

**HYUNDAI HEAVY INDUSTRIES CO., LTD.**

Non-Consolidated Financial Statements

**June 30, 2010**

(With Independent Accountants' Review Report Thereon)

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## **Independent Accountants' 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 statement of financial position of Hyundai Heavy Industries Co., Ltd. (the "Company") as of June 30, 2010, and the related non-consolidated statements of income, changes in equity and cash flows for the three and six-month periods ended June 30, 2010 and 2009. 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.

We conducted our reviews in accordance with the Review Standards for Semiannual Financial Statements established by the Securities and Futures Commission 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 presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea.

The non-consolidated statement of financial position of the Company as of December 31, 2009, 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 us and our report thereon, dated February 25, 2010, expressed an unqualified opinion. The accompanying non-consolidated statement of financial position of the Company as of December 31, 2009, presented for comparative purposes, is not different from that audited by us in all material respects.

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

(GAAP/GAAS legend)

As discussed in note 2(a) 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 principles and review standards and their application in practice.

Seoul, Korea  
July 23, 2010

This report is effective as of July 23, 2010, 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 Statements of Financial Position

As of June 30, 2010 and December 31, 2009

<i>(In thousands of Won, except share data)</i>	<b>Note</b>	<b>(Unaudited)</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>				
Cash and cash equivalents	25,30	₩	604,657,682	632,578,218
Short-term financial instruments	3,25		106,763,221	109,033,003
Accounts and notes receivable - trade, less allowance for doubtful accounts of ₩ 127,241,700 in 2010 and ₩ 109,816,750 in 2009	15,20,24,25		5,673,484,729	4,973,543,411
Accounts receivable - other, less allowance for doubtful accounts of ₩ 224,148,157 in 2010 and ₩ 206,364,299 in 2009	7,16,24,25		126,942,092	117,586,658
Advance payments, less allowance for doubtful accounts of ₩ 11,591,295 in 2010 and ₩ 13,125,144 in 2009			1,083,631,382	1,228,556,767
Accrued income	25		94,047,946	37,495,883
Foreign exchange forward contracts	15		1,354,488,524	1,377,159,343
Current deferred tax assets	21,22		23,804,657	-
Inventories	4		1,618,421,333	1,928,558,515
Other current assets	5,20,25		212,470,570	205,402,613
<b>Total current assets</b>			<u>10,898,712,136</u>	<u>10,609,914,411</u>
Long-term financial instruments	3,25		1,582,547	3,224,878
Long-term investment securities	6		1,441,385,614	1,174,080,691
Equity method investments	7		3,999,716,938	3,689,107,855
Property, plant and equipment, net	8,26		8,085,997,720	8,145,522,809
Intangible assets	9,26		295,148,463	288,459,041
Long-term accounts and notes receivable - trade, less allowance for doubtful accounts of ₩ 132,723,457 in 2010 and ₩ 27,138,889 in 2009	15,20,25		163,906,403	51,243,264
Foreign exchange forward contracts	15		482,773,654	805,264,651
Other non-current assets	10,25		108,527,539	105,765,901
<b>Total non-current assets</b>			<u>14,579,038,878</u>	<u>14,262,669,090</u>
<b>Total assets</b>		₩	<u>25,477,751,014</u>	<u>24,872,583,501</u>
<b>Liabilities</b>				
Accounts and notes payable – trade	24,25	₩	1,520,069,447	1,427,589,252
Short-term borrowings	12,15,25		291,685,848	585,320,608
Accounts payable - other	24,25		151,306,297	146,908,841
Advances from customers	20		7,483,292,479	8,583,478,070
Accrued expenses	25		554,300,590	251,590,915
Income tax payable	21		459,847,642	263,311,110
Foreign exchange forward contracts	15		1,457,839,061	1,405,086,993
Current deferred tax liabilities	21,22		-	16,682,139
Other current liabilities	11,20,25		226,780,708	229,133,419
<b>Total current liabilities</b>			<u>12,145,122,072</u>	<u>12,909,101,347</u>

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.  
 Non-Consolidated Statements of Financial Position, Continued

As of June 30, 2010 and December 31, 2009

(In thousands of Won, except share data)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Debentures, net of discount on debentures ₩ 736,375 in 2010 and ₩ 930,804 in 2009	12	₩ 299,263,625	299,069,196
Long-term borrowings	12, 15, 25	5,166,671	5,166,671
Provision for retirement and severance benefits, net of deposit for severance benefit insurance and others of ₩ 1,025,138,939 in 2010 and ₩ 1,051,671,743 in 2009	13	225,488,479	174,477,102
Non-current deferred tax liabilities	8, 21, 22	792,246,707	691,066,287
Foreign exchange forward contracts	15	535,436,207	907,835,125
Other long-term liabilities	14	76,063,285	77,466,586
<b>Total non-current liabilities</b>		<u>1,933,664,974</u>	<u>2,155,080,967</u>
<b>Total Liabilities</b>		<u>14,078,787,046</u>	<u>15,064,182,314</u>
<b>Stockholders' equity</b>			
Common stock of ₩ 5,000 par value Authorized - 160,000,000 shares Issued and outstanding - 76,000,000 shares in 2010 and 2009		380,000,000	380,000,000
Capital surplus	17	2,869,578,078	2,869,578,078
Capital adjustments	7, 19	(1,697,794,475)	(1,697,794,475)
Accumulated other comprehensive income	6, 7, 8, 15, 21, 22	1,718,682,443	1,752,672,452
Retained earnings	18	8,128,497,922	6,503,945,132
<b>Total stockholders' equity</b>		<u>11,398,963,968</u>	<u>9,808,401,187</u>
<b>Total liabilities and stockholders' equity</b>		<u>₩ 25,477,751,014</u>	<u>24,872,583,501</u>

See accompanying notes to non-consolidated financial statements.

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

**For the three and six-month periods ended June 30, 2010 and 2009**

(In thousands of Won, except earnings per share)

	Note	2010		2009	
		Three-month period	Six-month period	Three-month period	Six-month period
Sales	15,20,24,26	₩ 5,335,201,116	10,641,628,952	5,331,047,052	10,824,675,031
Cost of sales	4,20,24	4,221,880,318	8,381,691,446	4,581,332,251	9,377,873,331
<b>Gross profit</b>		1,113,320,798	2,259,937,506	749,714,801	1,446,801,700
Selling, general and administrative expenses	8,9,13,24,26,27,29	342,577,334	603,251,504	215,003,763	435,664,897
<b>Operating income</b>	26	770,743,464	1,656,686,002	534,711,038	1,011,136,803
Interest and dividend income		49,347,114	104,927,846	32,596,769	82,713,225
Gain on foreign currency transactions		120,761,461	180,956,599	148,619,833	593,056,525
Gain on foreign currency translation	25	144,890,401	100,424,114	18,745,549	28,559,162
Gain on valuation of equity method investments	7	295,547,124	582,072,603	70,256,086	204,785,187
Gain on foreign exchange forward contracts	15	818,402,606	685,233,943	1,152,226,174	858,026,100
Gain on disposal of property, plant and equipment	8	1,634,264	1,787,756	377,233	976,530
Others		34,549,006	190,326,362	61,888,834	99,541,476
<b>Non-operating income</b>		1,465,131,976	1,845,729,223	1,484,710,478	1,867,658,205
Interest expense		10,898,301	23,640,207	8,985,983	13,046,845
Loss on foreign currency transactions		127,303,373	231,967,692	131,995,037	367,080,423
Loss on foreign currency translation	25	-	40,492,316	127,014,980	31,425,698
Loss on disposal of property, plant and equipment	8	39,232	196,103	1,733,313	14,685,807
Loss on valuation of equity method investments	7	-	21,655,547	49,290,857	96,562,718
Loss on foreign exchange forward contracts	15	881,202,926	766,231,429	1,211,574,078	1,216,520,430
Others	29	41,943,881	54,371,195	17,707,815	35,223,223
<b>Non-operating expenses</b>		1,061,387,713	1,138,554,489	1,548,302,063	1,774,545,144
<b>Income before income taxes</b>		1,174,487,727	2,363,860,736	471,119,453	1,104,249,864
Income taxes	21	263,982,050	527,133,739	78,047,043	212,908,072
<b>Net income</b>		₩ 910,505,677	1,836,726,997	393,072,410	891,341,792
<b>Earnings per share</b>					
Basic earnings per share	23	₩ 15,020	30,299	6,558	14,872

See accompanying notes to non-consolidated financial statements.

Hyundai Heavy Industries Co., Ltd.  
 Non-Consolidated Statements of Changes in Equity  
 (unaudited)

**For the six-month period ended June 30, 2010 and 2009**

		<b>Common stock</b>	<b>Capital surplus</b>	<b>Capital adjustments</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Total stockholders' equity</b>
<i>(In thousands of Won)</i>							
<b>Balance at January 1, 2009</b>	₩	380,000,000	2,818,590,688	(1,762,040,031)	(498,454,758)	4,657,123,617	5,595,219,516
Dividends		-	-	-	-	(299,667,280)	(299,667,280)
Balance after appropriations		-	-	-	-	4,357,456,337	5,295,552,236
Net income		-	-	-	-	891,341,792	891,341,792
Changes in capital adjustments on valuation of equity method investments		-	-	(1,223,737)	-	-	(1,223,737)
Changes in gain and loss on valuation of investment securities		-	-	-	226,490,236	-	226,490,236
Changes in equity arising on application of the equity method		-	-	-	85,669,102	-	85,669,102
Negative changes in equity arising on application of the equity method		-	-	-	132,688,973	-	132,688,973
Changes in gain and loss on valuation of derivatives		-	-	-	158,710,069	-	158,710,069
<b>Balance at June 30, 2009</b>	₩	<u>380,000,000</u>	<u>2,818,590,688</u>	<u>(1,763,263,768)</u>	<u>105,103,622</u>	<u>5,248,798,129</u>	<u>6,789,228,671</u>
<b>Balance at January 1, 2010</b>	₩	380,000,000	2,869,578,078	(1,697,794,475)	1,752,672,452	6,503,945,132	9,808,401,187
Dividends		-	-	-	-	(212,174,207)	(212,174,207)
Balance after appropriations		-	-	-	-	6,291,770,925	9,596,226,980
Net income		-	-	-	-	1,836,726,997	1,836,726,997
Changes in gain and loss on valuation of investment securities		-	-	-	208,781,443	-	208,781,443
Changes in equity arising on application of the equity method		-	-	-	(171,805,471)	-	(171,805,471)
Negative changes in equity arising on application of the equity method		-	-	-	148,957	-	148,957
Changes in gain and loss on valuation of derivatives		-	-	-	(70,728,810)	-	(70,728,810)
Changes in gain and loss on revaluation of land		-	-	-	(386,128)	-	(386,128)
<b>Balance at June 30, 2010</b>	₩	<u>380,000,000</u>	<u>2,869,578,078</u>	<u>(1,697,794,475)</u>	<u>1,718,682,443</u>	<u>8,128,497,922</u>	<u>11,398,963,968</u>

See accompanying notes to non-consolidated financial statements.

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

**For the six-month periods ended June 30, 2010 and 2009**

(In thousands of Won)

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income	₩ 1,836,726,997	891,341,792
Adjustments for:		
Depreciation	215,418,501	192,095,088
Accrual for retirement and severance benefits	62,804,000	57,083,989
Accrual for allowance for doubtful accounts	123,188,728	8,949,984
Loss on foreign currency translation	40,086,800	29,843,143
Loss on disposal of property, plant and equipment	196,103	14,685,807
Loss on valuation of equity method investments	21,655,547	96,562,718
Amortization of development costs	23,952,075	21,448,039
Loss on valuation of foreign exchange forward contracts	1,106,052,192	2,070,085,094
Accrual for foreseeable losses on construction contracts	11,358,201	-
Gain on foreign currency translation	(99,870,178)	(27,620,513)
Gain on valuation of equity method investments	(582,072,603)	(204,785,187)
Gain on valuation of foreign exchange forward contracts	(535,112,815)	(792,751,296)
Reversal of allowance for doubtful accounts	(844,733)	(1,378,628)
Reversal of foreseeable losses on construction contracts	-	(63,781,715)
Others, net	28,381,142	7,787,029
	<u>2,251,919,957</u>	<u>2,299,565,344</u>
Changes in assets and liabilities:		
Accounts and notes receivable - trade	(869,075,610)	(556,239,813)
Accounts receivable - other	(26,296,352)	(38,413,197)
Accrued income	(56,002,899)	574,387
Advance payments	146,459,234	(274,622,232)
Inventories	310,137,182	160,858,746
Foreign exchange forward contracts	(534,060,994)	(1,623,373,532)
Accounts and notes payable – trade	89,313,185	(541,496,325)
Accounts payable - other	2,987,024	(71,525,638)
Advances from customers	(1,204,936,972)	(194,235,508)
Accrued expenses	298,841,564	294,898,964
Income tax payable	196,536,532	(317,571,603)
Deposit for severance benefit insurance	25,633,370	32,317,794
Payment of retirement and severance benefits	(38,325,427)	(46,666,816)
Deferred tax assets	(1,145,506)	81,980,927
Deferred tax liabilities	73,352,745	(15,510,272)
Others, net	25,503,471	15,265,111
<b>Net cash provided by (used in) operating activities</b>	<u>690,840,504</u>	<u>(794,193,663)</u>

See accompanying notes to non-consolidated financial statements.



Hyundai Heavy Industries Co., Ltd.  
 Non-Consolidated Statements of Cash Flows, Continued  
 (unaudited)

**For the six-month periods ended June 30, 2010 and 2009**

*(In thousands of Won)*

	<b>2010</b>	<b>2009</b>
<b>Cash flows from investing activities</b>		
Disposal of short-term financial instruments	₩ 49,033,003	1,227,092,470
Disposal of short-term investment securities	-	102,966,108
Disposal of long-term financial instruments	-	11,947,520
Disposal of long-term investment securities	19,543,862	52,127,456
Disposal of equity method investments	-	19,773
Disposal of long-term loans	1,751,400	-
Disposal of other non-current assets	360,278	245,057
Disposal of property, plant and equipment	2,760,287	1,370,866
Acquisition of short-term financial instruments	(45,500,000)	(19,852,600)
Acquisition of long-term financial instruments	-	(43,008)
Acquisition of long-term investment securities	(18,500,936)	(2,297,462)
Acquisition of equity method investments	(24,756,517)	(81,196,769)
Acquisition of other non-current assets	(4,828,575)	(8,023,998)
Acquisition of property, plant and equipment	(157,557,084)	(847,453,786)
Acquisition of intangible assets	(31,661,138)	(34,417,662)
<b>Net cash provided by (used in) investing activities</b>	<u>(209,355,420)</u>	<u>402,483,965</u>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	1,209,418,140	911,472,430
Proceeds from debentures	-	298,797,600
Proceeds from long-term borrowings	-	120,947
Repayment of short-term borrowings	(1,506,649,553)	(492,088,000)
Dividends paid	(212,174,207)	(299,667,280)
<b>Net cash provided by (used in) financing activities</b>	<u>(509,405,620)</u>	<u>418,635,697</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(27,920,536)	26,925,999
Cash and cash equivalents at beginning of year	<u>632,578,218</u>	<u>667,492,156</u>
<b>Cash and cash equivalents at end of year</b>	₩ <u><u>604,657,682</u></u>	<u><u>694,418,155</u></u>

See accompanying notes to non-consolidated financial statements.

# Hyundai Heavy Industries Co., Ltd.

## Notes to Non-Consolidated Financial Statements

**June 30, 2010**

(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 and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other items.

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩ 5,000, authorized: 160,000,000 shares) of common stock were issued and outstanding as of June 30, 2010. Of the total issued shares, the company's major stockholders Mong-Joon Chung, KCC Corporation, Hyundai Mipo Dockyard Co., Ltd., Hyundai Motor Company and National Pension Service own 10.80%, 8.15%, 7.98%, 2.88% and 2.71%, 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 10, 2010. The Company may also raise capital by obtaining the approval of the Board of Directors by issuing stock to old shareholders, issuing stock through a general public subscription under 30% of outstanding shares, issuing stock through the issue of Depository Receipts under the Securities and Exchange Act and issuing stock to employees under certain circumstances

### **2. Basis of Presenting Financial Statements and Summary of Significant Accounting Policies**

#### **(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 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.

The Company prepares the non-consolidated financial statements in accordance with generally accepted accounting principles in the Republic of Korea and applied the same accounting policies that were adopted in the previous year's non-consolidated financial statements.

#### **(b) Cash Equivalents**

The Company considers short-term deposits with maturities of three months or less on acquisition date to be cash equivalents.

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

June 30, 2010

(unaudited)

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

**(c) Allowance for Doubtful Accounts**

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection and presented as a deduction from trade receivables.

**(d) Inventories**

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined by the weighted-average method. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of goods sold and are deducted as an allowance from the carrying value of inventories.

The Company recognizes interest costs and other financial charges on borrowings associated with inventories that require a long period for acquisition, construction or production as an expense in the period in which they are incurred.

**(e) Investments in Securities**

**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.

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, 2010**

(unaudited)

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

**(e) Investments in Securities, 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, available-for-sale securities which mature within one year from the end of the reporting period or where the likelihood of disposal within one year from the end of the reporting period is probable, held-to-maturity securities which mature within one year from the end of the reporting period, short-term deposits and short-term loans are combined and presented as current assets. All other available-for-sale securities and held-to-maturity securities are combined and 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 had no impairment loss been recognized in the asset in prior years. For financial assets measured at amortized cost and available-for-sale assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

**(f) Investments in Associates and Subsidiaries**

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

Investments in associates and subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's investments in associates and subsidiaries include goodwill identified on the acquisition date. Goodwill is calculated as the excess of the acquisition cost of an investment in an associate or subsidiary over the Company's share of the fair value of the identifiable net assets acquired. Goodwill is amortized using the straight-line method over its estimated useful life. Amortization of goodwill is recorded together with equity income (losses).

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(unaudited)

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

**(f) Investments in Associates and Subsidiaries, Continued**

When events or circumstances indicate that the carrying value of goodwill may not be recoverable, the Company reviews goodwill for impairment and records any impairment loss immediately in the statement of income.

The Company's share of its post-acquisition profits or losses in investments in associates and subsidiaries is recognized in the income statement, and its share of post-acquisition movements in equity is recognized in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of each investment. Changes in the carrying amount of an investment resulting from dividends by an associate or subsidiary are recognized when the associate or subsidiary declares the dividend. When the Company's share of losses in an associate or subsidiary equals or exceeds its interest in the associate or subsidiary, including preferred stock or other long term loans and receivables issued by the associate or subsidiary, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or subsidiary.

If the investee is a subsidiary, net income and net assets of the parent company's separate financial statements should agree with the parent company's share in the net income and net assets of the consolidated financial statements, except when the Company discontinues the application of the equity method due to its investment in a subsidiary being reduced to zero.

Unrealized gains on transactions between the Company and its associates or subsidiaries are eliminated to the extent of the Company's interest in each associate or subsidiary.

**(g) Property, Plant and Equipment**

Property, plant and equipment are stated at cost, except in the case of revaluations made in accordance with the Asset Revaluation Law, which allowed for asset revaluation prior to the Law being revoked on December 31, 2000. Assets acquired through investment in kind or donations are recorded at their fair value upon acquisition. For assets acquired in exchange for a non-monetary asset, the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Significant additions or improvements extending useful lives of assets are capitalized. Normal maintenance and repairs are charged to expense as incurred.

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

**(g) Property, Plant and Equipment, Continued**

The Company recognizes interest costs and other financial charges on borrowings associated with the production, acquisition or construction of property, plant and equipment as an expense in the period in which they are incurred.

The Company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the expected estimated undiscounted future net cash flows from the use of the asset and its eventual disposal are less than its carrying amount.

As of January 1, 2009, the Company adopted the revaluation model in accordance with the revised Statements of Korean Accounting Standards ("SKAS") No.5 *Property, Plant and Equipment*. The book value of land is accounted at fair value as of the date of the revaluation less accumulated impairment loss. If an asset's book value increases as a result of the revaluation, the amount of the increase is recognized in other comprehensive income, of which, the amount of the increase that reverses a revaluation decrease of the same asset previously recognized in profit and loss is recognized in profit and loss in the current period. On the other hand, if an asset's book value decreases as a result of the revaluation, that decrease is recognized as a loss for the current period, and the portion of the amount of decrease included in the credit balance in the revaluation surplus recorded in other comprehensive income is deducted from other comprehensive income.

**(h) Intangible Assets**

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Impairment losses are determined as the amount required to reduce the carrying amount of an intangible asset to its recoverable amount.

The criteria for determining whether an incurred cost qualifies as an intangible asset and the periods of amortization for each classification of intangible asset are described below.

(i) Research and Development Costs

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the expense generation process into a research phase and a development phase. All costs incurred during the research phase are expensed as incurred. Costs incurred during the development phase are recognized as assets only if the following criteria are met for recognition in SKAS No. 3 *Intangible Assets*: (1) completion of the intangible asset is technically feasible so that it will be available for use or sale; (2) the Company has the intention and ability to complete the intangible asset and use or sell it; (3) there is evidence that the intangible asset will generate probable future economic benefit; (4) the Company has adequate technical, financial and other resources to complete the development of the intangible asset and the intangible asset will be available; and (5) the expenditures attributable to the intangible asset during its development can be reliably determined.

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

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

**(h) Intangible Assets, Continued**

If the costs incurred fail to satisfy these criteria, they are recorded as expenses as incurred. Where development costs satisfy the criteria, they are capitalized and amortized on a straight-line basis over five years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads.

(ii) Other intangible assets

Other intangible assets, which consist of usage rights for the donated properties, are amortized using the straight-line method over 20~40 years.

**(i) Discount on Debentures**

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

**(j) 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 end of the reporting period, is accrued in the accompanying non-consolidated statements of financial position. 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 in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated statements of financial position 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 reduced 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 regulation effective April 1999, such transfers to the National Pension Fund are no longer required.

**(k) Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the foreign exchange rate at the end of the reporting period, with the resulting gains or losses recognized in the income statement. 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, 2010**

(unaudited)

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

**(k) 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 end of the reporting period. 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 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.

**(l) Derivatives and Hedge Accounting**

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Attributable transaction costs are recognized in profit or loss when incurred.

**Hedge accounting**

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

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

**Fair value hedge**

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



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

**June 30, 2010**

(unaudited)

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

**(l) Derivatives and Hedge Accounting, Continued**

**Cash flow hedge**

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

**Derivatives that do not qualify for hedge accounting**

Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the statement of income.

**Separable embedded derivatives**

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of income.

**(m) Provisions, Contingent Assets and Contingent Liabilities**

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The expense generated by the provision is presented net of the amount of expected reimbursement.

Hyundai Heavy Industries Co., Ltd.  
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(unaudited)

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

**(n) Revenue Recognition**

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

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

**(o) Income Taxes**

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

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

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

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 carry-forwards and tax credit carry-forwards. The deferred tax amounts are presented as a net current asset or liability and a net non-current asset or liability.

Changes in deferred taxes due to a change in the tax rate except for those related to items initially recognized outside profit or loss (either in other comprehensive income or directly in equity) are recognized as income in the current year.

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

**(p) Earnings Per Share**

Earnings per share are calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of shares outstanding during the period.

**(q) Use of Estimates**

The preparation of non-consolidated financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the non-consolidated financial statements and related notes to non-consolidated financial statements. Actual results could differ from those estimates.

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(unaudited)

**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, 2010 and December 31, 2009 are summarized as follows:

<i>(In thousands of Won)</i>		<u>2010</u>	<u>2009</u>
Short-term financial instruments	₩	1,263,220	16,989
Long-term financial instruments		<u>1,582,547</u>	<u>3,224,878</u>
	₩	<u>2,845,767</u>	<u>3,241,867</u>

**4. Inventories**

Inventories as of June 30, 2010 and December 31, 2009 are summarized as follows:

<i>(In thousands of Won)</i>		<u>2010</u>	<u>2009</u>
Merchandise	₩	58,460,274	53,801,673
Finished goods		99,497,084	96,185,730
Work-in-progress		635,920,558	720,372,588
Raw materials		417,189,988	556,500,478
Supplies		20,562,892	16,308,403
Materials-in-transit		<u>386,790,537</u>	<u>485,389,643</u>
	₩	<u>1,618,421,333</u>	<u>1,928,558,515</u>

The valuation of inventories as of June 30, 2010 and December 31, 2009 is summarized as follows:

<i>(In thousands of Won)</i>		<u>2010</u>			<u>2009</u>		
		<b>Provision for inventory</b>			<b>Provision for inventory</b>		
		<b>Acquisition</b>	<b>valuation</b>	<b>Book value</b>	<b>Acquisition</b>	<b>valuation</b>	<b>Book value</b>
Merchandise	₩	61,772,350	3,312,076	58,460,274	57,010,702	3,209,029	53,801,673
Finished goods		99,955,285	458,201	99,497,084	101,230,615	5,044,885	96,185,730
Work-in-progress		<u>637,540,494</u>	<u>1,619,936</u>	<u>635,920,558</u>	<u>737,474,333</u>	<u>17,101,745</u>	<u>720,372,588</u>
	₩	<u>799,268,129</u>	<u>5,390,213</u>	<u>793,877,916</u>	<u>895,715,650</u>	<u>25,355,659</u>	<u>870,359,991</u>

Reversal of valuation loss was ₩ 19,965,446 thousand and it was deducted from cost of sales.

Hyundai Heavy Industries Co., Ltd.  
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**5. Other Current Assets**

Other current assets as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won)

		<u>2010</u>	<u>2009</u>
Prepaid expenses	₩	210,431,585	203,375,407
Other current deposits		<u>2,038,985</u>	<u>2,027,206</u>
	₩	<u>212,470,570</u>	<u>205,402,613</u>

**6. Long-Term Investments**

(a) Long-term investment securities, which consist of available-for-sale securities (non-current assets only) as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won)

		<u>2010</u>	<u>2009</u>
<b>Available-for-sale securities (non-current)</b>			
Marketable securities	₩	1,151,897,507	998,391,388
Non-marketable securities		<u>289,488,107</u>	<u>175,689,303</u>
	₩	<u>1,441,385,614</u>	<u>1,174,080,691</u>

(b) Equity securities stated at fair value included in long-term investment securities as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won, except percentage of ownership)

	Percentage of ownership (%)		<u>2010</u>		<u>2009</u>
			<u>Acquisition cost</u>	<u>Fair value</u>	<u>Fair value</u>
<b>Listed equity securities:</b>					
Kia Motors Corporation	0.02	₩	2,681,616	2,885,612	1,769,312
Korea Line Corporation	2.53		55,130,663	15,067,655	12,803,603
Tong Yang Securities	1.87		58,167,439	20,604,637	47,840,616
Mirae Asset Securities Co., Ltd.	0.10		6,654,173	2,266,002	2,727,595
Hyundai Elevator Co., Ltd.	2.16		1,632,339	7,484,837	8,932,522
Hyundai Motor Company (*)	3.45		519,246,924	1,098,694,190	920,013,820
Korea Environment Technology Co., Ltd.	7.58		1,909,389	4,872,720	4,303,920
Ssangyong Motor Co., Ltd.	0.00		<u>23,419</u>	<u>21,854</u>	-
		₩	<u>645,445,962</u>	<u>1,151,897,507</u>	<u>998,391,388</u>

(\*) The Company deposits 650,000 shares into the Gunsan City Hall for construction performance.

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**6. Long-Term Investments, Continued**

(c) Equity securities stated at acquisition cost included in long-term investment securities as of June 30, 2010 and December 31, 2009 are summarized as follows:

*(In thousands of Won, except percentage of ownership)*

	Percentage of ownership (%)		2010		2009
			Acquisition cost	Fair value	Fair value
<b>Unlisted equity securities: (*1)</b>					
Gangwon Football Club Co., Ltd.	0.01	₩	1,000	1,000	1,000
Kuk Dong Heavy Conveyance Co., Ltd.	7.50		501,720	501,720	501,720
Novelis Korea Ltd.	0.39		14,598,913	1,405,452	1,405,452
Daehan Oil Pipeline Corporation	6.39		14,511,802	14,511,802	14,511,802
Dong-A Precision Machinery. Co., Ltd.	0.01		35,640	-	-
Doosan Capital Co., Ltd. (*2)	9.99		10,000,000	24,762,000	24,762,000
Bexco, Ltd.	7.96		9,460,000	9,460,000	9,460,000
Chonggu Co., Ltd.	0.00		188,260	-	-
Postec Electronic Power Fund Co.	1.75		500,000	500,000	500,000
Hanwha Electric Venture Fund.	2.00		500,000	500,000	500,000
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
Enova System Inc.	1.43		1,314,583	1,314,583	1,314,583
PT. Golden Hyundai Machinery (*3)	20.83		155,250	155,250	155,250
HHI Mauritius Limited (*3)	100.00		122	122	122
Hynix Semiconductor America Inc.	1.33		34,525,619	-	-
Hyundai Heavy Industries France SAS (*3)	100.00		22,787	22,787	22,787
Hyundai (Malaysia) SDN BHD (*3)	100.00		17,286	-	-
Hyundai Technologies Center Hungary Kft. (*3)	100.00		26,302	26,302	26,302
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	10,914
PHECO Inc. (*3)	100.00		2,303,555	236,621	236,621
Kimpo Solar Co., Ltd.	14.29		50,000	50,000	-
OSX Construcao Naval S.A.	10.03		18,087,228	18,087,228	-
			<u>108,503,424</u>	<u>73,238,224</u>	<u>55,100,996</u>
<b>Beneficiary certificates</b>			58,614,703	211,077,073	115,427,397
<b>Investments in capital</b>			<u>5,172,810</u>	<u>5,172,810</u>	<u>5,160,910</u>
		₩	<u>172,290,937</u>	<u>289,488,107</u>	<u>175,689,303</u>

(\*1) The book values of unlisted equity securities were recorded as their acquisition cost because the fair values cannot be estimated reliably.

(\*2) The fair value was calculated by using the free cash flows to shareholders method and estimation of stock price distribution at December 31, 2009.

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**6. Long-Term Investments, Continued**

(\*3) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hyundai Technologies Center Hungary Kft. and others were not accounted for using the equity method of accounting since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of December 31, 2009, is less than ₩ 10,000 million, are not material.

(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, 2010, was as follows:

(In thousands of Won)

		<b>2010</b>		
		<b>Balance at January 1, 2010</b>	<b>Increase (decrease)</b>	<b>Balance at June 30, 2010</b>
	₩	(711,597)	870,713	159,116
		(33,015,107)	1,765,960	(31,249,147)
		3,527,406	(7,143,347)	(3,615,941)
		(3,062,730)	(360,043)	(3,422,773)
		5,694,143	(1,129,194)	4,564,949
		312,598,179	139,370,689	451,968,868
		(323,006)	443,664	120,658
		-	(1,220)	(1,220)
		11,514,360	-	11,514,360
		296,221,648	133,817,222	430,038,870
		43,956,427	74,964,221	118,920,648
	₩	<u>340,178,075</u>	<u>208,781,443</u>	<u>548,959,518</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, 2009, was as follows:

(In thousands of Won)

		<b>2009</b>		
		<b>Balance at January 1, 2009</b>	<b>Increase (decrease)</b>	<b>Balance at December 31, 2009</b>
	₩	(1,640,817)	929,220	(711,597)
		(26,925,588)	(6,089,519)	(33,015,107)
		(14,974,952)	18,502,358	3,527,406
		(2,911,530)	(151,200)	(3,062,730)
		5,084	(5,084)	-
		6,535,032	(840,889)	5,694,143
		(170,751,231)	483,349,410	312,598,179
		340,402	(340,402)	-
		-	(323,006)	(323,006)
		12,120,881	(12,120,881)	-
		11,214,840	299,520	11,514,360
		(186,987,879)	483,209,527	296,221,648
		(1,734,668)	1,734,668	-
		(7,914,149)	51,870,576	43,956,427
	₩	<u>(196,636,696)</u>	<u>536,814,771</u>	<u>340,178,075</u>

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**7. Equity Method Investments**

(a) Investments in companies accounted for using the equity method as of June 30, 2010 are summarized as follows:

(In thousands of Won)

Company	Number of shares	Percentage of ownership (%)	Historical cost	Book value
Hyundai Oilbank Co., Ltd.	51,773,834	21.13	₩ 312,249,753	432,858,779
Hyundai Finance Corporation (*1)	12,350,000	67.49	78,197,738	96,096,300
Hyundai Samho Heavy Industries Co., Ltd. (*1)	37,967,000	94.92	204,259,700	1,961,332,134
Hyundai Heavy Industries Co. Bulgaria (*1)	12,155,829	99.09	11,620,593	44,908,478
New Korea Country Club	16,457	20.00	500,000	4,058,338
Hyundai Heavy Industries Europe N.V. (*1)	10	100.00	35,656,728	14,253,741
Hyundai Vinashin Shipyard (*1,2,3)	-	10.00	2,543,678	25,552,616
H.C.E U.S.A (*1)	23,900,000	100.00	26,712,810	3,020,838
Vladivostock Business Center (*1,2)	-	100.00	5,891,667	-
HHI China Investment Co., Ltd. (*1,2)	-	100.00	160,804,529	384,196,281
Hyundai Merchant Marine Co., Ltd. (common stock) (*4)	23,424,037	17.60	404,039,118	333,017,920
Hyundai Merchant Marine Co., Ltd. (preferred stock) (*4)	3,516,688	17.58	52,750,320	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*2)	-	20.00	67,658,226	123,713,175
Hyundai Ideal Electric Co. (*1)	1,000	100.00	18,119,600	27,443,070
Hyundai Financial Leasing Co., Ltd. (*1,2)	-	66.02	37,622,743	51,731,058
Hyundai Construction Equipment India Private Ltd. (*1)	17,184,775	100.00	39,354,139	22,985,787
Wartsila Hyundai Engine Company Ltd. (*2)	-	50.00	33,930,000	42,322,823
Ulsan Hyundai Football Club Co., Ltd.	2,800,000	100.00	14,000,000	3,387,388
HYMS (*1)	29,600,000	100.00	148,000,000	123,515,668
KAM Corporation	23,520,000	49.00	117,600,000	107,315,749
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00	1,016,600	999,142
KOMAS Corporation	754,414	100.00	3,772,070	2,444,257
Hotel Hyundai Co., Ltd.	80,000	100.00	1,397,000	2,458,938
Khorol Zerno Ltd. (*2)	-	80.79	6,641,016	6,518,015
Hyundai Primorye Ltd. (formerly Khorol Agro Ltd.) (*2)	-	49.99	3,573,517	3,346,102
Hyundai Corporation (*5)	4,992,782	22.36	105,134,024	105,125,438
Taebaek Wind Power Co., Ltd.	703,500	35.00	3,517,500	3,442,167
Muju Wind Power Co., Ltd.	36,000	45.00	180,000	180,000
Pyeongchang Wind Power Co., Ltd.	3,500	35.00	17,500	17,500
Hyundai (Shangdong) Heavy Industry Machinery Co., Ltd. (*1,2)	-	100.00	18,226,787	18,226,787
			<u>₩ 1,914,987,356</u>	<u>3,999,716,938</u>



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**7. Equity Method Investments, Continued**

(b) Investments in companies accounted for using the equity method as of December 31, 2009 were as follows:

(In thousands of Won)

Company	Number of shares	Percentage of ownership (%)	Historical cost	Book value
Hyundai Oilbank Co., Ltd.	51,773,884	21.13	₩ 312,249,753	373,656,633
Hyundai Finance Corporation (*1)	12,350,000	67.49	78,197,738	90,726,376
Hyundai Samho Heavy Industries Co., Ltd. (*1)	37,967,000	94.92	204,259,700	1,817,689,776
Hyundai Heavy Industries Co. Bulgaria (*1)	12,155,829	99.09	11,620,593	46,768,262
New Korea Country Club	16,457	20.00	500,000	4,045,252
Hyundai Heavy Industries Europe N.V. (*1)	10	100.00	35,656,728	10,322,118
Hyundai Vinashin Shipyard (*1,2,3)	-	10.00	2,543,678	20,148,716
H.C.E U.S.A (*1)	23,900,000	100.00	26,712,810	-
Vladivostock Business Center (*1,2)	-	57.14	5,891,667	-
HHI China Investment Co., Ltd. (*1,2)	-	100.00	160,804,529	286,425,278
Hyundai Merchant Marine Co., Ltd. (common stock) (*4)	23,424,037	17.60	404,039,118	360,633,965
Hyundai Merchant Marine Co., Ltd. (preferred stock) (*4)	3,516,688	17.58	52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*2)	-	20.00	67,658,226	128,357,731
Hyundai Ideal Electric Co. (*1)	1,000	100.00	18,119,600	25,493,855
Hyundai Financial Leasing Co., Ltd. (*1,2)	-	66.02	37,622,743	44,416,791
Hyundai Construction Equipment India Private Ltd. (*1)	17,184,775	100.00	39,354,139	22,226,238
Wartsila Hyundai Engine Company Ltd. (*2)	-	50.00	33,930,000	40,496,305
Ulsan Hyundai Football Club Co., Ltd.	2,000,000	100.00	10,000,000	913,199
HYMS (*1)	29,600,000	100.00	148,000,000	122,135,871
KAM Corporation	23,520,000	49.00	117,600,000	117,667,618
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00	1,016,600	1,045,336
KOMAS Corporation	754,414	100.00	3,772,070	1,634,795
Hotel Hyundai Co., Ltd.	80,000	100.00	1,397,000	1,806,723
Khorol Zerno Ltd. (*2)	-	67.60	5,546,562	5,380,910
Khorol Agro Ltd. (*2)	-	49.99	2,335,741	2,196,010
Hyundai Corporation	4,992,782	22.36	105,134,024	105,134,024
Taebaek Wind Power Co., Ltd.	703,500	35.00	3,517,500	3,482,618
			₩ 1,890,230,839	3,689,107,855

(\*1) The Company's subsidiaries.

(\*2) Number of shares is not presented because they are non-par stock.

(\*3) Since the percentage of ownership of the Company and its subsidiary is more than 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method.

Hyundai Heavy Industries Co., Ltd.  
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**7. Equity Method Investments, Continued**

(\*4) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, investment in these securities are accounted for using the equity method of accounting. In addition, the closing common stock price of Hyundai Merchant Marine Co., Ltd. on the stock market of the Republic of Korea was ₩ 35,800 per share at June 30, 2010. Its preferred stock has no market price because it is unlisted.

(\*5) The closing common stock price of Hyundai Corporation on the stock market of the Republic of Korea was ₩ 24,900 per share at June 30, 2010.

- (c) Under the equity method of accounting, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over the reasonable periods within 20 years and the changes in the differences for the six-month period ended June 30, 2010 were as follows:

*(In thousands of Won)*

<b>Company</b>	<b>Balance at January 1, 2010</b>	<b>Increase</b>	<b>Amortized amount</b>	<b>Balance at June 30, 2010</b>
Hyundai Oilbank Co., Ltd.	₩ 25,428,599	-	(2,535,753)	22,892,846
Hyundai Merchant Marine Co., Ltd. (common stock)	20,259,048	-	(8,103,619)	12,155,429
Qinhuangdao Shouqin Metal Materials Co., Ltd.	5,681,673	-	(1,421,532)	4,260,141
Hotel Hyundai Co., Ltd.	315,760	-	(39,470)	276,290
Khorol Zerno Ltd.	1,185,644	-	(126,889)	1,058,755
Hyundai Primorye Ltd.	721,863	-	(78,537)	643,326
Hyundai Corporation	72,334,654	-	(7,233,465)	65,101,189
Hyundai (Shangdong) Heavy Industry Machinery Co., Ltd.	-	7,688,942	-	7,688,942
	₩ 125,927,241	7,688,942	(19,539,265)	114,076,918

- (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, 2010 were as follows:

*(In thousands of Won)*

<b>Company</b>	<b>Balance at January 1, 2010</b>	<b>Net income (loss)</b>	<b>Accumulated other comprehen- sive income</b>	<b>Other increase (decrease)</b>	<b>Balance at June 30, 2010</b>
Hyundai Oilbank Co., Ltd.	₩ 373,656,633	66,280,492	(7,078,346)	-	432,858,779
Hyundai Finance Corporation	90,726,376	5,907,740	697,184	(1,235,000)	96,096,300
Hyundai Samho Heavy Industries Co., Ltd.	1,817,689,776	383,130,816	(201,521,458)	(37,967,000)	1,961,332,134
Hyundai Heavy Industries Co. Bulgaria	46,768,262	6,272,789	(5,931,258)	(2,201,315)	44,908,478
New Korea Country Club	4,045,252	63,086	-	(50,000)	4,058,338
Hyundai Heavy Industries Europe N.V.	10,322,118	7,313,198	(3,381,575)	-	14,253,741
Hyundai Vinashin Shipyard	20,148,716	4,449,370	954,530	-	25,552,616

Hyundai Heavy Industries Co., Ltd.  
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**7. Equity Method Investments, Continued**

(In thousands of Won)

Company	Balance at January 1, 2010	Net income (loss)	Accumulated other comprehen- sive income	Other increase (decrease)	Balance at June 30, 2010
H.C.E U.S.A.	₩ -	3,020,838	-	-	3,020,838
Vladivostok Business Center (*)	-	-	-	-	-
HHI China Investment Co., Ltd.	286,425,278	82,420,533	15,350,470	-	384,196,281
Hyundai Merchant Marine Co., Ltd. (common stock)	360,633,965	11,002,976	(26,907,003)	(11,712,018)	333,017,920
Hyundai Merchant Marine Co., Ltd. (preferred stock)	56,303,455	1,055,006	-	(2,110,012)	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd.	128,357,731	(9,206,770)	4,562,214	-	123,713,175
Hyundai Ideal Electric Co.	25,493,855	955,066	994,149	-	27,443,070
Hyundai Financial Leasing Co., Ltd.	44,416,791	5,223,436	2,090,831	-	51,731,058
Hyundai Construction Equipment India Private Ltd.	22,226,238	(384,603)	1,144,152	-	22,985,787
Wartsila Hyundai Engine Company Ltd.	40,496,305	1,826,518	-	-	42,322,823
Ulsan Hyundai Football Club Co., Ltd.	913,199	(1,504,267)	(21,544)	4,000,000	3,387,388
HYMS	122,135,871	1,379,797	-	-	123,515,668
KAM Corporation	117,667,618	(10,351,869)	-	-	107,315,749
Grand China Hyundai Shipping Company Ltd.	1,045,336	(81,351)	35,157	-	999,142
KOMAS Corporation	1,634,795	809,462	-	-	2,444,257
Hotel Hyundai Co., Ltd.	1,806,723	652,215	-	-	2,458,938
Khorol Zerno Ltd.	5,380,910	227,187	(184,536)	1,094,454	6,518,015
Hyundai Primorye Ltd.	2,196,010	(86,237)	(1,447)	1,237,776	3,346,102
Hyundai Corporation	105,134,024	82,079	(90,665)	-	105,125,438
Taebaek Wind Power Co., Ltd.	3,482,618	(40,451)	-	-	3,442,167
Muju Wind Power Co., Ltd.	-	-	-	180,000	180,000
Pyeongchang Wind Power Co., Ltd.	-	-	-	17,500	17,500
Hyundai (Shangdong) Heavy Industry Machinery Co., Ltd.	-	-	-	18,226,787	18,226,787
	₩ 3,689,107,855	560,417,056	(219,289,145)	(30,518,828)	3,999,716,938

(\*) 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 ₩ 149,627 million including ₩ 64,879 million increased for the six-month period ended June 30, 2010 and allowance amounting to ₩ 95,550 million was provided for accounts receivables - other for Vladivostok Business Center.

Hyundai Heavy Industries Co., Ltd.  
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(unaudited)

**7. Equity Method Investments, Continued**

(e) Gain or loss on valuation of investment securities is accounted for after eliminating unrealized profit arising from the inter-company transactions. For the periods ended June 30, 2010 and December 31, 2009, unrealized gain eliminated under the equity method accounting are ₩ 97,060 million and ₩ 119,825 million, respectively.

(f) Equity securities accounted for using the equity method as of June 30, 2010 are valued based on the financial statements of the investees as of the same reporting period, which were neither audited nor reviewed by an external auditor. Those net asset values from using the provisional settlement were as follows:

<i>(In thousands of Won)</i>		<b>Net asset value before adjustments</b>	<b>Adjustments</b>	<b>Net asset value after adjustments</b>
<b>Company</b>				
Hyundai Oilbank Co., Ltd.	₩	409,965,933	-	409,965,933
Hyundai Finance Corporation		96,096,300	-	96,096,300
Hyundai Samho Heavy Industries Co., Ltd. (*)		2,345,116,648	(371,475,524)	1,973,641,124
Hyundai Heavy Industries Co. Bulgaria		44,908,478	-	44,908,478
New Korea Country Club		4,058,338	-	4,058,338
Hyundai Heavy Industries Europe N.V.		24,410,479	-	24,410,479
Hyundai Vinashin Shipyard		25,552,616	-	25,552,616
H.C.E U.S.A.		10,862,073	-	10,862,073
Vladivostok Business Center		-	-	-
HHI China Investment Co., Ltd. (*)		280,998,314	127,381,800	408,380,114
Hyundai Merchant Marine Co., Ltd. (common stock)		320,862,491	-	320,862,491
Hyundai Merchant Marine Co., Ltd. (preferred stock)		55,248,449	-	55,248,449
Qinhuangdao Shouqin Metal Materials Co., Ltd.		119,453,034	-	119,453,034
Hyundai Ideal Electric Co.		27,443,070	-	27,443,070
Hyundai Financial Leasing Co., Ltd.		51,731,058	-	51,731,058
Hyundai Construction Equipment India Private Ltd.		29,871,476	-	29,871,476
Wartsila Hyundai Engine Company Ltd.		42,322,823	-	42,322,823
Ulsan Hyundai Football Club Co., Ltd.		3,387,388	-	3,387,388
HYMS		157,544,250	-	157,544,250
KAM Corporation		107,315,749	-	107,315,749
Grand China Hyundai Shipping Company Ltd.		999,142	-	999,142
KOMAS Corporation		4,098,928	-	4,098,928
Hotel Hyundai Co., Ltd.		2,182,648	-	2,182,648
Khorol Zerno Ltd.		5,459,259	-	5,459,259
Hyundai Primorye Ltd.		2,702,775	-	2,702,775
Hyundai Corporation		40,024,249	-	40,024,249
Taebaek Wind Power Co., Ltd.		3,442,167	-	3,442,167
Muju Wind Power Co., Ltd.		180,000	-	180,000
Pyeongchang Wind Power Co., Ltd.		17,500	-	17,500
Hyundai (Shangdong) Heavy Industry Machinery Co., Ltd.		10,537,845	-	10,537,845
	₩	<u>4,226,793,480</u>	<u>(244,093,724)</u>	<u>3,982,699,756</u>

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

Hyundai Heavy Industries Co., Ltd.  
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**7. Equity Method Investments, Continued**

(g) Summarized financial information of equity-accounted investments as of and for the period ended June 30, 2010 is summarized as follows:

*(In millions of Won)*

<b>Company</b>		<b>Assets</b>	<b>Liabilities</b>	<b>Sales</b>	<b>Net income (loss)</b>
Hyundai Oilbank Co., Ltd.	₩	6,418,402	4,477,742	6,074,335	326,986
Hyundai Finance Corporation		145,403	3,009	3,927	3,730
Hyundai Samho Heavy Industries Co., Ltd.		6,827,783	4,357,094	2,165,717	404,199
Hyundai Heavy Industries Co. Bulgaria		57,339	12,017	39,645	6,263
New Korea Country Club		26,596	6,303	5,507	329
Hyundai Heavy Industries Europe N.V.		80,714	56,303	79,016	(1,479)
Hyundai Vinashin Shipyard		401,247	145,720	158,888	44,526
H.C.E U.S.A.		96,893	86,031	85,968	(1,004)
Vladivostok Business Center		24,666	173,277	5,530	(852)
HHI China Investment Co., Ltd.		325,855	44,857	4,236	18,991
Hyundai Merchant Marine Co., Ltd.		8,572,407	6,435,363	3,796,800	110,618
Qinhuangdao Shouqin Metal Materials Co., Ltd.		2,283,652	1,686,387	695,455	(40,346)
Hyundai Ideal Electric Co.		44,169	16,726	25,402	1,045
Hyundai Financial Leasing Co., Ltd.		734,634	656,278	24,604	7,912
Hyundai Construction Equipment India Private Ltd.		91,206	61,335	52,397	193
Wartsila Hyundai Engine Company Ltd.		196,133	111,487	74,752	3,653
Ulsan Hyundai Football Club Co., Ltd.		4,162	775	10,635	(1,450)
HYMS		315,177	157,632	261,059	1,211
KAM Corporation		461,037	242,025	2,666	(21,102)
Grand China Hyundai Shipping Company Ltd.		2,077	79	-	(145)
KOMAS Corporation		4,118	19	212	314
Hotel Hyundai Co., Ltd.		5,844	3,661	13,212	685
Khorol Zerno Ltd.		6,928	171	1,922	524
Hyundai Primorye Ltd.		5,418	11	46	(16)
Hyundai Corporation		921,372	742,367	1,573,412	32,718
Taebaek Wind Power Co., Ltd.		9,841	7	-	(121)
Muju Wind Power Co., Ltd.		400	-	-	-
Pyeongchang Wind Power Co., Ltd.		50	-	-	-
Hyundai (Shangdong) Heavy Industry Machinery Co., Ltd.		18,814	8,276	1,604	(625)

Hyundai Heavy Industries Co., Ltd.  
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**8. Property, Plant and Equipment**

(a) Property, plant and equipment as of June 30, 2010 and December 31, 2009 are summarized as follows:

<i>(In thousands of Won)</i>		<b>2010</b>	<b>2009</b>
Buildings and structures	₩	3,961,696,067	3,929,329,068
Machinery and equipment		3,014,842,028	2,945,351,323
Ships		211,499,143	211,401,759
Vehicles		37,397,466	35,148,987
Tools, furniture and fixtures		1,253,984,812	1,223,446,599
		<u>8,479,419,516</u>	<u>8,344,677,736</u>
Less: Accumulated depreciation		(3,670,534,914)	(3,474,615,628)
		4,808,884,602	4,870,062,108
Land		2,873,143,219	2,871,363,776
Construction-in-progress		403,969,899	404,096,925
	₩	<u><u>8,085,997,720</u></u>	<u><u>8,145,522,809</u></u>

(b) Changes in property, plant and equipment for the six-month period ended June 30, 2010 were as follows:

<i>(In thousands of Won)</i>		<b>2010</b>					
		<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery and equipment</b>	<b>Others</b>	<b>Total</b>
Beginning	₩	2,871,363,776	2,508,553,039	1,420,776,029	2,945,351,323	1,874,094,270	11,620,138,437
Acquisition		3,046,207	5,935,300	26,431,699	73,916,849	48,227,028	157,557,083
Disposal		(1,266,764)	-	-	(4,426,144)	(15,469,978)	(21,162,886)
End of period		<u>2,873,143,219</u>	<u>2,514,488,339</u>	<u>1,447,207,728</u>	<u>3,014,842,028</u>	<u>1,906,851,320</u>	<u>11,756,532,634</u>
Depreciation		-	(31,801,317)	(17,797,774)	(96,937,074)	(68,882,336)	(215,418,501)
Accumulated depreciation		-	(482,256,010)	(228,028,663)	(1,858,803,780)	(1,101,446,461)	(3,670,534,914)
	₩	<u><u>2,873,143,219</u></u>	<u><u>2,032,232,329</u></u>	<u><u>1,219,179,065</u></u>	<u><u>1,156,038,248</u></u>	<u><u>805,404,859</u></u>	<u><u>8,085,997,720</u></u>

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**8. Property, Plant and Equipment, Continued**

(c) Changes in property, plant and equipment for the year ended December 31, 2009 were as follows:

(In thousands of Won)

		2009					
		Land	Buildings	Structures	Machinery and equipment	Others	Total
Beginning							
of period	₩	1,586,959,576	2,132,007,385	917,521,401	2,404,550,660	2,343,057,412	9,384,096,434
Acquisition							
and other		49,377,185	405,362,786	503,983,391	672,021,254	(446,430,398)	1,184,314,218
Disposal		(1,458,224)	(28,817,132)	(728,763)	(131,220,591)	(22,532,744)	(184,757,454)
Revaluation		1,236,485,239	-	-	-	-	1,236,485,239
End of period		<u>2,871,363,776</u>	<u>2,508,553,039</u>	<u>1,420,776,029</u>	<u>2,945,351,323</u>	<u>1,874,094,270</u>	<u>11,620,138,437</u>
Depreciation		-	(60,944,830)	(29,758,181)	(176,653,522)	(132,337,629)	(399,694,162)
Accumulated							
depreciation		-	<u>(450,454,692)</u>	<u>(210,230,889)</u>	<u>(1,766,226,220)</u>	<u>(1,047,703,827)</u>	<u>(3,474,615,628)</u>
	₩	<u><u>2,871,363,776</u></u>	<u><u>2,058,098,347</u></u>	<u><u>1,210,545,140</u></u>	<u><u>1,179,125,103</u></u>	<u><u>826,390,443</u></u>	<u><u>8,145,522,809</u></u>

The Company adopted the revaluation model in the previous year and land was stated at revalued amounts as of December 1, 2009. The fair value of the assets was based on the results of an appraisal by the Korea Appraisal Board, an independent appraiser. As the result of land revaluation, the book value of land was ₩ 2,871,364 million including revaluation gain of ₩ 1,236,485 million as of December 31, 2009. In addition, other comprehensive income of ₩ 964,458 million and deferred tax liabilities of ₩ 272,027 million were recognized, respectively.

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩ 2,866,174 million as of June 30, 2010. The Company maintains insurance coverage against fire and other casualty losses of up to ₩ 4,969,060 million for ships and sea structures under construction. Insurance proceeds of ₩ 2,017,127 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of June 30, 2010.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩ 7,055,712 million as of June 30, 2010. The Company also maintains insurance on cargo against damage and claims losses of up to ₩ 8,689,839 million for products being exported and imported as of June 30, 2010.

Construction-in-progress is development construction of Ihwa industrial park, Gunsan shipbuilding dock and quay wall construction as of June 30, 2010.

As of June 30, 2010 and December 31, 2009, the value of land owned by the Company is ₩ 1,469,199 million and ₩ 1,461,080 million, respectively, as announced by the Korean government.

Hyundai Heavy Industries Co., Ltd.  
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**9. Intangible Assets**

(a) Intangible assets as of June 30, 2010 and December 31, 2009 were as follows:

*(In thousands of Won)*

		<u>2010</u>	<u>2009</u>
Development costs	₩	278,072,256	270,363,193
Usage right for donated properties		<u>17,076,207</u>	<u>18,095,848</u>
	₩	<u>295,148,463</u>	<u>288,459,041</u>

(b) Changes in intangible assets for the periods ended June 30, 2010 and December 31, 2009 were as follows:

*(In thousands of Won)*

		<u>Development cost</u>		<u>Usage right for donated properties</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Beginning balance	₩	270,363,193	242,161,165	18,095,848	20,135,131
Capitalized		31,661,138	72,139,257	-	-
Amortization		<u>(23,952,075)</u>	<u>(43,937,229)</u>	<u>(1,019,641)</u>	<u>(2,039,283)</u>
Ending balance	₩	<u>278,072,256</u>	<u>270,363,193</u>	<u>17,076,207</u>	<u>18,095,848</u>

Research costs amounting to ₩ 10,732 million and ₩ 9,682 million, and ordinary development costs amounting to ₩ 38,615 million and ₩ 35,287 million are included in selling, general and administrative expenses for the six-month periods ended June 30, 2010 and 2009, respectively. The amortized development costs of ₩ 23,952 million and ₩ 21,448 million are included in the cost of sales and selling, general and administration expenses for the six-month periods ended June 30, 2010 and 2009, respectively.

**10. Other Non-Current Assets**

Other non-current assets as of June 30, 2010 and December 31, 2009 are summarized as follows:

*(In thousands of Won)*

		<u>2010</u>	<u>2009</u>
Guarantee deposits	₩	11,228,467	9,933,113
Long-term loans		278,369	2,019,948
Other non-current assets		<u>97,020,703</u>	<u>93,812,840</u>
	₩	<u>108,527,539</u>	<u>105,765,901</u>



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**11. Other Current Liabilities**

Other current liabilities as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won)

		<u>2010</u>	<u>2009</u>
Withholdings of income taxes	₩	200,142,689	213,815,078
Unearned revenues		-	38,523
Provision for construction losses		<u>26,638,019</u>	<u>15,279,818</u>
	₩	<u>226,780,708</u>	<u>229,133,419</u>

**12. Debentures, Short-Term and Long-Term Borrowings**

(a) Debentures as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won)

<u>Description</u>	<u>Maturity</u>	<u>Annual interest rate (%)</u>		<u>2010</u>	<u>2009</u>
112 <sup>th</sup> non-guaranteed debenture	2012.04.13	5.43	₩	300,000,000	300,000,000

(b) Short-term borrowings as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won)

<u>Type of borrowings</u>	<u>Lender</u>	<u>Annual interest rate (%)</u>		<u>2010</u>	<u>2009</u>
Network loan	Export-Import Bank of Korea	4.71~4.73	₩	68,780,125	301,916,695
Collaborated guaranty loan	Korea Exchange Bank (KEB)	4.21		30,123,777	103,118,913
Pre-shipment credit	Export-Import Bank of Korea	3.47		50,000,000	180,285,000
Usance L/C	Shinhan Bank etc.	0.88~2.29		<u>142,781,946</u>	<u>-</u>
			₩	<u>291,685,848</u>	<u>585,320,608</u>

(c) Long-term borrowings denominated in foreign currency as of June 30, 2010 and December 31, 2009 are summarized as follows:

(In thousands of Won and in Dollars)

<u>Type of borrowings</u>	<u>Annual interest rate (%)</u>	<u>2010</u>		<u>2009</u>	
		<u>Foreign currency</u>	<u>Won equivalent</u>	<u>Foreign currency</u>	<u>Won equivalent</u>
Business loans from Korea National Oil Corporation	1.75	\$ 4,888,535	₩ 5,166,671	\$ 4,888,535	₩ 5,166,671

(d) The maturities of long-term borrowing as of June 30, 2010 are not readily determinable since the long-term borrowing is paid by installment in case of success on oil development business.

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**13. Retirement and Severance Benefits**

Changes in retirement and severance benefits for the periods ended June 30, 2010 and December 31, 2009 were as follows:

<i>(In thousands of Won)</i>	<u>2010</u>	<u>2009</u>
Estimated retirement and severance benefits at beginning of year	₩ 1,226,148,845	1,251,923,440
Payments	(38,325,427)	(164,508,686)
Accrual for retirement and severance benefits	62,804,000	138,734,091
Estimated retirement and severance benefits at end of year	1,250,627,418	1,226,148,845
Deposit for severance benefit insurance	(996,988,502)	(1,022,621,872)
Transfer to National Pension Fund	(28,150,437)	(29,049,871)
Net balance at end of year	₩ <u>225,488,479</u>	<u>174,477,102</u>

The Company maintains an employees' severance benefit trust arrangement with Kyobo Life Insurance Co., Ltd. and other insurance companies. Under this arrangement, the Company has made a deposit in the amount equal to 79.7% and 83.4% of the reserve balances of retirement and severance benefits as of June 30, 2010 and December 31, 2009, respectively. This deposit is to be used to guarantee the required payments to the retirees and is accounted for as a reduction in the reserve balance.

**14. Other Long-Term Liabilities**

Other long-term liabilities as of June 30, 2010 and December 31, 2009 are summarized as follows:

<i>(In thousands of Won)</i>	<u>2010</u>	<u>2009</u>
Deposits received	₩ 12,715,050	13,922,260
Provision for construction warranties	27,832,516	29,070,486
Provision for product warranties	35,515,719	34,473,840
	₩ <u>76,063,285</u>	<u>77,466,586</u>

**15. Commitments and Contingencies**

- (a) The Company has entered into bank overdraft agreements with eight banks amounting to ₩ 238,000 million as of June 30, 2010.
- (b) As of June 30, 2010, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 1,921,110 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 ten blank bills and one check as of June 30, 2010.

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**15. Commitments and Contingencies, Continued**

- (d) The outstanding balance of note receivables, guaranteed by the importers' Government or others and sold to financial institutions with recourse is USD 19,101 thousand, equivalent to ₩ 23,118 million, as of June 30, 2010. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩ 5,164 million as of June 30, 2010.
- (e) As of June 30, 2010, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 154,500 thousand. The Company has provided certain performance guarantees for the bareboat charter amounting to USD 502,261 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., one of the Company's subsidiaries, for the construction of seven ships at a contract amount of USD 1,018,995 thousand.
- (f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩ 1,248,455 million and USD 12,347,256 thousand by various banking facilities.
- (g) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales amounts and the payment of imported raw-materials, the Company has entered into currency forward contracts with 22 banks including Korea Exchange Bank. As of June 30, 2010, the valuation and gain (loss) on transaction of the forward contracts are summarized as follows:

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

	<b>Description</b>			
	<b>Cash flow hedge</b>	<b>Fair value hedge</b>	<b>For trading</b>	<b>Total</b>
<b>Contract amount</b>	USD 1,147,710 EUR 45,999 KRW 225,312	USD 11,580,506 EUR 20,729 -	USD 1,365,261 - KRW 1,415,612	USD 14,093,477 EUR 66,728 KRW 1,640,924
<b>Adjustment to sales</b>	38,610	(491,513)	-	₩ (452,903)
<b>Non-operating income (expense)</b>	(1,728)	10,589	(89,858)	(80,997)
<b>Other comprehensive income</b>	(44,208)	-	-	(44,208)
<b>Firm commitment assets</b>	-	1,661,495	-	1,661,495
<b>Firm commitment liabilities</b>	-	97,639	-	97,639
<b>Derivatives assets</b>				175,767
<b>Derivatives liabilities</b>				1,895,636

As of June 30, 2010, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩ (33,443) million - net of deferred tax adjustment of ₩ (10,765) million - as gain (loss) on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure to cash flow risk, where cash flow hedge accounting is applied, is approximately within 30 months, and the amount among gain (loss) 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, 2010 is ₩ (47,215) 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.

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**15. Commitments and Contingencies, Continued**

In relation to the shipbuilding contracts in foreign currency as of June 30, 2010, the Company entered into foreign exchange forward contracts and accounted for such contracts as fair value hedges. As a result, the net balance of firm commitment assets and liabilities was ₩ 1,563,856 million and related gain and loss on valuation of the firm commitments were recorded as ₩ 439,399 million and ₩ 86,746 million, respectively, in non-operating income and expenses.

Gain and loss on derivatives transactions that mature within the current year are recorded as ₩ 150,121 million and ₩ 113,082 million, respectively in non-operating income and expenses. Gain and loss on valuation of derivatives are recorded as ₩ 95,713 million and ₩ 566,404 million, respectively in non-operating income and expenses.

In relation to valuation of derivatives that have not reached to maturity dates, the Company accounted for derivative assets of ₩ 175,767 million and derivative liabilities of ₩ 1,895,636 million.

**16. Litigation**

- (a) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a share option agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; 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 did not accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advance payments and reimbursable expenses 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 did not accept the Court's decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Company won its claim amounting to ₩ 241,200 million of principal excluding ₩ 4,300 million and accrued interest thereon and recovered ₩ 86,200 million. The Company filed an appeal to the Supreme Court claiming the amount of ₩ 4,300 million principal and it is pending as of June 30, 2010. In addition, on October 22, 2009, the Company won its claim for incidental expenses amounting to ₩ 50,300 million of principal and accrued interest thereon and recovered ₩ 73,700 million. However, Hynix Semiconductor Inc. filed an appeal which was pending as of June 30, 2010.

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**16. Litigations, Continued**

- (b) 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 a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Company appealed the judgment to the National Tax Tribunal; however, it was dismissed (partially won). On April 27, 2009, the Company filed administrative litigation.
- (c) As of March 25, 2008, the Company determined that International Petroleum Investment Co. (hereafter "IPIC"), the major shareholder of Hyundai Oilbank, breached the contract between shareholders entered into with the former shareholders of the Hyundai Group, including Hyundai Heavy Industries and notified IPIC to exercise IPIC's deemed offer (stock purchase option) against its 171,557,695 shares (70%) of Hyundai Oilbank. The Company also filed for arbitration at the International Court of Arbitration of the International Chamber of Commerce (hereafter "ICC"), in regard to IPIC's breach of contract and exercise of the deemed offer. On November 12, 2009, the arbitrators passed judgment on IPIC's significant breach of contract. According to the deemed offer, that the Company was notified of based on IPIC's breach of contract, IPIC was ordered to sell its 171,557,695 shares (70%) of Hyundai Oilbank at the price of ₩ 15,000 per share. However, IPIC did not accept the arbitration decision and on December 2, 2009, the Company filed a lawsuit in Seoul Central District Court for approval of the arbitration decision and enforcement claim. On July 9, 2010, the Company won its claim and the Court approved compulsory and provisional execution for the arbitration decision and the Company plans to acquire the shares of Hyundai Oilbank owned by IPIC according to the arbitration and the Court's decision.

**17. Capital Surplus**

Capital surplus as of June 30, 2010 and December 31, 2009 are summarized as follows:

*(In thousands of Won)*

	<u>2010</u>	<u>2009</u>
Paid-in capital in excess of par value	₩ 843,324,390	843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	116,321,606	116,321,606
Capital surplus on valuation of equity method investments	<u>47,207,001</u>	<u>47,207,001</u>
	<u>₩ 2,869,578,078</u>	<u>2,869,578,078</u>

Other capital surplus is composed of ₩ 33,381 million of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩ 61,111 million of gain on disposal of treasury stock (net of tax effect) and ₩ 21,830 million of gain on business combination and others.

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

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**18. Retained Earnings**

Retained earnings as of June 30, 2010 and December 31, 2009 are summarized as follows:

*(In thousands of Won)*

	<u>2010</u>	<u>2009</u>
Appropriated:		
Legal reserve (*1)	₩ 190,000,000	190,000,000
Reserve for corporate development (*3)	30,000,000	30,000,000
Reserve for research and human development (*2)	446,666,667	223,333,334
Reserve for facilities (*2)	78,270,000	78,270,000
Other voluntary reserves (*4)	5,546,834,248	3,835,852,998
Unappropriated retained earnings	<u>1,836,727,007</u>	<u>2,146,488,800</u>
	<u>₩ 8,128,497,922</u>	<u>6,503,945,132</u>

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

(\*2) 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.

(\*3) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.

(\*4) 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.

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**19. Capital Adjustments**

(a) Treasury stock

As of June 30, 2010 and December 31, 2009, treasury stock is summarized as follows:

(In thousands of Won)

		<u>2010</u>	<u>2009</u>
Treasury stock	₩	(1,463,972,001)	(1,463,972,001)

(b) Other capital adjustments

As of June 30, 2010 and December 31, 2009, other capital adjustments are summarized as follows:

(In thousands of Won)

		<u>2010</u>	<u>2009</u>
Treasury stock owned by subsidiaries	₩	(103,565,209)	(103,565,209)
Capital adjustments on valuation of equity method		(130,257,265)	(130,257,265)
	₩	<u>(233,822,474)</u>	<u>(233,822,474)</u>

**20. Sales and Cost of Sales**

(a) Sales and cost of sales, by major industry segment, for the six-month periods ended June 30, 2010 and 2009 are summarized as follows:

(In thousands of Won)

		<u>2010</u>		<u>2009</u>	
		<u>Sales</u>	<u>Cost of sales</u>	<u>Sales</u>	<u>Cost of sales</u>
Shipbuilding	₩	3,819,651,353	3,032,140,617	4,688,110,565	4,490,407,039
Offshore & Engineering		1,469,727,715	1,183,847,077	1,953,085,872	1,695,526,299
Industrial Plant & Engineering		1,286,332,115	1,063,298,101	762,140,458	662,469,860
Engine & Machinery		1,253,429,709	872,596,006	1,442,421,445	973,010,493
Electro Electric Systems		1,574,677,964	1,217,868,653	1,376,892,843	1,020,885,598
Construction Equipment		1,170,026,212	949,747,385	526,732,557	464,603,500
Others		67,783,884	62,193,607	75,291,291	70,970,542
	₩	<u>10,641,628,952</u>	<u>8,381,691,446</u>	<u>10,824,675,031</u>	<u>9,377,873,331</u>

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**20. Sales and Cost of Sales, Continued**

(b) The Company's outstanding contracts as of June 30, 2010 were as follows:

<i>(In millions of Won)</i>		<u>Shipbuilding</u>	<u>Others</u>	<u>Total</u>
Beginning of period (*)	₩	23,167,804	19,028,597	42,196,401
Increase during the period		1,896,609	9,538,786	11,435,395
Recognized as revenue in current income		<u>(3,819,651)</u>	<u>(6,821,978)</u>	<u>(10,641,629)</u>
End of period	₩	<u>21,244,762</u>	<u>21,745,405</u>	<u>42,990,167</u>

(\*) The balances of beginning of period were recalculated with appropriate exchange rate based on the backlog calculated in foreign currency rate at the end of 2009.

As of June 30, 2010, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 15).

(c) As of June 30, 2010, accumulated cost of construction and others connected with construction in progress by major industry segment were as follows:

		<u>Accumulated cost of construction</u>	<u>Accumulated profit and loss</u>	<u>Advances on construction contracts</u>	<u>Accounts receivable</u>	<u>Billed receivables on construction contracts</u>	<u>Unbilled receivables on construction contracts</u>
Shipbuilding	₩	9,292,197	18,007,437	4,738,220	3,126,733	832,017	2,294,716
Offshore & Engineering		7,083,202	1,323,297	1,272,584	371,976	22,291	349,685
Industrial &							
Plant Engineering		6,131,291	596,780	582,400	182,396	15,920	166,476
Engine & Machinery		3,414,416	1,731,073	800,311	386,934	162,728	224,206
Electro Electric Systems		43,667	20,119	88,817	1,047,335	876,496	170,839
Construction Equipment (*)		-	-	529	407,272	407,272	-
Others (*)		-	-	431	556,915	556,915	-
	₩	<u>25,964,773</u>	<u>21,678,706</u>	<u>7,483,292</u>	<u>6,079,561</u>	<u>2,873,639</u>	<u>3,205,922</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 ₩ 26,638 million.



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**21. Income Taxes**

(a) The Company was subject to income taxes on taxable income at the following normal tax rates for the three and six-month periods ended June 30, 2010 and 2009.

Taxable income	Tax rates				
	2008 and thereafter	2008	2009	2010 & 2011	Thereafter
Up to ₩200 million		12.1%	12.1%	11.0%	11.0%
Over ₩200 million		27.5%	24.2%	24.2%	22.0%

In December 2009, the Korean Government postponed the reduction of the corporate income tax rate from 24.2% to 22.0% until 2012.

(b) Income tax expense for the periods ended June 30, 2010 and 2009 was as follows:

(In thousands of Won)

		2010	2009
Current income tax	₩	454,926,500	146,437,417
Changes in deferred taxes due to temporary differences		60,693,624	241,287,388
Changes in deferred taxes directly adjusted in equity		11,513,615	(174,816,733)
Income tax expense		527,133,739	212,908,072
Income before income taxes		2,363,860,736	1,104,249,864
Effective tax rate	%	22.3	19.3

(c) For the periods ended June 30, 2010 and 2009, the differences between income before income taxes in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea were as follows:

(In thousands of Won)

		2010	2009
Income before income taxes	₩	2,363,860,736	1,104,249,864
Temporary differences		(418,369,748)	(402,671,893)
Non-temporary differences		(23,600,625)	(30,786,509)
Taxable income	₩	1,921,890,363	670,791,462

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**21. Income Taxes, Continued**

(d) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the periods ended June 30, 2010 and 2009 were as follows:

*(In thousands of Won)*

	2010		2009	
	Balance at January 1, 2010	Balance at June 30, 2010	Balance at January 1, 2009	Balance at June 30, 2009
Equity method investments (*)	₩ (1,177,392,317)	(1,388,934,063)	(788,296,615)	(957,302,302)
Impairment losses on investments	66,610,466	66,610,466	74,558,133	66,610,466
Reserve for research and human development	(446,666,667)	(408,333,333)	(223,333,333)	(185,000,000)
Allowance for doubtful accounts (*)	98,663,216	210,319,252	158,039,183	153,898,945
Accrued income	(825,057)	(2,483,788)	(56,690,429)	(28,125,748)
Revaluation of land	(1,236,485,239)	(1,235,990,204)	-	-
Currency forward contracts	(196,074,996)	(65,808,652)	710,042,273	155,141,985
Others	(310,701,132)	(673,786,479)	396,816,190	23,504,978
	<u>(3,202,871,726)</u>	<u>(3,498,406,801)</u>	<u>271,135,402</u>	<u>(771,271,676)</u>
Tax rate		22.0%(24.2%)		22.0%(24.2%)
Deferred tax assets (liabilities), end of period		(768,442,050)		(162,322,879)
Deferred tax assets (liabilities), beginning of period		<u>(707,748,426)</u>		<u>78,964,509</u>
Changes in deferred taxes on temporary differences	₩	<u>(60,693,624)</u>		<u>(241,287,388)</u>

(\*) The temporary differences amounting to ₩ (574,558) million, which were not recognized as deferred taxes were deducted.

(e) Deferred tax assets and liabilities that were directly charged or credited to accumulated other comprehensive income as of June 30, 2010 were as follows:

*(In thousands of Won)*

	2010
Gain on valuation of investment securities	₩ (58,887,074)
Changes in equity arising on application of the equity method	47,882,664
Negative changes in equity arising on application of the equity method	(250,034)
Loss on valuation of derivatives	22,659,151
Loss on revaluation of land	108,908

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**21. Income Taxes, Continued**

(f) Deferred tax assets (liabilities) as of June 30, 2010 were as follows:

<i>(In thousands of Won)</i>		<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Accumulated temporary differences	₩	98,366,351	(3,596,773,152)	(3,498,406,801)
Tax rate		24.2%	22.0%(24.2%)	22.0%(24.2%)
Tax effects		23,804,657	(792,246,707)	(768,442,050)
Deferred tax assets (liabilities)	₩	23,804,657	(792,246,707)	(768,442,050)

**22. Comprehensive Income**

Comprehensive income for the three and six-month periods ended June 30, 2010 and 2009 was as follows:

<i>(In thousands of Won)</i>		<b>Three-month period</b>		<b>Six-month period</b>	
		<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	₩	910,505,677	393,072,410	1,836,726,997	891,341,792
Other comprehensive income		113,856,903	424,404,896	(33,990,009)	603,558,380
Gain (loss) on valuation of investment securities,		205,999,005	129,328,709	208,781,443	226,490,236
<i>Tax effects</i>		<i>(58,102,284)</i>	<i>(36,477,328)</i>	<i>(58,887,074)</i>	<i>(63,812,482)</i>
Changes in equity arising on application of the equity method,		(33,912,093)	(8,601,317)	(171,805,471)	85,669,102
<i>Tax effects</i>		<i>9,695,346</i>	<i>1,979,124</i>	<i>47,882,664</i>	<i>(23,773,828)</i>
Negative changes in equity arising on application of the equity method,		(95,786)	108,909,290	148,957	132,688,973
<i>Tax effects</i>		<i>(21,260)</i>	<i>(30,718,005)</i>	<i>(250,034)</i>	<i>(37,425,095)</i>
Gain (loss) on valuation of derivatives,		(57,748,095)	194,768,214	(70,728,810)	158,710,069
<i>Tax effects</i>		<i>18,472,503</i>	<i>(62,239,655)</i>	<i>22,659,151</i>	<i>(50,150,485)</i>
Gain (loss) on revaluation of land,		(386,128)	-	(386,128)	-
<i>Tax effects</i>		<i>108,908</i>	-	<i>108,908</i>	-
Comprehensive income	₩	1,024,362,580	817,477,306	1,802,736,988	1,494,900,172

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**23. Earnings Per Share**

Basic earnings per share for the three and six-month periods ended June 30, 2010 and 2009 were as follows:

		2010		2009	
		Three-month period	Six-month period	Three-month period	Six-month period
Net income (In thousands of Won)	₩	910,505,677	1,836,726,997	393,072,410	891,341,792
Weighted average number of common shares outstanding (In thousands of shares)		60,621	60,621	59,933	59,933
Earnings per share (In Won)	₩	15,020	30,299	6,558	14,872

**24. Transactions and Balances with Related Companies**

(a) The Company is the ultimate holding company and its subsidiaries as of June 30, 2010 were as follows:

Controlled subsidiary	Particulars
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and brokerage of futures transaction
HVIC IT Fund 3 <sup>rd</sup>	Other financial intermediation
Hyundai Investment Fund 1 on Patent Technology	Other financial intermediation
Mipo Engineering Co., Ltd.	Other engineering service
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
H.C.E U.S.A	Sale of machinery equipment for construction
Hyundai Heavy Industries 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 Industries (China) Electric Co., Ltd.	Sale and manufacture of switch boards 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 cylinders for construction equipment
Hyundai Technologies Center Hungary Kft.	Research and development on technology
Hyundai (Malaysia) SDN BHD	Trading
Hyundai S/V Indonesia	Maintenance and repair services of transformers
HHI Mauritius Limited	Manufacturing
PHECO Inc.	Design services for offshore facilities
Hyundai Heavy Industries France SAS	Manufacturing

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**24. Transactions and Balances with Related Companies, Continued**

Controlled subsidiary	Particulars
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 Co., Ltd.	Football club
HYMS	Sale and manufacture of machinery equipment for shipbuilding
KOMAS Corporation	Shipbuilding
HI Investment & Securities Co., Ltd.	Securities brokerage
HI Management Co., Ltd	Asset management
Hotel Hyundai Co., Ltd.	Hotels
Khorol Zerno Ltd.	Agriculture
Muju Wind Power Co., Ltd.	Wind power generation
Hyundai (Shangdong) Heavy Industry Machinery Co., Ltd.	Sale and manufacture of wheel loader

(b) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai Group for the period ended and as of June 30, 2010 were as follows:

*(In thousands of Won)*

	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 246,813,182	1,085,540	181,250,465	748,816
Hyundai Mipo Dockyard Co., Ltd.	144,357,090	6,960,693	98,985,235	1,553,935
Hyundai Oilbank Co., Ltd.	15,843,837	1,606,974	4,613,189	28,470
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	103,460,735	715,296	47,486,737	62,089
Hyundai Heavy Industries Europe N.V.	54,758,753	1,044,875	15,921,622	1,810,264
H.C.E U.S.A.	66,287,098	1,272,121	31,091,173	881,107
Hyundai Jiangsu Construction Machinery Co., Ltd	255,878,677	600,443	129,863,192	182,594
Yantai Hyundai Moon Heavy Industries Co., Ltd.	-	33,881,234	-	7,968,566
Hyundai Heavy Industries (China) Electric Co., Ltd.	2,179,540	6,054,071	3,403,359	1,169,213
HYMS	4,214,517	200,222,431	1,625,507	57,978,572
Hyundai Construction Equipment India Private Ltd.	41,225,897	241,916	48,496,002	147,025
Hyundai Ideal Electric Co.	4,935,294	97,311	5,274,164	-
	<b>₩ 939,954,620</b>	<b>253,782,905</b>	<b>568,010,645</b>	<b>72,530,651</b>

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**24. Transactions and Balances with Related Companies, Continued**

- (c) The Company has entered into rental agreements (deposits received of ₩ 990 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of June 30, 2010. 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 15).
- (d) The Company has fully provided an allowance for receivable from Vladivostok Business Center amounting to ₩ 95,550 million as of June 30, 2010.
- (e) Compensation for key management of the Company for the six-month period ended June 30, 2010 was as follows:

*(In thousands of Won)*

	<u>2010</u>
Compensation for key management	₩ 1,350,355

Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Company.

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**25. Assets and Liabilities Denominated in Foreign Currencies**

Assets and liabilities denominated in foreign currencies as of June 30, 2010 and December 31, 2009 were as follows:

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

Account	Currency	Foreign currencies		Korean won	
		2010	2009	2010	2009
<b>Assets:</b>					
Cash and cash equivalents	USD	137,081	277,682	₩ 165,908,882	324,221,114
	EUR	218	261	321,270	436,968
	Others			16,645,099	25,287,818
Accounts and notes receivable - trade	USD	3,780,939	3,366,566	4,576,070,668	3,930,802,482
	EUR	186,331	133,112	274,917,017	222,867,012
	Others			75,515,025	50,664,138
Accounts receivable - other	USD	83,640	69,816	101,229,698	81,516,735
	EUR	103	152	152,234	254,014
	Others			1,566,485	1,228,246
Long-term accounts and notes receivable - trade	USD	245,088	67,131	296,629,860	78,382,153
Long-term financial instruments & others	USD	58,758	33,319	71,114,914	38,903,482
	EUR	1,985	1,993	2,928,334	3,336,687
	Others			1,725,218	1,718,940
				₩ 5,584,724,704	4,759,619,789
<b>Liabilities:</b>					
Accounts and notes payable - trade	USD	246,418	239,544	₩ 298,239,546	279,691,138
	EUR	28,751	29,624	42,419,269	49,598,089
	Others			29,469,147	29,068,430
Short-term borrowings	USD	60,985	-	73,810,178	-
	EUR	32,637	-	48,152,999	-
	Others			20,818,769	-
Long-term borrowings	USD	4,489	4,489	5,166,671	5,166,671
Accounts payable - other & others	USD	183,021	197,281	221,509,968	230,345,491
	EUR	27,216	15,469	40,154,446	25,899,375
	Others			45,514,946	33,472,623
				₩ 825,255,939	653,241,817

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**26. 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 was as follows:

(a) As of and for the period ended June 30, 2010

*(In thousands of Won)*

	<b>Shipbuilding</b>	<b>Offshore &amp; Engineering</b>	<b>Industrial Plant &amp; Engineering</b>	<b>Engine &amp; Machinery</b>	<b>Electro Electric Systems</b>	<b>Construction Equipment</b>	<b>Others</b>
Sales	₩ 3,819,651,353	1,469,727,715	1,286,332,115	1,253,429,709	1,574,677,964	1,170,026,212	67,783,884
Operating income	629,480,640	251,114,978	177,507,418	346,939,122	288,782,309	90,240,953	(127,379,418)
Tangible and Intangible assets	2,298,199,545	554,277,241	32,647,814	906,238,237	622,933,626	196,340,029	3,770,509,691
Depreciation	(83,499,724)	(28,806,272)	(3,523,669)	(40,209,293)	(20,045,504)	(10,874,306)	(28,459,733)

(b) As of and for the period ended June 30, 2009

*(In thousands of Won)*

	<b>Shipbuilding</b>	<b>Offshore &amp; Engineering</b>	<b>Industrial Plant &amp; Engineering</b>	<b>Engine &amp; Machinery</b>	<b>Electro Electric Systems</b>	<b>Construction Equipment</b>	<b>Others</b>
Sales	₩ 4,688,110,565	1,953,085,872	762,140,458	1,442,421,445	1,376,892,843	526,732,557	75,291,291
Operating income	126,393,382	226,896,321	81,952,453	433,550,813	298,673,377	(29,439,481)	(126,890,062)
Tangible and Intangible assets	2,333,330,719	594,180,956	34,394,891	863,968,349	603,201,087	190,761,346	2,490,091,603
Depreciation	(71,020,929)	(27,316,387)	(2,495,765)	(35,109,981)	(17,709,231)	(9,661,369)	(28,781,426)



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

Details of selling, general and administrative expenses for the three and six-month periods ending June 30, 2010 and 2009 were as follows:

*(In thousands of Won)*

		2010		2009	
		Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩	77,270,753	148,908,720	70,696,346	142,750,310
Accrual for retirement and severance benefits		5,148,132	10,300,333	4,247,837	8,545,695
Employee welfare		14,618,022	32,534,062	15,145,301	36,346,703
Advertising		13,551,073	23,895,678	10,101,737	17,944,588
Ordinary development costs		18,605,648	38,614,535	17,349,041	35,286,917
Accrual for allowance for doubtful accounts		91,080,856	123,188,728	-	8,949,984
Depreciation		9,034,115	18,224,308	9,959,974	20,918,441
Service charges		18,173,034	38,999,533	23,144,505	44,750,673
Transportation		27,478,559	49,735,648	12,832,626	26,669,616
Sales commissions		21,912,901	37,982,796	12,779,675	21,504,020
After-service expenses		10,458,958	16,693,930	5,741,839	11,604,012
Others		35,245,283	64,173,233	33,004,882	60,393,938
	₩	<u>342,577,334</u>	<u>603,251,504</u>	<u>215,003,763</u>	<u>435,664,897</u>

**28. The Company's Environmental Standards and Policies**

The Company has adopted and implemented an environmental management system, run by its environmental management group, to effectively manage any environmental effects occurring as a result of its business activities. The Company obtained the ISO 14001 certification for its environmental management system from DNV-QA (Det Norske Veritas QA Ltd.) to ensure transparency in the environmental management system and also to prepare for the expected imposition of environmental standards-based trade barriers. To maintain and develop its environmental management system, the Company continuously works to minimize the environmental effects from its overall business activities, from research and development, purchase, and production to transport and disposal by adopting advanced environmental management practices such as the periodic evaluation of the activities of the environment management group, environmental protection plans, and the evaluation of environmental performance.

The Company has established and applies its own standards, which are twice as strict as current regulations for permissible exhaust standards in the Republic of Korea, to the operation of air exhaust facilities, control facilities and wastewater disposal plants that treat the polluted substances generated from its manufacturing processes. The Company maintains emissions below 20% of the legal mandate. In addition, the Company achieved a waste reclamation rate of 51% by minimizing the generation of waste and sorting garbage at the source. Also, to properly treat wastes, the Company operates an incinerator equipped with advanced emissions control equipment that has the capacity to treat 400 tons of waste per day.

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**29. Employee Welfare and Contributions to Society**

For employee welfare, the Company granted scholarship funds of ₩ 27,426 million for the middle school, high school and college age children of employees and ₩ 2,620 million for medical benefits, such as health examinations and medical treatment to its employees and their families during the year ended June 30, 2010. In addition, the Company provided 16,000 apartment units for employee housing, achieving a 94% housing-supply ratio. The Company also operates seven culture welfare union halls and the Hyundai Arts Center, established in December 1998, to provide members of the community and its employees with various art and musical performances.

( In millions of Won )

		<u>2010</u>	<u>2009</u>
Expense for human development and discipline	₩	3,999	9,840
Expense for social welfare facilities and religion donation		6,265	1,547
Donation for social overhead capital and Government		301	126
	₩	<u>10,565</u>	<u>11,513</u>

**30. Non-cash Investing and Financing Activities**

Significant non-cash investing and financing activities for the six-month periods ended June 30, 2010 and 2009 are summarized as follows:

( In thousands of Won )

		<u>2010</u>	<u>2009</u>
Transfer of long-term trade accounts to current assets	₩	17,795,107	10,123,792
Transfer of trade accounts to non-current assets		234,787,173	-
Transfer of construction-in-progress to plant assets		91,345,379	670,661,157
Gain and loss on valuation of available-for-sale securities		208,781,443	226,490,236
Capital adjustments on valuation of equity method investments		-	1,223,737
Changes in equity arising on application of the equity method		171,805,471	85,669,102
Negative changes in equity arising on application of the equity method		148,957	132,688,973
Gain and loss on valuation of derivatives		70,728,810	158,710,069
Gain and loss on revaluation of land		386,128	-

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**31. Planning and Adoption of K-IFRS (International Financial Reporting Standards)**

The Company subsequently plans to issue financial statements prepared in accordance with K-IFRS from 2011. The Company organized a task force team to perform preliminary analysis of the effects of K-IFRS adoption and establish accounting systems to apply the new accounting treatments, and trained its relevant personnel internally and externally. The task force team regularly reports the details and status of the adoption plan to its board of directors and management. The details of the K-IFRS Adoption Plan are as follows:

<b>Main Activities</b>	<b>Preparation Plan</b>	<b>State at June 30, 2010</b>
Formation of the K-IFRS Establishment of the task force team and analysis of the likely effects of K-IFRS adoption	Complete the K-IFRS adoption plan by the end of 2010	June 2008 – Established the K-IFRS adoption task force team Oct. - Dec. 2008 - Engaged an accounting firm to carry out an analysis of the likely effects of K- IFRS adoption Apr. - Aug. 2009 – Engaged an accounting firm to carry out an establishment of closing process and basic design of IT.
Training	Acquire the skills required for IFRS conversion by the end of 2010	Oct. 2008 - present – Held training for in-charge staff (training provided by the Korean Accounting Standards Board)
Alignment of accounting systems	Complete the establishment of accounting systems to apply the new accounting treatments under K-IFRS by the end of Q3 2010	Sep. - Dec. 2009 - Completed the analysis of the scope of required changes to the system