

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Non-Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying non-consolidated statements of financial position of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2010 and 2009 and the related non-consolidated statements of income, appropriation of retained earnings, changes in equity and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2010 and 2009 and the results of its operations, the appropriation of its retained earnings, the changes in its equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in note 2(a) to the non-consolidated financial statements, accounting principles and auditing 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 audit 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 auditing standards and their application in practice.

Seoul, Korea
February 28, 2011

This report is effective as of February 28, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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

As of December 31, 2010 and 2009

(In thousands of won, except share data)

	<i>Note</i>	2010	2009
Assets			
Cash and cash equivalents	26	₩ 624,479,536	632,578,218
Short-term financial instruments	3,26	6,967,606	109,033,003
Accounts and notes receivable - trade, less allowance for doubtful accounts of ₩76,909,350 in 2010 and ₩109,816,750 in 2009	15,21,25,26	5,950,845,574	4,973,543,411
Accounts receivable - other, less allowance for doubtful accounts of ₩125,225,202 in 2010 and ₩206,364,299 in 2009	16,25,26	125,889,630	117,586,658
Advance payments, less allowance for doubtful accounts of ₩9,874,635 in 2010 and ₩13,125,144 in 2009		965,774,062	1,228,556,767
Accrued income	26	38,133,914	37,495,883
Foreign exchange forward contracts	15	896,578,183	1,377,159,343
Current deferred tax assets	22,23	8,644,036	-
Inventories	4	2,084,173,022	1,928,558,515
Other current assets	5,21,26	173,686,520	205,402,613
Total current assets		<u>10,875,172,083</u>	<u>10,609,914,411</u>
Long-term financial instruments	3,26	1,450,948	3,224,878
Long-term investment securities	6	1,636,986,500	1,174,080,691
Equity method investments	7	7,450,873,449	3,689,107,855
Property, plant and equipment, net	8,27	8,000,158,278	8,145,522,809
Intangible assets	9,27	306,043,280	288,459,041
Long-term accounts and notes receivable - trade, less allowance for doubtful accounts of ₩212,166,461 in 2010 and ₩27,138,889 in 2009	15,21,26	255,295,030	51,243,264
Foreign exchange forward contracts	15	193,634,449	805,264,651
Other non-current assets	10,26	168,517,079	105,765,901
Total non-current assets		<u>18,012,959,013</u>	<u>14,262,669,090</u>
Total assets		<u>₩ 28,888,131,096</u>	<u>24,872,583,501</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Non-Consolidated Statements of Financial Position, Continued

As of December 31, 2010 and 2009

(In thousands of won, except share data)

	<i>Note</i>	2010	2009
Liabilities			
Accounts and notes payable – trade	25,26	₩ 1,927,633,682	1,427,589,252
Short-term borrowings	12,15,26	3,114,981,687	585,320,608
Accounts payable - other	25,26	204,706,029	146,908,841
Advances from customers	21	6,142,674,031	8,583,478,070
Accrued expenses	26	225,035,587	251,590,915
Income tax payable	22	721,534,902	263,311,110
Foreign exchange forward contracts	15	767,222,550	1,405,086,993
Current deferred tax liabilities	22,23	-	16,682,139
Other current liabilities	11,21,26	273,382,849	229,133,419
Total current liabilities		<u>13,377,171,317</u>	<u>12,909,101,347</u>
Debentures, net of discount on debentures of ₩538,724 in 2010 and ₩930,804 in 2009	12	₩ 299,461,276	299,069,196
Long-term borrowings	12,15,26	32,840,759	5,166,671
Provision for retirement and severance benefits, net of deposit for severance benefit insurance and others of ₩699,903,531 in 2010 and ₩1,051,671,743 in 2009	13	93,069,182	174,477,102
Non-current deferred tax liabilities	8,22,23	967,619,725	691,066,287
Foreign exchange forward contracts	15	203,268,464	907,835,125
Other long-term liabilities	14	95,667,893	77,466,586
Total non-current liabilities		<u>1,691,927,299</u>	<u>2,155,080,967</u>
Total liabilities		<u>15,069,098,616</u>	<u>15,064,182,314</u>
Stockholders' equity			
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	2,954,448,715	2,869,578,078
Capital adjustments	19	(1,705,455,307)	(1,697,794,475)
Accumulated other comprehensive income	6,7,8,15,22,23	2,137,128,455	1,752,672,452
Retained earnings	18	10,052,910,617	6,503,945,132
Total stockholders' equity		<u>13,819,032,480</u>	<u>9,808,401,187</u>
Total liabilities and stockholders' equity		<u>₩ 28,888,131,096</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

For the years ended December 31, 2010 and 2009

(In thousands of won, except earnings per share)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Sales	15,21,25,27	₩ 22,405,181,314	21,142,196,736
Cost of sales	21,25,27	17,734,846,239	17,997,442,921
Gross profit		<u>4,670,335,075</u>	<u>3,144,753,815</u>
Selling, general and administrative expenses	8,25,27,28, 31,32	1,230,898,861	922,179,896
Operating income		<u>3,439,436,214</u>	<u>2,222,573,919</u>
Interest and dividend income	32	172,431,689	174,725,132
Gain on foreign currency transactions		346,307,291	718,752,290
Gain on foreign currency translation	26	28,288,463	29,819,200
Gain on disposal of property, plant and equipment	8	14,190,477	79,100,524
Gain on valuation of equity method investments	7	1,273,555,935	479,596,159
Gain on foreign exchange forward contracts	15	777,972,113	1,415,583,922
Other income		471,147,912	411,984,109
Non-operating income		<u>3,083,893,880</u>	<u>3,309,561,336</u>
Interest expense	32	80,405,772	34,129,364
Loss on foreign currency transactions		400,894,218	543,822,224
Loss on foreign currency translation	26	52,706,276	62,965,784
Loss on disposal of property, plant and equipment	8	2,420,634	16,463,892
Loss on valuation of equity method investments	7	37,350,645	194,614,208
Loss on foreign exchange forward contracts	15	945,024,367	1,920,402,241
Other expenses	6,31	220,199,843	111,674,307
Non-operating expenses		<u>1,739,001,755</u>	<u>2,884,072,020</u>
Income before income taxes		4,784,328,339	2,648,063,235
Income taxes	22	1,023,188,647	501,574,440
Net income		<u>₩ 3,761,139,692</u>	<u>2,146,488,795</u>
Earnings per share			
Basic earnings per share	24	₩ 61,807	35,705

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
 Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2010 and 2009

Date of Appropriation for 2010: March 11, 2011

Date of Appropriation for 2009: March 12, 2010

(In thousands of won)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Unappropriated retained earnings			
Balance at beginning of year	₩	10	5
Net income		<u>3,761,139,692</u>	<u>2,146,488,795</u>
Balance at end of year before appropriation		3,761,139,702	2,146,488,800
Transfer from voluntary reserves			
Reserve for research and human development		<u>76,666,667</u>	<u>76,666,667</u>
Unappropriated retained earnings available for appropriation		3,837,806,369	2,223,155,467
Appropriation of retained earnings			
Legal reserve		100,000,000	300,000,000
Reserve for research and human development		3,308,787,280	1,710,981,250
Dividends – 140% on par value at ₩7,000 per share			
70% on par value at ₩3,500 per share	20	<u>429,019,080</u>	<u>212,174,207</u>
Unappropriated retained earnings to be carried over to subsequent year	₩	<u>9</u>	<u>10</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Non-Consolidated Statements of Changes in Equity

For the years ended December 31, 2010 and 2009

<i>(In thousands of won)</i>		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balance at January 1, 2009	₩	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 appropriation		-	-	-	-	4,357,456,337	5,295,552,236
Net income		-	-	-	-	2,146,488,795	2,146,488,795
Changes in other capital surplus		-	50,987,390	-	-	-	50,987,390
Changes in treasury stock		-	-	65,469,293	-	-	65,469,293
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		-	-	-	534,950,242	-	534,950,242
Changes in equity arising on application of the equity method		-	-	-	263,582,652	-	263,582,652
Negative changes in equity arising on application of the equity method		-	-	-	133,368,767	-	133,368,767
Changes in gain and loss on valuation of derivatives		-	-	-	354,767,062	-	354,767,062
Changes in gain and loss on revaluation of land		-	-	-	964,458,487	-	964,458,487
Balance at December 31, 2009	₩	<u>380,000,000</u>	<u>2,869,578,078</u>	<u>(1,697,794,475)</u>	<u>1,752,672,452</u>	<u>6,503,945,132</u>	<u>9,808,401,187</u>
Balance at January 1, 2010	₩	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 appropriation		-	-	-	-	6,291,770,925	9,596,226,980
Net income		-	-	-	-	3,761,139,692	3,761,139,692
Changes in other capital surplus		-	84,870,637	-	-	-	84,870,637
Changes in treasury stock		-	-	63,517,054	-	-	63,517,054
Changes in capital adjustments on valuation of equity method investments		-	-	(71,177,886)	-	-	(71,177,886)
Changes in gain and loss on valuation of investment securities		-	-	-	404,589,747	-	404,589,747
Changes in equity arising on application of the equity method		-	-	-	33,025,683	-	33,025,683
Negative changes in equity arising on application of the equity method		-	-	-	(19,938,337)	-	(19,938,337)
Changes in gain and loss on valuation of derivatives		-	-	-	(24,579,758)	-	(24,579,758)
Changes in gain and loss on revaluation of land		-	-	-	(8,641,332)	-	(8,641,332)
Balance at December 31, 2010	₩	<u>380,000,000</u>	<u>2,954,448,715</u>	<u>(1,705,455,307)</u>	<u>2,137,128,455</u>	<u>10,052,910,617</u>	<u>13,819,032,480</u>

See accompanying notes to non-consolidated financial statements.

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

For the years ended December 31, 2010 and 2009

(In thousands of won)

	2010	2009
Cash flows from operating activities		
Net income	₩ 3,761,139,692	2,146,488,795
Adjustments for:		
Depreciation	440,045,046	399,694,162
Accrual for retirement and severance benefits	231,060,703	138,734,091
Accrual for allowance for doubtful accounts	206,638,605	48,943,879
Loss on foreign currency translation	52,412,507	61,923,820
Loss on disposal of property, plant and equipment	2,420,634	16,463,892
Loss on valuation of equity method investments	37,350,645	194,614,208
Amortization of development costs	50,107,514	43,937,229
Loss on valuation of foreign exchange forward contracts	1,280,506,612	3,465,964,718
Accrual for foreseeable losses on construction contracts	10,354,528	-
Gain on foreign currency translation	(27,911,838)	(29,530,267)
Gain on valuation of equity method investments	(1,273,555,935)	(479,596,159)
Gain on valuation of foreign exchange forward contracts	(498,359,191)	(1,123,079,572)
Reversal of allowance for doubtful accounts	(56,794,398)	(91,734,801)
Others, net	149,783,637	(143,154,232)
	<u>4,365,198,761</u>	<u>4,649,669,763</u>
Changes in assets and liabilities:		
Accounts and notes receivable - trade	(1,378,288,653)	(539,653,977)
Accounts receivable - other	(24,979,429)	125,837,400
Accrued income	(829,100)	21,236,562
Advance payments	265,253,124	(379,742,025)
Inventories	(155,614,507)	303,820,209
Foreign exchange forward contracts	(910,339,445)	(2,781,147,823)
Accounts and notes payable - trade	505,971,242	(900,841,316)
Accounts payable - other	58,022,624	(34,330,548)
Advances from customers	(2,595,327,513)	(1,545,942,898)
Accrued expenses	(20,637,658)	(23,925,895)
Income tax payable	431,127,890	(210,026,183)
Deposit for severance benefit insurance	338,766,711	57,442,086
Payment of retirement and severance benefits	(664,236,835)	(164,508,686)
Deferred tax assets	(728,039)	99,969,668
Deferred tax liabilities	163,045,987	41,635,138
Others, net	311,698,727	322,518,271
Net cash provided by (used in) operating activities	<u>688,103,887</u>	<u>(957,990,254)</u>

See accompanying notes to non-consolidated financial statements.

(In thousands of won)

2010

2009

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

For the years ended December 31, 2010 and 2009

Cash flows from investing activities

Disposal of short-term financial instruments	₩ 169,033,609	1,687,213,470
Disposal of short-term investment securities	-	102,966,108
Disposal of short-term loans	-	30,000,000
Disposal of long-term financial instruments	-	11,947,520
Disposal of long-term investment securities	44,622,312	54,916,202
Disposal of equity method investments	32,350,013	19,773
Disposal of long-term loans	1,751,400	-
Disposal of other non-current assets	2,890,924	24,744,631
Disposal of property, plant and equipment	6,844,088	128,172,881
Acquisition of short-term financial instruments	(65,500,605)	(119,852,680)
Acquisition of long-term financial instruments	-	(43,008)
Acquisition of long-term investment securities	(36,009,126)	(41,682,718)
Acquisition of equity method investments	(2,695,131,696)	(272,547,011)
Acquisition of long-term loans	-	(2,107,387)
Acquisition of other non-current assets	(67,138,052)	(15,975,956)
Acquisition of property, plant and equipment	(371,784,649)	(1,178,859,217)
Acquisition of intangible assets	(69,731,036)	(72,139,257)
Net cash provided by (used in) investing activities	<u>(3,047,802,818)</u>	<u>336,773,351</u>

Cash flows from financing activities

Proceeds from short-term borrowings	5,660,186,509	2,024,861,331
Proceeds from debentures	-	298,797,600
Proceeds from long-term borrowings	27,729,941	1,852,037
Repayment of short-term borrowings	(3,124,141,994)	(1,439,540,723)
Dividends paid	(212,174,207)	(299,667,280)
Net cash provided by financing activities	<u>2,351,600,249</u>	<u>586,302,965</u>

Net decrease in cash and cash equivalents

	(8,098,682)	(34,913,938)
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Cash and cash equivalents at beginning of year

	<u>632,578,218</u>	<u>667,492,156</u>
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Cash and cash equivalents at end of year

₩	<u>624,479,536</u>	<u>632,578,218</u>
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See accompanying notes to non-consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

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 December 31, 2010. Of the total issued shares, the company’s major stockholders Mong-Joon Chung, Hyundai Mipo Dockyard Co., Ltd., KCC Corporation, Mirae Asset Investment Management Co., Ltd. and National Pension Service own 10.80%, 7.98%, 6.72%, 4.27% and 3.68%, 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 December 31, 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 totaling 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

December 31, 2010 and 2009

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 moving-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, trading, or available-for-sale 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 statement of income 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 statement of income using the effective interest method.

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

December 31, 2010 and 2009

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 there is no clear evidence 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 over which the Company has the ability to significantly influence the financial and operating policies. Significant influence is presumed if to 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).

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

December 31, 2010 and 2009

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 statement of income, 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 the 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.
Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

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 Korea 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

December 31, 2010 and 2009

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 overhead.

(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 at 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 statement of income. 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

December 31, 2010 and 2009

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 of 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.
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December 31, 2010 and 2009

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 statement of income 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.
Notes to Non-Consolidated Financial Statements

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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 the most current information from construction activities. In addition, since most contracts are completed over several months, the timing of the recognition of related revenues could have a significant impact on quarterly operating results. The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company are reflected as advances from customers. The expenditures incurred before the construction contract is entered into are recognized as prepaid construction costs if they are directly related to making a contract, separately identifiable and reliably measurable, and a contract 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 calculated 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.

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 by the weighted-average number of shares outstanding during the period.

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

December 31, 2010 and 2009

(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.

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

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3. Restricted Financial Instruments

Financial instruments, which are restricted in use subject to withdrawal restrictions in relation to construction contracts as of December 31, 2010 and 2009 are summarized as follows:

<i>(In thousands of won)</i>		<u>2010</u>	<u>2009</u>
Short-term financial instruments	₩	1,467,606	16,989
Long-term financial instruments		<u>1,450,948</u>	<u>3,224,878</u>
	₩	<u>2,918,554</u>	<u>3,241,867</u>

4. Inventories

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

<i>(In thousands of won)</i>		<u>2010</u>	<u>2009</u>
Merchandise	₩	67,438,760	53,801,673
Finished goods		235,940,947	96,185,730
Work-in-progress		678,895,450	720,372,588
Raw materials		549,102,773	556,500,478
Supplies		18,122,046	16,308,403
Materials-in-transit		<u>534,673,046</u>	<u>485,389,643</u>
	₩	<u>2,084,173,022</u>	<u>1,928,558,515</u>

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

<i>(In thousands of won)</i>		<u>2010</u>			<u>2009</u>		
		Provision for inventory		Book value	Provision for inventory		Book value
		Acquisition	valuation		Acquisition	valuation	
Merchandise	₩	71,370,370	3,931,610	67,438,760	57,010,702	3,209,029	53,801,673
Finished goods		236,260,741	319,794	235,940,947	101,230,615	5,044,885	96,185,730
Work-in-progress		<u>680,279,028</u>	<u>1,383,578</u>	<u>678,895,450</u>	<u>737,474,333</u>	<u>17,101,745</u>	<u>720,372,588</u>
	₩	<u>987,910,139</u>	<u>5,634,982</u>	<u>982,275,157</u>	<u>895,715,650</u>	<u>25,355,659</u>	<u>870,359,991</u>

Reversal of valuation loss was ₩19,721 million, which was deducted from cost of sales.

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

December 31, 2010 and 2009

5. Other Current Assets

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

<i>(In thousands of won)</i>		2010	2009
Prepaid expenses	₩	172,299,764	203,375,407
Other current deposits		1,386,756	2,027,206
	₩	173,686,520	205,402,613

6. Long-term Investment Securities

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

<i>(In thousands of won)</i>		2010	2009
Available-for-sale securities			
Listed equity securities	₩	1,367,622,677	998,391,388
Non-marketable securities		269,363,823	175,689,303
	₩	1,636,986,500	1,174,080,691

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

<i>(In thousands of won, except percentage of ownership)</i>		2010		2009
	Percentage of ownership (%)	Acquisition cost	Book value	Book value
Listed equity securities:				
Kia Motors Corporation	0.02	₩ 2,681,616	4,465,197	1,769,312
Korea Line Corporation	1.90	55,130,663	8,166,200	12,803,603
Tong Yang Securities	-	-	-	47,840,616
Mirae Asset Securities Co., Ltd.	0.10	6,654,173	2,513,584	2,727,595
Hyundai Elevator Co., Ltd.	2.16	1,632,339	25,873,512	8,932,522
Hyundai Motor Company (*)	3.45	519,246,924	1,319,193,370	920,013,820
Korea Environment Technology Co., Ltd.	7.58	1,909,389	7,337,520	4,303,920
Ssangyong Motor Co., Ltd.	0.00	23,419	13,144	-
HI Special Purpose Acquisition Company	0.21	30,000	60,150	-
		₩	587,308,523	1,367,622,677
			1,367,622,677	998,391,388

(*) The Company deposited 650,000 shares of its common stock with the Gunsan city government as a security guarantee for completion of a construction project.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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December 31, 2010 and 2009

6. Long-term Investment Securities, Continued

(c) Unlisted equity securities, beneficiary certificates and investments in capital included in long-term investment securities as of December 31, 2010 and 2009 are summarized as follows:

(In thousands of won, except percentage of ownership)

	Percentage of ownership (%)	2010		2009
		Acquisition cost	Book value	Book value
Unlisted equity securities: (*1)				
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.	0.45	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	22,866,000	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
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 Construção Naval S.A.	10.01	29,968,867	29,968,867	-
		120,385,063	83,221,420	55,100,996
Beneficiary certificates		63,455,026	180,949,593	115,427,397
Investments in capital		5,192,810	5,192,810	5,160,910
	₩	189,032,899	269,363,823	175,689,303

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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6. Long-term Investment Securities, Continued

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

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

(*3) In conformity with financial accounting standards in the Republic of Korea, the equity securities 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 as of December 31, 2010 and 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 December 31, 2010 was as follows:

(In thousands of won)

		2010		
		Balance at January 1, 2010	Increase (decrease)	Balance at December 31, 2010
Kia Motors Corporation	₩	(711,597)	2,102,790	1,391,193
Korea Line Corporation		(33,015,107)	33,015,107	-
Tong Yang Securities		3,527,406	(3,527,406)	-
Mirae Asset Securities Co., Ltd.		(3,062,730)	(166,929)	(3,229,659)
Hyundai Elevator Co., Ltd.		5,694,143	13,213,971	18,908,114
Hyundai Motor Company		312,598,179	311,360,049	623,958,228
Korea Environment Technology Co., Ltd.		(323,006)	2,366,208	2,043,202
Ssangyong Motor Co., Ltd.		-	(8,015)	(8,015)
HI Special Purpose Acquisition Company		-	23,517	23,517
Doosan Capital Co., Ltd.		11,514,360	(1,478,880)	10,035,480
		296,221,648	356,900,412	653,122,060
Beneficiary certificates		43,956,427	47,689,335	91,645,762
	₩	340,178,075	404,589,747	744,767,822

6. Long-term Investments, Continued

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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December 31, 2010 and 2009

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)

		2009		Balance at December 31, 2009
		Balance at January 1, 2009	Increase (decrease)	
Equity securities:				
Kia Motors Corporation	₩	(1,640,817)	929,220	(711,597)
Korea Line Corporation		(26,925,588)	(6,089,519)	(33,015,107)
Tong Yang Securities		(14,974,952)	18,502,358	3,527,406
Mirae Asset Securities Co., Ltd.		(2,911,530)	(151,200)	(3,062,730)
SK Broadband Corporation		5,084	(5,084)	-
Hyundai Elevator Co., Ltd.		6,535,032	(840,889)	5,694,143
Hyundai Motor Company		(170,751,231)	483,349,410	312,598,179
Hyundai Corporation		340,402	(340,402)	-
Korea Environment Technology Co., Ltd.		-	(323,006)	(323,006)
Daehan Oil Pipeline Corporation		12,120,881	(12,120,881)	-
Doosan Capital Co., Ltd.		11,214,840	299,520	11,514,360
		(186,987,879)	483,209,527	296,221,648
Subordinated bonds		(1,734,668)	1,734,668	-
Beneficiary certificates		(7,914,149)	51,870,576	43,956,427
	₩	(196,636,696)	536,814,771	340,178,075

- (e) The Company recognizes impairment losses when the recoverable amount of securities is less than the carrying amount or the acquisition cost. Impairment losses in the amount of ₩46,966,905 thousand were recognized during the year ended December 31, 2010.

7. Equity Method Investments

- (a) Investments in companies accounted for using the equity method as of December 31, 2010 are summarized as follows:

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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(In thousands of won, except share data and percentage of ownership)

Company	Number of shares	Percentage of ownership (%)	Acquisition cost	Book value
Hyundai Oilbank Co., Ltd. (*1)	223,331,529	91.13	₩ 2,893,338,693	3,059,896,991
Hyundai Finance Corporation (*1)	12,350,000	67.49	78,197,738	99,604,004
Hyundai Samho Heavy Industries Co., Ltd. (*1)	37,967,000	94.92	204,259,700	2,521,330,622
Hyundai Heavy Industries Co. Bulgaria (*1)	12,155,829	99.09	11,620,593	48,477,517
New Korea Country Club	16,457	20.00	500,000	4,379,248
Hyundai Heavy Industries Europe N.V. (*1)	10	100.00	35,656,728	17,812,756
Hyundai Vinashin Shipyard (*1,2,3)	-	10.00	2,543,678	26,057,614
Hyundai Construction Equipment U.S.A. (*1)	23,900,000	100.00	26,712,810	6,344,545
Vladivostok Business Center (*1,2)	-	100.00	5,891,667	24,524,528
HHI China Investment Co., Ltd. (*1,2)	-	100.00	160,804,529	408,011,011
Hyundai Merchant Marine Co., Ltd. (common stock) (*4)	23,424,037	16.35	404,039,118	461,102,841
Hyundai Merchant Marine Co., Ltd. (preferred stock) (*4)	1,758,344	17.58	26,375,160	28,151,727
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*2)	-	20.00	67,658,226	106,913,874
Hyundai Ideal Electric Co. (*1)	1,000	100.00	18,119,600	26,269,951
Hyundai Financial Leasing Co., Ltd. (*1,2)	-	41.26	37,622,743	48,679,279
Hyundai Construction Equipment India Private Ltd. (*1)	17,184,775	100.00	39,354,139	23,111,115
Wärtsilä-Hyundai Engine Company Ltd. (*2)	-	50.00	33,930,000	44,125,623
Ulsan Hyundai Football Club Co., Ltd.	2,800,000	100.00	14,000,000	3,070,386
Hyundai Heavy Material Service (*1)	29,600,000	100.00	148,000,000	158,229,616
KAM Corporation	23,520,000	49.00	117,600,000	112,004,485
Grand China Hyundai Shipping Company Ltd.	1,000,000	50.00	1,016,600	1,030,961
KOMAS Corporation	754,414	100.00	3,772,070	2,446,104
Hotel Hyundai Co., Ltd.	80,000	100.00	1,397,000	2,453,011
Khorol Zerno Ltd. (*2)	-	80.79	6,641,016	6,125,571
Hyundai Primorye Ltd. (formerly Khorol Agro Ltd.) (*2)	-	49.99	3,573,517	3,147,244
Hyundai Corporation (*5)	4,992,782	22.36	105,134,024	100,388,980
Hyundai-Avancis Co., Ltd.	8,000,000	50.00	40,000,000	39,832,383
Taebaek Wind Power Co., Ltd.	703,500	35.00	3,517,500	3,445,752
Muju Wind Power Co., Ltd.	1,026,000	45.00	5,130,000	5,045,339
Jinan Jangsu Wind Power Co., Ltd.	25,600	32.00	128,000	128,000
Pyeongchang Wind Power Co., Ltd.	3,500	35.00	17,500	15,122
Changjuk Wind Power Co., Ltd.	34,400	43.00	172,000	171,103
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd. (*1,2)	-	100.00	33,183,027	30,462,756
Hyundai Power Transformers USA Inc. (*1)	100	100.00	29,080,000	28,083,390
			₩ 4,558,987,376	7,450,873,449

7. Equity Method Investments, Continued

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

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(In thousands of won, except share data and percentage of ownership)

Company	Number of shares	Percentage of ownership (%)	Acquisition 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
Hyundai Construction Equipment U.S.A. (*1)	23,900,000	100.00	26,712,810	-
Vladivostok 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
Wärtsilä-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
Hyundai Heavy Material Service (*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) Company subsidiary.

(*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 has the ability to significantly influence financial and operating policy decision, equity securities are accounted for using the equity method.

7. Equity Method Investments, Continued

(*4) Since the percentage of ownership of the Company and its subsidiary is more than 20% and the Company has the ability to significantly influence financial and operating policy decision, equity securities are accounted for using the equity method. In addition, the closing common stock price of Hyundai Merchant Marine Co., Ltd. on the

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stock market of the Republic of Korea was ₩38,550 per share at December 31, 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 ₩25,650 per share at December 31, 2010.

(b) Changes in goodwill for equity method accounted investments for the year ended December 31, 2010 were as follows:

(In thousands of won)

Company		Balance at January 1, 2010	Increase	Amortized amount	Balance at December 31, 2010
Hyundai Oilbank Co., Ltd.	₩	25,428,599	995,955,671	(23,411,640)	997,972,630
Hyundai Merchant Marine Co., Ltd. (common stock)		20,259,048	-	(16,495,697)	3,763,351
Qinhuangdao Shouqin Metal Materials Co., Ltd.		5,681,673	-	(2,843,063)	2,838,610
Hotel Hyundai Co., Ltd.		315,760	-	(78,940)	236,820
Khorol Zerno Ltd.		1,185,644	-	(253,776)	931,868
Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.)		721,863	-	(157,074)	564,789
Hyundai Corporation		72,334,654	-	(14,466,931)	57,867,723
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.		-	7,688,942	(768,894)	6,920,048
	₩	<u>125,927,241</u>	<u>1,003,644,613</u>	<u>(58,476,015)</u>	<u>1,071,095,839</u>

(c) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2010 were as follows:

(In thousands of won)

Company		Balance at January 1, 2010	Net income (loss)	Accumulated other comprehensive income	Other increase (decrease)	Balance at December 31, 2010
Hyundai Oilbank Co., Ltd.	₩	373,656,633	98,931,637	21,067,687	2,566,241,034	3,059,896,991
Hyundai Finance Corporation		90,726,376	8,029,351	2,083,277	(1,235,000)	99,604,004
Hyundai Samho Heavy Industries Co., Ltd.		1,817,689,776	785,148,937	(43,541,091)	(37,967,000)	2,521,330,622
Hyundai Heavy Industries Co. Bulgaria		46,768,262	8,778,511	(4,867,940)	(2,201,316)	48,477,517
New Korea Country Club		4,045,252	383,996	-	(50,000)	4,379,248
Hyundai Heavy Industries Europe N.V.		10,322,118	10,281,360	(2,790,722)	-	17,812,756

7. Equity Method Investments, Continued

(c) Changes in the opening and closing balances of investments in companies accounted for using the equity method for the year ended December 31, 2010 were as follows, continued:

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(In thousands of won)

Company	Balance at January 1, 2010	Net income (loss)	Accumulated other comprehensive income	Other increase (decrease)	Balance at December 31, 2010
Hyundai Vinashin Shipyard	₩ 20,148,716	7,658,038	(564,140)	(1,185,000)	26,057,614
Hyundai Construction					
Equipment U.S.A	-	6,981,685	(637,140)	-	6,344,545
Vladivostok Business Center	-	138,263,211	(113,738,683)	-	24,524,528
HHI China Investment Co., Ltd.	286,425,278	113,843,137	7,742,596	-	408,011,011
Hyundai Merchant Marine Co., Ltd. (common stock)	360,633,965	75,230,777	36,950,117	(11,712,018)	461,102,841
Hyundai Merchant Marine Co., Ltd. (preferred stock)	56,303,455	1,055,006	-	(29,206,734)	28,151,727
Qinhuangdao Shouqin Metal Materials Co., Ltd.	128,357,731	(22,262,136)	818,279	-	106,913,874
Hyundai Ideal Electric Co.	25,493,855	1,409,892	(633,796)	-	26,269,951
Hyundai Financial Leasing Co., Ltd.	44,416,791	8,170,128	(3,907,640)	-	48,679,279
Hyundai Construction					
Equipment India Private Ltd.	22,226,238	492,775	392,102	-	23,111,115
Wärtsilä-Hyundai Engine Company Ltd.	40,496,305	3,629,318	-	-	44,125,623
Ulsan Hyundai Football Club Co., Ltd.	913,199	(1,821,269)	(21,544)	4,000,000	3,070,386
Hyundai Heavy Material Service KAM Corporation	122,135,871	3,741,942	32,351,803	-	158,229,616
Grand China Hyundai Shipping Company Ltd.	117,667,618	(5,663,133)	-	-	112,004,485
Company Ltd.	1,045,336	10,644	(25,019)	-	1,030,961
KOMAS Corporation	1,634,795	811,309	-	-	2,446,104
Hotel Hyundai Co., Ltd.	1,806,723	646,288	-	-	2,453,011
Khorol Zerno Ltd.	5,380,910	33,610	(383,403)	1,094,454	6,125,571
Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.)	2,196,010	(141,660)	(144,882)	1,237,776	3,147,244
Hyundai Corporation	105,134,024	(4,678,040)	(67,004)	-	100,388,980
Hyundai-Avancis Co., Ltd.	-	24,383	(192,000)	40,000,000	39,832,383
Taebaek Wind Power Co., Ltd.	3,482,618	(36,866)	-	-	3,445,752
Muju Wind Power Co., Ltd.	-	(84,661)	-	5,130,000	5,045,339
Jinan Jangsu Wind Power Co., Ltd.	-	-	-	128,000	128,000
Pyeongchang Wind Power Co., Ltd.	-	(2,378)	-	17,500	15,122
Changjuk Wind Power Co., Ltd.	-	(897)	-	172,000	171,103
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	-	(2,264,564)	(455,706)	33,183,026	30,462,756
Hyundai Power Transformers USA Inc.	-	(395,041)	(601,569)	29,080,000	28,083,390
	₩ 3,689,107,855	1,236,205,290	(71,166,418)	2,596,726,722	7,450,873,449

7. Equity Method Investments, Continued

(d) Gain or loss on valuation of investment securities is accounted for after eliminating unrealized gains (losses) from inter-company transactions. As of December 31, 2010 and 2009, eliminated unrealized gains under the equity method of accounting are ₩79,113 million and ₩119,825 million, respectively.

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(e) Equity securities accounted for using the equity method as of December 31, 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. Details of net asset value after adjustment for consistency of the Company's accounting policy as of December 31, 2010 are summarized as follows:

(In thousands of won)

Company	Net asset value before		Net asset value after	
	adjustments	Adjustments	adjustments	
Hyundai Oilbank Co., Ltd. (*)	₩ 2,171,472,250	(109,547,889)		2,061,924,361
Hyundai Finance Corporation	99,604,004	-		99,604,004
Hyundai Samho Heavy Industries Co., Ltd. (*)	3,241,652,129	(708,141,043)		2,533,511,086
Hyundai Heavy Industries Co. Bulgaria	48,477,517	-		48,477,517
New Korea Country Club	4,379,248	-		4,379,248
Hyundai Heavy Industries Europe N.V.	28,249,407	-		28,249,407
Hyundai Vinashin Shipyard	26,057,614	-		26,057,614
Hyundai Construction Equipment U.S.A.	14,401,352	-		14,401,352
Vladivostok Business Center	24,524,528	-		24,524,528
HHI China Investment Co., Ltd. (*)	275,645,425	170,474,828		446,120,253
Hyundai Merchant Marine Co., Ltd. (common stock)	457,339,490	-		457,339,490
Hyundai Merchant Marine Co., Ltd. (preferred stock)	28,151,727	-		28,151,727
Qinhuangdao Shouqin Metal Materials Co., Ltd.	104,075,265	-		104,075,265
Hyundai Ideal Electric Co.	26,269,951	-		26,269,951
Hyundai Financial Leasing Co., Ltd.	48,679,279	-		48,679,279
Hyundai Construction Equipment India Private Ltd.	30,140,650	-		30,140,650
Wärtsilä-Hyundai Engine Company Ltd.	44,288,810	-		44,288,810
Ulsan Hyundai Football Club Co., Ltd.	3,070,386	-		3,070,386
Hyundai Heavy Material Service	159,775,760	-		159,775,760
KAM Corporation	112,004,485	-		112,004,485
Grand China Hyundai Shipping Company Ltd.	1,030,961	-		1,030,961
KOMAS Corporation	4,037,134	-		4,037,134
Hotel Hyundai Co., Ltd.	2,216,191	-		2,216,191
Khorol Zerno Ltd.	5,193,704	-		5,193,704
Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.)	2,582,454	-		2,582,454
Hyundai Corporation	42,521,256	-		42,521,256
Hyundai-Avancis Co., Ltd.	39,832,383	-		39,832,383
Taebaek Wind Power Co., Ltd.	3,445,752	-		3,445,752
Muju Wind Power Co., Ltd.	5,045,339	-		5,045,339
Jinan Jangsu Wind Power Co., Ltd.	128,000	-		128,000
Pyeongchang Wind Power Co., Ltd.	15,122	-		15,122
Changjuk Wind Power Co., Ltd.	171,103	-		171,103
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	23,542,708	-		23,542,708
Hyundai Power Transformers USA Inc.	28,083,390	-		28,083,390
	₩ 7,106,104,774	(647,214,104)		6,458,890,670

(*) The Company has adjusted for material differences in accounting principle for similar transactions and accounting events between the Company and investees.

7. Equity Method Investments, Continued

(f) Financial information for equity-accounted investments as of and for the year ended December 31, 2010 is summarized as follows:

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(In millions of won)

Company		Assets	Liabilities	Sales	Net income (loss)
Hyundai Oilbank Co., Ltd.	₩	7,169,732	4,786,774	10,327,008	307,169
Hyundai Finance Corporation		182,521	34,929	12,549	6,873
Hyundai Samho Heavy Industries Co., Ltd.		7,648,415	4,233,184	4,316,560	828,691
Hyundai Heavy Industries Co. Bulgaria		62,369	13,445	75,739	8,792
New Korea Country Club		27,930	6,033	12,067	1,934
Hyundai Heavy Industries Europe N.V.		80,593	52,344	185,426	1,769
Hyundai Vinashin Shipyard		358,514	97,938	345,296	76,608
Hyundai Construction Equipment U.S.A.		96,400	81,999	310,178	5,452
Vladivostok Business Center		25,682	1,157	12,478	34,275
HHI China Investment Co., Ltd.		309,496	33,851	10,452	22,552
Hyundai Merchant Marine Co., Ltd.		8,819,315	5,849,948	8,086,981	379,941
Qinhuangdao Shouqin Metal Materials Co., Ltd.		2,239,929	1,719,553	1,372,615	(90,305)
Hyundai Ideal Electric Co.		39,143	12,873	51,324	1,253
Hyundai Financial Leasing Co., Ltd.		953,693	835,718	63,705	15,053
Hyundai Construction Equipment India Private Ltd.		96,137	65,996	93,106	1,215
Wärtsilä-Hyundai Engine Company Ltd.		229,504	140,926	130,990	7,585
Ulsan Hyundai Football Club Co., Ltd.		4,106	1,036	18,682	1,767
Hyundai Heavy Material Service		323,529	163,753	583,160	4,527
KAM Corporation		448,704	220,123	68,447	(11,533)
Grand China Hyundai Shipping Company Ltd.		2,062	-	-	39
KOMAS Corporation		4,059	22	413	252
Hotel Hyundai Co., Ltd.		5,868	3,652	30,187	719
Khorol Zerno Ltd.		9,090	2,661	2,257	330
Hyundai Primorye Ltd. (formerly Khorol Argo Ltd.)		5,188	22	173	30
Hyundai Corporation		1,013,514	823,341	3,633,796	45,328
Hyundai-Avancis Co., Ltd.		80,807	1,136	-	(55)
Taebaek Wind Power Co., Ltd.		9,858	13	-	(111)
Muju Wind Power Co., Ltd.		11,250	38	-	(188)
Jinan Jangsu Wind Power Co., Ltd.		400	-	-	-
Pyeongchang Wind Power Co., Ltd.		43	-	-	(7)
Changjuk Wind Power Co., Ltd.		399	-	-	(1)
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.		55,004	31,461	1,706	(2,128)
Hyundai Power Transformers USA Inc.		29,745	1,662	-	(395)

8. Property, Plant and Equipment

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

(In thousands of won)

	2010	2009
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Buildings and structures	₩	3,967,946,407	3,929,329,068
Machinery and equipment		3,313,661,846	2,945,351,323
Ships		211,489,020	211,401,759
Vehicles		37,482,581	35,148,987
Tools, furniture and fixtures		1,292,881,658	1,223,446,599
		8,823,461,512	8,344,677,736
Less: Accumulated depreciation		(3,866,827,891)	(3,474,615,628)
		4,956,633,621	4,870,062,108
Land		2,857,626,759	2,871,363,776
Construction-in-progress		185,897,898	404,096,925
	₩	8,000,158,278	8,145,522,809

(b) Changes in property, plant and equipment for the year ended December 31, 2010 were as follows:

(In thousands of won)

		2010					
		Land	Buildings	Structures	Machinery and equipment	Others	Total
Beginning of period	₩	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 and other		17,653,698	38,324,677	62,929,400	376,357,297	(125,106,670)	370,158,402
Disposal		(31,390,715)	(61,353,008)	(1,283,730)	(8,046,774)	(21,236,443)	(123,310,670)
End of period		2,857,626,759	2,485,524,708	1,482,421,699	3,313,661,846	1,727,751,157	11,866,986,169
Depreciation		-	(63,651,905)	(36,237,950)	(201,408,112)	(138,747,079)	(440,045,046)
Accumulated depreciation		-	(496,806,241)	(246,146,392)	(1,959,851,737)	(1,164,023,521)	(3,866,827,891)
	₩	2,857,626,759	1,988,718,467	1,236,275,307	1,353,810,109	563,727,636	8,000,158,278

8. Property, Plant and Equipment, Continued

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

(In thousands of won)

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		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		2,871,363,776	2,508,553,039	1,420,776,029	2,945,351,323	1,874,094,270	11,620,138,437
Depreciation		-	(60,944,830)	(29,758,181)	(176,653,522)	(132,337,629)	(399,694,162)
Accumulated							
depreciation		-	(450,454,692)	(210,230,889)	(1,766,226,220)	(1,047,703,827)	(3,474,615,628)
	₩	2,871,363,776	2,058,098,347	1,210,545,140	1,179,125,103	826,390,443	8,145,522,809

(c) 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.

(d) Insurance

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩2,981,712 million as of December 31, 2010. The Company maintains insurance coverage against fire and other casualty losses of up to ₩11,591,833 million for ships and sea structures under construction. Insurance proceeds of ₩3,036,019 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of December 31, 2010.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩19,450,108 million as of December 31, 2010. The Company also maintains insurance on cargo against damage and claims losses of up to ₩8,217,176 million for products being exported and imported as of December 31, 2010.

(e) Construction-in-progress is development construction of Ihwa industrial park and construction of new buildings as of December 31, 2010.

(f) As of December 31, 2010 and 2009, the officially declared value of land owned by the Company is ₩1,458,571 million and ₩1,461,080 million, respectively, as announced by the Minister of Construction and Transportation.

9. Intangible Assets

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

<i>(In thousands of won)</i>		2010	2009
Development costs	₩	289,986,715	270,363,193

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Usage right for donated properties		16,056,565	18,095,848
	₩	<u>306,043,280</u>	<u>288,459,041</u>

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

		<u>Development cost</u>		<u>Usage right for donated properties</u>	
		2010	2009	2010	2009
<i>(In thousands of won)</i>					
Beginning balance	₩	270,363,193	242,161,165	18,095,848	20,135,131
Capitalized		69,731,036	72,139,257	-	-
Amortization		<u>(50,107,514)</u>	<u>(43,937,229)</u>	<u>(2,039,283)</u>	<u>(2,039,283)</u>
Ending balance	₩	<u>289,986,715</u>	<u>270,363,193</u>	<u>16,056,565</u>	<u>18,095,848</u>

Research costs amounting to ₩27,049 million and ₩19,629 million, and ordinary development costs amounting to ₩87,310 million and ₩72,728 million are included in selling, general and administrative expenses for the years ended December 31, 2010 and 2009, respectively. Amortized development costs of ₩50,107 million and ₩43,937 million are included in the cost of sales and selling, general and administrative expenses for the years ended December 31, 2010 and 2009, respectively.

10. Other Non-current Assets

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

		<u>2010</u>	<u>2009</u>
<i>(In thousands of won)</i>			
Guarantee deposits	₩	11,942,657	9,933,113
Long-term loans		261,947	2,019,948
Other non-current assets		<u>156,312,475</u>	<u>93,812,840</u>
	₩	<u>168,517,079</u>	<u>105,765,901</u>

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11. Other Current Liabilities

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

<i>(In thousands of won)</i>		<u>2010</u>	<u>2009</u>
Income tax withholdings	₩	247,748,503	213,815,078
Unearned revenues		-	38,523
Provision for construction losses		<u>25,634,346</u>	<u>15,279,818</u>
	₩	<u>273,382,849</u>	<u>229,133,419</u>

12. Debentures, Short-term and Long-term Borrowings

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

<i>(In thousands of won)</i>					<u>2010</u>	<u>2009</u>
<u>Description</u>	<u>Maturity</u>	<u>Annual</u>				
		<u>interest rate (%)</u>				
112 th non-guaranteed debentures	2012.04.13	5.43	₩		300,000,000	300,000,000

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

<i>(In thousands of won)</i>					<u>2010</u>	<u>2009</u>
<u>Type of borrowing</u>	<u>Lender</u>	<u>Annual</u>				
		<u>interest rate (%)</u>				
Network loan	Export-Import Bank of Korea	3.70	₩		74,966,175	301,916,695
Collaborated guaranty loan	Korea Exchange Bank (KEB)	-			-	103,118,913
Pre-shipment credit	Export-Import Bank of Korea	-			-	180,285,000
General loan	Shinhan Capital Co., Ltd.	4.45			1,500,000,000	-
Commercial Paper	Shinhan Bank	2.99			1,000,000,000	-
Usance L/C	Shinhan Bank and others	0.91~2.63			<u>540,015,512</u>	<u>-</u>
			₩		<u>3,114,981,687</u>	<u>585,320,608</u>

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12. Debentures, Short-term and Long-term Borrowings, Continued

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

(In thousands of won and in dollars)

Type of borrowing	Annual interest rate (%)	2010		2009	
		Foreign currency	Won equivalent	Foreign currency	Won equivalent
General loan in foreign currency from Export-Import Bank of Korea	2.04	\$ 23,272,500	₩ 26,505,050	\$ -	₩ -
Business loans from Korea National Oil Corporation	1.75	5,494,765	6,335,709	4,888,535	5,166,671
		\$ 28,767,265	₩ 32,840,759	\$ 4,888,535	₩ 5,166,671

(d) The general loan in foreign currency from the Export-Import Bank of Korea in relation to the Company's overseas resource development business has a three-year maturity. Payments will be made in lump sum on the loan maturity date of October 1, 2013. The maturities of long-term borrowings from Korea National Oil Corporation as of December 31, 2010 are not readily determinable since the long-term borrowing is paid by installment in the event of successful commercial production by the Company's oil development business.

13. Retirement and Severance Benefits

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

(In thousands of won)

	2010	2009
Estimated retirement and severance benefits at beginning of year	₩ 1,226,148,845	1,251,923,440
Payments	(664,236,835)	(164,508,686)
Accrual for retirement and severance benefits	231,060,703	138,734,091
Estimated retirement and severance benefits at end of year	792,972,713	1,226,148,845
Deposit for severance benefit insurance	(683,855,161)	(1,022,621,872)
Transfer to National Pension Fund	(16,048,370)	(29,049,871)
Net balance at end of year	₩ 93,069,182	174,477,102

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 86.2% and 83.4% of the reserve balances of retirement and severance benefits as of December 31, 2010 and 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

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

<i>(In thousands of won)</i>		2010	2009
Deposits received	₩	13,498,575	13,922,260
Provision for construction warranties		30,013,337	29,070,486
Provision for product warranties		52,155,981	34,473,840
	₩	95,667,893	77,466,586

15. Commitments and Contingencies

- (a) The Company has entered into bank overdraft agreements with eight banks amounting to ₩238,000 million as of December 31, 2010.
- (b) As of December 31, 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 2,423,538 thousand.
- (c) In order to secure bank loans construction contract performance guarantees, the Company has provided ten blank notes and one check as of December 31, 2010.
- (d) The outstanding balance of note receivables guaranteed by the importers' Government or others and sold to financial institutions with recourse is USD 13,377 thousand, equivalent to ₩15,235 million, as of December 31, 2010. The Company's outstanding balance of trade receivables sold with recourse amount to ₩4,642 million as of December 31, 2010.
- (e) As of December 31, 2010, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies amounting to USD 193,330 thousand. The Company has provided certain performance guarantees for bareboat charter amounting to USD 475,226 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Furthermore, the Company has provided performance guarantees for the mining business in relation to overseas resource developments amounting to USD 61,925 thousand and guarantees on debt obligations for the business participant, Sherritt International Corporation, amounting to USD 24,058 thousand. The Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries, for the construction of four ships at a contract amount of USD 534,179 thousand.
- (f) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩1,230,877 million and USD 12,721,988 thousand by various banking facilities.

15. Commitments and Contingencies, Continued

- (g) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference

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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 December 31, 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)

	Description			Total
	Cash flow hedge	Fair value hedge	For trading	
Contract amount	USD 1,110,027	USD 10,548,497	USD 1,475,478	USD 13,134,002
	EUR 32,718	EUR 78,724	-	EUR 111,442
	KRW 55,800	-	KRW 1,035,521	KRW 1,091,321
Adjustment to sales	47,982	(695,935)	- ₩	(647,953)
Non-operating income (expense)	(1,728)	35,733	(201,057)	(167,052)
Other comprehensive income	16,684	-	-	16,684
Firm commitment assets	-	789,012	-	789,012
Firm commitment liabilities	-	261,615	-	261,615
Derivatives assets				301,201
Derivatives liabilities				708,876

As of December 31, 2010, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩12,706 million, net of deferred tax adjustment of ₩3,978 million, as gain (loss) on valuation of derivatives 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 24 months, and the amount among gain (loss) on valuation of foreign exchange contracts that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2010 is ₩14,007 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current income.

In relation to the shipbuilding contracts in foreign currency as of December 31, 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 ₩527,397 million and related gain and loss on valuation of the firm commitments were recorded as ₩110,064 million and ₩493,079 million, respectively, in non-operating income and expenses.

Gain and loss on derivatives transactions that mature within the current year are recorded as ₩279,613 million and ₩312,471 million, respectively in non-operating income and expenses. Gain and loss on valuation of derivatives are recorded as ₩388,295 million and ₩139,474 million, respectively in non-operating income and expenses.

In relation to valuation of derivatives that have not reached their maturity dates, the Company accounted for derivative assets of ₩301,201 million and derivative liabilities of ₩708,876 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,

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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 from those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Company did not accept the Court's decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Company won its claim amounting to ₩241,200 million of principal, excluding ₩4,300 million and accrued interest thereon, and recovered ₩86,200 million. The Company filed an appeal to the Supreme Court claiming the principal amount of ₩4,300 million, which was pending as of December 31, 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 December 31, 2010.

- (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's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Company filed administrative litigation. However, the Company lost the first trial on January 5, 2011 and appealed on January 25, 2011. The litigation is currently in pendency.
- (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 of its intention 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 ordering IPIC to sell its 171,557,695 shares (70%) of Hyundai Oilbank at the price of ₩15,000 per share in accordance with the deemed offer. 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. The Company paid the acquisition cost on August 12, 2010 and IPIC issued 171,557,695 shares of Hyundai Oilbank to the Company.

17. Capital Surplus

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

<i>(In thousands of won)</i>	2010	2009
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	201,192,243	116,321,606
Capital surplus on valuation of equity method investments	47,207,001	47,207,001

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	W 2,954,448,715	2,869,578,078
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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., ₩145,981 million of gain on disposal of treasury stock (net of tax effect) and ₩21,830 million of gain on business combination and others.

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

18. Retained Earnings

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

(In thousands of won)

	2010	2009
Appropriated:		
Legal reserve (*1)	W 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	3,761,139,702	2,146,488,800
	W 10,052,910,617	6,503,945,132

(*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.

18. Retained Earnings, Continued

(*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.

19. Capital Adjustments

(a) Treasury stock

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

(In thousands of won)

		<u>2010</u>	<u>2009</u>
Treasury stock	₩	(1,400,454,947)	(1,463,972,001)

(b) Other capital adjustments

As of December 31, 2010 and 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 investments		<u>(201,435,151)</u>	<u>(130,257,265)</u>
	₩	<u>(305,000,360)</u>	<u>(233,822,474)</u>

20. Dividends

(a) Dividends paid for 2010 and 2009 were as follows:

(In thousands of won, except par value)

Year	Description	Number of shares (*)	Par value	Dividend rate	Cash dividend	Net income	Dividend to net income
2010	Common stock	61,288,440	₩ 5,000	140 %	₩ 429,019,080	₩ 3,761,139,692	11.41%
2009	Common stock	60,621,202	5,000	70 %	212,174,207	2,146,488,795	9.88%

(*) Net of 14,711,560 shares and 15,378,798 shares of treasury stock as of December 31, 2010 and 2009, respectively.

(b) Yields to market price of paid dividend for 2010 and 2009 were as follows:

(In won)

Year	Description	Dividend per share	Standard price (*)	Yield to market price
2010	Common stock	₩ 7,000	₩ 446,100	1.57%
2009	Common stock	3,500	166,625	2.10%

(*) The standard price is the arithmetic mean of the closing price in the seven-day period ending two days prior to the closing date of shareholders' list.

21. Sales and Cost of Sales

(a) Sales and cost of sales, by major industry segment, for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

		<u>2010</u>		<u>2009</u>	
		Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩	7,849,210,418	6,353,403,786	9,002,641,240	8,315,385,400
Offshore & Engineering		3,412,757,735	2,606,361,177	3,423,456,902	2,876,852,425
Industrial Plant & Engineering		2,644,514,489	2,239,862,118	1,897,902,597	1,607,475,797
Engine & Machinery		2,834,722,044	2,013,806,450	2,771,471,593	1,886,042,960
Electro Electric Systems		3,242,218,942	2,553,343,440	2,712,142,548	2,138,464,785
Construction Equipment		2,274,585,216	1,831,676,448	1,190,382,638	1,037,553,822

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Others	147,172,470	136,392,820	144,199,218	135,667,732
	₩ 22,405,181,314	17,734,846,239	21,142,196,736	17,997,442,921

(b) The Company's outstanding contracts as of December 31, 2010 were as follows:

<i>(In millions of won)</i>		<u>Shipbuilding</u>	<u>Others</u>	<u>Total</u>
Beginning of period (*)	₩	20,320,557	18,340,636	38,661,193
Increase during the period		4,678,942	15,016,879	19,695,821
Recognized as revenue in current income		<u>(7,849,210)</u>	<u>(14,555,971)</u>	<u>(22,405,181)</u>
End of period	₩	<u>17,150,289</u>	<u>18,801,544</u>	<u>35,951,833</u>

(*) The beginning of period balances for backlog were recalculated with the appropriate exchange rate in effect at the end of 2009.

As of December 31, 2010, in connection with construction contracts, the Company has provided a certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (see note 15).

21. Sales and Cost of Sales, Continued

(c) As of December 31, 2010, accumulated cost of construction and others connected with construction in progress by major industry segments 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	₩	12,606,097	3,122,692	3,968,842	3,048,381	37,488	3,010,893
Offshore & Engineering		8,124,401	1,785,482	804,009	454,491	148,138	306,353
Industrial &		7,197,827	939,535	620,603	392,497	24,012	368,485

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	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Unbilled receivables on construction contracts
Plant Engineering						
Engine & Machinery	4,557,155	2,153,713	672,630	507,625	263,019	244,606
Electro Electric Systems	45,518	21,350	74,596	1,178,127	979,416	198,711
Construction Equipment (*)	-	-	1,289	286,121	286,121	-
Others (*)	-	-	705	627,974	627,974	-
W	<u>32,530,998</u>	<u>8,022,772</u>	<u>6,142,674</u>	<u>6,495,216</u>	<u>2,366,168</u>	<u>4,129,048</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 ₩25,634 million.

22. Income Taxes

(a) The Company was subject to income taxes on taxable income at the following normal tax rates for the years ended December 31, 2010 and 2009.

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

In December 2009, the Korean government postponed the reduction of the corporate income tax rate (including resident tax) from 24.2% to 22%, until 2012.

(b) Income tax expense for the years ended December 31, 2010 and 2009 was as follows:

	2010	2009
(In thousands of won)		
Current income tax	₩ 887,966,602	376,247,930
Changes in deferred taxes due to temporary differences	251,227,263	786,712,935
Changes in deferred taxes directly adjusted in equity	(116,005,218)	(661,386,425)
Income tax expense	<u>1,023,188,647</u>	<u>501,574,440</u>
Income before income taxes	<u>4,784,328,339</u>	<u>2,648,063,235</u>
Effective tax rate	<u>21.4</u>	<u>18.9</u>

22. Income Taxes, Continued

(c) For the years ended December 31, 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:

	2010	2009
(In thousands of won)		
Income before income taxes	₩ 4,784,328,339	2,648,063,235
Temporary differences	(1,221,041,975)	(912,311,773)

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Non-temporary differences		173,788,955	54,546,759
Taxable income	₩	<u>3,737,075,319</u>	<u>1,790,298,221</u>

(d) Details of changes in and effects on income tax expense of cumulative temporary differences for the years ended December 31, 2010 and 2009 were as follows:

(In thousands of won)

		2010		2009	
		Balance at January 1, 2010	Balance at December 31, 2010	Balance at January 1, 2009	Balance at December 31, 2009
Equity method investments (*)	₩	(1,177,392,317)	(1,946,795,088)	(788,296,615)	(1,177,392,317)
Impairment losses on investments		66,610,466	113,577,371	74,558,133	66,610,466
Reserve for research and human development		(446,666,667)	(470,000,000)	(223,333,333)	(446,666,667)
Allowance for doubtful accounts (*)		98,663,216	230,639,235	158,039,183	98,663,216
Accrued income		(825,057)	(490,045)	(56,690,429)	(825,057)
Revaluation of land		(1,236,485,239)	(1,225,406,608)	-	(1,236,485,239)
Currency forward contracts		(196,074,996)	(291,771,264)	710,042,273	(196,074,996)
Others		(310,701,132)	(772,305,920)	396,816,190	(310,701,132)
		<u>(3,202,871,726)</u>	<u>(4,362,552,319)</u>	<u>271,135,402</u>	<u>(3,202,871,726)</u>
Tax rate			22.0% (24.2%)		22.0% (24.2%)
Deferred tax assets (liabilities), end of period			(958,975,689)		(707,748,426)
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>(251,227,263)</u>		<u>(786,712,935)</u>

(*) Temporary differences amounting to ₩(952,330) million, which were not recognized as deferred taxes, were deducted.

22. Income Taxes, Continued

(e) Deferred tax assets and liabilities that were directly charged or credited to accumulated other comprehensive income as of December 31, 2010 were as follows:

(In thousands of won)

		<u>2010</u>
Other capital surplus	₩	(27,095,903)

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Capital adjustments on valuation of equity method investments	20,075,814
Gain and loss on valuation of investment securities	(114,115,057)
Changes in equity arising on application of the equity method	(10,171,176)
Negative changes in equity arising on application of the equity method	4,947,807
Gain and loss on valuation of derivatives	7,915,998
Gain and loss on revaluation of land	2,437,299

(f) Deferred tax assets (liabilities) as of December 31, 2010 were as follows:

<i>(In thousands of won)</i>		Current	Non-current	Total
Accumulated temporary differences	₩	35,719,159	(4,398,271,478)	(4,362,552,319)
Tax rate		24.2%	22.0%	22.0% (24.2%)
Tax effects		8,644,036	(967,619,725)	(958,975,689)
Deferred tax assets (liabilities)	₩	8,644,036	(967,619,725)	(958,975,689)

23. Comprehensive Income

Comprehensive income for the years ended December 31, 2010 and 2009 was as follows:

(In thousands of won)

		2010	2009
Net income	₩	3,761,139,692	2,146,488,795
Other comprehensive income		384,456,003	2,251,127,210

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Gain on valuation of investment securities, net of tax effects of ₩(114,115,057) in 2010 and ₩(150,814,023) in 2009	404,589,747	534,950,242
Changes in equity arising on application of the equity method, net of tax effects of ₩(10,171,176) in 2010 and ₩(71,908,150) in 2009	33,025,683	263,582,652
Negative changes in equity arising on application of the equity method, net of tax effects of ₩4,947,807 in 2010 and ₩(37,616,832) in 2009	(19,938,337)	133,368,767
Gain (loss) on valuation of derivatives, net of tax effects of ₩7,915,998 in 2010 and ₩(113,087,528) in 2009	(24,579,758)	354,767,062
Gain (loss) on revaluation of land, net of tax effects of ₩2,437,299 in 2010 and ₩(272,026,753) in 2009	(8,641,332)	964,458,487
Comprehensive income	₩ <u>4,145,595,695</u>	<u>4,397,616,005</u>

24. Earnings per Share

Basic earnings per share for the years ended December 31, 2010 and 2009 were as follows:

		<u>2010</u>	<u>2009</u>
Net income (In thousands of won)	₩	3,761,139,692	2,146,488,795
Weighted average number of common shares outstanding (In thousands of shares)		<u>60,853</u>	<u>60,118</u>
Earnings per share (In won)	₩	<u>61,807</u>	<u>35,705</u>

25. Transactions and Balances with Related Companies

(a) The Company is the ultimate holding company and its subsidiaries as of December 31, 2010 were as follows:

<u>Controlled subsidiary</u>	<u>Particulars</u>
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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Controlled subsidiary	Particulars
Hyundai Futures Corporation	Entrust and brokerage of futures transactions
HVIC IT Fund 3 rd	Other financial intermediation
Hyundai Investment Fund 1 on Patent Technology	Other financial intermediation
Mipo Engineering Co., Ltd.	Other engineering services
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Construction Equipment U.S.A.	Sale of machinery equipment for construction
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers
Vladivostok Business Center	Hotel operation
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 switchboards 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 of technology
Hyundai (Malaysia) SDN BHD	Trading
HHI Mauritius Limited	Manufacturing
PHECO Inc.	Design services for offshore facilities
Hyundai Heavy Industries France SAS	Manufacturing
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
Hyundai Financial Leasing Co., Ltd.	Financial and operating leases
Hyundai Construction Equipment India Private Ltd.	Sale and manufacture of machinery equipment for construction
Ulsan Hyundai Football Club Co., Ltd.	Football club
Hyundai Heavy Material Service	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.	Hotel operation
Khorol Zerno Ltd.	Agriculture
Muju Wind Power Co., Ltd.	Wind power generation
Changjuk Wind Power Co., Ltd.	Wind power generation
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	Sale and manufacture of wheel loaders

25. Transactions and Balances with Related Companies, Continued

Controlled subsidiary	Particulars
Hyundai Power Transformers USA, Inc.	Sale and manufacture of industrial electric equipment
Weihai Hyundai Wind Power Technology Co., Ltd.	Sale and manufacture of facilities for wind power generation
HDOS Pte. Ltd.	Trading of crude oil and petroleum products, chartering

(b) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy

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Industries Group of companies and former affiliated companies of Hyundai Group for the year ended and as of December 31, 2010 were as follows:

(In thousands of won)

		<u>Sales</u>	<u>Purchases</u>	<u>Receivables</u>	<u>Payables</u>
Hyundai Samho Heavy Industries Co., Ltd.	₩	622,175,759	4,267,707	231,256,072	1,976,599
Hyundai Mipo Dockyard Co., Ltd.		392,051,504	16,073,096	122,538,638	1,855,021
Hyundai Oilbank Co., Ltd.		22,162,049	2,999,041	727,484	917,564
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		157,555,652	1,915,927	30,149,423	37,536
Hyundai Heavy Industries Europe N.V.		141,468,368	4,484,868	9,584,335	386,843
Hyundai Construction Equipment U.S.A.		185,168,146	1,935,546	25,502,872	209,698
Hyundai Jiangsu Construction Machinery Co., Ltd.		458,801,092	1,098,000	110,055,707	79,675
Yantai Hyundai Moon Heavy Industries Co., Ltd.		-	82,632,252	-	-
Hyundai Heavy Industries (China) Electric Co., Ltd.		6,555,016	16,891,382	4,445,690	1,150,797
Hyundai Heavy Material Service		9,354,188	412,347,517	2,456,143	63,617,743
Hyundai Construction Equipment India Private Ltd.		75,390,841	774,640	47,191,016	64,935
Hyundai Ideal Electric Co.		11,308,540	527,033	5,659,591	186,706
	₩	<u>2,081,991,155</u>	<u>545,947,009</u>	<u>589,566,971</u>	<u>70,483,117</u>

- (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 December 31, 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) Compensation for key management of the Company for the year ended December 31, 2010 was ₩3,625,399 thousand. Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Company.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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26. Assets and Liabilities Denominated in Foreign Currencies

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

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

Account	Currency	Foreign currencies		Korean won	
		2010	2009	2010	2009
Assets:					
Cash and cash equivalents	USD	176,327	277,682	₩ 200,818,724	324,221,114
	EUR	317	261	479,873	436,968
	Others			32,477,289	25,287,818
Accounts and notes receivable - trade	USD	3,812,964	3,366,566	4,342,584,853	3,930,802,482
	EUR	235,487	133,112	356,432,387	222,867,012
	Others			304,281,202	50,664,138
Accounts receivable - other	USD	13,914	69,816	15,846,262	81,516,735
	EUR	118	152	178,452	254,014
	Others			170,363	1,228,246
Long-term accounts and notes receivable - trade	USD	410,450	67,131	467,461,491	78,382,153
Long-term financial instruments & others	USD	33,474	33,319	38,123,544	38,903,482
	EUR	2,026	1,993	3,066,446	3,336,687
	Others			1,767,161	1,718,940
				₩ <u>5,763,688,047</u>	<u>4,759,619,789</u>
Liabilities:					
Accounts and notes payable - trade	USD	375,683	239,544	₩ 427,865,426	279,691,138
	EUR	30,449	29,624	46,087,338	49,598,089
	Others			27,888,990	29,068,430
Short-term borrowings	USD	319,497	-	363,875,240	-
	EUR	74,250	-	112,384,217	-
	Others			63,756,055	-
Long-term borrowings	USD	28,767	4,489	32,840,759	5,166,671
Accounts payable - other & others	USD	164,872	197,281	187,772,444	230,345,491
	EUR	25,364	15,469	38,391,039	25,899,375
	Others			59,436,887	33,472,623
				₩ <u>1,360,298,395</u>	<u>653,241,817</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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27. 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, manufacturing process characteristics and market and sales methods. Financial information by industry segment was as follows:

(a) As of and for the year ended December 31, 2010

(In thousands of won)

		<u>Shipbuilding</u>	<u>Offshore & Engineering</u>	<u>Industrial Plant & Engineering</u>	<u>Engine & Machinery</u>	<u>Electro Electric Systems</u>	<u>Construction Equipment</u>	<u>Others</u>
Sales	₩	7,849,210,418	3,412,757,735	2,644,514,489	2,834,722,044	3,242,218,942	2,274,585,216	147,172,470
Operating income		1,176,521,097	737,806,568	325,355,410	739,733,451	531,433,467	191,040,590	(262,454,369)
Tangible and intangible assets		2,265,840,368	544,055,256	32,853,295	935,943,134	666,316,275	193,921,912	3,667,271,318
Depreciation		(162,863,558)	(57,296,453)	(6,339,273)	(89,322,876)	(45,282,896)	(22,120,057)	(56,819,933)

(b) As of and for the year ended December 31, 2009

(In thousands of won)

		<u>Shipbuilding</u>	<u>Offshore & Engineering</u>	<u>Industrial Plant & Engineering</u>	<u>Engine & Machinery</u>	<u>Electro Electric Systems</u>	<u>Construction Equipment</u>	<u>Others</u>
Sales	₩	9,002,641,240	3,423,456,902	1,897,902,597	2,771,471,593	2,712,142,548	1,190,382,638	144,199,218
Operating income		532,372,130	462,688,727	245,456,361	808,516,177	453,102,965	(29,642,594)	(249,919,847)
Tangible and intangible assets		2,352,722,389	577,184,489	32,823,913	889,044,181	625,381,518	197,625,043	3,759,200,317
Depreciation		(150,487,993)	(53,970,096)	(4,343,587)	(75,351,840)	(36,355,565)	(20,114,450)	(59,070,631)

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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28. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ending December 31, 2010 and 2009 were as follows:

(In thousands of won)

	2010	2009
Salaries	₩ 305,896,412	284,957,403
Accrual for retirement and severance benefits	34,312,658	20,692,285
Employee welfare	69,812,130	70,534,297
Advertising	48,935,300	37,384,930
Ordinary development costs	87,310,379	72,727,985
Accrual for allowance for doubtful accounts	206,638,605	48,943,879
Depreciation	36,389,718	39,414,918
Service charges	81,188,755	87,083,387
Transportation	102,016,738	58,444,377
Sales commissions	63,434,541	54,544,572
After-sale service expenses	48,738,916	28,870,517
Others	146,224,709	118,581,346
	<u>₩ 1,230,898,861</u>	<u>922,179,896</u>

29. Results of Operations for the Last Interim Period

(In thousands of won except earnings per share)

	2010	2009
	4th Quarter	4th Quarter
Sales	₩ 6,429,857,151	5,331,696,473
Net income for the period	1,061,007,731	721,318,978
Earnings per share	17,312	11,899

30. 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 the environmental impacts of its operation. The Company has obtained 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, purchasing, 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.

30. The Company's Environmental Standards and Policies, Continued

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The Company operates air pollution control and wastewater treatment facilities to handle pollutants generated by its manufacturing operations. It has adopted its own environmental standards, which are twice as strict as current regulations in the Republic of Korea. In addition to maintaining emissions below 20% of the legal mandate, the Company has achieved a waste reclamation rate of 51% by minimizing the generation of waste and sorting it at the source. The Company also operates an incinerator equipped with advanced emissions control equipment that has the capacity to handle 400 tons of waste per day.

31. Employee Welfare and Contributions to Society

For employee welfare, the Company granted scholarship funds of ₩53,038 million for the middle school, high school and college age children of employees and ₩10,398 million for medical benefits, such as health examinations and medical treatment, to its employees and their families during the year ended December 31, 2010. In addition, the Company provided 16,000 apartment units for employee housing, achieving a 94% housing-supply ratio. The Company also operates seven cultural and arts centers, including the Hyundai Arts Center established in December 1998, to provide members of the community and its employees with a wide variety of cultural and leisure opportunities.

(In millions of won)

		<u>2010</u>	<u>2009</u>
Support for employee development	₩	76,917	13,596
Donations to social welfare and religious organizations		16,837	5,432
Donations for infrastructure and support of national and local governments		<u>1,014</u>	<u>83</u>
	₩	<u>94,768</u>	<u>19,111</u>

32. Value Added Information

Details of accounts included in the computation of value added for the years ended December 31, 2010 and 2009 were as follows:

(In thousands of won)

		<u>2010</u>	<u>2009</u>
Income before income taxes	₩	4,784,328,339	2,648,063,235
Salaries and wages		2,638,034,716	2,472,398,578
Financial expenses		(82,097,382)	(133,138,279)
Rent		15,905,609	25,288,708
Taxes and dues		16,381,800	16,026,109
Depreciation and amortization		<u>440,045,046</u>	<u>399,694,162</u>
	₩	<u>7,812,598,128</u>	<u>5,428,332,513</u>

33. Non-cash Investing and Financing Activities

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Significant non-cash investing and financing activities for the years ended December 31, 2010 and 2009 are summarized as follows:

(In thousands of won)

		2010	2009
Transfer of long-term trade accounts to current assets	₩	29,304,284	42,918,226
Transfer of trade accounts to non-current assets		419,227,577	-
Transfer of construction-in-progress to plant assets		416,179,719	1,263,083,487
Capital adjustments on valuation of equity method investments		71,177,886	1,223,737
Gain and loss on valuation of available-for-sale securities		362,262,688	534,950,242
Changes in equity arising on application of the equity method		33,025,683	263,582,652
Negative changes in equity arising on application of the equity method		19,938,337	133,368,767
Gain and loss on valuation of derivatives		24,579,758	354,767,062
Gain and loss on revaluation of land		8,641,332	964,458,487

34. Planning and Adoption of K-IFRS (Korean International Financial Reporting Standards)

(a) K-IFRS Adoption Plan and current status of progress

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:

Main Activities	Preparation Plan	State at December 31, 2010
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 2010.	Sep. - Dec. 2009: Completed the analysis of the scope of required changes to the system.

34. Planning and Adoption of K-IFRS (Korean International Financial Reporting Standards), Continued

(b) Differences between Accounting under K-IFRS and under K-GAAP expected to have a material effect on the Company are as follows:

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Area		K-IFRS	Current K-GAAP
First-time adoption of K-IFRS	Employee benefits	All cumulative actuarial gains (losses) on defined benefit plans as of January 1, 2010 (the date of transition to K-IFRS) will be recognized as equity.	-
	Equity method	The book value under the previous GAAP would be utilized as the deemed cost and cost method would be applied after January 1, 2010 (the date of transition to K-IFRS).	The Company accounts for associates and subsidiaries using the equity method.
	Property, plant and equipment	The book value under the previous GAAP would be utilized as the deemed cost and cost method would be applied after January 1, 2010 (the date of transition to K-IFRS).	-
	Borrowing costs	Interest expenses are capitalized after January 1, 2010 (the date of transition to K-IFRS).	All interest is presented as expense.
Employee benefits		Under the Projected Unit Credit method, the Company recognizes a defined benefit obligation calculated using an actuarial technique and a discount rate based on the present value of the projected benefit obligation.	The Company establishes an allowance for severance liability equal to the amount which would be payable if all employees left at the end of the reporting period.
Allowance for doubtful accounts		Impairment losses for financial instruments (receivables and held-to-maturity investments) that are recorded at amortized cost are recognized when there is objective evidence that an impairment event has occurred.	The Company recognizes allowance for doubtful accounts by estimating bad debt losses on receivables with uncertain collection based on reasonable and objective criteria.
Recognition of warranty costs in relation to percentage of completion method		The Company excludes expected warranty costs from costs incurred to date for determining the stage of completion.	The Company includes expected warranty costs in costs incurred to date for determining the stage of completion and recognizes warranty costs as a cost in the fiscal year of the contract's completion.

34. Planning and Adoption of K-IFRS (Korean International Financial Reporting Standards), Continued

(b) Differences between Accounting under K-IFRS and under K-GAAP expected to have a material effect on the Company, continued

Area	K-IFRS	Current K-GAAP
Classification of due from customers for contract work and due to customers for contract work	If costs incurred plus recognized profits (less recognized losses) exceed progress billings, the net	-

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	amount shall be accounted for due from customers for contract work. However, if progress billings exceed costs incurred plus recognized profits (less recognized losses), the net amount shall be accounted for due to customers for contract work.	
Change in revenue recognition criteria of large engines for vessels	Revenue is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.	Revenue is recognized based on the percentage of completion method.
Reclassification of guarantee deposits for membership, etc.	The Company recognizes guarantee deposits for membership as intangible assets with an indefinite useful life.	Guarantee deposits for membership are recognized as other non-current assets.

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of
Hyundai Heavy Industries Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2010. The Company's management is responsible for designing and maintaining an effective IACS and for its assessment of the effectiveness of the IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of the IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review, in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Report on the Operations of the Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, the IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operations of the Internal Accounting Control System as of December 31, 2010 is not prepared in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2010. We did not review the Company's IACS subsequent to December 31, 2010. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

February 28, 2011

Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of December 31, 2010 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.