,117	57,998	-	-	34,451	4,747	-	-
₩		<u>3,930,761</u>	<u>3,810,523</u>	<u>1,019,109</u>	<u>1,069,764</u>	<u>1,176,448</u>	<u>1,057,709</u>	<u>319,177</u>	<u>439,564</u>

(\*). Including associates' subsidiaries.

**42. Related Parties, Continued**

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- (2) Significant transactions for the years ended December 31, 2012 and 2011, and outstanding balances as of December 31, 2012 and 2011 between subsidiaries and associates are as follows:

<i>(In millions of won)</i>		<b>Sales and other</b>		<b>Receivables and other</b>	
<b>Selling company</b>	<b>Purchasing company</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Transactions between subsidiaries:</b>					
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Mipo Dockyard Co., Ltd.	₩ 18,438	32,262	3	3
	HI Gold Ocean Kmarin No. 8 S.A	64,533	-	-	-
Hyundai Mipo Dockyard Co., Ltd.	Hyundai Vinashin Shipyard	343,308	445,740	70,755	138,607
Hyundai Oilbank Co., Ltd.	Hyundai Samho Heavy Industries Co., Ltd.	28,951	28,535	2,319	2,198
	Hyundai Mipo Dockyard Co., Ltd.	17	3,775	1	9
	Hyundai Heavy Material Service HDO Singapore Pte. Ltd.	168,536	168,523	14,857	15,645
		3,556,816	235,019	74,200	302
Hyundai Heavy Material Service	Hyundai Samho Heavy Industries Co., Ltd.	43,231	42,299	9,995	10,287
	Hyundai Mipo Dockyard Co., Ltd.	78,035	80,311	9,429	11,045
Mipo Engineering Co., Ltd.	Hyundai Mipo Dockyard Co., Ltd.	35,347	31,326	3,401	3,829
HI Investment & Securities Co., Ltd.	HI Asset Management Co., Ltd.	4,773	3	2	2
HI Gold Ocean Kmarin No. 8 Ship Investment Company	HI Gold Ocean Kmarin No. 8 S.A	3,300	-	-	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	235	215	236	229
	Hyundai Financial Leasing Co., Ltd.	-	-	42,036	45,808
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Hyundai Financial Leasing Co., Ltd.	-	-	13,094	13,904
HHI China Investment Co., Ltd.	Hyundai Samho Heavy Industries Co., Ltd.	1,565	1,727	-	-
	Hyundai Jiangsu Construction Machinery Co., Ltd.	3,484	3,155	28,343	58,541
	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	1,629	1,069	10,618	20,213
	Hyundai Financial Leasing Co., Ltd.	2,623	1,290	60	98
	Hyundai Heavy Industries (China) Electric Co., Ltd.	9,207	5,390	14,942	26,889
	Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	1,267	88	21,598	8,294
Hyundai Financial Leasing Co., Ltd.	Hyundai (Jiangsu) Construction Machinery Co., Ltd.	4,687	13,607	9,914	-
	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	1,159	2,232	-	-
	HHI China Investment Co., Ltd.	1,646	1,069	53,509	21,079
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Hyundai (Jiangsu) Construction Machinery Co., Ltd.	9,217	33,042	1,260	1,811
	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	2,571	5,147	873	1,366
	HHI China Investment Co., Ltd.	465	190	9,327	3,914
HDO Singapore Pte. Ltd.	Hyundai Oilbank Co., Ltd.	1,155,794	2,255,989	75,129	134,887
Hyundai Vinashin Shipyard	Hyundai Mipo Dockyard Co., Ltd.	473,833	528,247	142,071	85,608
Hyundai Construction Equipment Americas, Inc.	Hyundai Heavy Industries Brasil				
		127,575	-	61,958	-
		₩ 6,142,242	3,920,250	669,930	604,568

**42. Related Parties, Continued**

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- (2) Significant transactions for the years ended December 31, 2012 and 2011, and outstanding balances as of December 31, 2012 and 2011 between subsidiaries and associates are as follows, continued

<i>(In millions of won)</i>		<b>Sales and other</b>		<b>Receivables and other</b>	
<u>Selling company</u>	<u>Purchasing company</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Transactions between subsidiaries and associates(*):</b>					
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Merchant Marine Co., Ltd.	70,711	140,538	-	-
	Wärtsilä-Hyundai Engine Company Ltd.	140	229	24,877	11,178
	Hyundai Merchant Marine Co., Ltd				
Hyundai Mipo Dockyard Co., Ltd.	.	23,268	56,059	-	-
Hyundai Oilbank Co., Ltd.	Hyundai Corporation	623,386	575,206	10,291	32,282
	Hyundai Cosmo Petrochemical Co., Ltd.	2,028,205	1,869,171	173,919	167,862
Hyundai Merchant Marine Co., Ltd.	Hyundai Samho Heavy Industries Co., Ltd.	-	-	-	28,543
	Hyundai Oilbank Co., Ltd.	74,081	80,839	4,390	4,966
Hyundai Corporation	Hyundai Construction Equipment Americas, Inc.	57,722	151,412	-	-
Hyundai Cosmo Petrochemical Co., Ltd.	Hyundai Oilbank Co., Ltd.	1,287,382	1,133,008	125,361	96,945
		<b>₩ 4,164,895</b>	<b>4,006,462</b>	<b>338,838</b>	<b>96,945</b>

(\*) Including associates' subsidiaries.

- (3) Details of guarantees between the Company, subsidiaries and associates as of December 31, 2012 are as follows:

*(In thousands of foreign currency)*

<u>Guarantee provider</u>	<u>Guarantee recipient</u>	<u>Provider</u>	<u>Type of guarantees</u>	<u>Currency</u>	<u>Guaranteed Amount</u>
<b>Subsidiaries:</b>					
Hyundai Heavy Industries Co., Ltd.	Hyundai Financial Leasing Co., Ltd.	Sumitomo Bank Ltd. and others	Payment	CNY	1,500,000
	Hyundai (Shandong) Heavy Industries Machinery. Co., Ltd.	Standard Chartered Bank	Payment	USD	16,900
	Weihai Hyundai Wind Power Technology Co., Ltd.	Woori Bank	Payment	CNY	65,000
	Hyundai Construction Equipment India PVT Ltd.	Export-Import Bank of Korea	Payment	USD	25,000
	Hyundai Construction Equipment	Standard Chartered Bank and others	Payment	USD	42,000
	Hyundai Construction Equipment Americas, Inc.	HSBC Bank Plc	Payment	INR	1,400,000
	Hyundai Power Transformers USA, INC	Hana Bank and others	Payment	USD	109,600
	Hyundai Ideal Electric Co.	Woori Bank and others	Payment	USD	113,500
		Liberty Mutual	Performance	USD	20,000
		Mizuho Corporate Bank Ltd, LA Branch	Payment	USD	10,000
	Hyundai Heavy Industries Brasil	Banco Nacional de Desenvolvimento Economico e Social(BNDES)	Payment	BRL	109,956
	Hyundai Heavy Industries Miraflores Power Plant Inc.	Korea Exchange Bank	Performance	USD	23,267
	Hyundi Electrosystems Co., Ltd.	Citi bank	Payment	USD	30,000



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(In thousands of foreign currency)

Guarantee provider	Guarantee recipient	Provider	Type of guarantees	Currency	Guaranteed Amount
<b>Subsidiaries:</b>					
	Hyundai Heavy Industries Europe N.V.	Korea Exchange Bank	Payment	EUR	36,000
		BNP Paribas Fortis Bank, Belgium	Performance	EUR	250
	Hyundai Heavy Industries Co. Bulgaria	BNP Paribas S.A. Sofia and others	Payment	USD	30,000
	Jahnel-Kestermann Getriebewerke GmbH	Shinhan Bank	Payment	EUR	45,500
Hyundai Mipo Dockyard Co., Ltd.	Hyundai Vinashin Shipyard		Payment	USD	105,000
Hyundai Oilbank Co., Ltd.	HDO Singapore Pte. Ltd.	Export-Import Bank of Korea	L/C Payment	USD	45,000
		Korea Exchange Bank and others			45,000
HHI China Investment Co., Ltd.	Hyundai (Jiangsu) Construction Machinery Co., Ltd.	China Construction Bank and others	Payment	CNY	1,907,000
		Standard Chartered Bank	Payment	USD	105,000
		Bank of Communications and others	Payment	CNY	1,071,000
	Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Citi bank	Payment	USD	30,000
		Standard Chartered Bank	Payment	USD	249,000
	Hyundai Financial Leasing Co., Ltd.	Korea Exchange Bank and others	Payment	CNY	2,818,481
	Hyundai Heavy Industries (China) Electric Co., Ltd.	Bank of Communications and others	Payment	CNY	848,000
	Yantai Hyundai Heavy Industries Co., Ltd.	Bank of Communications	Payment	CNY	30,000
		Hana Bank	Payment	USD	10,000
	Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	HSBC Bank Plc	Payment	CNY	100,000
		Standard Chartered Bank	Payment	USD	22,000
	Weihai Hyundai Wind Power Technology Co., Ltd.	Australia and New Zealand Bank	Payment	CNY	5,000
				USD	986,267
				EUR	81,750
				CNY	8,344,481
				INR	1,400,000
				BRL	109,956
<b>Associates:</b>					
Hyundai Heavy Industries Co., Ltd.	Hyundai Merchant Marine Co., Ltd.	SC Bank and others	Performance	USD	396,126
Hyundai Oilbank Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	Mizuho Bank	Payment	USD	30,000
				USD	1,412,393
				EUR	81,750
				CNY	8,344,481
				INR	1,400,000
				BRL	109,956

Other than the guarantees above, the Group has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 286,240 thousand) which is being built by Hyundai Arabia Company LLC., one of the Group's subsidiaries.

- (4) Assets collateralized as pledged assets for obligations of the Group's related parties as of December 31, 2012 are as follows:

(In millions, and in thousands of foreign currency)

Guarantee provider	Guarantee recipient	Pledged assets	Carrying amounts	Pledged amount	Type	Borrowings amount	Lender
<b>Associates:</b>							
Hyundai Oilbank Co., Ltd.	MS Dandy Ltd.	Stocks of MS Dandy Ltd.	KR		Long-term borrowings		National Federation of Fisheries Cooperatives
			W	-	USD 4,860	USD 8,800	



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42. Related Parties, Continued

- (5) Compensation for key management of the Group for the years ended December 31, 2012 and 2011 is ₩21,460 million and ₩20,842 million, respectively. Key management is defined as directors and internal auditors who have important roles and responsibilities involving the planning, operation and control of the Group.

43. Share-based Payment

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

(In millions of won)

	Shares	Number of shares	Exercise price	Periods	Financial institution	Note
First	Common stock of Hyundai Mipo	149,543	₩ 76,759	2009.11~2013.08	Korea Exchange	Withdrawal is limited during the period. (Retiring employees are eligible to withdraw)
Second	Dockyard Co., Ltd.	172,125	81,486	2010.11~2014.08	Bank	

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

(In millions of won, except share data)

	First trust securities		Second trust securities		Total	
	Number of stocks	Accrued expenses	Number of stocks	Accrued expenses	Number of stocks	Accrued expenses
Beginning balance	₩ 152,074	19,133	174,967	25,176	327,041	44,309
Issuance	-	-	-	-	-	-
Expiration of options due to exercising of rights and others	(2,531)	(324)	(2,842)	(407)	(5,373)	(731)
Compensation expenses associated with stock options(*)	-	391	-	(765)	-	(374)
Ending balance	₩ 149,543	19,200	172,125	24,004	321,668	43,204

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**43. Share-based Payment, Continued**

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

(In won)

		<u>Fair value of stocks</u>	<u>Exercise price</u>	<u>Expected volatility in stock price</u>	<u>Expected dividend</u>	<u>Expected exercise period</u>	<u>Risk free rate</u>
First trust securities	₩	128,391	76,759	28.23%	-	0.62 years	2.82%
Second trust securities		139,459	81,486	52.96%	-	1.61 years	2.82%