Hyundai Heavy Industries
Annual Report 2007

THINKING AHEAD

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Thinking Ahead

The future is a notoriously difficult thing to predict. But for companies with the ability to discern what lies just over the horizon, the rewards can be huge.

At Hyundai Heavy Industries, we've been thinking ahead from the very beginning. Back in 1972, we saw the potential of shipbuilding and launched the industry in a nation that is now home to seven of the world's top-ten shipbuilders. A decade of hard work later, we emerged in 1983 as the industry leader in both orders and deliveries, a title we've now held for a remarkable quarter century.

Today, we're once again thinking ahead as we work hard to replicate our shipbuilding success in offshore oil and gas production facilities, power and process plants, marine engines and automation machinery, electro and electric systems, and construction equipment. In each of these fields, we're innovating in countless ways to meet the present and future needs of our customers. And guided by the "Hyundai Spirit" embodied in our motto "Ceaseless innovation and challenge", you can be sure that greater things are just over the horizon.

Performance Overview

	in USD millions	in KRW billions		
	2007	2007	2006	2005
For the Year				
Sales	16,556.2	15,533.0	12,554.7	10,354.4
Gross Profit	2,725.3	2,556.9	1,581.3	715.4
Operating Income	1,866.0	1,750.7	878.9	90.8
Net Income	1,850.4	1,736.1	712.8	183.3
At Year-End				
Total Assets	17,932.3	16,824.1	12,996.1	11,480.3
Total Liabilities	12,079.1	11,332.6	8,675.3	7,821.5
Total Debt	201.4	189.0	186.9	202.2
Total Shareholders' Equity	5,853.3	5,491.5	4,320.8	3,658.8
Financial Indicators				
Liabilities-to-Equity	206.4%	206.4%	200.8%	213.8%
Debt-to-Equity	3.4%	3.4%	4.3%	5.5%
EPS in KRW	USD 29.61	27,778	11,053	2,842
EBITDA	USD 2,243 mn	2,104.4	1,228.8	427.9
EV/EBITDA (multiple)	14.6x	14.6x	7.1x	13.3x
ROA	10.3%	10.3%	5.5%	1.6%
ROE	31.6%	31.6%	16.5%	4.9%

• Won amounts for FY2007 have been translated at KRW 938.20 per USD 1.00, the basic rate as of Dec. 31, 2007.

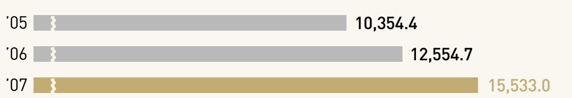
Orders & Backlog

in USD billions

	2007	2006	2005
Orders	25.0	18.7	15.8
Backlog	40.7	31.4	24.8

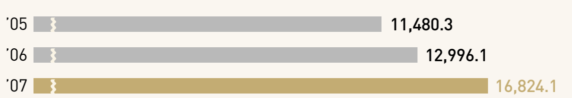
Sales

in KRW billions



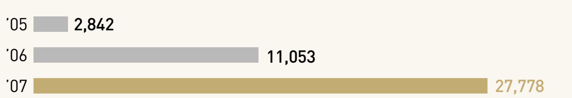
Total Assets

in KRW billions

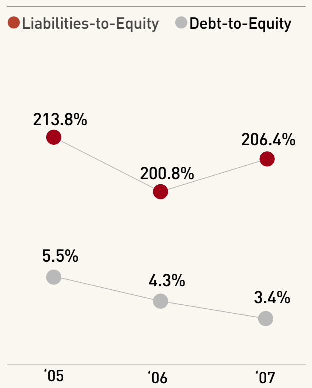


EPS

in KRW

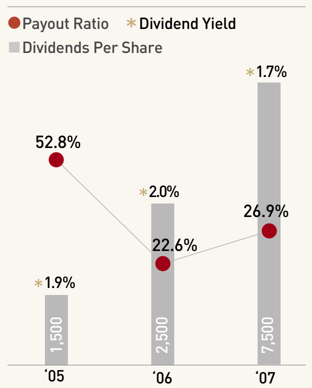


Financial Stability Ratios

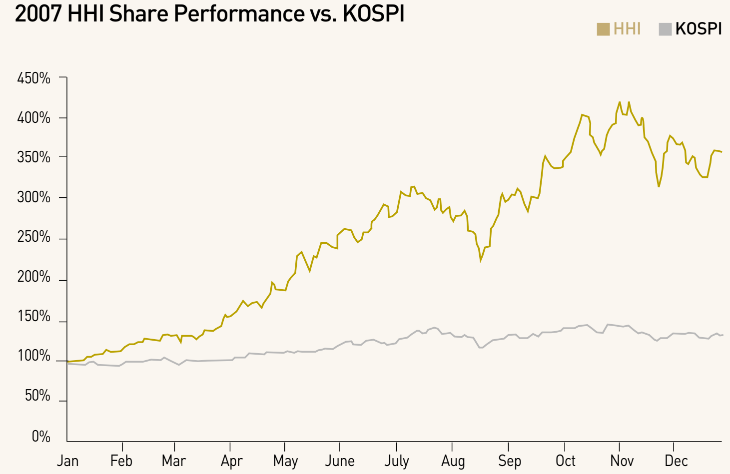


Dividends Per Share

in KRW



2007 HHI Share Performance vs. KOSPI



COMMENTARY

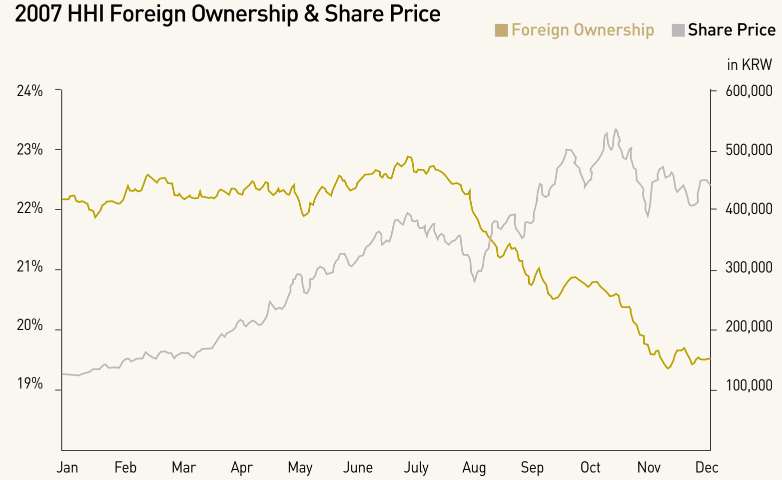
BRICs and other emerging markets continued to enjoy rapid growth in 2007. Stock markets in China and India led the way, rising a remarkable 97% and 47%, respectively. As KOSPI rose a solid 33% to close the year at 1,908.62, our shares soared 254%, pushing our market cap from KRW 9.5 trillion to KRW 33.6 trillion to make us the third most valuable company on the Korean bourse.

We attribute this stellar share performance to two primary factors. First, strong economic growth in emerging markets triggered a surge in demand for commodities, driving growth in seaborne trade. According to Lloyd's Register, the global shipbuilding industry received orders totaling a record 165 million gross tons in 2007. This unprecedented industry-wide boom helped us turn in a record performance with USD 15.7 billion in orders for 148 vessels totaling 12 million gross tons. Overall, four of our six business divisions turned in record performances, enabling us to surpass USD 25.0 billion in orders for the first time. Second, our blue-chip financial performance produced sales of KRW 15.5 trillion and operating profit and net income of KRW 1.7 trillion each. This combination of solid growth with robust operating and net income margins of 11% and record order book prompted investors to make our shares the KOSPI's top performers for the year.

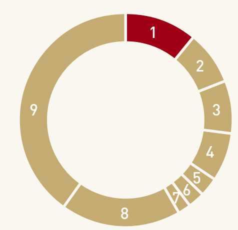
Stock Facts

	2007	2006	2005
Face Value in KRW	5,000	5,000	5,000
Number of Shares Issued	76,000,000	76,000,000	76,000,000
Total Market Capitalization in KRW billions	33,630	9,576	5,844
Share Price - High in KRW, Closing	528,000	144,000	82,600
- Low in KRW, Closing	123,500	65,400	33,700
Foreign Ownership	19.5%	22.1%	21.6%
PER - High/Low	19.0x / 4.4x	13.0x / 5.9x	29.1x / 11.9x
Dividends Per Share in KRW	7,500	2,500	1,500
Payout Ratio	26.9%	22.6%	52.8%

2007 HHI Foreign Ownership & Share Price



Shareholder Structure



1 Chung Mong-joon: 10.80%
2 KCC: 8.15%
3 Hyundai Mipo Dockyard: 7.98%
4 Mirae Asset Investments: 7.33%
5 Hyundai Motor: 2.88%
6 Asan Foundation: 2.53%
7 Posco: 1.94%
8 Treasury Shares: 18.14%
9 Others: 40.25%

Our diversified business portfolio is designed to lead today. And tomorrow.

Anchored by our industry-leading shipbuilding business, our diversified business portfolio is one of the most balanced and synergistic in the heavy industries sector. Each of our six divisions is an innovator in their field, constantly looking ahead over the horizon to deliver products and solutions that meet today's needs with tomorrow's technology.

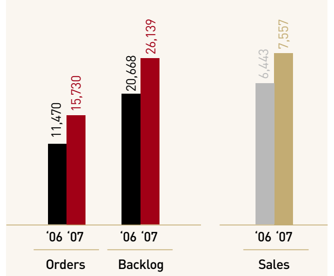
Shipbuilding Division

Proportion of Sales

48.6%

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 11,643 professionals dedicated to producing the most sophisticated vessels to ever sail the seven seas.

Orders & Backlog in USD millions | **Sales** in KRW billions



Major Products

- VLCCs, Tankers, Product Carriers, Chemical Tankers
- Containerships, Bulk Carriers, OBO Carriers
- Ro-Pax Ships, Ro-Ro Ships, Pure Car Carriers
- LNG Carriers, LPG Carriers
- Drillships
- Submarines, Destroyers, Frigates

Sales Growth

+17.3%

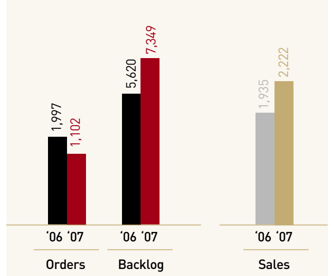
Offshore & Engineering Division

Proportion of Sales

14.3%

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 industry.

Orders & Backlog in USD millions | **Sales** in KRW billions



Major Products & Services

- Floating Units: FPSOs, FPUs, TLPs, Semi-Submersible Units
- Fixed Platforms: Topsides, Jackets & Piles, Jack-ups, Modules & Quarters
- Pipelines & Subsea Facilities: Subsea Pipelines
- Offshore Installations: Platforms, Pipelines

Sales Growth

+14.9%

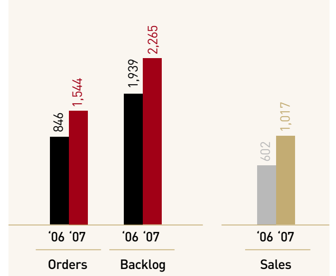
Industrial Plant & Engineering Division

Proportion of Sales

6.5%

The world has never been thirstier for power, water, and chemicals. Over the past three decades, we have earned a global reputation for reliable performance by delivering best-of-class turnkey EPC services to clients around the globe.

Orders & Backlog in USD millions | **Sales** in KRW billions



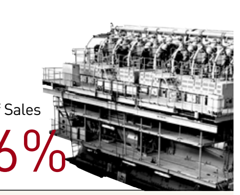
Major Solutions

- Energy & Chemical Processing: Oil and Gas, Refinery, Petrochemical, GTL, and LNG Facilities
- Power Generation: Combined-Cycle, Cogeneration, and Thermal Plants

Sales Growth

+69.0%

Engine & Machinery Division

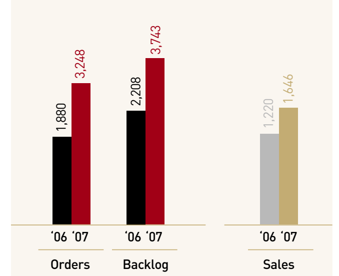


Proportion of Sales

10.6%

In 2007, 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 72 million bhp production milestone. Our product portfolio includes high-value solutions for diesel power stations, industrial robots, presses, conveyors, and marine and industrial pump systems.

Orders & Backlog in USD millions | **Sales** in KRW billions



Major Products

- 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

Sales Growth

+34.9%

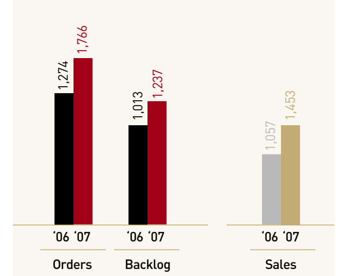
Electro Electric Systems Division

Proportion of Sales

9.4%

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 in USD millions | **Sales** in KRW billions



Major Products

- Transformers
- High-Voltage Circuit Breakers
- Medium- and Low-Voltage Circuit Breakers
- Switchgears
- Power Electronics and Control Systems
- Rotating Machinery
- Solar Power Systems

Sales Growth

+37.6%

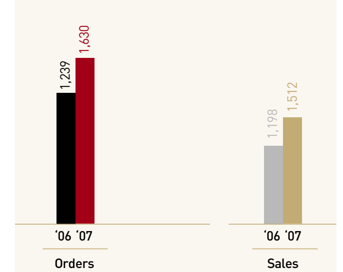
Construction Equipment Division

Proportion of Sales

9.7%

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 more than 480 authorized distributors worldwide.

Orders in USD millions | **Sales** in KRW billions



Major Products

- Excavators
- Wheel Loaders
- Forklifts
- Skid Loaders

Sales Growth

+26.2%

To Our Valued Shareholders and Customers,

Min Keh-sik
Vice Chairman &
CEO/CTO

At Hyundai Heavy Industries, we've built a reputation for excellence and integrity over the past 35 years by being the best at what we do. Our ability to look ahead and deliver what customers need, when they need it, has been fundamental to our phenomenal success in shipbuilding and beyond. Our debut on the *Fortune* Global 500 in 2007 at 6th place in the industrial and farm equipment industry and 422nd overall is yet another recognition of our emergence as a global heavy industries leader.

In 2007, we outperformed all expectations—including our own—as a booming shipbuilding market and hard work from our dry docks to the boardroom enabled us to grow orders a remarkable 33.8% to USD 25.0 billion. We also exceeded our sales target, registering sales growth of 23.7% to surpass KRW 15.5 trillion. Despite a strong Korean won and climbing raw materials prices, our technology leadership and solid labor-management relations enabled us to generate operating income of KRW 1.7 trillion and net income of KRW 1.7 trillion, up 99% and 143%, respectively. Earnings per share were equally impressive at KRW 27,778, up 151% for the year.

This stellar performance did not go unnoticed by investors, who sent our shares soaring to new heights. We started the year at KRW 126,000, hit a high of KRW 528,000 in November, and finished at KRW 442,500. Our total market capitalization at year end stood at KRW 33.6 trillion, a 251% increase that towered above our peers in Korea's top-ten business groups.

As we ride the momentum of this record-breaking performance into 2008, we're aiming for orders of USD 29.4 billion and sales of KRW 18.0 trillion as we invest KRW 1.6 trillion on capital expenditures and another KRW 211.1 billion on R&D. While our manufacturing capabilities and three-plus-year order backlog in our major businesses ensure we will easily meet our sales target, there are some looming uncertainties on the business horizon. A credit crunch in the wake of the US subprime mortgage crisis, market-cooling measures in China, volatility in raw materials markets, and stiff competition from our domestic and foreign rivals all present formidable business challenges. That said, we believe our flexible execution strategy will enable us to handle whatever challenges arise and successfully meet our performance targets. Toward this end, we have set two strategic directions to guide us as we look ahead to 2008 and beyond.

Choi Kil-seon
President & CEO

Our first focus will be on strengthening our foundation for growth. Never satisfied with the status quo, we will continue to enhance our ability to consistently generate new value. We will put in place the information and decision-making systems that will enable us to continuously monitor and rapidly respond to changing sales, material supply and demand, and exchange rate conditions. We will improve our workforce and cost structures as we fine-tune our business portfolio to stay competitive in any market conditions. We will also continue to uphold fairness and transparency in all our trading practices as we lay the framework for mutual success with our business partners.

Our second focus will be on ensuring we provide a safe and rewarding workplace. In the spirit of labor-management unity, we will continue to foster a proactive and progressive corporate culture for our people—the real drivers behind our growth—as we create a workplace that the next generation will be proud to work at. We will also continue to adopt strict work standards and regulations to keep our workplaces both safe and pleasant.

In closing, the year 2007 was an amazing year. But we believe the best is still yet to come. Thank you again for your interest in Hyundai Heavy Industries. Whether you are an investor, customer, partner, employee, or community member, we look forward to the opportunity to earn your trust, respect, and business in the coming year as we continue thinking ahead to create new value for you.

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 to discuss and resolve corporate matters. Its responsibilities include deciding on material matters as stipulated in relevant bylaws 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 eleven meetings in 2007.

About the Board Committees

Audit Committee

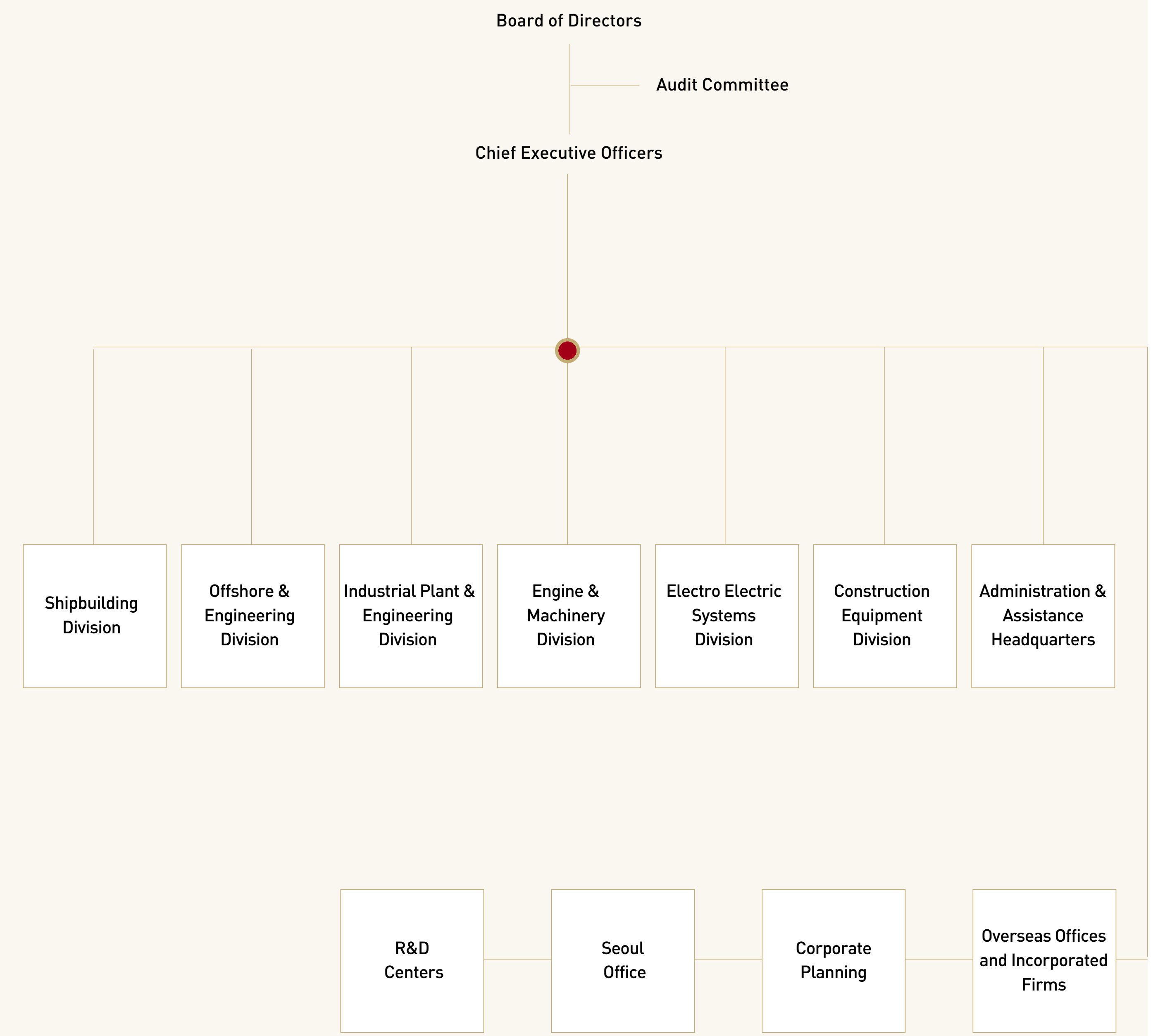
The Audit Committee is a standing committee of the board. Its responsibilities include (1) deciding on matters related to shareholders' meetings such as the calling of interim shareholders' meetings and setting forth its views on the agenda and the documents to be presented; (2) conducting oversight 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 2007.

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	**Cho Whie-kap** Chairman of the Committee of Special Sales Financial Cooperative Association	**Park Jin-won** Attorney of Shin & Kim Law Firm	**Lee Man-woo** Professor, Business Administration, Korea University	**Park Young-june** Professor, Electrical Engineering and Computer Science, Seoul National University
Audit Committee	Cho Whie-kap	Park Jin-won	Lee Man-woo	
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
	Lee Soo-ho Senior EVP and Chief Financial Officer	**Choe Weon-gil** 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
	Yoo Seung-nam 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

We won our first ship order with little more than some seaside property and a vision to become a world-class shipbuilder. Today, our determination to "create something out of nothing" exemplifies the indomitable spirit that continues to drive us forward as we think ahead to the future.

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 ongoing commitment to delivering superior satisfaction to our customers, more rewarding careers for our people, and greater value to our shareholders in the 21st century.

A global leader, sailing into a brilliant future
Global Leader

- Satisfy our customers with superior technology and quality
- Provide rewarding careers that help our people achieve their dreams
- Enhance corporate value with world-leading products

Our Strategies

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
- Enhance core technologies to a higher level.
- Make major product lines leaders in their global markets.
- 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.

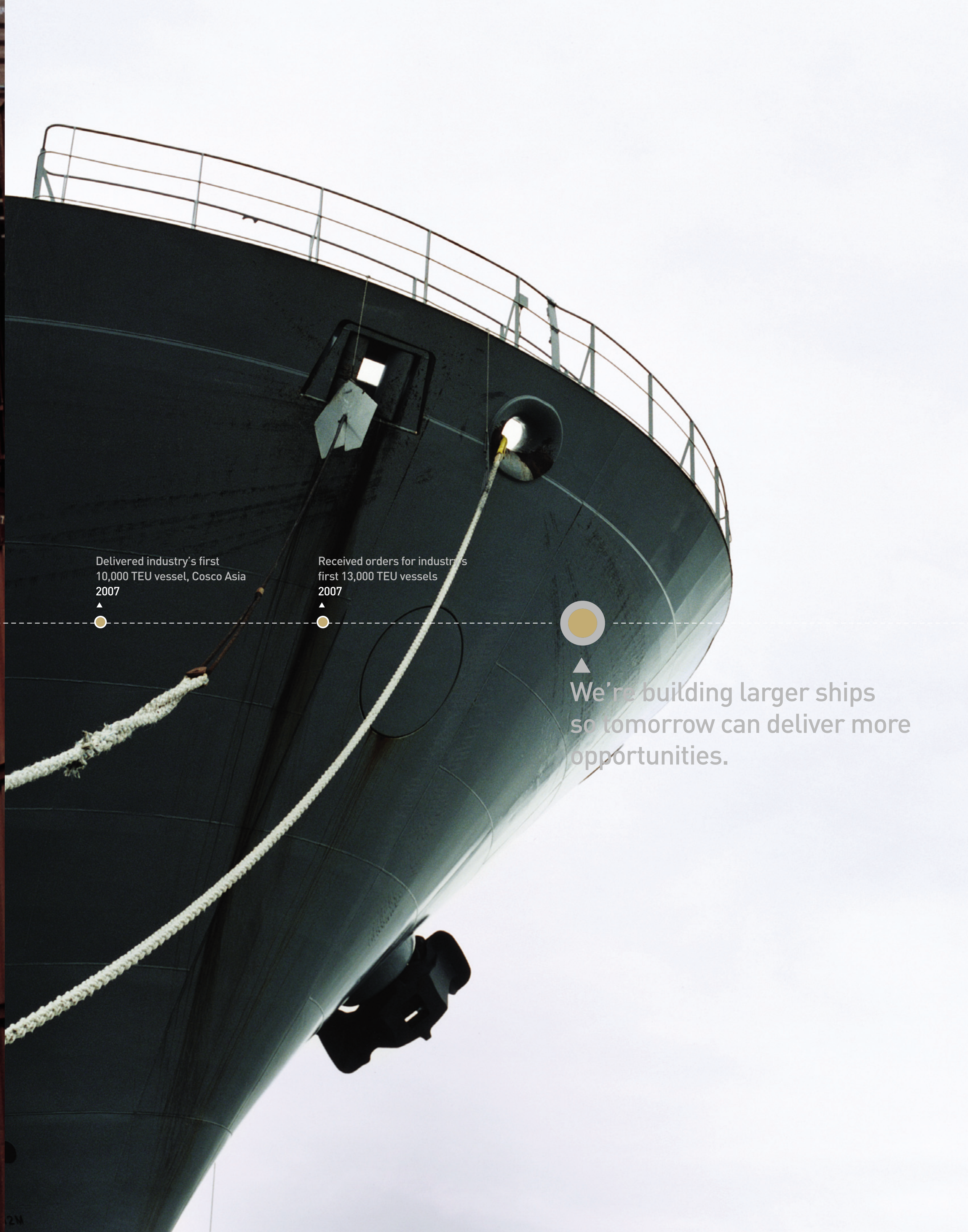
3. We pursue business practices that are safe and environmentally friendly.
- We provide pleasant and safe work environments.
- We prevent accidents by looking out for our own and others' safety.
- We are proactive in developing and adopting environmentally friendly technologies.
- We strive to make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

We're
thinking ahead
to bring more
opportunities
to life.

Thinking Larger



Delivered industry's first 8,600 TEU vessel, Colombo Express
2005

Delivered industry's first 9,500 TEU vessel, Cosco Guangzhou
2006

Received orders for industry's first 11,400 TEU vessels
2006

Delivered industry's first 10,000 TEU vessel, Cosco Asia
2007

Received orders for industry's first 13,000 TEU vessels
2007

We're building larger ships so tomorrow can deliver more opportunities.

Global trade is big and getting bigger. At Hyundai Heavy Industries, we're helping our customers prepare to lead the next wave of growth in seaborne trade with some of the world's largest, most intelligent containerships. And as their shipping businesses grow, we'll be ready with the next generation of vessels that will keep them profitably sailing into the future.

Thinking Deeper

Completed 80,000-ton
Kizomba "A" FPSO for ExxonMobil
2004

Completed 80,000-ton
Kizomba "B" FPSO for ExxonMobil
2005

Completed 80,000-ton
Greater Plutonio FPSO for BP
2006

The world has an insatiable appetite for energy. At Hyundai Heavy Industries, we're helping our customers tap into the vast energy resources of the oceans with some of the world's most advanced offshore platforms and FPSOs. And as they continue to go deeper, we'll be ready with the next generation of platforms that will keep them productively producing into the future.

Completed Escravos Gas Project
Phase 3A platform for Chevron
2007

Completed East Area Gas Project
EPC-1B Platforms for MPNU
2007

We're building deeper offshore facilities so tomorrow can process more opportunities.

Thinking Stronger

Passed 60 million bhp milestone
for two-stroke engine
2006

Produced world's first
107.6-ton propeller
2006

Produced world's most powerful
108,920 bhp marine engine
2007

Passed 70 million bhp milestone
for two-stroke engine
2007

Developed dual-fuel diesel-electric
propulsion system
2007

We're building stronger marine propulsion systems so tomorrow can drive more opportunities.

The oceans are one of the most powerful forces on earth. At Hyundai Heavy Industries, we're helping our customers conquer the seven seas with the world's most powerful and efficient marine propulsion systems. And as their propulsion needs grow, we'll be ready with the next generation of marine engines that will keep them smoothly running into the future.

Thinking Larger: Shipbuilding Division

Thinking Deeper: Offshore & Engineering Division

Thinking Broader: Industrial Plant & Engineering Division

Thinking Stronger: Engine & Machinery Division

Thinking Brighter: Electro Electric Systems Division

Thinking Easier: Construction Equipment Division

Shipbuilding Division

Thinking Larger

When you're the world's No. 1 shipbuilder, your customers expect you to deliver state-of-the-art vessels designed for tomorrow's shipping needs. In November 2007, we delivered the 216,000 cubic meter Al Gattara LNG carrier to OSG Nakilat for long-term charter to Qatargas. The first of four "Q-Flex" vessels on order and the largest LNG carrier built to date, the Al Gattara has onboard liquefaction facilities to return boiloff gas to the cargo tanks. It is also the first vessel of its kind to be powered by diesel engines rather than steam turbines, resulting in approximately 40% greater operating efficiency.

2007 Overview

The global shipbuilding industry booked orders totaling 165 million gross tons in 2007 according to Lloyd's Register, shattering the previous record of 99 million gross tons set in 2006. Two key trends behind this dramatic increase in orders were high demand for bulk carriers to satisfy China's growing appetite for raw materials and 10,000 TEU-class and larger containerships to handle soaring trade volume between Asia and Europe. Vessel prices rose an average of 9.5% across the board according to Clarkson Research Services, driven by strong demand and rising costs for steel plate and other raw materials. Korean shipbuilders continued to dominate the industry, capturing 40% of total orders based on gross tonnage, followed by China with 37% and Japan with 8%.

We had another record-breaking year in 2007 as we once again led the global shipbuilding industry with USD 15.8 billion in orders for 144 vessels totaling 12 million gross tons, exceeding our target by over 70%. Containerships accounted for 61% of the total, followed by tankers with 21% and bulk carriers with 8%. We delivered 81 vessels totaling 5 million gross tons during the year, a roughly 8% increase in terms of gross tonnage over 2006. At year-end, our order backlog stood at a record USD 35 billion, representing 330 vessels totaling 28 million gross tons, enough work to keep us operating at full capacity through mid-2011.

In 2007, we dominated the containership market with orders for 86 vessels of all capacities, including 19 medium-size 4,500 TEU and 21 ultra-large 12,500 TEU and larger vessels that will take advantage of the new locks at the Panama Canal scheduled to open in 2014. Smart marketing also enabled us to win all 13 orders in a new ship category known as very large ore and oil carriers (VLOO), 15 orders in the resurgent Capesize bulk carrier market, and our first drillship order, paving the way for future growth in the specialty ship segment.

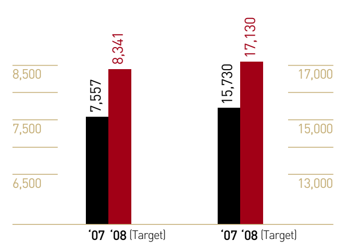
As exploding global trade continues to challenge the limits of ocean shipping capacity, shipowners continue to press shipbuilders to deliver vessels faster. Over the years, we have expanded our shipbuilding capacity through technical innovations such as on-ground shipbuilding to ensure consistent on-time delivery to our customers. In late 2007, we broke ground for a new shipyard at the Port of Gunsan on Korea's west-central coast. When it opens in late 2009, the Gunsan shipyard will have a dry dock and block factory capable of building the equivalent of 20 Capesize bulk carriers or Suezmax tankers annually, upgrading our ability to both attract new orders and satisfy the needs of our customers.

13,000 TEU Containerships Ordered •
In September, we booked a USD 1.33 billion order for five 13,000 TEU containerships from an owner registered in the Marshall Islands. At year-end, our backlog included orders for 161 containerships, including 42 with capacities of more than 10,000 TEU.

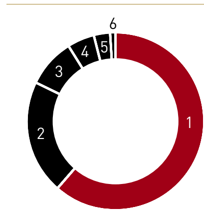
Sejong the Great Destroyer Launched ••
In May, we launched Sejong the Great, the first KDX-III class guided missile destroyer for the Republic of Korea Navy. The first of three planned vessels in its class, the 7,600-ton destroyer makes Korea the world's fifth country to possess a warship equipped with the state-of-the-art Aegis combat system.

Al Gattara LNG Carrier
This vessel is the first of a new generation of LNG carriers that sets the standard for both size and sophistication. It's the largest to date with five tanks that carry 216,000 cubic meters of LNG. It's also the first to be powered by a conventional diesel engine and have onboard liquefaction facilities, enabling it to deliver virtually 100% of its cargo to customers.

Sales in KRW billions | **Orders** in USD millions



2007 Order Breakdown
by Value

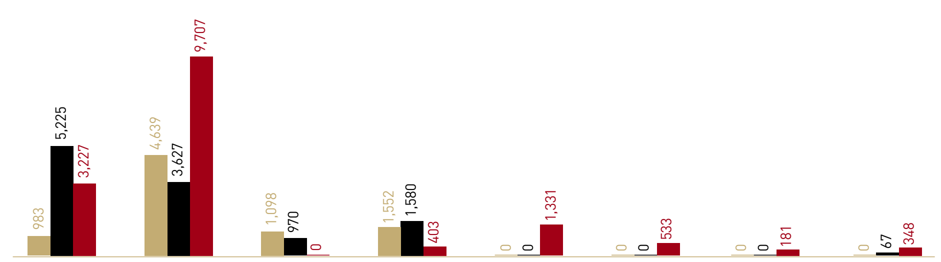


1 Containerships: 61%
2 Tankers: 21%
3 Bulk Carriers: 8%
4 Drillships: 3%
5 LPG Carriers: 3%
6 Specialty & Naval: 1%
7 Other Vessels: 3%

2008 Outlook

Despite tightening credit and economic concerns in the US, we believe that strong growth in emerging markets like China and India as well as cash-rich shipowners will keep the industry growing. Whatever challenges may lie ahead, our quarter-century as the world's top shipbuilder ensures we are well equipped to survive and thrive in changing times. Our order target is USD 17.1 billion in 2008. We expect demand for VLCCs and other tankers to rise as shipowners accelerate scrapping of their single-hull fleets. We are also prepared for additional large containership orders as well as a surge in the medium containership categories.

2005~2007 Orders by Ship Type
in USD millions



Offshore & Engineering Division

Thinking Deeper

When you're a world leader in offshore facility fabrication, your customers expect you to deliver creative solutions designed to operate in some of the most challenging environments on earth. In July 2007, we signed a USD 520 million EPC contract with the Nigerian National Petroleum Corporation (NNPC) and French oil major Total to build a 13,400-ton oil and gas production platform in the Ofon field about 45 km off Nigeria's southeast coast. The OFP2 platform will produce 105,000 barrels of oil and 3 million cubic meters of gas a day when completed in the first half of 2010.

Akpo FPSO Topsides Completed

In December, we completed fabrication and integration of the topsides for the Akpo FPSO. Sail-away of the USD 750 million turnkey project ordered by Total back in 2005 is planned for May 2008. The FPSO is scheduled to arrive at the installation site about 150 km north of Port Harcourt in September 2008 and come onstream in early 2009.

On-Shore Shipbuilding Facilities Expanded

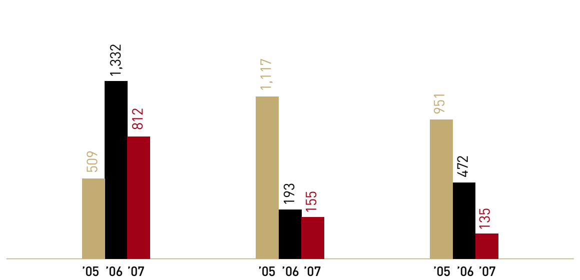
In November, we completed a major expansion of our on-ground shipbuilding facilities, doubling production capacity from 8 to 16 ships annually. We delivered six vessels totaling 360,000 gross tons built on-ground during the year, including the industry's first 82,000-cbm LPG carrier to be built on land.

2007 Overview

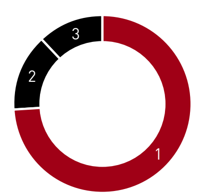
Global capex spending in the energy and petroleum industries rose approximately 9% in 2007 as the oil majors continued to make major investments in deepwater exploration and development. Deepwater floating production unit orders were placed for projects in South Africa and Brazil with both medium-size FPSO newbuilds and conversions seeing growth. In the fixed production platform segment, major gas field development projects in the Middle East, Nigeria, Australia, and India drove demand for large fixed platforms, while China, Southeast Asia, and the Caspian Sea region continued to order small- and medium-size fixed platforms. The subsea pipeline market also continued to grow at a 10% rate as major contracts were awarded in the Middle East and India.

We booked orders of USD 1.1 billion in 2007, just over half our target as major projects in South Africa and India were delayed. We did, however, win a turnkey EPC order from NNPC and Total to build a 13,400-ton offshore oil and gas production platform. This is the fifth straight offshore project we've won from Total, a remarkable testimony to the high degree of trust Total has in us and our technical capabilities. Another key international order was the North Rankin B compression platform project in Australia from Woodside Energy in December, paving the way for follow-on projects in this resource-rich market. We also won a domestic pipeline project from SK Engineering & Construction and began to augment our income by leasing idle pipeline installation vessels and equipment for local and regional projects.

2005~2007 Orders by Project Type
in USD millions



2007 Order Breakdown
by Value



1 Fixed Platforms: 74%
2 Floating Units: 14%
3 Subsea Pipelines: 12%

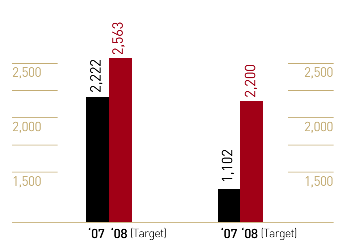
Greater Plutonio FPSO
Sailed away in December 2006, this 80,000-ton vessel owned by BP Angola began production in Block 18 of the Greater Plutonio offshore development area 160 km northwest of Luanda in October 2007. The FPSO has a storage capacity of 1.77 million barrels and can process up to 240,000 barrels of oil and 400 million cubic feet of gas daily.

2008 Outlook

Global capex spending on energy development is expected to grow roughly 11% to USD 369 billion in 2008 with the Middle East and Africa leading the way. With demand forecast to grow steadily across all segments of the offshore industry, we are targeting orders of USD 2.2 billion with a focus on large FPSOs and fixed platform projects in the Middle East and Australia. Backed by industry-leading fabrication and installation capabilities, we are well positioned to win EPIC (engineering, procurement, installation, commissioning) offshore production and subsea pipeline projects anywhere in the world.

Our sales continue to grow as we leverage our innovative on-ground shipbuilding technology to build some of the world's biggest tankers and LNG carriers. Our 1,600-ton gantry crane—the industry's largest—enables us to fabricate larger block units and maximize operational efficiency. We are now building our first dry dock. Measuring 490 m long by 115 m wide with 56,350 sqm of workspace, the new dock will be used to build FPSOs and other large vessels with load capacities up to 1 million gross tons when completed in late 2008.

Sales in KRW billions **Orders** in USD millions



Projects Underway

- Umm Shaif Platforms, UAE (ADMA-OPCO)
- OFP2 Oil & Gas Platform, Nigeria (Total, NNPC)
- North Rankin B Platform, Australia (Woodside Energy)
- Akpo FPSO, Nigeria (Total)
- Moho Bilondo FPU, Congo (Total)
- Crude Oil Export Facilities, Kuwait (Kuwait Oil Company)
- Crude Unloading System Relocation, Korea (SK Energy)

Projects Completed

- Greater Plutonio FPSO, Angola (BP Angola)
- Escravos Gas Project Phase 3A, Nigeria (Chevron)
- Yadana Medium Compression Platform, Myanmar (Total)
- East Area Gas Project EPC-1B Platforms, Nigeria (MPNU)
- Mumbai High-Uran Trunk Pipeline, India (ONGC)
- Sisi-Nubi Pipeline, Indonesia (Total)
- Third Transmission Pipeline, Thailand (PTT)

Industrial Plant & Engineering Division

Thinking Broader

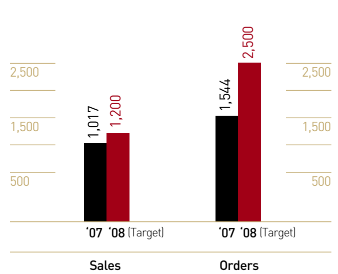
As a global engineering and construction contractor and equipment supplier, we design, engineer, fabricate, and construct a broad range of industrial plants and facilities for clients worldwide. In June 2007, we and consortium partners GE of the US and SIDEM of France won the USD 3.4 billion Marafiq IWPP project in Saudi Arabia, the largest independent power and water plant project to date in the Middle East. We are the EPC contractor for the project's 2,750 MW gas-fired combined-cycle power plant, one of the largest contracts won to date by a Korea-based firm at USD 1.06 billion.

Shaybah Cogeneration Plant
We are on schedule to complete this USD 170 million turnkey 210 MW power project in Saudi Arabia by the end of 2008. The trio of 70 MW gas-turbine units is a key part of Saudi Aramco's ongoing Shaybah oil field expansion project, located in one the kingdom's most remote oil fields in the Empty Quarter desert.

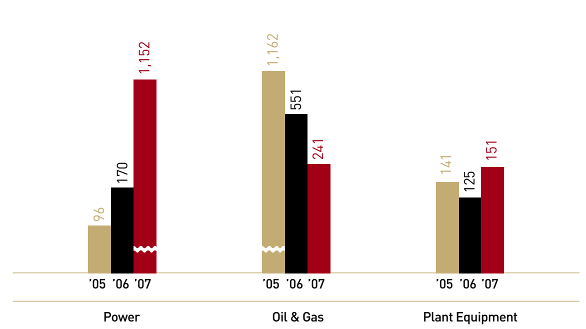
Crude Export Facilities Nears Completion ●
We are now nearing completion of Kuwait Oil Company's Crude Oil Export Facilities project. Scheduled to enter operation in the second quarter of 2008, the USD 1.2 billion EPC contract includes an 11.4 million barrel storage facility with 19 tanks, offshore pipelines, gravity lines, metering systems, and CALM buoys.

2,750 MW Power Plant Ordered ●●
In June, we won a USD 1.06 billion EPC order for a 2,750 MW combined-cycle power plant in Saudi Arabia. The plant is part of the USD 3.4 billion Marafiq IWPP project scheduled to enter service by 2010.

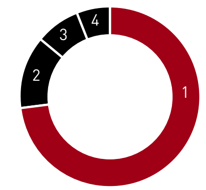
Sales in KRW billions — **Orders** in USD millions



2005~2007 Orders by Project Type
in USD millions



2007 Order Breakdown
by Region & Value



1 Middle East: 73%
2 Africa: 13%
3 Korea: 8%
4 Others: 6%

2007 Overview

Surging global demand for energy produced a long-list of major investments in oil and gas field development in 2007. Oil-producing nations across the Middle East and Africa stepped up investment to exploit their oil and gas resources, awarding orders for a wide spectrum of refinery and petrochemical plant newbuild and expansion projects. Demand for combined-cycle power plants steadily grew across the region with the exception of Saudi Arabia, which continued to order oil-fired plants.

We exceeded our 2006 order performance by 83% in 2007 as we received orders of USD 1.5 billion. In June, we strengthened our presence in the Middle East power plant market by winning the Marafiq IWPP in Jubail, Saudi Arabia, the largest project of its kind to date. Our USD 1.1 billion share of the USD 3.4 billion project covers the EPC contract for a 2,750 MW combined-cycle power plant that will provide the steam for the 800,000 cbm/day multiple-effect distillation (MED) plant to be built by French thermal desalination specialist SIDEM. We also won a KRW 54.9 billion turnkey project from the Korea Aerospace Research Institute to build the launch complex at the Naro Space Center on Korea's southwestern coast.

2008 Outlook

For the next several years, oil-producing nations and international oil companies will continue to invest in power, oil and gas, refinery, petrochemical, and other infrastructure in the Middle East as they try to keep up with global oil and gas demand and the annual 6% to 12% growth in power demand across the region. While business opportunities will be plentiful, the competition for them will be even fiercer. We believe that our project portfolio, reputation for reliability, and close working relationships with major equipment suppliers will enable us to achieve our USD 2.5 billion order target in 2008 as we vie for new power plant, oil processing and storage, and LNG and gas-to-liquids (GTL) projects across the region.

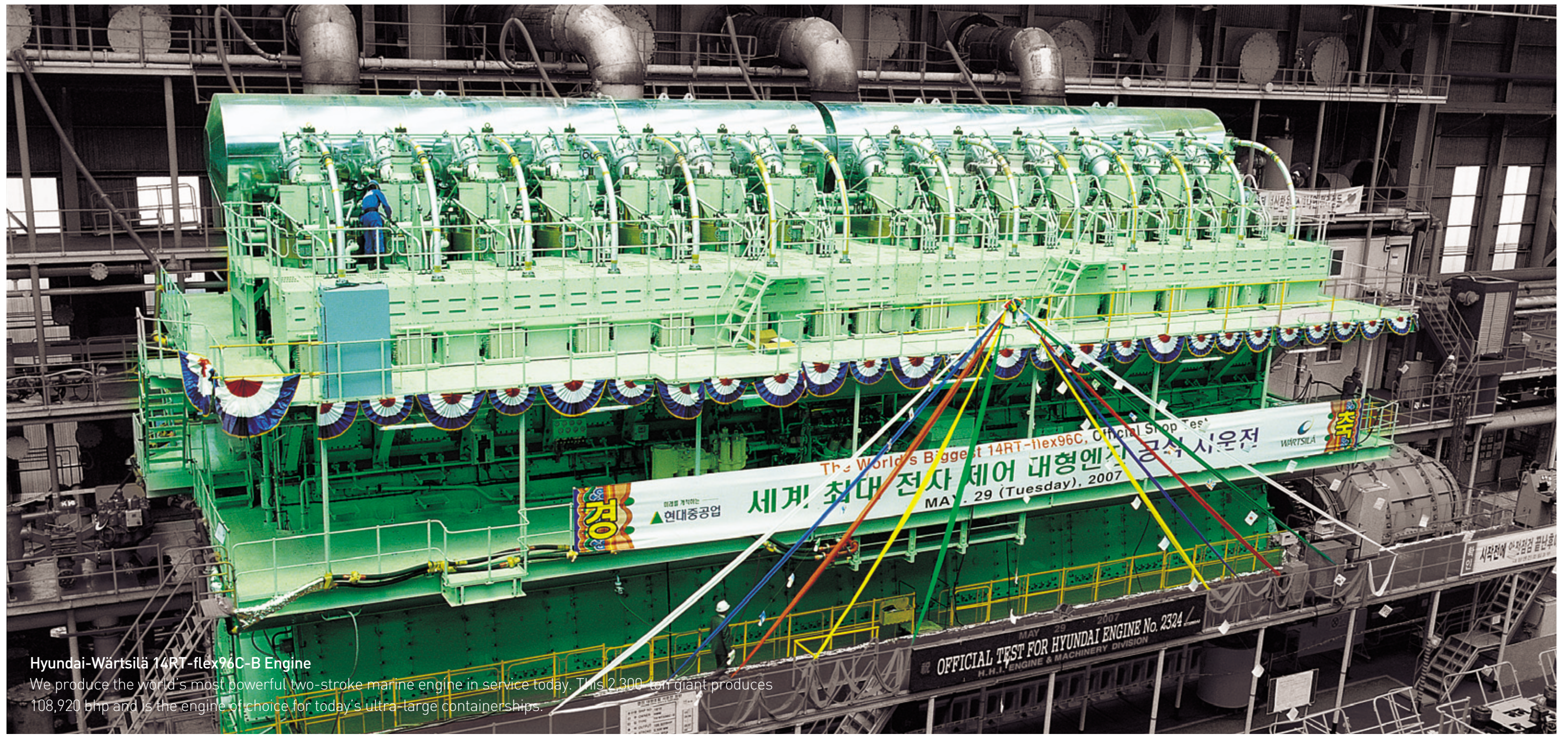
Projects Underway

- Escravos Gas Project Phase 3A, Nigeria (Chevron)
- Crude Oil Export Facilities, Kuwait (Kuwait Oil Company)
- Pearl GTL Project, Qatar (Shell)
- Shaybah Cogeneration Plant, Saudi Arabia (Saudi Aramco)
- Marafiq IWPP Power Plant, Saudi Arabia (Marafiq)
- Naro Space Center Launch Complex, Korea (KARI)

Engine & Machinery Division

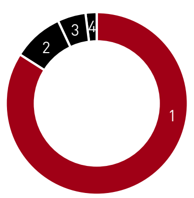
Thinking Stronger

When you're the world's leading builder of marine engines, your customers expect you to deliver engines that set the standard for performance. In May 2007, we completed testing of the world's most powerful electronically controlled marine engine to date. The massive Hyundai-Wärtsilä 14RT-flex96C-B engine produces 108,920 bhp and is designed to reduce low-speed fuel consumption and NO_x emissions. It features 14 cylinders, RT-flex common-rail fuel injection, remote speed control, and a safety monitoring system. This engine is the standard main propulsion engine for all new 8,000 TEU-class containerships ordered by Hyundai Merchant Marine.



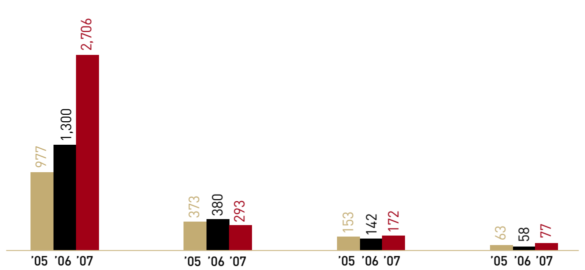
Hyundai-Wärtsilä 14RT-flex96C-B Engine
We produce the world's most powerful two-stroke marine engine in service today. This 2,300-ton giant produces 108,920 bhp and is the engine of choice for today's ultra-large containerships.

2007 Order Breakdown
by Value



1 Marine Engines: 84%
2 Diesel Power Stations: 9%
3 Robotic Systems: 5%
4 Industrial Pumps: 2%

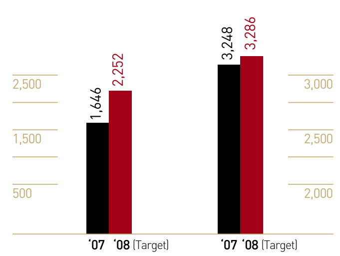
2005~2007 Orders by Product
in USD millions



10 Million BHP Record Set
In March, we passed the 10 million bhp milestone in four-stroke diesel engine production in the record time of just 16 years and 2 months. We've built over 5,000 four-stroke engines for both marine and general power generation applications since we entered the field in 1990.

Packaged Power Stations Ordered
In March, we won a USD 40 million order for 30 PPS units from the government of Iraq. These containerized diesel power plants are an ideal solution to quickly and flexibly expand power availability as Iraq accelerates its post-war reconstruction program. We expect to win additional follow-on PPS orders in the near future.

Sales in KRW billions / **Orders** in USD millions



2007 Overview

Strong economic growth in China, India, and other Asian markets continued to drive growth in global ocean shipping, pushing demand for containerships and bulk carriers—and the huge marine engines that power them—to record highs. Demand for side thrusters kept pace with growth in the containership industry, while hydraulic marine pumps saw a slowdown as tanker sales leveled off. Robust growth in the Middle East, Latin America, and Africa continued to drive demand for heavy fuel oil power plants and small and medium-size diesel power generators. The machinery sector also continued to prosper as major automakers added new production plants in Europe and India.

In 2007, we became the world's first two-stroke engine maker to pass the 70 million bhp production milestone as we shattered our previous order record set in 2006, booking USD 3.2 billion in new contracts. In the marine engine business, we maintained our leading 35% market share as we captured orders for 540 two-stroke and 1,420 four-stroke diesel engines worth USD 2.7 billion. A significant portion of these orders—many of which were for complete ship propulsion systems—came from new shipbuilders in Korea, China, and Turkey. Our marine machinery business also made significant gains, winning orders for marine pumps and side thrusters from major rival shipbuilders.

Our diesel power generator business continued to make inroads in Latin America during the year, helping clients rapidly and cost-effectively add new capacity. Leveraging the experience and market knowledge that helped us win USD 800 million in orders for packaged power stations (PPS)—containerized diesel power plants—from Cuba since 2005, we added nearly USD 300 million in PPS orders from Brazil, Dominican Republic, and Nicaragua to our order book. We also won orders for over 1,300 industrial robots from customers in the Czech Republic, China, and India, including 559 for Hyundai Motors auto plants.

2008 Outlook

While tightening international credit is expected to impact the global shipbuilding industry, Asia's economies are forecast to deliver solid growth. Competition will intensify in the marine engine business as makers continue to ramp-up capacity, while demand for marine hydraulic pumps and side thrusters will continue grow in step with the overall shipbuilding industry. Demand for short-lead-time energy solutions across Latin America, India, and Africa will keep PPS orders growing briskly. We also see growing demand for robots in LCD manufacturing as the industry continues to add capacity and migrate to larger glass substrates.

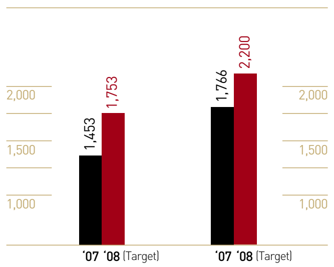
In 2008, our order target will hold steady at around USD 3.3 billion as we continue to leverage our recent successes to take our international competitiveness to the next level. We're currently in the middle of a capacity expansion project that will boost our annual two-stroke and four-stroke marine engine production capacity from 8 to 19 million bhp and 3 to 5 million bhp, respectively, by 2010.

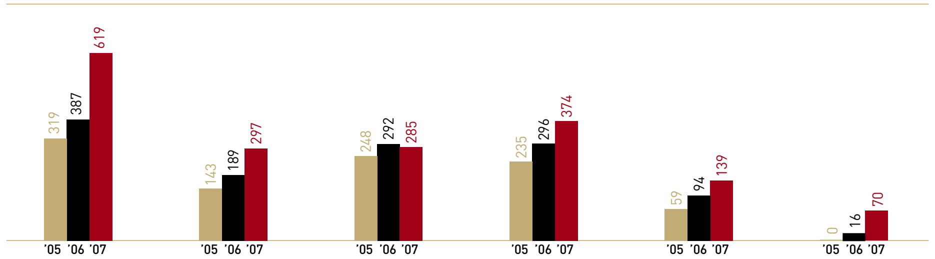
Electro Electric Systems Division

Thinking Brighter

When you're one of the world's top-five suppliers of electrical equipment, your customers expect you to deliver reliable and efficient solutions that keep the power flowing. In January 2007, we surpassed 400,000 MVA in transformer production with the completion of an 820 MVA unit for a US power utility in the state of Nebraska. Equivalent to the total capacity of the US national power grid and six times the capacity of Korea's power grid, this milestone culminates 29 years of production expertise that started back in 1977.

820 MVA Transformers
We meet over 15% of global demand for high-voltage transformers. While 820 MVA units like the ones pictured represent the mid-range of our product lineup, these particular units are meaningful because we passed the 400,000 MVA production milestone during their fabrication in January 2007.





2007 Overview

As the US market continued to generate a steady stream of orders to replace obsolete electrical equipment, cash-flush Middle East markets continued to expand their power and water infrastructures. Emerging markets like Russia and Brazil saw rapid growth in most equipment areas, while Europe focused investment on alternative and renewable energy solutions. Although the overall Korean power equipment market grew at its historic average, the alternative and renewable energy fields continued to gain momentum thanks to growing demand from independent regional government organizations and the private sector.

In 2007, we surpassed our record 2006 order performance by a robust 39% and slightly exceeded our target by winning contracts totaling USD 1.8 billion. Transformer orders jumped 60% to USD 619 million, while orders for rotating machinery—motors and generators—rose 21% to USD 374 million. Our photovoltaic module business had an extremely strong second year of operations as orders soared 337% to USD 70 million. We manufactured and delivered approximately 30 MW of photovoltaic modules to customers in Italy, Greece, and other European markets. We also relocated our photovoltaic cell and module manufacturing operations from Ulsan to Eumseong during the year. When fully operational, the new plant will double capacity from 30 MW to 60 MW.

During the year, we made a couple of key investments that will boost both our near- and long-term growth prospects. In January, we opened a new manufacturing shop capable of producing transformers with capacities up to 500 kV, expanding our annual production capacity from 50,000 MVA to 65,000 MVA. In April, we acquired US motor and generator manufacturer Ideal Electric, significantly increasing our presence in the US market as well as filling a number of significant gaps in our product lineup. We also developed a prototype wind turbine system, moving us a step closer to entering one of the power industry's most-promising growth fields.

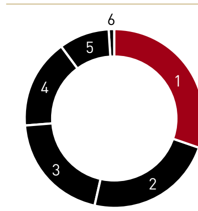
2008 Outlook

Global demand for electrical facilities is expected to grow at or above the historic average in 2008 as emerging markets expand their energy infrastructures and mature ones continue to upgrade their aging power networks and embrace new and renewable energy solutions such as solar and wind power.

In 2008, we're targeting orders of USD 2.2 billion, a 26% increase over last year's record performance. We'll be entering new international markets as we step-up our marketing in the world's biggest markets. We'll also be beefing up our sales network, expanding our production and distribution networks, pursuing major turnkey orders, and expanding our alternative and renewable energy product lineup.

Shuqaiq IWPP Motors Ordered
In November, we won our largest electric motor order to date for the USD 1.9 billion Shuqaiq independent water and power projects in Saudi Arabia. The USD 12 million order from Water & Electricity L.L.C. includes a total of 235 motors in 34 different models—including 13.2 kV high-voltage units—that will pump over 212,000 cubic meters of potable water daily when completed in 2009.

2007 Order Breakdown
by Value



1	Transformers: 35%
2	Rotating Machinery: 21%
3	Circuit Breakers: 16%
3	Switchgears: 16%
4	Power Electronics: 8%
5	Solar Power Systems: 4%

Construction Equipment Division

Thinking Easier

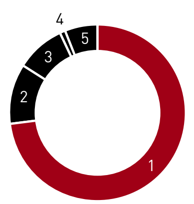
When you're one of the world's top-10 construction equipment makers, your customers expect you to deliver machines that move heaven and earth with the greatest of ease. In late 2007, we expanded the high end of our excavator lineup, following up our first 50-ton machine introduced in 2006 with our first 80-ton machine. Our largest to date, the R800LC-7A is designed to handle the toughest jobs on the planet with performance and reliability that are second-to-none.

2007 Overview

The global construction equipment industry enjoyed a good year, dampened only by the US housing market slump and fallout from the sub-prime mortgage crisis. A strong euro and solid growth in Eastern Europe both contributed to sales growth across the continent. In China, ongoing preparations for the Beijing 2008 Olympic Games and World Expo Shanghai 2010 drove orders to new heights. High energy and natural resource prices also spurred infrastructure projects in the developing world, further expanding demand for equipment.

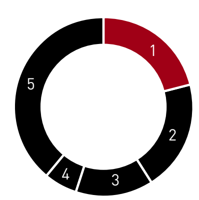
In 2007, we generated record orders of USD 1.6 billion, a 32% increase over 2006. While unfavorable market conditions in the US resulted in a roughly 19% plunge in local equipment orders, European orders were up 37%. Our results in China were also impressive as strong demand for light equipment pushed orders up 46%. But the best performance came in the Russian, CIS, and Latin American markets where a resource development and infrastructure boom helped orders soar over 80%. We also entered a strategic alliance with Case Construction Equipment in October to produce larger wheel loaders that will extend the Case lineup. The new models will be sold and serviced by Case in North America, Europe, the Middle East, and Africa.

2007 Sales Breakdown
by Value



1	Excavators: 73%
2	Wheel Loaders: 11%
3	Forklifts: 9%
4	Skid Loaders: 1%
5	Other Equipment: 6%

2007 Order Breakdown
by Region & Value



1	Europe: 21%
2	Korea: 20%
3	China: 14%
4	America: 6%
5	Rest of World: 39%

Diesel Forklifts Introduced ●
In April, we added four new diesel forklifts to our 7 series lineup. Available in 10-, 12-, 13.5- and 16-ton capacities, the new models feature wet disc brakes, quieter and cleaner engines, and tilting cabs for easier maintenance.

Trade Show Participation ●●
In April, we showcased 32 of our latest excavator, wheel loader, and forklift models at a 4,500 sqm booth at the triennial Bauma trade fair in München, Germany. We signed contracts worth EUR 61 million during the seven-day show that drew over 501,000 visitors from 191 countries.

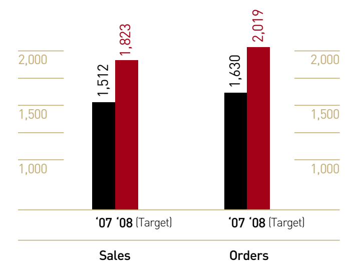
R800LC-7A Excavator
Our launch of this new 80-ton excavator marks our full-scale entry into the heavy mining market. We expect its attractive combination of value and performance to win over customers in a market dominated by the industry's biggest names.

2008 Outlook

While the US construction equipment industry is expected to shrink roughly 15% to 20% in 2008 as the fallout from last year's sub-prime mortgage crisis continues to impact the economy, we expect emerging markets such as China, India, Russia, and Brazil to keep the global industry growing robustly.

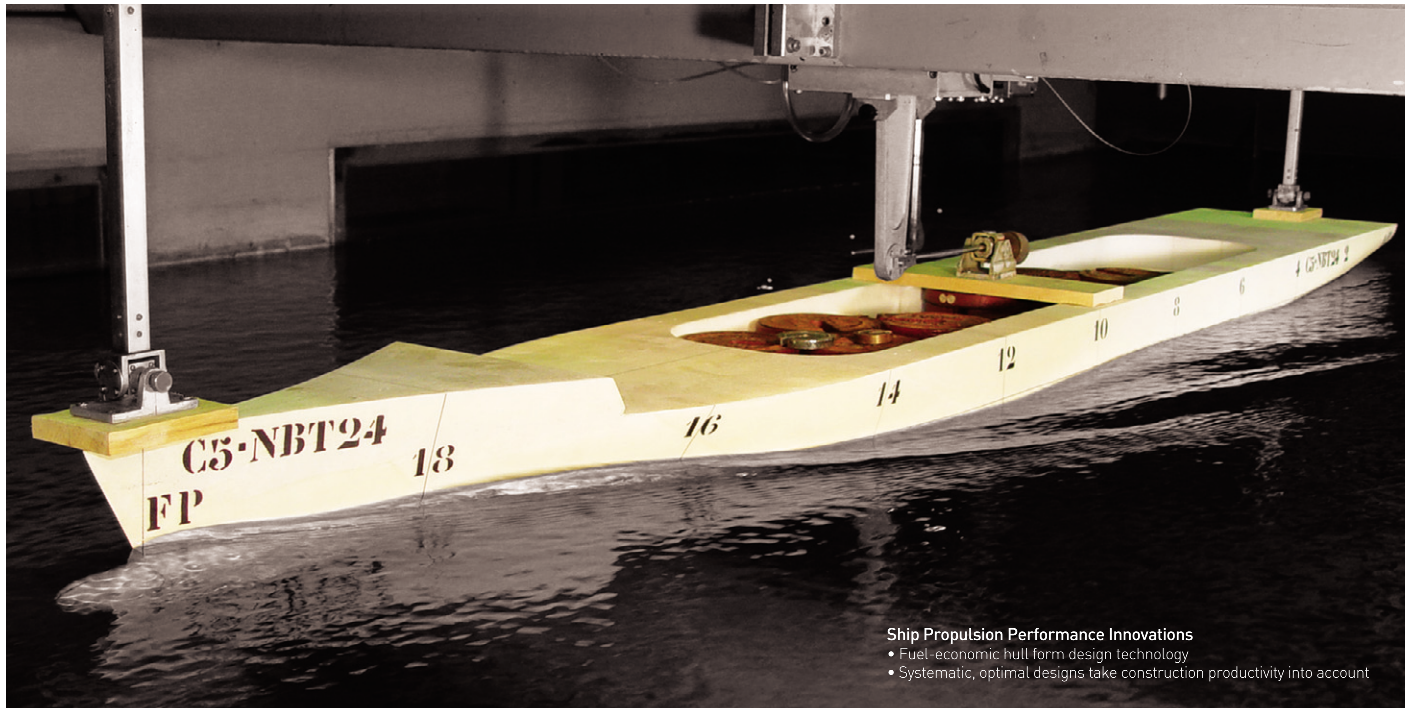
In 2008, we're targeting orders of USD 2.0 billion, a 24% increase over last year's record-setting performance. In China, we'll be introducing leasing and new purchase options as well as targeting new segments in the forklift market as we continue to cut costs and improve quality at our local manufacturing operations. In India, we expect the growing economy, rising foreign investment, and a strong rupee to translate into record sales. Finally, we intend to enhance dealer support through our local subsidiaries in fast-growing markets like Russia and Latin America as we work to satisfy our growing global customer base.

Sales in KRW billions / **Orders** in USD millions



Consolidated Orders in USD millions

2007	2,137
2008 (Target)	2,689



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

Research & Development

Innovation is the driving force that keeps us at the top of the shipbuilding and heavy industries. Our manufacturing facilities may someday be surpassed in size or scope, but our unique research organization is a powerful competitive advantage that cannot be duplicated.

It takes consistent innovation to be a global leader in any industry. On average, our research organization has well over 1,400 projects underway at any given time. Augmented by institutes in Hungary, the United States, and China as well as a steadily growing number of international partnerships, our four Korea-based research institutes have enabled us to achieve a top-five global market share in 19 product categories to date. Our goal is to expand that number to more than 33 categories by the end of the decade.

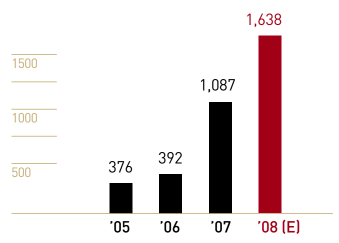
In 2007, we invested KRW 147 billion in R&D, a 17% increase. We plan to invest KRW 211 billion in R&D in 2008, 44% more than we invested last year and the equivalent of 1.2% of our projected sales.

R&D Strategies

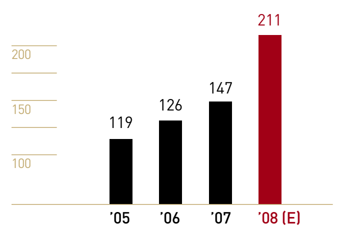
The following five strategies will guide our R&D activities in 2008 as we focus on developing optimized technologies for each market we serve to pave the way for continued growth.

- We will step up our development efforts in five areas: core product leadership, core technology advancement, production technology leadership, new technology and product development, and new business development.
- We will continue to enhance collaboration between our divisions and research organization.
- We will continue to improve our return on R&D investment.
- We will continue to foster excellence in research.
- We will continue to expand our global R&D network.

Capital Expenditures
in KRW billions



R&D Expenditures
in KRW billions



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, engine performance, and machinery design.

In 2007, HMRI completed model testing of a thrust fin, a device designed to be mounted to ship rudder horns in line with the propeller to enhance propulsion efficiency. While model tests have demonstrated efficiency gains of 3% to 6%, the benefits on full-scale vessels are expected to be even greater. The first full-scale thrust fin will undergo sea trials on an 8,600 TEU containership in March 2008.

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, coatings, and corrosion protection.

In 2007, HIRI completed development of a remote valve-control system based on power-line communication technology for use in marine vessels, offshore structures, and industrial and chemical plants. The rotary valve actuators are a hybrid electro-hydraulic design that is simultaneous powered and controlled over power-line wiring. This dramatically simplifies installation, operation, and maintenance, reducing commissioning time by 50% over conventional hydraulic valve systems.

HYUNDAI ELECTRO-MECHANICAL RESEARCH INSTITUTE (HEMRI)

Founded in 1991, HEMRI covers a broad spectrum of technical disciplines in the fields of electrical and mechanical engineering 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.

In 2007, HEMRI completed development of HiRoboLink, Korea's first collaborative control system for serial robots. HiRoboLink enables multiple robots to communicate their position, orientation, and status in real-time over a dedicated LAN network to autonomously accomplish a specific task. The system won Korea's prestigious IR52 Jang Young Shil Award in December.

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 partners overseas to ensure our customers get value that looks as good as it works.

In 2007, TDI completed a comprehensive update of our ship cabin interior designs to give shipowners a wider selection of furniture and interior appointments to meet their specific needs and tastes. The project encompassed updates to both floorplans and furniture for the captain's quarters, crew rooms, mess room, and recreation room with a focus on design, arrangement, and color and upholstery coordination.

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 dissemination 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.

We're
thinking ahead

to bring more
sustainability

to life.

Our commitment to building win-win relationships with our people, partners, and local community is why we are one of Ulsan's most respected and admired corporate citizens.

Employees			as of December 31, 2007
	Male	Female	Total
Administrative	7,859	870	8,729
Technical & Skilled Workers	16,113	466	16,579
Total	23,972	1,336	25,308

Our People

At Hyundai Heavy Industries, we believe that our people are our greatest asset and the driving force that will keep us sustainably growing. We go to great lengths through our professional development programs and Hyundai Technical College to equip our people with the knowledge and skills they need to excel in their jobs and further their careers, whether they're responsible for developing business strategies or welding in a dry dock.

We are also a leader in employee welfare. In addition to competitive salaries and quality housing, we provide generous health benefits, operate community centers, sponsor seasonal camps for dependents, and offer discounted getaways to major leisure destinations nationwide. This strong commitment to our employees forms the basis for one of Korea's most successful labor-management partnerships that marked its 13th straight strike-free year in 2007.

Our Partners

We rely on some 180 onsite and offsite suppliers to meet our production requirements. We believe in building strong, long-term partnerships, and we work closely with all suppliers to ensure that their financial, technical, personnel, and information systems are up-to-date and compatible with our high standards. We have also broken new ground by providing supplier employees with the same online training, medical, and welfare benefits that our own employees receive.

Our Community

As a major employer in the Ulsan region, we believe that we have an important role to play in making our community a better place to live. Every spring, our "Housewives College" program gives homemakers practical home-management skills and opportunities for community service. Our cafeterias and local food donation programs actively support local agricultural and fisheries industries through their purchases. We subsidize school lunches for about 1,000 needy local students each year. In 2007, we joined forces with the Korea Organ and Tissue Donor Program to run Korea's most successful corporate organ donation campaign to date. Approximately 6,200 employees—including top management and labor leaders—signed donation cards during the campaign.

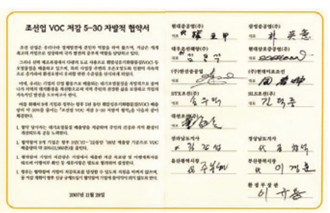
Collective Bargaining Agreement 1·2·3

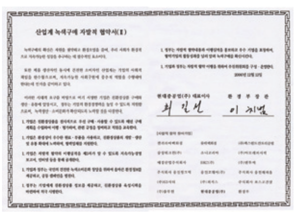
On July 25, we completed our 2007 collective bargaining agreement, marking our 13th straight year of strike-free negotiations. This year's agreement included a 4.03% cost-of-living salary increase, a minimum 387% performance bonus, and KRW 5 billion in funds for employee welfare.

International Supervisors Festival 4

On May 12, we held our fifth annual International Supervisors Spring Festival. Approximately 1,500 supervisors and family members from over 40 countries turned out for a day of friendly competition that included tug-of-war contests, relay races, a performance by the ROK Navy Honor Guard, and other events.

From green procurement to green products, we're working hard to ensure a sustainable and safe future for our employees, neighbors, and customers.





VOC Reduction Agreement
In November, we joined eight other Korean shipbuilders in pledging to reduce volatile organic compound emissions to 70% of 2006 levels by 2011. To meet this target, we plan to invest roughly KRW 120 billion to install abatement equipment and spray pumps as well as develop eco-friendly paints and coatings.

Environmental Initiatives

As a global leader in the heavy industries field, minimizing our environmental footprint is a key priority in our commitment to improving the quality of life for present and future generations. We are now focusing our resources on the tasks of improving air and water quality, reducing waste, and finding alternative ways to meet our energy needs. We continue to expand the scope of our green procurement system to enhance worker safety, reduce acquisition and disposal costs, increase awareness of safety and environmental issues, and create a more comfortable workplace. Our HEPEM evaluation methodology plays a key roll in our ongoing efforts to improve our environmental performance, providing valuable insights on management performance in 23 areas, operational performance in 20 areas, and environmental conditions in nine areas.

Our environmental commitment continued to gain momentum in 2007. We joined our fellow domestic shipbuilders in pledging to reduce volatile organic compound (VOC) emissions to 70% of 2006 levels by 2011. We delivered the British Emerald, a next-generation LNG carrier with an efficient dual-fuel diesel-electric (DFDE) propulsion system that is 10% more fuel efficient and produces 25% less carbon dioxide and no sulfur dioxide emissions compared to conventional steam-turbine powered carriers. We also won a 1.2 MW solar power plant project in Haenam, Korea and completed a new production plant that will ultimately be capable of producing 60 MW of PV cells and modules annually.

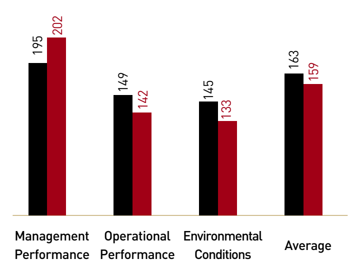
For more information about our commitment to safety and the environment or to download our latest environmental report, please visit the "About HHI" section of our website at http://english.hhi.co.kr.

Safety Initiatives

One of our most successful safety initiatives in recent years was the opening of our Safety Learning Center in March 2005. In 2007, the center provided nearly 26,000 of our employees, on-site contractors, and vocational trainees with realistic, hands-on training on how to avoid and handle common workplace hazards.

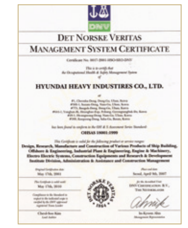
Technology also plays a key role in our pursuit of zero accidents. In December 2007, we commissioned our "U-Safety" system, a high-tech wireless network of fixed and mobile sensors that promises to take workplace safety to the next level. Workers wear small sensors that can detect signs of unconsciousness, indicating the possibility of asphyxiation. Around the worksite, larger fixed sensors continuously monitor the concentration of hydrocarbons in the air, enabling the early detection of fires as well as conditions where an explosion might occur. The system went into service in January 2008 on an LNG carrier project, and we plan to progressively expand usage to all shipbuilding operations over the coming year.

HEPEM Environmental Performance
in points
• Base year is 1998 (100 points)



Major Certifications


ISO 14001


OHSAS 18001

Environmental Cost Growth
in points
• Base year is 1998 (100 points)

Taean Oil Spill Cleanup 1-2-3
In December, a collision between a barge and an oil tanker off Korea's west coast spilled 66,000 barrels of crude oil, Korea's worst spill to date. In addition to sending a 320-person team to aid in the cleanup, we donated excavators and wheel loaders and provided oil fences, work clothes, and other essential supplies for the effort.

Community Pride 4-5-6
As a shipbuilder, we have a close affinity for the oceans and coasts. Ten times a year, we join the Ulsan community for special clean-up events to keep our local coastline healthy and safe. Many of our employees also volunteer their time at least once a month through clubs and informal groups to help clean and protect the environment in and around the Ulsan area.

We're
thinking ahead

to bring more
value

to life.

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 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 overseas economic trends. Since exports account for more than 80% of sales, the Company's performance is significantly impacted by global business conditions.

Primary Factors in Performance

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

The Offshore & Engineering and Industrial Plant & Engineering Divisions are impacted by energy demand and oil price trends.

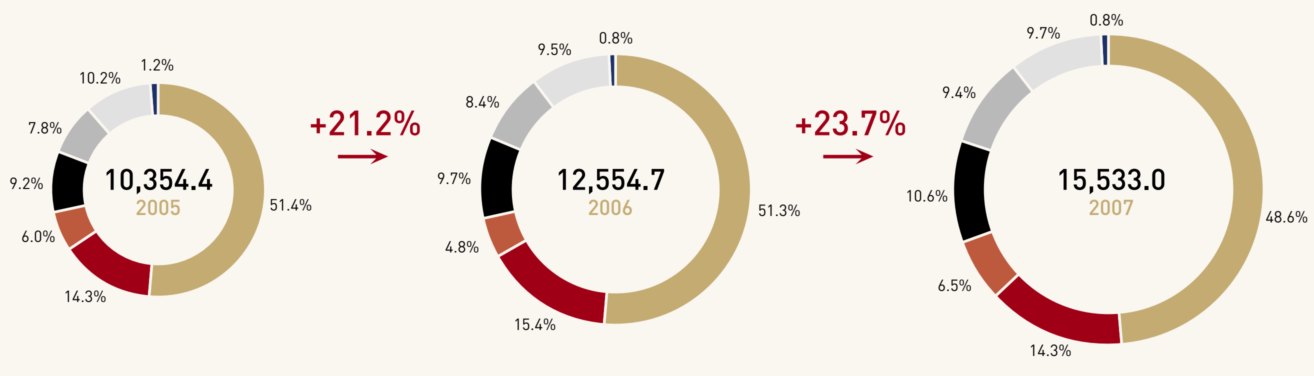
The Engine & Machinery Division is impacted by the shipbuilding market and capital expenditure trends at home and abroad.

The Electro Electric Systems Division is influenced 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.

Sales Breakdown by Division

in KRW billions



■ Shipbuilding ■ Offshore & Engineering ■ Industrial Plant & Engineering ■ Engine & Machinery ■ Electro Electric Systems ■ Construction Equipment ■ Other

Results of Operations

Profit Analysis

Sales

With all divisions generating growth in 2007, the Company finished the year with sales of KRW 15,533.0 billion, a 23.7% year-on-year increase. The Shipbuilding Division recorded sales growth of 17.3%, benefitting from the ongoing shipbuilding boom that has steadily increased prices for containerships and other value-added vessels in recent years.

The Engine & Machinery Division recorded sales growth of 34.9%, also benefitting from record-high demand for marine engines from the booming shipbuilding industry.

The Offshore & Engineering Division recorded sales growth of 14.9% as several major offshore production platform and pipeline projects wrapped up and the on-ground shipbuilding business continued to gain momentum.

The Industrial Plant & Engineering Division recorded sales growth of 69.0% as a number of turnkey oil and gas plant projects got back on track during the year.

The Electro Electric Systems Division recorded sales growth of 37.6% as global demand for power equipment continued to rise in China and other emerging markets.

The Construction Equipment Division recorded sales growth of 26.2%, also benefitting from robust infrastructure investment in emerging markets.

While the Company's cost of sales rose 18.3% for the year, this increase was significantly outpaced by sales growth, resulting in a KRW 975.6 billion increase in gross profit to KRW 2,556.9 billion. This performance also boosted the gross profit margin 3.9 percentage points from 12.6% to 16.5% for the year.

Operating Income

The Company recorded an operating income of KRW 1,750.7 billion in 2007 for an operating margin of 11.3%, a significant improvement over last year's KRW 878.9 billion and 7.0% results. Led by strong performances by the Shipbuilding and Engine & Machinery Divisions, all of the Company's divisions delivered solid improvements in profitability, operating in the black across the board.

The Shipbuilding Division continued to lead the way in profitability with an operating profit that soared 135.6% to KRW 886.5 billion. This

Operations by Division

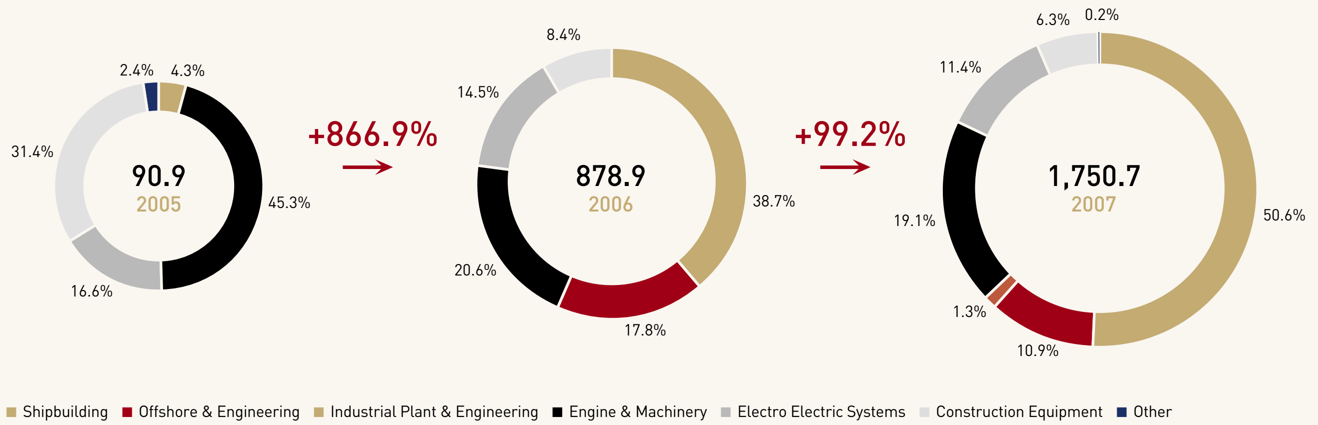
in KRW billions

	2007		2006		2005	
		Change		Change		Change
Sales	**15,533.0**	**+23.7%**	**12,554.7**	**+21.2%**	**10,354.4**	**+14.0%**
Shipbuilding	7,556.7	+17.3%	6,442.8	+21.0%	5,322.4	+25.8%
Offshore & Engineering	2,222.1	+14.9%	1,934.5	+31.1%	1,475.6	(2.4%)
Industrial Plant & Engineering	1,016.6	+69.0%	601.6	(2.8%)	619.0	+0.7%
Engine & Machinery	1,645.7	+34.9%	1,219.6	+27.8%	954.2	+27.1%
Electro Electric Systems	1,453.4	+37.6%	1,056.5	+30.4%	810.4	(1.7%)
Construction Equipment	1,512.0	+26.2%	1,197.9	+13.9%	1,051.4	+1.7%
Other	126.5	+24.3%	101.8	(16.1%)	121.3	+2.8%
		Margin		Margin		Margin
Operating Income	**1,750.7**	**11.3%**	**878.9**	**7.0%**	**90.9**	**0.9%**
Shipbuilding	886.5	11.7%	376.2	5.8%	6.4	0.1%
Offshore & Engineering	191.7	8.6%	172.7	8.9%	(14.5)	(1.0%)
Industrial Plant & Engineering	23.5	2.3%	(89.8)	(14.9%)	(46.6)	(7.5%)
Engine & Machinery	335.1	20.4%	199.8	16.4%	68.9	7.2%
Electro Electric Systems	200.2	13.8%	140.8	13.3%	25.3	3.1%
Construction Equipment	110.9	7.3%	82.0	6.8%	47.8	4.5%
Other	2.8	2.2%	(2.8)	(2.8%)	3.6	2.9%

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

Operating Income Breakdown by Division

in KRW billions



growing profitability reflected accelerating deliveries of higher-priced vessels placed in 2004 and 2005 as well as an overall increase in vessel deliveries.

The Offshore & Engineering Division saw its operating profit rise 11.0%, benefitting from the completion of a number of delayed subsea pipeline projects as well as improved profitability in the crude oil production facility business. The on-ground shipbuilding business also played a key role in this solid performance, providing roughly 30% of revenues.

The Industrial Plant & Engineering Division successfully returned to profitability after four years of losses precipitated by the termination of certain overseas oil and gas plant projects. The division's focus on profitability paid off as the start-up of new power plant construction projects put it solidly back in the black.

The Engine & Machinery Division delivered a remarkable 67.7% improvement in operating profit—second only to shipbuilding—as marine engine prices and orders rose in tandem with vessel prices as the global shipbuilding boom continued.

The Electro Electric Systems Division recorded a robust 42.2% increase in operating profit, driven by surging global demand for power. The division saw continued strong growth in demand for replacement power distribution equipment in the US and accelerating investment in power generation facilities in the Middle East.

The Construction Equipment Division delivered a strong 35.2% increase in operating profit, benefitting from continued high sales growth in Europe as well as China and other emerging markets that more than offset a slumping US market.

Net Non-Operating Income / Expenses

in KRW billions

	2007	2006	2005
Net Non-Operating Income/Expenses	**643.7**	**270.7**	**166.9**
Net interest income	188.3	79.2	70.7
Net gain on foreign currency translations	4.6	(9.7)	(3.8)
Net gain on foreign currency transactions	9.8	(66.3)	(25.6)
Net gain on valuation of investment securities accounted for using the equity method	482.5	179.2	122.6
Net gain on valuation of derivatives	(54.3)	37.2	(14.1)
Net gain on transaction of derivatives	19.5	59.1	(34.4)
Net of others	(6.7)	(8.0)	51.5

Non-Operating Income & Expenses

The Company posted a net non-operating income of KRW 643.7 billion in 2007, a 137.8% increase over last year's KRW 270.7 billion result. Improved profitability and growth in advance payments from shipbuilding customers produced a 137.8% increase in interest income. The Company also saw a 169.2% increase in net gains on valuation of investment securities accounted for using the equity method from Hyundai Samho Heavy Industries and other investment holdings.

Net Income

Strong performances from all divisions spearheaded by the Shipbuilding and Engine & Machinery Divisions enabled the Company to record a net income of KRW 1,736.1 billion for a net profit margin of 11.2%, an outstanding 143.6% improvement over 2006. Net earnings per share continued to surge, jumping 151.3% from KRW 11,053 to KRW 27,778 for the year.

Financial Structure Analysis

Assets

The Company's total assets stood at KRW 16,824.1 billion at 2007 year end, a 29.5% year-on-year increase of KRW 3,828.0 billion. The ongoing shipbuilding order boom was a major factor, contributing to increasing balances of both cash and short-term financial instruments. Non-current assets also grew due to increasing acquisitions of long-term investment securities as well as investment securities accounted for using the equity method such as Qinhuangdao Shouqin Metal Materials, Hyundai Construction Equipment India, and Wärtsilä-Hyundai Engine.

Liabilities

The Company's total liabilities stood at KRW 11,332.6 billion at 2007 year end, a 30.6% year-on-year increase of KRW 2,657.3 billion led by a sharp 28.0% increase in advances from customers. As a result, the liabilities-to-equity ratio rose 5.6 percentage points to 206.4% for the year.

Total borrowings for the year were virtually unchanged at KRW 188.9 billion. However, an increase in shareholders' equity trimmed the debt-to-equity ratio by nearly a percentage point to 3.4% as the Company continued to maintain a sound financial structure.

Shareholders' Equity

The Company's shareholders' equity stood at KRW 5,491.5 billion at 2007 year end, a 27.1% increase of KRW 1,170.7 billion. This improvement was driven by a KRW 1,574.8 billion increase in retained earnings, reflecting the strong 143.6% rise in net income for the year.

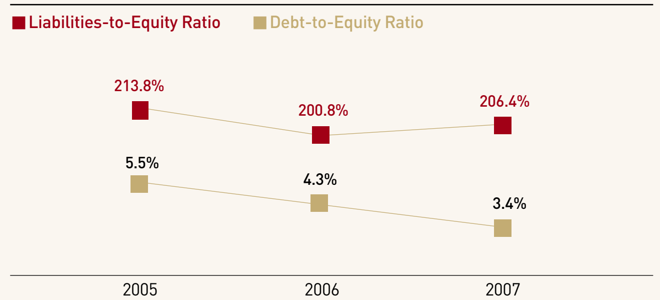
Cash Flows Analysis

Net cash flows from operating activities jumped 151.1% in 2007, driven by sharp increases in both net income and advances from customers on a record USD 15.7 billion in ship orders.

Net cash outflows from investing activities soared 197.8% as the Company invested the cash and cash equivalents arising from advances from customers in both short-term financial instruments and long-term investment securities. The growing need for investment in production facilities to handle the growing backlog of shipbuilding orders also led to increased spending on property, plant and equipment.

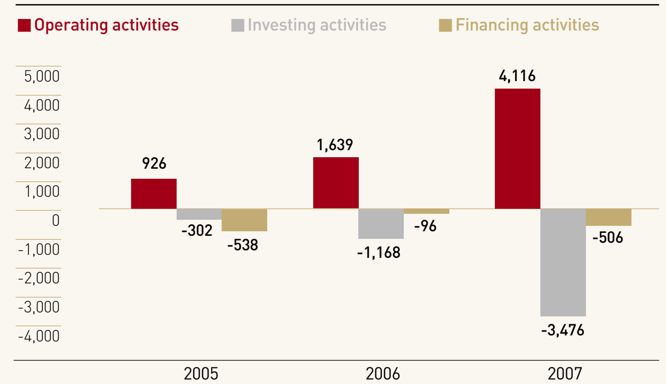
Net cash outflows from financing activities leaped 432.6% due to the payment of a record KRW 7,500 cash dividend and a stock repurchase program that bought back 3% of issued and outstanding shares during the year to increase shareholder value.

Financial Stability Ratios



Cash Flows

in KRW billions



Balance Sheet Summary

in KRW billions

	2007	2006	2005
Assets	**16,824.1**	**12,996.1**	**11,480.3**
Current assets	8,499.5	6,211.4	5,168.5
Cash balance*	3,611.2	1,275.8	649.4
Non-current assets	8,324.6	6,784.7	6,311.8
Liabilities	**11,332.6**	**8,675.3**	**7,821.5**
Current liabilities	10,887.7	8,153.4	7,380.5
Advances from customers	8,013.3	6,262.8	5,701.6
Non-current liabilities	444.9	521.9	441.0
Shareholders' Equity	**5,491.5**	**4,320.8**	**3,658.8**
Capital adjustments	(696.7)	(351.8)	(351.8)

* Cash Balance: Cash and cash equivalents + short-term financial instruments + short-term investment securities

Orders & Backlog Analysis

The Company saw order growth of 16.1% in 2006 and 33.7% in 2007. Led by the Shipbuilding Division's continued outstanding performance in its booming industry, order growth was robust across all divisions as rapid growth in emerging markets drove orders for crude oil production and processing facilities, power plant and substation equipment, and construction equipment.

The Shipbuilding Division saw orders rise 38.7% in 2006 and 37.1% in 2007 as the global shipbuilding boom continued. According to Lloyd's Register, the global shipbuilding industry grew more than 62% in both 2006 and 2007 in terms of gross tonnage, reaching record highs for a second straight year as it rose from 99.0 million to 164.8 million gross tons.

The Engine & Machinery Division saw orders rise by 20.0% in 2006 and 72.9% in 2007 as the aforementioned shipbuilding boom drove marine engine orders to record highs.

The Offshore & Engineering Division saw orders fall 44.8% to USD 1.1 billion as several major project tenders for large FPSOs were delayed. The division won a USD 520 million oil and gas production platform project in Nigeria as oil majors continued to actively invest in new offshore facilities.

The Industrial Plant & Engineering Division booked orders of USD 1.5 billion, an 82.5% improvement. The division captured a major USD 1.1 billion gas-fired combined-cycle power plant project in Saudi Arabia as investment in energy production and infrastructure continued to grow overseas.

Orders & Backlog

in USD millions

	2007	2006	2005
Orders	**25,020**	**18,706**	**15,856**
Shipbuilding	15,730 (148 Ships)	11,470 (116 Ships)	8,272 (82 Ships)
Offshore & Engineering	1,102	1,997	2,577
Industrial Plant & Engineering	1,544	846	1,399
Engine & Machinery	3,248	1,879	1,566
Electro Electric Systems	1,766	1,274	1,004
Construction Equipment	1,630	1,240	1,038
Backlog	**40,733**	**31,448**	**24,804**
Shipbuilding	26,139	20,668	17,067
Offshore & Engineering	7,349	5,620	3,799
Industrial Plant & Engineering	2,265	1,939	1,600
Engine & Machinery	3,743	2,208	1,577
Electro Electric Systems	1,237	1,013	776

• An amendment was made to the basis of data collection for orders of Construction Equipment.
• Backlog is calculated by subtracting recognized revenues from sales on a percentage-of-completion basis.

The Electro Electric Systems Division recorded its second straight year of strong double-digit growth as orders rose 26.9% in 2006 and 38.6% in 2007. The division benefitted from strong economic growth in India, Southeast Asia, and the Middle East that sent power demand soaring, driving investment in both power plants and substations. In the US, an aging power infrastructure continued to drive investment in replacement equipment.

2008 Business Targets

	Orders (in USD millions)			Sales (in KRW billions)		
	2008 Target	2007	Change	2008 Target	2007	Change
Total	**29,357**	**25,020**	**+17.3%**	**18,061.0**	**15,533.0**	**+16.3%**
Shipbuilding	17,130	15,730	+8.9%	8,341.0	7,556.7	+10.4%
Offshore & Engineering	2,200	1,102	+99.6%	2,563.0	2,222.1	+15.3%
Industrial Plant & Engineering	2,500	1,544	+61.9%	1,200.0	1,016.6	+18.0%
Engine & Machinery	3,286	3,248	+1.2%	2,252.0	1,645.7	+36.8%
Electro Electric Systems	2,222	1,766	+25.8%	1,753.3	1,453.4	+20.6%
Construction Equipment	2,019	1,630	+23.9%	1,823.0	1,512.0	+20.6%
Other	-	-	-	128.7	126.5	+2.4%

The Construction Equipment Division booked orders of USD 1.6 billion, a 31.6% improvement. The division benefitted from continued strong market growth in China as well as robust sales across Europe, Russia, and Latin America.

The Company finished the year with a record order backlog of USD 40.7 billion thanks to solid order performances by all six divisions. Backlog growth was 17.9% in 2006 and 31.7% in 2007.

2008 Business Outlook

Business Targets

In the coming year, the Company believes that slowing global economic growth, upward pressure on raw materials prices, and the weakening US dollar will increase uncertainty in the business environment. That said, a solid backlog of work across all divisions has prompted the Company has set a sales target of KRW 18,006.1 billion, a 16.3% increase over 2007.

The Company is also targeting orders of USD 29.4 billion, a 17.3% increase. The Shipbuilding Division is aiming for orders of USD 17.1 billion, a roughly 8.9% increase driven by the ongoing shipbuilding boom and expanded production capacity with the upcoming opening of a new shipyard at Gunsan. The Company's five other divisions also expect orders to remain robust as demand in emerging markets remains on a solid upward trajectory.

The Company's order backlog has risen sharply over the past three years, making it imperative to increase production capacity. Toward this end, the Company will be increasing capital expenditures by roughly 50.6% to KRW 1,638.0 billion and investment in R&D by 43.3% to KRW 211.1 billion.

Outlook by Division

Shipbuilding Division

The division's backlog swelled to more than 3.5 years at 2007 year end as it delivered another record order performance in the fourth year of the current shipbuilding boom. While the ongoing impact of last year's US subprime mortgage crisis on global economic growth remains to be seen, shipbuilding market fundamentals continue to be favorable, driven by growth in China, India, and other emerging markets.

Offshore & Engineering Division

The division's mid- to long-range outlook is bright. Continued high oil prices and rising demand for energy are driving aggressive investment in offshore oil field development as well as alternative energy by the oil majors. The offshore market is forecast to see an increase in orders for medium-size and large fixed platforms for projects in Australia and the Middle East. Orders for medium-size FPSOs are expected to be particularly strong, and the undersea pipeline, gas field development, and facilities replacement markets are also expected to see growth. Challenges will include intensifying competition as oil-producing nations look to keep more of their investment funds at home by increasing local participation quotas and encouraging local competition in tenders.

Industrial Plant & Engineering Division

The global oil and gas sector is expected to deliver robust growth in 2008 as oil-producing nations make major investments in new infrastructure, including oil and gas, petrochemical, and power plants. Competition is also expected to steadily intensify in the coming years as the Middle East plant construction boom attracts new players from China, India, and Egypt.

Engine & Machinery Division

Although growing capacity among the world's top engine makers sets the stage for increased competition, Chinese and Korean shipbuilders are expected to increase their marine engine orders as bulk carrier orders continue to rise. Demand for the largest marine engines used in containerships is also set to rise. Rapid growth in emerging markets and the accompanying rise in power demand is expected to continue to drive demand for small and medium-size diesel power generators across Latin America, India, the Middle East, and Africa.

Electro Electric Systems Division

While Korea's overall electric equipment market is expected to perform similar to last year, the industry outlook indicates rising demand for new and renewable energy solutions from regional governments and the private sector. Internationally, demand for equipment will continue to grow as the US steadily upgrades its aging infrastructure, oil money keeps business booming in the Middle East, and emerging markets like Russia and Brazil rapidly add new infrastructure. The new and renewable energy fields also appear poised to make huge gains, particularly in Europe.

Construction Equipment Division

The global construction equipment market is forecast to enjoy steady overall growth in 2008. The Korean market is on track to improve on last year's performance as major construction projects drive demand for new equipment. Overseas, Europe is expected to once again generate record growth on the strength of a booming manufacturing sector and robust euro. South America, Russia, and Africa are also expected to be strong markets due to high oil prices and growing demand from the resource development sector.

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, 2007 and 2006, the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, and the non-consolidated statement of changes in shareholders' equity for the years ended December 31, 2007, 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, 2007 and 2006, the results of its operations, changes in its retained earnings and its cash flows for the years then ended, and changes in its shareholders' equity for the years ended December 31, 2007, 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 December 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 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. 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 December 14, 2006. As of December 31, 2007, 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.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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, changes in shareholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such 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 22, 2008

Notice to Readers

This report is effective as of February 22, 2008, 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.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

Korean won (In thousands)

ASSETS	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents (Note 22)	₩ 953,756,858	₩ 819,920,933
Short-term financial instruments	2,154,137,014	234,137,014
Short-term investment securities (Note 5)	503,388,199	221,788,518
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩70,815,544 thousand in 2007 and ₩80,020,598 thousand in 2006 (Notes 17, 21 and 22)	2,740,673,266	2,445,187,369
Accounts receivable-other, net of allowance for doubtful accounts of ₩268,303,195 thousand in 2007 and ₩291,228,211 thousand in 2006 (Notes 6, 21 and 22)	147,455,116	216,903,840
Inventories (Note 4)	1,119,219,453	1,128,775,840
Advanced payments, net of allowance for doubtful accounts of ₩12,567,027 thousand in 2007 and ₩13,668,291 thousand in 2006	336,144,870	398,635,918
Accrued income	30,528,517	5,558,707
Foreign exchange forward contracts (Note 11)	185,520,620	495,782,386
Deferred income tax assets (Notes 11 and 18)	70,990,353	-
Prepaid expenses and other current assets (Notes 21 and 22)	257,729,822	244,767,722
Total current assets	**8,499,544,088**	**6,211,458,247**
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 7 and 23)	4,968,785,355	4,455,129,314
Long-term investment securities (Note 5)	714,663,412	426,736,444
Investment securities accounted for using the equity method (Note 6)	2,248,120,981	1,499,146,077
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩965,609 thousand in 2007 and ₩1,298,456 thousand in 2006 (Notes 11 and 22)	95,595,244	128,547,184
Long-term financial instruments (Notes 3 and 22)	9,003,360	9,112,870
Intangible assets (Notes 8 and 23)	236,048,362	221,517,941
Other non-current assets (Notes 21 and 22)	52,334,857	44,508,801
Total non-current assets	**8,324,551,571**	**6,784,698,631**
Total Assets	**₩ 16,824,095,659**	**₩ 12,996,156,878**

(Continued)

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2007 AND 2006

Korean won (In thousands)

LIABILITIES AND SHAREHOLDERS'S EQUITY	2007	2006
CURRENT LIABILITIES:		
Current maturities of debentures and long-term borrowings, net of discounts of ₩298,966 thousand in 2007 (Notes 9 and 22)	₩ 187,341,034	₩ 341,960
Trade accounts and notes payable (Notes 21 and 22)	1,495,173,461	1,179,763,488
Accounts payable-other (Notes 21 and 22)	122,492,217	125,989,605
Advances from customers (Note 17)	8,013,303,994	6,262,761,712
Accrued expenses (Notes 21 and 22)	250,899,632	188,086,233
Income tax payable (Note 18)	455,564,205	167,718,040
Foreign exchange forward contracts (Note 11)	205,986,451	2,267,788
Deferred income tax liabilities (Notes 11 and 18)	-	38,716,339
Withholdings and other current liabilities (Notes 17 and 22)	156,881,303	187,804,932
Total current liabilities	**10,887,642,297**	**8,153,450,097**
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discounts of ₩710,750 thousand in 2006 (Notes 9 and 22)	1,625,627	186,552,277
Accrued severance benefits, net of severance insurance deposits and others of ₩1,079,968,485 thousand in 2007 and ₩941,839,903 thousand in 2006 (Note 10)	110,865,582	193,348,583
Long-term accrued expenses	1,029,342	2,269,234
Deferred income tax liabilities (Notes 11 and 18)	257,968,531	81,371,661
Other long-term liabilities (Note 21)	73,455,854	58,321,740
Total long-term liabilities	**444,944,936**	**521,863,495**
Total Liabilities	**11,332,587,233**	**8,675,313,592**
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
Capital adjustments (Note 15)	(696,729,513)	(351,821,818)
Accumulated other comprehensive income (Notes 5, 6 and 11)	169,794,560	229,048,416
Retained earnings (Note 14)	2,876,059,692	1,292,233,001
Total shareholders' equity	**5,491,508,426**	**4,320,843,286**
Total Liabilities and Shareholders' Equity	**₩ 16,824,095,659**	**₩ 12,996,156,878**

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Korean won (In thousands, except per share amounts)

	2007	2006
Sales (Notes 17, 21, 23 and 25)	**₩ 15,533,013,307**	**₩ 12,554,744,430**
Cost of sales (Notes 17 and 21)	**12,976,118,554**	**10,973,444,547**
Gross profit	**2,556,894,753**	**1,581,299,883**
Selling and administrative expenses (Note 24)	**806,197,217**	**702,433,590**
Operating income (Note 23)	**1,750,697,536**	**878,866,293**
Non-operating income:		
Interest and dividend income	205,072,125	96,103,120
Gain on foreign currency transactions	87,926,436	77,473,201
Gain on foreign currency translation	12,923,568	33,106,834
Gain on valuation of investment securities accounted for using the equity method (Note 6)	489,179,298	200,004,281
Gain on disposal of available-for-sales securities	10,676,253	7,003,756
Gain on valuation of foreign exchange forward contracts (Note 11)	4,907,836	38,375,247
Gain on transaction of foreign exchange forward contracts (Note 11)	36,055,708	65,331,493
Gain on reversal of provisions	6,392,055	-
Reversal of provision for construction warranties	6,680,152	793,705
Others	94,975,181	78,347,397
	954,788,612	596,539,034
Non-operating expenses:		
Interest expense	11,402,580	10,721,232
Loss on foreign currency transactions	78,099,571	143,753,092
Loss on foreign currency translation	8,360,813	42,793,599
Loss on valuation of investment securities accounted for using the equity method (Note 6)	6,643,654	20,835,361
Loss on disposal of available-for-sales securities	3,638,864	550
Loss on disposal of property, plant and equipment	33,263,439	11,634,104
Loss on impairment of long-term investment securities (Note 5)	105,249	2,383,171
Loss on valuation of foreign exchange forward contracts (Note 11)	59,199,240	1,194,237
Loss on transaction of foreign exchange forward contracts (Note 11)	15,594,631	6,238,859
Others	94,792,242	86,329,319
	311,100,283	325,883,524
Net income before income tax	**2,394,385,865**	**1,149,521,803**
Income tax expense (Note 18)	**658,325,534**	**436,674,245**
Net income	**₩ 1,736,060,331**	**₩ 712,847,558**
Earnings per share (Note 20)	**₩ 27,778**	**₩ 11,053**

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Korean won (In thousands)

	2007	2006
Retained earnings before appropriations:		
Beginning of year	₩ 9	₩ 2
Net income	1,736,060,331	712,847,558
	1,736,060,340	**712,847,560**
Transfer from reserve:		
Reserve for research and human development	17,690,636	23,833,333
Appropriations:		
Legal reserve	46,660,092	16,123,364
Reserve for research and human development	-	210,000,000
Voluntary reserve	1,240,489,960	349,323,880
Cash dividends (Note 16)	466,600,920	161,233,640
	1,753,750,972	**736,680,884**
Unappropriated retained earnings, end of year	**₩ 4**	**₩ 9**

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

Korean won (In thousands)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total amount
January 1, 2007	₩ 380,000,000	₩ 2,771,383,687	₩ (351,821,818)	₩ 386,855,426	₩ 1,292,233,001	₩ 4,478,650,296
Accumulated effect of accounting changes	-	-	-	(157,807,010)	-	(157,807,010)
January 1, 2007 (adjusted)	380,000,000	2,771,383,687	(351,821,818)	229,048,416	1,292,233,001	4,320,843,286
Dividends	-	-	-	-	(161,233,640)	(161,233,640)
Balance after appropriations	380,000,000	2,771,383,687	(351,821,818)	229,048,416	1,130,999,361	4,159,609,646
Net income	-	-	-	-	1,736,060,331	1,736,060,331
Change in treasury stock	-	-	(344,907,695)	-	-	(344,907,695)
Gain on valuation of investment securities	-	-	-	63,184,877	-	63,184,877
Changes in equity arising on application of the equity method	-	-	-	128,162,785	-	128,162,785
Negative changes in equity arising on application of the equity method	-	-	-	16,655,895	-	16,655,895
Change in the valuation of derivatives	-	-	-	(267,257,413)	-	(267,257,413)
December 31, 2007	**₩ 380,000,000**	**₩ 2,771,383,687**	**₩ (696,729,513)**	**₩ 169,794,560**	**₩ 2,867,059,692**	**₩ 5,491,508,426**

See accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Korean won (In thousands)

	2007	2006
Cash flows from operating activities:		
Net income	**₩ 1,736,060,331**	**₩ 712,847,558**
Adjustments to reconcile net income to net cash provided(used) by operating activities:		
Provision for severance benefits	198,841,279	206,770,353
Provision for doubtful accounts	12,877,187	39,652,997
Amortization of development costs	38,181,230	28,864,045
Depreciation	351,718,296	347,859,034
Loss on foreign currency translation	8,329,771	42,767,981
Provision for construction warranties	17,066,169	14,571,086
Provision for production warranties	9,326,710	5,680,365
Loss on disposal of available-for-sales securities	3,638,864	550
Loss on valuation of investment securities accounted for using the equity method	6,643,654	20,835,361
Loss on disposal of property, plant and equipment	33,263,439	11,634,104
Income tax expense	-	118,420,797
Loss on valuation of foreign exchange forward contracts	59,199,240	1,194,237
Gain on disposal of property, plant and equipment	(6,709,012)	(1,562,414)
Gain on foreign currency translation	(11,252,407)	(33,082,074)
Gain on valuation of investment securities accounted for using the equity method	(489,179,298)	(200,004,281)
Gain on valuation of foreign exchange forward contracts	(234,959,971)	(394,359,769)
Gain on reversal of provision foreseeable losses from construction contracts	(58,590,795)	-
Reversal of provision for construction warranties	(6,680,152)	(793,705)
Others	(13,089,475)	21,148,738
	(81,375,271)	**229,597,405**
Changes in operating assets and liabilities:		
Increase in trade accounts and notes receivable	(256,285,468)	(184,214,078)
Decrease (Increase) in accounts receivable-other	66,031,312	(94,614,578)
Decrease in inventories	9,557,776	19,541,597
Decrease (Increase) in advanced payments	61,724,429	(126,660,118)
Decrease (Increase) in accrued income	(24,969,810)	2,471,338
Decrease in foreign exchange forward contracts	303,208,956	328,891,317
Decrease in long-term notes receivable in foreign currency	-	19,754,696
Increase in trade accounts payable	312,601,393	72,281,897
Increase (Decrease) in accounts payable-other	(3,826,357)	38,767,196
Increase in advances from customers	1,768,443,574	543,253,806
Increase (Decrease) in accrued expenses	60,504,616	(8,673,244)
Increase in income tax payable	287,846,165	153,771,120
Decrease in long-term accrued expenses	(1,239,893)	(50,221,310)
Payments of severance benefits	(143,195,698)	(90,417,659)
Increase in deposits for severance benefits	(142,655,720)	(77,407,366)
Decrease (Increase) in deferred income tax assets	(70,990,353)	34,411,835
Increase in deferred income tax liabilities	161,765,351	104,335,727
Others, net	72,803,493	11,375,992
	2,461,323,766	**696,648,168**
Net cash provided by operating activities	**4,116,008,826**	**1,639,093,131**

(Continued)

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Korean won(In thousands)

	2007	2006
Cash flows from investing activities:		
Withdrawal of short-term financial instruments	₩ 1,030,621,000	₩ 160,610,000
Disposal of short-term investment securities	1,178,453,619	874,572,333
Disposal of long-term investment securities	17,193,951	427,511
Disposal of investment securities accounted for using the equity method	6,585,516	157,146,679
Disposal of long-term investment securities	539,893	20,310,107
Disposal of other investment assets	1,721,898	1,229,579
Disposal of property, plant and equipment	18,924,381	5,751,625
Acquisition of short-term financial instruments	(2,950,621,000)	(210,621,000)
Acquisition of short-term investment securities	(1,424,000,000)	(1,070,000,000)
Acquisition of long-term financial instruments	(367,473)	(23,215,160)
Acquisition of long-term investment securities	(246,507,801)	(2,759,958)
Acquisition of investment securities accounted for using the equity method	(133,347,454)	(485,161,788)
Acquisition of property, plant and equipment	(910,854,533)	(529,275,356)
Acquisition of intangible assets	(54,750,934)	(61,278,856)
Acquisition of other investment assets	(9,563,269)	(5,663,504)
Net cash used in investing activities	**(3,475,972,206)**	**(1,167,927,788)**
Cash flows from financing activities:		
Proceeds from long-term borrowings	282,600	1,353,863
Repayment of current maturities of long-term borrowings and other long-term liabilities	(341,960)	(372,639)
Payment of cash dividends	(161,233,640)	(96,740,184)
Acquisition of treasury stock	(344,907,695)	-
Net cash used in financing activities	**(506,200,695)**	**(95,758,960)**
Net increase in cash and cash equivalents	**133,835,925**	**375,406,383**
Cash and cash equivalents at the beginning of the year	**819,920,933**	**444,514,550**
Cash and cash equivalents at the end of the year	**₩ 953,756,858**	**₩ 819,920,933**

See accompanying notes to non-consolidated financial statements.

1. THE COMPANY

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated in December 28, 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 62,213,456 shares of common stock are outstanding as of December 31, 2007. Of the total issued shares, Mong-Joon Chung, KCC Corp., Hyundai Mipo Dockyard Co., Ltd., funds managed by Mirae Asset Investments Co., Ltd. and Hyundai Motor Company own 10.80%, 8.15 %, 7.98%, 7.33% and 2.88%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company's employees and directors, up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company's employees and directors as of December 31, 2007. The Company may also raise capital without obtaining the approval of shareholders by 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, changes in shareholders' equity or cash flows, is not presented in the accompanying financial statements.

The Company prepared its financial statements as of December 31, 2007 in accordance with the revised Statements of Korea Accounting Standards ("SKAS") No. 16 "Income Taxes", new SKAS No. 21 "Preparation and Presentation of Financial Statements" , No. 22 "Share-based Payment" and No. 23 "Earnings per Share", effective from January 1, 2007. Major changes compared with the standard applied in preparing the 2007 financial statements are as follows:

Statements of Korea Accounting Standards	Major changes
No. 16 Income Taxes	-To include additional income tax and income tax refunds in income tax expenses
No. 21 Preparation and Presentation of Financial Statements	-To prepare the statement of changes in shareholders' equity as a complete set of financial statements -To use accounts, 'other non-current assets', and 'accumulated other comprehensive income' in preparing balance sheets
No. 23 Earnings per Share	-To present on the face of the income statement basic and diluted earning per share and disclose earning per share for profit or loss from discontinued operations

The Company restated the non-consolidated balance sheet as of December 31, 2006, and non-consolidated statements of income and cash flows for the year ended December 31, 2006, which are presented for comparative purposes, in accordance with the SKAS No.16, No.21 and No.23. Such restatement had no effect of net assets and net income of comparable period. Also, the Company did not prepare the statement of changes in shareholders' equity for the year ended December 31, 2006 for comparative purposes in accordance with the transition provision of SKAS No.21

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

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 collectability of receivables and prior years' collection experience.

When interest rate and repayment period are changed unfavorably for the Company by a court imposition such as commencement of reorganization or by mutual agreements and the difference between nominal value and present value is material, the difference is presented as bad debt expenses.

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. Quantities of inventories at year-end are determined based on physical counts. If the net realizable value of inventories is lower than cost, inventories are adjusted to net realizable value and the difference between cost and revalued amount is charged to current operations.

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 accumulated other comprehensive income (loss), until the securities are sold or if the securities are determined to be impaired and accumulated other comprehensive income (loss) is included in current income. 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 accumulated other comprehensive income (loss). Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in accumulated other comprehensive income (loss) 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 accumulated other comprehensive income (loss), in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus, capital adjustments and accumulated other comprehensive income (loss). Unrealized profit arising from sales by the Company to subsidiaries of investor 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.

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

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

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. The acquisition cost of property, plant, and equipment is comprised of its purchase price or manufacturing costs and any other directly attributable costs of bringing the asset to the working condition of its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price.

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 to finance the purchase of construction of property, plant and equipment and manufacture of inventories are charged to current income.

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

	Useful lives (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.

Intangible Assets

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

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

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

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 ₩938.20 and ₩929.60 to USD1.00 at December 31, 2007 and 2006, 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 current 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.

Provision for Product Warranty

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

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 ₩1,190,834,067 thousand and ₩1,135,188,486 thousand as of December 31, 2007 and 2006, respectively (see Note 10). Accrued severance benefits are funded approximately 87.6% and 79.3% as of December 31, 2007 and 2006, 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.

Revenue Recognition

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

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

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.

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 an accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as an accumulated other comprehensive income (loss) 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 accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

Cumulative Effect from Change in Accounting Policy

The Company accounted the investment securities in Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") using the equity method based on the financial statements provided by HSHI, where the investments of Hyundai Mipo Dockyard Co., Ltd. ("HMDC", the subsidiary of HSHI) in the Company's share were included as available-for-sale securities. However, according to the new accounting interpretation (2007-08) announced by Financial Supervisory Service of Korea, the Company has changed its accounting policy from the above method to accounting for as a treasury stock on the HMDC's investment securities in the Company's shares.

As a result, the Company's investment securities accounted for using the equity method decreased by ₩350,772,853 thousand, deferred income tax liabilities decreased by ₩93,401,606 thousand, accumulated other comprehensive income decreased by ₩212,000,650 thousand and net income decreased by ₩45,370,597 thousand as of and for the year ended December 31, 2007, compared to the previous accounting method. In addition, the accompanying non-consolidated balance sheet as of December 31, 2006 and the non-consolidated statements of income and cash flows for the year ended December 31, 2006, which are presented for comparative purposes, were restated in accordance with the new interpretation above.

The effect of the change in the accounting policy on using the equity method on the Company's financial statements for the preceding three years is as follows:

Korean won (In thousands)

	2004		2005		2006	
Description	Before	After	Before	After	Before	After
Investment securities accounted for using the equity method	₩ 1,023,448,611	₩ 971,735,381	₩ 1,150,538,105	₩ 1,008,772,609	₩ 1,716,810,918	₩ 1,499,146,077
Deferred income tax assets (non-current)	-	-	-	28,937,557	-	-
Deferred income tax liabilities (non-current)	-	-	10,047,955	-	141,229,492	81,371,661
Changes in equity arising from application of the equity method	40,880,035	-	82,766,836	14,201,449	143,828,856	13,486,566
Negative changes in equity arising from application of the equity method	-	(10,833,195)	(15,203,288)	(49,417,886)	(22,366,243)	(49,830,963)

3. RESTRICTED FINANCIAL INSTRUMENTS:

As of December 31, 2007 and 2006, financial instruments amounting to ₩2,037,095 thousand and ₩9,112,870 thousand, respectively, which are included in long-term financial instruments are subject to withdrawal restrictions in relation to certain ship building contracts and bank overdraft.

4. INVENTORIES

Inventories as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007	2006
Merchandise	₩ 48,769,359	₩ 49,701,522
Finished products	125,533,379	70,110,047
Work-in-process	332,450,119	226,823,638
Materials	346,780,441	313,675,691
Supplies	20,392,577	14,760,437
Materials in-transit	245,293,578	453,704,505
	₩ 1,119,219,453	**₩ 1,128,775,840**

5. SHORT-TERM AND LONG-TERM INVESTMENT SECURITIES:

(1) Short-term investment securities consist of beneficiary certificates and various bonds of ₩503,388,199 thousand and ₩221,788,518 thousand as of December 31, 2007 and 2006, respectively. All short-term investment securities are classified into available-for-sale securities. Available-for-sale securities are stated at fair value with unrealized gain on valuation of available-for-sale securities (net of tax effect) amounting to ₩3,181,444 thousand and ₩642,730 thousand in accumulated other comprehensive income as of December 31, 2007 and 2006, respectively.

(2) Long-term investment securities as of December 31, 2007 and 2006, all of which are classified into available-for-sale, consist of the following:

Korean won (In thousands)

	2007	**2006**
Available-for-sale:		
Equity securities stated at fair value	₩ 645,820,238	₩ 345,294,901
Equity securities stated at acquisition cost	68,843,174	51,752,344
Debt securities	-	29,689,199
	₩ 714,663,412	**₩ 426,736,444**

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

Korean won (In thousands)

Company	**% of ownership**	**Historical cost**	**Book value**
Hyundai Motor Company	3.46	₩ 519,246,924	₩ 544,404,872
Tong Yang Investment Bank	3.45	99,828,399	71,025,510
Hyundai Corp.	0.36	11,227,434	1,821,085
Hyundai Elevator Co., Ltd.	2.16	1,632,339	20,791,215
Kia Motors Corp.	0.03	2,681,616	891,275
Hanarotelecom Inc.	0.01	7,947,667	12,301
Mirae Asset Securities Co., Ltd.	0.10	6,654,173	6,873,980
		₩ 649,218,552	**₩ 645,820,238**

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

Korean won (In 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**

(4) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2007 are as follows:

Korean won (In thousands)

Company	% of ownership		Historical cost		Book value(*1)
Unlisted equity securities (*1):					
Daehan Oil Pipeline Corp. (*4)	6.39		14,511,802		15,851,427
Novelis Korea Ltd.	0.39		14,598,913		1,405,452
Doosan Capital Co., Ltd. (*5)	9.99		10,000,000		26,146,000
Bexco, Ltd.	7.96		9,460,000		9,460,000
Hyundai Technologies Center Hungary Kft. (*2&3)	100.00		26,302		26,302
Others (*2&3)	-		12,426,142		9,856,158
			95,548,778		**62,745,339**
Other investments:					
Investments in capital (*2)			5,677,796		6,097,835
		₩	**101,226,574**	₩	**68,843,174**

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

Korean won (In 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.	0.39		14,598,913		1,510,701
Doosan Capital Co., Ltd.	9.99		10,000,000		10,000,000
Bexco, Ltd.	7.96		9,460,000		9,460,000
Hyundai Technologies Center Hungary Kft. (*2&3)	100.00		26,302		26,302
Others (*2&3)	-		12,747,227		10,177,243
			95,869,863		**45,686,048**
Other investments:					
Investments in capital (*2)			5,677,796		6,066,296
		₩	**101,547,659**	₩	**51,752,344**

(*1) The book value of unlisted equity security was recorded at their acquisition cost because the fair value cannot be reliably estimated, except for Daehan Oil Pipeline Corp., and Doosan Capital Co., Ltd. However, the equity security impaired at year end was devaluated at the net book value based on the most available financial statements.

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

(*3) The subsidiaries of related parties

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

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

Long-term investment securities of Novelis Korea Ltd. have been determined to be impaired and the impairment loss amounting to ₩105,249 thousand is accounted as non-operating expenses in 2007.

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

Korean won (In thousands)

Company		Beginning balance		Increase(Decrease)		Impairment loss		Ending balance
Hyundai Motor Company	₩	(405,601)	₩	18,645,113	₩	-	₩	18,239,512
Tong Yang Investment Bank		(1,300,571)		21,388,298		-		20,087,727
Hyundai Corp.		703,179		90,152		-		793,331
Hyundai Elevator Co., Ltd.		6,275,209		7,614,976		-		13,890,185
Kia Motors Corp.		(1,083,673)		(214,325)		-		1,297,998)
Hanarotelecom Inc.		6,780		2,139		-		8,919
Mirae Asset Securities Co., Ltd.		-		159,360		-		159,360
Daehan Oil Pipeline Corp.		-		971,228		-		971,228
Doosan Capital Co., Ltd.		-		11,705,850		-		11,705,850
		4,195,323		**60,362,791**		**-**		**-64,558,114**
Government and municipal bonds		40,390		(40,390)		-		-
Subordinated bonds		(300,894)		300,894)		-		-
Investments in capital		281,662		22,868		-		304,530
	₩	**4,216,481**	₩	**60,646,163**	₩	**-**	₩	**64,862,644**

Valuation of available-for-sale securities in accumulated other comprehensive income (net of tax effect), all of which are classified into long-term investment securities stated at fair value as of December 31, 2006, is as follows:

Korean won (In 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 Corp.		540,914		162,265		-		703,179
Hyundai Elevator Co., Ltd.		7,313,616		(1,038,407)		-		6,275,209
Kia Motors Corp.		(245,566)		(838,107)		-		(1,083,673)
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**

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1)Equity securities accounted for using the equity method as of December 31, 2007 are as follows:

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩ 266,150,343	₩ 329,826,033
Hyundai Finance Corp. (*2)	12,350,000	67.49	78,197,738	88,223,005
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92	204,259,700	1,068,540,327
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	20,215,057	23,323,703
Beijing Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	15,661,020	13,612,598
MOST #3 Venture Investment	130	24.53	122,630	125,485
Incheon Airport Energy	3,284,884	31.00	16,424,420	3,847,377
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00	28,514,868	40,106,509
Hyundai Heavy Industries Co. Bulgaria (*2)	12,155,829	99.09	11,620,593	22,730,051
New Korea Country Club	16,457	20.00	500,000	3,272,781
Hyundai Dongahn Steel (*2&3)	-	54.99	1,231,036	1,314,368
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00	35,656,728	23,312,570
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00	2,543,678	7,806,652
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99	7,254,254	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.) (*2&3)	-	55.22	18,256,250	13,739,103
H.C.E U.S.A (*2)	23,900,000	100.00	26,712,810	6,634,931
Vladivostock Business Center (*2&3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58	6,617,040	5,318,298
HHI China Investment Co., Ltd. (*2&3)	-	100.00	28,372,350	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock) (*6)	23,424,037	17.60	404,039,118	357,350,650
Hyundai Merchant Marine Co., Ltd. (Preferred stock) (*6)	3,516,688	17.58	52,750,320	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*3)	-	20.00	67,658,226	92,647,265
Hyundai Ideal Electric Co.	1,000	100.00	11,241,600	11,378,786
Taishan Financial Leasing Co., Ltd. (*2&3)	-	60.03	2,496,186	2,020,867
Hyundai Construction Equipment India Private Ltd.	8,603,025	100.00	18,557,139	20,287,075
Wartsila Hyundai Engine Company Ltd. (*3)	-	50.00	22,230,000	21,970,305
			₩ 1,353,174,771	₩ 2,248,120,981

(*1) 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) The Company's subsidiaries

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

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

(*5) 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 ₩1,250 per share at December 31, 2007.

(*6) 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. In addition, the closing common stock price on the stock market of the Republic of Korea of Hyundai Merchant Marine Co., Ltd. is ₩43,000 per share at December 31, 2007. Preferred stock is unlisted stock; therefore, no market price exists.

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

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank (*1)	48,700,540	19.87	₩ 266,150,343	₩ 282,669,089
Hyundai Finance Corp. (*2)	12,350,000	67.49	78,197,738	86,821,048
Hyundai Samho Heavy Industries Co., Ltd. (*2)	37,967,000	94.92	204,259,700	512,441,521
Changzhou Hyundai Construction Machinery Co., Ltd. (*2&3)	-	60.00	20,215,057	30,488,002
Beijing Hyundai Construction Machinery Co., Ltd. (*2&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 (*2)	910	50.00	9,100,000	2,153,809
MIC99-9 STIC IT Venture Partnership (*2)	820	40.82	8,212,055	2,214,049
Hyundai Jiangsu Construction Machinery Co., Ltd. (*2&3)	-	60.00	17,662,068	15,969,244
Hyundai Heavy Industries Co. Bulgaria (*2)	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 (*2&3)	-	54.99	1,231,036	1,214,109
Hyundai Heavy Industries Europe N.V. (*2)	10	100.00	35,656,728	16,661,324
Hyundai Vinashin Shipyard (*2,3&4)	-	10.00	2,543,678	5,951,387
Yantai Hyundai Moon Heavy Industries Co., Ltd. (*2&3)	-	54.99	7,254,254	6,057,925
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.) (*2&3)	-	80.00	18,256,250	13,147,976
H.C.E U.S.A (*2)	23,900,000	100.00	26,712,810	7,875,610
Vladivostok Business Center (*2&3)	-	57.14	5,891,667	-
Koentec Co., Ltd. (*5)	3,792,000	7.58	6,617,040	5,819,355
HHI China Investment Co., Ltd. (*2&3)	-	100.00	28,372,350	27,705,84
Hyundai Merchant Marine Co., Ltd. (Common Stock) (*6)	23,424,037	17.60	404,039,118	381,589,498
Hyundai Merchant Marine Co., Ltd. (Preferred Stock) (*6)	3,516,688	17.58	52,750,320	56,298,172
			₩ 1,240,315,929	₩ 1,499,146,077

(*1) 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) The Company's subsidiaries.

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

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

(*5) 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.

(*6) 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 common stock 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. Preferred stock has no market price because it is unlisted stock.

(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 2007 are as follows:

Korean won (In thousands)

Company	Beginning balance	Increase (Decrease)	Amortization	Ending balance
Hyundai Oilbank	₩ 372,067	₩ -	₩ (372,067)	₩ -
Hyundai Samho Heavy Industries Co., Ltd.	3,543,034	-	(3,543,034)	-
Hyundai Heavy Industries Co. Bulgaria	(18,298)	-	9,149	(9,149)
Hyundai Vinashin Shipyard	(297,256)	-	198,171	(99,085)
Koentec Co., Ltd.	2,074,457	-	(691,485)	1,382,972
Hyundai Merchant Marine Co., Ltd.	68,880,763	-	(16,207,238)	52,673,525
Qinhuangdao Shouqin Metal Materials Co., Ltd.	-	14,215,316	(2,847,517)	11,367,799
	₩ 74,554,767	**₩ 14,215,316**	**₩ (23,454,021)**	**₩ 65,316,062**

(4) The movements of investment securities using the equity method for the year ended December 31, 2007 are as follows:

Korean won (In thousands)

Company	Beginning balance	Acquisition(Disposal)	Gain(Loss) (*1)	Other	Ending balance
Hyundai Oilbank	₩ 282,669,089	₩ -	₩ 47,079,229	₩ 77,715	₩ 329,826,033
Hyundai Finance Corp.	86,821,048	-	4,440,414	(3,038,457)	88,223,005
Hyundai Samho Heavy Industries Co., Ltd.	512,441,521	-	380,853,422	175,245,384	1,068,540,327
Changzhou Hyundai Construction Machinery Co., Ltd.	30,488,002	-	1,824,887	(8,989,186)	23,323,703
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	15,108,858	-	(1,678,873)	182,613	13,612,598
MOST #3 Venture Investment	4,334,223	(3,244,756)	117,251	(1,081,233)	125,485
Incheon Airport Energy	4,402,927	-	(465,224)	(90,326)	3,847,377
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.	15,969,244	10,852,800	10,229,348	3,055,117	40,106,509
Hyundai Heavy Industries Co. Bulgaria	17,253,084	-	4,131,051	1,345,916	22,730,051
New Korea Country Club	2,969,024	-	303,757	-	3,272,781
Hyundai Dongahn Steel	1,214,109	-	89,027	11,232	1,314,368
Hyundai Heavy Industries Europe N.V.	16,661,324	-	2,479,652	4,171,594	23,312,570
Hyundai Vinashin Shipyard	5,951,387	-	2,246,715	(391,450)	7,806,652
Yantai Hyundai Moon Heavy Industries Co., Ltd.	6,057,925	-	361,409	501,335	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	13,147,976	-	(1,662,510)	2,253,637	13,739,103
H.C.E U.S.A.	7,875,610	-	(1,336,638)	95,959	6,634,931
Vladivostok Business Center (*2)	-	-	-	-	-
Koentec Co., Ltd.	5,819,355	-	(393,827)	(107,230)	5,318,298
HHI China Investment Co., Ltd.	27,705,843	-	553,603	(751,328)	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock)	381,589,498	-	12,123,180	(36,362,028)	357,350,650
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	56,298,172	-	2,110,013	(2,104,730)	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd	-	67,658,226	20,117,109	4,871,930	92,647,265
Hyundai Ideal Electric Co.	-	11,241,600	119,231	17,955	11,378,786
Taishan Financial Leasing Co., Ltd.	-	2,496,186	(611,963)	136,644	2,020,867
Hyundai Construction Equipment India Private Ltd.	-	18,557,139	(234,924)	1,964,860	20,287,075
Wartsila Hyundai Engine Company Ltd.	-	22,230,000	(259,695)	-	21,970,305
	₩ 1,499,146,077	**₩ 125,423,337**	**₩ 482,535,644**	**₩ 141,015,923**	**₩ 2,248,120,981**

(*1) Gain (loss) on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions. For the years ended December 31, 2007 and 2006, unrealized profit eliminated under the equity method are ₩40,499,079 thousand and ₩33,467,687 thousand, respectively.

(*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit. In addition, cumulative unrecognized loss due to suspension of applying the equity method amounts to ₩82,758 million including ₩7,074 million increased for the year ended December 31, 2007, and allowance amounting to ₩54,521 million was provided for accounts receivables-other for Vladivostok Business Center.

(5) Equity securities accounted for using the equity method as of December 31, 2007 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 as of December 31, 2007 is as follows:

Korean won (In thousands)

Company	Reason for use	Net asset value before adjustments	Adjustments(*)	Net asset value after adjustments
Hyundai Oilbank	Difference of closing day	₩ 329,826,033	₩ -	₩ 329,826,033
Hyundai Finance Corp.	〃	88,223,005	-	88,223,005
Hyundai Samho Heavy Industries Co., Ltd.	〃	1,627,356,053	(553,025,900)	1,074,330,153
Changzhou Hyundai Construction Machinery Co., Ltd.	〃	23,323,703	-	23,323,703
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	〃	17,877,063	-	17,877,063
MOST #3 Venture Investment	〃	125,485	-	125,485
Incheon Airport Energy	〃	3,847,377	-	3,847,377
Hyundai Jiangsu Construction Machinery Co., Ltd.	〃	47,981,856	-	47,981,856
Hyundai Heavy Industries Co. Bulgaria	〃	22,741,948	-	22,741,948
New Korea Country Club	〃	3,272,781	-	3,272,781
Hyundai Dongahn Steel	〃	1,314,368	-	1,314,368
Hyundai Heavy Industries Europe N.V.	〃	38,697,182	-	38,697,182
Hyundai Vinashin Shipyard	〃	7,905,737	-	7,905,737
Yantai Hyundai Moon Heavy Industries Co., Ltd.	〃	7,221,236	(300,567)	6,920,669
Hyundai Heavy Industry (China) Electric Co., Ltd.(Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	〃	17,156,165	(2,866,786)	14,289,379
H.C.E U.S.A.	〃	13,266,736	-	13,266,736
Vladivostok Business Center	〃	-	-	-
Koentec Co., Ltd.	〃	3,935,326	-	3,935,326
HHI China Investment Co., Ltd.	〃	30,338,183	(2,830,065)	27,508,118
Hyundai Merchant Marine Co., Ltd. (Common stock)	〃	304,677,125	-	304,677,125
Hyundai Merchant Marine Co., Ltd. (Preferred stock)	〃	56,303,455	-	56,303,455
Qinhuangdao Shouqin Metal Materials Co., Ltd.	〃	81,279,466	-	81,279,466
Hyundai Ideal Electric Co.	〃	11,378,786	-	11,378,786
Taishan Financial Leasing Co., Ltd.	〃	2,020,867	-	2,020,867
Hyundai Construction Equipment India Private Ltd.	〃	20,287,075	-	20,287,075
Wartsila Hyundai Engine Company Ltd.	〃	21,970,305	-	21,970,305
		₩ 2,782,327,316	₩ (559,023,318)	₩ 2,223,303,998

(*) The Company adjusted the material difference of accounting principle for similar transactions and accounting events between the Company and investees. As of December 31, 2007, such adjustments of difference were reflected in the decrease in gain on valuation in current income by ₩59,619 million, the decrease in retained earnings by ₩6,574 million, the decrease in accumulated other comprehensive income by ₩357,302 million and the decrease in deferred income tax liabilities by ₩135,528 million.

(6) The gain (loss) on valuation of investment securities accounted for using the equity method is ₩489,179,298 thousand and ₩(6,643,654) thousand for the year ended December 31, 2007, respectively. In addition, the cumulative effect of the equity method of accounting on the ending balance of accumulated other comprehensive income (net of tax effect) is ₩108,474,283 thousand which consisted of changes in equity arising on application of the equity method by ₩141,649,351 thousand and negative changes in equity arising on application of the equity method by (₩33,175,068) thousand as of December 31, 2007 including the increase of ₩144,818,680 thousand for the year ended December 31, 2007.

(7) Financial information of investees accounted for using the equity method as of and for the year ended December 31, 2007 is as follows:

Korean won (In millions)

Company	Assets	Liabilities	Sales	Net income (loss)
Hyundai Oilbank	₩ 5,108,953	₩ 3,437,863	₩ 9,458,996	₩ 235,648
Hyundai Finance Corp.	134,428	3,701	11,992	6,402
Hyundai Samho Heavy Industries Co., Ltd.	5,956,017	4,241,521	2,616,869	466,972
Changzhou Hyundai Construction Machinery Co., Ltd.	41,735	2,863	35,762	3,041
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	164,950	135,155	231,833	3,334
MOST #3 Venture Investment	524	12	3,704	577
Incheon Airport Energy	164,668	152,257	75,651	1,537
Hyundai Jiangsu Construction Machinery Co., Ltd.	207,215	127,245	344,145	19,106
Hyndai Heavy Industries Co. Bulgaria	33,308	10,357	37,714	4,163
New Korea Country Club	20,625	4,261	12,489	1,525
Hyundai Dongahn Steel	16,412	14,022	30,736	160
Hyundai Heavy Industries Europe N.V.	126,348	87,651	361,764	7,042
Hyundai Vinashin Shipyard	172,628	93,571	111,850	20,485
Yantai Hyundai Moon Heavy Industries Co., Ltd.	23,890	10,759	19,495	711
Hyundai Heavy Industry (China) Electric Co., Ltd(Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd)	84,027	52,956	65,718	(169)
H.C.E U.S.A	57,829	44,563	124,117	(2,935)
Vladivostok Business Center	21,976	166,809	9,794	(660)
Koentec Co., Ltd.	71,072	19,182	24,842	3,804
HHI China Investment Co., Ltd.	36,394	6,055	3,100	(199)
Hyundai Merchant Marine Co., Ltd.	5,766,495	3,715,401	5,091,885	172,947
Qinhuangdao Shouqin Metal Materials Co., Ltd.	1,238,028	831,630	1,084,852	120,866
Hyundai Ideal Electric Co.	18,968	7,590	17,816	119
Taishan Financial Leasing Co., Ltd.	6,591	3,225	65	(1,019)
Hyundai Construction Equipment India Private Ltd.	20,440	153	-	(235)
Wartsila Hyundai Engine Company Ltd.	50,801	6,860	-	(519)

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007	2006
Buildings and structures	₩ 2,572,752,181	₩ 2,452,694,705
Machinery and equipment	2,169,947,389	2,093,584,301
Ships	186,009,863	184,207,582
Vehicles	30,439,712	25,626,764
Tools, furniture and fixtures	975,914,777	904,758,405
	5,935,063,922	**5,660,871,757**
Less: accumulated depreciation	(2,944,344,006)	(2,705,507,802)
	2,990,719,916	**2,955,363,955**
Land	1,550,415,148	1,365,024,824
Construction-in-progress	427,650,291	134,740,535
	₩ **4,968,785,355**	₩ **4,455,129,314**

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

Korean won (In thousands)

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning 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**
Acquisition and other	193,045,711	84,983,518	70,643,937	138,858,689	423,321,290	**910,853,145**
Disposal	(7,655,387)	(35,080,292)	(489,687)	(62,495,601)	(52,639,933)	**(158,360,900)**
End of year	₩ 1,550,415,148	₩ 1,769,948,921	₩ 802,803,260	₩ 2,169,947,389	₩ 1,620,014,643	**₩ 7,913,129,361**
Depreciation	₩ -	₩ 43,842,312	₩ 18,753,331	₩ 186,520,439	₩ 102,602,214	**₩ 351,718,296**
Accumulated depreciation	₩ -	₩ 360,856,814	₩ 161,350,202	₩ 1,559,756,993	₩ 862,379,997	**₩ 2,944,344,006**

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

Korean won (In 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**

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩2,282,928 million as of December 31, 2007. The Company maintains insurance coverage against fire and other casualty losses of up to ₩7,737,306 million

for ships and sea structures under construction and the insurance proceed of ₩685,939 million is pledged as collateral for loans from Export-Import Bank of Korea as of December 31, 2007 (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 ₩1,432,347 million as of December 31, 2007. The Company also maintains insurance on cargo against damage and claims losses of up to ₩5,160,100 million for products being exported and imported as of December 31, 2007.

As of December 31, 2007 and 2006, the value of land owned by the Company is ₩1,364,161 million and ₩1,119,749 million, respectively, as announced by the Korean government.

8. INTANGIBLE ASSETS:

Intangible assets as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007	2006
Development costs	₩ 213,873,947	₩ 197,304,243
Usage right for donated properties	22,174,415	24,213,698
	₩ **236,048,362**	₩ **221,517,941**

Intangible assets as of December 31, 2007 and 2006 are summarized as follows:

Korean won (In thousands)

	Development Cost		Usage right for donated properties	
	2007	2006	2007	2006
Beginning balance	₩ 197,304,243	₩ 164,889,432	₩ 24,213,698	₩ 26,252,981
Capitalized	54,750,934	61,278,856	-	-
Amortization	(38,181,230)	(28,864,045)	(2,039,283)	(2,039,283)
Ending balance	₩ 213,873,947	₩ 197,304,243	₩ 22,174,415	₩ 24,213,698

Research costs amounting to ₩17,530,156 thousand and ₩15,331,047 thousand, and ordinary development costs amounting to ₩75,059,849 thousand and ₩49,304,575 thousand are included in selling and administrative expenses for the year ended December 31, 2007 and 2006, respectively. The amortized development costs of ₩38,181,230 thousand and ₩28,864,045 thousand are included in the cost of sales and selling and administration expenses for the year ended December 31, 2007 and 2006, respectively.

9. DEBENTURES AND LONG-TERM BORROWINGS:

(1) Long-term borrowings as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	Interest rate as of December 31, 2007 (%)		2007		2006
Non-guaranteed debentures	6ML+0.475	₩	187,640,000	₩	185,920,000
Foreign currency loans	See Detail		1,625,627		1,684,987
			189,265,627		**187,604,987**
Less: Discounts of debentures			-		(710,750)
Current maturities			(187,640,000)		(341,960)
		₩	**1,625,627**	₩	**186,552,277**

Debentures comprise privately issued debentures of ₩187,640 million (USD 200,000 thousand) as of December 31, 2007.

(2) Foreign currency loans as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	Interest rate as of December 31, 2007 (%)		2007		2006
Facility loans from EXIM bank of Korea	6ML+0.675	₩	-	₩	341,960
Business loans from Korea National oil Corporation	3.25		1,625,627		1,343,027
			1,625,627		**1,684,987**
Less: current maturities			-		(341,960)
		₩	**1,625,627**	₩	**1,343,027**

(3) The maturities of long-term debt as of December 31, 2007, before discounts, are as follows:

Korean won (In thousands)

		Foreign currency loans
2010. 1 thereafter	₩	1,625,627

10. ACCRUED SEVERANCE BENEFITS:

Accrued severance benefits as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

		2007		2006
Beginning balance	₩	1,135,188,486	₩	1,018,835,792
Severance payment		(143,195,698)		(90,417,659)
Provisions		1,190,834,067		1,135,188,486
		1,135,188,486		**1,018,835,792**
Less: Severance insurance		(1,042,794,852)		(900,139,132)
National pension		(37,173,633)		(41,700,771)
Ending balance	₩	**110,865,582**	₩	**193,348,583**

Accrued severance benefits are funded approximately 87.6% and 79.3% as of December 31, 2007 and 2006, 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 7 banks amounting to ₩231,000 million as of December 31, 2007.

(2) As of December 31, 2007, 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 1,731,701 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 13 blank notes as of December 31, 2007.

(4 The outstanding balance of the note receivables, guaranteed by the importers' Government or others, sold to financial institutions with recourse is USD 43,962 thousand, equivalent to ₩41,245 million, as of December 31, 2007. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩3,851 million as of December 31, 2007.

(5) As of December 31, 2007, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD 130,417 thousand and ₩36,844 million. The Company has provided certain performance guarantees amounting to USD 738,459 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 19 ships (Contract amount: USD 2,472,360 thousand).

(6) In connection with the Company's contract performance guarantees, the Company has also been provided with guarantees up to ₩2,320,094 million and USD 14,118,972 thousand by various banking facilities.

(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, 2007, the valuation and gain (loss) on transaction of the forward contracts is as follows :

Korean won in millions, USD, EUR, GBP, JPY and CHF in thousands

Purpose		Contract amount		Sales		Gain (loss)		Capital adjustment
Hedging	USD	16,805,790						
	EUR	219,922						
	GBP	2,301						
	JPY	838,800						
	CHF	882	₩	230,052	₩	(39,000)	₩	(9,736)
Trading	USD	1,149,913						
	EUR	3,327		-		3,454		-
Total	**USD**	**17,955,713**						
	EUR	**223,249**						
	JPY	**838,800**						
	CHF	**882**	₩	**230,052**	₩	**(35,546)**	₩	**(9,736)**

As of December 31, 2007, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩(7,059) million (net of deferred income tax adjustment of ₩(2,677) million) as loss on valuation of derivative in accumulated other comprehensive income (net of tax effect). The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 49 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, 2007 is ₩22,463 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, 2007 resulted in gain (loss) on settlement of derivatives amounting to ₩34,655 million and ₩(15,594) million and gain (loss) on valuation of unsettled derivatives amounting to ₩4,582 million and ₩(59,199) million in non-operating income (expenses). As of December 31, 2007, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as current assets and liabilities amounting to ₩184,733 million and ₩205,986 million, respectively.

Besides the above financial derivative, the Company has entered into interest swap contract with CSFB to hedge the exposure to interest rate risk of floating rate debenture amounting to USD 200,000 thousands (variable interest rate : 6M Libor+0.475%, fixed interest rate : 4.50%, maturity date : September 22, 2008). As of December 31, 2007, the Company recorded the present value of the forecasted cash flow amounting ₩788 million as derivative assets. The Company accounted for the realized portion of the gain (loss) on transaction of foreign currency forward amounting to ₩1,391 million as non-operating income. Also, the Company accounted for the ineffective portion of the hedge amounting to ₩325 million as non-operating income, the effective portion of the hedge amounting to ₩335 million (net of deferred income tax adjustment of ₩127 million) as gain on valuation of derivative in accumulated other comprehensive income as of December 31, 2007.

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. All litigations the Company filed were finalized with the Supreme Court's judgment in favor of the Company on November 2, 2007. As a result, the Korea Fair Trade Commission refunded ₩4,379 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. 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 the Supreme Court.

In addition, the Company has been brought into 6 legal actions by its employees with claims amounting to ₩471 million for damages from industrial disaster, all of which are pending as of December 31, 2007.

(2) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on December 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 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 Seoul 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, 2007. The management 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 ₩26,100 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 to cancel of NTT's rejection for reassessment on corporate income tax to Ulsan district court.

According to preceding tax rebate case for deemed dividend income which occurred in the middle of merger, the Company has claimed for rectification relating to corporate income tax on 2004 to the jurisdictional tax office in June 2007 and the jurisdictional tax office refunded related corporate income tax. Therefore, the Company cancelled the lawsuit on NTT's rejection of reassessment on corporate income tax.

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

(5) The Company has been brought into legal action with claim for returning construction expense amounting to ₩2,579 million. The judgment in favor of the Company was given on January 11, 2008; however, an appeal was made to the Supreme Court. Also, the Company filed for demanding construction expense against Lotte Engineering & Construction Co., Ltd.

13. CAPITAL SURPLUS:

Capital surplus as of December 31, 2007 and 2006 is as follows:

Korean won (In thousands)

	2007	2006
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 (net of tax effect) and ₩21,830,067 thousand of gain on business combination and others.

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

14. RETAINED EARNINGS:

Retained earnings as of December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007	2006
Appropriated:		
Legal reserve (A & C)	₩ 164,883,307	₩ 148,759,943
Reserve for business rationalization (B & C)	87,276,798	87,276,798
Reserve for research and human development (D)	247,690,637	61,523,970
Other voluntary reserves	631,148,610	281,824,730
Retained earnings before appropriation	1,736,060,340	712,847,560
	₩ 2,876,059,692	₩ 1,292,233,001

(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 technology development and investments is required to be recorded as a reserve for business rationalization.

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

15. CAPITAL ADJUSTMENTS:

As of December 31, 2007 and 2006, capital adjustments are as follows:

Korean won (In thousands)

	2007	2006
Treasury stock	(696,729,513)	(351,821,818)

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 amounting to ₩392,000 million in 2003. 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 completed the acquisition by March 22, 2007. The acquisition cost of treasury stock amounting to ₩696,729,513 thousand (13,786,544 shares of treasury stock) was recorded as capital adjustments as of December 31, 2007.

Also, pursuant to the resolution of the board of directors on January 31, 2008, the Company determined to acquire 2,280 thousand shares for the purpose of stabilizing the share price of the Company, and will complete the acquisition by May 2, 2008.

16. DIVIDENDS:

(1) Proposed dividends for 2007 and 2006 are summarized below.

Korean won in thousand expect par value

Year	Description	Number of shares (*)	Par value	Dividends rate	Cash dividends	Net income	Dividends to net income
2007	Common stock	62,213,456	₩ 5,000	150%	₩ 466,600,920	₩ 1,736,060,331	26.88%
2006	Common stock	64,493,456	₩ 5,000	50 %	₩ 161,233,640	₩ 712,847,558	22.62%

(*) Net of 13,786,544 shares and 11,506,544 shares of treasury stock as of December 31, 2007 and 2006

(2) Yields to market price of proposed dividend for 2007 and 2006 is as follows:

Year	Description	Dividends per share	Closing price	Yield to market price
2007	Common stock	₩ 7,500	₩ 442,500	1.7%
2006	Common stock	₩ 2,500	₩ 126,000	2.0%

17. SALES AND COST OF SALES:

(1) Sales and cost of sales by major industry segment for the years ended December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007		2006	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩ 7,556,662,571	₩ 6,395,626,876	₩ 6,442,771,607	₩ 5,827,332,711
Offshore & Engineering	2,222,062,607	1,944,753,420	1,934,523,127	1,677,755,934
Industrial Plant & Engineering	1,016,617,875	941,797,376	601,608,005	632,236,155
Engine & Machinery	1,645,739,658	1,238,318,869	1,219,557,846	965,687,912
Electro Electric Systems	1,453,389,981	1,139,078,373	1,056,489,317	826,014,266
Construction Equipment	1,512,048,621	1,192,836,163	1,197,947,106	948,313,214
Others	126,491,994	123,707,477	101,847,422	96,104,355
	₩ 15,533,013,307	**₩ 12,976,118,554**	**₩ 12,554,744,430**	**₩ 10,973,444,547**

(2) The Company's outstanding contracts as of December 31, 2007 are summarized as follows:

Korean won (In millions)

	Shipbuilding	Others	Total
Beginning of year	₩ 17,310,818	₩ 12,999,521	₩ 30,310,339
Increase during the year	14,751,624	8,629,987	23,381,611
Recognized as revenue in current operations	(7,556,662)	(7,976,351)	(15,533,013)
End of year	₩ 24,505,780	₩ 13,653,157	₩ 38,158,937

As of December 31, 2007, 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, 2007, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

Korean won (In 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	₩ 10,582,666	₩ 1,576,963	₩ 5,775,931	₩ 1,132,191	₩ 466,325	₩ 665,866
Offshore & Engineering	4,688,105	1,646,814	1,514,437	276,181	81,093	195,088
Industrial Plant & Engineering	2,997,988	126,671	229,489	84,150	4,814	79,336
Engine & Machinery	1,992,800	556,991	419,444	341,445	74,590	266,855
Electro Electric Systems	151,588	39,514	63,436	390,749	335,518	55,231
Construction Equipment (*)	-	-	10,155	155,060	155,060	-
Others (**)	-	-	412	431,713	431,713	-
	₩ 20,413,147	**₩ 3,946,953**	**₩ 8,013,304**	**₩ 2,811,489**	**₩ 1,549,113**	**₩ 1,262,376**

(*) Industry segment recognized revenues by delivery basis.
(**) For those contracts whose contract costs will exceed contract revenue, the Company recognized the estimated loss on the construction contracts amounting to ₩39,071 million.

18. INCOME TAX EXPENSE:

(1) Income tax expense for the years ended December 31, 2007 and 2006 is as follows:

Korean won (In thousands)

	2007	2006
Current income tax(Including additional income taxes and income tax refunds)	₩ 567,550,537	₩ 297,926,683
Changes in deferred income taxes due to temporary differences	66,890,178	115,514,323
Changes in deferred income taxes directly adjusted in equity	23,884,819	23,233,239
Income tax expense	658,325,534	436,674,245
Income before income tax	2,394,385,865	1,149,521,803
Effective income tax rate	**27.5%**	**38.0%**

(2) For the years ended December 31, 2007 and 2006, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

Korean won (In thousands)

	2007	2006
Income before income tax	₩ 2,394,385,865	₩ 1,149,521,803
Temporary differences	(372,702,227)	(483,980,823)
Non-temporary differences	28,276,727	1,120,998
Taxable income	**₩ 2,049,960,365**	**₩ 666,661,978**

(3) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2007 and 2006 are summarized as follows:

Korean won (In thousands)

	2007		2006	
Description	Beginning	Ending	Beginning	Ending
Equity securities accounted for using the equity method (*)	₩ (251,717,574)	₩ (748,891,369)	₩ (41,470,594)	₩ (251,717,574)
Loss on valuation of investment securities	70,374,032	74,558,133	93,502,002	70,374,032
Reserve for technology development	(247,690,636)	(230,000,000)	(61,523,970)	(247,690,636)
Provision for bad debt expense	187,042,333	146,465,573	152,471,780	187,042,333
Accrued income	(2,824,172)	(28,499,206)	(2,364,562)	(2,824,172)
Loss on valuation of receivables	859,903	859,903	859,903	859,903
Gain (loss) on valuation of short-term investment securities and others	121,273	-	189,013	121,173
Foreign exchange forward contracts (*)	(458,399,783)	37,679,354	(203,696,067)	(458,399,783)
Other (*)	265,550,983	67,906,967	186,612,895	265,550,983
	₩ (436,683,641)	**₩ (679,920,645)**	**₩ 124,580,400**	**₩ (436,683,641)**
Tax rate		27.5%		27.5%
Cumulative tax effects		(186,978,178)		(120,088,000)
Tax credit carryforward		-		-
Deferred income tax assets (liabilities), end of period		(186,978,178)		(120,088,000)
Deferred income tax assets (liabilities), beginning of period		(120,088,000)		(4,573,677)
Changes in deferred income taxes on temporary differences		**₩ (66,890,178)**		**₩ (115,514,323)**

(*) The temporary differences amounting to ₩(96,383) million and ₩139,317 million, which were not recognized as deferred income tax assets and liabilities, respectively, are included.

(4) Tax effects of temporary differences, which were directly adjusted in equity, are composed of ₩(23,966,678) thousand occurred from gain on valuation of available-for-sale securities, ₩(47,897,308) thousand and ₩(5,624,693) thousand occurred from changes in accumulated other comprehensive income of investment securities accounted for using the equity method, and ₩101,373,499 thousand occurred from gain on valuation of foreign exchange forward contracts.

(5) Deferred income tax assets (liabilities) as of December 31, 2007 are as follows:

Korean won (In thousands)

	Current	Non-current	Total
Accumulated of temporary difference	₩ 258,146,739	₩ (938,067,384)	₩ (679,920,645)
Tax rate	27.5%	27.5%	27.5%
Tax effects	70,990,353	(257,968,531)	(186,978,178)
Tax credit carry forward	-	-	-
Deferred income tax assets (liabilities)	**₩ 70,990,353**	**₩ (257,968,531)**	**₩ (186,978,178)**

19. STATEMENTS OF COMPREHENSIVE INCOME:

Statements of comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007	2006
Net income	₩ 1,736,060,331	₩ 712,847,558
Other comprehensive income (loss):		
Gain (loss) on valuation of short-term and long-term investment securities	63,184,877	(90,954,944)
Changes in equity arising on application of the equity method	128,162,785	(714,884)
Negative changes in equity arising on application of the equity method	16,655,895	(413,077)
Gain (loss) on valuation of financial derivatives	(267,257,413)	138,061,792
Sub-total	(59,253,856)	45,978,887
Comprehensive income	**₩ 1,676,806,475**	**₩ 758,826,445**

20. 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, 2007 and 2006.

Korean won

	2007	2006
Net income (In thousands)	₩ 1,736,060,331	₩ 712,847,558
Weighted average number of outstanding common shares (In thousands)	62,498	64,493
Income per share (In Korean won)	**₩ 27,778**	**₩ 11,053**

21. TRANSACTIONS WITH RELATED PARTIES:

(1) The Company is the ultimate holding company and its subsidiaries as of December 31, 2007 are as follows:

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

(2) Significant transactions and outstanding balances with subsidiaries and affiliated companies for the year ended and as of December 31, 2007 are as follows:

Korean won (In thousands)

Related Party	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 357,083,434	₩ 102,306,275	₩ 147,993,683	₩ 44,722,682
Hyundai Mipo Dockyard Co., Ltd.	357,037,043	7,407,134	125,024,489	544,612
Hyundai Oilbank	7,242,502	77,503,518	723,064	5,641,964
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	102,417,119	1,122,573	52,056,377	146,045
Hyundai Heavy Industries Europe N.V.	328,995,014	692,190	24,306,755	517,075
H.C.E U.S.A.	98,234,435	22,802	5,739,406	59,261
Hyundai Jiangsu Construction Machinery Co., Ltd.	125,994,529	10,139,313	24,583,058	467,889
Yantai Hyundai Moon Heavy Industries Co., Ltd.	898,694	3,333,626	-	1,121,144
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly Jiangsu Hyundai Nanzi Electric Co., Ltd.)	15,094,480	16,121,948	13,081,402	221,166
	₩ 1,392,997,250	**₩ 218,649,379**	**₩ 393,508,234**	**₩ 53,441,838**

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

Korean won (In 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
Hyundai Heavy Industry (China) Electric Co., Ltd. (Formerly 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, 2007. 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 ₩54,521 million as of December 31, 2007.

(5) The compensation for the key management of the Company for the years ended December 31, 2007 and 2006 are as follows (In thousands):

	Korean won (In thousands)	
	2007	2006
The compensation for the key management	₩ 2,943,898	₩ 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.

22. ASSETS AND LIABILITES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2007 and 2006 are as follows:

		Foreign currencies (In thousands)		Korean won (In thousands)	
Account	Currency	2007	2006	2007	2006
Assets:					
Cash and cash equivalents	USD	102,404	106,443	₩ 96,075,225	₩ 98,949,128
	EUR	243	107	335,485	131,214
	Others			38,331,487	919,493
Trade accounts and notes receivable	USD	1,971,617	1,762,263	1,849,771,383	1,638,199,564
	EUR	155,043	33,056	214,154,216	40,401,861
	Others			42,287,627	167,721,627
Accounts receivable-other	USD	71,016	67,510	66,626,817	62,757,538
	EUR	371	417	512,935	509,291
	Others			15,272,851	4,169,729
Long-term trade accounts and notes receivable	USD	102,921	139,679	₩ 96,560,853	₩ 129,845,640
Long-term financial instruments & others	USD	7,542	59,636	7,076,331	55,437,890
	EUR	13	76	17,680	92,736
	Others			1,309,631	26,422,075
				₩ 2,428,332,521	**₩ 2,225,557,786**
Liabilities:					
Trade accounts and notes payable	USD	217,852	199,924	₩ 204,388,331	₩ 185,849,512
	EUR	26,985	19,956	37,273,968	24,391,286
	Others			24,251,064	9,598,698
Debentures	USD	-	200,000	-	185,920,000
Current maturities of long-term borrowings	USD	200,000	368	187,640,000	341,960
Long-term borrowings	USD	1,743	1,445	1,625,627	1,343,027
Accounts payable-other & others	USD	227,716	208,400	213,642,721	193,728,744
	EUR	10,436	8,734	14,414,274	10,675,024
	Others			11,451,174	17,095,988
				₩ 694,687,159	**₩ 628,944,239**

23. 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, 2007

Korean won (In thousands)

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	₩ 7,556,662,571	₩ 2,222,062,607	₩ 1,016,617,875	₩ 1,645,739,658	₩ 1,453,389,981	₩ 1,512,048,621	₩ 126,491,994
Operating income(loss)	1,037,967,535	225,679,131	40,353,336	345,551,579	224,069,089	129,518,206	(252,441,340)
Tangible & intangible assets	1,565,525,891	390,891,025	49,841,759	496,453,168	270,181,751	149,637,828	2,282,302,295
Depreciation	(133,667,874)	(42,770,243)	(7,843,103)	(69,864,673)	(33,715,026)	(15,258,311)	(48,599,066)

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

Korean won (In 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)

24. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2007 and 2006 are as follows:

Korean won (In thousands)

	2007	2006
Wages	₩ 254,595,885	₩ 213,749,388
Provision for severance benefits	26,919167	29,551,287
Employee benefits	69,392,557	60,998,288
Advertisement	21,847,528	14,799,192
Ordinary development expenses (Note 8)	75,059,849	49,304,575
Provision for doubtful accounts	12,877,187	39,652,997
Depreciation (Notes 7 and 8)	28,324,927	27,270,411
Commission paid	54,071,315	46,819,880
Transportation	66,384,117	53,450,310
Sales commission	39,554,181	30,279,227
After-service expenses	40,048,111	40,697,465
Others	117,122,393	95,860,570
	₩ 806,197,217	**₩ 702,433,590**

25. FINANCIAL PERFORMANCE IN THE LAST INTERIM PERIOD:

The financial performance for the three months ended December 31, 2007 and 2006 (Unaudited) is summarized as follows :

Korean won (In thousands, except for share amounts)

	2007	2006
Sales	₩ 4,252,304,003	₩ 3,595,060,915
Net income	512,884,688	286,930,637
Net income per share	8,244	4,449

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

English Translation of a Report Originally Issued in Korean

To the Chief Executive Officer 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, 2007. 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, 2007, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2007, 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, 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, 2007, and we did not review its IACS subsequent to December 31, 2007. 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 22, 2008

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2007 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, 2007.

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, 2007, in all material respects, in accordance with the IACS Framework.

January 31, 2008

Lee Jai-seong, Internal Accounting Control Officer

Min Keh-sik, Vice Chairman & CEO/CTO

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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

	WARTSILA - HYUNDAI ENGINE CO., LTD.
Business Line	Manufacturing of Duel-Fuel Engines
Major Shareholder	Hyundai Heavy Industries Co., Ltd. (50%)
Paid-In Capital	KRW 67,860 million

CORPORATE DATA

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Date of Establishment
December 28, 1973

Paid-in Capital
KRW 380 billion

Common Stock
76,000,000 shares

Number of Employees
25,308

General Shareholders' Meeting
March 14, 2008

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

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