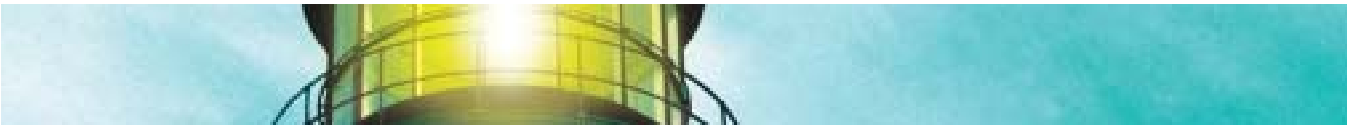
HYUNDAI
HEAVY INDUSTRIES CO.,LTD.

Hyundai Heavy Industries Annual Report 2006

Like the seemingly infinite
sea and the sky,
the quest for the best is
never ending.

Annual Report 2006



Our Quest for the Best

HYUNDAI
HEAVY INDUSTRIES CO.,LTD.

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A new day is dawning in our never-ending quest for the best. It's a big world out there, and the possibilities are almost limitless for companies able to think progressively, act decisively, and deliver excellence. And each new sunrise reminds us that even greater opportunities lie just over the horizon.

Virtually every company aspires to be the best in their industry. But relatively few achieve success on a global scale. Hyundai Heavy Industries is one of them.

Established in a sleepy fishing village on Korea's southeast coast in 1972, we launched the shipbuilding industry in a nation that is now home to seven of the world's top-ten shipbuilders. Within a decade, we had proven ourselves to be a world-class builder. In 1983, we led the industry in orders and tonnage for the first time, a feat we've duplicated each and every year since.

As we move into the middle of our fourth decade, our quest for the best now extends far beyond building ships. Today, we're recognized as a global player in five other broad business fields including offshore oil and gas production facilities, power and process plants, diesel engines and automation machinery, electronic and electric systems, and construction equipment. Armed with world-class knowledge, resources, and technology and guided by the "Hyundai Spirit" embodied in our motto "Ceaseless innovation and challenge", we're committed to delivering superior value to customers around the globe as we support them in their own quests for global excellence.

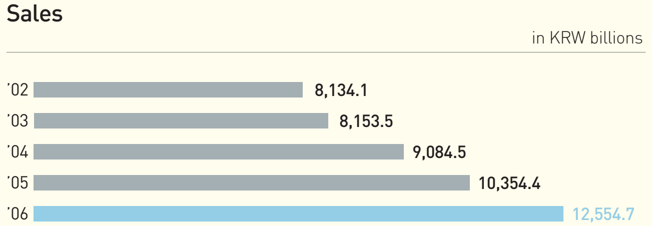
Financial Highlights

	in USD millions			in KRW billions
	2006	2006	2005	2004
For the Year				
Sales	13,505.5	12,554.7	10,354.4	9,084.5
Gross Profit	1,701.1	1,581.3	715.4	544.0
Operating Income	945.4	878.9	90.8	(98.0)
Net Income	766.8	712.8	183.3	36.7
At Year-End				
Total Assets	14,214.5	13,213.8	11,593.1	11,062.3
Total Liabilities	9,396.7	8,735.2	7,831.6	7,441.8
Total Debt	201.0	186.9	202.2	661.7
Total Shareholders' Equity	4,817.8	4,478.6	3,761.5	3,620.5
Financial Indicators				
Liabilities-to-Equity	195.0%	195.0%	208.2%	205.5%
Debt-to-Equity	4.2%	4.2%	5.4%	18.3%
EBITDA	1,061.7	1,142.1	427.9	226.7
EV/EBITDA (multiple)	7.6x	7.6x	12.6x	11.1x
ROA	5.4%	5.4%	1.6%	0.3%
ROE	15.9%	15.9%	4.9%	1.0%

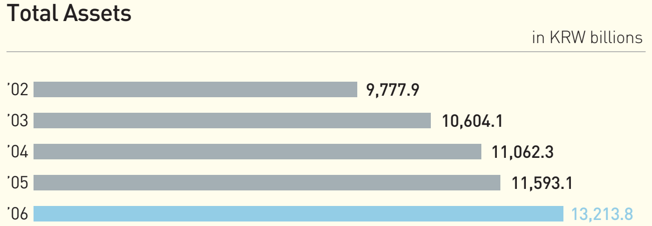
Orders Received & Backlog			in USD billions
Orders	18.9	16.1	13.4
Exports	8.0	6.3	6.1
Backlog	31.4	24.8	18.4

• Won amounts for FY2006 have been translated at KRW 929.60 per USD 1.00, the basic rate as of Dec. 31, 2006.

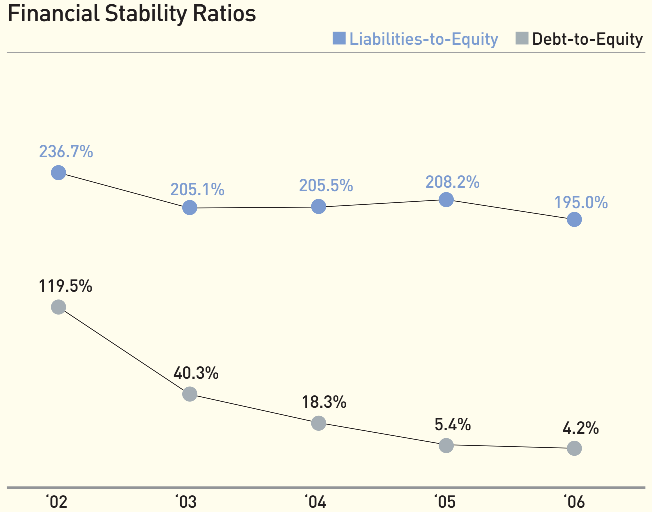
Sales



Total Assets

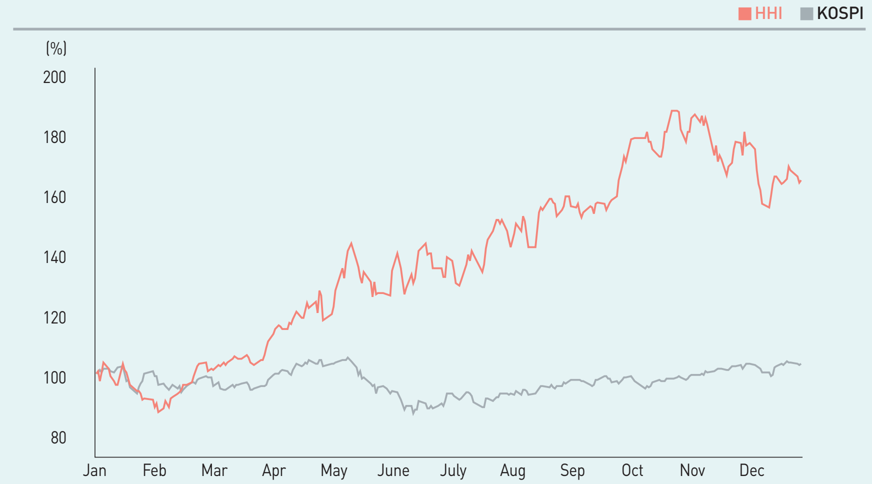


Financial Stability Ratios



Share Performance

Share Performance vs. KOSPI



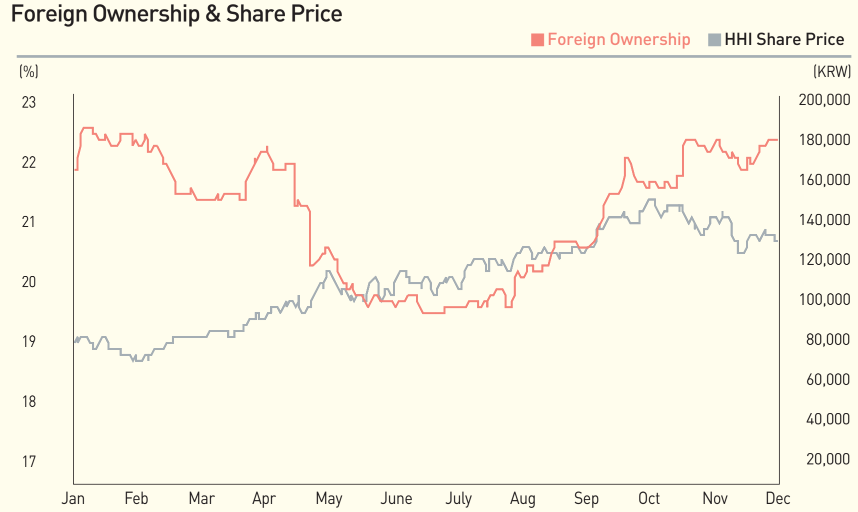
COMMENTARY

While the Korea Stock Exchange's KOSPI index finished 2006 at roughly the same level it started the year, Hyundai Heavy Industries shares surged about 64%. This dramatic increase was primarily due to two factors. First was a record-breaking order performance in 2006, demonstrating that the shipbuilding industry still has room for growth. Second was a better-than-expected financial performance fueled by the current order backlog, increasing investor confidence in future earnings. New orders reached USD 18.99 billion, driven by strong shipbuilding demand, particularly for tankers and post-Panamax containerships. Newbuild vessel prices remained firm at record-high levels due to a three-plus-year backlog. This performance was instrumental in boosting HHI shares to a historic high of KRW 144,000 in October, helping the company outperform the rest of Korea's top-ten business groups in terms of market value growth for the year.

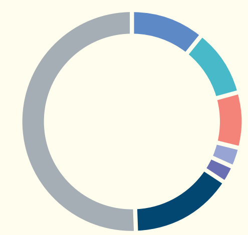
Stock Facts

	2006	2005
Face Value in KRW	5,000	5,000
Number of Shares Issued	76,000,000	76,000,000
Total Market Capitalization in KRW billions	9,576	5,844
Share Price - High in KRW	144,000	82,600
- Low in KRW	65,400	33,700
Foreign Ownership	22.1%	21.6%
PER - High/Low	13.0x / 5.9x	29.1x / 11.9x
EPS in KRW	11,053	2,842

Foreign Ownership & Share Price



Shareholder Structure



- Chung Mong-joon: 10.80%
- Hyundai Mipo Dockyard: 9.92%
- KCC: 8.15%
- Hyundai Motor: 2.88%
- Asan Foundation: 2.53%
- Treasury Shares: 15.14%
- Others: 50.58%

Division		Orders & Backlog (in USD millions)	Proportion of Sales	Sales (in KRW billions)	Major Products
Shipbuilding Division	Since 1983, we have led the global shipbuilding industry in virtually every metric of performance. Our highly advanced shipyard is the world's largest with nine dry docks and 11,380 professionals dedicated to producing the most sophisticated vessels to ever sail the seven seas. As of the end of 2006, we had delivered 1,231 vessels to some 230 shipowners in 45 countries worldwide.	Orders / Backlog: '04 8,488 / 13,998; '05 8,272 / 17,067; '06 11,470 / 20,668	51%	'04 4,231.4; '05 5,322.5; '06 6,442.8	• VLCCs, Tankers, Product Carriers, Chemical Tankers • Containerships, Bulk Carriers, OBO Carriers • Ro-Pax Ships, Ro-Ro Ships, Pure Car Carriers • LNG Carriers, LPG Carriers • Submarines, Destroyers, Frigates
Offshore & Engineering Division	The oceans are the next frontier for oil and gas exploration. We design and build some of the world's most advanced fixed and floating facilities, offering one-stop EPIC solutions to the global offshore oil and gas sector. As of the end of 2006, we had completed 137 projects representing over 2,472,000 metric tons of offshore facilities and 4,820 kilometers of subsea pipeline for more than 30 clients worldwide.	Orders / Backlog: '04 1,529 / 2,208; '05 2,577 / 3,830; '06 1,997 / 5,620	15%	'04 1,511.5; '05 1,475.6; '06 1,934.5	• Floating Production, Storage & Off-Loading Units (FPSOs) • Semi-Submersible Drilling Rigs • Fixed Platforms • Jack-Ups • Tension Leg Platforms (TLPs) • Subsea Pipelines
Industrial Plant & Engineering Division	The world has never been thirstier for power, water, and chemicals. Over the past three decades, we have earned a global reputation for technical excellence by delivering best-of-class turnkey EPC and piecemeal solutions for power generation, desalination, oil refining, chemical and petrochemical processing, and pollution control to clients worldwide.	Orders / Backlog: '04 657 / 774; '05 1,399 / 1,601; '06 846 / 1,939	5%	'04 614.7; '05 619.0; '06 601.6	• Oil and Gas Plants: Oil and Gas Facilities, Refineries, Gas-to-Liquids (GTL) Plants, LNG Plants • Power Plants: Combined Cycle, Cogeneration, Thermal
Engine & Machinery Division	In 2006, we continued to lead the marine diesel engine market with approximately 35% of the market as we became the industry's first two-stroke engine maker to reach the 60 million bhp production milestone. In addition to our expertise in marine propulsion systems, we provide high-value solutions for diesel power stations, industrial robots, presses, conveyors, and marine and industrial pump systems.	Orders / Backlog: '04 898 / 928; '05 1,566 / 1,566; '06 1,879 / 2,208	10%	'04 750.9; '05 954.2; '06 1,219.6	• Two- and Four-Stroke Diesel Engines and HiMSEN Engines • Propellers and Crankshafts • Marine Steam Turbines and Turbochargers • Diesel Power Plants • Industrial Robots • Industrial and Marine Pumps • Presses, Conveyor Systems, and Steel Strip Process Lines
Electro Electric Systems Division	Without power, the modern world would quickly grind to a halt. Our power transformer, control, distribution, and drive solutions keep power plants, substations, rail systems, and marine vessels operating at top efficiency. We also offer a growing family of alternative energy solutions such as cogeneration plants, photovoltaic systems, and hybrid vehicle drive systems.	Orders / Backlog: '04 708 / 480; '05 1,004 / 782; '06 1,274 / 1,013	8%	'04 824.5; '05 810.4; '06 1,056.5	• Transformers • High-Voltage Circuit Breakers • Switchgears • Medium- and Low-Voltage Circuit Breakers • Power Electronics and Control Systems • Rotating Machinery • Solar Power Systems
Construction Equipment Division	You need the right equipment to build a better future. For more than two decades, we have been building quality earthmoving equipment to help our customers do just that. Today, our world-class machine lineup is marketed through 436 authorized distributors in 92 countries worldwide. Our goal is to break into the industry top-five by the end of the decade.	Orders: '04 1,122; '05 1,288; '06 1,525	10%	'04 1,033.5; '05 1,051.4; '06 1,197.9	• Excavators • Wheel Loaders • Forklifts • Skid-Steer Loaders

To Our Valued Shareholders and Customers,

Min Keh-sik Vice Chairman & CEO/CTO

In the quest for the best, there's no substitute for hard work and trust. These are the cornerstones of excellence and integrity that we share at Hyundai Heavy Industries. And the reasons why we are able to consistently rise above each business challenge to deliver world-class performances year-after-year.

In 2006, orders grew 18% to just under USD 19 billion as the global shipbuilding boom pushed our ship orders to nearly USD 11.5 billion. Sales were even more impressive, rising 21% to KRW 12.6 trillion as we capped another year of record-breaking results. Our ongoing efforts to improve profitability also began to bear fruit as deliveries of value-added ships and higher-priced ships ordered after 2003 accelerated, generating an operating income of KRW 878.9 billion, a net income before income tax of KRW 1.0 trillion, and a net income of KRW 712.8 billion.

Our solid financial performance was not lost on investors. Our shares started out the year at KRW 76,700, hit a high of KRW 144,000 in October, and finished at KRW 126,000. Our total market capitalization at 2006 year-end stood at KRW 9,576 billion, a 64.3% increase that far outperformed any other of Korea's top-ten business groups.

As we sail full speed ahead into 2007, we've set our order target at USD 18.1 billion and our sales target at KRW 15.1 trillion. We have also budgeted KRW 749 billion for capital expenditures and KRW 173 billion for R&D. While a multi-year backlog ensures that we will easily meet our sales target, there are a number of looming uncertainties in the business environment, including the possibility of a slowing global economy, volatility in raw materials prices, and the strong Korean won.

Choi Kil-seon President & CEO

Given the magnitude of the challenges ahead, there's no room for complacency. In 2007, we'll be rededicating ourselves to the principles embodied by our corporate motto—"Unceasing innovation and challenge"—as we pursue our performance targets and enhance our reputation as a world-class heavy industries firm. We have also set two strategic directions to guide us in our quest for the best.

First of all, we will strengthen our foundation for growth. To stay competitive in tomorrow's fast-changing business environment, we will continue to build a flexible manufacturing system capable of quickly adapting to changes in the marketplace. We will also focus our resources on emerging businesses with the potential to drive future growth as well as cutting-edge R&D.

Our second focus will be on ensuring we provide a safe and rewarding workplace. As in years past, we once again pledge ourselves to creating an accident-free workplace where every employee can do their jobs in health, safety, and comfort. We will also continue to advance our excellent labor-management partnership that has produced 12 straight years without a strike as we do our part to create a vibrant and fulfilling work environment built on trust and participation.

In closing, we would like to thank you once again for your interest in Hyundai Heavy Industries. Whether you're an investor, customer, partner, employee, or community member, we invite you to join us for the next chapter in our ongoing quest for the best.

Min Keh-sik
Vice Chairman & CEO/CTO

Choi Kil-seon
President & CEO

About the Board of Directors

The Hyundai Heavy Industries board is composed of seven directors, four of which are outside directors. Collectively, the directors assume ultimate responsibility for decisions regarding corporate affairs and the financial well-being of shareholders. All board appointments are made pursuant to the Articles of Incorporation, including due consideration of each individual's professional experience and expertise in fields such as law, economics, finance, and accounting.

The board meets on a regular basis to discuss and resolve corporate matters. Its responsibilities include deciding on material matters as stipulated in relevant by-laws and the Articles of Incorporation, dealing with issues delegated to it at the annual general shareholders' meeting, and addressing issues related to the basic direction and execution of company operations. The board also has the authority to appoint the CEO and board chair as well as conduct oversight of its members and company management. The board held a total of eight meetings in 2006.

About the Board Committees

Audit Committee

The Audit Committee is a standing committee of the board. Its responsibilities include (1) deciding on matters related to shareholders' meetings such as the calling of interim shareholders' meetings and setting forth its views on the agenda and the documents to be presented; (2) conducting oversight of the board and its members, producing independent annual audits, and supervising the financial reporting process; and (3) addressing matters relating to audits including contracts with independent auditors and the evaluation of their qualifications, eligibility, and performance. All three Audit Committee members are outside directors. The committee held a total of two meetings in 2006.

Outside Director Nominating Committee

The Outside Director Nominating Committee is a standing committee responsible for nominating qualified individuals to serve as outside directors on the board. The committee consists of one inside and two outside directors.

Board of Directors

Inside Directors

Min Keh-sik
Vice Chairman & CEO/CTO

Choi Kil-seon
President & CEO

Lee Jai-seong
Senior EVP and Chief of Administration & Assistance Headquarters

Outside Directors

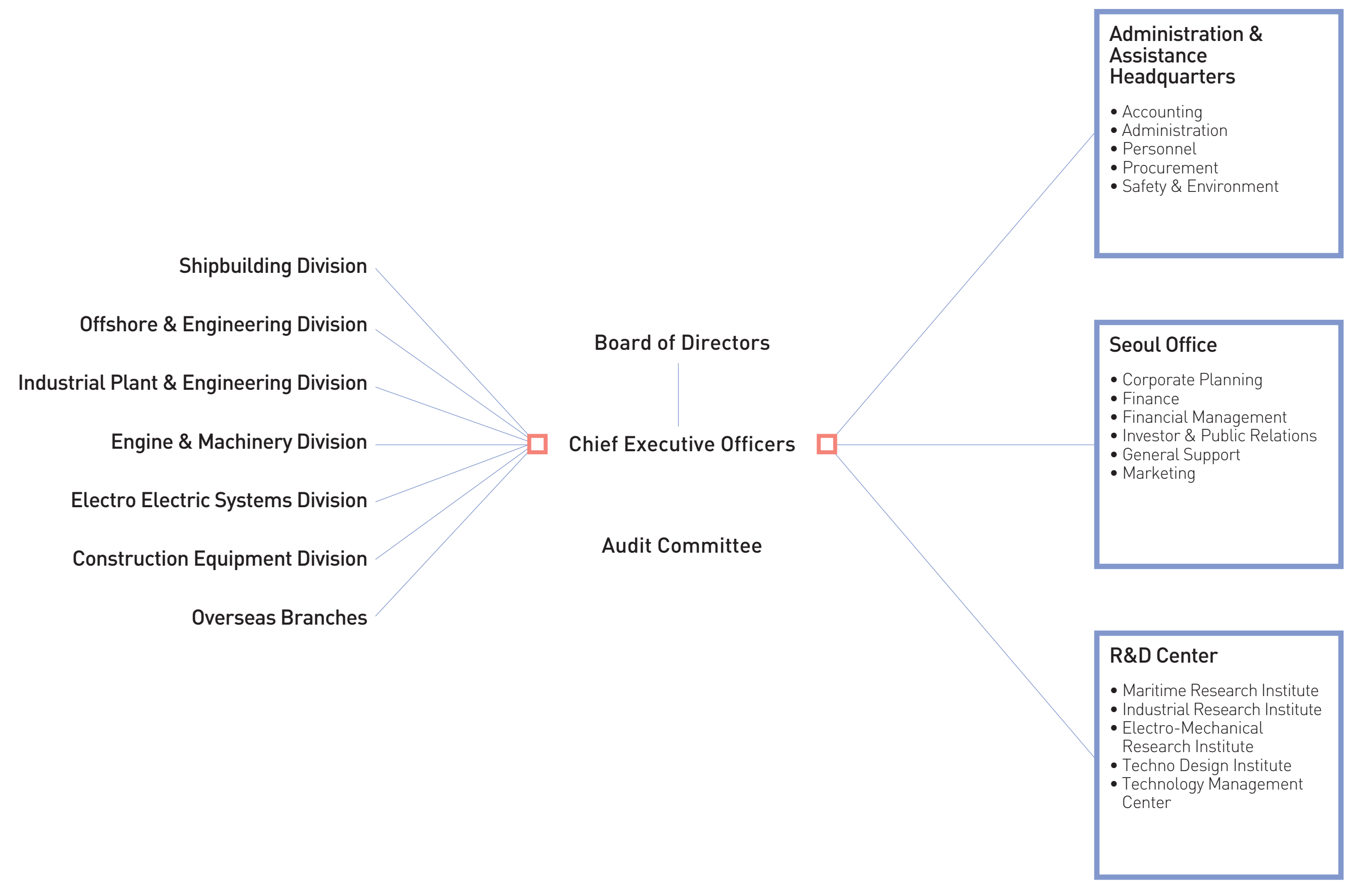
Park Yong-sang
Former Secretariat of the Constitutional Court

Audit Committee

Cho Whie-kap
Chairman of the Committee of Special Sales Financial Cooperative Association

Lee Jae-kwang
Advisor to Yulchon Law Firm

Park Jin-won
Attorney of Shin & Kim Law Firm



Executive Officers

Min Keh-sik
Vice Chairman & CEO/CTO

Choi Kil-seon
President & CEO

Kim Kwang-myung
President of Offshore & Engineering and Industrial Plant & Engineering Divisions

Lee Jai-seong
Senior EVP and Chief of Administration & Assistance Headquarters

Hwang Moo-soo
Senior EVP and COO of Shipbuilding Division

Oh Byung-wook
Senior EVP and COO of Offshore & Engineering Division

Han Dong-jin
Senior EVP and COO of Industrial Plant & Engineering Division

Choe Weon-gil
Senior EVP and COO of Engine & Machinery Division

Kim Young-nam
Senior EVP and COO of Electro Electric Systems Division

Park Kiu-hyun
Senior EVP and COO of Construction Equipment Division

Our Vision

In 1972, Chung Ju-yung won his first ship order with little more than some seaside property and a vision to become a world-class shipbuilder. Today, our late founder's determination to "create something out of nothing" exemplifies the indomitable spirit that continues to drive us endlessly forward in our quest for the best.

We aspire to be "a global leader, sailing into a brilliant future". The first part of our vision emphasizes our determination to consistently deliver the industry's finest products and service ahead of our rivals. The second part emphasizes our commitment to delivering superior satisfaction to our customers, more rewarding careers for our people, and greater value to our customers.

Our Strategies

By 2010, we aim to expand our sales from USD 13.5 billion in 2006 to USD 20 billion as we enter the global top-five in the heavy industries sector. The following five strategies will play an important role in helping us achieve our ambitious goals.

1. Optimize Business Structure
   - Make "growth engine" business divisions more competitive, technologically advanced, and profitable.
   - Establish positions in business fields with sizeable markets and high growth potential.
   - Leverage core competencies to enter new businesses and exit low-profit, marginal ones.

2. Maximize Global Competitiveness
   - Develop bases for production, sales, and R&D around the world.
   - Establish regional headquarters in major markets.
   - Establish a global network interlinking regional and global headquarters.

3. Develop Advanced Technologies
   - Make major product lines leaders in their global markets.
   - Enhance core technologies to a higher level.
   - Expand the global R&D network.
   - Strengthen collaboration between R&D centers and business divisions.

4. Build Efficient Production Systems
   - Streamline and maximize efficiency at existing facilities.
   - Improve quality and productivity by rationalizing and automating facilities.
   - Create efficient and integrated management systems.

5. Create Innovative Business Practices
   - Increase outsourcing of low-value-added businesses and operations.
   - Maintain flexibility in resource utilization for facilities, people, and funds.

Our Philosophy

Over the past three decades, our creative, pioneering spirit and indomitable determination have made us a world-class heavy industries company. Today as we move forward into the future as a global leader, we are committed to contributing to the global community.

As a global corporate citizen, we commit ourselves to enhancing our corporate value by generating economic value with the world's most advanced technology as we faithfully discharge our legal and ethical responsibilities. To guide us in this task, we have established five principles that provide the framework for our corporate code of conduct.

Our Code of Conduct

1. We enhance corporate value by continually growing.
   - We actively seek out and cultivate businesses with growth potential.
   - We secure core capabilities essential to future growth.
   - We build flexible business management systems.
   - We build a solid global business organization.

2. We uphold fair and transparent business practices.
   - We respect laws and uphold business ethics.
   - We support free market principles through open and fair competition.
   - We foster fair and clean business relationships with suppliers.

3. We pursue business practices that are safe and environmentally friendly.
   - We provide pleasant and safe work environments.
   - We prevent accidents by looking out for our own and others' safety.
   - We are proactive in developing and adopting environmentally friendly technologies.
   - We strive to make our production activities environmentally friendly.

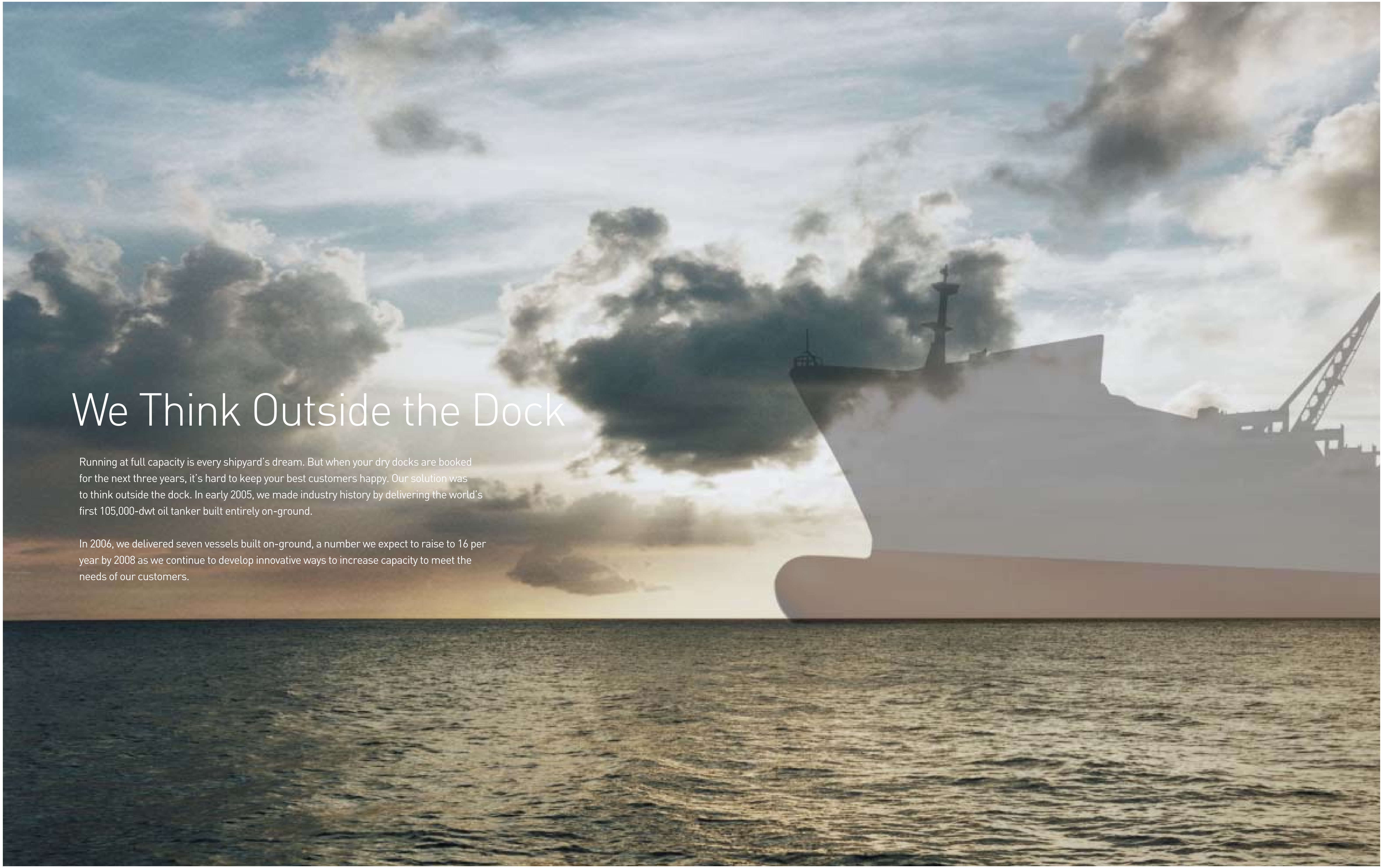
4. We uphold a labor-management culture based on mutual respect and trust.
   - We foster a vibrant organization culture based on trust and participation.
   - We perform all duties and responsibilities to enhance corporate competitiveness.
   - We strive to improve employee self-development and quality of life.

5. We contribute to the development of society as a global corporate citizen.
   - We strive to enhance community culture and welfare.
   - We contribute to national development through the honest payment of taxes and job creation.
   - We contribute to human prosperity by working to create value.

Our Quest for Satisfaction

To be competitive in any industry, you have to consistently deliver what your customers expect today. To be the best, you have to deliver what they need tomorrow.

At Hyundai Heavy Industries, we've built a global reputation for satisfying our customers in a big way. Not just because we build the high-tech ships, plants, and equipment that drive their businesses. But because we share their values for value, quality, and excellence.



We Think Outside the Dock

Running at full capacity is every shipyard's dream. But when your dry docks are booked for the next three years, it's hard to keep your best customers happy. Our solution was to think outside the dock. In early 2005, we made industry history by delivering the world's first 105,000-dwt oil tanker built entirely on-ground.

In 2006, we delivered seven vessels built on-ground, a number we expect to raise to 16 per year by 2008 as we continue to develop innovative ways to increase capacity to meet the needs of our customers.

We Look Over the Horizon

Everyone needs power and water. The problem is, most don't want to see those facilities in their backyards. That's why energy companies and local utilities are looking for less intrusive ways to bring energy to their customers.

In 2006, we shipped two high-tech 250,000 cubic meter LNG storage tanks for the world's first gravity-based structure LNG terminal in the Adriatic Sea just over the horizon from Venice, Italy. And we continue to develop the gas-to-liquids and desalination technologies that will help meet the world's needs in the decades ahead.

We See the Light

Renewable energy sources like solar energy are rapidly moving into the mainstream. Estimated at USD 11 billion in 2006, the global photovoltaic (PV) market is currently growing at over 30% per year and is on target to reach USD 30 billion in 2010.

Although we've only been producing PV modules since August 2005, our state-of-the-art technology and production facilities enabled us to win orders for 60,000 modules for the first phase of a 20 MW photovoltaic park—the world's largest integrated installation to date—in Spain. And while these modest USD 60 million orders represent just a fraction of the global market, we see bright opportunities ahead as we help others see the light.

Our Quest for Balance

The old axiom "Don't put all your eggs in one basket" is always good advice.

At Hyundai Heavy Industries, our Shipbuilding Division continues to generate more than half of overall sales. At the same time, our five other divisions continue to expand our presence in areas that leverage our strengths in mature markets as well as take us in new directions in emerging ones. And as we steadily forge a more balanced and profitable business portfolio, we're well prepared to turn tomorrow's challenges into profitable opportunities.

24 years

HHI vessels have been recognized as among the industry's best for the past 24 straight years by the world's top maritime magazines. In December 2006, the 9,500 TEU Cosco Guangzhou containership—the world's largest at the time of delivery—the 82,000 cubic meter Berge Nantong LPG carrier, and the 116,000 DWT ice-class Promitheas refined oil product carrier were featured in the "Great Ships of 2006" issue of *Maritime Reporter and Engineering News*.

Cosco Beijing Containership
• Sister ship to Cosco Guangzhou, the industry's first 9,500 TEU-class vessel
• Delivered in June 2006, the second of a five-ship order

2006 Overview

The global shipbuilding industry booked orders for vessels totaling 93.6 million gross tons in 2006 according to Lloyd's Register, surpassing the previous record of 77.2 million gross tons set back in 2004. Continued strong economic growth in BRICs markets—particularly China and India—and the associated increase in global trade was a key driver behind order growth. Another catalyst was a surge of orders from tanker and bulk carrier fleet owners ahead of the implementation of new industry rules concerning the engineering and design of these vessel classes.

Our success at reading and responding to industry trends was instrumental in our winning a record USD 11.47 billion in orders for 116 vessels totaling 10.21 million gross tons, exceeding our USD 7.41 billion target by a remarkable 54.8%. Tankers accounted for 46% of the total, followed by containerships with 32%, LPG carriers with 13%, and LNG carriers with 8%. At year-end, our USD 20.67 billion order backlog—excluding the Offshore & Engineering Division's on-ground vessel-building backlog of 39 vessels totaling 2.26 million gross tons—stood at a record 239 vessels totaling 19.09 million gross tons, an increase of 10% or 22 vessels, enough to keep us operating at full capacity into 2009.

The implementation of the previously mentioned new industry regulations helped boost tanker orders from 12 tankers in 2005 to 58 in 2006, including 22 VLCCs. Containership orders for delivery in 2009 were unexpectedly strong, particularly for post-Panamax vessels. Our technological edge helped us win a landmark order for the industry's first eight 11,400 TEU containerships. We also led in the LPG carrier category, capturing over 50% of the global market with orders for 20 vessels.

Record Containership Order ●
In September, we won an order for eight 11,400 TEU containerships from CMA-CGM of France. Valued at USD 1.2 billion, this order is the industry's single-largest shipbuilding contract awarded to date.

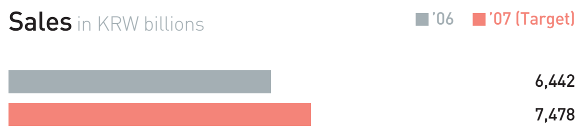
Record Order Backlog ● ●
We booked orders for 116 vessels valued at USD 11.47 billion in 2006. At year-end, our order backlog was 239 vessels worth USD 20.67 billion, enough work to keep our shipyard busy for well over three years.

2007 Outlook and Plans

Although the global shipbuilding industry has registered record-breaking orders for the past three years, steady growth in global trade is expected to continue to drive demand for new vessels, producing robust order growth once again in 2007. We expect newbuild prices to hold steady since virtually all major shipyards are enjoying multi-year backlogs.

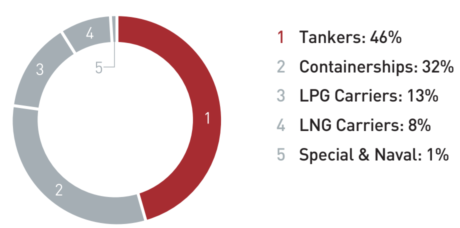
For 2007, we are targeting orders of USD 9.20 billion. This nearly 20% decrease from last year's performance reflects the fact that we are currently running at full capacity, constraining our ability to accept new orders. In addition to redoubling our efforts in the tanker and containership categories, we'll continue to step up our marketing of LNG and LPG carriers and other specialized offshore vessels as we build a value-added business portfolio that will keep us at the top of the industry for the foreseeable future.

Sales in KRW billions

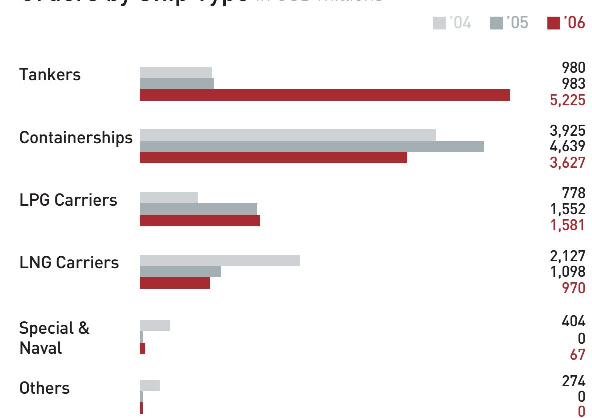


Orders in USD millions

2006 Order Breakdown by Value



Orders by Ship Type in USD millions



USD 1.6 billion

In September 2006, we won the Umm Shaif gas injection facilities project from Abu Dhabi Marine Operating Company (ADMA-OPCO) of the UAE to build three fixed platforms totaling approximately 40,000 tons and their related subsea pipelines. The facilities will produce 305,000 barrels of oil and one billion cubic feet of natural gas daily when completed.

Mumbai High South Process (MSP) Platform
• Advanced 14,000-ton gas compression platform
• Completed in June 2005 for Oil and Natural Gas Corporation of India

• **Setting Records On-Ground** Our on-ground shipbuilding continues to set new records. In just three years, we have delivered vessels totaling over 1 million gross tons. We are currently assembling the industry's first 82,000-cbm LPG carrier to be built on land.

•• **Building Safe & Sound** We pride ourselves on safely building some of the world's biggest offshore facilities on-time and on-budget. On the 80,000-ton BP Greater Plutonio FPSO project, we achieved a perfect safety record, recording more than 2 million accident-free man-hours.

2006 Overview

Growing global demand for oil and gas in 2006 continued to drive investment in deepwater exploration and development projects by the oil majors, generating strong demand for floating production systems. While small- and medium-size fixed production platforms continued to be in steady demand in China, Southeast Asia, and the Caspian Sea region, large fixed platform projects led the way in the Middle East. The subsea pipeline project market also grew 10% globally during the year.

We met our order target in 2006 by booking offshore projects just shy of USD 2 billion. We continued to establish ourselves as a major player in the Middle East by beating out tough local and international rivals to win the USD 1.6 billion Umm Shaif project to build three fixed platforms totaling approximately 40,000 tons in the UAE, the largest offshore oil production facility tendered to date. We believe that this project will position us to win future orders across the region as demand for large fixed platforms continues to rise.

We continued to burnish our reputation in 2006 by delivering a 6,000-ton offshore gas production platform for the Vietnam Rong Doi project to Korea National Oil Corporation and the 80,000-ton BP Greater Plutonio FPSO to BP Angola. We surpassed the million-ton milestone in our on-ground vessel-building launched back in 2004 as we continued to capitalize on booming demand in the shipbuilding sector. Aided by the industry's only 1,500-ton gantry crane, we also continued to leverage our ultra-efficient 229-acre production yard to boost productivity and profitability to new levels during the year.

2007 Outlook and Plans

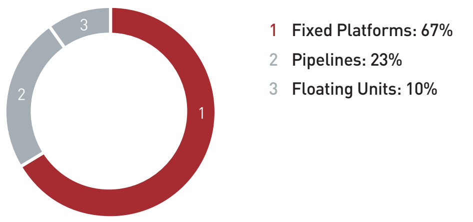
Global exploration and production investment is forecast to grow roughly 9% in 2007 to reach USD 291 billion. Increasing exploration and production in the Americas is expected to drive demand for vessel conversions to floating production units. The West Africa region is expected to drive demand for large FPSOs. In Australia, India, and across Southeast Asia, the investment focus looks to be on fixed platforms and pipelines for gas field development.

We are targeting orders of USD 2.10 billion in 2007 with an emphasis on large FPSOs and fixed platform projects. By leveraging our fabrication and installation capabilities, we are aiming to win EPIC (Engineering, Procurement, Installation and Commissioning) projects as we continue to upgrade our competitiveness in the subsea pipeline and offshore production facility fields.

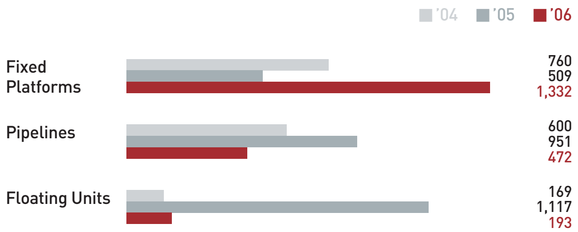
Sales in KRW billions

Orders in USD millions

2006 Order Breakdown by Value



Orders by Project Type in USD millions



140,000 barrels/day

Gas-to-liquids plants convert natural gas into clean, high-performance fuels and feedstocks. In 2006, we entered the GTL business by winning a key EPC role in Shell's Pearl GTL project in Qatar, a facility that will produce 140,000 barrels daily of naphtha and diesel fuel when completed around the end of the decade.

Forcados-Yokri Integrated Gas Plant
• 250,000 barrels/day processing capacity
• Commissioning in July 2007 in Nigeria

Tanks for North Adriatic LNG Terminal •
In December, we delivered the industry's first LNG tanks designed for undersea installation as part of the Isola di Porto Levante LNG Terminal project. Engineered and fabricated entirely in-house, these mammoth tanks are 33-meters wide, 28-meters high, 155-meters long, and weigh 9,000 tons each.

Follow-Up Order from Saudi Aramco ••
In April, we signed a USD 170 million contract to provide a turnkey 210 MW power plant to Saudi Aramco. The Shaybah project includes three 70 MW gas-turbine units and all related on-site electric facilities.

•
••

2006 Overview

Growing demand for new infrastructure and cash-flush oil producers helped fuel growth in the industrial plant sector with an increasing number of major projects up for tender in 2006. Several oil and gas refinery, petrochemical, and gas-to-liquids (GTL) projects were awarded across the Middle East, while Africa generated brisk demand for oil and gas facilities. A growing industrial base as well as rising public sector energy demand also spurred growth in the power plant market, particularly in the six Arab Gulf states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

In 2006, we recorded orders of USD 846 million. Oil and gas plants accounted for USD 551 million of the total, followed by power plants with USD 170 million, and other facilities with USD 125 million. The highlight of the year was our first project in the fast-growing GTL field. In August 2006, we joined forces with Chiyoda of Japan to win the EPC feed-gas preparation facilities for Shell's Pearl GTL project in Qatar. Our participation in the industry's third and largest GTL project to date sets the stage for us to emerge as a major player in this emerging alternative energy field in the coming years.

Our successful commissioning of four turnkey cogeneration power plants producing 1,088 MW of power for Aramco in Saudi Arabia during the year was instrumental in our winning another turnkey Aramco order, the USD 164 million Shaybah cogeneration project. We also made history in 2006 by delivering two 125,000 cubic meter LNG tanks valued at USD 80 million for the Isola di Porto Levante LNG Terminal, the world's first gravity-based structure LNG terminal located about 45 km southeast of Venice, Italy.

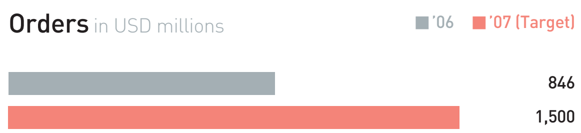
2007 Outlook and Plans

Demand for newbuild and expansion projects is forecast to accelerate in 2007 as major oil producers continue to reinvest profits back into oil and gas field development and capacity expansion. Financial stability, accelerating industrialization, and growing populations in the Middle East will also spur demand for independent water and power projects. Accordingly, we have set our 2007 order target at USD 1.50 billion, over 77% higher than our 2006 performance.

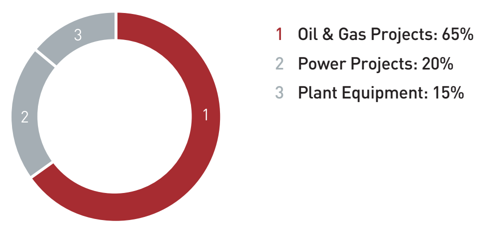
We will continue to upgrade our EPC capabilities to keep pace with the industry trend toward large-scale and integrated turnkey projects. Our involvement in Shell's Pearl GTL project will improve our credibility in clean alternative energy fields such as LNG and GTL. We will also be leveraging our strong project portfolio—including the USD 1.25 billion oil terminal project at Kuwait's Al Ahmadi Port we won back in May 2005 from Kuwait Oil Company—to win follow-up projects across the region.

Sales in KRW billions

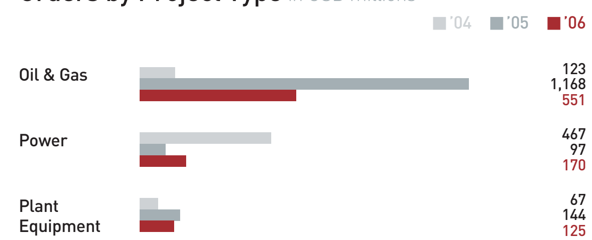
Orders in USD millions



2006 Order Breakdown by Value



Orders by Project Type in USD millions



77 engines

In August 2006, we won our largest single engine order to date from Shanghai Shipyard & Chengxi Shipyard. Valued at USD 110 million, the order includes nine main propulsion engines and 68 HiMSEM diesel generators for installation on a series of 3,500 TEU containerships now under construction.

Two-Stroke Marine Diesel Engine
• Industry's first two-stroke engine maker to surpass 60 million bhp
• Total engine production was 10.52 million bhp in 2006

2006 Overview

Booming global trade produced record ship orders in 2006, dramatically boosting demand for marine engines. Demand for diesel power generators continued to grow across Latin America, the Middle East, and Southeast Asia as burgeoning local economies drove electric power consumption to new heights. In the machinery sector, steady capacity expansion in the global auto industry continued to drive demand for industrial robots.

In 2006, we exceeded our order target by 34% as we booked a record USD 1.88 billion in orders. Our marine engine business maintained a leading 35% global market share as we took orders for 271 two-stroke and 1,066 four-stroke diesel engines. In addition to continued strong demand from global shipbuilders, USD 260 million in expedited delivery orders from Chinese shipbuilders and a dramatic increase in orders from medium-sized Korean shipbuilders helped push our engine backlog well beyond three years. Our diesel power generator business secured a USD 380 million follow-on order from Unión Nacional Eléctrica (UNE) of Cuba for 200 fully containerized diesel power plants or "packaged power stations", bringing total 2005-2006 orders from UNE to 544 units worth USD 720 million.

Our year had a number of other highlights. We became the industry's first two-stroke marine engine maker to surpass 60 million bhp in production just 15 months after we passed the 50 million bhp milestone in May 2005. Overall, we produced 182 two-stroke and 806 four-stroke diesel engines totaling 10.52 million bhp for the year. Our four-stroke diesel engine crankshafts were recognized as one of Korea's leading export products. We also delivered and installed 560 industrial robots at new auto plants in Slovakia and China.

More Power for Cuba ●
In February, we shipped the first six packaged power stations (PPS) of a 344-unit order received in 2005 from Unión Nacional Eléctrica of Cuba. Each cost-effective 1.7 MW PPS consists of a HiMSEM engine and electric generator in a compact form factor similar in size to a 40-foot container.

Record Robot Order Commissioned ●●
In July, we completed commissioning of 324 welding robots for Kia Motors in Slovakia, our largest international robot order to date. We also delivered a 236-robot engine part handling system to Beijing Hyundai Motor in China during the year.

2007 Outlook and Plans

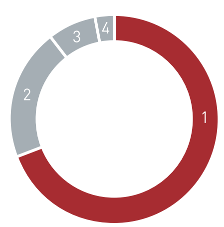
Marine engine demand is expected to remain strong as the global shipbuilding industry continues to expand newbuilding capacity. Diesel power generator demand will continue to grow in developing nations. We expect industrial robot demand to grow as global automakers step up investment in China, India, and Russia. We also expect demand for other industrial machinery to grow as major Korean steelmakers continue investment plans launched in 2006.

In 2007, we are aiming for orders of USD 1.8 billion, a slight 4% decrease from our record 2006 performance. We plan to expand our two-stroke marine engine production capacity 25% to 10 million bhp annually, extend our major product lines, target new markets, and build a sales organization in China. We also plan to launch HiMSEN engines of less than 1 MW for the marine generator set market, develop financing options for our diesel power plants, and implement a pre-manufacturing system to cut lead-time and costs.

Sales in KRW billions

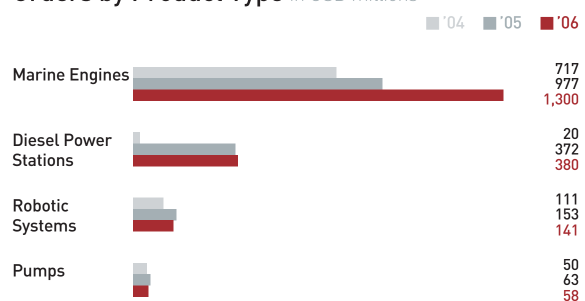
Orders in USD millions

2006 Order Breakdown by Value



1 Marine Engines: 70%
2 Diesel Power Stations: 20%
3 Robotic Systems: 7%
4 Pumps: 3%

Orders by Product Type in USD millions



700 transformers

Transformer deliveries to North America surpassed 700 units in 2006. Our banner year saw overall transformer sales jump nearly 70% to USD 200 million, including a record-setting USD 120 million from the Americas alone. Our goal is to double production and boost market share from 14.4% today to over 20% by the end of the decade.

750 MVA Transformer with TPRS
• Industry's first with tank pressure relief system
• Delivered in June 2006 to Hydro One of Canada

2006 Overview

The global market for electric power equipment grew at a rapid pace in 2006. While China and the United States kept the global economy growing, cash-flush customers in the Middle East helped drive demand for desalination and power plants to new heights. In the Americas, replacements and repairs to the aging power transmission infrastructure boosted orders for power transformers across the region. In our home market of Korea, lackluster capital expenditures and construction due to market uncertainties limited sector growth to the low single digits.

In 2006, we surpassed our record-setting 2005 order performance by nearly 27% as we won contracts worth USD 1.27 billion. Sales were particularly strong in North America, where we led the high-voltage transformer market for the first time. Sales also hit a new record-high of KRW 1,056.5 billion during the year, a 30.4% year-on-year improvement.

Our photovoltaic (PV) module business won its first major order during the year. In September, we signed a USD 50 million contract for 50,000 photovoltaic modules rated at 200-watts for the first phase of a 20 MW photovoltaic park in Spain. Another one of the year's highlights was our delivery of the industry's first 750 MVA transformer to utilize a tank pressure relief system (TPRS) to Hydro One of Canada. TPRS is designed to prevent soil pollution and fires due to insulation oil leakage. Once again, we proved ourselves more than capable of competing with the best in the business by delivering a superior quality transformer several months ahead of rivals.

● **Explosion-Proof Motors Hit Market** In June 2006, we won a USD 15 million order from UK-based Bechtel for 400 explosion-proof motors, our first since winning IECEx certification in December 2005. The 5,000 kW motors will be delivered in a series of shipments to a refinery in Gujarat, India in the first-half of 2007.

●● **Air Circuit Breaker Certified** In 2006, we expanded our HiAN series of air circuit breakers into new territory by winning certification of a 120 kA model from the Korea Electrotechnology Research Institute (KERI). This is by far the highest capacity circuit breaker produced to date by a Korean manufacturer.

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●●

2007 Outlook and Plans

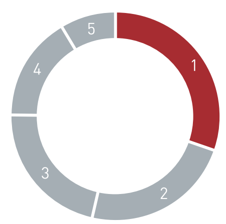
While declining capital expenditures and growing competition are expected to limit growth in our home market, we believe steadily growing global demand for electrical facilities will provide the sector with plenty of opportunities for growth in the coming year. Alternative and renewable energy solutions will continue to become increasingly attractive as capacity and efficiency rise and costs fall. We are aiming to win orders of USD 1.72 billion, a full 35% more than our 2006 performance.

We will continue to expand our local production, sales, and service capabilities worldwide as we focus on the replacement and power plant markets in the Americas, infrastructure projects in the Middle East, photovoltaic projects in Europe, and power plants and substation facilities across Asia. We will also be accelerating diversification of our alternative energy solution portfolio into fields such as wind power and superconducting energy storage systems.

Sales in KRW billions

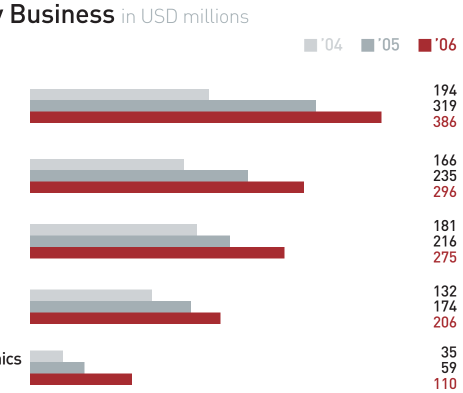
Orders in USD millions

2006 Order Breakdown by Value



1 Transformers: 30%
2 Rotating Machinery: 23%
3 Circuit Breakers: 22%
4 Switchgears: 16%
5 Power Electronics & Others: 9%

Orders by Business in USD millions



620 machines

Every three years, Paris hosts one of the world's largest construction equipment and materials shows. At Intermat 2006, we showcased 18 models from our excavator, wheel loader, mini excavator, and skid-steer loader lines, signing total contracts worth EUR 42 million during the six-day show in April that drew over 209,000 visitors from 160 countries.

R500LC-7A Excavator
- Powerful 50-ton excavator outperforms its class
- Designed for superior productivity, reliability, and comfort

2007 Outlook and Plans

Construction equipment sales are forecast to continue to grow globally in 2007. While growth in the United States is forecast to remain sluggish and Western European markets appear set to cool slightly after four years of steady growth, Eastern European markets are looking to be strong. China and India are both expected to present robust growth opportunities for the construction equipment industry.

We are targeting orders of USD 1.82 billion in 2007, a 19.8% increase over last year's performance. We will be expanding our dealer network in the Americas and Europe, entering new markets in Southeast Asia and Eastern Europe, setting up a financing subsidiary in China, and continuing to sign dealers in markets where we do not have a direct sales presence.

Sales in KRW millions

Orders in USD millions

Conquering the Siberian Cold
Building pipelines across Siberia at temperatures of -50°C is a challenge our excavators excel at according to Russian oil major Surgutneftegas and others.

Raising the Bar
In January, we rolled out three new diesel forklifts. The new lineup is available in 3.5-, 4-, and 4.5-ton load capacities.

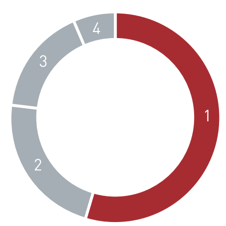
2006 Overview

The global construction equipment industry surpassed its 2005 performance with the help of a recovering Chinese market and brisk demand in Europe. Despite China's ongoing use of policy measures to slow growth, equipment sales continued to rise. Europe was another bright spot, delivering solid growth in the 4% to 5% range. In the United States, rising interest rates and a stagnant residential construction market led to rising equipment inventories and slower sales. In our home market of Korea, the equipment market contracted as demand remained lackluster.

In 2006, we enjoyed a remarkably balanced global performance that saw orders rise 18.4% to USD 1.53 billion, exceeding our target by nearly 6%. In China, we saw excavator sales once again grow as we marked our fifth straight year as one of the region's leading construction equipment makers with a 17.2% market share. In Europe, sales shot up over 44%, surpassing KRW 254.0 billion for the first time as we sold some 4,300 units across the continent, over 1,000 more than 2005.

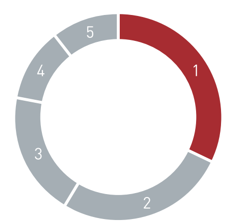
We earned special recognition in key markets and industry publications during the year. In China, our excavator and forklift lines were named one of the ten most influential brands in a survey sponsored by the China Enterprise Culture Improvement Association. We also launched our first 50-ton excavator with enhanced digging power and durability for quarrying and mass excavation as we continued to expand the high end of our equipment lineup. Respected industry publisher *Construction Equipment* named the R500LC-7A one of the most significant machines of 2006 in its Top 100 Awards in December.

2006 Sales Breakdown by Value



1 Excavators: 55%
2 Skid Loaders and Others: 22%
3 Wheel Loaders: 17%
4 Fork Lifts: 6%

2006 Order Breakdown by Region & Value



1 China: 30%
2 Rest of World: 25%
3 Europe: 18%
4 Korea: 16%
5 America: 11%

550 researchers

Innovation is the cornerstone of success. But innovation doesn't happen without people. The 550 dedicated researchers at our four R&D centers are the driving force behind the breakthroughs that are making our products best-in-class today and tomorrow.

Ship Propulsion Performance Innovations
• Fuel-economic hull form design technology
• Systematic, optimal designs take construction productivity into account

Capital Expenditures in KRW billions

2004	351
2005	376
2006	392
2007 (E)	749

R&D Expenditures in KRW billions

2004	111
2005	119
2006	126
2007 (E)	173

At Hyundai Heavy Industries, R&D is so important that we coordinate it as a separate organization. This strong commitment to R&D is what keeps our product lines fresh, our prices competitive, and us one step ahead of the competition.

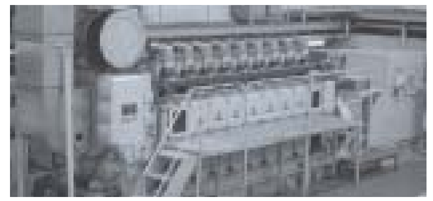
Each of our R&D institutes and centers are focused on developing the technologies of tomorrow that will help keep or make us second-to-none in each of our major product categories, take our core technical competencies to the next level, and open the door to promising new businesses. Our core group of four research institutes in Korea is augmented by institutes in Hungary and the United States as well as a steadily growing number of international partnerships.

In 2006, we invested KRW 125.9 billion in R&D. We have set our 2007 R&D budget at KRW 173.0 billion, 37% more than we invested last year and the equivalent of 1.1% of our projected sales.

R&D Strategies

It takes consistent innovation to be a global industry leader. On average, we have some 1,400 projects underway at any given time. Our research centers have helped us win "Korean World-Class Product" status in 12 product categories to date. Our goal is to nearly double that number to 23 categories by the end of the decade.

In 2007, we will continue to focus on developing optimized technologies for the markets we serve guided by the following four strategies.
- We will expand our areas of market leadership by developing industry leading products in all major categories.
- We will enhance the competitiveness of our major product categories by improving our core technologies.
- We will continue to expand our global R&D network.
- We will continue to enhance the collaborative ties between our divisions and research centers.



• Rudder Cavitation Test
•• Low NO_x Diesel Engine
••• KTX High-Speed Train

HYUNDAI MARITIME RESEARCH INSTITUTE (HMRI)

Founded in 1984, HMRI brings together the crucial engineering and performance testing capabilities that make our ships, offshore structures, engines, pumps, and construction equipment among the world's best. Key areas of research include hydrodynamics, propulsion and maneuvering, structural design, noise and vibration control, and machinery design.

HYUNDAI INDUSTRIAL RESEARCH INSTITUTE (HIRI)

Founded in 1983, HIRI's mission is to optimize every aspect of engineering, productivity, and quality from the drawing board to the shipping dock. Key areas of research include welding, casting and forging, materials, manufacturing automation, oil and gas system process optimization, alternative energy, pollution control, engine performance, coatings, and corrosion protection.

HYUNDAI ELECTRO-MECHANICAL RESEARCH INSTITUTE (HEMRI)

Founded in 1991, HEMRI covers a broad spectrum of technical disciplines with applications that span our entire product portfolio. Key areas of research include power conversion systems, electric power machinery, plant and ship automation systems, intelligent machines, and industrial robotics.

TECHNO DESIGN INSTITUTE (TDI)

Founded in 2000, TDI is responsible for enhancing the quality and competitiveness of our products, communications, and facilities through visual design. TDI collaborates with design research institutes and universities in Korea as well as partners overseas to ensure our customers get value that looks as good as it works.

TECHNOLOGY MANAGEMENT CENTER (TMC)

Founded in 2003, TMC provides the direction and supporting systems that drive our overall R&D strategy. The center identifies business opportunities by tracking product and technology trends, facilitates knowledge sharing by gathering, analyzing, and organizing technical data from internal and external sources, and maximizes the value of R&D investments by managing and monetizing our intellectual property portfolio.

Our Quest for Sustainability

It takes more than profitability to succeed in the global marketplace. Today's most successful companies are the ones that have learned how communicate their commitment to sustainability with their stakeholders.

At Hyundai Heavy Industries, we're always looking for new ways to enhance this ongoing conversation with our people, partners, and local community to make our part of the world a better, cleaner, and greener place to work and live.

Relationships are at the heart of everything we do. Our respect for our stakeholders has earned us theirs, making us one of Ulsan's most-respected and admired corporate citizens.

Our People

Perhaps the biggest single factor in our consistent growth is the remarkable win-win relationship we've been able to forge with our workforce. While many other Korean firms face crippling strikes and work slowdowns, we've worked closely together with labor to win agreements that benefit all for the past twelve years. Our 2006 labor agreement included a 3.95% cost-of-living increase on base salaries, a 250% performance bonus, and an increase in the mandatory retirement age from 57 to 58.

In addition to a comprehensive compensation package that includes generous housing, medical, education, and retirement benefits, we sponsor a diverse range of programs and activities to enhance quality of life for our people. Major events include concerts and exhibitions, summer and winter camps, culture exchanges, outdoor events, and Korea's largest intracompany football league with 205 teams.

Given the labor-intensive nature of our businesses, we dedicate significant resources to developing and honing the technical skills of our workforce. In 2006, we doubled the size of our technical training program to help deal with demand that saw competition for training slots reach 3.5 to 1 in 2005.

Our Partners

As a manufacturing firm, we rely on both onsite and offsite suppliers to meet our production requirements. In 2006, we increased our cash-on-delivery payment limit by KRW 20 million for a second straight year, raising it from KRW 30 million to KRW 50 million. We also provided 18 suppliers with assistance to upgrade their financial, technical, personnel, or information systems as part of an ongoing win-win initiative to spur growth and innovation that will help take their businesses and ours to the next level.

Our Community

As one of the largest employers in Ulsan, we have the opportunity and responsibility to make a significant impact for good in our local community. One of the first things our new hires do as part of their orientation process is to get to intimately know their local community by walking it and serving it.

We strive to reach out to all our local stakeholder groups. Every spring, our "Housewives College" teaches women key home-management skills and gives opportunities for community service. We support the local agricultural and fisheries industries through our in-house cafeterias and donations to outside food programs. In 2006, we subsidized school lunches for 800 students in Ulsan and signed our 13th blood drive agreement with the Korea National Red Cross. Our labor union's "Love Loaf" campaign to raise funds for malnourished kids also donated KRW 20 million to local charities as well as KRW 50 million to schools in the Bangladesh Sundarbans.

Employees — as of December 31, 2006

	Male	Female	Total
Administrative	7,859	861	8,720
Technical & Skilled Workers	15,932	282	16,214
Total	23,791	1,143	24,934

We're thinking green for the future. In 2006, we implemented a "green" procurement system as we took our environmental commitment to a higher level.

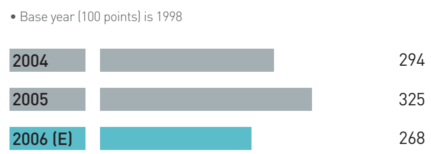
Environmental Initiatives

One of our key management objectives is to lead our industry not only in technology but also in environmental stewardship. As a major manufacturer, we take a comprehensive approach to protecting and preserving the environment as we strive to stay a step ahead of increasingly strict international regulations on the use of hazardous materials.

In the years since we implemented an ISO 14001 environmental management system in 1995, we have added life cycle assessment and design for environment systems to help minimize the environmental load of our products. Our HEPEM environmental performance evaluation methodology tracks management performance in 23 areas, operational performance in 20 areas, and environmental conditions in nine areas. Using 1998 as the base year (100 points), our average score for these three categories rose from 157 in 2004 to 168 in 2005, the most recent year final data is available for.

In May 2006, we became the world's first shipbuilder to adopt a "green" procurement system. Initially covering 57 major product categories including refrigerants for LNG carriers, transformer insulation, Tier-3 engine parts for construction equipment, and wood office furniture, the system is designed to ensure that the materials and supplies we purchase are safe for both people and the environment. We expect the system to help enhance worker safety, reduce acquisition and disposal costs, increase awareness of safety and environmental issues, and create a more comfortable workplace as it is gradually expanded to all categories.

Environmental Cost Growth in points



For more information about our commitment to safety and the environment or to download our latest environmental report, please visit the "About HHI" section of our website at http://english.hhi.co.kr.

Safety Initiatives

One of our most successful safety initiatives in recent years was the construction of the Safety Learning Center. Opened in March 2005, the center's initial mission was to keep our workforce and on-site contractors safe by providing realistic, hands-on training on how to avoid and handle common workplace hazards. Encouraged by the results and visitor response, we expanded the center's mission to include outside groups in 2006, educating several thousand visitors from other companies, public and private groups, and schools on the basics of how to stay safe on the job.

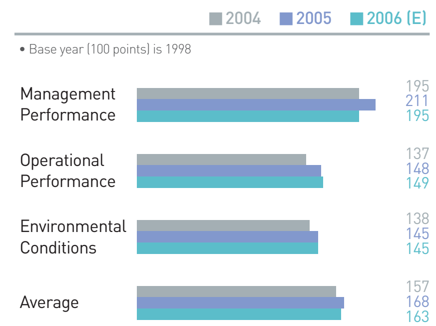
Technology also plays a key role in our pursuit of zero accidents. In July 2006, we joined Korea's Ministry of Information and Communication "U-Safety" project. Running through the end of 2007, this KRW 2.7 billion project will develop a "ubiquitous safety industrial space" system consisting of a high-tech network of wireless sensors at our shipyard—the world's largest—designed to rapidly and effectively detect and warn of potentially hazardous conditions to prevent worksite accidents.

Major Certifications


ISO 14001


OHSAS 18001

HEPEM Environmental Performance in points



Our Quest for Profitability

Competitiveness without profitability is always a losing proposition.

At Hyundai Heavy Industries, we've invested big in innovation to stay ahead of the competition and expand capacity in creative ways. Our savvy management has kept net income in the black while we weathered operating losses from dramatic steel price increases in recent years. And now with a full orderbook and favorable raw materials price trends, we're poised to deliver what we believe is a truly compelling value proposition to our investors.

The following discussion and analysis is based on financial information prepared according to accounting principles generally accepted in the Republic of Korea (Korean GAAP). References to the "Company" are references to Hyundai Heavy Industries Co., Ltd.

The following sections contain descriptions of management plans and objectives, including assumptions, plans, and expectations related to the financial condition, operational performance, and businesses of the Company. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such statements.

The Company does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this section, and nothing contained herein is, or shall be relied upon as, a promise, whether as to the past or the future. Such forward-looking statements are based on current plans, estimates, and projections of the Company and the political and economic environment in which the Company will operate in the future. You should therefore not place undue reliance on them. Forward-looking statements only represent conditions as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events.

Business Overview

The Company is composed of six major divisions: Shipbuilding, Offshore & Engineering, Industrial Plant & Engineering, Engine & Machinery, Electro Electric Systems, and Construction Equipment. The majority of these businesses are sensitive to both local and global economic trends. Since exports account for more than 85% of sales, the Company's performance is significantly impacted by global business conditions.

The Shipbuilding Division is primarily affected by global trade and ocean freight trends.

The Offshore & Engineering Division is impacted by energy demand and oil price trends.

The Engine & Machinery Division is impacted by the shipbuilding market and capital expenditure trends at home and abroad.

The Electro Electric Systems Division is affected by power distribution projects at home and economic growth in developing markets abroad.

The Construction Equipment Division is impacted by national infrastructure projects at home and economic growth in major developed markets worldwide.

The continued appreciation of the Korean won in 2006 presented significant challenges to both profitability and competitiveness. That said, the Company booked record orders of USD 18.99 billion, a 17.9% rise over 2005. Sales were also exceptionally strong, rising 21.2% to KRW 12,554.7 billion. Operating income soared 868% to KRW 878.9 billion on the strength of productivity gains, an overall shift toward value-added vessels, and booming demand for marine engines. This strong operating income also carried through to the bottom line, dramatically boosting net income before income tax by 299.9% to KRW 1,031.1 billion and net income by 288.9% to KRW 712.8 billion.

Results of Operations

Profit Analysis

Sales

With the exception of the Industrial Plant & Engineering Division, all Company divisions experienced growth in 2006, generating KRW 12,554.7 billion in sales, a 21.2% year-on-year increase.

The Shipbuilding Division saw sales grow 21.0% to KRW 6,442.8 billion as the shipbuilding boom continued and construction got underway on steadily increasing numbers of value-added ships.

The Offshore & Engineering Division recorded 31.1% growth to KRW 1,934.5 billion due primarily to gains by its floating production unit and fixed platform businesses.

The Industrial Plant & Engineering Division only achieved 60% of its sales target due to construction delays at overseas worksites, resulting in a 2.8% decrease over its 2005 results to KRW 601.6 billion.

The Engine & Machinery Division generated 27.8% growth to KRW 1,219.6 billion on strong demand for marine engines and diesel power stations.

The Electro Electric Systems Division delivered 30.4% growth on the strength of brisk exports.

Sales by Division

in KRW billions

Business Division	2006		2005		2004	
		Change		Change		Change
Shipbuilding	6,442.8	+21.0%	5,322.5	+25.8%	4,231.4	+12.6%
Offshore & Engineering	1,934.5	+31.1%	1,475.6	-2.4%	1,511.5	+22.0%
Industrial Plant & Engineering	601.6	-2.8%	619.0	+0.7%	614.7	-6.1%
Engine & Machinery	1,219.6	+27.8%	954.2	+27.1%	750.9	+4.5%
Electro Electric Systems	1,056.5	+30.4%	810.4	-1.7%	824.5	-0.1%
Construction Equipment	1,197.9	+13.9%	1,051.4	+1.7%	1,033.5	+22.3%
Others	101.8	-16.1%	121.3	+2.8%	118.0	+4.7%
Total	**12,554.7**	**21.2%**	**10,354.4**	**14.0%**	**9,084.5**	**11.4%**

The Construction Equipment Division recorded 13.9% growth to KRW 1,197.9 billion, driven by sales growth in Europe and a recovery in China.

Gross Profit

The Company's cost of sales rose 13.8% in 2006 to KRW 10,973.4 billion, reflecting the significant jump in sales. Gross profit climbed KRW 865.9 billion to KRW 1,581.3 billion. This pushed our gross profit margin up 5.7 percentage points from 6.9% in 2005 to 12.6%. Selling and administrative expenses rose by KRW 77.8 billion to KRW 702.4 billion, a 12.5% increase that reflected higher transportation costs and sales commissions.

Operating Income

The Company recorded an operating income of KRW 878.9 billion in 2006 for an operating income margin of 7.0%, a major improvement over last year's KRW 90.8 billion and 0.9% performance. While the continued shipbuilding boom helped the Shipbuilding Division deliver major profit gains, the other divisions also saw significant improvements in profitability.

The Shipbuilding Division saw its 0.1% 2005 operating income margin rise to 5.8% with a 2006 operating income of KRW 376.2 billion. This improved profitability heralded the completion of lower-priced ship orders from 2003 and the start of building for higher-priced orders placed in 2004 and 2005.

The Offshore & Engineering Division returned to profitability in 2006 with an 8.9% operating income margin and an operating income of KRW 172.7 billion. While delays on certain pipeline installation projects hurt profitability, the successful completion of oil production unit projects such as the BP Greater Plutonio FPSO and Sakhalin onshore processing facility combined with the first profitable year for the on-ground shipbuilding business helped secure the division's turnaround.

The Industrial Plant & Engineering Division recorded an operating loss of KRW 89.8 billion, a significant setback from its KRW 46.6 billion 2005 operating loss. Contributing factors included a major write-off of an overseas oil and gas plant project, a drop in sales due to project delays, and rising indirect expenses.

The Engine & Machinery Division recorded a 16.4% operating income margin with operating income of KRW 199.8 billion. This major improvement over the previous year's 7.2% operating income margin and KRW 68.9 billion operating income was due to marine engine prices rising in tandem with shipbuilding prices as well as strong sales of high-margin diesel power stations.

The Electro Electric Systems Division recorded a 13.3% operating income margin with operating income of KRW 140.8 billion. This significant improvement from 2005's 3.1% operating income margin and KRW 25.3 billion operating income was driven by a major global increase in demand for transformers. The performance was enhanced by more profitable orders for replacement power distribution equipment in the United States and growing investment in power facilities in the Middle East.

The Construction Equipment Division recorded a 6.8% operating income margin with operating income of KRW 82.0 billion. This respectable improvement from 2005's 4.5% operating income margin and KRW 47.8 billion operating income was driven by sales growth in Europe and a sales recovery in China that more than offset falling demand at home and the United States.

Operating Income

in KRW billions

Business Division	2006		2005		2004	
		Margin		Margin		Margin
Shipbuilding	376.2	5.8%	6.4	0.1%	-77.2	-1.8%
Offshore & Engineering	172.7	8.9%	-14.5	-1.0%	-2.0	-0.1%
Industrial Plant & Engineering	-89.8	-14.9%	-46.6	-7.5%	-117.2	-19.1%
Engine & Machinery	199.8	16.4%	68.9	7.2%	60.9	8.1%
Electro Electric Systems	140.8	13.3%	25.3	3.1%	-11.0	-1.3%
Construction Equipment	82.0	6.8%	47.8	4.5%	44.8	4.3%
Others	-2.8	-2.8%	3.5	2.9%	3.7	3.1%
Total	**878.9**	**7.0%**	**90.8**	**0.9%**	**-98.0**	**-1.1%**

• Selling and administrative expenses from Others have been allocated proportionately to each division. These numbers should be read along with the Company's financial statements.

Non-operating Income & Expenses

The Company posted a net non-operating income of KRW 152.2 billion in 2006, a KRW 14.7 billion decrease over 2005's KRW 166.9 billion result. If the one-time income—a reversal of provisions amounting to KRW 127.6 billion—and one-time expenses—an additional payment of KRW 118.4 billion in income tax—were omitted from this comparison, non-operating income would have increased to KRW 231.4 billion in 2006.

The KRW 127.6 billion recognized as non-operating income in 2005 was previously accounted for as a long-term accrued expense at the direction of the court as part of the final ruling of an employee lawsuit brought against the company in 2000 seeking payment of legal costs and additional severance benefits. At a second trial, the Busan High Court ruled in favor of the Company on August 19, 2005, allowing it to recognize the 127.6 billion from long-term accrued expenses as non-operating income.

On March 27, 2006, Korea's National Tax Service notified the Company that it was imposing an additional KRW 107.6 billion in income tax. The additional levy was a result of an investigation into the Company's improper provision of financial support through its participation in a capital increase of an insolvent affiliate—Hyundai Space & Aircraft Co., Ltd.—during the financial crisis that hit Korea in the late 1990s. The Company is currently in the process of appealing the levy at the National Tax Tribunal.

Excluding the aforementioned one-time income and expenses recorded in 2005 and 2006, the Company's primary sources of non-operating income were a KRW 67.8 billion net gain on valuation of investment securities using the equity method—including a KRW 108.1 billion gain by Hyundai Samho Heavy Industries alone—and a KRW 144.8 billion gain from derivatives.

Net Income

The Company recorded net income of KRW 712.8 billion for a net profit margin of 5.7%, a dramatic 288.9% improvement over 2005's KRW 183.3 billion income and 1.8% margin.

As mentioned before, surging ship orders and shipbuilding prices from our Shipbuilding Division and solid operating income gains by all other divisions but the Industrial Plant & Engineering Division were the primary drivers behind this performance. As a result, net earnings per share soared from KRW 2,842 in 2005 to KRW 11,053 in 2006.

Financial Structure Analysis

Assets

The Company's total assets stood at KRW 13,213.8 billion at the end of 2006, a 14.0% year-on-year increase of KRW 1,620.7 billion. Current assets rose due to increases in cash, cash equivalents, and derivative assets. Rising share prices of our investment securities also boosted the book value of those assets.

Liabilities

The Company's total liabilities rose KRW 903.6 billion to KRW 8,735.2 billion, an 11.5% year-on-year increase. The biggest factor behind the rise was a 9.8% or KRW 561.2 billion increase in advances from customers to KRW 6,262.8 billion. As a result, the Company's liabilities-to-equity ratio dropped 13.2 percentage points from 208.2% at the end of 2005 to 195.0%.

Total borrowings continued to decline in 2006, dropping 7.6% to KRW 186.9 billion. Accordingly, the Company's debt-to-equity ratio edged down 1.2 percentage points from 5.4% at the end of 2005 to 4.2%.

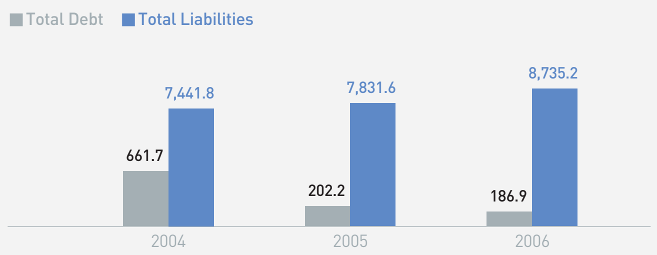
Non-operating Income / Expenses

in KRW billions

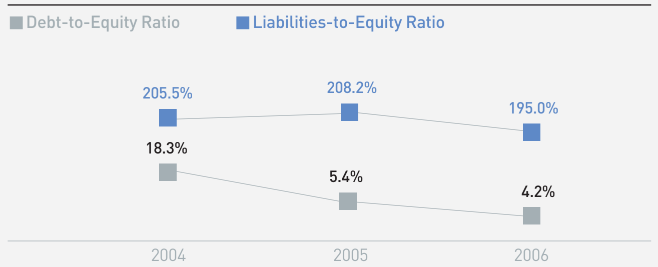
	2006	2005	2004
Non-operating Income:			
Interest income	89.8	96.6	103.5
Gain on foreign currency translations	33.1	12.8	25.9
Gain on foreign currency transactions	77.5	98.1	180.0
Gain on valuation of investment securities accounted for using the equity method	200.0	132.2	162.8
Gain on valuation of derivatives	38.4	13.7	32.7
Gain on transaction of derivatives	65.3	21.9	-
Gain on reversal of provisions	-	127.6	-
Others	92.4	66.0	128.6
Total non-operating income	**596.5**	**568.9**	**633.5**
Non-operating Expenses:			
Interest expense	10.7	25.9	64.4
Loss on foreign currency translations	42.8	16.6	93.1
Loss on foreign currency transactions	143.8	123.7	157.6
Loss on valuation of investment securities accounted for using the equity method	20.8	9.6	-
Loss on impairment of long-term investment securities	2.4	29.5	3.2
Loss on valuation of derivatives	1.2	27.8	-
Loss on transaction of derivatives	6.2	56.2	-
Additional payment of income tax	118.4	-	-
Others	98.0	112.7	161.6
Total non-operating expenses	**444.3**	**402.0**	**479.9**
Total non-operating income and expenses	**152.2**	**166.9**	**153.6**

Total Debt & Total Liabilities

in KRW billions



Debt-to-Equity Ratio & Liabilities-to-Equity Ratio



Shareholders' Equity

The Company's shareholders' equity increased KRW 717.1 billion to KRW 4,478.6 billion in 2006. The rise was primarily due to a KRW 616.1 billion increase in retained earnings to KRW 1,292.2 billion. Another factor was a KRW 101.0 billion increase in capital adjustments, reflecting a KRW 138.0 billion gain on valuation for derivatives.

Order & Backlog Analysis

The Company received orders totaling USD 18.99 billion in 2006, exceeding its overall order target of USD 14.92 billion by 27.3%. Looking at the top performers, a continued shipbuilding boom helped boost Shipbuilding Division orders to USD 11.47 billion and Engine & Machinery Division orders to USD 1.88 billion. High oil prices were a driving factor behind Offshore & Engineering Division orders of USD 1.99 billion. At year-end 2006, the Company's backlog reached a record high of USD 31.45 billion, including USD 20.67 billion from shipbuilding alone.

Shipbuilding Division
The division recorded robust growth in 2006 by winning USD 11.47 billion in orders for 116 vessels with a gross tonnage of 10.21 million tons, exceeding its USD 7.41 billion target by 54.8%. The primary factor behind this remarkable performance was surging economic growth in China and India that boosted global trade volume, driving orders for newbuild vessels. Another contributing factor was rush of orders ahead of the implementation of a newbuilding regulations for tankers and bulk carriers. Looking at orders by vessel type, the division took orders for 32 containerships, 58 tankers, 20 LPG carriers, four LNG carriers, and two special & naval vessels. The 58-tanker total was a new division record. As of year-end 2006, the division had an order backlog of USD 20.67 billion representing 239 vessels with gross tonnage of 19.09 million tons, enough to keep its shipyard operating at full capacity for over three years.

Offshore & Engineering Division
The division booked orders of USD 1.99 billion in 2006, a strong follow-up performance to the record USD 2.58 billion booked in 2005. The market was driven by heavy expenditures in deepwater exploration and development by the oil majors as they scrambled to meet soaring global demand for energy. The order highlight of the year was the USD 1.59 billion Umm Shaif gas injection facilities project in the UAE, the industry's largest offshore production facility to date with three fixed platforms totaling approximately 40,000 tons, underscoring the division's competitiveness in the Middle East region. At year-end 2006, the division had a total order backlog of USD 5.62 billion.

Industrial Plant & Engineering Division
The division booked orders of USD 846 million in 2006, roughly 60% of its USD 1.4 billion target. Strong demand for new infrastructure and plentiful oil dollars in oil-producing countries kept the oil and gas plant sector growing across the Middle East and Western Africa. The division won oil and gas plant projects totaling USD 551 million, power plant projects worth USD 170 million, and other projects worth USD 125 million. At year-end 2006, the division had a total order backlog of USD 1.94 billion.

Engine & Machinery Division
The division booked orders of USD 1.88 billion in 2006, a 19.7% increase over its USD 1.57 billion performance in 2005. This strong order growth was the product of record shipbuilding orders as well as accelerating demand for diesel power generators in developing countries across Latin America, the Middle East, and Southeast Asia. The division produced 182 two-stroke marine diesel engines as it continued to set new milestones by surpassing the 60 million bhp mark during the year. The world's leading maker of marine diesel engines finished 2006 with a backlog of USD 2.21 billion.

Electro Electric Systems Division
The division won orders of USD 1.27 billion in 2006, a 26.9% increase over 2005. While the home market stalled as market uncertainties led companies to cut back on capital expenditures and construction, overseas operations benefited from accelerating replacement of aging electric transformers in the United States and continued strong demand for electric power equipment across the Middle East. The division also made significant advances in its fledgling alternative and renewable energy businesses, including photovoltaic modules and cogeneration power systems. At year-end 2006, the division's backlog stood at USD 1.01 billion.

Construction Equipment Division
The division booked orders of USD 1.53 billion, exceeding its 2005 performance of USD 1.29 billion by 18.4%. The division overcame negative growth in its home market and slow growth the United States—one of its major export markets—to achieve this. Demand from Europe was extremely robust, growing over 40% year-on-year, giving the division its best performance in the region to date. In China, the construction equipment market finally recovered to its pre-2003 levels after two years of steady growth, helping Hyundai excavator orders break new ground in 2006.

Litigation Overview

Update on lawsuits to recover share payment made to CIBC in 1997
As explained in Note 12 of the financial statements, Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") to Canadian Imperial Bank of Commerce ("CIBC") for USD 13.46 per share on June 4, 1997. In relation to this transaction, the Company reached a share option agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. (HSC) on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances.

In accordance with the above agreement, the Company repurchased the 13 million shares from CIBC for USD 220,480,000 on July 24, 2000. The Company requested that HSI and HSC honor their written promissory note. HSI and HSC, however, refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 in Suwon District Court to recover KRW 246.0 billion in principal for the foreign currency paid to CIBC and damages. On January 25, 2002, the Company won the litigation with a claim settlement amounting to KRW 171.8 billion in principal plus accrued interest.

Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal with Seoul High Court claiming the remainder of the principal and accrued interest. The Company also filed a separate lawsuit seeking reimbursement of litigation costs. On June 14, 2006, the court awarded the Company KRW 192.9 billion in principal plus accrued interest. On June 30, 2006, the Company entered a protest of the decision, and the lawsuit is currently in final appeal at the Supreme Court of Korea. As of December 31, 2006, the Company has set aside an allowance for doubtful accounts in an amount equivalent to the outstanding principal.

Settlement of severance benefit lawsuit filed in 2000
On February 17, 2000, Kang Hee-in and 33 individuals filed a lawsuit against the Company claiming legal costs and additional severance benefits payable totaling KRW 1.92 billion. The plaintiffs entered into a collective agreement with the Company's labor union regarding this litigation in 2002.

Following the close of the first trial at Ulsan District Court, the Company recorded the KRW 127.6 billion in additional payables as a long-term accrued expense. After the second trial at Busan High Court, the Company recorded the KRW 127.6 billion as non-operating income. On February 23, 2006, the Supreme Court of Korea ruled in favor of the Company. The Company has since paid all legally required severance benefits to existing and former employees and recorded KRW 610 million in unpaid severance benefits as accounts payable-other as of December 31, 2006.

Update on additional income tax assessed in 2006
On March 27, 2006, the National Tax Service (NTS) imposed an additional income tax of KRW 107.6 billion on the Company. The NTS ruled that the Company's participation in a capital increase in Hyundai Space & Aircraft Co., Ltd. during the Asian financial crisis that hit Korea in the late 1990s constituted improper financial support of that insolvent affiliate. The Company has appealed the assessment to the National Tax Tribunal, and the case is currently in progress.

Orders by Division

in USD millions

	2006	2005	2004
Shipbuilding	11,470 (116 Ships)	8,272 (82 Ships)	8,488 (104 Ships)
Offshore & Engineering	1,997	2,577	1,529
Industrial Plant & Engineering	846	1,399	657
Engine & Machinery	1,879	1,566	898
Electro Electric Systems	1,274	1,004	708
Construction Equipment	1,525	1,288	1,122
Total	**18,991**	**16,106**	**13,402**

Backlog by Division

in USD millions

	2006	2005	2004
Shipbuilding	20,668	17,067	13,998
Offshore & Engineering	5,620	3,830	2,208
Industrial Plant & Engineering	1,939	1,601	774
Engine & Machinery	2,208	1,566	928
Electro Electric Systems	1,013	782	480
Construction Equipment	–	–	–
Total	**31,448**	**24,846**	**18,388**

• Backlog is calculated by subtracting recognized revenues from sales on a percentage-of-completion basis.

2007 Business Outlook

In the coming year, the Company believes that volatile raw materials prices and a strong Korean won will create considerable uncertainty in the business environment.

The Company has set a sales target of KRW 15.1 trillion, a 20.1% increase over 2006. With its shipyard running at full capacity with enough work to keep it going for more than three years and the Shipbuilding Division's decision to set a lower order target, the Company has lowered its overall order target to USD 18.1 billion, a slight 4.4% year-on-year decrease. The Company has also set an ambitious investment strategy that calls for capital expenditures to rise by 81.6% to KRW 749.0 billion and investment in R&D to grow 37.4% to KRW 173.0 billion.

Shipbuilding Division
With the global economy forecast to maintain a steady pace, the division expects shipbuilding orders to continue to grow at about their historic annual average.

Constrained by a three-plus-year backlog, the division is focusing on more profitable ship types as it aims to win orders of USD 9.2 billion, a nearly 20% drop from the previous year. Sales are forecast to grow over 16% to KRW 6,442.8 billion as the division continues to benefit from higher-priced ship deliveries, an improved product mix, and ongoing efforts to improve productivity.

Offshore & Engineering Division

Global exploration and production investment is forecast to grow roughly 9% in 2007 to reach USD 291 billion. Analysts estimate that the global market for deepwater floating production units over the next five years will range from 103 to 130 brand new units worth USD 35~44 billion.

The division is aiming for a 5.2% growth in orders to USD 2.1 billion and a 6.6% growth in sales to KRW 2,062.0 billion. It will continue to improve project management, engineering, procurement and fabrication capabilities as it leverages them to win EPIC (engineering, procurement, installation, and commissioning) projects such as FPSOs, fixed platforms, and semi-submersibles as well as projects in emerging growth fields such as subsea pipeline construction and installation.

Industrial Plant & Engineering Division

The global oil and gas plant sector is expected to enjoy robust growth in 2007 as oil-producing nations accelerate their expenditures on new refining and petrochemical facilities as well as upgrades and expansions of existing ones. Financial stability, accelerating industrialization, and growing populations across the Middle East will also spur demand for independent water and power projects.

The division is aiming for a 77.3% growth in orders to USD 1.5 billion and a 66.2% growth in sales to KRW 1.0 trillion. It will continue to emphasize its oil and gas EPC capabilities as it pursues new market opportunities across the Middle East. Anticipating the industry trend toward turnkey EPC mega-projects, the division is relying on ongoing R&D to more effectively compete for EPC projects as it continues to establish itself as a world-class EPC contractor.

Engine & Machinery Division

While the shipbuilding industry is expected to grow above its historic average in 2007, the marine engine market will soon be facing a new competitive dynamic as industry manufacturing capacity catches up with demand in 2008. On the positive side, demand for diesel power generators is expected to be robust as developing markets across Latin America, India, and Africa look for affordable and portable solutions to power economic growth.

The division is aiming for orders of USD 1.8 billion—a 4.2% decrease over 2006—and a 41.4% growth in sales to KRW 1,724.0 billion. Beyond expanding its two-stroke marine engine production capacity by 25% to 10 million bhp annually, the division will continue to extend its major product lines, target new markets, and build a China sales organization.

Electro Electric Systems Division

While declining capital expenditures in Korea are expected to further intensify competition, global demand for electric power equipment looks promising. The Americas will be looking to replace aging equipment and build new power stations. The Middle East will be investing in both infrastructure and power transmission networks. Europe will provide numerous opportunities for alternative and renewable energy projects. And Asia will need new power plants and substations to keep the region's economies growing.

The division is targeting a 35.2% growth in orders to USD 1.72 billion and a 30.3% growth in sales to KRW 1,377.0 billion. With plentiful growth opportunities available around the world, the division will continue to develop a diversified product mix and tailored marketing strategy for each region as it puts in place a global service system. It will also pursue strategic alliances with major local and international EPC contractors to expand its market reach. Another focus will be on laying the foundation for future growth and profitability by stepping up development of alternative energy solutions.

Construction Equipment Division

The global construction equipment market is forecast to continue its steady growth in 2007. While markets in the Americas look sluggish and Western Europe appears to be cooling after four straight years of record growth, Eastern Europe, China, and India are all poised to deliver robust opportunities for growth in the coming year.

The division is aiming for a 19.8% growth in orders to USD 1.82 billion and an 11.2% growth in sales to KRW 1,332.0 billion. These ambitious plans ride on a focused marketing strategy designed specifically to meet the needs of each regional market. In the Americas and Europe, the focus will be on expanding dealer networks and sharpening the sales force. In regions where there is no direct sales presence, the focus will be on signing and supporting new dealers. In China—a market that accounts for roughly 12% of global excavator sales—the focus will be on setting up a financing subsidiary to make Hyundai machines even more affordable.

To the Shareholders and Board of Directors of
Hyundai Heavy Industries Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. as of December 31, 2006 and 2005, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (Note 2).

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

As discussed in Note 12 to the non-consolidated financial statements, Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") 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 with a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") to compensate the Company for any losses incurred in connection with the transaction with CIBC under certain circumstances. On July 24, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480,000. 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. On January 25, 2002, the Seoul Central District Court decided in favor of the Company and awarded a partial settlement of the claim amounting to ₩172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and also filed additional lawsuit for the advanced payments and related expenses, which are not covered in the prior claim. In relation to the intermediate appeal for a partial settlement of the claim, Seoul High Court decided in favor of the Company and awarded a partial settlement of the intermediate appeal amounting to ₩193 billion of principal and accrued interest thereon on June 14, 2006. As of December 31, 2006, allowance for the balances related to this claim was adjusted in accordance with above settlement and the Company filed an appeal to Supreme Court of Korea. The appeal is in progress as of the date of this report and its ultimate outcome cannot be presently determined. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

As discussed in Note 11 to the non-consolidated financial statements, HSI has entered into a Purchase Agreement ("off-take agreement") with Hynix Semiconductor Manufacturing America Inc. ("HSMA"), an overseas subsidiary of HSI, as collateral for the long-term borrowings from J.P. Morgan Chase Bank of HSMA. In addition, the Company has entered into a Group Support Agreement with HSMA together with two other companies within the former Hyundai Group of companies, and provided this agreement as collateral for the long-term borrowings of HSMA. The ultimate outcome of this agreement cannot presently be determined, and no provision for any liability that may result has been made in the accompanying financial statements.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations 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 financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Deloitte Anjin LLC

February 9, 2007

Notice to Readers

This report is effective as of February 9, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

in KRW thousands

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents (Notes 3 and 21)	₩ 819,920,933	₩ 444,514,550
Short-term financial instruments	234,137,014	184,126,014
Short-term investment securities (Note 5)	221,788,518	20,776,448
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩80,020,598 thousand in 2006 and ₩52,362,787 thousand in 2005 (Notes 17, 20 and 21)	2,445,187,369	2,276,108,071
Accounts receivable-other, net of allowance for doubtful accounts of ₩291,228,211 thousand in 2006 and ₩182,055,776 thousand in 2005 (Notes 20 and 21)	216,903,840	244,615,919
Inventories (Note 4)	1,128,775,840	1,148,317,437
Advanced payments, net of allowance for doubtful accounts of ₩13,668,291 thousand in 2006 and ₩4,099,087 thousand in 2005 (Note 21)	398,635,918	287,752,506
Accrued income	5,558,707	6,539,835
Derivatives (Note 11)	495,782,386	246,768,569
Deferred income tax assets (Note 18)	-	5,474,278
Prepaid expenses and other current assets	244,767,722	303,508,856
Total current assets	**6,211,458,247**	**5,168,502,483**
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 7 and 22)	4,455,129,314	4,286,543,141
Long-term investment securities (Note 5)	426,736,444	553,169,451
Investment securities accounted for using the equity method (Note 6)	1,716,810,918	1,150,538,105
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩1,298,456 thousand in 2006 and ₩1,984,850 thousand in 2005 (Notes 11 and 21)	128,547,184	196,500,217
Long-term financial instruments (Notes 3 and 21)	9,112,870	6,775,068
Intangible assets, net (Notes 8 and 22)	221,517,941	191,142,413
Other investment assets (Notes 20 and 21)	44,508,801	39,937,237
Total non-current assets	**7,002,363,472**	**6,424,605,632**
Total Assets	**₩ 13,213,821,719**	**₩ 11,593,108,115**

(Continued)

As of December 31, 2006 and 2005

in KRW thousands

LIABILITIES AND SHAREHOLDERS'S EQUITY	2006	2005
CURRENT LIABILITIES:		
Current maturities of long-term borrowings and other long-term liabilities (Notes 9 and 21)	₩ 341,960	₩ 372,639
Trade accounts and notes payable (Notes 20 and 21)	1,179,763,488	1,108,899,843
Accounts payable-other (Note 12, 20 and 21)	125,989,605	88,868,629
Advances from customers (Note 17)	6,262,761,712	5,701,603,630
Accrued expenses (Notes 20 and 21)	188,086,233	207,777,063
Income tax payable (Note 18)	167,718,040	13,946,921
Derivatives (Note 11)	2,267,788	25,862,517
Deferred income tax liabilities (Note 18)	38,716,339	-
Withholdings and other current liabilities (Note 21)	187,804,932	233,168,366
Total current liabilities	8,153,450,097	7,380,499,608
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discounts of ₩710,750 thousand in 2006 and ₩1,122,534 thousand in 2005 (Notes 9 and 21)	186,552,277	201,850,105
Accrued severance benefits, net of severance insurance deposits and others of ₩941,839,903 thousand in 2006 and ₩867,585,305 thousand in 2005 (Note 10)	193,348,583	151,250,487
Long-term accrued expenses	2,269,234	47,064,964
Deferred income tax liabilities (Note 18)	141,229,492	10,047,955
Other long-term liabilities (Note 20)	58,321,740	40,857,986
Total long-term liabilities	581,721,326	451,071,497
Total Liabilities	8,735,171,423	7,831,571,105
SHAREHOLDERS' EQUITY:		
Capital stock - common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 13)	2,771,383,687	2,771,383,687
Appropriated retained earnings (Note 14)	579,385,441	492,811,543
Retained earnings before appropriations		
(Net income of ₩712,847,558 thousand in 2006 and ₩183,314,079 thousand in 2005)	712,847,560	183,314,085
Capital adjustments (Notes 5, 6, 11 and 15)	35,033,608	(65,972,305)
Total shareholders' equity	4,478,650,296	3,761,537,010
Total Liabilities and Shareholders' Equity	₩ 13,213,821,719	₩ 11,593,108,115

See accompanying notes to non-consolidated financial statements.

For The Years Ended December 31, 2006 and 2005

in KRW thousands, except per share amounts

	2006	2005
Sales (Notes 17, 20 and 22)	₩ 12,554,744,430	₩ 10,354,421,886
Cost of sales (Notes 17 and 20)	10,973,444,547	9,638,989,541
Gross profit	1,581,299,883	715,432,345
Selling and administrative expenses (Note 23)	702,433,590	624,584,039
Operating income (Note 22)	878,866,293	90,848,306
Non-operating income:		
Interest and dividend income	96,103,120	98,559,779
Gain on foreign currency transactions	77,473,201	98,095,813
Gain on foreign currency translation	33,106,834	12,826,998
Gain on valuation of investment securities accounted for using the equity method (Note 6)	200,004,281	132,215,981
Gain on disposal of investment securities	7,003,756	1,839,392
Gain on valuation of derivatives (Note 11)	38,375,247	13,717,848
Gain on transaction of derivatives (Note 11)	65,331,493	21,871,637
Gain on reversal of provisions	-	127,649,924
Reversal of provision for construction warranties	793,705	-
Others	78,347,397	62,166,917
Total non-operating income	596,539,034	568,944,289
Non-operating expenses:		
Interest expense	10,721,232	25,862,494
Loss on foreign currency transactions	143,753,092	123,715,256
Loss on foreign currency translation	42,793,599	16,580,919
Loss on valuation of investment securities accounted for using the equity method (Note 6)	20,835,361	9,628,196
Loss on disposal of investment securities	550	6,959,082
Loss on disposal of property, plant and equipment	11,634,104	11,033,613
Loss on impairment of long-term investment securities (Note 5 and 11)	2,383,171	29,476,212
Additional payment of income tax (Note 11)	118,420,797	-
Loss on valuation of derivatives (Note 11)	1,194,237	27,819,348
Loss on transaction of derivatives (Note 11)	6,238,859	56,231,229
Others	86,329,319	94,724,279
Total non-operating expenses	444,304,321	402,030,628
Total Non-Operating Income & Expenses	152,234,713	166,913,661
Ordinary income	1,031,101,006	257,761,967
Extraordinary item	-	-
Net income before income tax	1,031,101,006	257,761,967
Income tax expense (Note 18)	318,253,448	74,447,888
Net income	₩ 712,847,558	₩ 183,314,079
Earnings per share (Note 19)	₩ 11,053	₩ 2,842
Ordinary income per share (Note 19)	₩ 11,053	₩ 2,842

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriations of Retained Earnings

For The Years Ended December 31, 2006 and 2005

in KRW thousands

	2006	2005
Retained earnings before appropriations:		
Beginning of year	₩ 2	₩ 6
Net income	712,847,558	183,314,079
	712,847,560	**183,314,085**
Transfer from reserve:		
Reserve for research and human development	23,833,333	40,500,000
Appropriations:		
Legal reserve	16,123,364	9,674,019
Reserve for research and human development	210,000,000	20,000,000
Voluntary reserve	349,323,880	97,399,880
Cash dividends (Note 16)	161,233,640	96,740,184
	736,680,884	**223,814,082**
Unappropriated retained earnings, end of year	₩ 9	₩ 2

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

For The Years Ended December 31, 2006 and 2005

in KRW thousands

	2006	2005
Cash flows from operating activities:		
Net income	**₩ 712,847,558**	**₩ 183,314,079**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	206,770,353	167,567,742
Bad debt expense	39,652,997	37,176,985
Amortization of development costs	28,864,045	30,352,742
Depreciation	347,859,034	335,093,283
Amortization of discount on debentures	411,784	1,094,667
Loss on foreign currency translation	42,767,981	16,579,704
Loss on impairment of long-term investment securities	2,383,171	29,476,212
Loss on disposal of investment securities	550	6,959,082
Loss on valuation of investment securities accounted for using the equity method	20,835,361	9,628,196
Loss on disposal of property, plant and equipment	11,634,104	11,033,613
Additional payment of income tax	118,420,797	-
Loss on valuation of derivatives	1,194,237	27,819,348
Gain on foreign currency translation	(33,082,074)	(12,826,998)
Gain on valuation of investment securities accounted for using the equity method	(200,004,281)	(132,215,981)
Gain on valuation of derivatives	(394,359,769)	(230,280,380)
Gain on reversal of provision	-	(127,649,924)
Reversal of provision for construction warranties	(793,705)	-
Others	37,042,820	41,456,274
	229,597,405	**211,264,565**
Changes in operating assets and liabilities:		
Increase in trade accounts and notes receivable	(184,214,078)	(160,527,870)
Decrease (Increase) in accounts receivable-other	(94,614,578)	16,276,083
Decrease (Increase) in accrued income	2,471,338	(182,475)
Decrease (Increase) in inventories	19,541,597	(10,599,022)
Increase in advanced payments	(126,660,118)	(233,265,235)
Decrease in derivatives	328,891,317	202,756,200
Decrease in deferred income tax assets	5,474,278	107,304,745
Decrease in long-term notes receivable in foreign currency	19,754,696	-
Increase in trade accounts payable	72,281,897	218,084,692
Increase (Decrease) in accounts payable-other	38,767,196	(47,814,202)
Increase in advances from customers	543,253,806	655,922,174
Increase (Decrease) in accrued expenses	(8,673,244)	49,935,591
Increase in income tax payable	153,771,120	6,281,856
Increase (Decrease) in long-term accrued expenses	(50,221,310)	2,579,342
Payments of severance benefits	(90,417,659)	(154,672,246)
Increase in deposits for severance benefits	(77,407,366)	(35,819,645)
Increase (Decrease) in deferred income tax liabilities	133,273,284	(54,557,581)
Others, net	11,375,992	(30,489,257)
	696,648,168	**531,213,150**
Net cash provided by operating activities	**1,639,093,131**	**925,791,794**

(Continued)

in KRW thousands

	2006	2005
Cash flows from investing activities:		
Withdrawal of short-term financial instruments	₩ 160,610,000	₩ 812,607,600
Disposal of short-term investment securities	874,572,333	302,061,894
Disposal of long-term investment securities	427,511	3,132,444
Disposal of investment securities accounted for using the equity method	157,146,679	17,326,141
Disposal of long-term financial instruments	20,310,107	-
Disposal of other investment assets	1,229,579	11,176,150
Disposal of property, plant and equipment	5,751,625	7,877,771
Acquisition of short-term financial instruments	(210,621,000)	(602,607,600)
Acquisition of short-term investment securities	(1,070,000,000)	(172,690,000)
Acquisition of long-term financial instruments	(23,215,160)	(20,360,407)
Acquisition of long-term investment securities	(2,759,958)	(275,564,589)
Acquisition of investment securities accounted for using the equity method	(485,161,788)	(3,197,656)
Acquisition of property, plant and equipment	(529,275,356)	(312,485,083)
Acquisition of intangible assets	(61,278,856)	(62,550,858)
Acquisition of other investment assets	(5,663,504)	(6,489,218)
Net cash used in investing activities	**(1,167,927,788)**	**(301,763,411)**
Cash flows from financing activities:		
Issuance of debentures	-	204,843,520
Proceeds from long-term borrowings	1,353,863	-
Repayment of current maturities of long-term borrowings and other long-term liabilities	(372,639)	(661,953,969)
Payment of cash dividends	(96,740,184)	(80,616,820)
Net cash used in financing activities	**(95,758,960)**	**(537,727,269)**
Net increase in cash and cash equivalents	**375,406,383**	**86,301,114**
Cash and cash equivalents at the beginning of the year	**444,514,550**	**358,213,436**
Cash and cash equivalents at the end of the year	**₩ 819,920,933**	**₩ 444,514,550**

See accompanying notes to non-consolidated financial statements.

1. THE COMPANY

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

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩5,000, authorized: 160,000,000 shares) of common stock are issued and 64,493,456 shares of common stock are outstanding as of December 31, 2006. Of the total issued shares, Chung Mong-Joon, Hyundai Mipo Dockyard Co., Ltd., KCC Corp. and Hyundai Motor Company own 10.80%, 9.92%, 8.15 % and 2.88%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩400,000 million, respectively, 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, 2006. The Company may also raise capital without obtaining the approval of shareholders in case of issuing stock to foreign individual investors or foreign financial institutions, issuing stock domestically under the Securities and Exchange Act, issuing stock through a general public subscription and issuing stock to employees under certain circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the 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 for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The Company prepared its non-consolidated financial statements as of December 31, 2006 in accordance with the additional Statements of Korea Accounting Standards ("SKAS") No. 19 "Lease" and No. 20 "Related Party Disclosures", effective from January 1, 2006. Major changes compared with the standard applied in preparing the 2005 financial statements are as follows:

Statements of Korea Accounting Standards	Major changes
No. 19 Lease	- To expand the scope of the lease's application including intangible lease - To supplement lease standard
No. 20 Related Party Disclosures	- To expand notes for key management's compensation and other

The Company did not restate the non-consolidated balance sheet as of December 31, 2005 and non-consolidated statements of income and cash flows for the year ended December 31, 2005, which are presented for comparative purposes, in accordance with SKAS No.19 and No.20.

Except for the changes in the accounting principles above, the significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

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 over total estimated costs for each contract. 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 the possibility of construction contract is probable. The prepaid construction costs are transferred to construction cost at the commencement of the construction.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term financial instruments with original maturities of less than ninety days, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of receivables and prior years' collection experience.

Inventories

Inventories are stated at the lower of cost or net realized value. Cost is determined using the moving average method, except for materials in-transit for which cost is determined using the specific identification method. The physical count of inventories is performed at the end of the year.

Investments in Securities Other than those Accounted for Using the Equity Method

Classification of Securities

At acquisition, the Company classifies securities into one of the three categories; trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as current assets, whereas available-for-sale and held-to-maturity securities are classified as non-current assets, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as current assets.

Valuation of Securities

Securities are recognized initially at cost, which includes the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration is not reliably determinable, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are included in current operations. However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When held-to-maturity security is reclassified into available-for-sale security, the difference between the book value and fair value is reported in capital adjustments. Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in capital adjustments and amortized over the remaining term of the securities using the effective interest method. If held-to-maturity securities are disposed or redeemed before the maturity date, any securities could not be categorized to held-to-maturity within 3 fiscal years after the disposal and redemption.

Investment Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over the reasonable periods within 20 years using the straight-line method. Under the equity method, the change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and capital adjustments, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and capital adjustments. Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated. The Company has used the most available financial statements of the controlled investees, which have not been audited and reviewed due to the timing of closing of the controlled investees' financial statements. For overseas affiliates whose financial statements are prepared in foreign currencies, assets and liabilities are translated at the exchange rate at the balance sheet date, shareholder's equity is translated at the historical exchange rate and the items in the statement of income are translated at the weighted average exchange rate for the reporting period. Net translation adjustments are recorded as a component of shareholders' equity.

Property, Plant and Equipment and Related Depreciation
Property, plant and equipment are stated at cost, (except for assets revalued upward in accordance with the Asset Revaluation Law of Korea), net of accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment. The interest incurred on borrowings in connection with the acquisition of property, plant and equipment are charged to current operation.

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

	Useful lives in years
Buildings and structures	20 – 40
Machinery and equipment	10
Ships	12
Vehicles	5
Tools, furniture and fixtures	5

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

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

Lease Transactions
The Company accounts for lease transactions as either capital leases or operating leases, depending on the terms of the underlying lease agreements.

Assets leased under capital lease are recorded at cost, included as property, plant and equipment, and depreciated using the straight-line method over their estimated useful lives. The aggregate lease payments are recorded as a capital lease obligation, net of accrued interest as determined by the excess of lease payments over the cost of the leased asset. Accrued interest is charged to expense over the lease terms using the effective interest rate method.

The lease payments under operating lease are recognized as current expenses on an accrual basis over the term of the lease agreement.

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

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

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

If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of an intangible asset is reduced to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess shall be recorded as reversal of impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

Discounts on Debentures
Discounts on debentures are amortized over the redemption period of the debentures using the effective interest rate method. Amortization of discounts is recognized as interest expense on the debentures.

Foreign Currency Translation
The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rates on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Service Ltd. Basic Rate, which was ₩929.60 and ₩1,013.00 to USD1.00 at December 31, 2006 and 2005, respectively, and translation gains or losses are reflected in current operations.

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

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

Accrued Severance Benefits
Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩1,135,188,486 thousand and ₩1,018,835,792 thousand as of December 31, 2006 and 2005, respectively (see Note 10). Accrued severance benefits are funded approximately 79.3% and 80.8% as of December 31, 2006 and 2005, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent and is paid back at the termination of service by netting the receivable against the severance payment. Such receivables are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5% of monthly pay to the Fund.

Income Tax Expense
The Company recognizes income tax expenses determined by adding or deducting changes in deferred income tax assets (liabilities) to or from total income tax and surtaxes to be paid by tax law for the current period. The deferred income tax assets or liabilities will be charged or credited to income tax expense in the period each temporary difference (the difference between the tax basis of assets or liabilities and the book value) reverses in the future. The Company recognizes deferred tax liabilities basically for all taxable temporary differences, but recognizes deferred tax

assets for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting.

In addition, the Company has early applied Korea Accounting Institute Opinion 06-02 "Accounting for recognizing deferred income tax on investments in subsidiaries, investees accounted for by the equity method and interests in joint ventures", issued on December 29, 2006.

Derivative Instruments

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations.

Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecast transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Reclassification of Prior Year's Financial Statements

For comparative purposes, certain accounts in the balance sheet as of December 31, 2005 and the statement of income for the year ended December 31, 2005 were reclassified according to the classification method of 2006. Such reclassification had no effect on net assets and net income in 2005.

3. RESTRICTED FINANCIAL INSTRUMENTS

As of December 31, 2006 and 2005, financial instruments amounting to ₩9,112,870 thousand and ₩6,994,963 thousand, respectively, which are included in cash and cash equivalents and long-term financial instruments are subject to withdrawal restrictions in relation to certain shipbuilding contracts and bank overdraft (see Note 9).

4. INVENTORIES

Inventories as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006	2005
Merchandise	₩ 49,701,522	₩ 52,616,406
Finished products	70,110,047	73,903,178
Work-in-process	226,823,638	135,061,482
Materials	313,675,691	326,900,967
Supplies	14,760,437	13,186,244
Materials in-transit	453,704,505	546,649,160
	₩ 1,128,775,840	₩ 1,148,317,437

5. SHORT-TERM AND LONG-TERM INVESTMENT SECURITIES

(1) Short-term investment securities consist of beneficiary certificates and various bonds of ₩221,788,518 thousand and ₩20,776,448 thousand as of December 31, 2006 and 2005, respectively. All short-term investment securities are classified into available-for-sale securities. Available-for-sale securities are stated at fair value with unrealized holding gain on valuation of available-for-sale securities amounting to ₩642,730 thousand and ₩112,153 thousand in capital adjustments as of December 31, 2006 and 2005, respectively.

(2) Long-term investment securities as of December 31, 2006 and 2005, all of which are classified into available-for-sale, consist of the following:

in KRW thousands

	2006	2005
Available-for-sale:		
Equity securities stated at fair value	₩ 345,294,901	₩ 472,615,731
Equity securities stated at acquisition cost	51,752,344	51,309,967
Debt securities	29,689,199	29,243,753
	₩ 426,736,444	₩ 553,169,451

(3) Equity securities stated at fair value included in long-term investment securities as of December 31, 2006 consist of the following:

in KRW thousands

Company	% of ownership	Historical cost	Book value
Hyundai Motor Company	1.97	₩ 291,149,158	₩ 290,589,708
Tong Yang Investment Bank	3.54	99,828,399	41,524,408
Hyundai Corp.	0.36	11,227,434	1,696,738
Hyundai Elevator Co., Ltd.	2.16	1,632,339	10,287,801
Kia Motors Corp.	0.03	2,681,616	1,186,895
hanarotelecom inc. (*)	0.01	7,947,667	9,351
		₩ 414,466,613	₩ 345,294,901

(*) Equity securities of Korea Thrunet Co., Ltd. stated at acquisition cost were substituted for equity securities of hanarotelecom inc. stated at fair value because of the merger of hanarotelecom inc. and Korea Thrunet Co., Ltd.

Equity securities stated at fair value included in long-term investment securities as of December 31, 2005 consist of the following:

in KRW thousands

Company	% of ownership	Historical cost	Book value
Hyundai Motor Company	1.97	₩ 291,149,158	₩ 419,501,166
Tong Yang Investment Bank	4.43	99,828,399	37,578,650
Hyundai Corp.	0.36	11,227,434	1,472,925
Hyundai Elevator Co., Ltd.	2.16	1,632,339	11,720,085
Kia Motors Corp.	0.03	2,681,616	2,342,905
		₩ **406,518,946**	₩ **472,615,731**

(4) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2006 are as follows:

in KRW thousands

Company	% of ownership	Historical cost	Book value(*2)
Unlisted equity securities: (*2)			
Hynix Semiconductor America Inc.	1.33	₩ 34,525,619	₩ -
Daehan Oil Pipeline Corp.	6.39	14,511,802	14,511,802
Novelis Korea Ltd.	0.39	14,598,913	1,510,701
Yunhap Capital Co., Ltd.	9.99	10,000,000	10,000,000
Bexco, Ltd.	7.96	9,460,000	9,460,000
Hunelec Engineering & Technologies Ltd. (*1&3)	100.00	26,302	26,302
Others (*1&3)		12,747,227	10,177,243
		95,869,863	**45,686,048**
Other investments:			
Investments in capital (*1)		5,677,796	6,066,296
		₩ **101,547,659**	₩ **51,752,344**

Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2005 are as follows:

in KRW thousands

Company	% of ownership	Historical cost	Book value(*2)
Unlisted equity securities:			
Hynix Semiconductor America Inc.	1.33	₩ 34,525,619	₩ -
Daehan Oil Pipeline Corp.	6.39	14,511,802	14,511,802
Novelis Korea Ltd.	0.43	15,706,990	1,724,710
Yunhap Capital Co., Ltd.	9.99	10,000,000	10,000,000
Bexco, Ltd.	7.96	9,460,000	9,460,000
Korea Thrunet Co., Ltd.	0.01	7,947,667	-
Hunelec Engineering & Technologies Ltd. (*1&3)	100.00	26,302	26,302
Others (*1&3)		10,230,554	9,951,404
		102,408,934	**45,674,218**
Other investments:			
Investments in capital (*1)		5,677,796	5,635,749
		₩ **108,086,730**	₩ **51,309,967**

(*1) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hunelec Engineering & Technologies Ltd. and others were not accounted for using the equity method since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of December 31, 2006 and 2005 is less than ₩7,000 million, are not material.

(*2) The book value of unlisted equity security was recorded at their acquisition cost because the fair value cannot be reliably estimated. However, the equity security impaired at year end was devaluated at the net book value of the most available financial statements.

(*3) The Company's subsidiaries

Long-term investment securities of Novelis Korea Ltd. and others has been determined to be impaired and the impairment loss amounting to ₩2,383,171 thousand is accounted for as non-operating expenses in 2006.

(5) Debt securities included in long-term investment securities as of December 31, 2006 are as follows:

in KRW thousands

	Historical cost	Book value
Available-for-sale:		
Government and municipal bonds	₩ 5,047,390	₩ 5,104,226
Subordinated bonds	25,000,000	24,584,973
	₩ **30,047,390**	₩ **29,689,199**

Maturities of debt securities included in long-term investment securities as of December 31, 2006 are as follows:

in KRW thousands

	Government and municipal bonds	Subordinated bonds	Total
2008.01 ~ 2011.12	₩ 5,071,700	₩ 24,584,973	₩ 29,656,673
2012.01 ~ 2015.12	32,526	-	32,526
	₩ **5,104,226**	₩ **24,584,973**	₩ **29,689,199**

(6) Valuation of available-for-sale securities in capital adjustments, all of which are classified into long-term investment securities stated at fair value as of December 31, 2006, are as follows:

in KRW thousands

Company	Beginning balance	Increase(Decrease)	Impairment loss	Ending balance
Hyundai Motor Company	₩ 93,055,206	₩ (93,460,807)	₩ -	₩ (405,601)
Tong Yang Investment Bank	(4,161,246)	2,860,675	-	(1,300,571)
Hyundai Elevator Co., Ltd.	7,313,616	(1,038,407)	-	6,275,209
Kia Motors Corp.	(245,566)	(838,107)	-	(1,083,673)
Hyundai Corp.	540,914	162,265	-	703,179
hanarotelecom inc.	-	6,780	-	6,780
	96,502,924	**(92,307,601)**	**-**	**4,195,323**
Government and municipal bonds	(16,579)	56,969	-	40,390
Subordinated bonds	(753,859)	452,965	-	(300,894)
Investments in capital	(30,484)	312,146	-	281,662
	₩ **95,702,002**	₩ **(91,485,521)**	₩ **-**	₩ **4,216,481**

Valuation of available-for-sale securities in capital adjustments, all of which are classified into long-term investment securities stated at fair value as of December 31, 2005, are as follows:

in KRW thousands

Company	Beginning balance	Increase(Decrease)	Impairment loss	Ending balance
Hyundai Motor Company	₩ 21,364,982	₩ 71,690,224	₩ -	₩ 93,055,206
Tong Yang Investment Bank	(31,405,868)	27,244,622	-	(4,161,246)
Hyundai Corp.	101,083	439,831	-	540,914
Hyundai Elevator Co., Ltd.	5,113,255	2,200,361	-	7,313,616
Kia Motors Corp.	(1,719,746)	1,474,180	-	(245,566)
Koentec Co., Ltd.	4,707,651	(4,707,651)	-	-
	(1,838,643)	**98,341,567**	**-**	**96,502,924**
Government and municipal bonds	365,829	(382,408)	-	(16,579)
Subordinated bonds	-	(753,859)	-	(753,859)
Investments in capital	(39,260)	8,776	-	(30,484)
	₩ (1,512,074)	**₩ 97,214,076**	**₩ -**	**₩ 95,702,002**

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD

(1) Equity securities accounted for using the equity method as of December 31, 2006 are as follows:

in KRW thousands

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank (*5)	48,700,540	19.87	₩ 266,150,343	₩ 282,669,089
Hyundai Finance Corp. (*3)	12,350,000	67.49	78,197,738	86,821,048
Hyundai Samho Heavy Industries Co., Ltd. (*3)	37,967,000	94.92	204,259,700	730,106,362
Changzhou Hyundai Construction Machinery Co., Ltd.(*3)	-	60.00	20,215,057	30,488,002
Beijing Hyundai Construction Machinery Co., Ltd. (*3)	-	60.00	15,661,020	15,108,858
MOST #3 Venture Investment	130	24.53	2,987,684	4,334,223
Incheon Airport Energy	3,284,884	31.00	16,424,420	4,402,927
Hyundai & Terasource D-Convergence Venture Investment (*3)	910	50.00	9,100,000	2,153,809
MIC99-9 STIC IT Venture Partnership (*3)	820	40.82	8,212,055	2,214,049
Hyundai Jiangsu Construction Machinery Co., Ltd. (*3)	-	60.00	17,662,068	15,969,244
Hyundai Heavy Industries Co. Bulgaria (*3)	12,155,829	99.09	11,620,593	17,253,084
New Korea Country Club	16,457	20.00	500,000	2,969,024
Hyundai Dongahn Steel (*3)	-	54.99	1,231,036	1,214,109
Hyundai Heavy Industries Europe N.V. (*3)	10	100.00	35,656,728	16,661,324
Hyundai Vinashin Shipyard (*1&3)	-	10.00	2,543,678	5,951,387
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*3)	-	54.99	7,254,254	6,057,925
Jiangsu Hyundai Nanzi Electric Co., Ltd. (*3)	-	80.00	18,256,250	13,147,976
H.C.E U.S.A (*3)	23,900,000	100.00	26,712,810	7,875,610
Vladivostock Business Center (*3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*2)	3,792,000	7.58	6,617,040	5,819,355
HHI China Investment Co., Ltd. (*3)	-	100.00	28,372,350	27,705,843
Hyundai Merchant Marine Co., Ltd. (Common Stock) (*4)	23,424,037	17.60	404,039,118	381,589,498
Hyundai Merchant Marine Co., Ltd. (Preferred Stock) (*4)	3,516,688	17.58	52,750,320	56,298,172
			₩ 1,240,315,929	**₩ 1,716,810,918**

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

(*2) Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the KOSDAQ of Koentec Co., Ltd. is ₩840 per share at December 31, 2006.

(*3) The Company's subsidiaries

(*4) The Company acquired 19,000 thousand shares of Hyundai Merchant Marine Co., Ltd.'s common stock pursuant to the resolution of the board of directors. Also, the Company acquired 4,424,037 shares of common stock and 3,516,688 shares of preferred stock. Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd. is ₩20,300 per share at December 31, 2006.

(*5) Although the ownership's percentage of the Company and its subsidiary is under 20%, the Company is able to exercise significant influence over the operating and financial policies. Therefore, equity securities are accounted for using the equity method.

(2) Equity securities accounted for using the equity method as of December 31, 2005 are as follows:

in KRW thousands

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank	81,167,566	33.12	₩ 443,583,902	₩ 414,057,927
Hyundai Finance Corp.	12,350,000	67.49	78,197,738	79,718,740
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,259,700	499,092,525
Changzhou Hyundai Construction Machinery Co., Ltd.	-	60.00	20,215,057	31,031,308
Beijing Hyundai Construction Machinery Co., Ltd.	-	60.00	15,661,020	13,322,025
MOST #3 Venture Investment	130	24.53	6,699,594	7,106,160
MIC99-9 STIC IT Partnership	179	21.31	2,597,078	608,311
Incheon Airport Energy	3,284,884	31.00	16,424,420	8,571,660
HITC-Hyundai Hightech Investment	1,000	50.00	5,018,252	3,251,893
Hyundai & Terasource D-Convergence Venture Investment	910	50.00	9,100,000	2,320,568
MIC 99-1 IT Venture Partnership	1,000	40.82	10,012,055	3,526,696
Hyundai Jiangsu Construction Machinery Co., Ltd.	-	60.00	17,662,068	12,626,377
Hyundai Heavy Industries Co. Bulgaria	12,155,829	99.09	11,620,593	14,899,323
New Korea Country Club	16,457	20.00	500,000	2,209,806
Hyundai Dongahn Steel	-	54.99	1,231,036	1,184,372
Hyundai Heavy Industries Europe N.V.	10	100.00	35,656,728	13,567,675
Hyundai Vinashin Shipyard (*1)	-	10.00	2,543,678	4,632,570
Yantai Hyundai Moon Heavy Industries Co., Ltd.	-	54.11	7,019,413	6,047,702
Jiangsu Hyundai Nanzi Electric Co., Ltd.	-	80.00	18,256,250	16,227,762
H.C.E U.S.A	23,900,000	100.00	26,712,810	10,183,617
Vladivostock Business Center (*2)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*3)	379,200	7.58	6,617,040	6,351,088
			₩ 945,480,099	**₩ 1,150,538,105**

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

(*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit.

(*3) Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the KOSDAQ of Koentec Co., Ltd. is ₩14,850 per share at December 31, 2005.

(3) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences in 2006 are as follows:

in KRW thousands

Company	Beginning balance	Increase (Decrease)	Amortization	Ending balance
Hyundai Oilbank	₩ 1,240,223	₩ (496,089)	₩ (372,067)	₩ 372,067
Hyundai Samho Heavy Industries Co., Ltd.	10,629,101	-	(7,086,067)	3,543,034
Hyundai Heavy Industries Co. Bulgaria	(27,447)	-	9,149	(18,298)
Hyundai Vinashin Shipyard	(495,426)	-	198,170	(297,256)
Koentec Co., Ltd.	2,765,943	-	(691,486)	2,074,457
Hyundai Merchant Marine Co., Ltd.	-	81,036,192	(12,155,429)	68,880,763
	₩ 14,112,394	**₩ 80,540,103**	**₩ (20,097,730)**	**₩ 74,554,767**

(4) The movements of investment securities using the equity method for the year ended December 31, 2006 are as follows:

in KRW thousands

Company	Beginning balance	Acquisition(Disposal)	Gain(Loss) (*1)	Other	Ending balance
Hyundai Oilbank	₩ 414,057,927	₩ (146,101,617)	₩ 14,797,496	₩ (84,717)	₩ 282,669,089
Hyundai Finance Corp.	79,718,740	-	5,405,168	1,697,140	86,821,048
Hyundai Samho Heavy Industries Co., Ltd.	499,092,525	-	160,041,940	70,971,897	730,106,362
Changzhou Hyundai Construction Machinery Co., Ltd.	31,031,308	-	1,111,668	(1,654,974)	30,488,002
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	13,322,025	-	2,550,576	(763,743)	15,108,858
MOST #3 Venture Investment	7,106,160	(3,711,910)	939,973	-	4,334,223
MIC99-9 STIC IT Venture Partnership	608,311	(608,311)	-	-	-
Incheon Airport Energy	8,571,660	-	(4,085,274)	(83,459)	4,402,927
HITC-Hyundai Hightech Investment	3,251,893	(3,251,893)	-	-	-
Hyundai & Terasource D-Convergence Venture Investment	2,320,568	-	(600,923)	434,164	2,153,809
MIC 99-1 IT Venture Partnership	3,526,696	(1,800,000)	487,353	-	2,214,049
Hyundai Jiangsu Construction Machinery Co., Ltd.	12,626,377	-	4,405,003	(1,062,136)	15,969,244
Hyundai Heavy Industries Co. Bulgaria	14,899,323	-	2,868,716	(514,955)	17,253,084
New Korea Country Club	2,209,806	-	759,218	-	2,969,024
Hyundai Dongahn Steel	1,184,372	-	130,656	(100,919)	1,214,109
Hyundai Heavy Industries Europe N.V.	13,567,675	-	2,563,510	530,139	16,661,324
Hyundai Vinashin Shipyard	4,632,570	-	1,883,548	(564,731)	5,951,387
Yantai Hyundai Moon Heavy Industries Co., Ltd.	6,047,702	234,841	106,881	(331,499)	6,057,925
Jiangsu Hyundai Nanzi Electric Co., Ltd.	16,227,762	-	1,952,575	(5,032,361)	13,147,976
H.C.E U.S.A.	10,183,617	-	(882,965)	(1,425,042)	7,875,610
Vladivostock Business Center (*2)	-	-	-	-	-
Koentec Co., Ltd.	6,351,088	-	(361,093)	(170,640)	5,819,355
HHI China Investment Co., Ltd.	-	28,372,350	(576,081)	(90,426)	27,705,843
Hyundai Merchant Marine Co., Ltd. (Common Stock)	-	404,039,118	(14,329,025)	(8,120,595)	381,589,498
Hyundai Merchant Marine Co., Ltd. (Preferred Stock)	-	52,750,320	-	3,547,852	56,298,172
	₩ 1,150,538,105	**₩ 329,922,898**	**₩ 179,168,920**	**₩ 57,180,995**	**₩ 1,716,810,918**

(*1) Gain (loss) on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions, which is ₩33,467,687 thousand and ₩23,772,966 thousand as of December 31,2006 and 2005, respectively

(*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, unrecognized loss due to suspension of use of the equity method amounts to ₩75,684 million and allowance amounting to ₩49,357 million was provided for accounts receivables-other for Vladivostok Business Center.

(5) Equity securities accounted for using the equity method as of December 31, 2006 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. The net assets value from using the provisional settlement of accounts of equity securities accounted for using the equity method as of December 31, 2006 is as follows:

in KRW thousands

Company	Reason for use	Net value before adjustments	Adjustments(*)	Net value after adjustments
Hyundai Oilbank	Difference of closing day	₩ 282,297,023	₩ -	₩ 282,297,023
Hyundai Finance Corp.	〃	86,821,048	-	86,821,048
Hyundai Samho Heavy Industries Co., Ltd.	〃	716,439,634	17,467,957	733,907,591
Changzhou Hyundai Construction Machinery Co., Ltd.	〃	30,488,002	-	30,488,002
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	〃	15,941,977	-	15,941,977
MOST #3 Venture Investment	〃	4,334,223	-	4,334,223
Incheon Airport Energy	〃	4,402,927	-	4,402,927
Hyundai & Terasource D-Convergence Venture Investment	〃	2,153,809	-	2,153,809
MIC 99-1 IT Venture Partnership	〃	2,214,049	-	2,214,049
Hyundai Jiangsu Construction Machinery Co., Ltd.	〃	22,610,046	-	22,610,046
Hyundai Heavy Industries Co. Bulgaria	〃	17,271,472	-	17,271,472
New Korea Country Club	〃	2,969,024	-	2,969,024
Hyundai Dongahn Steel	〃	1,214,109	-	1,214,109
Hyundai Heavy Industries Europe N.V.	〃	27,694,851	-	27,694,851
Hyundai Vinashin Shipyard	〃	6,248,643	-	6,248,643
Yantai Hyundai Moon Heavy Industries Co., Ltd.	〃	7,474,770	(1,416,845)	6,057,925
Jiangsu Hyundai Nanzi Electric Co., Ltd.	〃	16,082,178	(2,668,918)	13,413,260
H.C.E U.S.A	〃	15,226,213	-	15,226,213
Vladivostock Business Center	〃	-	-	-
Koentec Co., Ltd.	〃	3,744,897	-	3,744,897
HHI China Investment Co., Ltd.	〃	27,705,843	-	27,705,843
Hyundai Merchant Marine Co., Ltd. (Common Stock)	〃	312,708,734	-	312,708,734
Hyundai Merchant Marine Co., Ltd. (Preferred Stock)	〃	56,298,172	-	56,298,172
		₩ 1,662,341,644	**₩ 13,382,194**	**₩ 1,675,723,838**

(*) The Company adjusted the material difference of accounting principle for similar transactions and accounting events between the Company and investees. As of December 31, 2006, such adjustments of difference were reflected in the decrease in gain on valuation in current operations by ₩542 million, the decrease in retained earnings by ₩4,626 million, the increase in capital adjustments by ₩13,449 million, and the increase in deferred income tax liabilities by ₩5,101 million.

(6) The gain (loss) on valuation of investment securities accounted for using the equity method is ₩200,004,281 thousand and ₩(20,835,361) thousand for the year ended December 31, 2006, respectively. In addition, the cumulative effect of the equity method of accounting in capital adjustments was ₩121,462,613 thousand as of December 31, 2006 including the increase of ₩53,899,065 thousand for the year ended December 31, 2006.

(7) Financial information of investees for equity securities accounted for using the equity method as of and for the year ended December 31, 2006 is as follows:

in KRW millions

Company	Assets	Liabilities	Sales	Net income (loss)
Hyundai Oilbank	₩ 4,457,769	₩ 3,011,927	₩ 9,170,418	₩ 65,253,711
Hyundai Finance Corp.	137,960	9,310	13,068	9,318
Hyundai Samho Heavy Industries Co., Ltd.	3,628,785	2,873,982	2,219,337	186,000
Changzhou Hyundai Construction Machinery Co., Ltd.	55,397	4,584	37,399	675
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	108,751	82,181	159,267	4,015
MOST #3 Venture Investment	19,921	2,251	5,317	3,832
Incheon Airport Energy	160,433	146,230	62,707	(6,899)
Hyundai & Terasource D-Convergence Venture Investment	4,312	4	653	305
MIC 99-1 IT Venture Partnership	5,874	450	2,247	1,194
Hyundai Jiangsu Construction Machinery Co., Ltd.	163,985	126,301	237,481	6,438
Hyundai Heavy Industries Co. Bulgaria	24,600	7,170	25,533	2,890
New Korea Country Club	20,871	6,026	11,993	3,783
Hyundai Dongahn Steel	14,168	11,960	17,889	238
Hyundai Heavy Industries Europe N.V.	90,723	63,028	276,876	5,264
Hyundai Vinashin Shipyard	153,754	91,267	126,457	16,415
Yantai Hyundai Moon Heavy Industries Co., Ltd.	22,076	8,484	14,932	194
Jiangsu Hyundai Nanzi Electric Co., Ltd.	59,007	38,904	52,390	747
H.C.E U.S.A	67,131	51,904	157,477	-
Vladivostock Business Center	21,230	153,667	8,254	-
Koentec Co., Ltd.	71,542	22,163	27,339	4,651
HHI China Investment Co., Ltd.	27,869	163	215	(576)
Hyundai Merchant Marine Co., Ltd.	5,543,083	3,446,391	4,734,160	122,681

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006	2005
Buildings and structures	₩ 2,452,694,705	₩ 2,275,696,557
Machinery and equipment	2,093,584,301	1,951,832,282
Ships	184,207,582	181,025,956
Vehicles	25,626,764	23,996,252
Tools, furniture and fixtures	904,758,405	848,323,359
	5,660,871,757	5,280,874,406
Less: accumulated depreciation	(2,705,507,802)	(2,445,048,068)
	2,955,363,955	2,835,826,338
Land	1,365,024,824	1,318,868,326
Construction-in-progress	134,740,535	131,848,477
	₩ **4,455,129,314**	₩ **4,286,543,141**

The changes in property, plant and equipment for the year ended December 31, 2006 are as follows:

in KRW thousands

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of year	₩ 1,318,868,326	₩ 1,623,717,238	₩ 651,979,319	₩ 1,951,832,282	₩ 1,185,194,044	**₩ 6,731,591,209**
Acquisition and other	48,019,218	106,483,361	80,696,774	168,766,834	129,179,200	**533,145,387**
Disposal	(1,862,720)	(10,154,904)	(27,083)	(27,014,815)	(65,039,958)	**(104,099,480)**
End of year	₩ 1,365,024,824	₩ 1,720,045,695	₩ 732,649,010	₩ 2,093,584,301	₩ 1,249,333,286	**₩ 7,160,637,116**
Depreciation	₩ -	₩ 41,849,008	₩ 17,526,556	₩ 191,209,969	₩ 97,273,501	**₩ 347,859,034**
Accumulated depreciation	₩ -	₩ 324,168,130	₩ 142,712,348	₩ 1,429,236,700	₩ 809,390,624	**₩ 2,705,507,802**

The changes in property, plant and equipment for the year ended December 31, 2005 are as follows:

in KRW thousands

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of year	₩ 1,278,859,636	₩ 1,569,033,225	₩ 617,715,771	₩ 1,884,125,436	₩ 1,129,045,018	**₩ 6,478,779,086**
Acquisition and other	43,306,950	56,571,657	34,580,960	98,931,940	78,886,582	**312,278,089**
Disposal	(3,298,260)	(1,887,644)	(317,412)	(31,225,094)	(22,737,556)	**(59,465,966)**
End of year	₩ 1,318,868,326	₩ 1,623,717,238	₩ 651,979,319	₩ 1,951,832,282	₩ 1,185,194,044	**₩ 6,731,591,209**
Depreciation	₩ -	₩ 40,355,403	₩ 16,040,576	₩ 186,535,552	₩ 92,161,752	**₩ 335,093,283**
Accumulated depreciation	₩ -	₩ 284,376,232	₩ 125,189,629	₩ 1,258,966,386	₩ 776,515,821	**₩ 2,445,048,068**

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩2,116,549 million as of December 31, 2006. The Company maintains insurance coverage against fire and other casualty losses of up to ₩6,667,788 million

for ships and sea structures under construction and the insurance proceed of ₩3,540,256 million is pledged as collateral for loans from Export-Import Bank of Korea and other banks as of December 31, 2006 (See Note 9).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩2,251,266 million as of December 31, 2006. The Company also maintains insurance on cargo against damage and claims losses of up to ₩5,112,800 million for products being exported and imported as of December 31, 2006.

As of December 31, 2006 and 2005, the value of land owned by the Company is ₩1,119,749 million and ₩1,059,173 million, respectively, as announced by the Korean government.

8. INTANGIBLE ASSETS

Intangible assets as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006	2005
Development costs	₩ 197,304,243	₩ 164,889,432
Usage right for donated properties	24,213,698	26,252,981
	₩ **221,517,941**	₩ **191,142,413**

Intangible assets as of December 31, 2006 and 2005 are summarized as follows:

in KRW thousands

	Development Cost		Usage right for donated properties	
	2006	2005	2006	2005
Beginning balance	₩ 164,889,432	₩ 132,691,315	₩ 26,252,981	₩ 28,292,264
Capitalized	61,278,856	62,550,859	-	-
Amortization	(28,864,045)	(30,352,742)	(2,039,283)	(2,039,283)
Disposed	-	-	-	-
Ending balance	₩ 197,304,243	₩ 164,889,432	₩ 24,213,698	₩ 26,252,981

Research costs amounting to ₩15,331,047 thousand and ₩13,418,863 thousand, and ordinary development costs amounting to ₩49,304,575 thousand and ₩52,589,859 thousand are included in selling and administrative expenses for the years ended December 31, 2006 and 2005, respectively. The amortized development costs of ₩28,864,045 thousand and ₩30,352,742 thousand are included in the cost of sales and selling and administration expenses for the years ended December 31, 2006 and 2005, respectively.

9. DEBENTURES AND LONG-TERM BORROWINGS

Long-term borrowings as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	Interest rate as of December 31, 2006 (%)	2006	2005
Non-guaranteed debentures	6ML+0.475	₩ 185,920,000	₩ 202,600,000
Foreign currency loans	See Detail	1,684,987	745,278
		187,604,987	**203,345,278**
Less: Discounts of debentures		(710,750)	(1,122,534)
Current maturities		(341,960)	(372,639)
		₩ **186,552,277**	₩ **201,850,105**

Debentures comprise privately issued debentures of ₩185,920 million and ₩202,600 million as of December 31, 2006 and 2005, respectively.

Foreign currency loans as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	Interest rate as of December 31, 2006 (%)	2006	2005
Facility loans from EXIM bank of Korea	6ML+0.675	₩ 341,960	₩ 745,278
Business loans from Korea national oil corporation	2.5	1,343,027	-
		1,684,987	745,278
Less: current maturities		(341,960)	(372,639)
		₩ **1,343,027**	₩ **372,639**

The maturities of long-term debt as of December 31, 2006, before discounts, are as follows:

in KRW thousands

	Debentures	Foreign currency loans	Total
2008. 1~2008. 12	₩ 185,920,000	₩ -	₩ 185,920,000
2009. 1~	-	1,343,027	1,343,027
	₩ **185,920,000**	₩ **1,343,027**	₩ **187,263,027**

10. ACCRUED SEVERANCE BENEFITS

Accrued severance benefits as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006	2005
Beginning balance	₩ 1,018,835,792	₩ 1,005,940,296
Severance payment	(90,417,659)	(154,672,246)
Provisions	206,770,353	167,567,742
	1,135,188,486	1,018,835,792
Less: Severance insurance	(900,139,132)	(822,731,766)
National pension	(41,700,771)	(44,853,539)
Ending balance	₩ **193,348,583**	₩ **151,250,487**

Accrued severance benefits are funded approximately 79.3% and 80.8% as of December 31, 2006 and 2005, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

11. COMMITMENTS AND CONTINGENCIES

(1) The Company has entered into bank overdraft agreements with 8 banks amounting to ₩231,000 million as of December 31, 2006.

(2) As of December 31, 2006, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports, such as letter of credit including usance L/C, totaling USD 1,854,858 thousand.

(3) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided its 11 blank checks and notes as of December 31, 2006.

(4) The outstanding balance of the note receivables, guaranteed by the importers' Government or others, sold to financial institutions with recourse is USD48,526 thousand, equivalent to ₩45,110 million, as of December 31, 2006. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩2,635 million as of December 31, 2006.

(5) As of December 31, 2006, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD175,771 thousand and ₩36,844 million. The Company has provided certain performance guarantees amounting to USD 1,016,112 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") for the construction of 32 ships (Contract amount: USD3,034,155 thousand).

(6) In connection with the Company's loans and contract performance guarantees, the Company has also been provided with guarantees up to ₩1,958,781 million and USD10,019,667 thousand by various banking facilities. Also, the Company entered into the contracts on the transfer of a real right into buyers.

(7) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales and the payment of imported raw-materials, the Company has entered into currency forward contracts with various banks including Korea Exchange Bank. As of December 31, 2006, the valuation and gain (loss) on transaction of the forward contracts is as follows :

in KRW millions, USD thousands, EUR thousands, or JPY thousands

Purpose		Contract amount	Sales	Gain (loss)	Capital adjustment
Hedging	USD	12,591,092			
	EUR	197,129			
	JPY	333	₩ 355,985	₩ 69,279	₩ 356,410
Trading	USD	603,627	-	₩ 26,042	-
Total	**USD**	**13,194,719**			
	EUR	**197,129**			
	JPY	**333**	₩ **355,985**	₩ **95,321**	₩ **356,410**

As of December 31, 2006, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩258,397 million (net of deferred income tax adjustment of ₩98,013 million) as gain on valuation of derivatives in capital adjustments. The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 45 months, and the amount among gain on valuation of foreign exchange contract that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2006 is ₩194,064 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 operations.

Such contracts as described above that were incurred for the year ended December 31, 2006 resulted in gain (loss) on settlement of derivatives amounting to ₩64,719 million and ₩(6,049) million and gain (loss) on valuation of unsettled derivatives amounting to ₩37,845 million and ₩(1,194) million in non-operating income (expenses). As of December 31, 2006, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as current assets and liabilities amounting to ₩492,305 million and ₩2,268 million, respectively.

Besides the above financial derivative, the Company has entered into interest swap contract with CSFB to hedge the exposure to interest rate risk of floating rate debenture amounting to USD200,000 thousands (variable interest rate : 6M Libor+0.475%, fixed interest rate : 4.50%, maturity date : September 22, 2008). As of December 31, 2006, the Company recorded the present value of the forecasted cash flow amounting ₩3,477 million as derivative assets. The Company accounted for the realized portion of the incomes (losses) on transaction of foreign currency forward amounting to ₩613 million and ₩(190) million as non-operating income (loss), respectively. Also, the Company accounted for the ineffective portion of the hedge amounting to ₩530 million as non-operating income, the effective portion of the hedge amounting to ₩2,137 million (net of deferred income tax adjustment of ₩810 million) as gain on valuation of derivatives in capital adjustments as of December 31, 2006.

(8) Hynix Semiconductor Inc. ("HSI") has entered into a Purchase Agreement (off-take agreement) with Hynix Semiconductor Manufacturing America Inc. ("HSMA"), an overseas subsidiary of HSI, as collateral for the long-term borrowings of HSMA. In addition, the Company has entered into a Group Support Agreement with HSMA together with two other companies within the Hyundai Group of companies, and provided this agreement as collateral for the long-term borrowings of HSMA. Under the Borrowing Agreement between HSMA and J.P. Morgan Chase Bank ("JPMC") mentioned above, JPMC can require HSMA to redeem the long-term borrowings early according to the off-take agreement and also based on the financial condition of the three guarantors. The ultimate outcome of this agreement cannot presently be determined and no provision for any liability that may result has been made in the accompanying financial statements.

(9) Pursuant to the resolution of the board of directors on March 14, 2003, the Company entered into a common stock conversion agreement (the "Agreement") with IPIC, main shareholder of Hyundai Oilbank, together with USD 450 million financial supports of IPIC in 2002, and the Agreement has been finally executed on February 28, 2004. According to the Agreement, the Company has converted 16,233,514 shares of common stock, as part of 81,167,566 shares of common stock owned by the Company, to non-voting preference stock, which will be converted back to common stock upon satisfaction of certain condition. Also, the Company has provided call option right to IPIC to buy certain Hyundai Oilbank's shares owned by the Company until Hyundai Oilbank completes the payment of dividend obligation of USD 200 million to IPIC, which holds voting preference stock. IPIC gave a notice of the exercise of call option amounting to 20% of the total issued shares under the Agreement. Therefore, the Company recorded as loss on impairment of long-term investment securities amounting to ₩24,525 million in 2005, the difference between book value and sale price of the shares to be sold to IPIC according to the exercise of the call option, and the related 32,467,026 shares owned by the Company were sold on February 27, 2006, pursuant to the resolution of the board of directors on February 2, 2006.

12. LITIGATIONS

(1) A penalty amounting to ₩19,852 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies, relating to the transactions from 1998 to 2000. However, the Company has filed an administrative appeal and the case is pending in the Supreme Court and the High Court as of December 31, 2006. Some of the pending litigations above were finalized with the Supreme Court's judgment in favor of the Company on April 9, 2004. As a result, the Korea Fair Trade Commission refunded ₩3,371 million.

Also, the Company has filed a protest against a penalty amounting to ₩19,415 million that had been imposed on the Company by the Korean Fair Trade Commission, relating to the construction equipment sales from 2001 to 2004. As a result, the penalty decreased by

₩4,186 million pursuant to the resolution of the Korea Fair Trade Commission on January 5 and 24, 2006 and the Company filed several litigations for the remainder of the penalty to Seoul High Court. In addition, the Company has been brought into 6 legal actions by its employees with claims amounting to ₩223 million for damages from industrial disaster, all of which are pending as of December 31, 2006.

(2) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. 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 USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company partially won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million. However, the Company didn't accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal to a High Court for claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advanced payments and reimbursable expenses for those companies that were not covered in the litigation above. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Company didn't accept the Court's decision and filed an appeal to the Supreme Court of Korea. The Company has provided an allowance for doubtful accounts on the above amount as of December 31, 2006. The management and legal advisor of the Company predict that the case will be decided in the Company's favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

(3) Pursuant to the restructuring of financial institutions, Chohung Bank, Kangwon Bank and Hyundai Investment Bank ("HIB"), a former subsidiary of the Company, were merged in September 1999. A special tax for rural development amounting to ₩47,300 million and a special tax for deemed dividend income amounting to ₩26,073 million were imposed on the liquidation income of HIB, which was paid by the Company.

The Company instituted an administrative litigation to cancel the tax to the Seoul Administrative Court through Chohung Bank, but on April 21, 2005, the Supreme Court ruled against the Company. In addition, the Company filed an assessment petition to National Tax Tribunal (NTT) in order to have the loss incurred in relation with the merger of Kangwon Bank and Chohung Bank included as a deductible item, but the petition was rejected on August 10, 2005. However, the Company filed a lawsuit due to cancellation of NTT'S rejection of reassessment on corporate income tax and the case is still in progress. The ultimate effect of this litigation cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

(4) On February 17, 2000, the Company has been brought into legal action by Kang Hee-in and 33 individuals with claim for legal allowances and additional severance benefits payable amounting to ₩1,922 million, and entered into additional collective agreement with labor union for these litigations in 2002. On February 23, 2006, the Supreme Court of Korea ruled in favor of the Company. According to the resolution of the Supreme Court of Korea, the Company paid severance benefits to employees and retirees and recorded accounts payable-other amounting to ₩610 million for the parts of retired employees as of December 31, 2006.

(5) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006. The assessment resulted from the Company's participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was under foreign currency exchange crisis in late 1990's. The National Tax Service concluded this capital increase as unfair financial support for the insolvent affiliate. The Company filed the petition for the assessment to National Tax Tribunal and the case is in progress.

(6) The Company has been brought into legal action with claim for returning construction expense amounting to ₩2,579 million, which is pending as of December 31, 2006 and filed for demanding construction expense amounting to ₩1,960 million against Lotte Engineering & Construction Co., Ltd.

13. CAPITAL SURPLUS

Capital surplus as of December 31, 2006 and 2005 is as follows:

in KRW thousands

	2006	2005
Paid-in capital in excess of par value	₩ 843,324,390	₩ 843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	65,334,216	65,334,216
	₩ 2,771,383,687	₩ 2,771,383,687

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

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

14. RETAINED EARNINGS

Retained earnings as of December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006	2005
Appropriated:		
Legal reserve (A & C)	₩ 148,759,943	₩ 139,085,925
Reserve for corporate development (C)	30,000,000	30,000,000
Reserve for research and human development (B)	61,523,970	82,023,970
Reserve for facilities (B)	78,270,000	78,270,000
Other voluntary reserves (D)	260,831,528	163,431,648
	₩ 579,385,441	₩ 492,811,543

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

(B) Under provisions of the Tax Exemption and Reduction Control Law, an amount equivalent to the amount of income tax benefits to which the Company is entitled in connection with tax credits for research and human development and investment for facilities is required to be recorded as a reserve for research and human development and facilities.

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

(D) These reserves are voluntary reserves, which are available for the payment of dividends when these reserves are properly reversed.

15. CAPITAL ADJUSTMENTS

As of December 31, 2006 and 2005, capital adjustments are as follows:

in KRW thousands

	2006	2005
Gain on valuation of short-term and long-term investment securities (Note 5)	₩ 4,859,211	₩ 95,814,155
Gain on valuation of investment securities accounted for using the equity method, net (Note 6)	121,462,613	67,563,548
Gain on valuation of financial derivatives (Note 11)	260,533,602	122,471,810
Treasury stock	(351,821,818)	(351,821,818)
	₩ 35,033,608	₩ (65,972,305)

The Company has been operating special money in trust for treasury stock amounting to ₩705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed 11,631,580 shares of treasury stock in October 2003. The acquisition cost of treasury stock amounting to ₩351,821,818 thousand (11,506,544 shares of treasury stock) was recorded as capital adjustments as of December 31, 2006.

In addition, pursuant to the resolution of the board of directors on January 10, 2007, the Company determined to acquire 2,280 thousand shares for the purpose of stabilizing the share price of the Company, and will complete the acquisition by April 13, 2007.

16. DIVIDENDS

(1) Proposed dividends for 2006 and 2005 are summarized below.

in KRW thousands

Year	Description	Number of shares (*)	Par value	Dividend rate	Cash dividend	Net income	Dividend to net income
2006	Common stock	64,493,456	₩ 5,000	50 %	₩ 161,233,640	₩712,847,558	22.62%
2005	Common stock	64,493,456	₩ 5,000	30 %	₩ 96,740,184	₩183,314,079	52.77%

(*) Net of 11,506,544 shares of treasury stock as of December 31, 2006 and 2005

(2) Yields to market price of proposed dividend for 2006 and 2005 are as follows:

Year	Description	Dividend per share	Closing price	Yield to market price
2006	Common stock	₩ 2,500	₩ 126,000	2.0%
2005	Common stock	₩ 1,500	₩ 76,900	2.0%

17. SALES AND COST OF SALES

(1) Sales and cost of sales, by major industry segment, for the years ended December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006		2005	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩ 6,442,771,607	₩ 5,827,332,711	₩ 5,322,445,379	₩ 5,113,556,902
Offshore & Engineering	1,934,523,127	1,677,755,934	1,475,644,113	1,404,740,329
Industrial Plant & Engineering	601,608,005	632,236,155	619,047,513	637,069,605
Engine & Machinery	1,219,557,846	965,687,912	954,214,199	819,731,126
Electro Electric Systems	1,056,489,317	826,014,266	810,391,377	687,426,841
Construction Equipment	1,197,947,106	948,313,214	1,051,400,680	858,741,496
Others	101,847,422	96,104,355	121,278,625	117,723,242
	₩ 12,554,744,430	₩ 10,973,444,547	₩ 10,354,421,886	₩ 9,638,989,541

(2) The Company's outstanding contracts as of December 31, 2006 are summarized as follows:

in KRW millions

	Shipbuilding	Others	Total
Beginning of year	₩ 15,006,633	₩ 9,088,487	₩ 24,095,120
Increase during the year	10,663,968	7,035,192	17,699,160
Recognized as revenue in current operations	(6,442,772)	(6,111,972)	(12,554,744)
End of year	₩ 19,227,829	₩ 10,011,707	₩ 29,239,536

As of December 31, 2006, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 11).

(3) As of December 31, 2006, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

in KRW millions

	Accumulated cost construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	₩ 9,043,956	₩ 766,954	₩ 4,893,993	₩ 1,133,591	₩ 151	₩ 1,133,440
Offshore & Engineering	5,290,213	527,390	963,398	314,561	203,026	111,535
Industrial Plant & Engineering	2,547,463	29,616	81,668	165,800	30,585	135,215
Engine & Machinery	1,523,870	313,587	289,462	185,526	39,513	146,013
Electro Electric Systems	327,674	42,246	32,702	248,948	206,120	42,828
Construction Equipment (*)	-	-	1,119	114,606	114,606	-
Others (*)	-	-	420	362,176	362,176	-
	₩ 18,733,176	₩ 1,679,793	₩ 6,262,762	₩ 2,525,208	₩ 956,177	₩ 1,569,031

(*) Industry segment recognized revenues by delivery basis.
(**) The Company recognized the estimated loss of ₩97,662 million on the construction contracts whose contract costs will exceed contract revenue,

18. INCOME TAX EXPENSE

(1) Income tax expense for the years ended December 31, 2006 and 2005 is as follows:

in KRW thousands

	2006	2005
Current income tax	₩ 179,505,886	₩ 21,700,724
Changes in deferred income taxes due to temporary differences	175,372,154	163,850,065
Deferred income taxes directly adjusted in equity	(36,624,592)	(111,102,901)
Income tax expense	318,253,448	74,447,888
Income before income tax	1,031,101,006	257,761,967
Effective income tax rate	**30.9%**	**28.9%**

(2) For the years ended December 31, 2006 and 2005, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

in KRW thousands

	2006	2005
Income before income tax	₩ 1,031,101,006	₩ 257,761,967
Temporary differences	(487,980,823)	(185,830,104)
Non-temporary differences	119,541,795	24,559,118
Taxable income	**₩ 666,661,978**	**₩ 96,490,981**

(3) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2006 and 2005 are summarized as follows:

in KRW thousands

	2006		2005	
Description	Beginning	Ending	Beginning	Ending
Equity securities accounted for using the equity method (*1 & *2)	₩ (183,236,091)	₩ (469,382,415)	₩ (15,132,747)	₩ (183,236,091)
Loss on valuation of investment securities	93,502,002	70,374,032	98,642,333	93,502,002
Reserve for research and human development	(61,523,970)	(247,690,636)	(82,023,970)	(61,523,970)
Provision for doubtful accounts (*2)	152,471,780	187,042,333	217,762,592	152,471,780
Accrued income	(2,364,562)	(2,824,172)	(1,619,938)	(2,364,562)
Loss on valuation of receivables	859,903	859,903	859,903	859,903
Gain (loss) on valuation of short-term investment securities and others	189,013	121,273	244,733	189,013
Currency forward contracts (*1)	(203,696,067)	(458,399,783)	(35,064,598)	(203,696,067)
Other (*1)	186,612,895	265,550,983	389,705,558	186,612,895
	₩ (17,185,097)	**₩ (654,348,482)**	**₩ 573,373,866**	**₩ (17,185,097)**
Tax rate (*3)		27.5%		27.5%
Cumulative tax effects		(179,945,831)		(4,725,902)
Tax credit carryforward		-		152,225
Deferred income tax liabilities, end of year		(179,945,831)		(4,573,677)
Deferred income tax assets (liabilities), beginning of year		(4,573,677)		159,276,388
Changes in deferred income taxes due to temporary differences		**₩ (175,372,154)**		**₩ (163,850,065)**

(*1) In accordance with SKAS No.16, the temporary differences, which were directly adjusted in equity, are included.

(*2) The temporary differences amounting to ₩(93,871) million and ₩69,989 million were not recognized as deferred income tax assets and liabilities, respectively, because the realization is uncertain.

(4) Tax effects of temporary differences, which were directly adjusted in equity, are composed of ₩34,500,151 thousand of gain on valuation of available-for-sale securities, ₩(23,138,341) thousand and ₩4,381,861 thousand of changes in capital adjustments of investment securities accounted for using the equity method, and ₩(52,368,263) thousand of gain on valuation of currency forward contracts.

(5) Deferred income tax liabilities as of December 31, 2006 are as follows:

in KRW thousands

	Current	Non-current	Total
Accumulated of temporary difference	₩ (140,786,694)	₩ (513,561,788)	₩ (654,348,482)
Tax rate	27.5%	27.5%	27.5%
Tax effects	(38,716,339)	(141,229,492)	(179,945,831)
Tax credit carryforward	-	-	-
Deferred income tax liabilities	**₩ (38,716,339)**	**₩ (141,229,492)**	**₩ (179,945,831)**

19. INCOME PER SHARE

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the years ended December 31, 2006 and 2005. Basic ordinary income per share is computed by dividing ordinary income, after adjustment of extraordinary gains or losses and related income tax by the weighted average number of common shares outstanding for the years ended December 31, 2006 and 2005.

Basic income per share and ordinary income per share for the years ended December 31, 2006 and 2005 are calculated as follows:

in KRW thousands, except per share data

	2006	2005
Net income / ordinary income	₩ 712,847,558	₩ 183,314,079
Weighted average number of outstanding common shares	64,493	64,493
Income per share and ordinary income per share	**₩ 11,053**	**₩ 2,842**

20. TRANSACTIONS WITH RELATED PARTIES

(1) The Company is the ultimate holding company and its subsidiaries as of December 31, 2006 are as follows:

Company	Particulars
Hyundai Samho Heavy Industries Co., Ltd.	Building of ships
Hyundai Finance Corp	Granting of credit
Changzhou Hyundai Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Dongahn Steel Tower Manufacturing Co., Ltd.	Manufacture of structural metal products
H.C.E U.S.A.	Sale of machinery equipment for construction
Hyundai Heavy Industry Co., Bulgaria	Sale and manufacture of transformers
Vladivostock Business Center	Hotels
HITC-Hyundai Hightech Investment	Other financial intermediation
Hyundai & Terasource D-Convergence Venture Investment	Other financial intermediation
MIC 99-1 IT Venture Partnership	Other financial intermediation
Hyundai Vinashin Shipyard	Repairing of ships
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Jiangsu Hyundai Nanzi Electric Co., Ltd.	Sale and manufacture of boards for electric distribution
Hyundai Jiangsu Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
HHI China Investment Co., Ltd.	Holding company
Hunelec Engineering & Technologies. Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Malaysia	Trading
Hyundai S/V Indonesia	Maintenance and repair services of transformers
HHI Mauritius	Manufacturing
PHECO Inc.	Architectural services
Hyundai-Enova Innovative Technical Center Inc.	Research and experimental development on technique
Hyundai Heavy Industries France SAS	Manufacturing

(2) Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Company for the year ended and as of December 31, 2006 are as follows:

in KRW thousands

Related Party	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 332,844,209	₩ 322,867,074	₩ 91,310,117	₩ 12,445,423
Hyundai Mipo Dockyard Co., Ltd.	297,815,001	8,370,073	113,588,224	599,879
Hyundai Oilbank	3,034,595	58,156,587	802	5,091,747
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	72,736,493	892,530	23,062,372	280,944
Hyundai Heavy Industries Europe N.V.	262,298,060	489,849	15,173,497	-
H.C.E U.S.A.	152,386,603	144,028	10,003,956	-
Hyundai Jiangsu Construction Machinery Co., Ltd.	100,501,235	732,347	19,030,488	279,831
Yantai Hyundai Moon Heavy Industries Co., Ltd.	1,927,770	7,286,385	-	1,103,751
Jiangsu Hyundai Nanzi Electric Co., Ltd.	14,931,191	7,800,026	16,041,186	643,857
	₩ 1,238,475,157	**₩ 406,738,899**	**₩ 288,210,642**	**₩ 20,445,432**

(3) The Company has entered into rental agreements (deposits received of ₩148 million) with Hyundai Mipo Dockyard Co., Ltd. and other affiliated companies as of December 31, 2006. 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 11).

(4) The Company has fully provided an allowance for receivable from Vladivostock Business Center amounting to ₩49,357 million as of December 31, 2006.

(5) The compensation for the key management of the Company for the year ended December 31, 2006 are as follows:

in KRW thousands

	Amount
The compensation for the key management	**₩ 1,720,377**

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

21. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005 are as follows:

		Foreign currencies		in KRW thousands	
Account	Currency	2006	2005	2006	2005
Assets:					
Cash and cash equivalents	USD	106,443	117,587	₩ 98,949,128	₩ 119,115,407
	EUR	107	-	131,214	-
	Others			919,493	-
Trade accounts and notes receivable	USD	1,762,263	1,619,932	1,638,199,564	1,640,991,581
	EUR	33,056	30,048	40,401,861	36,037,932
	Others			167,721,627	46,346,381
Accounts receivable-other	USD	67,510	2,549	62,757,538	2,582,518
	EUR	417	308	509,291	369,632
	Others			4,169,729	2,327,190
Long-term trade accounts and notes receivable	USD	139,679	195,938	₩ 129,845,640	₩ 198,485,067
Long-term financial instruments & others	USD	59,636	20,323	55,437,890	20,587,429
	EUR	76	114	92,736	136,391
	Others			26,422,075	8,153,599
				₩ 2,225,557,786	₩ 2,075,133,127
Liabilities:					
Trade accounts and notes payable	USD	199,924	200,451	₩ 185,849,512	₩ 203,056,655
	EUR	19,956	22,759	24,391,286	27,314,057
	Others			9,598,698	15,512,073
Current maturities of long-term borrowings	USD	368	368	341,960	372,639
Debentures	USD	200,000	200,000	185,920,000	202,600,000
Long-term borrowings	USD	1,445	368	1,343,027	372,639
Accounts payable-other & others	USD	208,400	186,419	193,728,744	188,842,232
	EUR	8,734	8,187	10,675,024	9,825,881
	Others			17,095,988	13,186,713
				₩ 628,944,239	₩ 661,082,889

22. FINANCIAL INFORMATION BY INDUSTRY SEGMENT

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

(1) For the year ended and as of December 31, 2006

in KRW thousands

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 6,442,771,607	₩ 1,934,523,127	₩ 601,608,005	₩ 1,219,557,846	₩ 1,056,489,317	₩ 1,197,947,106	₩ 101,847,422
Operating income(loss)	504,412,155	222,527,525	(77,334,078)	205,777,336	149,697,146	98,061,556	(224,275,347)
Tangible & intangible assets	1,415,391,841	314,949,698	56,545,173	448,506,037	252,899,476	142,554,644	2,045,800,386
Depreciation	(128,395,494)	(43,175,738)	(9,356,093)	(69,663,503)	(34,846,567)	(13,811,074)	(48,610,565)

(2) For the year ended and as of December 31, 2005

in KRW thousands

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 5,322,445,379	₩ 1,475,644,113	₩ 619,047,513	₩ 954,214,199	₩ 810,391,377	₩ 1,051,400,680	₩ 121,278,625
Operating income (loss)	108,558,255	38,370,670	(44,527,688)	94,362,871	49,899,060	65,384,793	(221,199,655)
Tangible & intangible assets	1,315,914,822	322,460,662	66,135,634	457,387,510	239,946,228	125,449,555	1,950,391,143
Depreciation	(120,027,524)	(41,652,850)	(10,713,215)	(65,691,603)	(38,453,616)	(12,922,423)	(45,632,052)

23. SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses for the years ended December 31, 2006 and 2005 are as follows:

in KRW thousands

	2006	2005
Wages	₩ 213,749,388	₩ 201,297,168
Provision for severance benefits	29,551,287	21,350,051
Employee welfare	60,998,288	52,599,829
Advertisement	14,799,192	10,141,454
Ordinary development expenses	49,304,575	52,589,859
Bad debt expenses	39,652,997	37,176,985
Depreciation and amortization	27,270,411	24,625,568
Service charges	46,819,880	45,808,075
Transportation	53,450,310	42,496,251
Sales commission	30,279,227	21,090,111
After-sales service expenses	40,697,465	38,310,524
Others	95,860,570	77,098,164
	₩ 702,433,590	**₩ 624,584,039**

24. FINANCIAL PERFORMANCE IN THE LAST INTERIM PERIOD

The financial performance for the three months ended December 31, 2006 and 2005 (unaudited) is summarized as follows:

in KRW thousands, except per share amounts

	2006	2005
Sales	₩ 3,595,060,915	₩ 2,831,415,531
Net income	304,499,087	69,585,481
Net income per share	4,721	1,079

25. STATEMENTS OF CASH FLOWS

Non-cash transactions for the years ended December 31, 2006 and 2005 are as follows:

in KRW thousands

Name of account	2006	2005
Transfer to short-term investment securities from short-term financial instruments	₩ -	₩ 20,000,000
Transfer to trade accounts and notes receivable from long-term trade accounts and notes receivable	34,169,911	42,879,696
Transfer to investment securities accounted for using the equity method from long-term investment securities	-	6,617,040
Transfer to short-term investment securities from long-term investment securities	881,559	760,848
Investment- in kind of securities accounted for using the equity method	234,841	-
Transfer to property, plant and equipment from construction-in-progress	269,530,102	194,621,433
Transfer to current maturities of long-term borrowings from foreign currency long-term borrowings	341,960	372,639
Gain on valuation of investment securities (capital adjustments)	125,455,095	97,715,735
Valuation of investment securities accounted for using the equity method (capital adjustments)	84,200,362	26,683,514
Valuation of investment securities accounted for using the equity method (negative capital adjustments)	11,544,817	-
Gain on valuation of foreign exchange forward contacts (capital adjustments)	190,430,055	91,172,734

26. APPROVAL OF FINANCIAL STATEMENTS

The 2006 financial statements to be submitted to the annual shareholders' meeting are subject to approval by the Board of Directors, which is tabled at their meeting on February 22, 2007.

Independent Accountants' Review Report
on Internal Accounting Control System("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Hyundai Heavy Industries Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2006, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS 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 causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

February 9, 2007

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2006 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.

Report on the Assessment
of Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Committee of
Hyundai Heavy Industries Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd. ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2006.

The Company's management, including IACO, is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework.

February 1, 2007

Lee Jai-seong, Internal Accounting Control Officer

Min Keh-sik, Vice Chairman & CEO/CTO

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HERMINA UT 22, HUNGARY
TEL: 36-1-273-3730
FAX: 36-1-220-6708

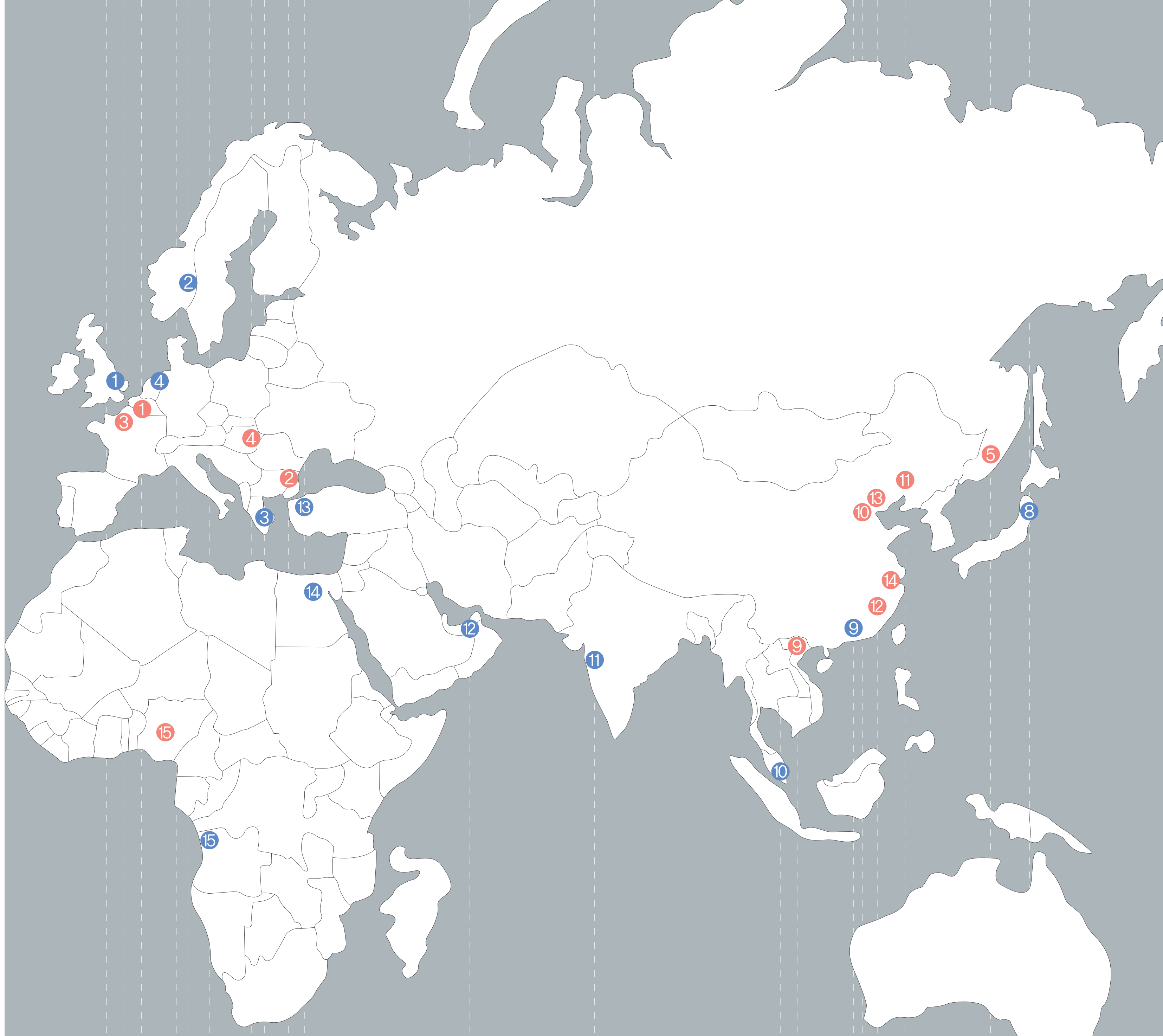
VLADIVOSTOK
(HOTEL HYUNDAI VLADIVOSTOK)
29, SEMENOVSKAYA STREET
VLADIVOSTOK, 690091, RUSSIA
TEL: 7-4232-40-7300
FAX: 7-4232-40-7007

NORTH AMERICA

CHICAGO
(HYUNDAI CONSTRUCTION EQUIP. U.S.A.
INC) 955 ESTES AVENUE
ELK GROVE VILLAGE, IL 60007, U.S.A.
TEL: 1-847-228-8847
FAX: 1-847-437-3574

CALIFORNIA
(HYUNDAI - ENOVA ITC)
19850 SOUTH MAGELLAN DRIVE
TORRANCE, CA 90502, U.S.A.
TEL: 1-310-527-0767
FAX: 1-310-527-7888

OHIO
(HYUNDAI IDEAL ELECTRIC CO.)
330 EAST FIRST STREET
MANSFIELD, OH 44902, U.S.A.



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1. GEEL **BELGIUM**
2. SOFIA **BULGARIA**
3. PARIS **FRANCE**
4. BUDAPEST **HUNGARY**
5. VLADIVOSTOK **RUSSIA**
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14. SHANGHAI **CHINA**
15. PORT HARCOURT **NIGERIA**

AFFILIATED COMPANIES

	HYUNDAI MIPO DOCKYARD CO., LTD.	HYUNDAI SAMHO HEAVY INDUSTRIES CO., LTD.
Business Line	Shipbuilding, Conversion & Repairs	Shipbuilding
Major Shareholder	Hyundai Samho Heavy Industries Co., Ltd. (41.09%)	Hyundai Heavy Industries Co., Ltd. (94.92%)
Paid-In Capital	KRW 100,000 million	KRW 200,000 million

	HYUNDAI FINANCE CORP.	HYUNDAI VENTURE INVESTMENT CORP.
Business Line	Corporate Financing, Management Consulting	Venture Fund Investments
Major Shareholder	Hyundai Heavy Industries Co., Ltd. (67.49%)	Hyundai Finance Corp. (68.38%)
Paid-In Capital	KRW 91,500 million	KRW 30,000 million

	MIPO ENGINEERING CO., LTD.	HYUNDAI FUTURES CORP.
Business Line	Ship Design & Engineering	Overseas Futures & Options Brokerage
Major Shareholder	Hyundai Mipo Dockyard Co., Ltd. (100%)	Hyundai Finance Corp. (65.20%)
Paid-In Capital	KRW 1,387 million	KRW 20,000 million

CORPORATE DATA

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Fax: 82-52-202-3432

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Jongno-gu, Seoul 100-793
Republic of Korea
Tel: 82-2-746-4544
Fax: 82-2-746-4662

Date of Establishment
December 28, 1973

Paid-in Capital
KRW 380 billion

Common Stock
76,000,000 shares

Number of Employees
24,934

General Shareholders' Meeting
March 16, 2007

Listing
Listed on the Korea Stock Exchange in August 1999.
KSE Ticker: 009540

Investor Relations Team

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