

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Non-Consolidated Financial Statements
June 30, 2008

(Unaudited)

(With Independent Auditors' Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

We have reviewed the accompanying non-consolidated balance sheet of Hyundai Heavy Industries Co., Ltd. (the "Company") as of June 30, 2008 and the related non-consolidated statement of income for the three-month and six-month periods ended June 30, 2008, and the non-consolidated statement of changes in equity, cash flows for the six-month periods ended June 30, 2008. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these non-consolidated financial statements based on our reviews. The accompanying non-consolidated statement of income for the three-month and six-month periods ended June 30, 2007, and the non-consolidated statement of changes in equity, cash flows for the six-month periods ended June 30, 2007 were reviewed by Deloitte Anjin LLC, whose report thereon dated July 25, 2007, expressed an review opinion that nothing has come to their attention that causes them to believe that the non-consolidated financial statements referred to above are not presently fairly, in all material respects.

We conducted our reviews in accordance with the Review Standards for Semiannual Financial Statements established by the Securities and Futures Commissions of the Republic of Korea. These standards require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and, thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the non-consolidated financial statements referred to above are not presently fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea.

The non-consolidated balance sheet of the Company as of December 31, 2007 and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by Deloitte Anjin LLC and their report thereon, dated February 22, 2008, expressed an unqualified opinion. The accompanying non-consolidated balance sheet of the Company as of December 31, 2007, presented for comparative purposes, is not different from that audited by Deloitte Anjin LLC in all material respects.

As discussed in note 2 to the non-consolidated financial statements, accounting principles and review standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to review such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and review standards and their application in practice.

Seoul, Korea
July 25, 2008

This report is effective as of July 25, 2008, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Non-consolidated Balance Sheets

As of June 30, 2008 and December 31, 2007

(Unaudited)

In thousands of Won,

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Assets			
Cash and cash equivalents	27,32	₩ 1,807,039,349	953,756,858
Short-term financial instruments	3	1,505,941,229	2,154,137,014
Short-term investment securities	5	456,111,900	503,388,199
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩77,377,383 in 2008 and ₩70,815,544 in 2007	16,21,26,27	3,231,146,433	2,740,673,266
Accounts receivable - other, net of allowance for doubtful accounts of ₩278,668,903 in 2008 and ₩268,303,195 in 2007	8,17,26,27	213,176,129	147,455,116
Advanced payments, net of allowance for doubtful accounts of ₩14,383,671 in 2008 and ₩12,567,027 in 2007		518,123,972	336,144,870
Accrued income		68,147,277	30,528,517
Foreign exchange forward contracts	16	38,239,108	185,520,620
Deferred income tax assets	16,22	605,850,793	70,990,353
Inventories	4	1,514,020,433	1,119,219,453
Other current assets	6	320,654,925	257,729,822
Total current assets		<u>10,278,451,548</u>	<u>8,499,544,088</u>
Long-term financial instruments	3,27	7,996,420	9,003,360
Long-term investment securities	7	797,481,836	714,663,412
Equity method accounted investments	8,25	2,172,682,948	2,222,730,033
Property, plant and equipment, net	9,28	5,433,343,175	4,968,785,355
Intangible assets	10,28	248,003,536	236,048,362
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩882,117 in 2008 and ₩965,609 in 2007		87,329,600	95,595,244
Other non-current assets	11,27	53,858,498	52,334,857
Total non-current assets		<u>8,800,696,013</u>	<u>8,299,160,623</u>
Total Assets		<u>₩ 19,079,147,561</u>	<u>16,798,704,711</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Non-consolidated Balance Sheets, Continued

As of June 30, 2008 and December 31, 2007

(Unaudited)

In thousands of Won, except share data

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Liabilities			
Trade accounts and notes payable	26,27	₩ 1,845,494,714	1,495,173,461
Accounts payable-other	26,27	103,594,342	122,492,217
Advances from customers	21	9,758,359,244	8,013,303,994
Accrued expenses	26,27	534,702,088	250,899,632
Income tax payable	22	380,161,701	455,564,205
Current maturities of debentures and long-term borrowings, net of discounts of ₩93,639 in 2008 and ₩298,966 in 2007	13,27	208,586,361	187,341,034
Foreign exchange forward contracts	16	2,108,696,723	205,986,451
Other current liabilities	12	<u>122,870,174</u>	<u>156,881,303</u>
Total current liabilities		<u>15,062,465,347</u>	<u>10,887,642,297</u>
Debenture and long-term borrowings	13,27	1,625,627	1,625,627
Long-term accrued expenses	17	2,079,342	1,029,342
Accrual for retirement and severance benefits, net of severance insurance deposits and others of ₩1,045,567,492 in 2008 and ₩1,079,968,485 in 2007	14	187,648,111	110,865,582
Deferred income tax liabilities	8,16,22,25	226,097,431	276,376,968
Other long-term liabilities	15	<u>79,473,707</u>	<u>73,455,854</u>
Total non-current liabilities		<u>496,924,218</u>	<u>463,353,373</u>
Total Liabilities		<u>15,559,389,565</u>	<u>11,350,995,670</u>
Stockholders' equity			
Common stock of ₩5,000 par value		380,000,000	380,000,000
Authorized - 160,000,000 shares			
Issued and outstanding-76,000,000 shares in 2008 and 2007			
Capital surplus	18	2,813,693,355	2,813,693,355
Capital adjustments	20	(1,746,848,796)	(811,302,031)
Accumulated other comprehensive income	5, 7, 8	(1,425,057,672)	198,258,025
Retained earnings	19	<u>3,497,971,109</u>	<u>2,867,059,692</u>
Total stockholders' equity		<u>3,519,757,996</u>	<u>5,447,709,041</u>
Total stockholders' equity and liabilities	₩	<u>19,079,147,561</u>	<u>16,798,704,711</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Non-Consolidated Statements of Income

For the three-month and six-month periods ended June 30, 2008 and 2007

(Unaudited)

In thousands of Won, except share data

	Note	2008		2007	
		Three-month period	six-month period	Three-month period	six-month period
Sales	16,21,26,28	₩ 4,708,992,756	9,063,057,929	3,876,882,950	7,553,294,016
Cost of sales	21,26	3,953,972,788	7,446,390,425	3,293,922,330	6,390,950,470
Gross profit		<u>755,019,968</u>	<u>1,616,667,504</u>	<u>582,960,620</u>	<u>1,162,343,546</u>
Selling and administrative expenses	29	207,517,623	429,604,554	214,130,566	391,098,551
Operating income		<u>547,502,345</u>	<u>1,187,062,950</u>	<u>368,830,054</u>	<u>771,244,995</u>
Interest and dividend income		60,389,158	131,816,117	35,663,492	68,657,245
Gain on foreign currency transactions		109,336,361	173,031,076	13,272,047	37,441,257
Gain on foreign currency translation		2,303,214	71,022,448	2,787,752	5,218,065
Gain on valuation of equity method accounted investments	8	219,824,269	384,222,798	149,184,151	234,116,983
Gain on foreign exchange forward contracts	16	76,580,385	11,031,069	35,253,148	37,054,983
Others		63,774,035	89,002,220	23,554,785	39,577,485
Non-operating income		<u>532,207,422</u>	<u>860,125,728</u>	<u>259,715,375</u>	<u>422,066,018</u>
Interest expense		1,679,185	4,691,273	2,827,418	5,749,905
Loss on foreign currency transactions		63,362,418	114,800,052	12,208,366	27,535,308
Loss on foreign currency translation		26,320,162	60,700,877	6,949,226	3,339,879
Loss on impairment of long-term investments securities		-	-	58,456	98,676
Loss on disposal of property, plant and equipment		17,304,863	39,778,483	14,609,565	20,775,812
Loss on valuation of equity method accounted investments	8	35,340,253	57,287,332	-	745,651
Loss on foreign exchange forward contracts	16	4,343,559	173,734,951	1,146,176	14,043,124
Others		28,717,483	42,815,917	16,222,492	30,455,132
Non-operating expenses		<u>177,067,923</u>	<u>493,808,885</u>	<u>54,021,699</u>	<u>102,743,487</u>
Income before income taxes		<u>902,641,844</u>	<u>1,553,379,793</u>	<u>574,523,730</u>	<u>1,090,567,526</u>
Income taxes expense	22	247,426,998	455,867,456	157,009,742	302,046,028
Net income		<u>₩ 655,214,846</u>	<u>1,097,512,337</u>	<u>417,513,988</u>	<u>788,521,498</u>
Earnings per share					
Basic earnings per share	24	₩ 10,896	18,007	6,711	12,558

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Non-consolidated Statements of Changes Equity

For the six-month periods ended June 30, 2008 and 2007

(Unaudited)

<i>In thousands of Won</i>		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total amount
Balance at January 1, 2007	₩	380,000,000	2,771,383,687	(351,821,818)	386,855,426	1,292,233,001	4,478,650,296
Accumulated effect of accounting changes		-	-	(135,429,138)	(76,847,171)	-	(212,276,309)
Balance at January 1, 2007, restated		380,000,000	2,771,383,687	(487,250,956)	310,008,255	1,292,233,001	4,266,373,987
Dividends		-	-	-	-	(161,233,640)	(161,233,640)
Balance after appropriations		-	-	-	-	1,130,999,361	4,105,140,347
Net income		-	-	-	-	788,521,498	788,521,498
Changes in capital surplus on valuation of equity method investments		-	42,309,668	-	-	-	42,309,668
Change in treasury stock		-	-	(344,907,695)	-	-	(344,907,695)
Change in equity method treasury stock		-	-	22,492,574	-	-	22,492,574
Gain on valuation of investment securities		-	-	-	42,978,897	-	42,978,897
Changes in unrealized gain on valuation of equity method investments		-	-	-	64,996,426	-	64,996,426
Negative Changes in unrealized gain on valuation of equity method investments		-	-	-	547,459	-	547,459
Change in the valuation of derivatives		-	-	-	(92,185,515)	-	(92,185,515)
Balance at June 30, 2007	₩	380,000,000	2,813,693,355	(809,666,077)	326,345,522	1,919,520,859	4,629,893,659
Balance at January 1, 2008	₩	380,000,000	2,771,383,687	(696,729,513)	169,794,560	2,867,059,692	5,491,508,426
Accumulated effect of accounting changes		-	42,309,668	(114,572,518)	28,463,465	-	(43,799,385)
Balance at January 1, 2008, restated		380,000,000	2,813,693,355	(811,302,031)	198,258,025	2,867,059,692	5,447,709,041
Dividends						(466,600,920)	(466,600,920)
Balance after appropriations						2,400,458,772	4,981,108,121
Net income						1,097,512,337	1,097,512,337
Change in treasury stock				(832,711,781)			(832,711,781)
Change in treasury stock owned by subsidiaries		-	-	(11,234,489)	-	-	(11,234,489)
Changes in capital adjustments on valuation of equity method investments		-	-	(91,600,495)	-	-	(91,600,495)
Gain on valuation of investment securities		-	-	-	(27,181,975)	-	(27,181,975)
Changes in unrealized gain on valuation of equity method investments		-	-	-	(101,861,300)	-	(101,861,300)
Negative Changes in unrealized gain on valuation of equity method investments		-	-	-	(184,189,028)	-	(184,189,028)
Change in the valuation of derivatives		-	-	-	(1,310,083,394)	-	(1,310,083,394)
Balance at June 30, 2008	₩	380,000,000	2,813,693,355	(1,746,848,796)	(1,425,057,672)	3,497,971,109	3,519,757,996

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Non-consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2008 and 2007

(Unaudited)

In thousands of Won

	2008	2007
Cash flows from operating activities		
Net income	₩ 1,097,512,337	788,521,498
Depreciation	166,182,287	178,277,144
Provision for severance benefits	93,922,262	85,025,214
Provision for doubtful accounts	11,125,363	15,348,344
Loss on foreign currency translation	60,670,276	3,167,999
Loss on disposal of property, plant and equipment	39,778,483	20,775,812
Equity in net loss of equity accounted investments	57,287,332	745,651
Amortization of development costs	20,343,863	18,577,314
Loss on valuation of foreign exchange forward contracts	344,229,233	2,655,504
Provision for foreseeable losses on construction contracts	2,881,047	-
Loss on impairment of long-term investment securities	-	98,676
Gain on foreign currency translation	(69,200,330)	(4,361,986)
Equity in net gain of equity accounted investments	(384,222,798)	(234,116,983)
Gain on valuation of foreign exchange forward contracts	(349,350)	(189,797,491)
Gain on reversal of provision	(1,528,160)	(27,008,711)
Others, net	(33,154,657)	5,374,152
	<u>1,405,477,188</u>	<u>663,282,137</u>
 Changes in operating assets and liabilities		
Change in trade accounts and notes receivable	(429,787,143)	43,224,948
Change in accounts receivable - other	(67,517,349)	(67,804,870)
Change in accrued income	(37,618,760)	(23,182,234)
Change in advanced payments	(183,795,244)	121,012,788
Change in inventories	(394,800,978)	31,287,326
Change in foreign exchange forward contracts	(183,477,720)	249,761,965
Change in trade accounts payable	339,127,434	151,335,106
Change in accounts payable - other	(21,468,208)	(40,070,916)
Change in advances from customers	1,827,633,294	667,040,895
Change in accrued expenses	259,002,263	201,383,671
Change in income tax payable	(75,402,505)	82,468,832
Change in long-term accrued expenses	1,050,000	(1,239,893)
Change in deposits for severance benefits	33,000,695	(73,017,526)
Payments of severance benefits	(51,540,726)	(40,638,568)
Change in deferred income tax assets	(38,406,274)	(12,262,864)
Change in deferred income tax liabilities	103,981,396	43,065,136
Others, net	(11,389,780)	43,551,559
Net cash provided by operating activities	<u>2,474,067,583</u>	<u>2,039,197,492</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Non-consolidated Statements of Cash Flows, Continued

For the six-month periods ended June 30, 2008 and 2007

(Unaudited)

In thousands of Won

	<u>2008</u>	<u>2007</u>
Cash flows from investing activities:		
Withdrawal of short-term financial instruments	1,510,500,000	310,500,000
Disposal of short-term investment securities	1,552,097,449	524,367,518
Disposal of long-term investment securities	1,844,997	7,190,063
Disposal of equity method accounted investments	70,937	4,811,498
Disposal of long-term financial instruments	2,004,095	539,893
Disposal of other non-current assets	3,498,549	932,067
Disposal of property, plant and equipment	5,638,089	6,598,654
Acquisition of short-term financial instruments	(862,257,210)	(1,120,500,000)
Acquisition of short-term investment securities	(1,490,000,000)	(480,000,000)
Acquisition of long-term investment securities	(123,760,627)	(3,017,700)
Acquisition of equity method accounted investments	(118,738,241)	(108,981,317)
Acquisition of long-term financial instruments	(195,430)	(184,465)
Acquisition of other non-current assets	(5,028,265)	(4,351,242)
Acquisition of property, plant and equipment	(763,828,055)	(274,198,907)
Acquisition of intangible assets	(33,318,679)	(27,404,214)
Net cash used in investing activities	<u>(321,472,391)</u>	<u>(1,163,698,152)</u>
Cash flows from financing activities		
Repayment of current maturities of long-term borrowings and other long-term liabilities	-	(341,960)
Payment of cash dividends	(466,600,920)	(161,233,640)
Acquisition of treasury stock	(832,711,781)	(344,907,695)
Net cash used in financing activities	<u>(1,299,312,701)</u>	<u>(506,483,295)</u>
Net increase in cash and cash equivalents	853,282,491	369,016,045
Cash and cash equivalents at the beginning of the period	953,756,858	819,920,933
Cash and cash equivalents at the end of the period	<u>₩ 1,807,039,349</u>	<u>1,188,936,978</u>

See accompanying notes to non-consolidated financial statements

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

1 Organization and Description of Business

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

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩5,000, authorized: 160,000,000 shares) of common stock are issued and 59,933,456 shares of common stock are outstanding as of June 30, 2008. Of the total issued shares, Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd., Mirae Asset investment management Co., Ltd. and Hyundai Motor Company own 10.80%, 8.15%, 7.98 %, 7.33% and 2.88%, respectively.

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

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

(a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended solely for use by only those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

Certain information attached to the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position, results of operations, or changes in equity or cash flows is not presented in the accompanying non-consolidated financial statements. The Company prepares the financial statements in accordance with generally accepted accounting principles in the Republic of Korea. Except for the items discussed in note 25 to the non-consolidated financial statements, the Company applied the same accounting policies that were adopted in the previous year's financial statements. Also, the Company restated the statement of income for the prior six-month period presented in the financial statements as if the operation has been discontinued from the prior period.

The Company restated the non-consolidated balance sheet as of June 30, 2007 and non-consolidated statements of income and cash flows for the three-month and six-month periods ended June 30, 2007, which are presented for comparative purposes, in accordance with the revised SKAS No.15. Such restatement had no effect on net income of comparable period.

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

(b) Cash and Cash Equivalents

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

(c) Allowance for Doubtful Accounts

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

(d) Inventories

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

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

Classification

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

Initial recognition

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

Subsequent measurement and income recognition

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

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

Fair value information

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

Presentation

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

Impairment

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

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

(f) Investments in Associates and Subsidiaries

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

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over the reasonable periods within 20 years using the straight-line method. Under the equity method, the change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and accumulated other comprehensive income, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus, capital adjustments and accumulated other comprehensive income. Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

(f) Investments in Associates and Subsidiaries, Continued

The Company has used the most available financial statements of the controlled investees, which have not been audited and reviewed due to the timing of closing of the controlled investees' financial statements.

If the amount recoverable from investment securities accounted for using the equity method is less than its carrying amount, impairment loss is recognized. The Company determines whether there is objective evidence that impairment loss has been incurred, and when such evidence exists, impairment loss is recognized as impairment losses. The recoverable amount is determined as the higher of value in use or expected amount of net cash inflows from disposal of the investment securities accounted for using the equity method. The amount of impairment loss is included in current earnings.

When applying the equity method by translating the financial statements of an investee operating overseas, the Company applies (a) the foreign exchange rate as of the Company's balance sheet date to the investee's assets and liabilities, (b) the foreign exchange rate as of the date on which the Company acquired its equity interest in the investee to the Company's share of the investee's equity interest, and (c) the foreign exchange rate as of each transaction date to the remaining equity interest in the investee after excluding any increase in retained earnings after the Company's acquisition of its equity interest in the investee. For the income statement items, the average rate for the pertinent period is applied in the translation. After translating into Korean won (KRW), from the difference between the total equity and the amount obtained by deducting liabilities from assets, the amount relating to the Company's share of the investee's equity interest is accounted for as accumulated other comprehensive income.

(g) Property, Plant and Equipment

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

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred. The interest incurred on borrowings to finance the purchase manufacture, development or construction of property, plant and equipment are charged to current income.

Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets as described below.

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

(g) Property, Plant and Equipment, Continued

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

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

(h) Intangible Assets

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

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

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

(i) Discounts on Debentures

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

(j) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains or losses recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated using the Seoul Money Brokerage Service Ltd. Basic Rate, which was ₩ 1043.40 and ₩ 938.20 to USD1.00 at June 30, 2008 and December 31, 2007, respectively, and translation gains or losses are reflected in current operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate on the date of the transaction.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

(j) Foreign Currency Translation, continued

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

(k) Provision for Foreseeable Losses from Construction Contracts

When a loss on construction is expected based on cost estimates, the expected loss is charged to current operations and is included in the balance sheet as a provision for foreseeable losses from construction contracts.

(l) Provision for Construction Warranty

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

(m) Provision for Product Warranty

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

(n) Retirement and Severance Benefits

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

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

(o) Revenue Recognition

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

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

(p) Income Tax Expense

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

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

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

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

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

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

(q) Derivative Instruments

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

Hedge accounting

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

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

Fair value hedge

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

Cash flow hedge

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

3 Restricted Financial Instruments

Financial Instruments which are restricted in use subject to withdrawal restrictions in relation to certain short-term and long-term borrowings, and shipbuilding contracts as of June 30, 2008 and December 31, 2007 were as follows:

In thousands of Won

	2008	2007
Short-term financial instruments	₩ 1,804,214	-
Long-term financial instruments	33,000	33,000
	₩ 1,837,214	33,000

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

4 Inventories

Inventories as of June 30, 2008 and December 31, 2007 are summarized as follows:

<i>In thousands of Won</i>		2008	2007
Merchandise	₩	58,316,419	48,769,359
Finished goods		102,043,729	125,533,379
Work-in-progress		432,141,693	332,450,119
Raw materials		487,982,629	346,780,441
Supplies		32,096,900	20,392,577
Materials-in-transit		401,439,063	245,293,578
	₩	<u>1,514,020,433</u>	<u>1,119,219,453</u>

5 Short-term Investments Securities

Short-term Investments Securities consisting of all Available-for-sale securities (Current Assets) as of June 30, 2008 and December 31, 2007 are summarized as follows:

<i>In thousands of Won</i>		2008	2007
Beneficiary certificates	₩	456,111,900	478,376,100
Subordinated debentures (Dong Yang Securities Inc.)		-	25,012,099
	₩	<u>456,111,900</u>	<u>503,388,199</u>

Available-for-sale securities are stated at fair value with unrealized holding gain on valuation of available-for-sale securities (net of tax effect) amounting to ₩ 4,431,128 thousand and ₩ 3,181,444 thousand in accumulated other comprehensive income as of June 30, 2008 and December 31, 2007, respectively.

6 Other Current Assets

Other current assets as of June 30, 2008 and December 31, 2007 are summarized as follows:

<i>In thousands of Won</i>		2008	2007
Prepaid expenses	₩	317,748,622	254,860,452
Other current deposits		2,906,303	2,869,370
	₩	<u>320,654,925</u>	<u>257,729,822</u>

7 Long-term Investments Securities

(a) Long-term Investments Securities consist of all Available-for-sale securities (Non-current Assets) as of June 30, 2008 and December 31, 2007 are summarized as follows:

<i>In thousands of Won</i>		2008	2007
Available-for-sale securities (non-current)			
Marketable securities	₩	660,633,797	645,820,238
Non-marketable securities		136,848,039	68,843,174
	₩	<u>797,481,836</u>	<u>714,663,412</u>

7 Long-term Investments Securities, Continued

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to Non-consolidated Financial Statements

June 30, 2008 and 2007

(Unaudited)

- (b) Equity securities stated at fair value included in long-term investment securities as of June 30, 2008 and December 31, 2007 consist of the following:

<i>In thousands of Won, except percentage of ownership</i>		2008		2007
	Percentage of ownership	Acquisition cost	Fair value	Fair value
Listed equity securities:				
Kia Motors Corp.	0.03	₩ 2,681,616	975,107	891,275
Korea Line Corp.	2.63	53,749,713	53,430,608	-
Tong Yang Investment Bank	3.40	99,828,399	47,043,272	71,025,510
Mirae Asset Securities Co., Ltd.	0.10	6,654,173	4,096,413	6,873,980
Hanaro Telecom Inc.	0.00	7,947,667	9,316	12,301
Hyundai Elevator Co., Ltd.	2.16	1,632,339	13,198,571	20,791,215
Hyundai Motor Company	3.46	519,246,924	539,842,820	544,404,872
Hyundai Corp.	0.36	11,227,434	2,037,690	1,821,085
		₩ 702,968,265	660,633,797	645,820,238

- (c) Equity securities stated at acquisition cost included in long-term investment securities as of June 30, 2008 and December 31, 2007 consist of the following:

<i>In thousands of Won, except percentage of ownership</i>		2008		2007
	Percentage of ownership	Acquisition cost	Fair value	Fair value
Unlisted equity securities: (*1)				
Kuk Dong Heavy Conveyance Co., Ltd.	7.50	₩ 501,720	501,720	501,720
Novelis Korea Ltd.	0.39	14,598,913	1,420,906	1,405,452
Daehan Oil Pipeline Corp.(*2)	6.39	14,511,802	15,851,427	15,851,427
Dong-A Precision Machinery.Co., Ltd.	0.00	35,640	-	-
Doosan Capital Co., Ltd.(*3)	9.99	10,000,000	26,146,000	26,146,000
Bexco, Ltd.	7.96	9,460,000	9,460,000	9,460,000
Chonggu Co., Ltd.	0.00	188,260	-	-
Postec Electronic Power Fund Co.	1.75	500,000	500,000	500,000
Hyundai Research Institute	14.40	1,440,000	1,440,000	1,440,000
Hyundai Climate Control Co., Ltd.	10.00	50,000	50,000	50,000
Hanwha Electric Venture Fund.	2.00	500,000	500,000	500,000
Enova System Inc.	1.74	1,316,343	1,316,343	3,042,465
HHI Mauritius Limited(*4)	100.00	122	122	122
Hynix Semiconductor America Inc.	1.33	34,525,619	-	

7 Long-term Investments Securities, Continued

- (c) Equity securities stated at acquisition cost included in long-term investment securities as of June 30, 2008 and December 31, 2007 consist of the following, Continued;

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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(Unaudited)

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

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

<i>In thousands of Won, except percentage of ownership</i>		2008		2007
	Percentage of ownership	Acquisition cost	Fair value	Fair value
Hyundai Heavy Industries France SAS.(*4)	100.00	22,787	22,787	22,787
Hyundai Malaysia.(*4)	49.00	17,286	-	-
Hyundai S/V Indonesia.(*4)	45.00	261,864	-	-
Hyundai Technologies Center Hungary Kft.(*4)	100.00	26,302	26,302	26,302
Hyundai-Enova Innovative Technical Center Inc.(*4)	60.00	3,360,000	3,360,000	3,360,000
KC Karpovsky BV	10.00	2,443	2,443	2,443
Korea Ship Finance Co., Ltd.	2.36	200,000	200,000	200,000
Nikorma-Transport Limited	11.50	10,914	10,914	-
Pheco Inc.(*4)	100.00	2,303,555	236,621	236,621
		<u>93,833,570</u>	<u>61,045,585</u>	<u>62,745,339</u>
Subordinated Debentures (Dong Yang Securities Inc.)(*5)		50,000,000	50,922,773	-
Marketable securities		20,000,000	18,838,095	6,097,835
Investments in capital		5,677,796	6,041,586	-
	₩	<u>169,511,366</u>	<u>136,848,039</u>	<u>68,843,174</u>

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

(*4) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hyundai Technologies Center Hungary Kft. and others were not accounted for using the equity method since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of December 31, 2007 and 2006, is less than ₩ 7,000 million, are not material.

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

7 Long-term Investments Securities, Continued

(d) Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of June 30, 2008, are as follows:

In thousands of Won

2008

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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(Unaudited)

		Balance at January 1, 2008	Increase (Decrease)	Balance at June 30, 2008
Kia Motors Corp.	₩	(1,297,998)	60,779	(1,237,219)
Korea Line Corp.		-	(231,351)	(231,351)
Tong Yang Investment Bank		20,087,727	(17,387,122)	2,700,605
Mirae Asset Securities Co., Ltd.		159,360	(2,013,736)	(1,854,376)
Hanaro Telecom Inc.		8,919	(2,164)	6,755
Hyundai Elevator Co., Ltd.		13,890,185	(5,504,667)	8,385,518
Hyundai Motor Company		18,239,512	(3,307,488)	14,932,024
Hyundai Corp.		793,331	157,038	950,369
Daehan Oil Pipeline Corp.		971,228	-	971,228
Doosan Capital Co., Ltd.		11,705,850	-	11,705,850
Novelis Korea Ltd.		-	11,204	11,204
		<u>64,558,114</u>	<u>(28,217,507)</u>	<u>36,340,607</u>
Investments in capital		304,530	(883,162)	(578,632)
Subordinated bonds		-	669,010	669,010
	₩	<u>64,862,644</u>	<u>(28,431,659)</u>	<u>36,430,985</u>

- (e) Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of December 31, 2007, is as follows:

In thousands of Won

		2007	
		Balance at January 1, 2007	Balance at June 30, 2007
Kia Motors Corp.		(1,083,673)	(1,297,998)
Tong Yang Investment Bank		(1,300,571)	20,087,727
Mirae Asset Securities Co., Ltd.		-	159,360
Hanaro Telecom Inc.		6,780	8,919
Hyundai Elevator Co., Ltd.		6,275,209	13,890,185
Hyundai Motor Company	₩	(405,601)	18,239,512
Hyundai Corp.		703,179	793,331
Daehan Oil Pipeline Corp.		-	971,228
Doosan Capital Co., Ltd.		-	11,705,850
		<u>4,195,323</u>	<u>64,558,114</u>
Government and municipal		40,390	-
Subordinated bonds		(300,894)	-
Investments in capital		281,662	304,530
	₩	<u>4,216,481</u>	<u>64,862,644</u>

8 Equity Method Accounted Investments

- (a) Investments in companies accounted for using the equity method as of June 30, 2008 were as follows:

In thousands of Won, except share information

Company	Number of shares	Percentage of ownership	Historical cost	Book value
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HYUNDAI HEAVY INDUSTRIES CO., LTD.
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(Unaudited)

Hyundai Oilbank (*1)	48,700,540	19.87	₩	266,150,343	376,166,927
Hyundai Finance Corp. (*2)	12,350,000	67.49		78,197,738	92,293,141
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92		204,259,700	644,805,819
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00		20,215,057	26,992,968
Beijing Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00		15,661,020	24,913,060
Incheon Airport Energy	3,284,884	31.00		16,424,420	2,060,612
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00		28,514,868	64,583,512
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09		11,620,593	31,250,937
New Korea Country Club	16,457	20.00		500,000	3,567,664
Hyundai Dongahn Steel (*2&3)	-	54.99		1,231,036	919,562
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00		35,656,728	19,128,380
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00		2,543,678	9,881,183
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99		7,254,254	9,004,733
Hyundai Heavy Industry (China) Electric Co., Ltd. (*2&3)	-	55.22		18,256,250	17,435,541
H.C.E U.S.A (*2)	23,900,000	100.00		26,712,810	4,716,332
Vladivostock Business Center (*2&3)	-	57.14		5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58		6,617,040	5,039,422
HHI China Investment Co., Ltd. (*2&3)	-	100.00		38,748,781	44,769,837
Hyundai Merchant Marine Co., Ltd. (Common stock) (*6)	23,424,037	17.60		404,039,118	343,946,617
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*6)	3,516,688	17.58		52,750,320	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00		67,658,226	138,326,243
Hyundai Ideal Electric Co. (*2)	1,000	100.00		11,241,600	13,044,594
Hyundai Financial Leasing Co., Ltd. (*2&3)	-	60.03		16,988,743	19,082,452
Hyundai Construction Equipment India Private Ltd. (*2)	12,561,775	100.00		28,012,139	28,328,087
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00		33,930,000	33,245,040
Ulsan Hyndai Football Club. Ltd. (*2)	2,000,000	100.00		10,000,000	7,168,131
HYMS(*2)	29,600,000	100.00		148,000,000	114,097,105
KAM Corporation. (*2)	8,330,000	49.00		41,650,000	41,650,000
Grand China Hyundai Shipping Company Ltd. (*2)	1,000,000	50.00		1,016,600	1,016,600
			₩	<u>1,599,742,729</u>	<u>2,172,682,948</u>

8 Equity Method Accounted Investments, Continued

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

In thousands of Won, except share information

<u>Company</u>	<u>Number of shares</u>	<u>Percentage of ownership</u>	<u>Historical cost</u>	<u>Book value</u>
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HYUNDAI HEAVY INDUSTRIES CO., LTD.
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(Unaudited)

In thousands of Won, except share information

Company	Number of shares	Percentage of ownership		Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩	266,150,343	329,826,033
Hyundai Finance Corp. (*2)	12,350,000	67.49		78,197,738	88,223,005
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92		204,259,700	1,043,149,379
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00		20,215,057	23,323,703
Beijing Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00		15,661,020	13,612,598
MOST #3 Venture Investment	130	24.53		122,630	125,485
Incheon Airport Energy	3,284,884	31.00		16,424,420	3,847,377
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00		28,514,868	40,106,509
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09		11,620,593	22,730,051
New Korea Country Club	16,457	20.00		500,000	3,272,781
Hyundai Dongahn Steel (*2&3)	-	54.99		1,231,036	1,314,368
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00		35,656,728	23,312,570
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00		2,543,678	7,806,652
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99		7,254,254	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (*2&3)	-	55.22		18,256,250	13,739,103
H.C.E U.S.A (*2)	23,900,000	100.00		26,712,810	6,634,931
Vladivostock Business Center (*2&3)	-	57.14		5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58		6,617,040	5,318,298
HHI China Investment Co., Ltd. (*2&3)	-	100.00		28,372,350	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock) (*6)	23,424,037	17.60		404,039,118	357,350,650
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*6)	3,516,688	17.58		52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00		67,658,226	92,647,265
Hyundai Ideal Electric Co. (*2)	1,000	100.00		11,241,600	11,378,786
Hyundai Financial Leasing Co., Ltd. (*2&3)	-	60.03		2,496,186	2,020,867
Hyundai Construction Equipment India Private Ltd. (*2)	8,603,025	100.00		18,557,139	20,287,075
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00		22,230,000	21,970,305
			₩	<u>1,353,174,771</u>	<u>2,222,730,033</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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8 Equity Method Accounted Investments, Continued

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

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

(*2) The Company's subsidiaries

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

(*4) Since the Company's ownership interest in its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method.

(*5) Since the Company's ownership interest in its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the KOSDAQ of Koentec Co., Ltd. is ₩ 1,365 per share at June 30, 2008.

(*6) Since the Company's ownership interest in its subsidiary exceeded 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing common stock price on the stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd. was ₩39,250 per share at June 30, 2008. Preferred stock is unlisted stock; therefore, no market price exists.

(c) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over a reasonable period not to exceed 20 years and the changes in the differences for the six months ended June 30, 2008 are as follows:

In thousands of Won

<u>Company</u>	<u>Balance at January 1, 2008</u>	<u>Increase (Decrease)</u>	<u>Amortization</u>	<u>Balance at June 30, 2008</u>
Hyundai Vinashin Shipyard ₩	(99,085)	-	99,085	-
Koentec Co., Ltd.	1,382,971	-	(345,743)	1,037,228
Hyundai Merchant Marine Co., Ltd.(common stock)	52,673,525	-	(8,103,619)	44,569,906
Qinhuangdao Shouqin Metal Materials Co., Ltd.	11,367,799	-	(1,421,531)	9,946,268
	<u>₩ 65,325,210</u>	<u>-</u>	<u>(9,771,808)</u>	<u>55,553,402</u>

8 Equity Method Accounted Investments, Continued

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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(Unaudited)

- (d) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the six-month period ended June 30, 2008 were as follows:

In thousands of Won

Company	Balance at January 1, 2008	Net income (loss)	Accumulated other comprehen- sive income	Other increase (decrease)	Balance at June 30, 2008
Hyundai Oilbank ₩	329,826,033	43,433,714	2,907,180	-	376,166,927
Hyundai Finance Corp.	88,223,005	5,244,276	60,860	(1,235,000)	92,293,141
Hyundai Samho Heavy Industries Co., Ltd.	1,043,149,379	271,286,091	(593,695,651)	(75,934,000)	644,805,819
Changzhou Hyundai Construction Machinery Co., Ltd.	23,323,703	(546,189)	4,215,454	-	26,992,968
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	13,612,598	7,385,407	3,915,055	-	24,913,060
MOST #3 Venture Investment	125,485	-	-	(125,485)	-
Incheon Airport Energy	3,847,377	(1,742,638)	(44,127)	-	2,060,612
Hyundai Jiangsu Construction Machinery Co., Ltd.	40,106,509	13,975,090	10,501,913	-	64,583,512
Hyundai Heavy Industries Co. Bulgaria	22,730,051	2,782,341	5,738,545	-	31,250,937
New Korea Country Club	3,272,781	394,883	-	(100,000)	3,567,664
Hyundai Dongahn Steel	1,314,369	(513,260)	118,453	-	919,562
Hyundai Heavy Industries Europe N.V.	23,312,570	(11,653,213)	7,469,023	-	19,128,380
Hyundai Vinashin Shipyard	7,806,651	1,129,384	945,148	-	9,881,183
Yantai Hyundai Moon Heavy Industries Co., Ltd.	6,920,669	746,262	1,337,802	-	9,004,733

8 Equity Method Accounted Investments, Continued

In thousands of Won

Company	Balance at	Net	Accumulated	Other	Balance at
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HYUNDAI HEAVY INDUSTRIES CO., LTD.
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June 30, 2008 and 2007

(Unaudited)

	January 1, 2008	income (loss)		increase (decrease)	June 30, 2008
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	13,739,102	988,357	2,708,082	-	17,435,541
H.C.E U.S.A.	6,634,931	(3,407,054)	1,488,455	-	4,716,332
Vladivostok Business Center (*1)	-	-	-	-	-
Koentec Co., Ltd.	5,318,298	(198,789)	14,713	(94,800)	5,039,422
HHI China Investment Co., Ltd.	27,508,118	165,438	6,719,850	10,376,431	44,769,837
Hyundai Merchant Marine Co., Ltd. (Common stock)	357,350,650	7,120,500	(8,812,515)	(11,712,018)	343,946,617
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,303,455	1,055,007	-	(2,110,013)	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd	92,647,265	28,135,676	17,543,302	-	138,326,243
Hyundai Ideal Electric Co.	11,378,786	380,373	1,285,435	-	13,044,594
Hyundai Financial Leasing Co., Ltd.	2,020,867	(15,947)	2,584,975	14,492,557	19,082,452
Hyundai Construction Equipment India Private Ltd.	20,287,075	(2,050,213)	636,225	9,455,000	28,328,087
Wartsila Hyundai Engine Company Ltd.	21,970,306	(425,266)	-	11,700,000	33,245,040
Ulsan Hyndai Football Club.Ltd.	-	(2,831,869)	-	10,000,000	7,168,131
HYMS	-	(33,902,895)	-	148,000,000	114,097,105
KAM Corporation.	-	-	-	41,650,000	41,650,000
Grand China Hyundai Shipping Company Ltd.	-	-	-	1,016,600	1,016,600
	<u>₩ 2,222,730,033</u>	<u>326,935,466</u>	<u>(532,361,823)</u>	<u>155,379,272</u>	<u>2,172,682,948</u>

8 Equity Method Accounted Investments, Continued

(d) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the six-month period ended June 30, 2008 were as follows, Continued;

(*1) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩ 96,746 million including ₩ 13,988 million increased

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(Unaudited)

for the six months period ended June 30, 2008, and allowance amounting to ₩ 63,662 million was provided for accounts receivables - other for the Vladivostok Business Center.

- (e) Gain (loss) on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions. For the six-month periods ended June 30, 2008 and for the year ended December 31, 2007, unrealized profit eliminated under the equity method are ₩ 101,505,006 thousand and ₩ 40,499,079 thousand, respectively.
- (f) Equity securities accounted for using the equity method as of June 30, 2008 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. Those net assets value from using the provisional settlement is as follows:

In thousands of Won

Company	Net asset value before adjustments	Adjustments	Net asset value after adjustments
Hyundai Oilbank	₩ 376,166,927	-	376,166,927
Hyundai Finance Corp.	92,293,141	-	92,293,141
Hyundai Samho Heavy Industries Co., Ltd.(*1)	1,140,933,559	(486,481,489)	654,452,070
Changzhou Hyundai Construction Machinery Co., Ltd.	26,992,968	-	26,992,968
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	28,934,309	-	28,934,309
Incheon Airport Energy	2,060,612	-	2,060,612
Hyundai Jiangsu Construction Machinery Co., Ltd.	77,788,926	-	77,788,926
Hyundai Heavy Industries Co. Bulgaria	31,262,357	-	31,262,357
New Korea Country Club	3,567,664	-	3,567,664
Hyundai Dongahn Steel	919,562	-	919,562
Hyundai Heavy Industries Europe N.V.	47,871,817	-	47,871,817
Hyundai Vinashin Shipyard	9,881,183	-	9,881,183
Yantai Hyundai Moon Heavy Industries Co., Ltd.(*1)	9,376,169	(371,436)	9,004,733
Hyundai Heavy Industry (China) Electric Co., Ltd. (*1)	21,257,990	(3,334,220)	17,923,770
H.C.E U.S.A.	14,770,005	-	14,770,005
Vladivostok Business Center	-	-	-
Koentec Co., Ltd.	4,002,193	-	4,002,193
HHI China Investment Co., Ltd.(*1)	49,764,842	(4,377,202)	45,387,640
Hyundai Merchant Marine Co., Ltd. (Common stock)	299,376,711	-	299,376,711
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	55,248,449	-	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd.	128,379,975	-	128,379,975

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June 30, 2008 and 2007

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8 Equity Method Accounted Investments, Continued

- (f) Equity securities accounted for using the equity method as of June 30, 2008 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. Those net assets value from using the provisional settlement is as follows, Continued;

In thousands of Won

Company	Net asset value before adjustments	Adjustments	Net asset value after adjustments
Hyundai Oilbank	₩ 376,166,927	-	376,166,927
Hyundai Finance Corp.	92,293,141	-	92,293,141
Hyundai Samho Heavy Industries Co., Ltd.(*1)	1,140,933,559	(486,481,489)	654,452,070
Changzhou Hyundai Construction Machinery Co., Ltd.	26,992,968	-	26,992,968
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	28,934,309	-	28,934,309
Incheon Airport Energy	2,060,612	-	2,060,612
Hyundai Jiangsu Construction Machinery Co., Ltd.	77,788,926	-	77,788,926
Hyundai Heavy Industries Co. Bulgaria	31,262,357	-	31,262,357
New Korea Country Club	3,567,664	-	3,567,664
Hyundai Dongahn Steel	919,562	-	919,562
Hyundai Heavy Industries Europe N.V.	47,871,817	-	47,871,817
Hyundai Vinashin Shipyard	9,881,183	-	9,881,183
Yantai Hyundai Moon Heavy Industries Co., Ltd.(*1)	9,376,169	(371,436)	9,004,733
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)(*1)	21,257,990	(3,334,220)	17,923,770
H.C.E U.S.A.	14,770,005	-	14,770,005
Vladivostok Business Center	-	-	-
Koentec Co., Ltd.	4,002,193	-	4,002,193
HHI China Investment Co., Ltd.(*1)	49,764,842	(4,377,202)	45,387,640
Hyundai Merchant Marine Co., Ltd. (Common stock)	299,376,711	-	299,376,711
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	55,248,449	-	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd.	128,379,975	-	128,379,975
Hyundai Ideal Electric Co.	13,044,594	-	13,044,594
Hyundai Financial Leasing Co., Ltd.	19,082,452	-	19,082,452
Hyundai Construction Equipment India Private Ltd.	29,141,378	-	29,141,378
Wartsila Hyundai Engine Company Ltd.	33,245,040	-	33,245,040
Ulsan Hyndai Football Club.Ltd.	7,168,131	-	7,168,131
HYMS	148,001,345	-	148,001,345
KAM Corporation.	41,650,000	-	41,650,000
Grand China Hyundai Shipping Company Ltd.	1,016,600	-	1,016,600
	₩ 2,713,198,899	(494,564,347)	2,218,634,552

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

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8 Equity Method Accounted Investments, Continued

(g) Summarized financial information of equity-accounted investments as of and for the six-month periods ended June 30, 2008 is as follows:

In millions of Won

Company	Assets	Liabilities	Sales	Net income(loss)
Hyundai Oilbank ₩	5,714,797	3,809,237	7,270,682	257,254
Hyundai Finance Corp.	139,908	3,150	3,038	280
Hyundai Samho Heavy Industries Co., Ltd.	6,120,011	4,917,985	1,573,083	289,884
Changzhou Hyundai Construction Machinery Co., Ltd.	52,428	7,439	17,213	(661)
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	220,193	171,969	160,072	11,904
Incheon Airport Energy	160,298	153,651	41,434	(5,867)
Hyundai Jiangsu Construction Machinery Co., Ltd.	356,041	226,392	300,935	32,366
Hyundai Heavy Industries Co. Bulgaria	44,827	13,277	26,677	3,519
New Korea Country Club	23,979	5,309	5,914	2,192
Hyundai Dongahn Steel	21,016	19,344	5,396	(932)
Hyundai Heavy Industries Europe N.V.	180,145	132,274	213,522	2,787
Hyundai Vinashin Shipyard	225,545	126,733	71,465	10,496
Yantai Hyundai Moon Heavy Industries Co., Ltd.	22,127	5,078	11,570	1,383
Jiangsu Hyundai Nanzi Electric Co., Ltd.	122,351	83,851	38,578	1,608
H.C.E U.S.A	74,614	59,844	64,058	15
Vladivostok Business Center	26,390	195,704	5,424	(840)
Koentec Co., Ltd.	69,037	16,265	12,070	1,725
HHI China Investment Co., Ltd.	78,250	28,485	3,976	1,727
Hyundai Merchant Marine Co., Ltd.	6,255,325	4,240,680	3,465,010	86,888
Qinhuangdao Shouqin Metal Materials Co., Ltd	1,872,095	1,230,195	918,349	147,786
Hyundai Ideal Electric Co.	23,833	10,788	21,816	574
Hyundai Financial Leasing Co., Ltd.	65,794	34,007	1,385	(27)
Hyundai Construction Equipment India Private Ltd.	44,038	14,896	354	(1,237)
Wartsila Hyundai Engine Company Ltd.	85,937	19,447	-	(1,015)
Ulsan Hyundai Football Club.Ltd.	7,752	584	1,603	(2,832)
HYMS	158,944	10,943	2,562	1

9. Property, Plant and Equipment

(a) Property, plant and equipment as of June 30, 2008 and December 31, 2007 are as follows:

In thousands of Won

2008	2007
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Buildings and structures	₩	2,802,527,659	2,572,752,181
Machinery and equipment		2,274,885,119	2,169,947,389
Ships		189,629,649	186,009,863
Vehicles		31,907,358	30,439,712
Tools, furniture and fixtures		1,030,530,000	975,914,777
		<u>6,329,479,785</u>	<u>5,935,063,922</u>
Accumulated depreciation		<u>(3,061,001,010)</u>	<u>(2,944,344,006)</u>
		<u>3,268,478,775</u>	<u>2,990,719,916</u>
Land		1,547,196,764	1,550,415,148
Construction-in-progress		617,667,636	427,650,291
Property, Plant and equipment, net	₩	<u>5,433,343,175</u>	<u>4,968,785,355</u>

(b) The changes in property, plant and equipment for the six months ended June 30, 2008 are as follows:

In thousands of Won

		2008				
		Machinery and equipment				
		Land	Buildings	Structures	Other	Total
Beginning of period	₩	1,550,415,148	1,769,948,921	802,803,260	2,169,947,389	7,913,129,361
Acquisition and other		79,824,071	222,224,666	49,073,392	126,026,243	763,828,051
Disposal		<u>(83,042,455)</u>	<u>(35,999,714)</u>	<u>(5,522,866)</u>	<u>(21,088,513)</u>	<u>(182,613,227)</u>
End of period		<u>1,547,196,764</u>	<u>1,956,173,873</u>	<u>846,353,786</u>	<u>2,274,885,119</u>	<u>8,494,344,185</u>
Depreciation		-	23,433,676	10,029,656	78,392,105	166,182,287
Accumulated depreciation		-	375,797,714	170,710,172	1,621,057,691	3,061,001,010

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

In thousands of Won

		2007				
		Machinery and equipment				
		Land	Buildings	Structures	Other	Total
Beginning of period	₩	1,365,024,824	1,720,045,695	732,649,010	2,093,584,301	7,160,637,116
Acquisition and other		193,045,711	84,983,518	70,643,937	138,858,689	910,853,145
Disposal		<u>(7,655,387)</u>	<u>(35,080,292)</u>	<u>(489,687)</u>	<u>(62,495,601)</u>	<u>(158,360,900)</u>
End of period		<u>1,550,415,148</u>	<u>1,769,948,921</u>	<u>802,803,260</u>	<u>2,169,947,389</u>	<u>7,913,129,361</u>
Depreciation		-	43,842,312	18,753,331	186,520,439	351,718,296
Accumulated depreciation		-	360,856,814	161,350,202	1,559,756,993	2,944,344,006

9. Property, Plant and Equipment. Continued

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩ 2,307,046 million as of June 30, 2008. The Company maintains insurance coverage against fire and other casualty losses of up to ₩ 10,522,650 million for ships and sea structures under construction and the insurance proceed of ₩ 1,165,397 million is pledged as

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collateral for loans from Export-Import Bank of Korea as of June 30, 2008.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩ 1,270,503 million as of June 30, 2008. The Company also maintains insurance on cargo against damage and claims losses of up to ₩ 5,738,700 million for products being exported and imported as of June 30, 2008.

As of June 30, 2008 and December 31, 2007, the value of land owned by the Company is ₩ 1,439,535 million and ₩ 1,364,161 million, respectively, as announced by the Korean government.

10 Intangible Assets

(a) Intangible assets as of June 30, 2008 and December 31, 2007 are as follows:

In thousands of Won

		2008	2007
Development costs	₩	226,848,763	213,873,947
Usage rights for donated properties		21,154,773	22,174,415
	₩	<u>248,003,536</u>	<u>236,048,362</u>

(b) Details of changes in Intangible assets for the six months ended June 30, 2008 and 2007 are summarized as follows:

In thousands of Won

		Development Cost		Usage rights for donated properties	
		2008	2007	2008	2007
Beginning balance	₩	213,873,947	197,304,243	22,174,415	24,213,698
Capitalized		33,318,679	54,750,934	-	-
Amortization		(20,343,863)	(38,181,230)	(1,019,642)	(2,039,283)
Ending balance	₩	<u>226,848,763</u>	<u>213,873,947</u>	<u>21,154,773</u>	<u>22,174,415</u>

Research costs amounting to ₩ 7,659,502 thousand and ₩ 8,367,707 thousand, and ordinary development costs amounting to ₩ 34,716,191 thousand and ₩ 32,733,886 thousand are included in selling and administrative expenses for the six month periods ended June 30, 2008 and 2007, respectively. The amortized development costs of ₩ 20,343,863 thousand and ₩ 18,577,314 thousand are included in the cost of sales and selling and administration expenses for the six months ended June 30, 2008 and 2007, respectively.

11 Other Non-current Assets

Other non-current assets as of June 30, 2008 and December 31, 2007 are summarized as follows:

In thousands of Won

		2008	2007
Guarantee deposits	₩	6,157,822	5,354,714

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Other non-current assets		47,700,676	46,980,143
	₩	<u>53,858,498</u>	<u>52,334,857</u>

12 Other Current Liabilities

Other current liabilities as of June 30, 2008 and December 31, 2007 were as follows:

<i>In thousands of Won</i>		2008	2007
Withholdings of income taxes	₩	79,718,939	99,603,636
Unearned revenues		1,199,416	18,206,896
Provision for construction losses		41,951,819	39,070,771
	₩	<u>122,870,174</u>	<u>156,881,303</u>

13 Debentures and Long-term Borrowings

(a) Debenture as of June 30, 2008 and December 31, 2007 is as follows:

In thousands of Won

	Maturity	Annual interest rate		2008	2007
111th Unsecured debenture	2008.09.22	6M L+0.475	₩	208,680,000	187,640,000
Current portion				<u>(208,680,000)</u>	<u>(187,640,000)</u>
			₩	<u>208,680,000</u>	<u>187,640,000</u>

Debentures was comprised of privately issued debentures of ₩ 208,680 million (USD 200,000 thousand) as of June 30, 2008.

13 Debentures and Long-term Borrowings, Continued

(b) Foreign currency loans as of June 30, 2008 and December 31, 2007 are as follows:

In thousands of Won

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	Interest rate as of June 30, 2008 (%)	2008		2007	
		Foreign currency	Won equivalent	Foreign currency	Won equivalent
Business loans from Korea National Oil Corporation	3.25	USD 1,742,806	₩ 1,625,627	USD 1,742,806	₩ 1,625,627
		1,742,806	1,625,627	1,742,806	1,625,627
Current portion		-	-	-	-
		USD 1,742,806	₩ 1,625,627	USD 1,742,806	₩ 1,625,627

(c) The maturities of long-term debt as of June 30, 2008, before discounts, are as follows:

In thousands of Won

	Debentures	Foreign currency loans	Total
2008. 7~2009. 6	₩ 208,680,000	-	208,680,000
2009. 7 thereafter	-	1,625,627	1,625,627
	₩ 208,680,000	1,625,627	210,305,627

14 Retirement and Severance Benefits:

Accrued severance benefits of June 30, 2008 and December 31, 2007 are as follows:

In thousands of Won

	2008	2007
Beginning balance	₩ 1,190,834,067	1,135,188,486
Severance payment	(51,540,726)	(143,195,698)
Provisions	93,922,262	198,841,279
	1,233,215,603	1,190,834,067
Less: Severance insurance	(1,009,794,157)	(1,042,794,852)
National pension	(35,773,335)	(37,173,633)
Ending balance	₩ 187,648,111	110,865,582

Approximately 81.9% and 87.6% of accrued severance benefits are funded as of June 30, 2008 and 2007, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

15 Other Long-term Liabilities

Other long-term liabilities as of June 30, 2008 and December 31, 2007 are summarized as follows:

In thousands of Won

2008	2007
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Deposits received	₩	13,621,495	13,652,846
Provision for construction warranties		25,223,626	23,720,007
Provision for product warranties		40,628,586	36,083,001
	₩	<u>79,473,707</u>	<u>73,455,854</u>

16 Commitments and Contingencies

- (a) The Company has entered into bank overdraft agreements with 8 banks amounting to ₩ 238,000 million as of June 30, 2008.
- (b) As of June 30, 2008, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports such as letter of credit including Usance L/C, totaling USD 1,650,545 thousand.
- (c) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 13 blank checks and notes as of June 30, 2008.
- (d) The outstanding balance of note receivables, guaranteed by the importers' Government or others, sold to financial institutions with recourse is USD 40,584 thousand, equivalent to ₩ 42,345 million, as of June 30, 2008. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩ 3,540 million as of June 30, 2008.
- (e) As of June 30, 2008, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 171,846 thousand and ₩ 36,844 million. The Company has provided certain performance guarantees for the bareboat charter amounting to USD 610,356 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI"), one of the Company's subsidiaries, for the construction of 19 ships (Contract amount: USD 2,472,360 thousand).
- (f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩ 2,515,057 million and USD 15,066,079 thousand by various banking facilities.

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16 Commitments and Contingencies, continued

- (g) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales amounts and the payment of imported raw-materials, the Company has entered into currency forward contracts with 18 banks including Korea Exchange Bank. As of June 30, 2008, the valuation and gain (loss) on transaction of the forward contracts are as follows:

In millions of Won and in thousands of foreign currency

	Description		Total
	For cash flow hedging	For trading	
Contract amount	USD 23,339,040	USD 510,117	USD 23,849,157
	EUR 147,422	EUR 3,327	EUR 150,749
	CHF 882		CHF 882
	GBP 153		GBP 153
	JPY 915,700		JPY 915,700
Adjustment to sales	₩ (255,065)	- ₩	(255,065)
Other income (expense)	(82,978)	(78,901)	(161,879)
Other comprehensive income	(1,815,364)	-	(1,815,364)
Currency forwards – asset			38,239
Currency forwards – liability			(2,106,628)

- (h) As of June 30, 2008, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩ (-)1,316,138 million (net of deferred income tax adjustment of ₩ (-)499,226 million) as gain on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 53 months, and the amount of gain on valuation of foreign exchange contract that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from June 30, 2008 is ₩ (-) 682,219 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current income.

Such contracts as described above that were incurred for the six-month periods ended June 30, 2008 resulted in gain(loss) on settlement of derivatives amounting to ₩ 10,710 million and ₩ (-) 172,589 million. As of June 30, 2008, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as assets and liabilities amounting to ₩ 38,239 million and ₩ 2,106,628 million, respectively.

Besides the above financial derivative, the Company has entered into interest swap contract with CSFB to hedge the exposure to interest rate risk of floating rate debenture amounting to USD 200,000 thousand (variable interest rate : 6M Libor, fixed interest rate : 4.50%, maturity date : September 22, 2008). As of June 30, 2008, the Company recorded the present value of the forecasted cash flow amounting ₩ 2,069 million as derivative liabilities. Also, the Company accounted for the ineffective portion of the hedge amounting to ₩ 321 million and ₩ (-)1,146 million as non-operating income and loss, the effective portion of the hedge amounting to ₩ 669 million (net of deferred income tax adjustment of ₩ 254 million) as gain on valuation of derivative in accumulated other comprehensive income as of June 30, 2008.

17 Litigations

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- (a) The Company has filed a protest against a penalty amounting to ₩ 19,415 million that had been imposed on the Company by the Korean Fair Trade Commission, relating to the construction equipment sales transactions between 2001 and 2004 with affiliated companies. As a result, the penalty decreased by ₩ 4,186 million pursuant to the resolution of the Korea Fair Trade Commission on January 5 and 24, 2007 and the Company filed litigation for the remainder of the penalty to Supreme Court.

In addition, three cases have been brought against the Company by its employees with claims amounting to ₩ 146 million for damages stemming from an industrial disaster, all three of which are pending as of June 30, 2008.

- (b) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. The Company made a Share Option Agreement in relation to this transaction with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 4, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company partially won the litigation for the settlement of claim amounting to ₩ 171,800 million of principal and accrued interest thereon and recovered ₩ 220,933 million.

However, the Company didn't accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal to a High Court claiming the whole amount of the principal and accrued interest. Also, the Company filed a lawsuit for the advanced payments and reimbursable expenses for those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩ 192,900 million of principal and accrued interest. However, the Company didn't accept the Court's decision and filed an appeal to the Supreme Court of Korea. The Company has provided an allowance for doubtful accounts on the above amount as of June 30, 2006. The ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

- (c) The National Tax Service imposed additional income tax amounting to ₩ 107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing the foreign currency exchange. The National Tax Service concluded this capital increase to be unfair financial support for the insolvent affiliate. The Company appealed judgment to National Tax Tribunal and the case is in progress as of June 30, 2008.
- (d) As of March 25, 2008, the Company determined that International Petroleum Investment Co. (hereafter "IPIC"), the major shareholder of Hyundai Oil Bank, breached the Contract between Shareholders entered into with the former shareholders of the Hyundai Group, including Hyundai Heavy Industries and notified IPIC to exercise IPIC's Deemed Offer (stock purchase option) against its shares of Hyundai Oil Bank of 171,557,695 shares (70%). The Company also filed for arbitration at the International Court of Arbitration of the International Chamber of Commerce, in regard to IPIC's breach of contract and exercise of the Deemed Offer. The arbitration will take place in Singapore. The notified Deemed Offer may not be rescinded and in case IPIC does not agree to the

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stock purchase, the offer will need to be determined by the arbitration judgment. As of June 30, 2008, the arbitration period and the exercise price of the stock purchase options are undetermined.

- (e) The Company has been brought into legal action with claim for returning construction expense amounting to ₩ 2,579 million, which is pending as of June 30, 2008 and filed for demanding construction expense amounting to ₩ 1,960 million against Lotte Engineering & Construction Co., Ltd.

18 Capital Surplus

Capital surplus as of June 30, 2008 and December 31, 2007 is as follows:

<i>In thousands of Won</i>		2008	2007
Paid-in capital in excess of par value	₩	843,324,390	843,324,390
Asset revaluation surplus		1,862,725,081	1,862,725,081
Other capital surplus		65,334,216	65,334,216
Capital surplus on valuation of equity method investments		42,309,668	42,309,668
	₩	<u>2,813,693,355</u>	<u>2,813,693,355</u>

Other capital surplus is composed of ₩ 33,381,253 thousand of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩ 10,122,896 thousand of gain on disposal of treasury stock (net of tax effect) and ₩ 21,830,067 thousand of gain on business combination and others.

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

19 Retained Earnings

Retained earnings as of June 30, 2008 and December 31, 2007 are as follows:

<i>In thousands of Won</i>		2008	2007
Appropriated:			
Legal reserve (a & c)	₩	211,543,400	164,883,307
Reserve for corporate development (c)		30,000,000	30,000,000
Reserve for research and human development (b)		230,000,000	247,690,637
Reserve for facilities (b)		78,270,000	78,270,000
Other voluntary reserves (d)		1,850,645,368	610,155,408
Unappropriated retained earnings		1,097,512,341	1,736,060,340
	₩	<u>3,497,971,109</u>	<u>2,867,059,692</u>

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

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19 Retained Earnings, Continued

- (b) Under provisions of the Tax Exemption and Reduction Control Law, an amount equivalent to the amount of income tax benefits to which the Company is entitled in connection with tax credits for research and human development and investment for facilities is required to be recorded as a reserve for research and human development and investment for facilities.
- (c) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.
- (d) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make a reserve for overseas market development, a reserve for export losses and a reserve for research and human development by appropriating retained earnings. These reserves are voluntary reserves, which are available for the payment of dividends when these reserves are properly reversed.

20 Capital Adjustments

(a) Treasury Stock

As of June 30, 2008 and December 31, 2007, Treasury Stock is as follows:

<i>In thousands of Won</i>	<u>2008</u>	<u>2007</u>
Treasury stock	₩ (1,529,441,294)	(696,729,513)

The Company has been operating special money in trust for treasury stock amounting to ₩705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed 11,631,580 shares of treasury stock in October 2003. In addition, pursuant to the resolution of the board of directors on January 31, 2008, the Company determined to acquire 2,280 thousand shares for the purpose of stabilizing the share price of the Company, and has completed the acquisition by March 2, 2008. The acquisition cost of treasury stock amounting to ₩1,529,441,294 thousand 16,066,544 shares of treasury stock) was recorded as capital adjustments as of June 30, 2008.

(b) Other Capital Adjustments

As of June 30, 2008 and December 31, 2007, Other Capital Adjustments are as follows:

<i>In thousands of Won</i>	<u>2008</u>	<u>2007</u>
Treasury stock owned by subsidiaries	₩ (103,565,209)	(92,330,720)
capital adjustments on valuation of equity method	(113,842,293)	(22,241,798)
	₩ <u>(217,407,502)</u>	<u>(114,572,518)</u>

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21 Sales and Cost of Sales

(a) Sales and cost of sales, by major industry segment, for the six months ended June 30, 2008 and 2007 are as follows:

In thousands of Won

		2008		2007	
		Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩	4,373,060,816	3,553,588,614	3,745,148,840	3,189,684,598
Offshore & Engineering		1,111,314,753	965,871,803	1,087,143,943	1,016,589,090
Industrial Plant & Engineering		555,000,742	588,552,220	432,086,769	402,682,082
Engine & Machinery		988,834,248	737,133,932	782,886,906	599,594,854
Electro Electric Systems		905,400,531	702,728,007	722,537,440	557,085,364
Construction Equipment		1,049,800,724	825,696,842	725,022,942	571,179,139
Others		79,646,115	72,819,007	58,467,176	54,135,343
	₩	<u>9,063,057,929</u>	<u>7,446,390,425</u>	<u>7,553,294,016</u>	<u>6,390,950,470</u>

(b) The Company's outstanding contracts as of June 30, 2008 are summarized as follows:

In millions of Won

		Shipbuilding	Others	Total
Beginning of period	₩	26,100,989	16,964,310	43,065,299
Increase during the period		12,104,770	7,221,312	19,326,082
Recognized as revenue in current income		(4,373,061)	(4,689,997)	(9,063,058)
End of period	₩	<u>33,832,698</u>	<u>19,495,625</u>	<u>53,328,323</u>

As of June 30, 2008, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantee from various financial institutions to the customers (See Note 16).

(c) As of June 30, 2008, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

In millions of Won

		Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	₩	8,313,087	1,430,761	6,400,441	1,218,989	54,351	1,164,638
Offshore & Engineering		3,933,271	336,020	2,187,595	392,472	36,615	355,857
Industrial Plant & Engineering		3,483,814	63,094	378,218	68,822	11,107	57,715
Engine & Machinery		1,890,053	614,392	706,901	366,524	88,634	277,890
Electro Electric Systems		87,164	26,947	83,421	464,963	388,604	76,359
Construction Equipment (*)		-	-	1,411	266,629	266,629	-
Others (*)		-	-	372	530,124	530,124	-
	₩	<u>17,707,389</u>	<u>2,471,214</u>	<u>9,758,359</u>	<u>3,308,523</u>	<u>1,376,064</u>	<u>1,932,459</u>

(*) Industry segment recognized revenues by delivery basis. For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩ 41,952 million.

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22 Income Taxes

(a) Income tax expense for the six month periods ended June 30, 2008 and 2007 is as follows:

In thousands of Won

	<u>2008</u>	<u>2007</u>
Current income tax	₩ 390,292,334	271,243,756
Changes in deferred income taxes due to temporary differences	(585,139,977)	53,109,623
Changes in deferred income taxes directly adjusted in equity	650,715,099	(22,307,351)
Income tax expense	455,867,456	302,046,028
Income before income tax	1,553,379,793	1,090,567,526
Effective income tax rate	₩ 29.3%	27.7%

(b) For the six month periods ended June 30, 2008 and 2007, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

In thousands of Won

	<u>2008</u>	<u>2007</u>
Income before income tax	₩ 1,553,379,793	1,090,567,526
Temporary differences	(118,717,366)	(122,393,258)
Non-temporary differences	(1,631,089)	(5,114,606)
Taxable income	₩ 1,433,031,338	963,059,662

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22 Income Taxes, Continued

- (c) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the six month periods ended June 30, 2008 and 2007 are summarized as follows:

In thousands of Won

Description	2008		2007	
	Balance at January 1, 2008	Balance at June 30, 2008	Balance at January 1, 2007	Balance at June 30, 2007
Investment securities accounted for using the equity method (*1)	₩ (815,831,141)	(640,441,326)	(334,964,461)	(693,850,887)
Loss on valuation of investment securities	74,558,133	74,558,133	70,374,032	74,551,560
Reserve for technology development	(230,000,000)	(226,666,666)	(247,690,636)	(238,845,318)
Provision for doubtful accounts (*1)	146,465,573	149,089,581	187,042,333	200,468,784
Accrued income	(28,499,206)	(40,908,641)	(2,824,172)	(7,468,837)
Loss on valuation of receivables	859,903	859,903	859,903	859,903
Loss on valuation of short- term investment securities and others	-	-	121,273	-
Currency forward contracts	37,679,354	2,006,307,342	(458,399,783)	(268,627,373)
Other	67,906,967	58,122,993	265,550,983	219,855,743
	(746,860,417)	1,380,921,319	(519,930,528)	(713,056,425)
Tax rate		27.5%		27.5%
Cumulative tax effects		379,753,362		(196,090,517)
Tax credit carryforward				
Deferred income tax assets, end of period		379,753,362		(196,090,517)
Deferred income tax assets, beginning of period		(205,386,615)		(142,980,894)
Changes in deferred income taxes on temporary differences	₩	585,139,977		(53,109,623)

- (*1) The temporary difference amounting to ₩ (-)179,763 million, which was not recognized as deferred income tax asset, is included.

22 Income Taxes, Continued

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- (d) The deferred tax assets and liabilities that were directly charged or credited to capital adjustments as of June 30, 2008 as follows:

In thousands of Won

		<u>Tax effects</u>
Capital adjustment on valuation of equity method	₩	35,365,549
Unrealized gain on valuation of available-for-sale securities		10,310,404
Unrealized gain on valuation of equity method accounted investment		38,246,158
Unrealized loss on valuation of equity method accounted investment		69,864,804
Loss on valuation of foreign exchange forward		496,928,184

- (e) Deferred income tax assets (liabilities) as of June 30, 2008 are as follows:

In thousands of Won

		<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Accumulated of temporary difference	₩	2,203,093,794	(822,172,475)	1,380,921,319
Tax rate		27.5%	27.5%	27.5%
Tax effects		605,850,793	(226,097,431)	379,753,362
Tax credit carry forward				
Deferred income tax assets (liabilities)	₩	<u>605,850,793</u>	<u>(226,097,431)</u>	<u>379,753,362</u>

23 Statements of Comprehensive Income

Statements of comprehensive income for the three months and six month periods ended June 30, 2008

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and 2007 are as follows:

In thousands of Won

		Three months		Six months	
		2008	2007	2008	2007
Net income	₩	655,214,846	417,513,988	1,097,512,337	788,521,498
Other comprehensive income					
Gain(loss) on valuation of short-term and long-term investment securities		(56,190,112)	49,069,804	(27,181,975)	42,978,897
<i>Tax effects</i>		21,313,491	(18,612,684)	10,310,404	(16,302,340)
Changes in equity arising on application of the equity method		20,658,540	89,304,140	(101,861,300)	64,996,426
<i>Tax effects</i>		(7,521,723)	(33,957,489)	38,246,158	4,477,548
Negative changes in equity arising on application of the equity method		(117,197,959)	(1,363,542)	(184,189,028)	547,459
<i>Tax effects</i>		44,454,398	129,216	69,864,804	(252,055)
Gain(loss) on valuation of financial derivatives		(767,069,019)	52,634,310	(1,310,083,394)	(92,185,515)
<i>Tax effects</i>		290,957,214	(19,964,738)	496,928,184	34,966,917
Sub-total		(919,798,550)	189,644,712	(1,623,315,697)	16,337,267
Comprehensive income	₩	(264,583,704)	607,158,700	(525,803,360)	804,858,765

24 Earnings Per Share:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the six month periods ended June 30, 2008 and 2007.

Basic income per share for the three and six month periods ended June 30, 2008 and 2007 are calculated as follows:

		Three months		Six months	
		2008	2007	2008	2007
Net income (In thousands of Won)	₩	655,214,846	417,513,988	1,097,512,337	788,521,498
Weighted average number of outstanding common shares (In thousands of share)		60,130	62,213	60,948	62,788
Income per share (In Won)	₩	10,896	6,711	18,007	12,558

25 Changes in accounting policy

(a) Equity method accounting investment in subsidiaries

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

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

The Company Adopted SKAS 06-2, written opinion 06-2. Deferred Tax Amounts of investment securities under the subsidiaries Equity Method Accounted Investments and Joint Venture. As allowed by this standard, the Company recognized the deferred income tax liabilities and income tax amounting to ₩ 10,927,998 thousand, in conformity with the consolidated financial statements.

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

Balance sheet

In thousands of Won

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

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26 Transactions and Balances with Related Companies

(a) The Company is the ultimate holding company and its subsidiaries as of June 30, 2008 are as follows:

Controlled subsidiary (*)	Particulars
Hyundai Samho Heavy Industries Co., Ltd.	Construction of ships
Hyundai Mipo Dockyard Co., Ltd.	Construction of ships
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Consignment and brokerage of futures transaction
HVIC IT Fund 3 rd	Other financial intermediation
Hyundai Investment Fund 1 on patent Technology	Other financial intermediation
Mipo engineering Co., Ltd.	Other engineering service
Changzhou Hyundai Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Dongahn Steel Tower Manufacturing Co., Ltd.	Manufacture of structural metal products
H.C.E U.S.A	Sale of machinery equipment for construction
Hyundai Heavy Industry Co., Bulgaria	Sale and manufacture of transformers
Vladivostok Business Center	Hotels
Hyundai Vinashin Shipyard	Repairing of ships
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Hyundai Heavy Industry (China) Electric Co., Ltd.	Sale and manufacture of switch board for electric distribution
Hyundai Jiangsu Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
HHI China Investment Co., Ltd.	Holding company
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Sale and manufacture of hydraulic cylinder for construction equipment
Hyundai Technologies Center Hungary Kft	Research and development on technology
Hyundai Malaysia	Trading
Hyundai S/V Indonesia	Maintenance and repair services of transformers
HHI Mauritius	Manufacturing
PHECO Inc.	Design services for offshore facilities
Hyundai-Enova Innovative Technical Center Inc.	Research and experimental development on technology
Hyundai Heavy Industries France SAS	Manufacturing
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
Hyundai Financial Leasing Co., Ltd.	Financial lease and operating lease
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for construction
Ulsan Hyundai Football Club. Ltd.	Football Club
HYMS	Sale and manufacture of machinery equipment for shipbuilding
KAM Corporation	Sale and manufacture of polysilicon
Grand China Hyundai Shipping Company Ltd.	Carrier Service

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26 Transactions and Balances with Related Companies, Continued

(b) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies for the six months ended and as of June 30, 2008 are as follows:

In thousands of Won

Related Party		Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩	221,956,957	13,502,521	199,542,559	19,518,607
Hyundai Mipo Dockyard Co., Ltd.		191,965,147	4,450,235	148,445,633	839,576
Hyundai Oilbank		715,562	63,816,841	82,290	12,575,469
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		48,791,009	347,595	55,408,443	279,251
Hyundai Heavy Industries Europe N.V.		210,564,384	-	66,119,545	496,842
H.C.E U.S.A.		63,430,509	149,819	19,095,973	280,756
Hyundai Jiangsu Construction Machinery Co., Ltd.		102,315,703	4,977,610	22,067,626	1,946,574
Yantai Hyundai Moon Heavy Industries Co., Ltd.		63,365	13,057,214	18,503	1,935,800
Jiangsu Hyundai Nanzi Electric Co., Ltd.		3,786,719	7,783,596	30,776,605	253,349
	₩	<u>843,589,355</u>	<u>108,085,431</u>	<u>541,557,177</u>	<u>38,126,224</u>

(c) The Company has entered into rental agreements (deposits received of ₩ 148 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of June 30, 2008. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 16).

(d) The Company has fully provided an allowance for receivables from the Vladivostok Business Center amounting to ₩ 63,662 million as of June 30, 2008.

(e) The compensation for the key management of the Company for the six months ended June 30, 2008 is as follows :

In thousands of Won

	2008
The compensation for key management	1,217,723

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

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27 Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies as of June 30, 2008 and December 31, 2007 are as follows:

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

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

Account	Currency	Foreign currencies (In thousands)		Korean won (In thousands)	
		2008	2007	2008	2007
Assets:					
Cash and cash equivalents	USD	131,535	102,404	₩ 137,243,246	96,075,225
	EUR	1,892	243	3,115,593	335,485
	Others	-	-	35,081,210	38,331,487
Trade accounts and notes receivable	USD	2,125,636	1,971,617	2,217,888,392	1,849,771,383
	EUR	135,139	155,043	222,582,606	214,154,216
	Others	-	-	42,567,998	42,287,627
Accounts receivable - other	USD	86,588	71,016	90,345,917	66,626,817
	EUR	3,563	371	5,868,247	512,935
	Others	-	-	16,970,671	15,272,851
Long-term trade accounts and notes receivable	USD	84,543	102,921	88,211,717	96,560,853
Long-term financial instruments & others	USD	7,737	7,542	8,072,495	7,076,331
	EUR	18	13	28,824	17,680
	Others	-	-	1,573,273	1,309,631
				₩ 2,869,550,189	2,428,332,521
Liabilities:					
Trade accounts and notes payable	USD	226,494	217,852	₩ 236,324,228	204,388,331
	EUR	19,054	26,985	31,382,637	37,273,968
	Others	-	-	37,888,020	24,251,064
Current maturities of long-term borrowings	USD	200,000	200,000	208,680,000	187,640,000
Long-term borrowings	USD	1,743	1,743	1,625,627	1,625,627
Accounts payable - other & others	USD	262,043	227,716	273,415,680	213,642,721
	EUR	12,399	10,436	20,422,401	14,414,274
	Others			11,947,890	11,451,174
				₩ 821,686,483	694,687,159

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28 Segment Information

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

(a) As of and for the six months ended June 30, 2008

In thousands of Won

		Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩	4,373,060,816	1,111,314,753	555,000,742	988,834,248	905,400,531	1,049,800,724	79,646,115
Operating income								
(loss)		754,642,780	115,374,328	(50,055,293)	220,205,643	155,236,680	111,931,885	(120,273,073)
Tangible & intangible assets		1,780,408,630	463,559,308	30,795,776	619,442,016	311,618,997	163,132,070	2,312,389,914
Depreciation		(63,514,000)	(20,979,714)	(2,591,291)	(31,495,613)	(14,773,564)	(8,157,603)	(24,670,502)

(b) As of and for the six months ended June 30, 2007

In thousands of Won

		Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩	3,745,148,840	1,087,143,943	432,086,769	782,886,906	722,537,440	725,022,942	58,467,176
Operating income								
(loss)		495,031,438	34,129,795	12,419,708	156,061,169	122,909,640	64,484,175	(113,790,930)
Tangible & intangible assets		1,442,808,740	338,613,889	53,725,018	442,256,750	257,623,565	148,551,030	2,071,617,418
Depreciation		(67,254,865)	(21,492,086)	(4,148,914)	(35,538,713)	(17,311,499)	(7,478,364)	(25,052,703)

29 Selling, General and Administrative Expenses

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June 30, 2008 and 2007

(Unaudited)

Selling and administrative expenses for the three and six month periods ended June 30, 2008 and 2007 are as follows:

In thousands of Won

	Three months		Six months	
	2008	2007	2008	2007
Wages	₩ 61,012,242	67,748,775	₩ 127,109,279	124,068,808
Provision for severance benefits	6,606,779	5,814,917	13,124,064	11,757,524
Employee welfare	14,944,209	15,217,415	34,116,097	34,771,510
Advertisement	10,287,165	5,341,053	19,247,243	9,660,743
Ordinary development expenses	17,830,301	19,129,495	34,716,191	32,733,886
Provision for doubtful accounts	326,422	14,260,066	11,125,363	15,348,344
Depreciation	7,242,254	6,739,688	14,230,158	13,455,732
Service charges	15,903,524	13,277,114	31,033,744	25,990,499
Transportation	25,161,957	17,626,252	49,432,510	31,222,812
Sales commission	9,247,024	10,005,093	19,879,883	20,672,587
After-service expenses	9,276,271	8,843,780	16,436,634	18,984,442
Others	29,679,475	30,126,918	59,153,388	52,431,664
	₩ <u>207,517,623</u>	<u>214,130,566</u>	₩ <u>429,604,554</u>	<u>391,098,551</u>

30 The Company's Environmental Standards and Policies

The Company has introduced and constructed an environmental management system, operated systematically by its environmental management organization, to effectively manage any environmental effects incurred from its business activities. The Company obtained the ISO-14001 certification for its environmental management system from the DNA-QA (Det Norske Veritas QA Ltd.) to ensure transparent environmental management and also to prepare for the establishment of environmental trade barriers. To maintain and develop its environmental management system, the Company works to minimize the environmental effects from its overall business activities, from research and development, purchase, production, transport and disposal, by adopting advanced environmental management system such as periodic evaluation of activities of environment management, eco-friendly plan, evaluation of environment a results and other.

The Company established and applies its own standards, which are twice as strict as current regulations for permissible exhaust standards, to the operations of the air exhaust facility, control facility and waste water disposal plant that treat the contaminated wasteproducts generated from its manufacturing process. The Company maintains its actual exhaust density below 20%. In addition, the Company achieved 63.1% of waste reclamation rate by minimizing the generation of wastes and managing proper separate garbage collection. Also, to properly treat wastes, the Company operates an incinerator that has a capacity to treat 400 tons of waste per day, furnished with advanced equipment to prevent environmental pollution.

31 Employee Welfare and Contributions to Society

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(Unaudited)

For employee welfare, the Company granted scholarship funds of ₩ 28,082 million for the employees' children (middle, high, college students) and ₩ 1,857 million for medical benefits, such as health inspection and medical treatment, to its employees and their families during the six-month period ended June 30, 2008. In addition, the Company provided 16, 000 apartment buildings for employee housing and the rate of housing supplied for employees reached approximately 94%. The Company also operates 7 culture centers and the Hyundai Arts Center, established in September 1998, to provide members of the community and its employees with various art and exhibitions.

In millions of Won

	<u>2008</u>	<u>2007</u>
Expense for human development and improvement	₩ 9,538	5,717
Expense for social welfare facilities and donations to religious groups	2,042	3,990
Donation for Social Overhead Capital and Government	13	8
	<u>₩ 11,593</u>	<u>9,715</u>

32 Non-cash investing and Financing Activities

Significant non-cash investing and financing activities for the six-month periods ended June 30, 2008 and 2007 are summarized as follows:

In thousands of Won

	<u>2008</u>	<u>2007</u>
Transfer of long-term trade accounts to current assets	₩ 19,176,466	17,033,495
Transfer of long-term investment securities to current assets	-	24,830,370
Transfer of construction-in-progress to plant assets	377,791,478	69,965,202
Investment in kind of equity method accounted investments	127,952,347	-
Unrealized gain (loss) on valuation of available-for-sale securities	27,181,975	42,978,897
Treasury shares owned by companies accounted for using the equity method	11,234,489	22,492,574
Capital adjustment on valuation of equity method	91,600,495	-
Unrealized gain on valuation of equity method accounted investments	101,861,300	64,996,426
Unrealized loss on valuation of equity method accounted investments	184,189,028	547,459
Unrealized gain (loss) on valuation of derivatives	1,310,083,394	92,185,515