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HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006

|  | Korean Won             |                        |
|--|------------------------|------------------------|
|  | 2007                   | 2006                   |
|  | (In thousands)         |                        |
| <b>ASSETS</b>  |                        |                        |
| <b>CURRENT ASSETS:</b>   |                        |                        |
| Cash and cash equivalents (Note 16)  | ₩ 168,463,838          | ₩ 94,197,850           |
| Short-term financial instruments (Notes 3 and 16)  | 1,628,903,328          | 706,208,192            |
| Short-term investment securities (Notes 4 and 13)  | 240,589,367            | 226,741,752            |
| Trade receivables, net of allowance for doubtful accounts of<br>₩4,302,599 thousand in 2007 and ₩4,177,958 thousand in 2006<br>(Notes 15 and 16)   | 434,077,674            | 423,335,154            |
| Other accounts receivable, net of allowance for doubtful accounts of<br>₩6,446 thousand in 2007 and ₩6,452 thousand in 2006<br>(Notes 15 and 16)   | 642,701                | 682,727                |
| Accrued income (Notes 15 and 16)   | 28,357,940             | 9,573,683              |
| Prepayments, net of allowance for doubtful accounts of ₩2,008,950<br>thousand in 2007 and ₩977,475 thousand in 2006 (Note 15)  | 231,739,073            | 145,203,455            |
| Prepaid expenses   | 142,609,855            | 117,925,511            |
| Prepaid value added tax  | 7,512,370              | 11,483,310             |
| Currency forward (Note 14)   | 10,920,261             | 85,394,066             |
| Inventories (Notes 2 and 18)   | <u>145,729,117</u>     | <u>70,395,859</u>      |
|  | <u>3,039,545,524</u>   | <u>1,891,141,559</u>   |
| <b>NON-CURRENT ASSETS:</b>   |                        |                        |
| Long-term financial instruments (Note 3)   | 13,000                 | 13,000                 |
| Long-term investment securities (Notes 5 and 13)   | 3,398,862,313          | 1,070,136,494          |
| Investment securities accounted for using the equity method<br>(Notes 6 and 13)  | 45,792,880             | 36,896,621             |
| Guarantee deposits (Note 16)   | 15,576,202             | 10,627,293             |
| Long-term accrued income   | 38,251                 | 23,831                 |
| Currency forward (Note 14)   | -                      | 38,331,112             |
| Property, plant and equipment, net of accumulated<br>depreciation of ₩309,919,930 thousand in 2007<br>and ₩273,363,200 thousand in 2006,<br>net of accumulated impairment losses on ₩5,170,840<br>thousand in 2007 and 2006 (Note 7) | <u>484,374,049</u>     | <u>469,637,623</u>     |
|  | <u>3,944,656,695</u>   | <u>1,625,665,974</u>   |
| <b>TOTAL ASSETS</b>  | <u>₩ 6,984,202,219</u> | <u>₩ 3,516,807,533</u> |

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HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2007 AND 2006

|  | Korean Won           |                      |
|--|----------------------|----------------------|
|  | 2007                 | 2006                 |
|  | (In thousands)       |                      |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>   |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Trade payables (Notes 15 and 16)   | ₩ 259,908,291        | ₩ 235,068,105        |
| Other accounts payable (Notes 15, 16 and 18)   | 66,024,782           | 56,550,734           |
| Advances from customers (Note 18)  | 2,464,242,804        | 1,586,669,268        |
| Withholdings   | 5,126,347            | 5,098,035            |
| Accrued expenses (Note 16)   | 108,314,906          | 85,951,691           |
| Income tax payable   | 161,335,820          | 57,248,327           |
| Unearned income (Note 15)  | 13,416,607           | 525,086              |
| Deferred income tax liabilities (Note 13)  | <u>13,868,220</u>    | <u>35,173,931</u>    |
|  | <u>3,092,237,777</u> | <u>2,062,285,177</u> |
| <b>LONG-TERM LIABILITIES:</b>  |                      |                      |
| Withholdings on guaranties   | 61,560               | 60,435               |
| Deferred income tax liabilities (Note 13)  | 741,147,786          | 185,514,744          |
| Reserve for loss on construction   | -                    | 46,889               |
| Reserve for construction warranties  | 10,815,877           | 11,444,126           |
| Accrued severance benefits, net of National Pension paid<br>for employees of ₩2,221,523 thousand in 2007 and<br>₩2,594,307 thousand in 2006, and individual<br>severance insurance deposits of ₩79,919,508 thousand in<br>2007 and ₩65,468,979 thousand in 2006 (Note 2) | 28,093,801           | 37,191,268           |
| Currency forward (Note 14)   | <u>29,860,166</u>    | <u>-</u>             |
|  | <u>809,979,190</u>   | <u>234,257,462</u>   |
| <b>TOTAL LIABILITIES</b>   | <u>3,902,216,967</u> | <u>2,296,542,639</u> |

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HYUNDAI MIPO DOCKYARD CO., LTD.  
NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)  
AS OF DECEMBER 31, 2007 AND 2006

|  | Korean Won                 |                            |
|--|----------------------------|----------------------------|
|  | 2007                       | 2006                       |
|  | (In thousands)             |                            |
| COMMITMENTS AND CONTINGENCIES (Note 18 )                                 |                            |                            |
|  |                            |                            |
| SHAREHOLDERS' EQUITY:  |                            |                            |
| Common stock (Note 8)  | ₩ 100,000,000              | ₩ 100,000,000              |
| Capital surplus (Note 8)   | 209,578,517                | 209,578,517                |
| Capital adjustments (Note 10)  | (76,443,830)               | (41,662,128)               |
| Accumulated other comprehensive income<br>(Notes 4, 5, 6, 11, 13 and 14) | 1,982,068,329              | 565,801,266                |
| Retained earnings (Note 9)   | <u>866,782,236</u>         | <u>386,547,239</u>         |
| <br>TOTAL SHAREHOLDERS' EQUITY   | <br><u>3,081,985,252</u>   | <br><u>1,220,264,894</u>   |
| <br>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                           | <br><u>₩ 6,984,202,219</u> | <br><u>₩ 3,516,807,533</u> |

See accompanying notes to non-consolidated financial statements.

HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

|   | Korean Won                               |                      |
|---|--|----------------------|
|   | 2007                                     | 2006                 |
|   | (In thousands, except per share amounts) |                      |
| SALES (Notes 14, 15, 17, 21 and 24)                               | ₩ 2,848,380,430                          | ₩ 2,335,711,979      |
| COST OF SALES (Note 15)   | <u>2,413,733,136</u>                     | <u>2,057,573,182</u> |
| GROSS PROFIT  | 434,647,294                              | 278,138,797          |
| SELLING AND ADMINISTRATIVE EXPENSES (Note 22)                     | <u>71,545,879</u>                        | <u>58,297,280</u>    |
| OPERATING INCOME (Notes 21 and 24)                                | <u>363,101,415</u>                       | <u>219,841,517</u>   |
| NON-OPERATING INCOME:   |  |                      |
| Interest income   | 70,149,554                               | 40,330,428           |
| Gain on foreign currency transactions                             | 9,988,078                                | 6,408,128            |
| Gain on foreign currency translation                              | 244,690                                  | 6,489,888            |
| Dividend income   | 23,426,007                               | 11,889,438           |
| Gain on disposal of short-term investment securities              | 8,125,984                                | -                    |
| Reversal of reserve for construction warranties                   | 2,753,848                                | 838,496              |
| Gain on foreign forward transactions (Note 14)                    | 63,698                                   | 17,006,881           |
| Gain on valuation of foreign exchange forward contracts (Note 14) | 6,584                                    | 1,892,946            |
| Gain on valuation using the equity method (Note 6)                | 11,323,984                               | 9,414,788            |
| Gain on disposal of property, plant and equipment                 | 1,644,031                                | 1,768,512            |
| Gain on disposal of investment assets                             | 284,653,435                              | -                    |
| Other   | <u>3,571,244</u>                         | <u>44,185,627</u>    |
|   | <u>415,951,137</u>                       | <u>140,225,132</u>   |
| NON-OPERATING EXPENSES:   |  |                      |
| Interest expense  | -  | 51,630               |
| Loss on foreign currency transactions                             | 7,262,316                                | 22,983,726           |
| Loss on foreign currency translation                              | 1,026,643                                | 287,690              |
| Loss on foreign forward transactions (Note 14)                    | 4,540,420                                | 548,951              |
| Loss on valuation of foreign exchange forward contracts (Note 14) | 21,365,371                               | 223,753              |
| Loss on disposal of property, plant and equipment                 | 386,043                                  | 3,198,825            |
| Donations   | 12,334,763                               | 6,099,697            |
| Loss on valuation using the equity method (Note 6)                | 171,157                                  | 156,648              |
| Other (Note 18)   | <u>106,251</u>                           | <u>3,466,003</u>     |
|   | <u>47,192,964</u>                        | <u>37,016,923</u>    |
| ORDINARY INCOME   | 731,859,588                              | 323,049,726          |
| INCOME TAX EXPENSE (Note 13)                                      | <u>202,662,861</u>                       | <u>86,791,657</u>    |
| NET INCOME (Note 24)  | <u>₩ 529,196,727</u>                     | <u>₩ 236,258,069</u> |
| NET INCOME PER SHARE (Note 2)                                     | <u>₩ 27,357</u>                          | <u>₩ 11,959</u>      |

See accompanying notes to non-consolidated financial statements.

HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

|  | Korean Won         |                    |
|--|--------------------|--------------------|
|  | 2007               | 2006               |
|  | (In thousands)     |                    |
| RETAINED EARNINGS BEFORE APPROPRIATIONS:             |                    |                    |
| Retained earnings carried over from prior year       | ₩ 20,836           | ₩ 20,670           |
| Net income   | <u>529,196,727</u> | <u>236,258,069</u> |
|  | <u>529,217,563</u> | <u>236,278,739</u> |
| Transfer from reserve:                               |                    |                    |
| Reserve for financial structure improvement (Note 9) | <u>12,900,000</u>  | <u>-</u>           |
| APPROPRIATIONS:                                      |                    |                    |
| Legal reserve  | 14,481,491         | 4,896,173          |
| Cash dividends (Note 12)                             | 144,814,905        | 48,961,730         |
| Voluntary reserve                                    | <u>382,800,000</u> | <u>182,400,000</u> |
|  | <u>542,096,396</u> | <u>236,257,903</u> |
| UNAPPROPRIATED RETAINED EARNINGS                     |                    |                    |
| TO BE CARRIED FORWARD TO SUBSEQUENT YEAR             | <u>₩ 21,167</u>    | <u>₩ 20,836</u>    |

See accompanying notes to non-consolidated financial statements.

HYUNDAI MIPO DOCKYARD CO., LTD.

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  | ₩ 100,000,000             | ₩ 209,578,517        | ₩ (41,662,128)        | ₩ 565,801,266                          | ₩ 386,547,239        | ₩ 1,220,264,894        |
| Dividends  | -                         | -                    | -                     | -                                      | (48,961,730)         | (48,961,730)           |
| Balance after appropriation  | 100,000,000               | 209,578,517          | (41,662,128)          | 565,801,266                            | 337,585,509          | 1,171,303,164          |
| Net income   | -                         | -                    | -                     | -                                      | 529,196,727          | 529,196,727            |
| Change in treasury stock   | -                         | -                    | (34,781,702)          | -                                      | -                    | (34,781,702)           |
| Gain on valuation of investment securities                             | -                         | -                    | -                     | 1,485,843,018                          | -                    | 1,485,843,018          |
| Changes in equity arising on application of the equity method          | -                         | -                    | -                     | 2,057                                  | -                    | 2,057                  |
| Negative changes in equity arising on application of the equity method | -                         | -                    | -                     | 238,404                                | -                    | 238,404                |
| Change in the valuation of derivatives                                 | -                         | -                    | -                     | (69,816,416)                           | -                    | (69,816,416)           |
| December 31, 2007  | <u>₩ 100,000,000</u>      | <u>₩ 209,578,517</u> | <u>₩ (76,443,830)</u> | <u>₩ 1,982,068,329</u>                 | <u>₩ 866,782,236</u> | <u>₩ 3,081,985,252</u> |

See accompanying notes to non-consolidated financial statements.

HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

|   | Korean Won     |               |
|---|----------------|---------------|
|   | 2007           | 2006          |
|   | (In thousands) |               |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                |               |
| Net income  | ₩ 529,196,727  | ₩ 236,258,069 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |               |
| Provision for severance benefits  | 20,883,137     | 19,627,398    |
| Provision for doubtful accounts   | 1,156,110      | 13,211        |
| Depreciation  | 43,040,911     | 39,885,457    |
| Provision for loss on construction  | -              | 46,889        |
| Provision for construction warranties   | 5,140,154      | 5,815,646     |
| Loss on foreign currency translation  | 1,026,643      | 279,502       |
| Loss on disposal of property, plant and equipment                                 | 386,043        | 3,198,825     |
| Loss on valuation of foreign exchange forward contracts                           | 21,365,371     | 223,753       |
| Loss on valuation using the equity method   | 171,157        | 156,647       |
| Gain on disposal of property, plant and equipment                                 | (1,644,031)    | (1,768,512)   |
| Gain on disposal of short-term investment securities                              | (8,125,984)    | -             |
| Gain on disposal of investment assets   | (284,653,435)  | -             |
| Gain on foreign currency translation  | (244,690)      | (6,489,888)   |
| Gain on valuation using the equity method   | (11,323,984)   | (9,414,788)   |
| Gain on valuation of foreign exchange forward contracts                           | (6,584)        | (1,892,946)   |
| Gain on amortization of discount on long-term trade receivables                   | -              | (209,027)     |
| Reversal of reserve for loss on construction                                      | (46,889)       | (2,682,101)   |
| Reversal of reserve for construction warranties                                   | (2,753,848)    | (838,496)     |
| Others  | 31,788         | (37,371,737)  |
|   | (215,598,131)  | 8,579,833     |

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HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

|  | Korean Won           |                    |
|--|----------------------|--------------------|
|  | 2007                 | 2006               |
|  | (In thousands)       |                    |
| Changes in operating assets and liabilities:           |                      |                    |
| Decrease (Increase) in trade receivables               | ₩ (10,735,037)       | ₩ 30,469,027       |
| Decrease in accounts receivable-other                  | 40,033               | 1,042,184          |
| Increase in accrued income                             | (18,784,257)         | (6,059,840)        |
| Increase in prepayments                                | (87,567,092)         | (21,330,491)       |
| Increase in prepaid expenses                           | (24,684,343)         | (5,682,471)        |
| Decrease (Increase) in prepaid value added tax         | 3,970,940            | (857,927)          |
| Decrease (Increase) in currency forward                | 25,007,790           | (17,279,333)       |
| Increase in inventories                                | (75,333,258)         | (30,038,440)       |
| Decrease in long-term trade receivable                 | -                    | 5,095,162          |
| Increase in trade payables                             | 24,840,185           | 9,968,576          |
| Increase (Decrease) in other accounts payable          | 9,434,845            | (2,283,031)        |
| Increase in advances from customers                    | 877,573,536          | 324,044,693        |
| Increase (Decrease) in accrued expenses                | 21,444,841           | (743,555)          |
| Increase in income tax payable                         | 104,087,493          | 24,947,575         |
| Payments of severance benefits                         | (15,942,938)         | (15,674,281)       |
| Increase (Decrease) in deferred income tax liabilities | (2,877,416)          | 11,687,402         |
| Others, net  | (1,557,445)          | 11,036,046         |
|  | <u>828,917,877</u>   | <u>318,341,296</u> |
| Net cash provided by operating activities              | <u>1,142,516,473</u> | <u>563,179,198</u> |

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HYUNDAI MIPO DOCKYARD CO., LTD.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

|  | Korean Won                  |                            |
|--|-----------------------------|----------------------------|
|  | 2007                        | 2006                       |
|  | (In thousands)              |                            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                   |                             |                            |
| Cash inflows from investing activities:                        |                             |                            |
| Disposition of short-term financial instruments                | ₩ 830,400,980               | ₩ 365,095,327              |
| Disposition of short-term investment assets                    | 432,996,024                 | 1,696,000,000              |
| Collection of short-term loans                                 | -                           | 3,711,531                  |
| Disposition of long-term financial instruments                 | -                           | 6,500                      |
| Disposition of long-term investment securities                 | 342,328,903                 | 274,445                    |
| Withdrawal of guarantee deposits                               | 68,951                      | 646,275                    |
| Disposition of property, plant and equipment                   | <u>1,690,950</u>            | <u>2,107,218</u>           |
|  | <u>1,607,485,808</u>        | <u>2,067,841,296</u>       |
| Cash outflows from investing activities:                       |                             |                            |
| Acquisition of short-term financial instrument                 | 1,763,085,496               | 856,303,519                |
| Acquisition of short-term investment assets                    | 421,851,823                 | 1,591,000,000              |
| Acquisition of long-term investment securities                 | 343,828,475                 | 75,415,464                 |
| Payment of guarantee deposits                                  | 5,016,769                   | 4,100,711                  |
| Acquisition of property, plant and equipment                   | <u>58,210,298</u>           | <u>58,838,017</u>          |
|  | <u>(2,591,992,861)</u>      | <u>(2,585,657,711)</u>     |
|  | <u>(984,507,053)</u>        | <u>(517,816,415)</u>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                   |                             |                            |
| Cash inflows from financing activities:                        |                             |                            |
| Proceeds from short-term borrowings                            | <u>-</u>                    | <u>31,442,320</u>          |
| Cash outflows from financing activities:                       |                             |                            |
| Payment of short-term borrowings                               | -                           | 34,039,383                 |
| Payment of cash dividends                                      | 48,961,730                  | 29,685,000                 |
| Acquisition of treasury stock                                  | <u>34,781,702</u>           | <u>24,413,966</u>          |
|  | <u>(83,743,432)</u>         | <u>(88,138,349)</u>        |
|  | <u>(83,743,432)</u>         | <u>(56,696,029)</u>        |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>        | <b>74,265,988</b>           | <b>(11,333,246)</b>        |
| <b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR</b> | <b><u>94,197,850</u></b>    | <b><u>105,531,096</u></b>  |
| <b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>       | <b><u>₩ 168,463,838</u></b> | <b><u>₩ 94,197,850</u></b> |

See accompanying notes to non-consolidated financial statements.

HYUNDAI MIPO DOCKYARD CO., LTD.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. GENERAL:

Hyundai Mipo Dockyard Co., Ltd. (the "Company") was incorporated on April 28, 1975 under the laws of the Republic of Korea to repair, convert and build the ships in compliance with customers' orders.

The shares of the Company were listed on the Korea Exchange on December 20, 1983. As of December 31, 2007, 41.09% of the Company's common stock is owned by Hyundai Samho Heavy Industries Co., Ltd.

The Company was separated from the Hyundai Group by approval of the Fair Trade Commission together with Hyundai Heavy Industries Co., Ltd., Hyundai Venture Investment Corporation, Hyundai Futures and Hyundai Finance on February 28, 2002. Hyundai Samho Heavy Industries Co., Ltd. and Mipo Engineering Co., Ltd. were affiliated with Hyundai Heavy Industries Group on July 2, 2002 and January 3, 2005, respectively.

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.

Application of the Statements of Korean Accounting Standards

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korea Accounting Standards ("SKAS"), which replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. The Company has implemented SKAS No.1 (Accounting Changes and Correction of Errors) through No.20 (Related Party Disclosures) [except for No. 11 (Discontinuing Operations)] before 2007, and SKAS No.11 (Discontinuing Operations) and SKAS No.21 (Preparation and Presentation of Financial Statements) through No.25 (Consolidated Financial Statements) since January 1, 2007. As of December 31, 2007, there were no significant changes occurred by adopting the new SKAS.

Major changes compared with the standard applied in preparing the 2007 financial statements are as follows:

| <u>Statements of Korea Accounting Standards</u>             | <u>Major changes</u>   |
|---|--|
| No. 21 Preparation and Presentation of Financial Statements | <ul style="list-style-type: none"> <li>- To prepare the statement of changes in shareholders' equity as a complete set of financial statements</li> <li>- To use accounts, 'Other non-current assets', and 'accumulated other comprehensive income' in preparing balance sheets</li> </ul>   |
| No. 22 Share-Based Payment                                  | <ul style="list-style-type: none"> <li>- To recognize a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction</li> <li>- To present detail accounting policy on treatment of vesting conditions</li> </ul> |
| No. 23 Earnings per Share                                   | <ul style="list-style-type: none"> <li>- 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</li> </ul>  |

Pursuant to adoption of SKAS No. 21 - "Preparation and Presentation of Financial Statements", statement of changes in shareholders' equity was only prepared for the year ended December 31, 2007 in accordance with the transitional provision of the above SKAS. The accompanying balance sheet as of December 31, 2006, which is comparatively presented, was reclassified in accordance with SKAS No. 21 and the adoption of such accounting standards did not have an effect on the net asset value and net income of the Company for the year ended December 31, 2006.

Except for the accounting changes above, 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 investments with original maturities of less than three months, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

#### Revenue Recognition

The recognition criteria of revenue are usually applied separately to each transaction, and revenues from shipbuilding contracts are recognized using the percentage of completion method, measured by the units of work performed at the balance sheet date when all of the following conditions are satisfied:

- (1) The amount of revenue can be measured reliably
- (2) It is probable that the economic benefits associated with the transaction will flow into the Company
- (3) The percentage of completion of the transaction can be measured reliably
- (4) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably

#### Allowance for Doubtful Accounts

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

#### 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) are 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 equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated. The Company has used the most available financial statements of the controlled investees, which have not been audited and reviewed due to the timing of closing of the controlled investees' financial statements.

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

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

#### Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by moving average method (raw materials and subsidiary materials) except for materials in transit, of which cost is determined using the specific identification method.

Inventories of December 31, 2007 and 2006 consist of the following:

|                      |   | Korean won     |              |
|----------------------|---|----------------|--------------|
|                      |   | 2007           | 2006         |
|                      |   | (In thousands) |              |
| Raw materials        | ₩ | 116,308,321    | ₩ 46,960,582 |
| Subsidiary materials |   | 276,757        | 394,591      |
| Materials in transit |   | 29,144,039     | 23,040,686   |
| Total                | ₩ | 145,729,117    | ₩ 70,395,859 |

#### Property, Plant and Equipment and Related Depreciation

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

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

|                                | <u>Useful lives</u> |
|--------------------------------|---------------------|
| Buildings                      | 15-40               |
| Structures                     | 15-40               |
| Machinery and equipment        | 6-10                |
| Vehicles                       | 6-10                |
| Furniture, fixtures and others | 6-10                |

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

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

#### 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 service with the Company, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees were to resign are ₩110,234,832 thousand and ₩105,254,554 thousand as of December 31, 2007 and 2006, respectively.

Accrued severance benefits are approximately 72 percent and 62 percent funded at December 31, 2007 and 2006, respectively, through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against the severance payment. Such receivables, totalling ₩2,221,523 thousand and ₩2,594,307 thousand as of December 31, 2007 and 2006, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

#### 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.

#### Reserve for Construction Warranties

The Company provides a reserve for repairs and maintenance based on management's estimate of future costs and prior experience. The reserve is offset against repair costs incurred.

#### Reserve for Loss on Construction

The Company provides a reserve for estimated loss on shipbuilding and other contracts based on management's estimate of current progress of contracts.

#### 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 is added to or deducted from the asset or the liability.

#### 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.

#### Ordinary Income per Share and Net Income per Share

Ordinary income per share and net income per share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, by the weighted average number of common shares outstanding during the year.

Ordinary income per share and net income per share for the years ended December 31, 2007 and 2006 are calculated as follows:

|  | Korean won     |               |
|--|----------------|---------------|
|  | 2007           | 2006          |
|  | (In thousands) |               |
| Net income / ordinary income (In thousands)          | ₩ 529,196,727  | ₩ 236,258,069 |
| Weighted average number of outstanding common shares | 19,344,180     | 19,756,001    |
| Income per share and ordinary income per share       | ₩ 27,357       | ₩ 11,959      |

#### Reclassification of Comparative Financial Statements

The Company reclassified 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. Such restatement had no effect of net assets and net income of comparable period.

### 3. RESTRICTED FINANCIAL INSTRUMENTS:

Restricted financial instruments as of December 31, 2007 and 2006 are as follows:

|  | Korean Won     |             | Remarks                             |
|--|----------------|-------------|-------------------------------------|
|  | 2007           | 2006        |                                     |
|  | (In thousands) |             |                                     |
| Short-term and long-term financial instruments | ₩ 2,321,270    | ₩ 2,970,798 | Guarantee deposits for transactions |



#### 4. SHORT-TERM INVESTMENT SECURITIES:

Short-term investment securities as of December 31, 2007 and 2006 consist of the following:

|                               |                          | <u>Korean Won</u>   |                      | <u>Interest</u> | <u>Maturity</u> |
|-------------------------------|--------------------------|---------------------|----------------------|-----------------|-----------------|
|                               |                          | <u>2007</u>         | <u>2006</u>          | <u>rate</u>     |                 |
| (In thousands)                |                          |                     |                      |                 |                 |
| Available-for-sale securities | Private Equity Fund (*1) | ₩230,590,983        | ₩206,741,752         | -               | 08.1.23~08.7.11 |
|                               | ABS                      | -                   | 20,000,000           | 4.98%           | 07.2.8          |
|                               | Daewoo Capital ABS       | 9,998,384           | -                    | 5.43%           | 08.2.19         |
|                               |                          | <u>₩240,589,367</u> | <u>₩ 226,741,752</u> |                 |                 |

(\*1) Private equity fund is classified as beneficiary certificate because the Company doesn't control investment management. Private equity fund consists of treasury bonds and demand deposits.

The Company evaluated the fair value of short-term investment securities using the price provided by the investment management company. The unrealized valuation gain of ₩6,240,498 thousand and ₩1,262,770 thousand [except the tax effects deducted from equity directly. See Note 13 (4)] in short-term investment securities as of December 31, 2007 and 2006, respectively, are shown under accumulated other comprehensive income account in the balance sheet.

#### 5. LONG-TERM INVESTMENT SECURITIES:

Long-term investment securities as of December 31, 2007 and 2006 consist of the following:

|                               |  | <u>Korean Won</u>      |                        |
|-------------------------------|--|------------------------|------------------------|
|                               |  | <u>2007</u>            | <u>2006</u>            |
| (In thousands)                |  |                        |                        |
| Available-for-sale securities |  | <u>₩ 3,398,862,313</u> | <u>₩ 1,070,136,494</u> |

Available-for-sale securities included in long-term investment securities as of December 31, 2007 are as follows:

| Companies                        | Korean Won(In thousands) |                                 |                       | Percentage of ownership (%) |
|----------------------------------|--------------------------|---------------------------------|-----------------------|-----------------------------|
|                                  | Acquisition cost         | Fair value or equity value (*1) | Book value            |                             |
| Listed equity securities:        |                          |                                 |                       |                             |
| Hyundai Heavy Industry Co., Ltd. | ₩ 236,721,143            | ₩ 2,682,877,500                 | ₩2,682,877,500        | 7.98                        |
| Posco Co., Ltd.                  | 343,619,535              | 501,400,000                     | 501,400,000           | 1.00                        |
| KCC Co., Ltd.                    | 78,926,661               | 209,219,000                     | 209,219,000           | 3.77                        |
|                                  | <u>659,267,339</u>       | <u>3,393,496,500</u>            | <u>3,393,496,500</u>  |                             |
| Unlisted equity securities:      |                          |                                 |                       |                             |
| The Korea Economic Daily         | 4,050,000                | 3,785,559                       | 3,149,663             | 3.25                        |
| Novelis Korea., Ltd.             | 2,281,674                | 93,568                          | -                     | Less than 1%                |
| KSF ship financing               | 100,000                  | 122,904                         | 100,000               | 1.18                        |
| Mipo Engineering (*2)            | 1,400,000                | 2,809,321                       | 1,400,000             | 100.00                      |
|                                  | <u>7,831,674</u>         | <u>6,811,352</u>                | <u>4,649,663</u>      |                             |
| Treasury bonds:                  |                          |                                 |                       |                             |
| Government bonds                 | 616,150                  | 616,150                         | 616,150               |                             |
| Others                           | 100,000                  | 132,023                         | 100,000               |                             |
|                                  | <u>₩ 667,815,163</u>     | <u>₩3,401,056,025</u>           | <u>₩3,398,862,313</u> |                             |

(\*1) Listed equity securities are stated at fair value and the book value of unlisted equity security was recorded at acquisition cost because the fair value cannot be reliably estimated.

(\*2) In conformity with Financial Accounting Standards in the Republic of Korea, the equity securities of this affiliate was not accounted for using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩ 7,000 million, are not material.

Available-for-sale securities included in long-term investment securities as of December 31, 2006 are as follows:

| Korean Won(In thousands)         |                      |                                 |                        |                             |  |
|----------------------------------|----------------------|---------------------------------|------------------------|-----------------------------|--|
| Companies                        | Acquisition cost     | Fair value or equity value (*1) | Book value             | Percentage of ownership (%) |  |
| Listed equity securities:        |                      |                                 |                        |                             |  |
| Hyundai Heavy Industry Co., Ltd. | ₩ 294,388,491        | ₩ 950,040,000                   | ₩ 950,040,000          | 9.92                        |  |
| KCC Co., Ltd.                    | 78,926,661           | 114,931,500                     | 114,931,500            | 3.77                        |  |
|                                  | <u>373,315,152</u>   | <u>1,064,971,500</u>            | <u>1,064,971,500</u>   |                             |  |
| Unlisted equity securities:      |                      |                                 |                        |                             |  |
| The Korea Economic Daily         | 4,050,000            | 3,493,426                       | 3,149,663              | 3.25                        |  |
| Novelis Korea., Ltd.             | 2,281,674            | 117,508                         | -                      | Less than 1%                |  |
| KSF ship financing               | 100,000              | 125,207                         | 100,000                | 1.18                        |  |
| Mipo Engineering (*2)            | <u>1,400,000</u>     | <u>1,778,658</u>                | <u>1,400,000</u>       | 100.00                      |  |
|                                  | <u>7,831,674</u>     | <u>5,514,799</u>                | <u>4,649,663</u>       |                             |  |
| Treasury bonds:                  |                      |                                 |                        |                             |  |
| Government bonds                 | <u>415,331</u>       | <u>415,331</u>                  | <u>415,331</u>         |                             |  |
| Others                           | <u>100,000</u>       | <u>132,023</u>                  | <u>100,000</u>         |                             |  |
|                                  | <u>₩ 381,662,157</u> | <u>₩ 1,071,033,653</u>          | <u>₩ 1,070,136,494</u> |                             |  |

(\*1) Listed equity securities are stated at fair value and the book value of unlisted equity security was recorded at acquisition cost because the fair value cannot be reliably estimated.

(\*2) In conformity with Financial Accounting Standards in the Republic of Korea, the equity securities of this affiliate was not accounted for using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩ 7,000 million, are not material.

Listed equity securities are stated at fair value and the difference of ₩1,982,316,141 thousand and ₩501,450,852 thousand as of December 31, 2007 and 2006, respectively, between book value and fair value [except the tax effects deducted from equity directly. See Note 13 (4)] is charged to valuation gain in long-term investment securities shown under accumulated other comprehensive income account in the balance sheet.

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:

| Company                                     | Number of<br>shares | % of<br>ownership | Korean Won (In thousands) |                     |
|---|---------------------|-------------------|---------------------------|---------------------|
|   |                     |                   | Acquisition<br>cost (*1)  | Book value          |
| Hyundai Vinashin Shipyard Co., Ltd.         | -                   | 55.00             | ₩ 15,795,335              | ₩ 43,481,552        |
| Korea Environment Technology Co., Ltd. (*2) | 1,648,000           | 3.30              | 2,875,760                 | 2,311,328           |
|   |                     |                   | <u>₩ 18,671,095</u>       | <u>₩ 45,792,880</u> |

(\*1) 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 Company performed additional procedures to obtain reliance on the financial statements which are not audited by an external auditor, and no material error was noted.

(\*2) Although the ownership's percentage of the Company is under 20% and the Company is able to exercise significant influence over selection of directors that are able to participate in decision of the operating and financial policies, equity securities are accounted for using the equity method. The closing price on the KOSDAQ of Korea Environment Technology Co., Ltd. is ₩2,060,000 thousand at December 31, 2007. The number of Korea Environment Technology Co., Ltd. shares is increased as a result of stock split.

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

| Company                                | Number of<br>shares | % of<br>ownership | Korean Won (In thousands) |                     |
|--|---------------------|-------------------|---------------------------|---------------------|
|  |                     |                   | Acquisition<br>Cost       | Book value          |
| Hyundai Vinashin Shipyard Co., Ltd.    | -                   | 55.00             | ₩ 15,795,335              | ₩ 34,367,534        |
| Korea Environment Technology Co., Ltd. | 1,648,000           | 3.30              | 2,875,760                 | 2,529,087           |
|  |                     |                   | <u>₩ 18,671,095</u>       | <u>₩ 36,896,621</u> |

(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 5 years and the changes in the differences in 2007 and 2006 are as follows:

| Company                                   | Year | Korean Won (In thousands) |                        |              |                   |
|---|------|---------------------------|------------------------|--------------|-------------------|
|   |      | Beginning<br>balance      | Increase<br>(Decrease) | Amortization | Ending<br>balance |
| Korea Environment<br>Technology Co., Ltd. | 2007 | ₩ 901,558                 | ₩ -                    | ₩ (300,519)  | ₩ 601,039         |
|   | 2006 | ₩ 1,202,077               | ₩ -                    | ₩ (300,519)  | ₩ 901,558         |

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

| Company                                   | Korean Won (In thousands) |                           |                     |                      |                     |
|---|---------------------------|---------------------------|---------------------|----------------------|---------------------|
|   | Beginning<br>balance      | Acquisition<br>(Disposal) | Gain                | Other (*1)           | Ending<br>balance   |
| Hyundai Vinashin Shipyard Co., Ltd.       | ₩ 34,367,534              | ₩ -                       | ₩ 11,323,984        | ₩ (2,209,966)        | ₩ 43,481,552        |
| Korea Environment Technology<br>Co., Ltd. | 2,529,087                 | -                         | (171,157)           | (46,602)             | 2,311,328           |
|   | <u>₩ 36,896,621</u>       | <u>₩ -</u>                | <u>₩ 11,152,827</u> | <u>₩ (2,256,568)</u> | <u>₩ 45,792,880</u> |

- (\*1) Other changes in Hyundai Vinashin Shipyard Co., Ltd. (HVS) consist of translation adjustment and the dividend received from Hyundai Vinashin Shipyard Co., Ltd. in 2007. Other changes in Korea Environment Technology Co., Ltd. are the dividend received from Korea Environment Technology Co., Ltd. and the valuation gain of the derivatives in 2007.

Unrealized gain (loss) on valuation using the equity method, net of ₩868,293 thousand and ₩ (1,108,755) thousand as of December 31, 2007 and 2006, respectively, in accumulated other comprehensive income is the balance after directly offsetting the tax effects.

- (5) The changes in investment securities using the equity method for the year ended December 31, 2006 are as follows:

| Company                                | Korean Won (In thousands) |                        |                    |                      | Ending balance      |
|--|---------------------------|------------------------|--------------------|----------------------|---------------------|
|  | Beginning balance         | Acquisition (Disposal) | Gain               | Other (*1)           |                     |
| Hyundai Vinashin Shipyard Co., Ltd.    | ₩ 28,203,981              | ₩ -                    | ₩ 9,414,788        | ₩ (3,251,235)        | ₩ 34,367,534        |
| Korea Environment Technology Co., Ltd. | 2,759,895                 | -                      | (156,648)          | (74,160)             | 2,529,087           |
|  | <u>₩ 30,963,876</u>       | <u>₩ -</u>             | <u>₩ 9,258,140</u> | <u>₩ (3,325,395)</u> | <u>₩ 36,896,621</u> |

- (\*1) Other changes in Hyundai Vinashin Shipyard Co., Ltd. (HVS) consist of translation adjustment and the dividend received from Hyundai Vinashin Shipyard Co., Ltd. in 2006. Other changes in Korea Environment Technology Co., Ltd. are the dividend received from Korea Environment Technology Co., Ltd. in 2006.

- (6) Financial information of investees accounted for using the equity method as of and for the years ended December 31, 2007 and 2006 is as follows:

| 2007                                   | Korean Won (In thousands) |             |              |             |
|--|---------------------------|-------------|--------------|-------------|
| Company                                | Assets                    | Liabilities | Sales        | Net income  |
| Hyundai Vinashin Shipyard Co., Ltd.    | ₩172,628,494              | ₩93,571,127 | ₩112,415,797 | ₩20,589,063 |
| Korea Environment Technology Co., Ltd. | 71,071,711                | 19,181,861  | 24,842,072   | 3,803,779   |
| 2006                                   | Korean Won (In thousands) |             |              |             |
| Company                                | Assets                    | Liabilities | Sales        | Net income  |
| Hyundai Vinashin Shipyard Co., Ltd.    | ₩153,753,732              | ₩91,267,307 | ₩128,464,764 | ₩16,626,838 |
| Korea Environment Technology Co., Ltd. | 71,541,954                | 22,163,032  | 27,338,927   | 4,650,738   |

## 7. PROPERTY, PLANT AND EQUIPMENT:

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

| Account                        | Korean won (In thousands) |                     |                     |                  |                     |                      |
|--------------------------------|---------------------------|---------------------|---------------------|------------------|---------------------|----------------------|
|                                | Beginning of year         | Acquisition         | Transfer            | Disposal         | Depreciation        | End of year          |
| Land                           | ₩ 97,994,039              | ₩ 4,035,481         | ₩ 3,288             | ₩ -              | ₩ -                 | ₩ 102,032,808        |
| Buildings                      | 127,482,914               | 48,805              | 5,708,077           | -                | 3,931,360           | 129,308,436          |
| Structures                     | 104,343,157               | 31,698              | 6,345,342           | -                | 4,934,359           | 105,785,838          |
| Machinery and equipment        | 92,316,137                | 6,206,047           | 14,090,657          | 72,654           | 25,055,473          | 87,484,714           |
| Vehicles                       | 1,893,749                 | 530,517             | -                   | 11,221           | 400,897             | 2,012,148            |
| Furniture, fixtures and others | 41,946,230                | 5,950,060           | 2,958,024           | 349,086          | 8,718,822           | 41,786,406           |
| Construction in progress       | <u>3,661,397</u>          | <u>41,407,690</u>   | <u>(29,105,388)</u> | -                | -                   | <u>15,963,699</u>    |
|                                | <u>₩ 469,637,623</u>      | <u>₩ 58,210,298</u> | <u>₩ -</u>          | <u>₩ 432,961</u> | <u>₩ 43,040,911</u> | <u>₩ 484,374,049</u> |

As of December 31, 2007, the value of Company owned land (715,925 square meters) totals ₩101,392,176 thousand in terms of land prices officially announced by the Korean government.

The changes in property, plant and equipment for the year ended December 31, 2006 consist of the following:

| Account                        | Korean won (In thousands) |                     |                     |                    |                     |                      |
|--------------------------------|---------------------------|---------------------|---------------------|--------------------|---------------------|----------------------|
|                                | Beginning of year         | Acquisition         | Transfer            | Disposal           | Depreciation        | End of year          |
| Land                           | ₩ 98,040,764              | ₩ -                 | ₩ -                 | ₩ 46,725           | ₩ -                 | ₩ 97,994,039         |
| Buildings                      | 116,410,984               | 98,732              | 17,590,426          | 2,863,652          | 3,753,576           | 127,482,914          |
| Structures                     | 103,483,345               | 17,776              | 5,469,099           | 25,563             | 4,601,500           | 104,343,157          |
| Machinery and equipment        | 92,468,476                | 4,206,585           | 19,241,443          | 94,595             | 23,505,772          | 92,316,137           |
| Vehicles                       | 1,487,775                 | 785,011             | 32,000              | 46,747             | 364,290             | 1,893,749            |
| Furniture, fixtures and others | 36,708,468                | 4,877,057           | 8,516,483           | 495,459            | 7,660,319           | 41,946,230           |
| Construction in progress       | <u>5,657,992</u>          | <u>48,852,856</u>   | <u>(50,849,451)</u> | -                  | -                   | <u>3,661,397</u>     |
|                                | <u>₩ 454,257,804</u>      | <u>₩ 58,838,017</u> | <u>₩ -</u>          | <u>₩ 3,572,741</u> | <u>₩ 39,885,457</u> | <u>₩ 469,637,623</u> |

As of December 31, 2006, the value of Company owned land (707,132 square meters) totals ₩92,078,910 thousand in terms of land prices officially announced by the Korean government.

As of December 31, 2007, property, plant and equipment, including ships being repaired and built are insured for ₩3,616,114,851 thousand with Hyundai Fire & Marine Insurance Co. In addition, the Company carries general insurance for vehicles and workers compensation and casualty insurance for employees.

## 8. SHAREHOLDERS' EQUITY:

### (1) Capital stock

Capital stock as of December 31, 2007 and 2006 consists of the following:

|              |                   |                   |           | Korean Won     |              |
|--------------|-------------------|-------------------|-----------|----------------|--------------|
|              | Authorized        | Outstanding       | Par value | 2007           | 2006         |
|              |                   |                   |           | (In thousands) |              |
| Common stock | 50,000,000 shares | 20,000,000 shares | ₩ 5,000   | ₩100,000,000   | ₩100,000,000 |

(2) Capital surplus:

Capital surplus as of December 31, 2007 and 2006 consists of the following:

|  | Korean Won           |                      |
|--|----------------------|----------------------|
|  | 2007                 | 2006                 |
|  | (In thousands)       |                      |
| Paid-in capital in excess of par value | ₩ 79,776,840         | ₩ 79,776,840         |
| Asset revaluation surplus              | 127,666,063          | 127,666,063          |
| Other                                  | <u>2,135,614</u>     | <u>2,135,614</u>     |
|  | <u>₩ 209,578,517</u> | <u>₩ 209,578,517</u> |

On January 1, 1998, the Company revalued property, plant and equipment to their respective market prices, (which were appraised by the Korea Appraisal Board and approved by the relevant tax office). The resultant cumulative appraisal gains, amounting to ₩134,684,606 thousand, were included in capital surplus, after offsetting a deferred loss on foreign currency translation of ₩2,978,005 thousand and reduction for an asset revaluation tax payment of ₩4,040,538 thousand.

The revaluation surplus may only be transferred to capital stock or may be used to offset against a deficit, if any, in the future.

9. RETAINED EARNINGS:

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

|   | Korean Won           |                      |
|---|----------------------|----------------------|
|   | 2007                 | 2006                 |
|   | (In thousands)       |                      |
| Appropriated:                               |                      |                      |
| Legal reserve                               | ₩ 10,364,673         | ₩ 5,468,500          |
| Reserve for financial structure improvement | 12,900,000           | 12,900,000           |
| Voluntary reserve                           | 314,300,000          | 131,900,000          |
| Before appropriations                       | <u>529,217,563</u>   | <u>236,278,739</u>   |
|   | <u>₩ 866,782,236</u> | <u>₩ 386,547,239</u> |

The Korean Commercial Code requires the Company to appropriate, as a legal reserve, a minimum of 10 percent of annual cash dividends declared, until such reserve equals 50 percent of its paid-in capital. Legal reserve is not available for the payment of cash dividends, but may be transferred to capital stock or may be used to reduce accumulated deficit.

The Regulation on Issues and Disclosures of the Securities for listed companies requires the Company to reserve the net gain on disposition of property, plant and equipment and 10 percent of net income for each year until the Company's net worth equals 30 percent of total assets. But as of December 31, 2007, articles on reserve for financial structure improvement was revised not to be reserved for the listed companies and this reserve was transferred to voluntary reserve through resolution of general meeting of stockholders.

10. CAPITAL ADJUSTMENTS:

Treasury stock

The Company has been operating special money in trust for treasury stock amounting to W76,443,830 thousand for the purpose of stabilizing the share price of the Company. The acquisition cost of treasury stock amounting to W76,443,830 thousand (691,346 shares of treasury stock) was recorded as capital adjustments as of December 31, 2007.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME:

- (1) Gain (Loss) on valuation of foreign exchange forward contracts  
The Company recorded a valuation loss of W5,620,017 thousand and gain of W64,196,399 thousand as of December 31, 2007 and 2006, respectively, on foreign exchange forward contracts.
- (2) Unrealized loss on valuation of affiliates using the equity method  
As explained in Note 6, the Company recorded a valuation loss on investment equity securities of W870,351 thousand and W1,108,755 thousand as of December 31, 2007 and 2006, respectively, and a valuation gain on investment equity securities of W2,057 thousand as of December 31, 2007 as accumulated other comprehensive income.
- (3) Gain on valuation of available-for-sale securities  
As explained in Notes 4 and 5, the Company recorded a valuation gain on available-for-sale securities of W1,988,556,640 thousand and W502,713,622 thousand as of December 31, 2007 and 2006, respectively, as accumulated other comprehensive income.

12. DIVIDENDS:

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

| <u>Year</u>   | <u>Description</u> | <u>Number of<br/>shares (*)</u> | <u>Par value</u> | <u>Dividend<br/>rate</u> | <u>Cash dividend</u> | <u>Net income</u> | <u>Dividend to<br/>net income</u> |
|---------------|--------------------|---------------------------------|------------------|--------------------------|----------------------|-------------------|-----------------------------------|
| (In thousand) |                    |                                 |                  |                          |                      |                   |                                   |
| 2007          | Common stock       | 19,308,654                      | W 5,000          | 150 %                    | W144,814,905         | W529,196,727      | 27.37%                            |
| 2006          | Common stock       | 19,584,692                      | W 5,000          | 50 %                     | W 48,961,730         | W236,258,069      | 20.72%                            |

(\*) 691,346 and 415,308 shares of treasury stock are excluded as of December 31, 2007 and 2006 respectively.

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

| <u>Year</u> | <u>Description</u> | <u>Dividend per share</u> | <u>Closing price</u> | <u>Yield to market price</u> |
|-------------|--------------------|---------------------------|----------------------|------------------------------|
| 2007        | Common stock       | W 7,500                   | W 288,500            | 2.60%                        |
| 2006        | Common stock       | W 2,500                   | W 119,000            | 2.10%                        |

13. INCOME TAX EXPENSE:

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

| Description   | Korean Won           |                      |
|---|----------------------|----------------------|
|   | 2007                 | 2006                 |
|   | (In thousands)       |                      |
| Income tax payable  | ₩ 205,540,277        | ₩ 75,104,256         |
| Changes in deferred income taxes due to temporary differences | 534,327,331          | 139,228,706          |
| Income tax expense adjusted to equity directly                | <u>(537,204,747)</u> | <u>(127,541,305)</u> |
| Income tax expense  | <u>₩ 202,662,861</u> | <u>₩ 86,791,657</u>  |

(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             |                      |
|--------------------------|------------------------|----------------------|
|                          | 2007                   | 2006                 |
|                          | (In thousands)         |                      |
| Income before income tax | ₩ 731,859,588          | ₩ 323,049,726        |
| Permanent differences    | 1,953,478,676          | 462,690,142          |
| Temporary differences    | <u>(1,942,942,299)</u> | <u>(506,197,185)</u> |
| Taxable income           | <u>₩ 742,395,965</u>   | <u>₩ 279,542,683</u> |

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

| Description   | Korean Won (In thousands) |                        |
|---|---------------------------|------------------------|
|   | Beginning                 | Ending                 |
| Accumulated deductible temporary differences, net         | ₩ (22,600,258)            | ₩ (12,070,747)         |
| Tax rate  |                           | 27.5%                  |
| Cumulative tax effects (*1)                               |                           | (3,196,985)            |
| Others  |                           | <u>(751,819,021)</u>   |
| Deferred income tax liabilities, end of year              |                           | (755,016,006)          |
| Deferred income tax liabilities, beginning of year        |                           | <u>(220,688,675)</u>   |
| Changes in deferred income taxes on temporary differences |                           | <u>₩ (534,327,331)</u> |

(\*1) The Company recognized as deferred income tax liabilities the temporary difference of gain (with the equity method in Korea Environment Technology Co., Ltd.) which accounted for 70 percent (double tax adjustment non-inclusion ratio) of income tax effects incurred by dividends out of the income tax effects.



| Korean Won (In thousands)               |                                 |                       |                        |                        |
|---|---------------------------------|-----------------------|------------------------|------------------------|
| Description                             | Account                         | Current portion       | Non-current portion    | Total                  |
| Provision of income tax expense settled | Deferred income tax assets      | ₩ 2,185,494           | ₩ 33,710,184           | ₩ 35,895,678           |
|   | Deferred income tax liabilities | <u>(12,451,239)</u>   | <u>(26,641,424)</u>    | <u>(39,092,663)</u>    |
|   |                                 | <u>(10,265,745)</u>   | <u>7,068,760</u>       | <u>(3,196,985)</u>     |
| Accumulated other comprehensive income  | Deferred income tax assets      | -                     | 3,697,253              | 3,697,253              |
|   | Deferred income tax liabilities | <u>(3,602,475)</u>    | <u>(751,913,799)</u>   | <u>(755,516,274)</u>   |
|   |                                 | <u>(3,602,475)</u>    | <u>(748,216,546)</u>   | <u>(751,819,021)</u>   |
|   |                                 | <u>₩ (13,868,220)</u> | <u>₩ (741,147,786)</u> | <u>₩ (755,016,006)</u> |

- (4) The Company prepared its financial statements as of December 31, 2007 in accordance with SKAS No. 16, which is effective from January 1, 2007. SKAS No.16 requires the temporary difference relating to items in equity, which will result in taxable and deductible amounts in future years to be directly charged to the related equity items. This accounting change has no effect on net income. As of December 31, 2007, significant balances related to the tax effects are as follows:

| Description   | Korea won (In thousands) |                        |                        |
|---|--------------------------|------------------------|------------------------|
|   | Before tax effect        | Tax effect             | Book value             |
| Gain on valuation of available-for-sale securities (Long-term investment securities )   | ₩ 2,734,229,160          | ₩ (751,913,019)        | ₩ 1,982,316,141        |
| Gain on valuation of available-for-sale securities ( Short-term investment securities ) | 8,607,584                | (2,367,086)            | 6,240,498              |
| Negative changes in equity arising on application of the equity method                  | (1,200,484)              | 330,133                | (870,351)              |
| Changes in equity arising on application of the equity method                           | 2,838                    | (780)                  | 2,058                  |
| Gain on valuation of foreign exchange forward contracts (Non-current position)          | ₩ (12,244,072)           | ₩ 3,367,120            | ₩ (8,876,952)          |
| Gain on valuation of foreign exchange forward contracts (Current position)              | <u>4,492,324</u>         | <u>(1,235,389)</u>     | <u>3,256,935</u>       |
|   | <u>₩ 2,733,887,350</u>   | <u>₩ (751,819,021)</u> | <u>₩ 1,982,068,329</u> |

- (5) The Company's effective tax rate is 27.69% and 26.87% for the years ended December 31, 2007 and 2006, respectively.

14. FOREIGN EXCHANGE FORWARD CONTRACTS:

- (1) The Company has entered into the derivatives contracts regarding the foreign exchange forward with Citibank Korea and others to hedge exchange rate risk. The valuation of foreign currency forward contracts as of December 31, 2007 is as follows (In thousands):

| Contract<br>Amount(USD) | Sales |           |           | Non-operating revenue & expense |              |              | Accumulated other<br>comprehensive<br>income | Currency<br>forward<br>assets | Currency<br>forward<br>liabilities |
|-------------------------|-------|-----------|-----------|---------------------------------|--------------|--------------|--|-------------------------------|------------------------------------|
|                         | ~2006 | 2007      | Total     | ~2006                           | 2007         | Total        |  |                               |                                    |
| 4,991,144,800           | -     | 9,941,346 | 9,941,346 | 229,285                         | (21,358,788) | (21,129,503) | (7,751,748)                                  | 10,920,261                    | (29,860,166)                       |

The Company evaluated the fair value of foreign exchange forward contracts. The unrealized valuation gain of ₩5,620,017 thousand and ₩64,196,399 thousand (except the tax effects deducted from equity directly) in foreign exchange forward contracts as of December 31, 2007 and 2006, respectively are shown under accumulated other comprehensive income account in the balance sheet.

The transactions are expected to be exposed to cash flow variation risk until December 6, 2011. The net gain on valuation recorded as accumulated other comprehensive income as of December 31, 2007 amounting to ₩4,492,324 thousand is expected to be realized in the operation within 12 months from January 1, 2008. The realized currency forward transaction gain is ₩63,698 thousand and loss is ₩4,540,420 thousand in 2007.

- (2) The valuation of foreign currency forward contracts as of December 31, 2006 is as follows (In thousands):

| Contract<br>Amount(USD) | Sales |            |            | Non-operating revenue & expense |           |         | Accumulated other<br>comprehensive<br>income | Currency<br>forward<br>assets |
|-------------------------|-------|------------|------------|---------------------------------|-----------|---------|--|-------------------------------|
|                         | ~2005 | 2006       | Total      | ~2005                           | 2006      | Total   |  |                               |
| 3,607,992,480           | -     | 34,949,136 | 34,949,136 | (1,439,909)                     | 1,669,194 | 229,285 | (88,546,757)                                 | 123,725,178                   |

The Company evaluated the fair value of foreign exchange forward contracts. The unrealized valuation gain of ₩64,196,399 thousand and ₩18,076,255 thousand (except the tax effects deducted from equity directly) in foreign exchange forward contracts as of December 31, 2006 and 2005, respectively are shown under accumulated other comprehensive income in the balance sheet.

The transactions are expected to be exposed to cash flow variation risk until June 8, 2010. The net gain on valuation recorded as accumulated other comprehensive income as of December 31, 2006 amounting to ₩50,444,930 thousand is expected to be realized in the operation within 12 months from January 1, 2007. The realized currency forward transaction gain is ₩17,006,881 thousand and loss is ₩548,951 thousand in 2006.

15. RELATED PARTY TRANSACTIONS:

Significant transactions with affiliated companies and related balances as of December 31, 2007 and 2006 are summarized below.

| Related party                      | Description               | Korean Won     |              |
|------------------------------------|---------------------------|----------------|--------------|
|                                    |                           | 2007           | 2006         |
|                                    |                           | (In thousands) |              |
| Hyundai Heavy Industries Co., Ltd. | Sales                     | ₩ 26,249,021   | ₩ 19,456,248 |
|                                    | Purchases                 | 465,153,207    | 399,388,559  |
|                                    | Other accounts receivable | 544,612        | 599,879      |
|                                    | Prepayments               | 87,016,217     | 80,645,792   |
|                                    | Trade payables            | 115,538,192    | 101,872,880  |
|                                    | Other accounts payable    | 1,984,271      | 332,124      |

| Related party                               | Description               | Korean Won     |              |
|---|---------------------------|----------------|--------------|
|   |                           | 2007           | 2006         |
|   |                           | (In thousands) |              |
| HVS   | Sales                     | ₩ 35,330,292   | ₩ 45,480,204 |
|   | Purchases                 | 25,424,073     | 38,337,342   |
|   | Trade receivables         | 8,120,349      | 9,717,291    |
|   | Other accounts receivable | 4,555          | 43,995       |
|   | Accrued income            | -              | 275          |
|   | Prepayments               | 32,453,146     | 485,984      |
|   | Other accounts payable    | 123,197        | 1,079,284    |
|   | Unearned income           | 11,423         | 47,717       |
| Hyundai Samho<br>Heavy Industries Co., Ltd. | Sales                     | -              | 4,535        |
|   | Purchases                 | 7,179,141      | 7,691,602    |
|   | Other accounts payable    | 553            | 353          |
| Mipo Engineering                            | Sales                     | 69,569         | 32,137       |
|   | Purchases                 | 10,899,455     | 5,293,077    |
|   | Other accounts receivable | -              | 16,452       |
|   | Other accounts payable    | 1,084,593      | 571,370      |
| Korea Environment<br>Technology Co., Ltd.   | Sales                     | 49,440         | 74,160       |
|   | Purchases                 | 235,459        | 355,162      |
|   | Other accounts payables   | 19,998         | 19,819       |
| Executive                                   | Compensations             | 1,256,813      | 933,930      |

16. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Foreign currency denominated assets and liabilities as of December 31, 2007 and 2006 are as follows:

| Account                          | Foreign currency    |                     | Equivalent Korean Won |                      |
|----------------------------------|---------------------|---------------------|-----------------------|----------------------|
|                                  | 2007                | 2006                | 2007                  | 2006                 |
|                                  | (In thousands)      |                     | (In thousands)        |                      |
| Assets                           |                     |                     |                       |                      |
| Cash and cash equivalents        | US\$ 25,869         | US\$ 5,664          | ₩ 24,269,795          | ₩ 5,264,875          |
| Short-term financial instruments | 656                 | 906                 | 615,130               | 842,025              |
| Trade receivables                | 463,221             | 456,903             | 434,594,326           | 424,737,458          |
| Accrued income                   | -                   | 2                   | -                     | 1,708                |
| Other accounts receivable        | 5                   | 47                  | 4,555                 | 43,995               |
| Guarantee deposits               | 3,800               | 76                  | 3,565,546             | 70,858               |
|                                  | <u>US\$ 493,551</u> | <u>US\$ 463,598</u> | <u>₩ 463,049,352</u>  | <u>₩ 430,960,919</u> |
| Liabilities                      |                     |                     |                       |                      |
| Trade payables                   | US\$ 21,376         | US\$ 19,363         | ₩ 20,054,772          | ₩ 17,999,465         |
| Other accounts payable           | 8,194               | 6,178               | 7,687,385             | 5,742,874            |
| Accrued expenses                 | 115,427             | 92,434              | 108,293,702           | 85,927,011           |
|                                  | <u>US\$ 144,997</u> | <u>US\$ 117,975</u> | <u>₩ 136,035,859</u>  | <u>₩ 109,669,350</u> |

17. SUMMARY OF SHIP BUILDING CONTRACTS:

As of December 31, 2007 and 2006, the Company's backlog of signed ship building contracts in progress, after recognizing revenues during 2007 and 2006, is as follows:

| (2007)        | Korean Won (In thousands) |                        |                        |                         |
|---------------|---------------------------|------------------------|------------------------|-------------------------|
|               | Beginning                 | Increase               | Revenue                | Ending                  |
| Ship building | ₩ 7,741,531,526           | ₩ 6,244,297,233        | ₩ 2,769,937,897        | ₩ 11,215,890,862        |
| Others        | 5,007,290                 | 186,775,807            | 78,442,533             | 113,340,564             |
|               | <u>₩ 7,746,538,816</u>    | <u>₩ 6,431,073,040</u> | <u>₩ 2,848,380,430</u> | <u>₩ 11,329,231,426</u> |

| (2006)        | Korean Won (In thousands) |                        |                        |                        |
|---------------|---------------------------|------------------------|------------------------|------------------------|
|               | Beginning                 | Increase               | Revenue                | Ending                 |
| Ship building | ₩ 6,791,715,804           | ₩ 3,183,101,942        | ₩ 2,233,286,220        | ₩ 7,741,531,526        |
| Others        | 52,068,531                | 55,364,518             | 102,425,759            | 5,007,290              |
|               | <u>₩ 6,843,784,335</u>    | <u>₩ 3,238,466,460</u> | <u>₩ 2,335,711,979</u> | <u>₩ 7,746,538,816</u> |

18. COMMITMENTS AND CONTINGENCIES:

- A. Pending litigations of the Company as defendants as of December 31, 2007 are as follows (Korea won in thousands):

| Plaintiff                        | Description                                    | Claimed amount |
|----------------------------------|--|----------------|
| CMA CGM                          | Claim for damages                              | USD 3,969,300  |
| Yong-in Corporation              | Claim for retirement allowance                 | ₩ 225,201      |
| Ki-Cheol Shin and 29 individuals | Claim for affirmation of status among employee | ₩ 1,277,106    |
| Seok-jin Kim                     | Claim for salaries                             | ₩ 100,000      |
| DAXIN                            | Claim for damages                              | USD 6,250,000  |

CMA CGM instituted a lawsuit against the Company for the transfer of ship building contract. The Company lost the case at the first trial in court of France. The Company recorded US\$ 3,696,135 (Equivalent ₩3,467,714 thousand) as of December 31, 2007 as non-operating expense and other accounts payable at the end of first trial in court of France. The lawsuit is now under second trial in court of France. In connection with the claims above, the Company's management believes that the ultimate outcome of these lawsuits will not have a material adverse impact on the Company's financial position and operations.

- B. The Company is contingently liable for US\$ 30,000,000 for guarantee related to HVS' borrowing contracts to the Korea Export Import Bank.
- C. In connection with advanced payment guarantee, as of December 31, 2007, a local bank has provided payment guarantee of US\$ 3,422,637,975 (Equivalent ₩3,211,118,948 thousand) for the Company. In addition to advanced payment guarantee explained in the above, ship under construction and related raw materials are assigned to the creditors for the advanced payment guarantee.
- D. The Company has entered into bank overdraft agreements and trading finance agreements with Korea Exchange Bank and others amounting to ₩60,000,000 thousand and ₩10,000,000 thousand, respectively, as of December 31, 2007.
- E. As of December 31, 2007, the Company has import usance agreements with 10 banks (including Citibank) with the credit limit of ₩40,500,000 thousand and USD 1,670,000,000.

19. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the years ended December 31, 2007 and 2006 are as follows:

| Particulars   | Korean Won     |              |
|---|----------------|--------------|
|   | 2007           | 2006         |
|   | (In thousands) |              |
| Transfer to property, plant and equipment from construction-in-progress   | ₩ 29,102,100   | ₩ 50,817,451 |
| Changes in deferred income taxes (accumulated other comprehensive income)   | 537,204,747    | 127,541,304  |
| Gain on valuation of investment securities (accumulated other comprehensive income)                               | 2,177,873,297  | 110,799,688  |
| Valuation of investment securities accounted for using the equity method (accumulated other comprehensive income) | 331,671        | (752,232)    |
| Gain (loss) on valuation of foreign exchange forward contracts (accumulated other comprehensive income)           | (45,627,181)   | 17,493,848   |

20. COMPREHENSIVE INCOME:

Comprehensive income(loss), which is excluded from net income as of December 31, 2007 and 2006, is as follows:

|   | Korean Won      |               |
|---|-----------------|---------------|
|   | 2007            | 2006          |
|   | (In thousands)  |               |
| Net income  | ₩ 529,196,727   | ₩ 236,258,069 |
| Other comprehensive income (loss):  |                 |               |
| Gain on valuation of short-term and long-term investment securities (Tax effects: (563,595,627) thousand) | 1,485,843,018   | 292,108,270   |
| Changes in equity arising on application of the equity method (Tax effects: (780) thousand)               | 2,057           | (874,403)     |
| Negative changes in equity arising on application of the equity method (Tax effects: (90,429) thousand)   | 238,404         | (1,108,755)   |
| Gain(loss) on valuation of financial derivatives (Tax effects: 26,482,089 thousand)                       | (69,816,416)    | 46,120,144    |
| Sub-Total   | 1,416,267,063   | 336,245,256   |
| Comprehensive income  | ₩ 1,945,463,790 | ₩ 572,503,325 |

21. FINANCIAL INFORMATION BY INDUSTRY SEGMENT:

(1) The Company is classified into industry segments of shipbuilding, repairing and converting the ships. Financial information by industry segment is as follows:

|                          | Korean Won (In thousands) |                  |                 |                  |
|--------------------------|---------------------------|------------------|-----------------|------------------|
|                          | 2007                      |                  | 2006            |                  |
|                          | Sales                     | Operating income | Sales           | Operating income |
| Shipbuilding             | ₩ 2,769,937,897           | ₩ 352,973,512    | ₩ 2,233,286,220 | ₩ 204,998,890    |
| Repairing and converting | 78,442,533                | 10,127,903       | 102,425,759     | 14,842,627       |
| Total                    | ₩ 2,848,380,430           | ₩ 363,101,415    | ₩ 2,335,711,979 | ₩ 219,841,517    |

(2) Sales by geographical area in 2007 and 2006 are as follows:

| Year | Korean won (In thousands) |                |               |               |  | Total          |
|------|---------------------------|----------------|---------------|---------------|--|----------------|
|      | Korea                     | Europe         | Asia          | Others        |  |                |
| 2007 | ₩ 11,012,320              | ₩1,819,737,841 | ₩ 541,777,118 | ₩ 475,853,151 |  | ₩2,848,380,430 |
| 2006 | ₩ 8,744,302               | ₩1,468,891,838 | ₩ 360,129,121 | ₩ 497,946,718 |  | ₩2,335,711,979 |

## 22. SELLING AND ADMINISTRATIVE EXPENSES:

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

|                                  | Korean Won          |                     |
|----------------------------------|---------------------|---------------------|
|                                  | 2007                | 2006                |
|                                  | (In thousands)      |                     |
| Salaries                         | ₩ 33,360,745        | ₩ 26,808,132        |
| Provision for severance benefits | 4,213,199           | 4,046,415           |
| Other employee benefits          | 7,037,154           | 6,096,071           |
| Entertainment                    | 370,433             | 337,045             |
| Bad debt                         | 1,156,110           | 13,211              |
| Rent                             | 594,595             | 592,303             |
| Travel                           | 331,978             | 286,431             |
| Communication                    | 216,002             | 211,027             |
| Taxes and dues                   | 906,582             | 655,504             |
| Guarantee commissions            | 9,008,549           | 6,915,732           |
| Fee and charges                  | 2,574,013           | 2,098,227           |
| Vehicles maintenance             | 1,416,132           | 1,357,174           |
| Depreciation                     | 5,028,126           | 4,408,224           |
| Repair                           | 1,493,693           | 1,055,775           |
| Other                            | 3,838,568           | 3,416,009           |
|                                  | <u>₩ 71,545,879</u> | <u>₩ 58,297,280</u> |

## 23. SUPPLEMENTARY INFORMATIONS FOR COMPUTATION OF VAUE ADDED:

The accounts and amounts needed for the calculation of value added for the years ended December 31, 2007 and 2006 are as follows:

|                                     | Korean Won           |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | 2007                 | 2006                 |
|                                     | (In thousands)       |                      |
| Salaries                            | ₩ 213,199,501        | ₩ 179,147,054        |
| Provision for severance indemnities | 20,883,136           | 19,627,398           |
| Employee welfare                    | 37,434,193           | 33,252,773           |
| Rent                                | 4,772,794            | 4,385,821            |
| Depreciation                        | 43,040,911           | 39,885,457           |
| Taxes and dues                      | 3,372,816            | 2,717,071            |
|                                     | <u>₩ 322,703,351</u> | <u>₩ 279,015,574</u> |

24. MAJOR INDICATORS FOR THE FINAL INTERIM PERIOD:

The major indicators of management performance for the final interim period (Unaudited) are as follows:

| <u>Description</u>   | <u>Korean Won</u>                       |               |
|----------------------|---|---------------|
|                      | <u>2007</u>                             | <u>2006</u>   |
|                      | (In thousands except for share amounts) |               |
| Sales                | ₩ 782,448,757                           | ₩ 620,414,762 |
| Operating income     | 96,976,993                              | 82,684,710    |
| Net income           | 69,457,581                              | 78,908,912    |
| Net income per share | 3,597                                   | 4,008         |

## **Independent Accountant's Review Report on Internal Accounting Control System ("IACS")**

English Translation of a Report Originally Issued in Korean

To the Representative Director of  
Hyundai Mipo Dockyard Co., Ltd.:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Hyundai Mipo Dockyard 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.



January 30, 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")**

To the Board of Directors and Auditor (Audit Committee) of Hyundai Mipo Dockyard Company

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Mipo Dockyard Company ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2007.

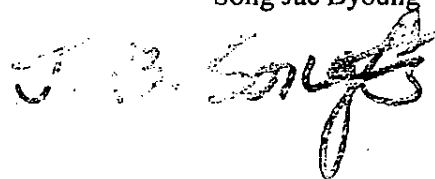
The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the 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 30, 2008

Name, Internal Accounting Control Officer  
Shon Young Yul

Name, Chief Executive Officer or President  
Song Jae Byoung

A handwritten signature in black ink, appearing to read "J. B. Song", with a stylized flourish at the end.