HYUNDAI HEAVY INDUSTRIES

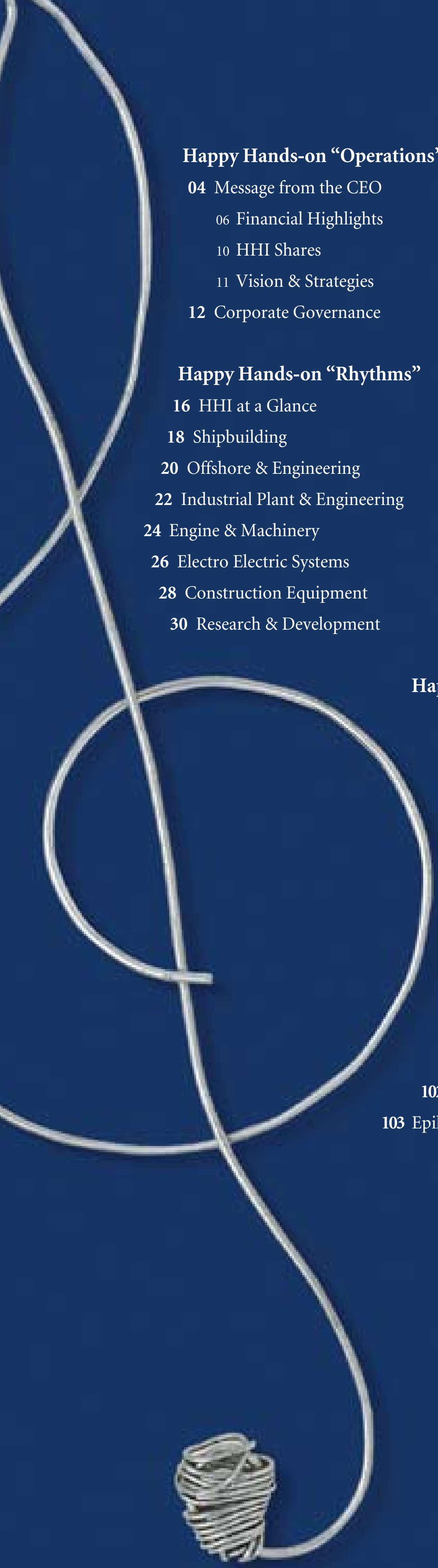
HEAD OFFICE
1 Jeonha-dong, Dong-gu, Ulsan, Korea
Tel. 82-52-230-2429 Fax. 82-52-230-3315

SEOUL OFFICE
140-2 Gye-dong, Jongno-gu, Seoul, Korea
Tel. 82-2-746-4555 Fax. 82-2-746-4662
IR Team / Finance Dept.
www.hhi.co.kr (main) / www.hhiir.com (IR)

Annual Report 2005

Happy Hands-on Masterpieces

HYUNDAI HEAVY INDUSTRIES



Contents

The "Hyundai Spirit"—Using Creativity, Positive Thinking, and Initiative to Provide Global Leadership

Happy Hands-on *Leadership*

Although Hyundai Heavy Industries (HHI) began as a small shipyard in a quiet fishing village in 1972, it later became the world's largest shipbuilder. Armed with the experience, expertise and know-how that it gained in this field, the Company branched out into other business areas, including Offshore & Engineering, Industrial Plant & Engineering, Engines & Machinery, Electro Electric Systems, and Construction Equipment. As a result, HHI is now a world-class integrated heavy industries company.

We have the knowledge, resources, and technology to grow and prosper even more. In fiscal year 2005, we recorded USD 16.1 billion in new orders received and USD 24.8 billion in backlog representing an increase of 20.2 percent and 38.6 percent, respectively, year-on-year. Total sales grew to KRW 10.4 trillion--an increase of 14.0 percent.
Our success in the future will be based on two stratagems.
First, we will develop and use the most advanced technology available.
Secondly, we will move forcefully to meet the challenge of rapid changes in our business environment. At all times, we will rely on creativity, positive thinking, and initiative to maintain the "Hyundai Spirit." Our overall goal is to become a "global leader, sailing into a brilliant future."
We will do this by delivering value to our customers, our shareholders, our employees, and the many communities we serve.

Heavy Industries: Leading Korea and the World into the Future

Prelude

A Chronicle of Building a Better Tomorrow

The growth of Hyundai Heavy Industries shows
how something can be created out of nothing, how things
that were once thought to be impossible were brought into being
through sheer determination, long and hard work.
Today, our focus is on challenge and innovation, on generating value,
and on conserving the environment—based, as always,
on our pioneering spirit and the satisfaction of our customers.

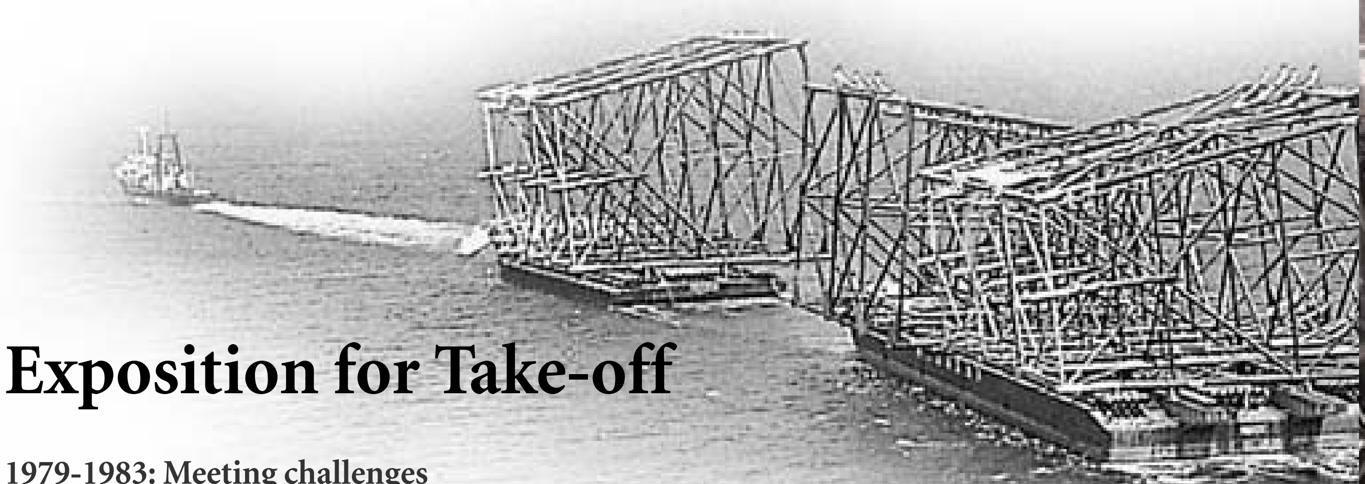
→→ Mr. Ju-Young Chung , the late honorary Chairman of the Hyundai Group, visiting Denmark to drum up business in early 1970

First Leap toward Success

1972-1978: Making Dreams Come True

In 1972, Hyundai received an order for two 260,000-DWT supertankers from George Livanos of Greece, which it started building in tandem with its dockyard. Two years later, the company held a ceremony to christen the two VLCCs and open the new Hyundai Shipyard —soon to become the world's largest.

→→ The Hyundai Heavy Industries's first dry dock under construction



Exposition for Take-off

1979-1983: Meeting challenges

The oil crisis of 1973 was only the first in the series of challenges that Hyundai Heavy Industries faced during 1970s. Political turmoil at home—including the assassination of the then-president—further exacerbated the situation. To face and overcome these difficulties, Hyundai Heavy Industries launched an aggressive productivity improvement campaign. After this “Productivity Maximization” operation was launched, the Company recorded double-digit productivity gains from 1980 to 1983. The Total Quality Control (TQC) program, cost reductions, and systems improvements soon followed, leading to further improvements in the quality of our products and the productivity of our workers.

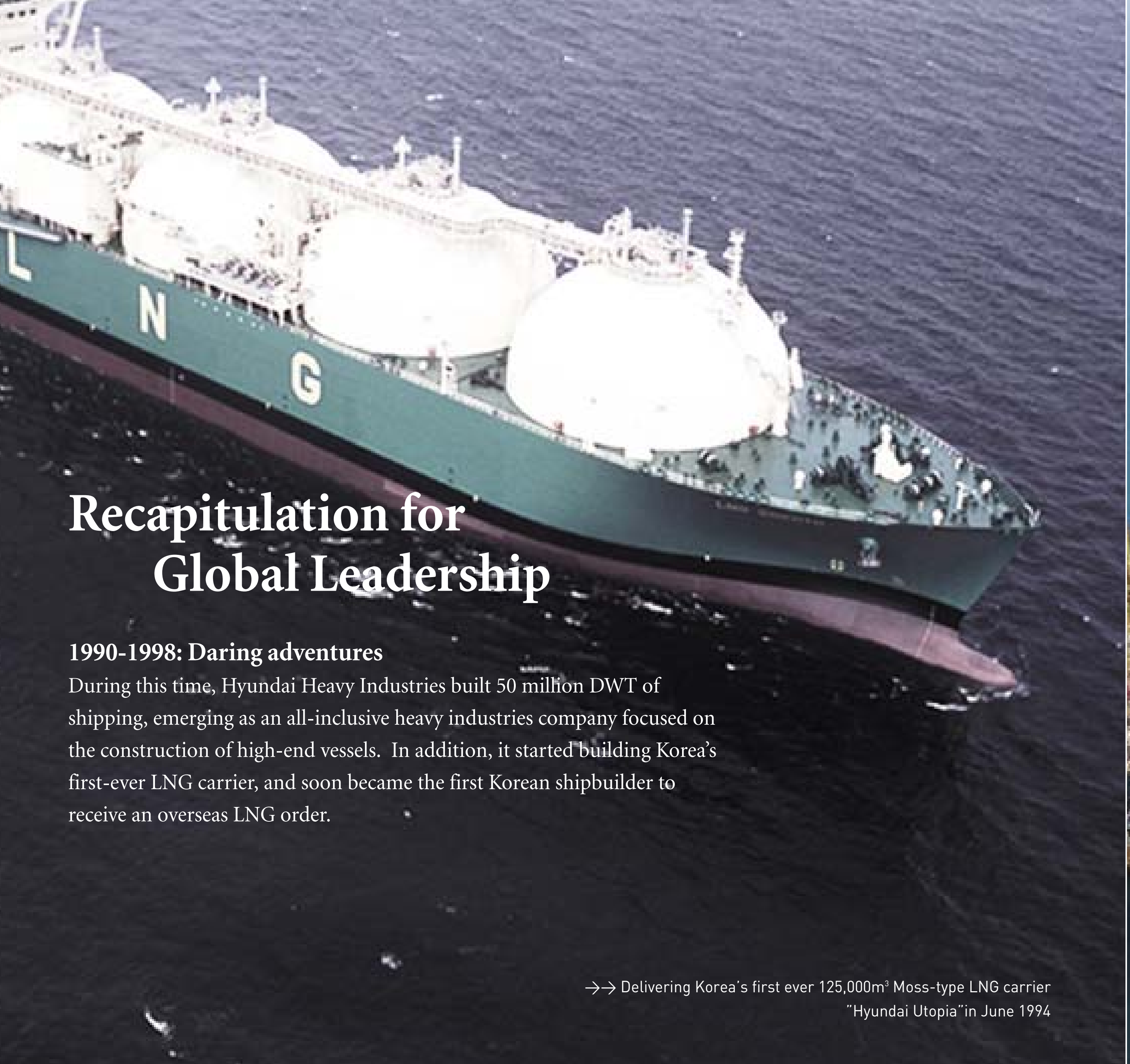
→→ A jackrt heading to Jubail, Saudi Arabia, from Ulsan.

Developing for Growth

1984-1989: Fulfilling promises

After reaching ten million DWT in production in 1983, Hyundai Heavy Industries was named “the world's top shipbuilder" by *Diamond*, a Japanese economic weekly. Benefiting from technological innovations and managerial rationalization, the Company went on to break several world records. During this time, the Industrial Research Institute (formerly the Welding Research Institute), the Maritime Research Institute, and Korea’s first in-house engineering college were opened.

→→ Quality assurance certificates are awarded by such major classification societies as LRS (Lloyd’s Register of Shipping) and DNV (Det Norske Veritas)



Recapitulation for Global Leadership

1990-1998: Daring adventures

During this time, Hyundai Heavy Industries built 50 million DWT of shipping, emerging as an all-inclusive heavy industries company focused on the construction of high-end vessels. In addition, it started building Korea's first-ever LNG carrier, and soon became the first Korean shipbuilder to receive an overseas LNG order.

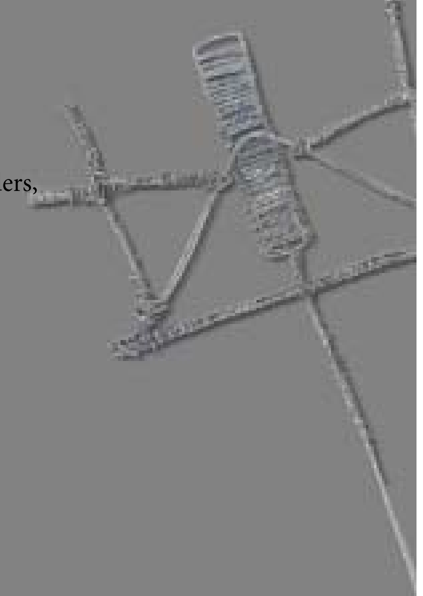
→→ Delivering Korea's first ever 125,000m^3 Moss-type LNG carrier "Hyundai Utopia"in June 1994

Coda – Into the Future

1999-Present: Building the future

The legend of HHI continues. We have broken many world records, such as building more than 1,000 commercial vessels in 30 years, constructing the first vessel without using a dry dock, and the world's fastest-ever production of 40 M bhp marine engines. To build on these accomplishments, HHI is now increasing its efforts to become a global leader in areas that offer good future prospects, including Offshore & Engineering and Industrial Plant.

→→'Kizomba A' FPSO operating in Angola Field, Block 15



We are committed to delivering satisfaction to our customers, value to our shareholders, and fulfillment and reward to our employees.

Happy Hands-on *Operations*

Constant innovation and never-ending challenge

We have developed management strategies that will allow us to turn our objectives into reality and face the future with confidence and vigor. These policies are reflected in our corporate motto: "Constant innovation, never-ending challenge."

Message from the CEO

"We are optimizing the efficiency of our business structures, maximizing our global competitiveness, and developing advanced technologies."

Keh-Sik Min
Vice Chairman & CEO

We are coping with changes in market conditions, customer needs, and technological advances that takes skill, talent, and leadership.

Dear Shareholders,

In overall terms, 2005 was an excellent year for Hyundai Heavy Industries—so much so that we now enjoy a record-breaking three-year backlog of shipbuilding. Although the rise in the value of the Korean won presented challenges to our price competitiveness, this was partially compensated for by the decline in steel prices.

To illustrate our achievements, orders received increased by 20 percent to reach 16.1 billion US dollars by the end of the year. Sales grew by 14 percent year-on-year to 10.2 billion US dollars, or approximately 10.4 trillion won. Our operating income experienced a dramatic turnaround—from a deficit of 98.1 billion won in 2004 to a surplus of 90.8 billion. These improvements resulted from enhanced productivity and increased sales of vessels with higher prices. Recurring income and net income rose by 364.1 percent and 399.2 percent, respectively, ending at 257.8 billion won and 183.3 billion won. Our debt-to-equity ratio, following on the heels of improvements in cash flow, declined by 12.9 percent point to 5.4 percent.

Hyundai Heavy Industries Shares

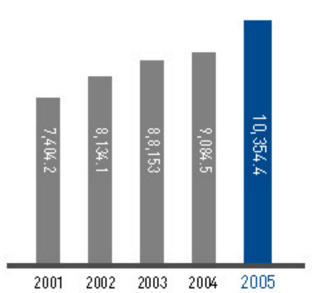
The Korean stock market rallied strongly, with the KOSPI reaching an all-time high of 1,356 point in 2005. One major contributor to this was the inflow of over 10 trillion won into equity funds. Other factors included a positive momentum for earnings inspired by the improved results of Korean companies and large-scale buyouts by institutional investors.

The value of Hyundai Heavy Industries shares also soared, driven by upturns in shipbuilding prices and the Company's record level of new orders. Share prices reached an all-time high of 82,600 won on September 26, 2005—a 139.8 percent increase from 34,450 won at the end of 2004—and closed the year at 76,900 won. This 123.2 percent boost (from 34,450 won at the end of 2004) resulted from the Company's faster-than-expected return to profitability on the back of rises in shipbuilding prices and favorable shipbuilding market conditions.

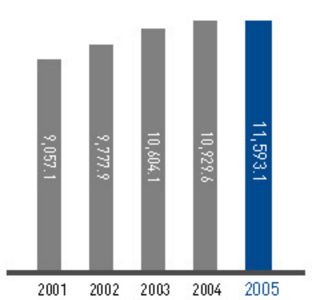
Financial Highlights

	(In millions of US$) 2005	(In billions of KRW) 2005	2004	2003
For the Year				
Sales	10,221.5	10,354.4	9,084.5	8,153.5
Gross Profit	706.2	715.4	544.0	955.3
Operating Income	89.6	90.8	(98.1)	274.5
Net Income	121.7	183.3	36.7	113.9
At Year-end				
Total Assets	11,444.3	11,593.1	10,929.6	10,604.1
Total Liabilities	7,731.1	7,831.6	7,309.1	7,128.0
(Total Debt)	199.6	202.2	661.7	1,402.6
Total Shareholders' Equity	3,713.2	3,761.5	3,620.5	3,476.1
Financial Ratio				
Liabilities-to-Equity	208.2%	208.2%	205.5%	205.6%
Debt-to-Equity	5.4%	5.4%	18.3%	40.3%
Financial Expense Ratio				
EBITDA	422.5	427.9	226.7	579.4
EV/EBITDA (multiple)	12.6	12.6	11.1	6.9
ROA	1.6%	1.6%	0.3%	1.1
ROE	4.9%	4.9%	1.0%	3.3
Orders Received and Backlog				
Orders(bil. US$)	16.1	16.3	13.4	9.8
Exports(bil.US$)	7.3	7.4	6.1	5.5
Backlog(bil.US$)	24.8	25.1	18.4	12.5

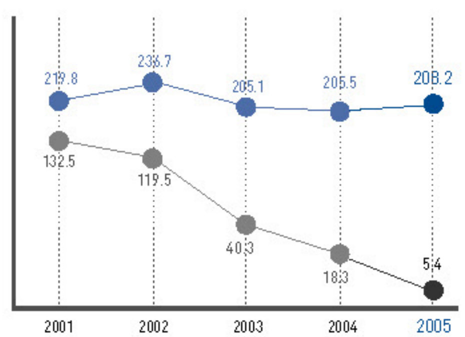
*Note: Won amounts for FY2005 have been translated at ₩1,013.0 per $1.00, the basic rate as of Dec. 31, 2005



Sales
(In billions of KRW)



Total Assets
(In billions of KRW)



Financial Stability Ratio (%)
Debt-to-Equity Liabilities-to-Equity

Message from the CEO

"We are confident that
our commitment to excellence,
innovation, and customer
satisfaction will sustain
our performance and help us retain
our competitive edge."

Kil-Seon Choi
President & CEO

Our growth resulted from enhanced productivity and the increased production of high value-added products.

In 2006, shipbuilding shares are expected to keep moving upward, driven by a favorable shipbuilding market situation and enhanced earnings. Demand for new vessels is expected to remain solid through 2006, due principally to orders for gas carriers and oil tankers in the wake of high oil prices. In addition, the orders for vessels, which were received with increased prices during the late 2003 and 2004, will be fully reflected in 2006 sales figures. As a result, Hyundai Heavy Industries expects to see continued high-level earnings, which will in turn exert an upward movement in the value of our shares.

Positioning Ourselves for Leadership

The forecast for our operations in 2006 is auspicious: the OECD (Organization for Economic Cooperation and Development), for instance, is predicting a 5.1 percent growth rate for the Korean economy—a singularly dramatic improvement from the previous two years.

However, our overall operational environment is not so rosy, with slowdowns in growth envisaged in both the United States and China, our major export markets. We also foresee intensifying competition among our competitors, coupled with uncertainties over exchange rates. Nevertheless, we are confident that our commitment to excellence, innovation, and customer satisfaction will sustain our performance and help us retain our competitive edge.

To become a creative and competitive global leader, we intend to increase sales in 2006 by 22 percent, to 12.6 trillion won. Our target for new order for 2006 is 14.9 billion US dollars—7.4 percent reduction y-o-y due to a full back log of more than three years on the back of brisk new orders of previous years. We earmarked 395.0 billion won for capital expenditure and 148.6 billion won for R&D investments for 2006—an increase of 24.9 percent from 2005.

To turn our objectives into reality, we have developed a set of management strategies to face the future with confidence and vigor. We will strive to implement the following strategies along with our corporate motto: "Constant innovation, never-ending challenge."

First, we will bolster our technological competencies. To become a global leader by 2010, we will push ahead with four core tasks: (1) enhancing the competitiveness of key products, (2) developing and advancing core technologies, (3) building efficient production technologies and systems, and (4) tapping into new products and businesses. Our ultimate goal, of course, is to fill the world with first-class products.

To realize long-term, sustainable growth, we will develop businesses with promise and potential and nurture them into future core operations.

Secondly, we will develop new growth engines. To realize long-term, sustainable growth, we will lay the foundations on which to develop businesses with the potential for growth. Then we will nurture them into future core businesses.

Thirdly, we will create a welcoming workplace for our employees. We strive to create a comfortable environment for our workers—one that has positive outcomes both in terms of productivity and the quality of their lives. We do this by sharing management outcomes with our staff and by providing them with a broad spectrum of programs, such as a generous remuneration system and a wide range of benefits.

Coping with changes in market conditions, customer needs, and technological advances takes skill, talent, and leadership. To operate profitably in such a landscape, we will remain focused on forward-thinking strategies, achieving excellence by keeping the future clearly in view.

We begin 2006 with confidence—the confidence that we can sustain future growth and that Hyundai Heavy Industries will evolve into a global leader. After all, we are working from a position of strength—including the harmony that unites labor and management and the dedicated efforts of our entire staff. We are up to the challenge, because we have the knowledge, the experience, the resources, and the technology to ensure our continuing prosperity. As we sail into a future that is rife with boundless possibility, we look forward to your encouragement and support.

Thank you.

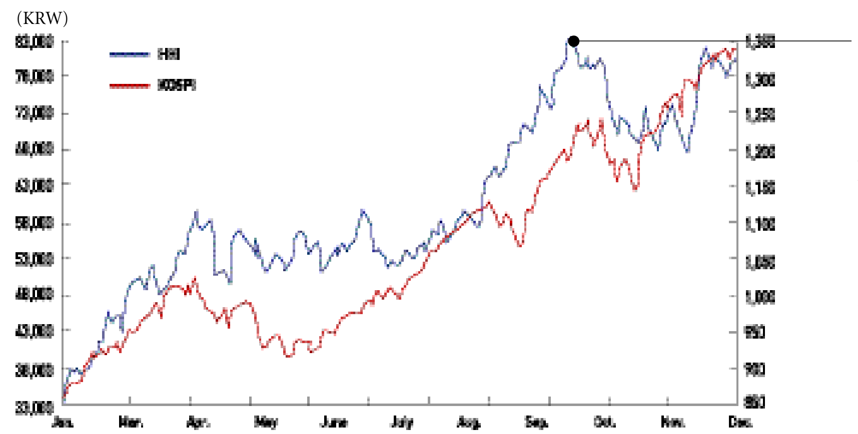
March 17, 2006

Keh-Sik Min
Vice Chairman & CEO

Kil-Seon Choi
President & CEO

HHI Shares

Stock Price Trend

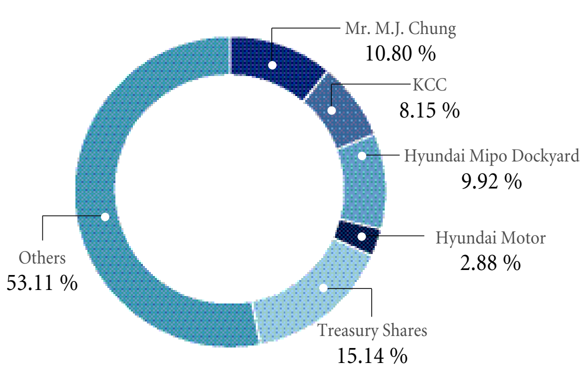


Due to the faster than expected recovery of the Company's profitability and the continuously favorable market situation, the share price recorded the historic high of KRW 82,600 on September 26, 2005 which is a 145% increase from the beginning of 2005. Later, the Company's share price was corrected underperforming the KOSPI, but with a news of strengthening shipbuilding prices and the Company's good annual results the share price presented its movement to pick up again.

Stock Price Index

	2005	2004
Face Value (KRW)	5,000	5,000
No. of shares (issued) (million)	76	76
Total Market Cap. (Bil. of KRW)	5,840	2,681
Share Price (High) (KRW)	82,600	39,300
(Low) (KRW)	33,700	22,450
Foreign Ownership (%)	21.6%	22.6%
PER (H/L) (x)	29.1 / 11.9	69.1/39.4
EPS (KRW)	2,842	569

Shareholder Structure



Foreign Ownership

Vision & Strategies

"Global Leader, Sailing into a Brilliant Future"

Hyundai Heavy Industries sees itself as a "global leader, sailing into a brilliant future" by providing the world's finest shipping products and services. "Sailing into a brilliant future" means that we will deliver satisfaction to our customers, value to our shareholders, and fulfillment and reward to our employees. We will achieve these goals by carrying on our spirit of "creating something out of nothing" and by spearheading a new corporate culture for the 21st century.

Our goals are to be in the top five of Fortune 500's most admired companies in the Industrial and Farm Equipment category, to reach total sales of USD 17.4 billion. To develop into a creative and competitive "global leader," we have developed the following mid- and long-term strategies.

1. Optimize Business Structure
- Make "growth engine" business divisions more competitive, technologically advanced, and profitable
- Gain leading positions in business sectors with sizable markets and high growth potential
- Venture into new businesses by utilizing core competencies and liquidating low-profit, marginal businesses

2. Maximize Global Sales Competitiveness
- Develop strengths in production, sales, and R&D
- Establish regional head offices in core business regions
- Establish efficient networks between headquarters and regional bases, as well as among the bases

3. Develop Advanced Technologies
- Enhance competitiveness of key products through further development of core technologies
- Build world's best products
- Develop global R&D network
- Strengthen partnership between R&D centers and field businesses

4. Build Efficient Production Systems
- Ensure and maximize efficiency of existing facilities
- Improve quality and productivity through rationalization and automation of facilities
- Create efficient and integrated management systems

5. Create Innovative Business Practices
- Increase outsourcing for low value-added businesses and operations
- Maintain flexibility in utilization of resources—including both facilities and employees
- Promote strategic cooperation and alliances

We are committed to putting these visions and strategies into reality and to managing in a fair and transparent manner. By combining creativity, positive thinking, and innovation, we will become a world leader in our field.

Corporate Governance

Board of Directors

The Board of Directors (BOD) of Hyundai Heavy Industries includes three standing and four outside directors, who collectively assume ultimate responsibility for making decisions regarding corporate affairs and the well being of our shareholders. All BOD appointments are based on an individual's expertise and experience in a variety of fields, such as law, economics, finance, and accounting, and are made pursuant to our Articles of Incorporation.

The BOD meets on a regular basis to discuss and resolve corporate matters. Its responsibilities include deciding on material matters (as stipulated in relevant by-laws and the company's Articles of Incorporation), dealing with issues assigned to it in the shareholders' meeting, and attending to basic corporate principles and important questions relating to the company's operations. The BOD also has the authority to appoint the CEO and the Chairman of the Board and to supervise the operations of its members and the company's management. The BOD held a total of six meetings in 2005, resolving a number of critical corporate issues.

Committees

·Audit Committees

The Audit Committee is a standing committee of the BOD. Its responsibilities include (1) deciding on matters related to shareholders' meetings (it can call temporary shareholders' meetings and set forth its views on the agenda and the documents to be presented at them); (2) overseeing the BOD members and the BOD in such matters as reporting to the BOD, producing independent annual audits, and supervising the financial reporting process; and (3) addressing matters relating to audits—including contracts with independent auditors and the evaluation of their qualifications, eligibility, and performance. The three Audit Committee members are outside directors. In 2005, they held four meetings and discussed a number of crucial matters.

·Outside Director Nominating Committees

The Outside Director Nominating Committee is responsible for nominating qualified individuals to become BOD members. It also recommends nominees for outside directors, prior to the general shareholders' meeting. The Outside Director Nominating Committee includes one standing and two outside directors.

BOD List

·Directors

Keh-Sik Min
- Vice Chairman & CEO/CTO
- Chairman of the Board of Directors

Kil-Seon Choi
- President & CEO

Jae-Sung Lee
- Senior Executive Vice President and CFO

·Outside Directors

Yong-Sang Park
- The Secretariat of the Constitutional Court
- Chairman of Government Employees Ethics Committee

Audit Committee

Whie-Kap Cho
- President of Korea Information Security Agency
- Advisor to Informatization Promotion Committee

Jae-Kwang Lee
- Commissioner of Gwangju Regional Tax Office
- Commissioner for Corporate Taxation Bureau

Jin-Won Park
- Attorney of Shin & Kim (Sejong Law Firm)

·Officers

Keh-Sik Min
- Vice Chairman & CEO/CTO

Jae-Sung Lee
- Senior Executive Vice President and Chief of Administration & Assistance Headquarter

Young-Nam Kim
- Senior Executive Vice President and Chief Operating Officer of Electro Electric Systems Division

Kiu-Hyun Park
- Executive Vice President and Chief Operating Officer of Construction Equipment Division

Kil-Seon Choi
- President & CEO

Hwang-Moo Soo
- Senior Executive Vice President and Chief Operating Officer of Shipbuilding Division

Byung-Wook Oh
- Executive Vice President and Chief Operating Officer of Offshore & Engineering Division

Youn-Jae Lee
- Senior Executive President and President of Offshore & Engineering, and Industrial Plant & Engineering Division

Myung-Woo Jang
- Senior Executive Vice President and Chief Operating Officer of Industrial Plant & Engineering Division

Weon-Gil Choe
- Executive Vice President and Chief Operating Officer of Engine & Machinery Division

We are aiming for greater growth by becoming a "highest-possible performance" organization
—one that focuses on clearly-defined goals and their speediest and best realization.

Happy Hands-on *Rhythms*

Cooperation and synergy for leadership

We have enjoyed remarkable growth and success in our various business sectors by utilizing systematic cooperation and synergy generation within the company and by focusing on overseas expansion.

HHI at a Glance

Sales breakdown by business divisions

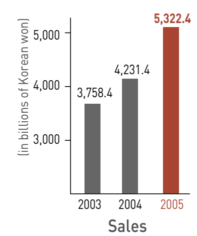
51.4%

The Shipbuilding Division

boasts nine dry docks and six Goliath cranes. With such state-of-the-art facilities, the Division can meet the needs of clients from all over the world. Because it is determined to stay ahead of its competitors in the development of new shipbuilding technologies, much of its staff is engaged in R&D activities.

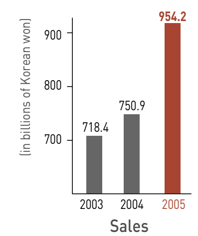
Major Products

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



The Engine & Machinery Division

is the world's premier manufacturer of large-sized diesel engines, accounting for thirty-five percent of the global market. It boasts an impressive array of ultra-modern processing, assembly, and commissioning facilities.In May 2005, the Division broke through 50 million bhp production milestone in two-stroke diesel engines for the first time in the world. That total will come to 60 million by August 2006 - an industry record.



Major Products

Two- and Four-stroke Diesel Engines and HiMSEN Engines
Propellers and Crankshafts
Marine Steam Turbines and Turbochargers
Diesel Power Plants
Industrial Robots
Industrial and Marine Pumps
Presses, Conveyer Systems, and Steel Strip Process Lines

9.2%

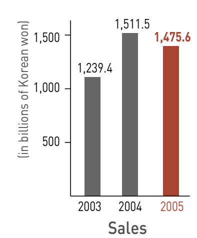
14.3%

The Offshore & Engineering Division

specializes in the construction of oil and gas production facilities. The Division has carried out more than 150 overseas projects for leading oil and gas developers, and is currently working on expanding its share of the worldwide offshore facilities market by developing semi-submersibles, jack-up drilling rigs, and the technology for constructing FPSOs.

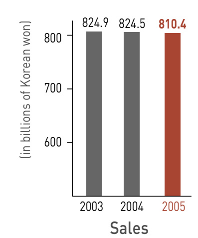
Major Products

- Floating Production Storage & Off-loadings (FPSOs)
- Semi-submersible Rigs
- Fixed Platforms
- Jack-ups
- Tension Leg Platforms (TLPs)
- Subsea Pipeline



The Electro Electric Systems Division

provides total solutions in the areas of electronic and electric systems, ranging from power transformers and high-voltage switchgears to distribution boards, motors, and control systems. These operations are backed by a full complement of design, production, and R&D facilities. As part of its strategy to exploit profitable overseas markets, the Division is diversifying into the field of renewable energy, producing photovoltaic/wind-power/combined heat and power generation plants and parts for electrically powered cars.



Major Products

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

7.8%

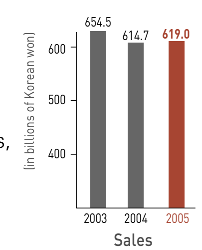
6.0%

The Industrial Plant & Engineering Division

concentrates on EPC work for thermal and combined heat power plants, the production and performance of contractual work, the supply of core equipment and devices for oil refinery/gas/petrochemical facilities, and the production and supply of such environmental facilities as desulphurization/denitrogenization/dust collection facilities for power plants.

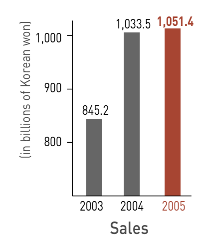
Major Products

- Power Plants: Combined Cycle, Co-Generation, Thermal Power Plants
- Desalination Plants: MSF (Multi Stage Flash) type, MED (Multi Effect Distillation)
- Oil and Gas Plants: Oil and Gas Facilities, Gas Processing Facilities, Refinery Facilities, LNG Plants, GTL (Gas to Liquid) Plants
- Others: Industrial Boilers, Large Vessels and Reactors, Heat Exchangers



The Construction Equipment Division

manufactures excavators, wheel loaders, forklifts, and skid-steer loaders. Since its establishment in 1985 the Division has developed a host of unique technologies, including an automated hi-tech production system. The Division has evolved into a first-rate manufacturer of heavy construction equipment through quality-based management and the implementation of a zero-defect production system. Its sales network includes 412 dealers in 90 countries and locally based corporations in the United States, Europe, and China.



Major Products

Excavators
Wheel Loaders
Forklifts
Skid-Steer Loaders

10.2%

>> 6,250 TEU Containership for Costamare Shipping

Shipbuilding

First company to build "ultra" container vessels

Hyundai Heavy Industries became the first company to build "ultra" container vessels. Four 10,000 TEU-class container vessels, to be 349 meters in length, 45.6 meters in width, and 27.2 meters in depth, were ordered by COSCO, China's national shipping company. These vessels, scheduled for delivery by 2008, will be equipped with a Hyundai Heavy Industries-built 94,000 HP engine that will have a service speed of 25.8 knots.

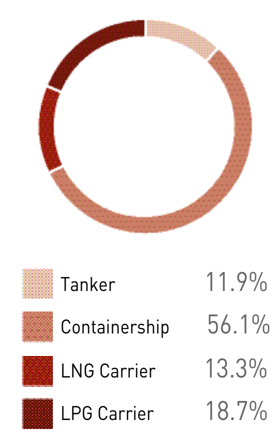
Captured the largest share of the LPG carrier market

In 2005, the Shipbuilding Division won contracts for 19 LPG carriers. The backlog is now 35 LPG carriers vessels, of which 21 are very-large ones. The Division now enjoys the largest market share for this type of vessel.

Using leadership to make Korea the "maestro" of shipbuilding

We have remained the "maestro" of the shipbuilding industry, both at home and abroad, by recording many firsts in terms of products, service, and technology.

Orders Received in 2005



In 2005, the Shipbuilding Division received orders for 82 vessels (6.0 million GT), worth a total of USD 8.3 billion—a new company record. New orders for 2005 include 46 containerships, 12 tankers (including VLCCs), 19 LPG carriers, and 5 LNG carriers. In addition, HHI stunned the global shipbuilding community by receiving the world's first 10,000 TEU-class "ultra container" vessels. The Company also retained its dominant position in global market share for LPG vessels. As evidence of this outstanding performance, the Division accumulated its largest-ever order backlog—more than 236 vessels, with a gross tonnage of 17.6 million. Worth a grand total of USD 18 billion, these ships are to be built and delivered over the next three years.

These accomplishments were triggered by brisk new orders for our entire range of vessels, resulting from an upturn in the global economy, the growth of such burgeoning economies as China's, and an increase in cargo transportation. The Division's success, in turn, resulted from its proactive business activities, its reputation for reliability, and heightened customer confidence. By concentrating its efforts and capabilities on improving the quality of its vessels and on customer service, HHI remained the world's number one shipbuilder.

Offshore & Engineering

Received a USD 10 million bonus from ExxonMobil

Hyundai Heavy Industries was presented with a bonus payment of USD 10 million by ExxonMobil for building an 90,000 ton-class FPSO ahead of schedule. This mammoth facility, worth USD 800 million, was delivered about three months earlier than its initial delivery schedule. The Offshore & Engineering Division also completed the 'Kizomba B' FPSO(a 340,000 DWT FPSO project on an EPC basis) in just thirty-three months—the shortest-ever period of time for such an enterprise. It was delivered to its owner, ExxonMobil, in August 2005.

Delivered the world's fifth large commercial vessel to be built "on ground"

The Offshore & Engineering Division successfully completed the load-out of a 105,000-DWT crude oil tanker for Novoship of Russia. This was built using our "On-Ground Build" technology, in which finished vessels are launched by the "float-off method," with submerged barges being used to set them afloat.

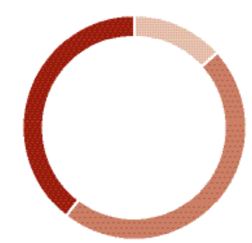
This innovative technique was developed by the division in 2004 to facilitate the construction of commercial vessels. Since this feat had never been attempted before, its success meant that Hyundai Heavy Industries set yet another record in the annals of shipbuilding history.

>> 340,000 DWT 'Kizomba B' FPSO project for ExxonMobil

Using challenge and creativity to sail towards the "forte"

We have strived for a "forte" for the reliability, performance, and competitiveness of our products and services

Orders Received in 2005



Fixed Platforms	16.4%
Floating Units	46.7%
Sub-sea Pipeline	36.9%

The Offshore & Engineering Division received orders worth USD 2.57 billion, its largest total ever. Sales for 2005 reached approximately USD 1.45 billion (KRW 1,476 billion). New orders included USD 1.20 billion for floating units, USD 422 million for fixed platforms, and USD 952 million for sub-sea pipeline installations.

Particularly, large-sized offshore engineering orders won by the Division in 2005 included the USD 704 million 'Akpo' FPSO project (in June, from Total of France), the USD 413 million 'Moho-Bilondo' FPU project (in July, also from Total), a USD 162 million offshore gas facility project in Nigeria (an 'EGP3' platform project, ordered in April by Chevron), and an ultra-large-sized USD 505 million on/offshore crude oil facility (in October, from the Kuwait Oil Company).

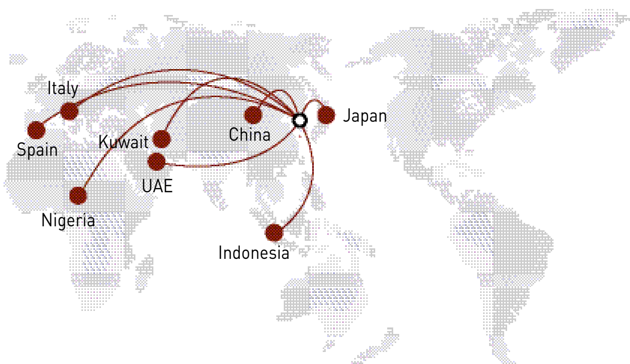
The Division is also proud to report that Total graced it with four orders in a row, worth USD 1.35 billion—including an FPSO project that was worth more than USD 700 million. These were made in recognition of the Division's reputation for reliability, its technical proficiency, and its fully integrated services as an EPIC (Engineering, Procurement, Installation, and Commissioning) contractor for offshore oil and gas facility projects.

The Offshore & Engineering Division plans to secure further technological competitiveness in the EPIC sector by successfully completing a variety of projects. Meanwhile, it will focus on keeping its order book balanced in terms of products that have a demonstrated profit potential. The Division's ultimate goal is to assume a lead position in the offshore and engineering business.

Industrial Plant & Engineering

Using the "maestoso hands" of our people to create beneficial products for everyone

We have focused on overseas turnkey projects, with our maestoso hands delivering value to everyone.



Nations for which Orders Received in 2005

The Industrial Plant & Engineering Division experienced record-high growth in 2005 mostly due to the continuing oil price hike. By year-end, it had posted new orders of USD 1.4 billion and sales of USD 611 million (KRW 619 billion).

The Division particularly devoted itself to securing overseas turnkey EPC projects, all based on its strategy of "selection and concentration." As a result, the Division enjoyed remarkable success in its strategic markets of West Africa and the Middle East. The global market size of order volume for oil- and gas-related operations (including oil production, gas processing plants, oil refineries, and petrochemicals) amounted to approximately USD 75 billion, while power generation and desalination projects totaled about USD 6 billion and USD 3 billion, respectively. Most of these orders were for large-scale, high-volume projects (i.e., exceeding USD 1 billion each). Both the size and the volume of such facilities are on the increase.

In the oil and gas plant sector, the Industrial Plant & Engineering Division won the contract for a USD 620 million gas processing facility supply project in Nigeria, one of the company's strategic strongholds. It was awarded by ChevronTexaco in April 2005, on a full turnkey basis. In conjunction with the Offshore & Engineering Division, it also won a contract for a mammoth crude oil export facility from the Kuwait Oil Company (KOC). Worth USD 1.25 billion—USD 699 million for the industrial plant portion alone—this is the largest-ever single project to be secured by a single Korean company not in collaboration with any foreign consortium partners. Winning it allowed the Division to secure a foothold in the Middle East market.

With regard to power plants, the Industrial Plant & Engineering Division won contracts for desulfurization and denitrification facilities from the Korea Electric Power Corporation--further proof of the Division's reputation for reliability among both domestic and foreign customers. In the lucrative facility business, the Division won the right to build an offshore LNG ALT (Adriatic LNG Tank) storage facility worth approximately USD 79 million. This award further demonstrates the excellence of the Division's super low-temperature welding technology.

Won the largest-ever turnkey EPC contract in Gulf States

The Industrial Plant & Engineering Division won a USD 1.25 billion(including USD 551 million for Offshore & Engineering Division) EPC contract from the state-owned Kuwait Oil Company. This was the largest-ever oil sector contract in the Gulf States. The facility, which is now handling two million barrels of crude oil per day, has a potential capacity of three million—roughly ten percent of OPEC's total daily production. The Division will also build crude export facilities in the port of Al Ahmadi by June 2008.

Cooperation and synergies result in leadership in turnkey EPC contracts

The Industrial Plant & Engineering Division has emerged as a leading turnkey contractor for several large projects in the Gulf States and West Africa. These include a USD 420 million contract to build Saudi Aramco's fourth cogeneration plant (awarded in 2004, to be delivered by 2006) and a USD 620 million turnkey EPC for onshore and offshore works at Chevron Nigeria Limited's Escravos Gas Project III (EPG III) (awarded in April 2005, to be in place by the first half of 2008). This success has been due largely to systematic cooperation and synergy generation with other divisions at Hyundai Heavy Industries—especially Offshore & Engineering and Electro Electric Systems.

>> Chevron Nigeria Limited's Escravos Gas Project III

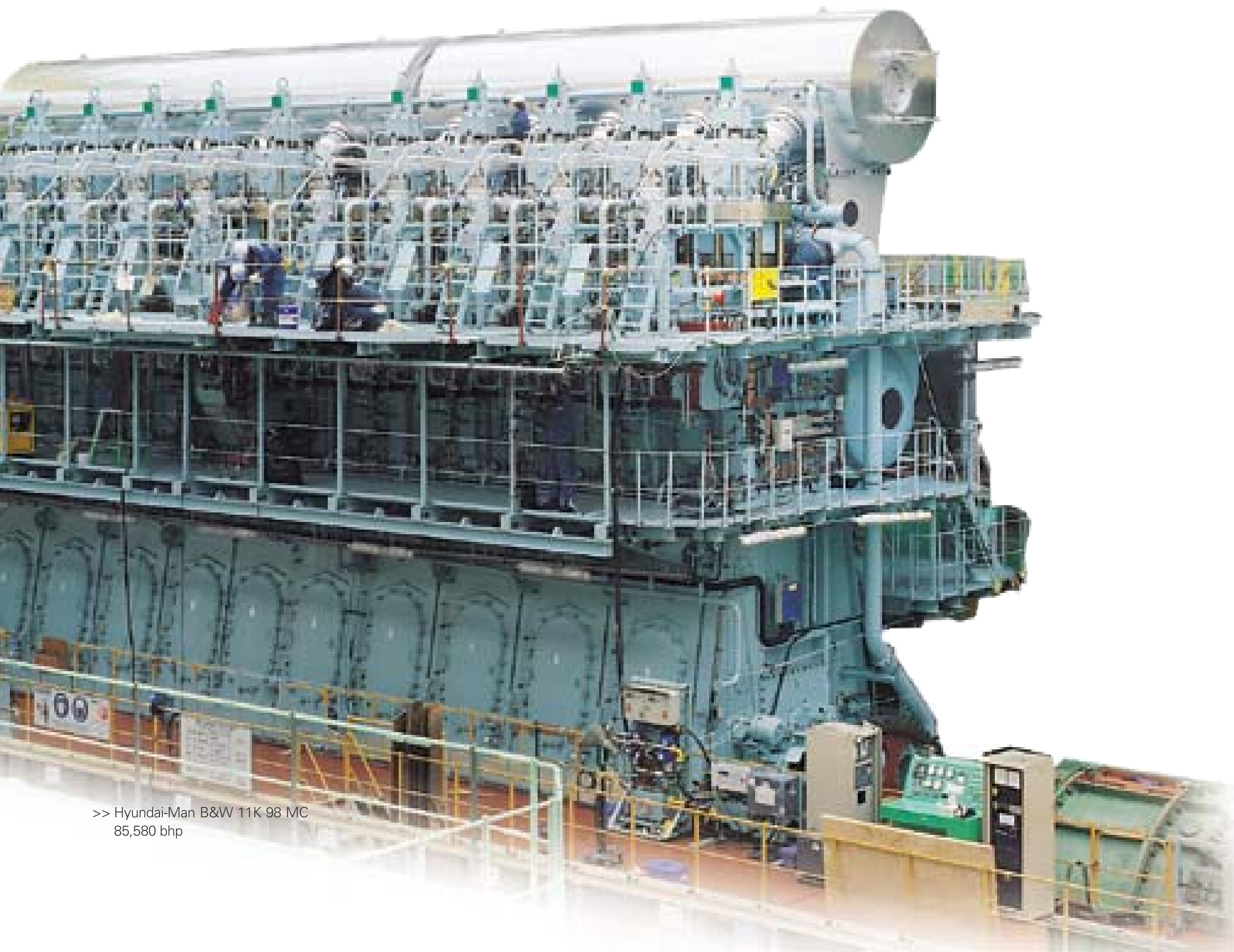
Engine & Machinery

Production milestone of tow-stroke diesel engines topped 50 million bhp-another world's first

Hyundai Heavy Industries' total production of two-stroke diesel engines reached 50 million bhp when test runs of its 77,600 bhp two-stroke engine were completed on May 6, 2005. This was another world's first.

Awarded an order of USD 328 million for diesel power plants from UNE

The Engine & Machinery Division won an order from UNE (Union Nacional Electrica) of Cuba which is USD 328 million for total 510MW-equivalent diesel power plant facilities in October.



>> Hyundai-Man B&W 11K 98 MC
85,580 bhp

Using "dynamico" to unite people, technology, and the future

We have used "dynamico" cooperation and the generation of synergies to ensure continuous improvements in quality and technology.

Orders Received in 2005

Marine Engines	62.4%
Diesel Power Plants	23.7%
Pumps	4.1%
Robotic Systems	9.8%

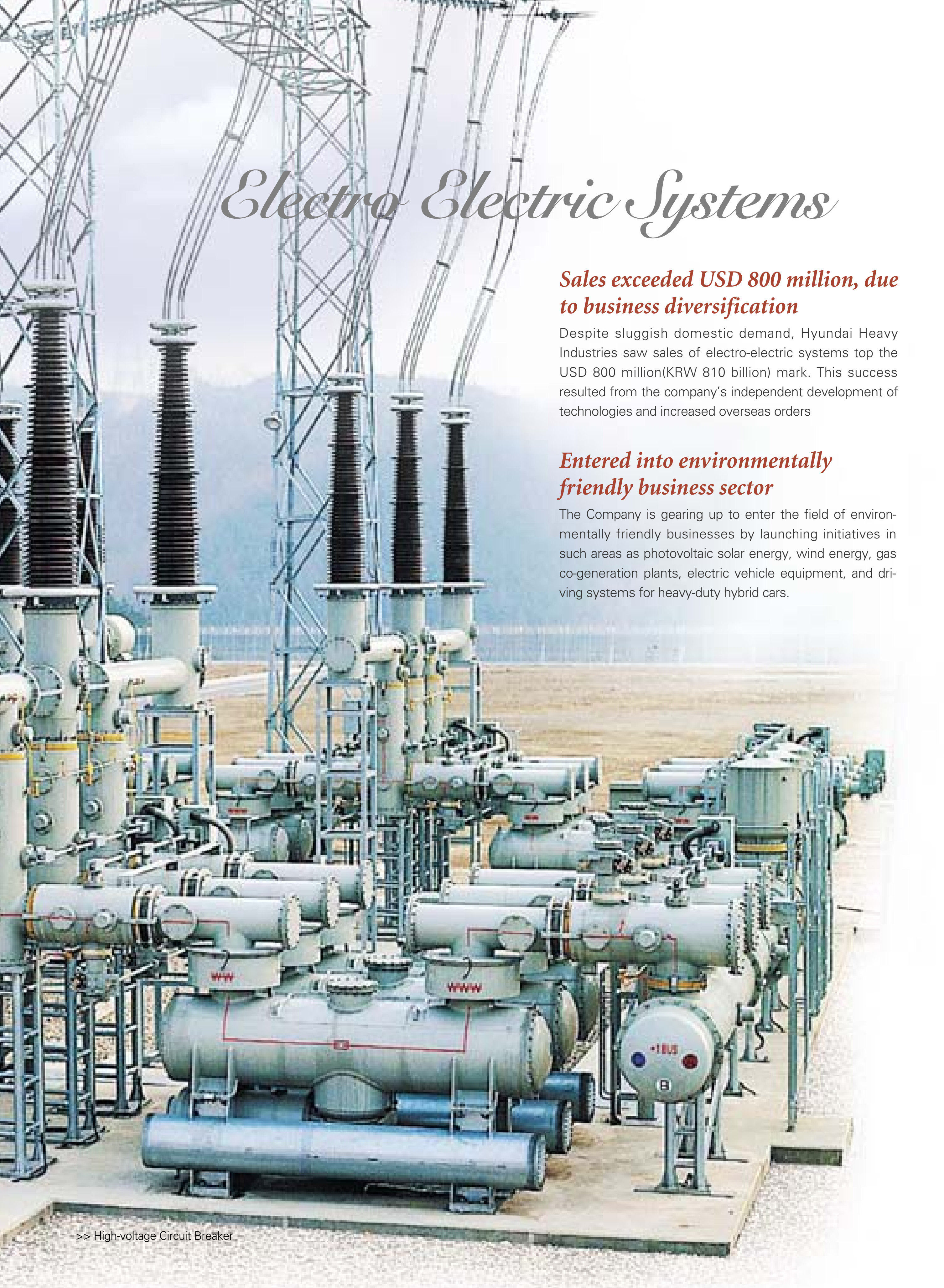
With production surpassing 55 million bhp, the Engine & Machinery Division solidified its position as the world's finest engine maker. In 2005 alone, the Division produced 177 two-stroke engines, totaling 7.24 million bhp. Total production has amounted to 2,057 large-sized engines (and 55.14 million bhp) since the business was established 26 years ago.

Orders received totaled USD 1.56 billion by the end of 2005—a 74 percent increase year-on-year. This was largely due to brisk demand for marine engines in the wake of new shipbuilding orders and a major new order for power generation facilities from Cuba.

Sales expanded by 27 percent year-on-year, to USD 942 million (KRW 954 billion). The machinery business areas saw improved results for large-size industrial pumps and robots, conveyer systems, and presses. Most of the Division's industrial robots were exported to China, Europe, the United States, India, and Southeast Asia. Under the well-established mass production system, the Division produced 1,577 units of industrial robots during the year, bringing the accumulated total to ten thousand.

In addition, HiMSEN, Korea's first in-house developed marine diesel engine, improved on its competitiveness through continuous improvements in quality and technology. This enabled the Division to win new orders for large-scale diesel-power generation facilities from UNE of Cuba, thus positioning itself as a major world player in this field.

Electro Electric Systems



>> High-voltage Circuit Breaker

Sales exceeded USD 800 million, due to business diversification

Despite sluggish domestic demand, Hyundai Heavy Industries saw sales of electro-electric systems top the USD 800 million(KRW 810 billion) mark. This success resulted from the company's independent development of technologies and increased overseas orders

Entered into environmentally friendly business sector

The Company is gearing up to enter the field of environmentally friendly businesses by launching initiatives in such areas as photovoltaic solar energy, wind energy, gas co-generation plants, electric vehicle equipment, and driving systems for heavy-duty hybrid cars.

Using craftsmanship to work towards the "crescendo"

We have reached the "crescendo" in our pursuit of environmentally friendly operations and renewable energy products.

Orders Received in 2005

The Electro Electric Systems Division provides solutions for electro-electric hardware and software products such as transformers, high-voltage circuit breakers, and switchgears. In addition, the Division is entering into such new alternative energy businesses as solar energy, wind energy, driving system for hybrid electric vehicle and gas co-generation system. By focusing on overseas expansion through in-house development and subsequent specialization by the Company's overseas bases, the Division has enjoyed remarkable international growth—even in the face of better-known competitors.

In 2005, the Division recorded new orders and sales of USD 1.0 billion and USD 800 million(KRW 810 billion) each, creating momentum for a further take-off in its operations. The Division also became technologically self-stand. This led to an expansion in earnings, on the back of a satisfactory upward trend in overseas orders. Another notable achievement was that the division laid the foundations for entering into environmentally friendly operations such as solar photovoltaic power generation. This attempt will allow the Division to increase its competitiveness by extending its business interests to areas that promise exciting future growth.

Construction Equipment

We have emphasized profitability—in tune with increased product efficiency, durability, safety, and performance.

The Construction Equipment Division witnessed sales in North America climb sharply year-on-year. Demand from other regions, such as Southeast Asia and Central and South America, also expanded on the back of strengthened investments in SOC projects. Sales in China showed a gradual increase, although the total was less than the previous year's. The Korean market witnessed a contraction in demand, due primarily to a bearish construction market. However, the Division, backed by satisfactory overseas orders and profit-oriented management, was still able to achieve USD 1,064 million(KRW 1,051 billion) of sales, exceeding 5% of initial target.

The Construction Equipment Division faced a number of difficulties during 2005, including price hikes for steel, an appreciating won, and sluggish construction markets both in Korea and China. To meet these challenges, the Division concentrated on deriving cost reductions for materials, making improvements in productivity, and general cost cutting under the rubric of "CR (Cost Reduction) 600!" The goal of this program was to cut costs by KRW 60 billion.

Orders Received in 2005 by Region

Using "tunefulness" to expand overseas

>> Crawler Excavator (Robex series)

Retained largest market share for excavators in China

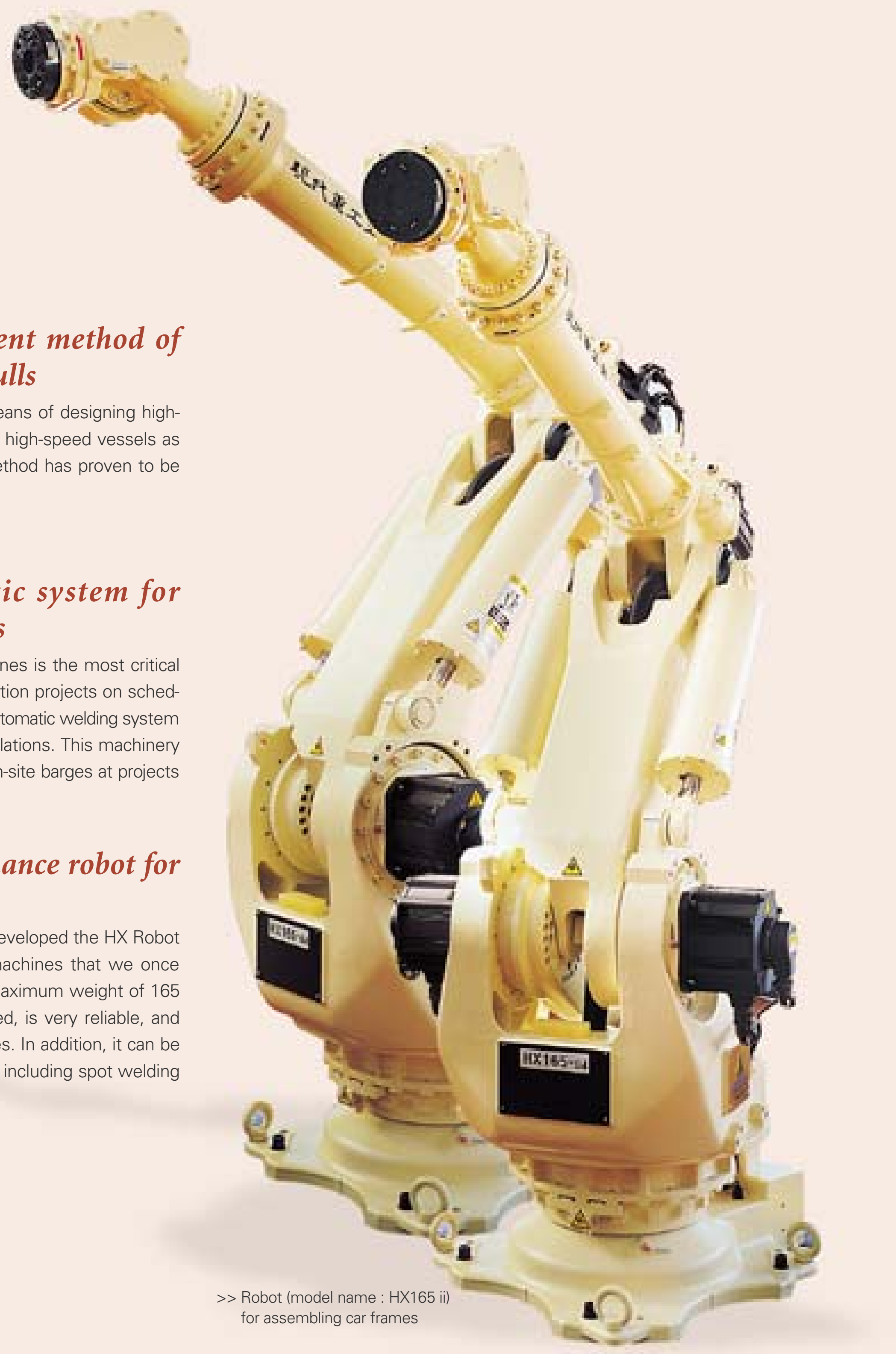
The Construction Equipment Division maintained its number one position for excavator sales in the Chinese heavy construction equipment market for the fourth consecutive year. This was primarily due to price competitiveness in the field of quality excavators and the backing of Chinese joint venture businesses.

Received "Design for Asia Award" for HBR 7 series

The Reach-Type Battery Forklift HBR 7 Series, developed by the Construction Equipment Division, received the "Design for Asia Award 2005," organized by the Hong Kong Design Center and supported by the Hong Kong government and Business Week. The HBR 7 series features a stronger motor, resulting in increased performance, greater durability, and improved safety.

Research & Development

Using "nuovo" to make inspired R&D decisions



>> Robot (model name : HX165 ii)
for assembling car frames

Developed a more efficient method of designing fuel-efficient hulls

HHI developed a new and innovative means of designing high-performance, fuel-efficient hulls for such high-speed vessels as containerships and Ro-Ro ships. This method has proven to be far superior to previous ones.

Developed an automatic system for welding offshore pipelines

The automatic welding of offshore pipelines is the most critical factor in keeping sub-sea pipeline installation projects on schedule, and HHI has developed its very own automatic welding system to improve the productivity of such installations. This machinery has been successfully deployed on our on-site barges at projects in China and Thailand.

Produced a high-performance robot for assembling car frames

The Research & Development Division developed the HX Robot for assembling car frames to replace machines that we once had to import. This robot can handle a maximum weight of 165 kg. It has no bar link, boasts a fast speed, is very reliable, and can be deployed even in restricted spaces. In addition, it can be used in a variety of manufacturing areas, including spot welding and handling.

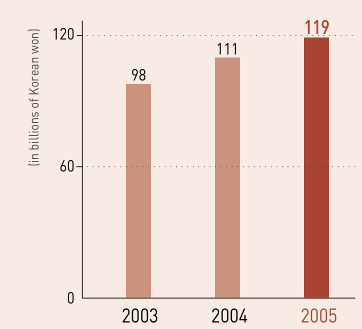
We have seized the initiative in our businesses by using creativity, innovation, and vigorous R&D activities to seek out new and innovative products.

Research and development activities at the Division are backed by international partnerships and a string of research centers. Overseen by industry experts, these centers keep Hyundai Heavy Industries' products timely, its prices competitive—and the company one step ahead of the competition.

The Division's future-oriented, innovative research and development efforts are headed by the Hyundai Heavy Industries General Research Institute, which began operations in 1982. Since then, its R&D facilities have expanded to include the Hyundai Maritime Research Institute (HMRI), the Hyundai Industrial Research Institute (HIRI), and the Hyundai Electro-Mechanical Research Institute (HEMRI). The company established a Research and Development Division in 1994, opened the Techno Design Institute (TDI) in 2000, and built a series of international technology research centers in the interim.

Each research institute has a mandate to develop high value-added ships and maritime equipment, automated production equipment, energy and environmental systems, electro-electronics systems, and core products in the areas of design and information technology.

R&D Investments



The Research & Development Division has built a global technology network that enables the company to acquire advanced technologies in an efficient and effective manner. In addition, the Division operates research centers in such countries as the USA and Hungary—both of which possess advanced high-tech facilities. The Division carries out strategic technology operations at its Technology Management Center, and is constantly expanding upon and improving its R&D infrastructure. Finally, it nurtures creative, high-caliber researchers and place them in the best facilities.

In 2006, the Company plans to earmark KRW 148.6 billion for R&D. This will be an increase of 25% from 2005's level, representing about 1.2% of yearly sales.

Research & Development

R&D Strategies

The Research & Development Division has always been in the forefront of the company's technological developments, conducting approximately 1,300 projects each year. This ensures that Hyundai Heavy Industries will evolve into a well-equipped, technologically competitive world leader in the heavy industries field.

The Division's management goal for 2006 is "to develop market-oriented optimal technologies." To this end, it has implemented the four following strategies:

- Strengthen cooperation between six business Divisions and the R&D Division
- Concentrate on four core-technology development projects
- Improve the efficiency of its investments in technology
- Find and foster high-quality researchers.

HYUNDAI MARITIME RESEARCH INSTITUTE (HMRI)

HMRI is devoted to hydrodynamics research into the design and performance estimates of ships, offshore structures, pumps, and related-machinery parts. HMRI also conducts research into offshore engineering, structure analysis, noise and vibration, and machinery design, making valuable contributions to the improvement of core products and technologies for the company. Long-term research projects, so essential to the company's survival in a competitive market place, are also undertaken at HMRI.

HYUNDAI INDUSTRIAL RESEARCH INSTITUTE (HIRI)

HIRI focuses on production technologies, such as welding, casting, plastic deformation, and other material processing methods like the development of automation facilities. In addition, the institute assesses the performance, life span, and safety of Hyundai Heavy Industries' main products. Other research areas include mechatronics—robotics, laser systems, and energy. Environmental systems, such as power and desalination plants, marine engines, environmental control systems, and protective coatings against corrosion are also included in its mandate. HIRI is equipped with advanced analyzing equipment and powerful simulation facilities for developing new design and production technologies.

HYUNDAI ELECTRO-MECHANICAL RESEARCH INSTITUTE (HEMRI)

HEMRI's mission is to bring the future into the present by developing key technologies for products made by Hyundai Heavy Industries. Its goal is to turn technological insights into high-quality products. As a result, HEMRI engages in a variety of R&D activities, including both fundamental and applied technology and products. HEMRI's R&D activities encompass all the products manufactured by Hyundai Heavy Industries. These include electric machines and systems, industrial robots and equipments, monitoring & control system for vessels, distributed generation system for new energy and future-oriented technologies.

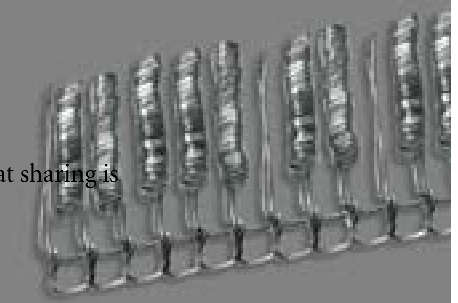
TECHNO DESIGN INSTITUTE (TDI)

TDI is committed to optimizing design development and implementation, with a view to enhancing both the quality and the competitiveness of Hyundai Heavy Industries' products. Composed of the Design Research Department and the Design Planning Department, TDI contributes to the creation of a new corporate culture and high value-added businesses by developing unique and independent design technologies. It also encourages joint R&D activities and establishes research infrastructures with other research institutions, the academic community, and overseas partners.

TECHNOLOGY MANAGEMENT CENTER

The Technology Management Center is devoted to developing advanced technology management systems, establishing optimal strategies, and exploring future business areas through research into industry trends, new technologies, and commercialization. It also seeks to heighten technological values through the management of intellectual rights, including patents. In addition, the center focuses on sharing knowledge and information by gathering, analyzing, and systematizing technological data.

Behind the dynamic growth and development of Hyundai Heavy Industries lies the "Hyundai Spirit" of creativity, positive thinking, and initiative. This includes the belief that sharing is the ultimate means of fulfilling our social obligations.

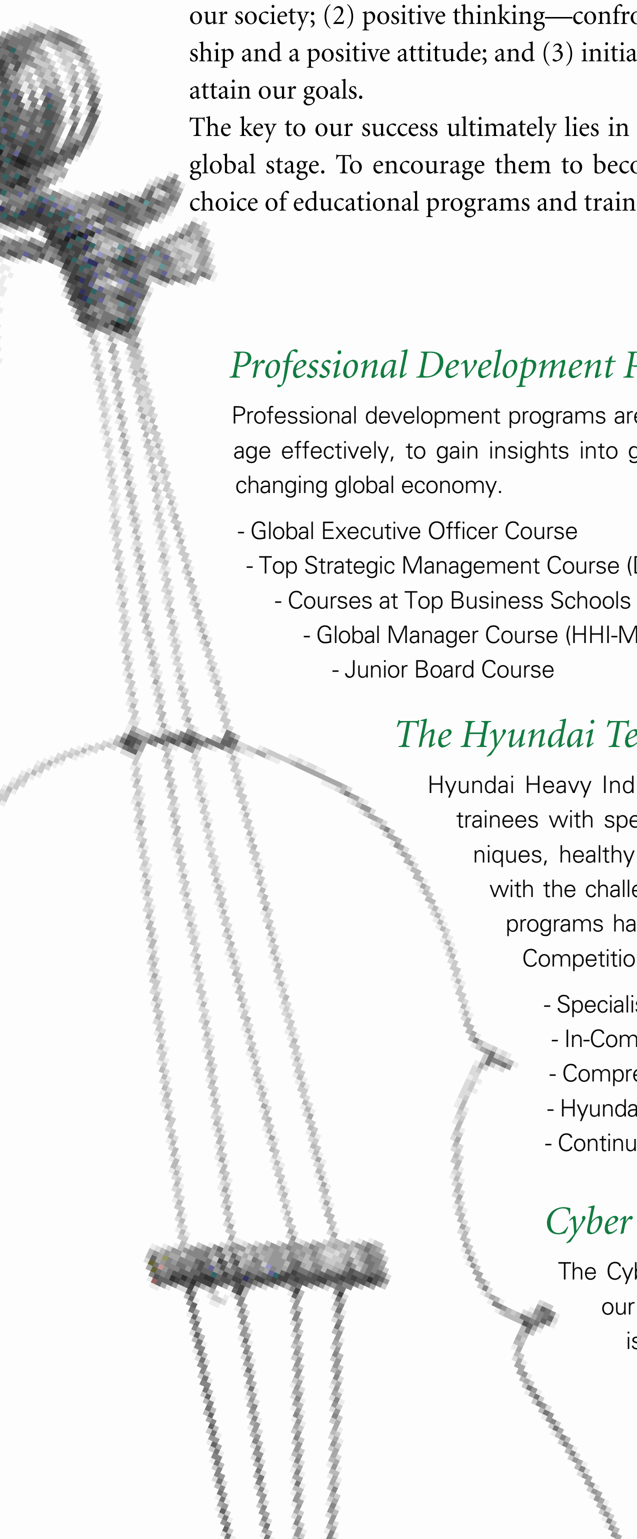


Happy Hands-on *Harmonies*

Helping to build a better society

As one of the world's largest heavy industry companies, we are dedicated to minimizing environmental pollution and maximizing resource and energy savings for a better life and future.

Human Resources



Behind the dynamic growth and development of Hyundai Heavy Industries lies the "Hyundai Spirit," the basis of all our activities. This spirit includes (1) creativity—taking advantage of innovation and a future-oriented perspective to predict and meet the changing needs of our customers and our society; (2) positive thinking—confronting every task and circumstance with a sense of ownership and a positive attitude; and (3) initiative—using determination and hard work to progress and attain our goals.

The key to our success ultimately lies in our people, for without them we cannot compete on the global stage. To encourage them to become specialists in their respective fields, we offer a wide choice of educational programs and training vehicles and a full range of benefits.

Professional Development Programs

Professional development programs are designed to provide our employees with the tools to manage effectively, to gain insights into global business trends, and to become leaders in a rapidly changing global economy.

- Global Executive Officer Course
- Top Strategic Management Course (Digital CEO)
- Courses at Top Business Schools
- Global Manager Course (HHI-MBA)
- Junior Board Course

The Hyundai Technical Education Institute (HTEI)

Hyundai Heavy Industries' intensive vocational programs provide our young trainees with specialized training. Students learn about manufacturing techniques, healthy workplace attitudes, safety regulations, and how to cope with the challenges of a global economy. Since 1978, graduates of these programs have won 55 medals—including 34 golds—in the World Skills Competition.

- Specialist Development Course (in local and overseas)
- In-Company Apprenticeship Program
- Comprehensive Vocational Training Program (41 courses)
- Hyundai Technical College
- Continuing Education Program at Ulsan College

Cyber Learning Center

The Cyber Learning Center offers programs to meet the needs of our employees and their families in the information era. Its aim is to foster talents who can deal with change and innovation in a global business environment. Programs include open education by job and function, education for family members, special education (including Six Sigma programs), and classes in informatization, strategizing, technology, and globalization. We are committed to providing educational opportunities for the families of our employees. In addition, we offer technical support to our subcontractors.

Using talent and teamwork to work as an "ensemble"

Employee Benefits

Our workers are our most important assets. We respect their rights, and endeavor to provide them with high-value benefits. These benefits (including accommodation and recreational facilities) are offered to all our employees, both Korean and foreign, and to our visitors. Most of our long-term foreign employees are supplied with housing in the Foreigner's Compound. In addition, the Hotel Hyundai in Ulsan provides accommodation for short-term residents and business visitors. About 16,000 apartments and seven dormitories have been built near the company. Six recreational centers are located in surrounding communities, enriching their quality of life. We also operate ten schools (including Ulsan University) to foster an enhanced educational atmosphere.

Housing

Providing adequate housing for our employees is our highest priority. We build or renovate residential buildings for our staff and provide dormitory rooms for single workers.

Leisure Facilities

We have established a Corporate Welfare Fund to operate leisure facilities and condominiums for our employees.

Family Support

We subsidize college tuition for children of our employees. This financial support also includes daily expenses and other necessities.

Periodic Medical Checkups

We schedule regular medical checkups for all our employees.
We also provide them and their families with full or partial medical coverage in cases of hospitalization and treatment.

Others

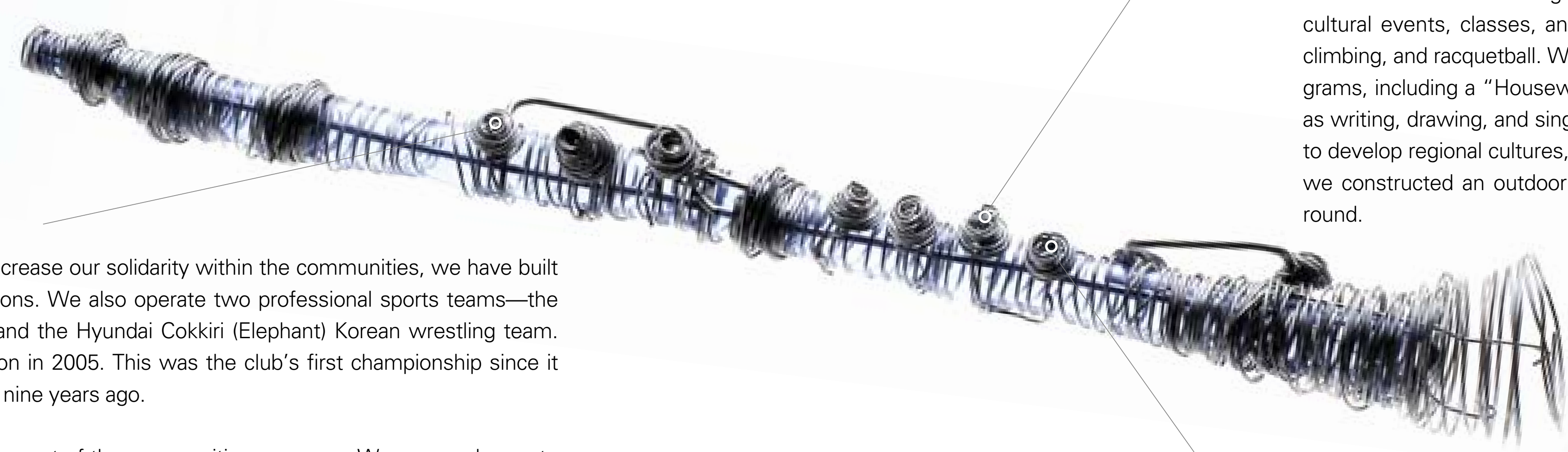
We run five multipurpose cultural centers for our staff members and nearby communities. Each is equipped with concert halls, galleries, cinemas, conference halls, restaurants, gyms, swimming pools, bowling lanes, skating tracks, rock climbing facilities, and more.
We also offer programs for retirees and female employees with children.

>> HHI Saxophone Club
Members in tune since 2002

Community Involvement

Using confidence and caring to fulfill the "obbligato"

As a committed and concerned corporate citizen, Hyundai Heavy Industries sees sharing as the ultimate means of fulfilling its social obligations. Our goal is to create a better and healthier society, and future, for everybody.



We Invest

To boost the morale of local residents and increase our solidarity within the communities, we have built six lawn soccer fields in four different locations. We also operate two professional sports teams—the Ulsan Hyundai Horangi(Tiger) football club, and the Hyundai Cokkiri (Elephant) Korean wrestling team. The football club was the K-League champion in 2005. This was the club's first championship since it was taken over by Hyundai Heavy Industries nine years ago.

We are also active in the educational development of the communities we serve. We own and operate five middle and high schools, three kindergartens, and a day-care center for dual-income families. We also offer language courses to foreigners to help them adapt to life in Korea.

Other facilities that we operate include the Ulsan University Hospital and two Hyundai Hotels (in Ulsan and Gyeongju). The hospital contributes to the community by offering medical studies and health care services. It boasts top-notch facilities and has 149 doctors, 23 departments, and 720 beds. The Hyundai Hotel Gyeongju is a perfect spot for anyone traveling to the old capital of Korea. The Hyundai Hotel Ulsan, located in front of the company's main gate, is ideal for business people seeking a comfortable rest. Each hotel has over 250 rooms and offers visitors the convenience of convention halls and recreational facilities.

>> HHI's "Thank-you Note" writing contest for children

We Provide

Because we are headquartered in Ulsan, we have taken the lead in improving the city's infrastructure. By doing so, we have helped the city to develop the finest cultural facilities and living environment of any nearby municipality. We operate seven cultural and welfare centers: the Hyundai Arts Center, the Hanmaum Center, the Mipo Center, the Eastern Center, Eastern Culture Classes, the Western Center, and the Daesong Center.

These facilities include large performance halls and galleries, enabling visitors to participate in cultural events, classes, and such sports activities as swimming, ice skating, bowling, rock-climbing, and racquetball. We also built the Hyundai Arts Park, which offers a wide range of programs, including a "Housewives College," children's camps, lectures, and such cultural events as writing, drawing, and singing contests. In addition, we have introduced a variety of programs to develop regional cultures, including "Visiting Classical Concerts" and outdoor movies. Finally, we constructed an outdoor theater that enables local citizens to enjoy performances all year round.

We Care

Our desire to create better communities extends beyond educational, cultural, and sports facilities. In response to a growing parking problem, we built spaces for 4,500 automobiles in ten locations near our facilities. We also support the underprivileged by providing the necessities of life and food to nursing homes, orphanages, senior citizens' centers, and teenaged heads of families. At year-end, we hold charity bazaars to raise funds for economically marginalized citizens. Our employees, their families, the local community, the Hyundai Horangi football club, members of the Hyundai Heavy Industries "Housewives College," and the Hyundai Heavy Industries "Mothers' Community" invest their time and energy in soliciting donations to this worthwhile cause.

In addition, we participate in relief activities. This includes sending out engineers and heavy equipment to disaster areas and carrying out fund-raising campaigns for victims and survivors.

Environment, Health, and Safety Management

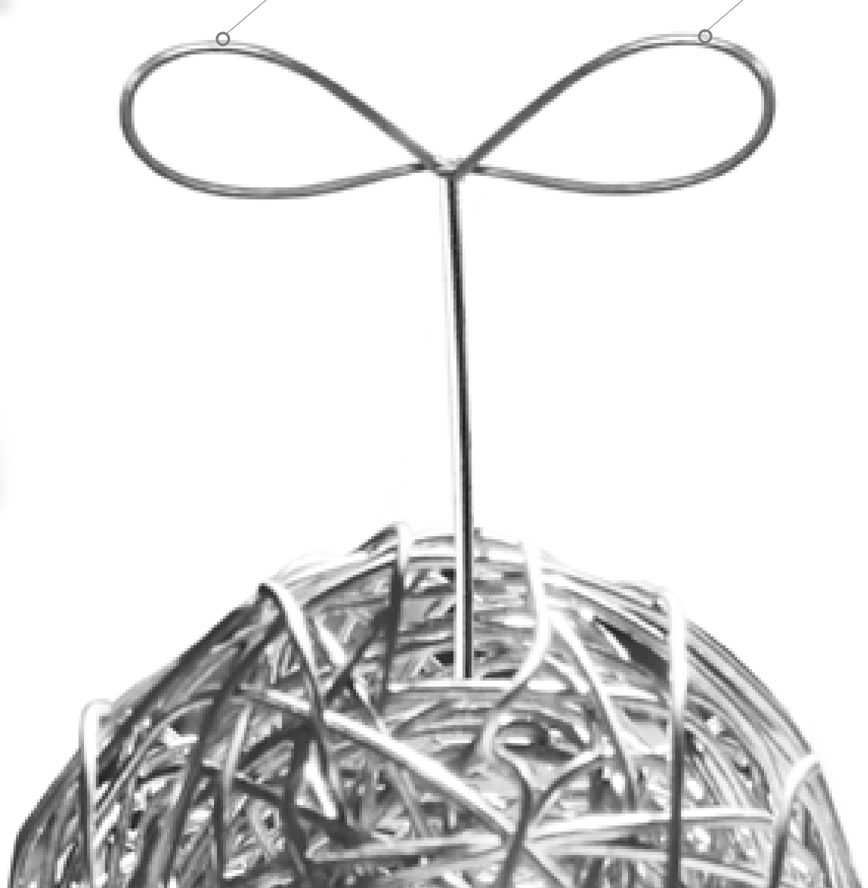
Using the power of a "virtuoso" to fine-tune a sustainable future

Hyundai Heavy Industries recognizes that the environment is a key factor in improving our competitiveness and sustaining higher living standards in our communities. As one of the world's largest heavy industry companies, we endeavor to minimize environmental pollution and maximize resources and energy savings in the service of a higher quality of life and a more sustainable future. We are also focusing on the development of state-of-the-art environmental technologies, such as air pollution controls, waste treatment, water treatment, and alternative energies.

We follow "green" policies in all our operations, and are dedicated to continual improvements in our environmental performance. In more specific terms, we established a certified environmental management system (in accordance with ISO 14001) in 1995, and later introduced such advanced environmental management tools as the Life Cycle Assessment (LCA) and the Environmental Performance Evaluation (EPE). Hyundai Heavy Industries issues annual environmental reports that are based on our EPE. Copies are available for viewing on our website (www.hhi.co.kr).

Safety First, Safety Always!

HHI, which is committed to instilling a zero-accident work culture by means of continuous improvements to its safety facilities and work environment, has built an educational center where employees can learn more about safety procedures by reenacting various reality-based situations that often result in accidents. We also operate health care centers in which three in-house doctors and twenty-three other medical workers work to ensure that employees are in top condition. Other programs and facilities that educate our employees in the prevention of industrial accidents and the promotion of a healthy lifestyle include safety inspections, workshops, "hands-on" training for forklift operators, a Health Center, a Rehabilitation Clinic, and a Safety Training and Demonstration Center.



Environmental Strategy

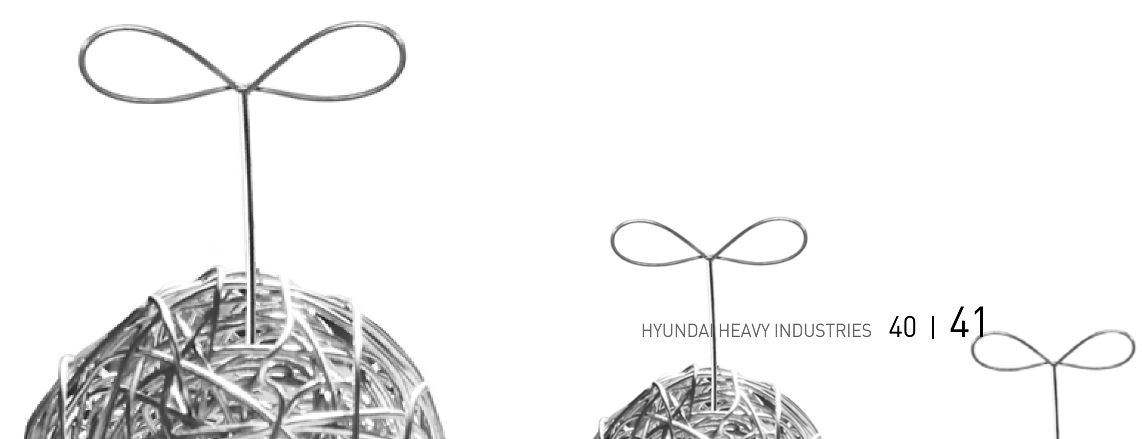
With a view towards attaining global leadership while also ranking among the world's most environmentally friendly companies, we have developed a set of long-term environmental management strategies. These have two core objectives: compliance with international environmental laws and the minimization of wastes and emissions.
- Regularly evaluate our Environmental Management System (EMS).
- Introduce Life Cycle Assessment (LCA) and Design for Environment (DfE) systems.
- Minimize waste; maximize rate of recycling.

Environmental, Health, and Safety Policies

We believe that sound policies regarding the environment, health, and safety (EH&S) are critical—both to people's happiness and to our business operations.
- Pursue developments in the areas of environmental technology and pollution prevention.
- Comply with the health and safety requirements of our clients, our employees, and our communities.

Guarantee regarding the basic requirements of safety and health
- Continual improvement of safety facilities and the work environment
- Constant refinement of prevention systems to reach goals of zero accidents and diseases
- Education and training in accident prevention and health promotion
- Application and enforcement of internal regulations, based on legal requirements

Environmental technology development and pollution prevention
- Develop energy-saving and environmentally friendly products
- Introduce cleaner production technologies and pollution prevention activities
- Comply with international agreements and legal requirements
- Publish periodic environmental reports



Environment, Health, and Safety Management

Photovoltaic power generation

Photovoltaic power generation is a method of transforming photovoltaic solar light into electricity, using solar cells, which are compound semiconductors. This environmental-friendly method requires consumption of no fuel and entails no mechanical vibration and noise. The world's photovoltaic power generation market, which stood at $11 billion in 2005, is expected to increase to $30 billion a year by 2010 at an average annual growth rate of 30%. HHI joined the business in 2005, launching a team dedicated to it in step with more attention paid to environmental problems and the need for new renewable energies. As part of ongoing efforts to expand into the energy business and develop related technologies, HHI is installing photovoltaic power generation systems on employees' houses. The Company plans to export the facilities worth $50 million or more a year by 2007 in a bid to be positively engaged in the solar cell business.

Environmental Management Systems and Organization

Since 1995, we have maintained an environmental management system in accordance with ISO 14001. Three levels of environmental management standards have been formulated: manual, procedures, and sub-procedures. We have obtained an ISO 14001 certificate from DNV, a certification body, to guarantee the clarity and objectivity of our EMS.

Furthermore, after acquiring an OHSAS 18110 certification, our EH&S management systems were combined to operate as part of our overall integrated management system. In the interest of efficient and systematic environmental management, our environmental organization consists of a Safety and Environment Department and a Safety and Environment Management Board, both of which are under the purview of the Chief Executive Officer and the Chief HSE(Health, Safety and Environment) Officer. These organizations are also connected to each business Division.

To prevent and cope with environmental accidents—and to save energy—we established an Environmental Pollution Prevention Center and an Energy Saving Committee. Both of these bodies play important roles in our environmental management system.

Environmental Investments

The following categories were created to evaluate environmental costs (see Figure 1). Total environmental costs for 2004 showed a 29 percent increase when compared to 1998.

Since 1997, we have replaced fuel consumption facilities with clean fuel ones, saving energy and reducing emissions in the process. At the present time, our clean fuel rate is 99 percent. By using environmental cost evaluations and the standards involved in "Green Accounting," we will demonstrate our commitment to efficient environmental investments as a means of aiding in environmental preservation and saving on future costs.

Category	Item
Pollution Prevention	1) Pollution prevention equipment operating costs 2) Sampling/analyses costs 3) Treatment costs by contractors 4) Repair costs
Environmental Burden Reduction	1) Resources reduction costs 2) Environmental improvement investment costs 3) R&D costs
Environmental Risk Management	1) Education/training costs 2) ISO 14001 certification costs 3) Fine/penalty costs 4) Pollution remediation costs
Social	1) Annual report publication costs 2) Environmental preservation activity costs 3) Reforestation costs

Figure 1

Environmental Education and Training

We provide our employees with various environmental education and training programs to improve their environmental awareness. In the future, Hyundai Heavy Industries will focus on such specialized educational and training programs as LCA (Life Cycle Assessment) and DfE (Design for Environment) to create pools of employees with a specialized understanding of environmental concerns.

Resources and Energy Saving

Hyundai Heavy Industries has changed the focus of its environmental operations from a "controlling end-of-pipe" approach to a "reduction-at-the source" one. Due to factory automation and the installation of new, energy-using facilities such as furnaces, energy and chemical consumption both increased this year. However, water and hazardous chemical usage showed a marked reduction.

Environment, Health, and Safety Management

Hybrid Vehicles

We are actively diversifying into new businesses, including hybrid vehicles and high-speed railway systems. For example, the Company's joint research center, the Hyundai Enova Innovative Technology Center (HEITC), recently succeeded in producing its first-ever commercial product, the 'Genset', a sixty-kW diesel generator for heavy-duty hybrid vehicles. This will benefit both heavy-duty vehicle manufacturers and drivers who wish to increase their fuel economy and reduce harmful vehicle emissions.

Air Emission Controls

To protect air quality, we have set our own environmental air emission standards. They are 50% stricter than those required by law. We are also reducing our emissions by using clean fuel and installing air pollution control equipment. Airborne emissions are being reduced every year—with a remarkably sharp reduction in SOx emissions that has been credited to the use of clean fuel.

Wastewater Controls

Our level of wastewater generation is relatively small. According to the Korean Water Quality Act, Hyundai Heavy Industries is a third-level wastewater generation company. In addition, the Company's pollutant concentration rate is very low. Our internal water pollutant standard is 50% higher than legally required. We will build a zero discharge system by 2010. This will be done by increasing the recycling of wastewater and using advanced wastewater treatment systems.

Solid Waste Management

We have been working to reduce waste generation and improve our recycling rate by operating a resource recycling shop and a waste incineration plant. In 2003, the amount of waste generation increased, due to a rise in internal construction work and the demolition of obsolete buildings.

Environmental R&D

We operate three research institutes in the R&D Division to help in realizing our goal of obtaining a larger share of the world market. We can reach that goal by gaining a leading position among worldwide R&D leaders in state-of-the-art technology in the heavy industries field.

We are currently developing applications for environmentally friendly technologies, including NOx treatments using SCR (selective catalytic reduction), alternative energy development, noise and vibration controls, fuel-economic hull designs, low flue-gas emission engines, environmental analysis technologies, and others.

Environmentally Friendly Designs and Products

We have studied the LCA (Life Cycle Assessment), and have applied its lessons to our design and production processes. We are doing this to reduce the environmental load of our products and to conform to international environmental standards. We have also established long-term LCA and DfE (Design for Environment) implementation plans for our major products. In the near future, we will utilize our own environmentally friendly design and production tool, which has been specifically designed to take the characteristics of a heavy industry into account. In the near future, we will improve upon our products' environmental suitability by applying an LCA analysis to them.

Environmental Performance Evaluations: HEPEM and Results

We have developed our own environmental performance evaluation method, called HEPEM (the Hyundai Heavy Industries Environmental Performance Evaluation Method). This takes the characteristics of heavy industry businesses into consideration, and evaluates the Company's environmental performance by using an EPE method that is applicable to its environmental situation. To evaluate the Company's operational performance, both quantitatively and equivalently, operational indicators are derived from the total amount of steel used per year—taking the characteristics of heavy industries into consideration.

Management Performance

To measure our environmental management performance, 23 performance indicators are used, in four categories: (1) EMS (environmental management systems) and conformity, (2) organizational management, (3) environmental costs, and (4) relationships with stakeholders. We have strengthened our internal environmental auditing programs, and our prevention activities have led to a dramatic reduction in environmental accidents.

Operational Performance

To measure the Company's environmental performance, 20 performance indicators are tallied, in four categories. These include (1) resource and energy use, (2) air emission management, (3) wastewater management, and (4) waste management.

Environmental Conditions

Nine environmental condition indicators are used to evaluate environmental conditions. Inshore seawater quality and air quality are the main targets of these evaluations. Twice a year, samples of seawater from nine points around the Company's grounds are taken and analyzed to monitor the area's ecology. We will continue to monitor the environmental quality of the local area, and will make every effort to improve its environment.

Community Environmental Quality

The Company's headquarters are located in Bangeojin, Ulsan, on the southeast coast of Korea. Because of this, we are deeply involved in protecting the ocean's ecology. Monitoring results show that the quality of seawater has been well maintained, and that the quality of the local environment has also been improving. To prevent further pollution, Hyundai Heavy Industries has divided the nearby sea into fourteen areas, each of which benefits from the Company's "responsible sea pollution prevention" management program. The Company has also implemented emergency drills and pollution prevention strategies that are designed to cope with sea and air pollution emergencies.

Coping with changes in market conditions, customer needs, and technological advances takes skill, talent, and leadership.

Happy Hands-on *Lyrics*

Combining creativity, positive thinking, and innovation

Orders received and sales grew by 20 percent and 14 percent, respectively, over the year to 16.1 billion US dollars and 10.4 US dollars. This was mainly due to enhanced productivity and the increased production of high value-added vessels.

Management's Discussion & Analysis

The following management's discussion and analysis is based on the financial information and data that have been classified in accordance with accounting principles generally accepted in Korea (Korean GAAP). Amounts are presented in billions of Korean Won (₩) except where stated otherwise. The term the "Company" used here without any other qualifying description will refer to "Hyundai Heavy Industries Co., Ltd." The following sections also contain forward-looking statements with respect to the financial condition, results of operations, and business of the Company and plans and objectives of the management of the Company. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward looking statements.

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

I. OVERVIEW

Hyundai Heavy Industries Co. Ltd. (the "Company") has a worldwide business network that is carried on by six main divisions: Shipbuilding, Offshore & Engineering, Industrial Plant & Engineering, Engine & Machinery, Electro Electric Systems, and Construction Equipment.

Most of the Company's businesses are sensitive to developments in both the domestic and global economies. Since over 80 percent of its sales are for export, it is also greatly affected by global business conditions. The greatest influences on the Shipbuilding Division are global market conditions and freight rates. Since the Offshore & Engineering Division is involved in the construction and installation of oil and gas exploration and production facilities, it is impacted by energy consumption levels and changes in market demand resulting from movements in oil prices.

Factors affecting the Engine & Machinery Division include market conditions for shipbuilding and investments in internal and external facilities. The Electro Electric Systems Division is subject to the level of electrical power consumption. The Construction Equipment Division is related to spending on social overhead capital (SOC) and the economic circumstances of developing countries.

We will now summarize 2005 business environment. In 2005, the South Korean economy grew slowly, at an overall growth rate of 3.7 percent. This was mostly due to a sharp decrease in net exports. On the other hand, domestic private consumption showed a modest recovery, increasing by 3.3 percent. This was led primarily by increased purchases of goods and services. With prices of imported goods stabilizing, the rate of inflation, as measured by general prices, increased by 2.4 percent, down 0.2 percent from 2004. GNI per capita exceeded $16,000 in 2005, making the South Korean economy one of the world's largest. Although the increasing strength of the Korean Won challenged the Company's price competitiveness, our overall performance was satisfactory. This was due to a faster-than-expected return to profitability and favorable market conditions.

Overall, the Company enjoyed stable growth in 2005: orders received increased by 20 percent, $16.1 billion, while sales grew by 14.0 percent, to approximately $10,354.4 billion. Operating income showed a surplus of ₩90.8 billion—a sharp turnaround from a deficit of ₩98.1 billion in 2004. This resulted from increased sales of high value-added products as well as enhanced productivity. Ordinary income and net income both rose dramatically 364.3 percent and 399.5 percent, respectively), to end at ₩257.7 billion and ₩183.3 billion.

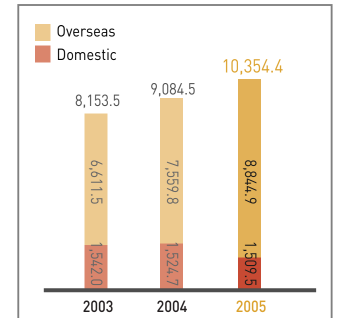
II. BUSINESS RESULTS

1. ANALYSIS OF PROFIT/LOSS

SALES

The Company's total sales amounted to ₩10,354.4 billion, an increase of 14.0 percent from the ₩9,084.5 billion of 2004. This was triggered by sharp sales increases in the Shipbuilding and Engine & Machinery Divisions in the wake of bullish demand for shipbuilding.

All divisions, except the Offshore & Engineering Division and the Electro Electric Systems Division, enjoyed a growth in sales. Increases in the Shipbuilding Division were particularly brisk, jumping by ₩1,091.1 billion (or 25.8 percent) to ₩5,322.5 billion. This was largely due to a sharp rise in orders for high value-added vessels on the back of favorable trends in the shipbuilding market. The Engine & Machinery Division, which witnessed a brisk demand for marine engines, increased its revenues by ₩203.3 billion (or 27.1 percent) to ₩954.2 billion.



Trend of Sales
(In billions of KRW)

Table 1. Sales

(In billions of Korean won)

Business Division	[illegible]	4	Change (%)	2003
Shipbuilding	[illegible]	.4	12.6	3,758.4
Offshore & Engineering	[illegible]	.5	22.0	1,239.4
Industrial Plant & Engineering	[illegible]	.7	-6.1	654.5
Engine & Machinery	[illegible]	.9	4.5	718.4
Electro Electric Systems	[illegible]	.5	0.0	824.9
Construction Equipment	[illegible]	.5	22.3	845.2
Others	[illegible]	.0	4.7	112.7
Total	[illegible]	**.5**	**11.4**	**8,153.5**

GROSS PROFIT

Cost of sales for 2005 rose by 12.9 percent from the previous year, to ₩9,639.0 billion. However, gross profit grew by ₩171.5 billion to ₩715.4 billion on the strength of a significant rise in sales. As a result, gross margin edged up by 0.9 percent from 2004 to reach 6.9 percent.

SELLING AND ADMINISTRATIVE EXPENSES

The Company's selling and administrative (S&A) expenses decreased by ₩17.4 billion (or 2.7 percent) to ₩624.6 billion. This was mainly due to a decrease of ₩49.2 billion (or 56.9 percent) in provision for bad debt in the Offshore & Engineering and Industrial Plant & Engineering Divisions.

OPERATING INCOME

The Company recorded operating income of ₩90.8 billion in 2005—a dramatic turnaround from a ₩98.0 billion loss in 2004. Its operating margin rose to 0.9 percent from -1.1 percent in 2004. Major contributors to this increase were a substantial improvement in profitability in the Shipbuilding Division and healthy growth in the profitability of other divisions.

The Shipbuilding Division posted an operating income of ₩6.4 billion (operating margin of 0.1 percent), which compares well to a loss of ₩77.2 billion (operating margin of -1.8 percent) in 2004. This successful turnaround happened because the orders taken from the second half of 2003 with higher vessel prices started to take up a larger share in sales despite steel plate price hikes. In addition, the ratio of lower-priced orders to total sales contracted.

The Offshore & Engineering Division suffered from increases in raw materials prices for the installation of subsea pipelines. These were only partially offset by increased profits from manufacturing work, including the 'Kizomba B' FPSO and the 'Sakhalin' fixed platform projects. Profits were also reduced by delays in deliveries occasioned by typhoons in overseas work areas.

The Industrial Plant & Engineering Division witnessed a sharp decrease in its operating loss, moving to ₩46.6 billion (operating margin of -7.5 percent) in 2005 from ₩117.2 billion (operating margin of -19.1) in 2004. This occurred because a majority of the offshore facilities projects that had generated large-scale losses were completed.

The Engine & Machinery Division enjoyed higher profitability, recording operating income of ₩68.9 billion (operating margin of 7.2 percent). This was due to a rise in engine unit prices following an upturn in shipbuilding prices from 2003 onwards.

The Electro Electric Systems Division's operating performance went from a loss of ₩11.0 billion (operating margin of -1.3 percent) in 2004 to a gain of ₩25.3 billion (3.1 percent), thanks to favorable overseas sales. These resulted from a heightened demand for the replacement of aging power supply and transmission facilities in the U.S. and healthy growth in electric power facility investments in the Middle East.

The Construction Equipment Division's operating income edged up slightly to ₩47.8 billion (operating margin of 4.5 percent) from ₩44.8 billion (operating margin of 4.3 percent) in the preceding year caused by decrease in domestic sales and while a decline in CKD sales to our Chinese subsidiaries continued through the first half of 2005 as a result of China's contractionary economic policies. Sales to that country recovered gradually in the second half of the year; however, while those to direct exporting regions—including Europe, the United States, Africa and other Southeast Asian countries—advanced broadly, accelerating earnings.

Table 2. Operating Income (In billions of Korean won)

Division	2005	Margin (%)	2004	Margin (%)	2003	Margin (%)
Shipbuilding	6.4	0.1	-77.2	-1.8	233.8	6.2
Offshore & Engineering	-14.5	-1.0	-2.0	-0.1	-1.0	-0.1
Industrial Plant & Engineering	-46.6	-7.5	-117.2	-19.1	-126.0	-19.2
Engine & Machinery	68.9	7.2	60.9	8.1	72.2	10.1
Electro Electric Systems	25.3	3.1	-11.0	-1.3	-21.9	-2.7
Construction Equipment	47.8	4.5	44.8	4.3	101.1	12.0
Others	3.5	2.9	3.7	3.1	16.3	14.4
Total	**90.8**	**0.9**	**-98.0**	**-1.1**	**274.5**	**3.4**

**Selling and administrative expenses in common accounts were allocated and adjusted proportionately to each division.*

NON-OPERATING INCOME/EXPENSES

The Company posted net non-operating income of ₩166.9 billion, an improvement of ₩13.3 billion from ₩153.6 billion in the previous year. Our non-operating performance improved despite (1) a decline in equity income from investments in affiliated companies, including Hyundai Oilbank and Hyundai Samho Heavy Industries, and (2) the impact of loss on impairment of long-term investment securities (amounting to ₩29.5 billion), the difference between book value and sale price of Hyundai Oilbank's shares, following the exercise of the call option by IPIC of the United Arab Emirates.

The primary reason for this improvement was that the Company recorded ₩127.7 billion in non-operating income as a result of the second trial held at Busan High Court on August 19, 2005. These monies had previously been entered as long-term accrued expenses as a result of the first trial related to a suit that had been brought against the Company in 2000 demanding the release of unpaid legal and retirement allowances.

Table 3. Non-Operating Income/Expenses

(In billions of Korean won)

	2005	2004	2003
Non-operating Income	**568.9**	**633.5**	**348.4**
Interest income	96.6	103.5	75.3
Gain on foreign currency translations	12.8	25.9	6.6
Gain on foreign currency transactions	98.1	180.0	136.1
Gain on valuation of investment securities accounted for using the equity method	132.2	162.8	91.1
Gain on valuation of foreign exchange forward contracts	13.7	32.7	-
Gain on transaction of foreign exchange forward contracts	21.9	-	-
Gain on reversal of provisions	127.6	-	-
Others	660	128.6	39.3
Non-operating Expenses	**402.0**	**479.9**	**438.9**
Interest expense	25.9	64.4	173.9
Loss on foreign currency translations	16.6	93.1	4.6
Loss on foreign currency transactions	123.7	157.6	136.4
Loss on valuation of investment securities accounted for using the equity method	9.6	-	-
Loss on impairment of long-term investment securities	29.5	3.2	22.5
Loss on valuation of foreign exchange forward contracts	27.8	-	-
Loss on transaction of foreign exchange forward contracts	56.2	-	-
Others	112.7	161.6	101.5
Net Non-operating Income and Expenses	**166.9**	**153.6**	**-90.5**

NET INCOME

The Company recorded net income of ₩183.3 billion, up 399.5 percent from ₩36.7 billion in 2004. This was mainly due to an increase in operating income of ₩90.8 billion (from an operating loss of ₩98.0 billion in 2004) and a rise in non-operating revenues because of gain on reversal of provisions for retirement allowances.

2. ANALYSIS OF FINANCIAL STRUCTURE

ASSETS

The Company's total assets amounted to ₩11,593.1 billion at the end of 2005, an increase of ₩530.8 billion (or 4.8 percent) from ₩11,062.3 billion in 2004. This was occasioned by a rise in current assets such as cash, cash equivalents, and trade accounts and notes receivables due to an increase in orders. Another contributor was a sharp advance in the book value of our investments in the wake of rising share prices in 2005.

LIABILITIES

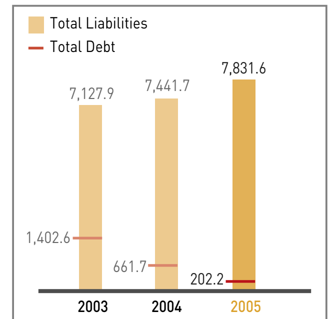
The Company's total liabilities increased by ₩389.9 billion over the year to reach ₩7,831.6 billion at the end of 2005. This compares to liabilities of ₩7,441.7 billion in 2004—an increase of 5.2 percent. This rise was caused by the issuance of foreign currency-denominated corporate bonds worth ₩201.5 billion. However, advances from customers following an increase in orders for ships grew by ₩661.0 billion (or 13.1 percent) to ₩5,701.6 billion, allowing current maturities of long-term borrowings and other long-term liabilities of ₩660.5 billion to be repaid. As a result, the Company's debt-to-equity ratio for 2005 was 208.2 percent, an increase of 2.7 percent point from 205.5 percent of the previous year.

Total borrowings fell from ₩661.7 billion in 2004 to ₩202.2 billion—a decrease of 227.3 percent. This was made possible because the majority of advances from customers were used to repay borrowings. As a result, the ratio of debt-to-equity declined, to 5.4 percent. This sharp improvement from the previous year's level of 18.3 percent enabled the Company to plant its feet on firmer financial ground.

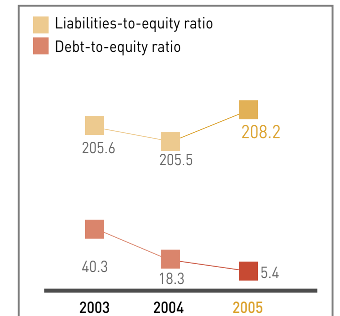
Table 4. Liabilities and Debt

(In billions of Korean won)

	2005	2004	2003
Total Liabilities	**7,831.6**	**7,441.7**	**7,127.9**
Liabilities-to-equity ratio (%)	208.2	205.5	205.6
Total Debt	**202.2**	**661.7**	**1,402.6**
Debt-to-equity ratio (%)	5.4	18.3	40.3



Total Liabilities & Total Debt
(In billions of KRW)



Liabilities-to-equity ratio & Debt-to-equity ratio
(%)

SHAREHOLDERS' EQUITY

Total shareholders' equity in 2005 amounted to ₩3,761.5 billion, up ₩141.0 billion from ₩3,620.5 billion in 2004. This was due to two factors. First, there was an increase of ₩102.7 billion in retained earnings following the rise in net income to ₩183.3 billion from ₩36.7 billion. Secondly, capital adjustments rose by ₩38.3 billion, reflecting an increase in the valuation of available-for-sale securities of ₩58.2 billion. All of this happened despite a decrease in the valuation of foreign exchange forward contracts.

3. ANALYSIS OF NEW ORDERS AND BACKLOG

In 2005, the Company received new orders worth $16.1 billion, exceeding its initial target of $11.5 billion by 40 percent. The Shipbuilding Division, riding the crest of favorable market conditions, accounted for $8.3 billion of total new orders. The Offshore & Engineering Division and the Industrial Plant & Engineering Division contributed $2.6 billion and $1.4 billion, respectively, on the back of rising oil prices. As a consequence, the Company secured its largest-ever backlog, worth $24.8 billion. This includes $17.1 billion worth of orders in the Shipbuilding Division.

SHIPBUILDING DIVISION

The Division enjoyed robust results in 2005, winning orders worth $8.27 billion for 82 vessels with a gross tonnage of six million. This exceeded its initial target of $5.49 billion by 50.6 percent. This success is largely due to a growing demand for the new ships. This, in turn, is attributable to the ongoing recovery of the global economy and an increase in the volume of shipping—the latter mainly due to China's rapid economic growth. The Division, which has a built-in sales edge that its competitors can only envy, won orders for all its lines of vessels by carrying out proactive sales activities. At the same time, it strove to strengthen its relationships with clients by improving the quality of its vessels and upgrading customer services.

Orders won by the Division in 2005 include 46 container vessels, 10 oil tankers, 19 LPG carriers, five LNG carriers, and two refined oil products carriers. It also won an order for four 10,000 TEU-class "ultra" container vessels—the first in the world. For LPG carriers, the Division's market share is in excess of 50 percent in large-sized one. As of the end of 2005, the Division enjoyed the largest backlog of orders ever recorded: a total of 236 vessels, with a gross tonnage of 16 million and a value of $17.1 billion. These orders will keep it busy for the next three years and beyond.

OFFSHORE & ENGINEERING DIVISION

With the major oil companies investing heavily in exploration in the wake of skyrocketing oil prices and an increased demand for energy, the Division won orders worth a record $2.58 billion in 2005. By type, these include floaters (worth $1.21 billion), fixed platforms (worth $420 million) and subsea pipeline installations (worth $950 million).

Major orders include 'Akpo' FPSO and 'Moho Bilondo' FPU (ordered from Total of France), an 'EGP3' Platform Project (ordered from Chevron of the U.S. and super-sized on/offshore crude oil export facilities (ordered from KOC, the Kuwait Oil Company). In witness of our offshore facilities production expertise, Total alone signed contracts for four projects worth $1.35 billion. As a consequence, the Division secured a backlog of $3.8 billion as of the end of 2005.

INDUSTRIAL PLANT & ENGINEERING DIVISION

The global industrial plant market recorded its best year ever in 2005. Because of continuing high oil prices, the Division started a series of projects in oil producing countries in the Middle East and West Africa—strategically important markets for the Company. By concentrating on overseas EPC-based turnkey power plant and onshore oil and gas plant projects in these countries, the Division won orders worth $1.40 billion. These include a turnkey gas-processing facility project (worth $630 million) from ChevronTexaco in Nigeria and a super-sized crude oil export facility project (worth $1.25 billion—$699 million for the industrial plant portion alone) from the Kuwait Oil Company (KOC). The latter project will be constructed in collaboration with the Offshore & Engineering Division. It is the largest single EPC project ever signed by a Korean contractor, and winning it enabled the Division to secure a bridgehead for further advances into the Middle Eastern market. The Division's backlog as of the end of 2005 was worth $1.6 billion.

ENGINE & MACHINERY DIVISION

Brisk sales in the shipbuilding business and heightened orders for business facilities usually lead to increased calls for marine engines. In 2005, demand for these products rose dramatically, largely due to a growth in sales of large-sized container vessels. The Division won orders worth $1.57 billion, a 74.3 percent climb from the previous year. Sales grew by 27.1 percent over the same period. The engine sector produced 177 large-sized engines, with a total power output of 7.24 million bhp. The Division also became the first engine manufacturer to produce an accumulated total of 50 million bhp. This record was reached only over a period of twenty-six years. In addition, the Division received more than one thousand orders for our HiMSEN engine, the first marine engine to be developed in-house technology as well as four thousand medium-sized engines in fifteen years. An order for large-sized power generation facilities from Union Nacional Electrica (UNE) of Cuba helped to boost the HiMSEN engine's reputation on the global stage.

In the machinery sector, large-sized industrial pumps, robots, conveyor systems, and mechanical presses all enjoyed sales increases. Industrial robots did particularly well, due to the construction of new car-making facilities and the replacement of old ones in China and Europe. As a result, the Division's backlog reached $1.6 billion by the end of 2005.

ELECTRO ELECTRIC SYSTEMS DIVISION

The Division won orders worth $1.0 billion in 2005, a 41.9 percent increase from the previous year. By working in tandem with other domestic companies specializing in EPC facilities construction, we succeeded in winning a number of contracts for overseas orders. In Korea, however, the business environment was affected by a downturn in construction and facilities investments. Our overseas operations saw a growth in demand for the replacement of aging power distribution and transmission facilities, especially in the United States. Orders from the Middle East was doubled from the previous year on the strength of heavier investments in power facilities.

In order to develop our technological independence, we augmented our ties to research institutes in the United States and Hungary. Sales of energy saving-type products (such as highly efficient motors and inverters) rose sharply, due in part to increased support from the Korean government. We also laid the foundation for entering the "green" business sector by investing in facilities for such products as photovoltaic power generation systems, miniature combined heat and power generating systems, and parts for electrically-powered cars.

CONSTRUCTION EQUIPMENT DIVISION

In 2005, the Division won orders worth $1.29 billion, about 5.2 percent over our original target. This success was largely due to brisk business in the Company's overseas markets. However, business conditions were generally unhelpful, due in large part to increases in raw material prices and the strong Korean won. Domestic demand slowed because of a downturn in the construction business, but markets in North America and Europe recorded dramatic growth—up 45 and 30 percent, respectively, from 2004. Other direct export markets reported an overall increase of 24 percent. The Division retained its leading market share in the Chinese excavator market for the fourth year in a row, with a market share of 22.4 percent. This happened despite a slowdown in the Chinese construction equipment market that began in 2004.

Table 5. New Orders

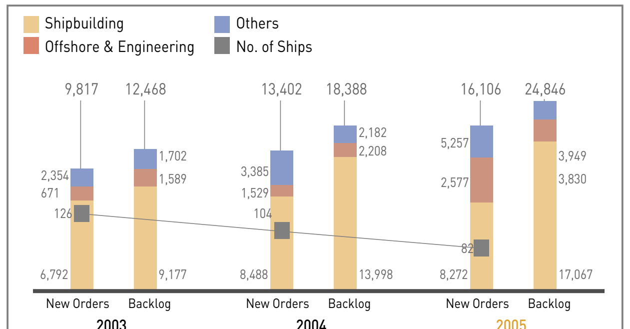
(In millions of USD)

Division	2005	2004	2003
Total	**16,106**	**13,402**	**9,817**
Shipbuilding	8,272 (82 ships)	8,488 (104 ships)	6,792 (126 ships)
Offshore & Engineering	2,577	1,529	671
Industrial Plant & Engineering	1,399	657	125
Engine & Machinery	1,566	898	720
Electro Electric Systems	1,004	708	622
Construction Equipment	1,288	1,122	887

Table 6. Backlog

(In millions of USD)

Division	2005	2004	2003
Total	**24,846**	**18,388**	**12,468**
Shipbuilding	17,067	13,998	9,177
Offshore & Engineering	3,830	2,208	1,589
Industrial Plant & Engineering	1,601	774	617
Engine & Machinery	1,566	928	714
Electro Electric Systems	782	480	371



Trend of New Orders and Backlog
(In millions of US$)

Ⅲ. CURRENT ISSUES

1. REVERSAL OF PROVISIONS FOR ADDITIONAL SEVERANCE BENEFITS

On February 17, 2000, the Company has been brought into legal action by Hee-in Kang and 33 individuals with claim for legal allowances and additional severance benefits payable amounting to ₩1,922 million, and entered into additional collective agreement with labor union for these litigations in 2002. The Company recorded such additional payables as long-term accrued expenses based on the results of first trial and additional collective agreement. However, based on the result of the second trial the Company recorded non-operating income amounting to ₩127,650 million, which had been recorded as long-term accrued expenses based on the result of the first trial on claim for legal allowances and additional severance benefits. In addition, on February 23, 2006, Supreme Court of Korea ruled in favor of the Company.

2. LAWSUITS AGAINST HSI AND HSC FOR FULL RECOVERY OF THE COMPANY'S PAYMENT MADE TO CIBC

Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. (HSC) on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million.
However, the Company didn't accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal to a high court for claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advanced payments and reimbursable expense for those companies that were not covered in the litigation above. The Company has provided an allowance for doubtful accounts on the above amount as of December 31, 2005. The management and legal adviser of the Company predict that the case will be decided in the Company's favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

3. GROUP SUPPORT AGREEMENT WITH HSMA

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

4. COMMON STOCK CONVERSION AGREEMENT WITH IPIC

Pursuant to the resolution of the board of directors on March 14, 2003, the Company entered into a common stock conversion agreement (the "Agreement") with IPIC, main shareholder of Hyundai Oilbank, together with USD 450 million financial supports of IPIC in 2002, and the Agreement has been finally executed on February 28, 2004. According to the Agreement, the Company has converted 16,233,514 shares of common stock, as part of 81,167,566 shares of common stock owned by the Company, to non-voting preference stock, which will be converted back to common stock upon satisfaction of certain condition. Also, the Company has provided call option right to IPIC to buy certain Hyundai Oilbank's shares owned by the Company until Hyundai Oilbank completes the payment of dividend obligation of USD

200 million to IPIC, which holds voting preference stock. IPIC gave a notice of the exercise of call option amounting to 20% of the total issued shares under the Agreement. Therefore, the Company recorded as loss on impairment of long-term investment securities amounting to ₩24,525 million, the difference between book value and sale price of the shares to be sold to IPIC according to the exercise of the call option, and the related 32,467,026 shares owned by the Company are supposed to be sold on February 27, 2006, pursuant to the resolution of the board of directors on February 2, 2006.

Ⅳ. 2006 OUTLOOK BY BUSINESS

People in the know believe that the Company's fortunes will brighten in 2006. However, we expect to meet with some difficulties, such as economic slowdowns in the U.S. and China (our major export targets), intensifying competition between companies and countries, uncertainties over exchange rates, and rising oil prices.

As a result, the Company set a sales target of ₩12,635 billion, an increase of 22 percent from 2005. It, however, lowered its expectations for new orders by 7.4 percent, to $14.9 billion. This move reflected an expected decline in orders received by the Shipbuilding Division due to its full backlog for the next three years. The Company allocated ₩395.0 billion to capital expenditure and ₩148.6 billion for R&D investments, an increase of 24.9 percent from 2005.

1. SHIPBUILDING

The Shipbuilding Division does not expect that orders will decrease appreciably from the level achieved in 2005. This is based on expectations that growth in the world economy will remain stable and that freight rates will stay high. Especially, the demand for LNG vessels is expected to remain particularly robust, since a large number of LNG development projects are already in place. This situation leads us to believe that orders for vessels in that market will continue to move upwards.

We set this year's target for orders at $7.41 billion and will focus our efforts on high value-added ships, such as LNG/LPG carriers, VLCCs, and oil-related vessels. Our sales target was set at ₩6,445 billion, up 21 percent from ₩5,322 billion in 2005. This target will be met by improvements to our productivity and the product mix. In addition, shipbuilding price increases during past years will be reflected in 2006 sales, hence further increasing the possibility of meeting our new target.

2. OFFSHORE & ENGINEERING

The major oil companies increased their capital expenditures for exploration and production by 40 percent over the last two years, and we expect that this growth will continue in 2006. With high oil prices resulting from a continuing demand for oil and gas, we believe that the oil majors will increase their investments in oil and gas exploration and its development. This means, of course, that there will be a concomitant need for oil and gas facilities. Other outcomes that we see unfolding in 2006 include increases in new facilities investments among the OPEC countries (following an increase in their production quota), the development of more oil and gas fields in Kuwait and Saudi Arabia, and efforts by Kazakhstan to develop oil fields near the Caspian Sea.

The Offshore & Engineering Division has set its 2006 target for orders at $2 billion, a 22.4 percent decrease from the previous year's record-high figure. Meanwhile, its target for sales was set at ₩1,890 billion, a 28.1 percent increase from 2005. This year, we will upgrade our capabilities in project management, designing, purchasing, and production in order to remain the top player in EPIC (Engineering, Procurement, Installation and Commissioning) projects. These include FPSOs, fixed platforms, semi-submersibles, and subsea pipelines.

3. INDUSTRIAL PLANT & ENGINEERING

The Industrial Plant & Engineering Division set its target for new orders at ₩1.41 billion, a similar level to last year's, while sales projections were gauged at ₩790 billion, an 27.6 percent increase from 2005. We will cement our reputation in the global marketplace as specialists in EPC work by finishing current orders for domestic and foreign projects and by focusing our efforts on overseas EPC-based turnkey projects—especially power plants and onshore oil and gas facilities. We will also increase our interactions with contractors and engineering firms who possess advanced technologies as part of our strategy to enter the LNG/GTL (gas to liquid) field. The oil majors are increasing their facilities investments in this area as they seek to develop new alternate energy sources.

4. ENGINE & MACHINERY

The Engine & Machinery Division set its target for new orders in 2006 at $1.4 billion, a slight increase from last year's figure, and expects to generate sales of ₩1,136 billion, a 19.1 percent increase. It assumes that there will be even fiercer competition among vessel engine manufacturers in 2006—particularly in China and Europe—as producers there seek to secure orders for work until 2009 and beyond.

5. ELECTRO ELECTRIC SYSTEMS

The Electro Electric Systems Division set its 2006 order target at $1.22 billion, a 21.6 percent rise from 2005. In the domestic market, it projects an upsurge in orders for the replacement or renovation of aging facilities in the wake of a continuing resistance to building high-priced new ones. The situation overseas is predicted to be similar—particularly in the Middle East. In the new year, we will focus on diversifying our range of exported goods and on adopting a strategy of meeting specified requirements of each region. In addition, we will reinforce our overseas marketing capabilities by exploiting our Global Service System. We will also explore new markets by implementing strategic alliances with other businesses, both at home and abroad, which specialize in the EPC field. Finally, we will continue our development efforts in the new and expanding area of renewable energy.

6. CONSTRUCTION EQUIPMENT

The Construction Equipment Division set its new order target for 2006 at $14.5 billion, a 14.5 percent increase from 2005. Improvements in the domestic market—which is currently suffering from a slowdown—are expected in the wake of work on new cities and the administrative capital. These are forecast to occur despite the presence of such unfavorable factors as a projected rise in interest rates and decreases in SOC projects. Looking overseas, it is expected that business in China will remain at a level similar to that of 2005. However, there will be an increase in demand in North America and other export destinations. We will continue to emphasize quality and innovation, customer service, and responsible management, while striving for improvements in our logistics operations and our production system. In addition, we will establish a global parts supply system, offer increased training to employees who are engaged in after-sales service, and continue to explore new overseas markets.

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (Note 2).

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

As explained in Note 12 to the non-consolidated financial statements, the Company recorded non-operating income amounting to ₩127,650 million based on the result of the second trial, which had been recorded as long-term accrued expenses based on the result of the first trial on claim for legal allowances and additional severance benefits. In addition, on February 23, 2006, the Supreme Court of Korea ruled in favor of the Company.

As discussed in Note 12 to the non-consolidated financial statements, Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided with a written promissory note by HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for any losses incurred in connection with the transaction with CIBC under certain circumstances. On July 24, 2000, the Company repurchased the 13 million shares from CIBC for USD220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the court decided in favor of the Company and awarded a partial settlement of the claim amounting to ₩172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and also filed additional lawsuit for the advanced payments and related expenses, which are not covered in the prior claim. As of December 31, 2005, allowance for the balances related to this claim was provided. The appeal is in progress as of the date of this report and its ultimate outcome cannot presently be determined. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

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

As discussed in Note 11 to the non-consolidated financial statements, pursuant to the resolution of the board of directors on March 14, 2003, the Company entered into a common stock conversion agreement (the "Agreement") with IPIC, main shareholder of Hyundai Oilbank, together with USD 450 million financial support of IPIC in 2002, and the Agreement has been finally executed on February 28, 2004. According to the Agreement, the Company has converted 16,233,514 shares of common stock, as part of 81,167,566 shares of common stock owned by the Company, to non-voting preference stock, which will be converted back to common stock upon satisfaction of certain condition. Also, the Company has provided call option right to IPIC to buy certain Hyundai Oilbank's shares owned by the Company, until Hyundai Oilbank completes the payment of dividend obligation of USD 200 million to IPIC, which holds voting preference stock. Under the Agreement, IPIC gave a notice of the exercise of call option for 20% of the total issued shares and the Company recorded as loss on impairment of long-term investment securities of ₩24,525 million, the difference between book value and sale price of the shares to be sold to IPIC according to the exercise of the call option. In addition, the related 32,467,026 shares owned by the Company are supposed to be sold on February 27, 2006, pursuant to the resolution of the board of directors on February 2, 2006.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

Deloitte HanaAnjin LLC

February 11, 2006

Notice to Readers

This report is effective as of February 11, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Non-Consolidated Balance Sheets

AS OF DECEMBER 31, 2005 AND 2004

Korean won(In thousands)

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 3 and 21)	₩ 444,514,550	₩ 358,213,436
Short-term financial instruments	184,126,014	394,126,014
Short-term investment securities (Note 5)	20,776,448	126,681,848
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩52,362,787 thousand in 2005 and ₩78,174,167 thousand in 2004 (Notes 20 and 21)	2,276,108,071	2,095,916,883
Accounts receivable-other, net of allowance for doubtful accounts of ₩182,055,776 thousand in 2005 and ₩161,967,038 thousand in 2004 (Notes 20 and 21)	244,615,919	281,529,043
Inventories (Note 4)	1,148,317,437	1,137,136,741
Advanced payments, net of allowance for doubtful accounts of ₩4,099,087 thousand in 2005 and ₩2,307,841 thousand in 2004	287,752,506	56,606,978
Accrued income	6,539,835	6,357,361
Foreign exchange forward contracts (Note 11)	246,768,569	255,759,978
Deferred income tax assets (Note 18)	5,474,278	-
Prepaid expenses and other current assets (Note 21)	303,508,856	223,076,901
Total current assets	**5,168,502,483**	**4,935,405,183**
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 7, 11 and 22)	4,286,543,141	4,326,631,978
Long-term investment securities (Note 5)	553,169,451	159,266,136
Investment securities accounted for using the equity method (Note 6)	1,150,538,105	1,023,448,611
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩1,984,850 thousand in 2005 and ₩2,487,034 thousand in 2004 (Notes 11 and 21)	196,500,217	246,216,362
Long-term financial instruments (Notes 3 and 21)	6,775,068	6,613,882
Intangible assets (Notes 8 and 22)	191,142,413	160,983,579
Deferred income tax assets (Note 18)	-	159,276,388
Other investment assets (Notes 20 and 21)	39,937,237	44,471,543
Total non-current assets	**6,424,605,632**	**6,126,908,479**
Total Assets	**₩ 11,593,108,115**	**₩ 11,062,313,662**

Korean won(In thousands)

	2005	2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term borrowings and other long-term liabilities, net of discount of ₩980,721 thousand in 2004 (Notes 9 and 21)	₩ 372,639	₩ 660,973,248
Trade accounts and notes payable (Notes 20 and 21)	1,108,899,843	893,641,281
Accounts payable-other (Note 21)	88,868,629	136,914,174
Advances from customers (Note 17)	5,701,603,630	5,040,601,881
Accrued expenses	207,777,063	162,071,520
Income tax payable (Note 18)	13,946,921	7,665,065
Foreign exchange forward contracts (Note 11)	25,862,517	-
Withholdings and other current liabilities (Note 21)	233,168,366	160,584,436
Total current liabilities	**7,380,499,608**	**7,062,451,605**
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discounts of ₩1,122,534 thousand in 2005 (Notes 9 and 21)	201,850,105	767,938
Accrued severance benefits, net of severance insurance deposits and others of ₩867,585,305 thousand in 2005 and ₩838,246,030 thousand in 2004 (Note 10)	151,250,487	167,694,266
Long-term accrued expenses (Note 12)	47,064,964	172,135,546
Deferred income tax liabilities (Note 18)	10,047,955	-
Other long-term liabilities (Note 20)	40,857,986	38,730,645
Total long-term liabilities	**451,071,497**	**379,328,395**
Total Liabilities	**7,831,571,105**	**7,441,780,000**
SHAREHOLDERS' EQUITY:		
Capital stock - common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 13)	2,771,383,687	2,771,383,687
Appropriated retained earnings (Note 14)	492,811,543	542,684,044
Retained earnings before appropriations (Net income of ₩183,314,079 thousand in 2005 and ₩36,719,496 thousand in 2004)	183,314,085	30,744,325
Capital adjustments (Notes 5, 6, 11 and 15)	(65,972,305)	(104,278,394)
Total Shareholders' Equity	**3,761,537,010**	**3,620,533,662**
Total Liabilities and Shareholders' Equity	**₩ 11,593,108,115**	**₩ 11,062,313,662**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(In thousands of Korean won, except per share amounts)

	2005	2004
Sales (Notes 17, 20, 22 and 24)	₩ 10,354,421,886	₩ 9,084,484,155
Cost of sales (Notes 17 and 20)	9,638,989,541	8,540,502,376
Gross profit	715,432,345	543,981,779
Selling and administrative expenses (Note 23)	624,584,039	642,042,563
Operating income (loss) (Note 22)	90,848,306	(98,060,784)
Non-operating income:		
Interest and dividend income	98,559,779	107,867,659
Gain on foreign currency transactions	98,095,813	180,076,397
Gain on foreign currency translation	12,826,998	25,929,043
Gain on valuation of investment securities accounted for using the equity method (Note 6)	132,215,981	162,834,227
Gain on disposal of available-for-sales securities	1,839,392	80,518,377
Gain on valuation of foreign exchange forward contracts (Note 11)	13,717,848	32,712,127
Gain on transaction of foreign exchange forward contracts (Note 11)	21,871,637	-
Gain on reversal of provisions	127,649,924	-
Others	62,166,917	43,565,285
	568,944,289	633,503,115
Non-operating expenses:		
Interest expense	25,862,494	64,433,135
Loss on foreign currency transactions	123,715,256	157,559,693
Loss on foreign currency translation	16,580,919	93,086,979
Loss on valuation of investment securities accounted for using the equity method (Note 6)	9,628,196	-
Loss on disposal of available-for-sales securities	6,959,082	80,297,342
Loss on disposal of property, plant and equipment	11,033,613	9,895,073
Loss on impairment of long-term investment securities (Note 5)	29,476,212	3,235,189
Loss on redemption of debentures	-	1,487,429
Loss on valuation of foreign exchange forward contracts (Note 11)	27,819,348	-
Loss on transaction of foreign exchange forward contracts (Note 11)	56,231,229	-
Others	94,724,279	69,901,617
	402,030,628	479,896,457
Ordinary income	257,761,967	55,545,874
Extraordinary item	-	-
Net income before income tax	257,761,967	55,545,874
Income tax expense (Note 18)	74,447,888	18,826,378
Net income	₩ **183,314,079**	₩ **36,719,496**
Earnings per share (Note 19)	₩ **2,842**	₩ **569**
Ordinary income per share (Note 19)	₩ **2,842**	₩ **569**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Appropriations of Retained Earnings

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Korean won(In thousands)

	2005	2004
Retained earnings before appropriations:		
Beginning of year	₩ 6	₩ 3
Adjustments in investment securities accounted for using the equity method (Notes 6 and 18)	-	(5,975,174)
Net income	183,314,079	36,719,496
	183,314,085	30,744,325
Transfer from reserve:		
Reserve for research and human development	40,500,000	59,908,313
Appropriations:		
Legal reserve	9,674,018	8,061,682
Reserve for research and human development	20,000,000	-
Voluntary reserve	97,399,880	1,974,130
Cash dividends (Note 16)	96,740,184	80,616,820
	223,814,082	90,652,632
Unappropriated retained earnings, end of year	₩ **3**	₩ **6**

Notes to Non-Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Korean won(In thousands)

	2005	2004
Cash flows from operating activities:		
Net income	₩ **183,314,079**	₩ **36,719,496**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	167,567,742	158,257,363
Provision for doubtful accounts	37,176,985	86,434,640
Amortization of development costs	30,352,742	32,959,055
Depreciation	335,093,283	322,769,432
Amortization of discount on debentures	1,094,667	5,311,807
Loss on foreign currency translation	16,579,704	93,083,009
Loss on impairment of long-term investment securities	29,476,212	3,235,189
Loss on disposal of available-for-sales securities	6,959,082	80,297,342
Loss on valuation of investment securities accounted for using the equity method	9,628,196	-
Loss on disposal of property, plant and equipment	11,033,613	9,895,073
Loss on redemption of debentures	-	1,487,429
Loss on valuation of foreign exchange forward contracts	27,819,348	
Gain on disposal of property, plant and equipment	(2,012,422)	(8,897,554)
Gain on foreign currency translation	(12,826,998)	(25,928,646)
Gain on valuation of investment securities accounted for using the equity method	(132,215,981)	(162,834,227)
Gain on valuation of foreign exchange forward contracts	(230,280,380)	(120,332,831)
Gain on reversal of provision	(127,649,924)	-
Others	43,468,696	(45,162,140)
	211,264,565	**430,574,941**
Changes in operating assets and liabilities:		
Decrease (Increase) in trade accounts and notes receivable	(160,527,870)	359,775,176
Decrease in accounts receivable-other	16,276,083	131,769,250
Decrease (Increase) in accrued income	(182,475)	4,348,197
Increase in advanced payments	(233,265,235)	(1,548,910)
Decrease in foreign exchange forward contracts	202,756,200	85,268,233
Increase in inventories	(10,599,022)	(192,408,334)
Increase in trade accounts payable	218,084,692	12,074,053
Decrease in accounts payable-other	(47,814,202)	(19,230,559)
Increase in advances from customers	655,922,174	959,591,087
Increase in accrued expenses	49,935,591	19,439,819
Increase in income tax payable	6,281,856	6,857,185
Increase in long-term accrued expenses	2,579,342	18,541,180
Payments of severance benefits	(154,672,246)	(124,481,685)
Decrease in deferred income tax assets	107,304,745	6,056,639
Decrease in deferred income tax liabilities	(54,557,581)	-
Others, net	(30,489,257)	90,651,621
	567,032,795	**1,356,702,952**
Net cash provided by operating activities	**961,611,439**	**1,823,997,389**

Korean won(In thousands)

	2005	2004
Cash flows from investing activities:		
Withdrawal of short-term financial instruments	₩ 812,607,600	₩ 471,060,661
Disposal of short-term investment securities	302,061,894	2,760,099
Disposal of long-term investment securities	3,132,444	169,001,680
Disposal of investment securities accounted for using the equity method	17,326,141	2,258,935
Disposal of other investment assets	11,176,150	3,492,091
Disposal of property, plant and equipment	7,877,771	37,679,282
Disposal of development costs	-	2,723,000
Decrease in severance insurance deposits	102,018,476	76,933,761
Acquisition of short-term financial instruments	(602,607,600)	(840,613,763)
Acquisition of short-term investment securities	(172,690,000)	(98,670,000)
Acquisition of long-term financial instruments	(20,360,407)	(2,000)
Acquisition of long-term investment securities	(275,564,589)	(43,564,729)
Acquisition of investment securities accounted for using the equity method	(3,197,656)	(46,914,540)
Acquisition of property, plant and equipment	(312,485,083)	(374,957,250)
Payment of severance insurance deposits	(137,838,121)	(180,770,705)
Acquisition of intangible assets	(62,550,858)	(57,006,275)
Acquisition of other investment assets	(6,489,218)	(1,476,566)
Net cash used in investing activities	**(337,583,056)**	**(878,066,319)**
Cash flows from financing activities:		
Proceeds from short-term borrowings	-	265,276,790
Issuance of debentures	204,843,520	-
Proceeds from long-term borrowings	-	186,981,514
Repayment of short-term borrowings	-	(415,494,648)
Repayment of current maturities of long-term borrowings and other long-term liabilities	(661,953,969)	(516,862,072)
Repayment of debentures	-	(20,586,770)
Repayment of long-term borrowings	-	(223,687,745)
Payment of cash dividends	(80,616,820)	(96,740,184)
Net cash used in financing activities	**(537,727,269)**	**(821,113,115)**
Net increase in cash and cash equivalents	86,301,114	124,817,955
Cash and cash equivalents at the beginning of the year	358,213,436	233,395,481
Cash and cash equivalents at the end of the year	₩ **444,514,550**	₩ **358,213,436**

See accompanying notes to non-consolidated financial statements.

1. THE COMPANY:

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

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩5,000, authorized: 160,000,000 shares) of common stock are issued and 64,493,456 shares of common stock are outstanding as of December 31, 2005. Of the total issued shares, Mong-Joon Chung, Hyundai Mipo Dockyard Co., Ltd., KCC Corp. and Hyundai Motor Company own 10.80%, 9.92%, 8.15 % and 2.88%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company's employees and directors, up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company's employees and directors as of December 31, 2005. The Company may also raise capital without obtaining the approval of shareholders by issuing stock to foreign individual investors or foreign financial institutions, issuing stock domestically under the Securities and Exchange Act, issuing stock through a general public subscription and issuing stock to employees under certain circumstances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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

The Company prepared its financial statements as of December 31, 2005 in accordance with the additional Statements of Korea Accounting Standards ("SKAS") No. 15, No. 16 and No. 17, effective from January 1, 2005.

Major changes compared with the standards applied in preparing the financial statements as of December 31, 2004 are as follows:

Statements of Korea Accounting Standards	Major changes
No.15 - Investments in Associates	- To distinguish investees from subsidiaries in using the equity method
	- Elimination of unrealized profits and losses on inter-company transactions (downward)
	- Explanatory notes
No.16 - Income Taxes	- Deferred income taxes credited or charged directly to equity
	- Classification into current and non-current
	- Explanatory notes
No.17 - Provision, Contingent Liabilities and Contingent Assets	- To separate provision for estimated liabilities into provision and contingent liabilities

The Company did not restate the non-consolidated balance sheet as of December 31, 2004 and non-consolidated statements of income and cash flows for the year ended December 31, 2004, which are presented for comparative purposes, in accordance with SKAS No.15, No.16 and No.17.

Except for the accounting changes above and the written accounting reporting opinion (2005-3) issued by the Financial Supervisory Service, the significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

Revenue Recognition

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

Under the percentage-of-completion method, revenues are recognized based on the percentage of costs incurred (including man hours and raw material costs) over total estimated costs for each contract. As a result, the timing of revenue recognition of which the Company reports may differ materially from the timing of actual contract payments received. The Company's estimates reflect information during construction activities. In addition, since most contracts are completed over several months, the timing of the recognition of related revenues could have a significant impact on quarterly operating results. The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company are reflected as advances from customers. The expenditures incurred before the construction contract is entered into are recognized as prepaid construction costs, if they are directly related to making a contract, separately identifiable and reliably measurable, and an agreement to construction is probable. The prepaid construction costs are transferred to construction cost at the commencement of the construction. The Company adopted the written accounting reporting opinion (2005-3), which was issued by the Financial Supervisory Service, on the brokerage commission upon receipt of construction contracts in preparing its financial statements as of December 31, 2005. As a result, the total amount of expected brokerage commission is recorded as current liabilities when construction contracts are received, and the related amount of ₩185,570 million is recorded as prepaid expenses and accrued expenses, respectively. As the financial statement items in 2004 were restated for comparability, prepaid expenses and accrued expenses increased by ₩132,699 million.

The Company adopted early the written accounting reporting opinion (2005-1), which was issued by the Financial Supervisory Service, on the currency hedging account of the foreign currency long-term contracts in preparing its financial statements as of December 31, 2004, and it was applied prospectively from 2004 because the retrospective effect of this new accounting policy cannot reasonably be determined.

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 ninety days, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

Allowance for Doubtful Accounts

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

Inventories

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

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

Classification of Securities

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

Valuation of Securities

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

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

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

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

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

Investment Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over five years using the straight-line method. Under the equity method, the change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company's net income (loss), retained earnings and capital adjustments, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and capital adjustments. Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated. The Company has used the most available financial statements of the controlled investees, which have not been audited and reviewed due to the timing of closing of the controlled investees' financial statements.

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.

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

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a 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.

Lease Transactions

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

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

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

Intangible Assets

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

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

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

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

Discounts on Debentures

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

Foreign Currency Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rates on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Service Ltd. Basic Rate, which was ₩1,013.00 and ₩1,043.80 to USD1.00 at December 31, 2005 and 2004, respectively, and translation gains or losses are reflected in current operations.

Provision for Foreseeable Losses from Construction Contracts

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

Provision for Construction Warranty

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩1,018,835,792 thousand and ₩1,005,940,296 thousand as of December 31, 2005 and 2004, respectively (see Note 10). Accrued severance benefits are funded approximately 80.8% and 78.2% as of December 31, 2005 and 2004, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

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

Income Tax Expense

The Company recognizes income tax expenses determined by adding or deducting changes in deferred income tax assets (liabilities) to or from total income tax and surtaxes to be paid by tax law for the current period. The deferred income tax assets or liabilities will be charged or credited to income tax expense in the period each temporary difference (the difference between the tax basis of assets or liabilities and the book value) reverses in the future. The Company recognizes deferred tax liabilities basically for all taxable temporary differences, but recognizes deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting.

Derivative Instruments

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

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

3. RESTRICTED FINANCIAL INSTRUMENTS:

As of December 31, 2005 and 2004, financial instruments amounting to ₩6,994,963 thousand and ₩6,833,777 thousand, respectively, which are included in cash & cash equivalents and long-term financial instruments are subject to withdrawal restrictions in relation to certain ship building contracts (see Note 9).

4. INVENTORIES:

Inventories as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005	2004
Merchandise	₩ 52,616,406	₩ 10,121,918
Finished products	73,903,178	64,170,395
Work-in-process	135,061,482	54,957,536
Materials	326,900,967	288,371,870
Supplies	13,186,244	9,329,659
Materials in-transit	546,649,160	710,185,363
	₩ 1,148,317,437	**₩ 1,137,136,741**

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

(1) Short-term investment securities consist of beneficiary certificates and various bonds of ₩20,776,448 thousand and ₩126,681,848 thousand as of December 31, 2005 and 2004, respectively. All short-term investment securities are classified into available-for-sale securities. Available-for-sale securities are stated at fair value with unrealized holding gain (loss) on valuation of available-for-sale securities amounting to ₩112,153 thousand and ₩(389,506) thousand in capital adjustments for the years ended December 31, 2005 and 2004, respectively.

(2) Long-term investment securities as of December 31, 2005 and 2004, all of which are classified into available-for-sale, consist of the following:

Korean won (In thousands)

	2005	2004
Available-for-sale:		
Equity securities stated at fair value	₩ 472,615,731	₩ 96,717,355
Equity securities stated at acquisition cost	51,309,967	58,570,359
Debt securities	29,243,753	3,978,422
	₩ 553,169,451	**₩ 159,266,136**

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

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Motor Company	4,311,420	1.97	₩ 291,149,158	₩ 419,501,166
Tong Yang Investment Bank	3,757,865	4.43	99,828,399	37,578,650
Hyundai Corp.	240,674	0.36	11,227,434	1,472,925
Hyundai Elevator Co., Ltd.	154,000	2.16	1,632,339	11,720,085
Kia Motors Corp.	88,245	0.03	2,681,616	2,342,905
			₩ 406,518,946	**₩ 472,615,731**

Equity securities stated at fair value included in long-term investment securities as of December 31, 2004 consist of the following:

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Motor Company	1,255,000	0.58	₩ 48,287,518	₩ 69,652,500
Tong Yang Investment Bank	3,757,865	4.43	99,828,399	11,912,432
Hyundai Corp.	240,674	1.05	11,227,434	827,919
Hyundai Elevator Co., Ltd.	154,009	2.16	1,632,339	6,745,594
Kia Motors Corp.	88,245	0.03	2,681,616	961,870
Koentec Co., Ltd.	379,200	7.58	1,909,389	6,617,040
			₩ 165,566,695	**₩ 96,717,355**

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

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value (*2)
Unlisted equity securities:				
Hynix Semiconductor America Inc.	85,398	1.33	₩ 34,525,619	₩ -
Daehan Oil Pipeline Corp.	1,438,554	6.39	14,511,802	14,511,802
Novelis Korea Ltd.	567	0.43	15,706,990	1,724,710
Yunhap Capital Co., Ltd.	2,000,000	9.99	10,000,000	10,000,000
Bexco, Ltd.	946,000	7.96	9,460,000	9,460,000
Korea Thrunet Co., Ltd.	6,533	0.01	7,947,667	-
Hunelec Engineering & Technologies Ltd. (*1)	-	100.00	26,302	26,302
Others (*1)	-	-	10,230,554	9,951,404
			102,408,934	45,674,218
Other investments:				
Investments in capital (*1)	-	-	5,677,796	5,635,749
			₩ 108,086,730	**₩ 51,309,967**

Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2004 are as follows:

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value (*2)
Unlisted equity securities:				
Hyundai Asan Corp.	894,984	9.16	₩ 44,749,200	₩ 9,761,579
Hynix Semiconductor America Inc.	85,398	1.33	34,525,619	-
Daehan Oil Pipeline Corp.	1,438,554	6.39	14,511,802	14,511,802
Alcan Taihan Aluminum Ltd.	177	0.13	11,538,753	486,849
Yunhap Capital Co., Ltd.	2,000,000	9.99	10,000,000	10,000,000
Bexco, Ltd.	946,000	7.96	9,460,000	9,460,000
Korea Thrunet Co., Ltd.	13,066	0.17	7,947,667	-
Hunelec Engineering & Technologies Ltd. (*1)	-	100.00	26,302	26,302
Others (*1)	-	-	9,194,542	8,915,392
			141,953,885	53,161,924
Other investments:				
Investments in capital (*1)	-	-	5,447,696	5,408,435
			₩ **147,401,581**	₩ **58,570,359**

(*1) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hunelec Engineering & Technologies Ltd. and others were not accounted for using the equity method since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets as of December 31, 2005 and 2004 is less than ₩7,000 million, are not material.
(*2) The book value of unlisted equity security was recorded at their acquisition because the fair value cannot be reliably estimated. However, the equity security impaired at year end was valuated at the net book value of the most available financial statements.

Long-term investment securities of Novelis Korea Ltd., which was renamed from Alcan Taihan Aluminum Ltd., has been determined to be impaired and the impairment loss amounting to ₩2,930,375 thousand is accounted for as non-operating expenses for the year ended December 31, 2005.

(5) Debt securities included in long-term investment securities as of December 31, 2005 are as follows:

Korean won (In thousands)

	Historical cost	Book value
Available-for-sale		
Government and municipal bonds	₩ 5,371,305	₩ 5,283,559
Subordinated bonds	25,000,000	23,960,194
	₩ **30,371,305**	₩ **29,243,753**

(*) The fair value are measured at discounted future cash flow by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a pubic reliable independent credit rating agency.

Maturities of debt securities included in long-term investment securities as of December 31, 2005 are as follows:

Korean won (In thousands)

	Government and municipal bonds	Subordinated bonds	Total
2007.01 ~ 2010.12	₩ 5,270,839	₩ 23,960,194	₩ 29,231,033
2011.01 ~ 2014.12	12,720	-	12,720
	₩ **5,283,559**	₩ **23,960,194**	₩ **29,243,753**

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

Korean won (In thousands)

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

Valuation of available-for-sale securities in capital adjustments, all of which are classified into long-term investment securities stated at fair value as of December 31, 2004, are as follows:

Korean won (In thousands)

Company	Beginning balance	Increase (Decrease)	Impairment loss	Ending balance
Hyundai Motor Company	₩129,539,546	₩(108,174,564)	₩ -	₩ 21,364,982
Chohung Bank	(71,439,614)	71,439,614	-	-
Tong Yang Investment Bank	(37,531,188)	6,125,320	-	(31,405,868)
Hyundai Elevator Co., Ltd.	5,959,853	(846,598)	-	5,113,255
Kia Motors Corp.	(1,719,746)	-	-	(1,719,746)
Hyundai Corp.	-	101,083	-	101,083
Koentec Co., Ltd.	-	4,707,651	-	4,707,651
	24,808,851	(26,647,494)	-	(1,838,643)
Government and municipal bonds	28,022	337,807	-	365,829
Investments in capital	-	(39,260)	-	(39,260)
	₩ **24,836,873**	₩ **(26,348,947)**	₩ **-**	₩ **(1,512,074)**

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

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

Korean won (In thousands)

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

(*1) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method.
(*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit.
(*3) Since the ownership's percentage of the Company and its subsidiary is the largest and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method. In addition, the closing price on the KOSDAQ of Koentec Co., Ltd. is ₩14,850 per share at December 31, 2005.

(2) Equity securities accounted for using the equity method as of December 31, 2004 are as follows:

Korean won (In thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank	81,167,566	33.12	₩ 443,583,902	₩ 408,612,233
Hyundai Finance Corp.	12,350,000	67.49	78,197,738	71,732,244
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,259,700	391,529,980
Changzhou Hyundai Construction Machinery Co., Ltd.	-	60.00	20,215,057	31,805,716
Beijing Hyundai Construction Machinery Co., Ltd.	-	60.00	15,661,020	12,713,797
MOST #3 Venture Investment	130	24.53	13,000,000	6,973,158
MIC99-9 STIC IT Partnership	1,000	25.00	10,000,000	7,573,763
Incheon Airport Energy	3,284,884	31.00	16,424,420	8,206,616
HITC-Hyundai Hightech Investment	1,000	50.00	10,000,000	6,852,929
Hyundai & Terasource D-Convergence Venture Investment	1,000	50.00	10,000,000	5,692,060
MIC 99-1 IT Venture Partnership	1,000	40.82	10,012,055	5,951,967
Hyundai Jiangsu Construction Machinery Co., Ltd.	-	60.00	17,662,068	8,765,148
Hyundai Elprom Trafo Co.	12,155,829	99.09	11,620,593	14,171,732
New Korea Country Club	16,457	20.00	500,000	1,968,313
Hyundai Dongahn Steel	-	54.99	1,231,036	2,445,544
Hyundai Heavy Industries Europe N.V.	10	100.00	35,656,728	11,078,425
Hyundai Vinashin Shipyard (*1)	-	10.00	2,543,678	3,119,739
Yantai Hyundai Moon Heavy Industries Co., Ltd.	-	55.00	5,842,858	5,842,858
Jiangsu Hyundai Nanzi Electric Co., Ltd.	-	80.00	18,256,250	14,639,411
H.C.E U.S.A.	23,900,000	100.00	26,712,810	3,772,978
Vladivostock Business Center (*2)	-	40.00	3,870,566	-
			₩ 955,250,479	**₩ 1,023,448,611**

(*1) Since the ownership's percentage of the Company and its subsidiary exceeded over 20% and the Company is able to exercise significant influence over the operating and financial policies, equity securities are accounted for using the equity method.
(*2) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit.

(3) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences in 2005 are as follows:

Korean won (In thousands)

Company	Beginning balance	Increase (Decrease)	Amortization	Ending balance
Hyundai Oilbank	₩ 1,860,334	₩ -	₩ (620,111)	₩ 1,240,223
Hyundai Samho Heavy Industries Co., Ltd.	17,715,169	-	(7,086,068)	10,629,101
Hyundai Elprom Trafo Co.	(168,466)	-	141,019	(27,447)
Hyundai Vinashin Shipyard	(693,596)	-	198,170	(495,426)
Koentec Co., Ltd.	-	3,457,429	(691,486)	2,765,943
	₩ 18,713,441	**₩ 3,457,429**	**₩(8,058,476)**	**₩ 14,112,394**

(4) The movements of investment securities using the equity method for the year ended December 31, 2005 are as follows:

Korean won (In thousands)

Company	Beginning balance	Acquisition (Disposal)	Gain (Loss)(*1)	Other	Ending balance
Hyundai Oilbank (*2)	₩ 408,612,233	₩ -	₩ 37,981,614	₩(32,535,920)	₩414,057,927
Hyundai Finance Corp.	71,732,244	-	5,906,136	2,080,360	79,718,740
Hyundai Samho Heavy Industries Co., Ltd.	391,529,980	-	51,890,588	55,671,957	499,092,525
Changzhou Hyundai Construction Machinery Co., Ltd.	31,805,716	-	256,353	(1,030,761)	31,031,308
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	12,713,797	-	668,104	(59,876)	13,322,025
MOST #3 Venture Investment	6,973,158	(6,300,407)	6,433,409	-	7,106,160
MIC99-9 STIC IT Partnership	7,573,763	(5,143,987)	1,099,499	(2,920,964)	608,311
Incheon Airport Energy	8,206,616	-	440,896	(75,852)	8,571,660
HITC-Hyundai Hightech Investment	6,852,929	(4,981,748)	879,246	501,466	3,251,893
Hyundai & Terasource D-Convergence Venture Investment	5,692,060	(900,000)	(2,831,492)	360,000	2,320,568
MIC 99-1 IT Venture Partnership	5,951,967	-	(2,820,166)	394,895	3,526,696
Hyundai Jiangsu Construction Machinery Co., Ltd.	8,765,148	-	3,927,900	(66,671)	12,626,377
Hyundai Elprom Trafo Co.	14,171,732	-	3,405,635	(2,678,044)	14,899,323
New Korea Country Club	1,968,313	-	291,493	(50,000)	2,209,806
Hyundai Dongahn Steel	2,445,544	-	(612,773)	(648,399)	1,184,372
Hyundai Heavy Industries Europe N.V.	11,078,425	-	5,552,682	(3,063,432)	13,567,675
Hyundai Vinashin Shipyard	3,119,739	-	1,641,288	(128,457)	4,632,570
Yantai Hyundai Moon Heavy Industries Co., Ltd.	5,842,858	1,176,555	(589,429)	(382,282)	6,047,702
Jiangsu Hyundai Nanzi Electric Co., Ltd.	14,639,411	-	(2,660,065)	4,248,416	16,227,762
H.C.E U.S.A.	3,772,978	-	7,133,488	(722,849)	10,183,617
Vladivostock Business Center (*3)	-	2,021,101	-	(2,021,101)	-
Koentec Co., Ltd.	-	-	(114,272)	6,465,360	6,351,088
	₩1,023,448,611	**₩(14,128,486)**	**₩117,880,134**	**₩23,337,846**	**₩1,150,538,105**

(*1) Gain (loss) on valuation of investment securities is accounted after eliminating unrealized profit arising from the inter-company transactions, which is ₩23,772,966 thousand and ₩20,864,957 thousand as of December 31, 2005 and 2004, respectively.

(*2) The Company recorded as loss on impairment of long-term investment securities amounting to ₩24,525 million the difference between book value and sale price of the shares by exercising IPIC's Call option.

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

Equity securities accounted for using the equity method as of December 31, 2005 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. However, the Company adjusted the material difference between the Company and investees, relating to accounting principle of similar transactions and accounting events. As of December 31, 2005, such adjustments of difference were reflected in the decrease in gain on valuation in current operations by ₩2,056 million, the decrease in retained earnings by ₩2,570 million, the increase in capital adjustments by ₩17,509 million, and the increase in deferred income tax liabilities by 6,641 million.

(5) The gain (loss) on valuation of investment securities accounted for using the equity method is ₩132,215,981 thousand, including the realization from ₩4,707,651 thousand gain on long-term investment securities in capital adjustments, and ₩(9,628,196) thousand for the year ended December 31, 2005. In addition, the effect of the equity method of accounting on the ending balance of capital adjustments was ₩52,360,260 thousand as of December 31, 2005, including the increase of ₩26,683,514 thousand for the year ended December 31, 2005.

(6) Financial information of equity securities accounted for using the equity method as of and for the year ended December 31, 2005 is as follows:

Korean won (In thousands)

Company	Assets	Liabilities	Sales	Net income(loss)
Hyundai Oilbank	₩ 4,409,010	₩ 2,889,296	₩ 7,926,845	₩ 277,441
Hyundai Finance Corp.	120,108	1,982	10,563	8,018
Hyundai Samho Heavy Industries Co., Ltd.	2,943,118	2,449,069	1,908,766	64,156
Changzhou Hyundai Construction Machinery Co., Ltd.	88,794	35,858	33,324	(647)
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	107,766	83,938	132,749	1,664
MOST #3 Venture Investment	31,314	2,342	31,188	26,501
MIC99-9 STIC IT Partnership	3,012	579	13,197	6,410
Incheon Airport Energy	164,721	137,071	59,364	1,422
HITC-Hyundai Hightech Investment	10,489	3,985	2,163	1,908
Hyundai & Terasource D-Convergence Venture Investment	4,755	114	253	316
MIC 99-1 IT Venture Partnership	8,640	-	5	(4,351)
Hyundai Jiangsu Construction Machinery Co., Ltd.	179,104	146,053	193,335	5,804
Hyundai Elprom Trafo Co.	19,118	4,054	21,534	3,295
New Korea Country Club	15,810	4,208	12,032	1,457
Hyundai Dongahn Steel	11,046	8,892	6,297	(1,114)
Hyundai Heavy Industries Europe N.V.	75,616	53,318	203,107	9,201
Hyundai Vinashin Shipyard	171,482	120,202	113,141	14,431
Yantai Hyundai Moon Heavy Industries Co., Ltd.	16,985	5,808	5,732	(1,089)
Jiangsu Hyundai Nanzi Electric Co., Ltd.	48,749	28,240	14,629	(3,129)
H.C.E U.S.A	64,760	48,623	162,739	5,760
Vladivostock Business Center	21,098	151,828	8,059	(1,123)
Koentec Co., Ltd.	62,200	20,454	31,493	7,602

7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005	2004
Buildings and structures	₩ 2,275,696,557	₩ 2,186,748,996
Machinery and equipment	1,951,832,282	1,884,125,436
Ships	181,025,956	177,581,214
Vehicles	23,996,252	23,513,947
Tools, furniture and fixtures	848,323,359	800,563,073
	5,280,874,406	5,072,532,666
Less: accumulated depreciation	(2,445,048,068)	(2,152,147,108)
	2,835,826,338	2,920,385,558
Land	1,318,868,326	1,278,859,636
Construction-in-progress	131,848,477	127,386,784
	₩ 4,286,543,141	**₩ 4,326,631,978**

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

Korean won (In thousands)

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

The changes in property, plant and equipment for the year ended December 31, 2004 are as follows:

Korean won (In thousands)

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of year	₩ 1,292,195,299	₩1,545,392,434	₩ 599,638,024	₩1,784,140,319	₩ 982,998,167	₩6,204,364,243
Acquisition and other	12,531,422	33,057,345	18,546,030	114,794,180	175,012,214	353,941,191
Disposal	(25,867,085)	(9,416,554)	(468,283)	(14,809,063)	(28,965,363)	(79,526,348)
End of year	₩ 1,278,859,636	₩1,569,033,225	₩ 617,715,771	₩1,884,125,436	₩1,129,045,018	₩6,478,779,086
Depreciation	₩ -	₩ 39,325,726	₩ 15,418,093	₩ 182,156,652	₩ 85,868,961	₩ 322,769,432
Accumulated depreciation	₩ -	₩ 244,185,817	₩ 109,423,861	₩1,092,626,895	₩ 705,910,535	₩2,152,147,108

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩1,993,387 million as of December 31, 2005. The Company maintains insurance coverage against fire and other casualty losses of up to ₩4,850,076 million for ships and sea structures under construction and the insurance proceed of ₩3,255,772 million is pledged as collateral for loans from Export-Import Bank of Korea and other banks as of December 31, 2005 (See Note 9).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩1,862,457 million as of December 31, 2005. The Company also maintains insurance on cargo against damage and claims losses of up to ₩5,571,500 million for products being exported and imported as of December 31, 2005.

As of December 31, 2005 and 2004, the value of land owned by the Company is ₩1,059,173 million and ₩1,004,538 million, respectively, as announced by the Korean government.

8.INTANGIBLE ASSETS:

Intangible assets as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005	2004
Development costs	₩ 164,889,432	₩ 132,691,315
Usage right for donated properties	26,252,981	28,292,264
	₩ 191,142,413	**₩ 160,983,579**

Intangible assets as of December 31, 2005 and 2004 are summarized as follows:

Korean won (In thousands)

	Development Cost		Usage right for donated properties	
	2005	2004	2005	2004
Beginning balance	₩132,691,315	₩ 115,486,197	₩28,292,264	₩ 30,331,548
Capitalized	62,550,859	57,006,275	-	-
Amortization	(30,352,742)	(32,959,055)	(2,039,283)	(2,039,284)
Disposed	-	(6,842,102)	-	-
Ending balance	**₩164,889,432**	**₩ 132,691,315**	**₩26,252,981**	**₩ 28,292,264**

Research costs amounting to ₩13,418,863 thousand and ₩16,021,643 thousand, and ordinary development costs amounting to ₩52,589,859 thousand and ₩38,693,631 thousand are included in selling and administrative expenses for the years ended December 31, 2005 and 2004, respectively. The amortized development costs of ₩30,352,742 thousand and ₩32,959,055 thousand are included in the cost of sales and selling and administration expenses for the years ended December 31, 2005 and 2004, respectively.

9. DEBENTURES AND LONG-TERM BORROWINGS:

Long-term borrowings as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	Interest rate as of December 31, 2005 (%)	2005	2004
Non-guaranteed debentures	6ML+1.9 ~ 7.01	₩ 202,600,000	₩ 661,570,000
Foreign currency loans	See Detail	745,278	1,151,908
		203,345,278	662,721,908
Less: Discounts of debentures		(1,122,534)	-
Current maturities		(372,639)	(661,953,970)
		₩ 201,850,105	**₩ 767,938**

Debentures comprise of publicly issued debentures of nil and ₩505,000 million, and the private debentures of ₩202,600 million and ₩156,570 million as of December 31, 2005 and 2004, respectively. The Company made a redemption of debentures at maturity amounting to ₩661,570 million for the year ended December 31, 2005.

Foreign currency loans as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	Interest rate as of December 31, 2005 (%)	2005	2004
Facility loans from EXIM bank of Korea	6ML+0.675	₩ 745,278	₩ 1,151,908
Less: current maturities		(372,639)	(383,970)
		₩ 372,639	**₩ 767,938**

The maturities of long-term debt as of December 31, 2005, before discounts, are as follows:

Korean won (In thousands)

	Debentures	Foreign currency loans	Total
2007. 1~2007. 12	₩ -	₩ 372,639	₩ 372,639
2008. 1~2008. 12	202,600,000	-	202,600,000
	₩ 202,600,000	**₩ 372,639**	**₩ 202,972,639**

10. ACCRUED SEVERANCE BENEFITS:

Accrued severance benefits as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005	2004
Beginning balance	₩ 1,005,940,296	₩ 972,164,618
Severance payment	(154,672,246)	(124,481,685)
Provisions	167,567,742	158,257,363
	1,018,835,792	1,005,940,296
Less: Severance insurance	(822,731,766)	(786,912,120)
National pension	(44,853,539)	(51,333,910)
Ending balance	**₩ 151,250,487**	**₩ 167,694,266**

11. COMMITMENTS AND CONTINGENCIES:

(1) The Company has entered into bank overdraft agreements with 8 banks amounting to ₩231,000 million as of December 31, 2005.

(2) As of December 31, 2005, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports such as letter of credit including usance L/C, totaling USD 1,450,215 thousand.

(3) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 10 blank checks / notes as of December 31, 2005.

(4) The outstanding balance of the note receivables, guaranteed by the importers' Government or others, sold to financial institutions with recourse is USD50,435 thousand, equivalent to ₩51,090 million, as of December 31, 2005. Also, the Company's outstanding balance of trade receivables sold with recourse amounts to ₩2,886 million as of December 31, 2005.

(5) As of December 31, 2005, the Company is contingently liable for loan guarantees of its foreign subsidiaries and affiliated companies, amounting to USD167,068 thousand and ₩18,850 million. The Company has provided certain performance guarantees amounting to USD 1,657,778 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") for the construction of 43 ships (Contract amount: USD3,294,278 thousand).

(6) In connection with the Company's loans and contract performance guarantees, the Company has also been provided with guarantees up to ₩1,779,577 million and USD8,051,821 thousand by various banking facilities. Also, the Company entered into the contracts on the transfer of a real right with buyers.

(7) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales and the payment of imported raw-materials, the Company has entered into currency forward contracts with various banks including Chohung Bank. As of December 31, 2005, the valuation and gain (loss) on transaction of the forward contracts is as follows (Won in millions, USD in thousands and EUR in thousands):

Purpose	Contract amount	Sales	Gain(loss)	Capital adjustment
Hedging	USD 6,781,385			
	EUR 184,918	₩ 212,815	₩ 17,558	₩ 167,812
Trading	USD 314,441	-	(65,784)	-
Total	USD 7,095,826			
	EUR 184,918	**₩ 212,815**	**₩ (48,226)**	**₩ 167,812**

As of December 31, 2005, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩121,664 million (net of deferred income tax adjustment of ₩46,148 million) as gain on valuation of derivative in capital adjustments. The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 36 months, and the amount among gain on valuation of foreign exchange contract that is expected to be realized as addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2005 is ₩78,594 million. The valuation of the ineffective portion of the hedge and the valuation of other derivatives to which cash flow hedge accounting is not applied, are reflected in current operations.

Such contracts as described above that were incurred for the year ended December 31, 2005 resulted in gain (loss) on settlement of derivatives amounting to ₩21,872 million and ₩(55,996) million and gain (loss) on valuation of unsettled derivatives amounting to ₩13,718 million and ₩(27,819) million in non-operating income (expenses). As of December 31, 2005, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as current assets and liabilities amounting to ₩245,466 million and ₩25,440 million, respectively.

Besides the above financial derivative, the Company has entered into interest swap contract with CSFB to hedge the exposure to interest rate risk of floating rate debenture amounting to USD200,000 thousands (variable interest rate : 6M Libor, fixed interest rate : 4.50%, maturity date : September 22, 2008). As of December 31, 2005, the Company recorded the present value of the forecasted cash flow amounting ₩1,302 million and ₩423 million as derivative assets and derivative liabilities, respectively. Also, the Company accounted for the ineffective portion of the hedge amounting to ₩(235) million as non-operating expenses, the effective portion of the hedge amounting to ₩808 million (net of deferred income tax adjustment of ₩306 million) as gain on valuation of derivative in capital adjustments as of December 31, 2005.

(8) The Company has entered into seven operating lease agreements with Chohung Bank and three other financial institutions. Those agreements can be extended by a mutual agreement among the parties prior to the expiration of the relevant contracts.

Future anticipated lease payments under operating lease agreements as of December 31, 2005 are as follows (Korean won in thousands):

	Korean won		Foreign currency		Total	
2006.1.1~2006. 10.19	₩	5,559,636	USD	5,724,261	₩	11,358,313

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

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

12. LITIGATIONS:

(1) A penalty amounting to ₩19,852 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies, relating to the transactions from 1998 to 2000. However, the Company has filed an administrative appeal and the case is pending in the Supreme Court and the High Court as of December 31, 2005. Some of the above pending litigations were finalized with the Supreme Court's judgment in favor of the Company on April 9, 2004. As a result, the Korea Fair Trade Commission refunded ₩2,298 million.

Also, the Company has filed a protest against a penalty amounting to ₩19,415 million that had been imposed on the Company by the Korean Fair Trade Commission, relating to the construction equipment sales. As a result, the penalty decreased by ₩4,186 million pursuant to the resolution of the Korea Fair Trade Commission; however, the Company is considering filing an administrative appeal.

In addition, the Company has been brought into 14 legal actions by its employees with claims amounting to ₩786 million for damages from industrial disaster, all of which are pending as of December 31, 2005.

(2) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") for USD13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. (HSC) on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million.

However, the Company didn't accept the court's decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal to a high court for claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advanced payments and reimbursable expense for those companies that were not covered in the litigation above. The Company has provided an allowance for doubtful accounts on the above amount as of December 31, 2005. The management and legal adviser of the Company predict that the case will be decided in the Company's favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

(3) Pursuant to the restructuring of financial institutions, Chohung Bank, Kangwon Bank and Hyundai Investment Bank ("HIB"), a former subsidiary of the Company, were merged in September 1999. A special tax for rural development amounting to ₩43,700 million and a special tax for fictitious dividend income amounting to ₩26,073 million were imposed on the liquidation income of HIB, which was paid by the Company.

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

(4) On February 17, 2000, the Company has been brought into legal action by Hee-in Kang and 33 individuals with claim for legal allowances and additional severance benefits payable amounting to ₩1,922 million, and entered into additional collective agreement with labor union for these litigations in 2002. The Company recorded such additional payables as long-term accrued expenses based on the results of first trial and additional collective agreement. However, based on the result of the second trial the Company recorded non-operating income amounting to ₩127,650 million, which had been recorded as long-term accrued expenses based on the result of the first trial on claim for legal allowances and additional severance benefits. In addition, on February 23, 2006, Supreme Court of Korea ruled in favor of the Company.

(5) The Company has been brought into legal action by Asan dredging S.A. with claim for advanced payment of dredger amounting to ₩23,312 million on September 4, 2003 and by TATA Daewoo Commercial Vehicles Co., Ltd. with claim for performance of accepting goods and payment amounting to ₩4,978 million on June 24, 2004, which are pending as of December 31, 2005.

13. CAPITAL SURPLUS:

Capital surplus as of December 31, 2005 and 2004 is as follows:

Korean won (In thousands)

	2005	2004
Paid-in capital in excess of par value	₩ 843,324,390	₩ 843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	65,334,216	65,334,216
	₩ 2,771,383,687	**₩ 2,771,383,687**

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

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

14. RETAINED EARNINGS:

Retained earnings as of December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005	2004
Appropriated:		
Legal reserve (A & C)	₩ 139,085,925	₩ 131,024,243
Reserve for business rationalization (B & C)	87,276,798	87,276,798
Reserve for research and human development (D)	82,023,970	141,932,283
Other voluntary reserves	184,424,850	182,450,720
	₩ 492,811,543	**₩ 542,684,044**

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

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

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

(D) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make a reserve for overseas market development, a reserve for export losses and a reserve for research and human development by appropriating retained earnings. These reserves are voluntary reserves, which are available for the payment of dividends when these reserves are properly reversed.

15. CAPITAL ADJUSTMENTS:

As of December 31, 2005 and 2004, capital adjustments are as follows:

Korean won (In thousands)

	2005	2004
Gain on valuation of short-term and long-term investment securities (Note 5)	₩ 95,814,155	₩ (1,901,580)
Gain on valuation of investment securities accounted for using the equity method (Note 6)	82,766,836	40,880,035
Loss on valuation of investment securities accounted for using the equity method (Note 6)	(15,203,288)	-
Gain on valuation of financial derivatives (Note 11)	122,471,810	208,564,969
Treasury stock	(351,821,818)	(351,821,818)
	₩ (65,972,305)	**₩ (104,278,394)**

The Company has been operating special money in trust for treasury stock amounting to ₩705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed 11,631,580 shares of treasury stock in October 2003. The acquisition cost of treasury stock amounting to ₩351,821,818 thousand (11,506,544 shares of treasury stock) was recorded as capital adjustments as of December 31, 2005.

16. DIVIDENDS:

(1) Proposed dividends for 2005 and 2004 are summarized below.

Korean won (In thousands)

Year	Description	Number of shares (*)	Par value	Dividend rate	Cash dividend	Net income	Dividend to net income
2005	Common stock	64,493,456	₩ 5,000	30 %	₩ 96,740,184	₩ 183,314,079	52.77%
2004	Common stock	64,493,456	₩ 5,000	25 %	₩ 80,616,820	₩ 36,719,496	219.55%

(*) Net of 11,506,544 shares of treasury stock as of December 31, 2005 and 2004

(2) Yields to market price of proposed dividend for 2005 and 2004 are as follows:

Korean won (In thousands)

Year	Description	Dividend per share	Closing price	Yield to market price
2005	Common stock	₩ 1,500	₩ 76,900	2.0%
2004	Common stock	₩ 1,250	₩ 34,450	3.6%

17. SALES AND COST OF SALES:

(1) Sales and cost of sales by major industry segment for the years ended December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005		2004	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	₩ 5,322,445,379	₩ 5,113,556,902	₩ 4,231,363,655	₩ 4,085,224,015
Industrial Plant & Engineering	619,047,513	637,069,605	614,743,772	637,897,931
Offshore & Engineering	1,475,644,113	1,404,740,329	1,511,491,545	1,439,919,116
Engine & Machinery	954,214,199	819,731,126	750,864,007	648,157,588
Construction Equipment	1,051,400,680	858,741,496	1,033,504,083	856,610,672
Electro Electric Systems	810,391,377	687,426,841	824,480,185	758,304,433
Others	121,278,625	117,723,242	118,036,908	114,388,621
	₩ 10,354,421,886	**₩ 9,638,989,541**	**₩ 9,084,484,155**	**₩ 8,540,502,376**

(2) The Company's outstanding contracts as of December 31, 2005 are summarized as follows:

Korean won (In thousands)

	Shipbuilding	Others	Total
Beginning of year	₩ 14,325,196	₩ 5,008,621	₩ 19,333,817
Increase during the year	8,272,133	7,909,149	16,181,282
Recognized as revenue in current operations	(5,322,445)	(5,031,977)	(10,354,422)
End of year	₩ **17,274,884**	₩ **7,885,793**	₩ **25,160,677**

As of December 31, 2005, in connection with construction contracts, the Company has provided certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 11).

(3) As of December 31, 2005, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

Korean won (In millions)

	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	₩ 7,301,657	₩ 511,095	₩4,804,414	₩ 920,937	₩ 14,987	₩ 905,950
Industrial Plant & Engineering	2,001,688	88,619	124,155	208,026	9,491	198,535
Offshore & Engineering	4,073,869	396,442	574,433	366,003	111,093	254,910
Engine & Machinery	1,265,071	266,428	178,933	171,336	46,266	125,070
Electro Electric Systems	829,541	194,566	19,076	230,313	155,104	75,209
Construction Equipment (*)	-	-	252	104,264	104,264	-
Others (*)	-	-	341	327,592	327,592	-
	₩15,471,826	**₩1,457,150**	**₩5,701,604**	**₩ 2,328471**	**₩ 768,797**	**₩ 1,559,674**

(*) Industry segment recognized revenues by delivery basis.

18. INCOME TAX EXPENSE:

(1) Income tax expense for the years ended December 31, 2005 and 2004 is as follows:

Korean won (In thousands)

	2005	2004
Current income tax	₩ 21,700,724	₩ 12,769,738
Deferred income taxes	163,850,065	3,532,277
Deferred income taxes directly adjusted in equity	(111,102,901)	-
Income tax adjusted in unappropriated retained earnings (*)	-	2,524,363
Income tax expense	74,447,888	18,826,378
Income before income tax	257,761,967	55,545,874
Effective income tax rate	28.9%	33.9%

(*) Deferred income taxes charged to retained earnings due to changes in retained earnings resulting from using the equity method and others

(2) For the years ended December 31, 2005 and 2004, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

Korean won (In thousands)

	2005	2004
Income before income tax	₩ 257,761,967	₩ 55,545,874
Temporary differences	(185,830,104)	8,646,724
Non-temporary differences	24,559,118	3,384,857
Taxable income	₩ **96,490,981**	₩ **67,577,455**

(3) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2005 and 2004 are summarized as follows:

Korean won (In thousands)

Description	2005 Beginning	2005 Ending	2004 Beginning	2004 Ending
Equity securities accounted for using the equity method (*1 & *2)	₩ (15,132,747)	₩ (183,236,091)	₩ 145,546,693	₩ (15,132,747)
Loss on valuation of investment securities	98,642,333	93,502,002	95,407,143	98,642,333
Reserve for technology development	(82,023,970)	(61,523,970)	(141,932,283)	(82,023,970)
Provision for bad debt expense (*2)	217,762,592	152,471,780	173,884,070	217,762,592
Accrued income	(1,619,938)	(2,364,562)	(1,032,796)	(1,619,938)
Loss on valuation of receivables	859,903	859,903	859,903	859,903
Loss on valuation of short-term investment securities and others	415,726	279,337	45,395,375	415,726
Gain on valuation of short-term investment securities and others	(170,993)	(90,324)	(2,336,297)	(170,993)
Foreign exchange forward contracts (*1)	(35,064,598)	(203,696,067)	-	(35,064,598)
Other (*1)	389,705,558	186,612,895	248,935,334	389,705,558
	₩ **573,373,866**	₩ **(17,185,097)**	₩ **564,727,142**	₩ **573,373,866**
Tax rate (*3)		27.5%		29.7%(27.5%)
Cumulative tax effects		(4,725,902)		157,677,813
Tax credit carryforward		152,225		1,598,575
Deferred income tax assets (liabilities), end of period		(4,573,677)		159,276,388
Deferred income tax assets, beginning of period		159,276,388		162,808,665
Changes in deferred income taxes on temporary differences		₩ **(163,850,065)**		₩ **(3,532,277)**

(*1) In accordance with SKAS No.16, the temporary differences, which were directly adjusted in equity, are included.
(*2) The temporary differences amounting to ₩(111,956) million and ₩104,180 million, which were not recognized as deferred income tax assets and liabilities, respectively, are included.
(*3) In accordance with the revision of Corporate Income Tax Law of Korea, starting from 2005, the Company's statutory income tax rate is changed to 27.5 percent.

The Company did not recognize deferred income tax assets related to gain of revaluation of land and others since the probability of its realization in the near future is uncertain.

When each temporary difference reverses in the future, it will result in a decrease (increase) of taxable income and income tax payable. Deferred income tax assets are recognized only when it is probable the tax benefits from temporary differences will be realized in the future and calculated using the expected corporate tax rate in the period when the tax benefits will be realized.

(4) Tax effects of temporary differences, which were directly adjusted in equity, are composed of ₩(36,343,300) thousand occurred from gain on valuation of available-for-sale securities, ₩(31,394,317) thousand occurred from changes in capital adjustments of investment securities accounted for using the equity method and ₩(46,454,825) thousand occurred from gain on valuation of foreign exchange forward contracts.

(5) Deferred income tax assets as of December 31, 2005 are as follows:

Korean won (In thousands)

	Current	Non-current	Total
Accumulated of temporary difference	₩ 19,352,919	₩ (36,538,016)	₩ (17,185,097)
Tax rate	27.5%	27.5%	27.5%
Tax effects	5,322,053	(10,047,955)	(4,725,902)
Tax credit carryforward	152,225	-	152,225
Deferred income tax assets (liabilities)	₩ **5,474,278**	₩ **(10,047,955)**	₩ **(4,573,677)**

As of December31, 2005, the Company believes the deferred income tax assets of ₩5,474,278 thousand can be realized in the future. Additionally, the Company believes average ordinary income in the coming years will exceed the amount of deferred taxes to be realized every year based on its assessment.

19. INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the years ended December 31, 2005 and 2004. Basic ordinary income per share is computed by dividing ordinary income, after adjustment of extraordinary gains or losses and related income tax by the weighted average number of common shares outstanding for the years ended December 31, 2005 and 2004.

Basic income per share and ordinary income per share for the years ended December 31, 2005 and 2004 are calculated as follows:

Korean won (In thousands)

	2005	2004
Net income / ordinary income (In thousands)	₩ 183,314,079	₩ 36,719,496
Weighted average number of outstanding common shares (In thousands)	64,493	64,493
Income per share and ordinary income per share (In Korean won)	₩ **2,842**	₩ **569**

20. TRANSACTIONS WITH RELATED PARTIES:

Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai Group for the year ended and as of December 31, 2005 are as follows:

Korean won (In thousands)

Related Party	Sales	Purchases	Receivables	Payables
Hyundai Samho Heavy Industries Co., Ltd.	₩ 319,463,725	₩ 56,139,928	₩ 111,939,003	₩ 4,440,146
Hyundai Mipo Dockyard Co., Ltd.	222,523,721	5,513,048	82,567,141	604,597
Hyundai Motor Company	41,073,202	11,367,156	15,998,802	2,338,048
Hyundai Corp.	16,362,763	4,131,147	15,820,526	1,809,459
Hyundai Oilbank	1,431,186	51,954,108	198,133	17,288,747
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	65,104,095	1,136,149	35,706,220	90,965
Hyundai Heavy Industries Europe N.V.	184,283,458	2,516,539	5,852,490	948
H.C.E U.S.A.	154,011,147	2,072,075	11,438,315	1,314
Hyundai Jiangsu Construction Machinery Co., Ltd.	70,268,061	6,236,417	12,330,448	64,097
	₩ **1,074,521,358**	₩ **141,066,567**	₩ **291,851,078**	₩ **26,638,321**

In addition, the Company has entered into rental agreements (deposits received of ₩148 million and deposits paid of ₩1,632 million) with Hyundai Motor Company and other affiliated companies as of December 31, 2005. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 11).

21. ASSETS AND LIABILITES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 are as follows:

		Foreign currencies		Korean won (In thousands)	
Account	**Currency**	**2005**	**2004**	**2005**	**2004**
Assets:					
Cash and cash equivalents	USD	117,587	69,746	₩ 119,115,407	₩ 72,800,928
	EUR	-	15,763	-	22,429,585
	Others				644,820
Trade accounts and notes receivable	USD	315,500	349,196	319,601,735	364,490,555
	EUR	11,895	8,214	14,275,293	11,687,976
	Others			11,955,263	15,809,135
Accounts receivable-other	USD	2,549	24,567	2,582,518	25,642,778
	EUR	308	168	369,632	239,574
	Others			2,327,190	1,635,573
Long-term trade accounts and notes receivable	USD	195,938	238,267	198,485,067	248,703,396
Long-term financial instruments & others	USD	20,323	12,821	20,587,429	13,382,423
	EUR	114	58	136,391	83,082
	Others			8,153,599	13,636,307
				₩ 697,589,524	**₩ 791,186,132**
Liabilities:					
Trade accounts and notes payable	USD	200,451	13,222	₩ 203,056,655	₩ 13,801,521
	EUR	22,759	1,516	27,314,057	2,157,424
	Others			15,512,073	2,284,760
Current maturities of long-term borrowings	USD	368	150,368	372,639	156,953,969
Debentures	USD	200,000	-	202,600,000	-
Long-term borrowings	USD	368	736	372,639	767,939
Accounts payable-other & others	USD	186,419	9,152	188,842,232	9,553,333
	EUR	8,187	7,764	9,825,881	11,047,550
	Others			13,186,713	6,054,910
				₩ 661,082,889	**₩ 202,621,406**

22. FINANCIAL INFORMATION BY INDUSTRY SEGMENT:

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

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

Korean won (In thousands)

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

(2) For the year ended and as of December 31, 2004

Korean won (In thousands)

	Shipbuilding	**Industrial Plant & Engineering**	**Offshore & Engineering**	**Engine & Machinery**	**Construction Equipment**	**Electro Electric Systems**	**Others**
Sales	₩ 4,231,363,655	₩ 614,743,772	₩ 1,511,491,545	₩ 750,864,007	₩1,033,504,083	₩ 824,480,185	₩ 118,036,908
Operating income (loss)	43,691,162	(98,838,504)	30,636,599	81,131,651	60,250,017	27,438,902	(242,370,611)
Tangible & intangible assets	1,279,958,157	96,933,238	345,139,055	484,807,413	116,633,512	258,849,207	1,905,294,975
Depreciation	(116,387,549)	(12,841,432)	(36,032,517)	(62,301,156)	(11,115,517)	(38,824,870)	(45,266,391)

23. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

	2005	2004
Wages	₩ 201,297,168	₩ 202,802,126
Provision for severance benefits	21,350,051	22,464,634
Employee welfare	52,599,829	56,924,993
Advertisement	10,141,454	11,316,173
Ordinary development expenses	52,589,859	38,693,631
Provision for bad debt	37,176,985	86,434,640
Depreciation and amortization	24,625,568	10,587,020
Service charges	45,808,075	45,109,087
Transportation	42,496,251	46,620,531
Sales commission	21,090,111	16,889,429
After-sales service expenses	38,310,524	34,653,978
Others	77,098,164	69,546,321
	₩ 624,584,039	**₩ 642,042,563**

24. FINANCIAL PERFORMANCE IN THE LAST INTERIM PERIOD:

The financial performance for the three months ended December 31, 2005 and 2004 is summarized as follows (In thousands, except for share amounts):

Korean won

	2005	2004
Sales	₩2,831,415,531	₩2,464,563,666
Net income (loss)	69,585,481	(3,864,119)
Net income (loss) per share	1,079	(60)

25. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the years ended December 31, 2005 and 2004 are as follows:

Korean won (In thousands)

Name of account	2005	2004
Transfer to short-term investment securities from short-term financial instruments	₩ 20,000,000	₩ -
Transfer to trade accounts and notes receivable from long-term trade accounts and notes receivable	42,879,696	44,183,442
Transfer to investment securities accounted for using the equity method from long-term investment securities	6,617,040	2,543,678
Gain on valuation of investment securities (capital adjustments)	97,715,735	26,750,248
Valuation of investment securities accounted for using the equity method (retained earnings)	-	8,499,537
Valuation of investment securities accounted for using the equity method (capital adjustments)	26,683,514	28,620,185
Transfer to property, plant and equipment from construction-in-progress	194,621,433	176,777,867
Gain on valuation of foreign exchange forward contacts (capital adjustments)	91,172,734	341,028,210
Transfer to current maturities of debentures from debentures	-	661,570,000
Transfer to short-term investment securities from long-term investment securities	760,848	24,339,359
Transfer to current maturities of long-term borrowings from foreign currency long-term borrowings	372,639	383,969

26. APPROVAL OF FINANCIAL STATEMENTS:

The 2005 financial statements to be submitted to the annual shareholders' meeting are subject to approval by the Board of Directors, which is tabled at their meeting on February 24, 2006.

Internal Accounting Control System Review Report

English Translation of a Report Originally Issued in Korean

To the Chief Executive Officer of
Hyundai Heavy Industries Co., Ltd.

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in existence as of December 31, 2005. We did not review the Company's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

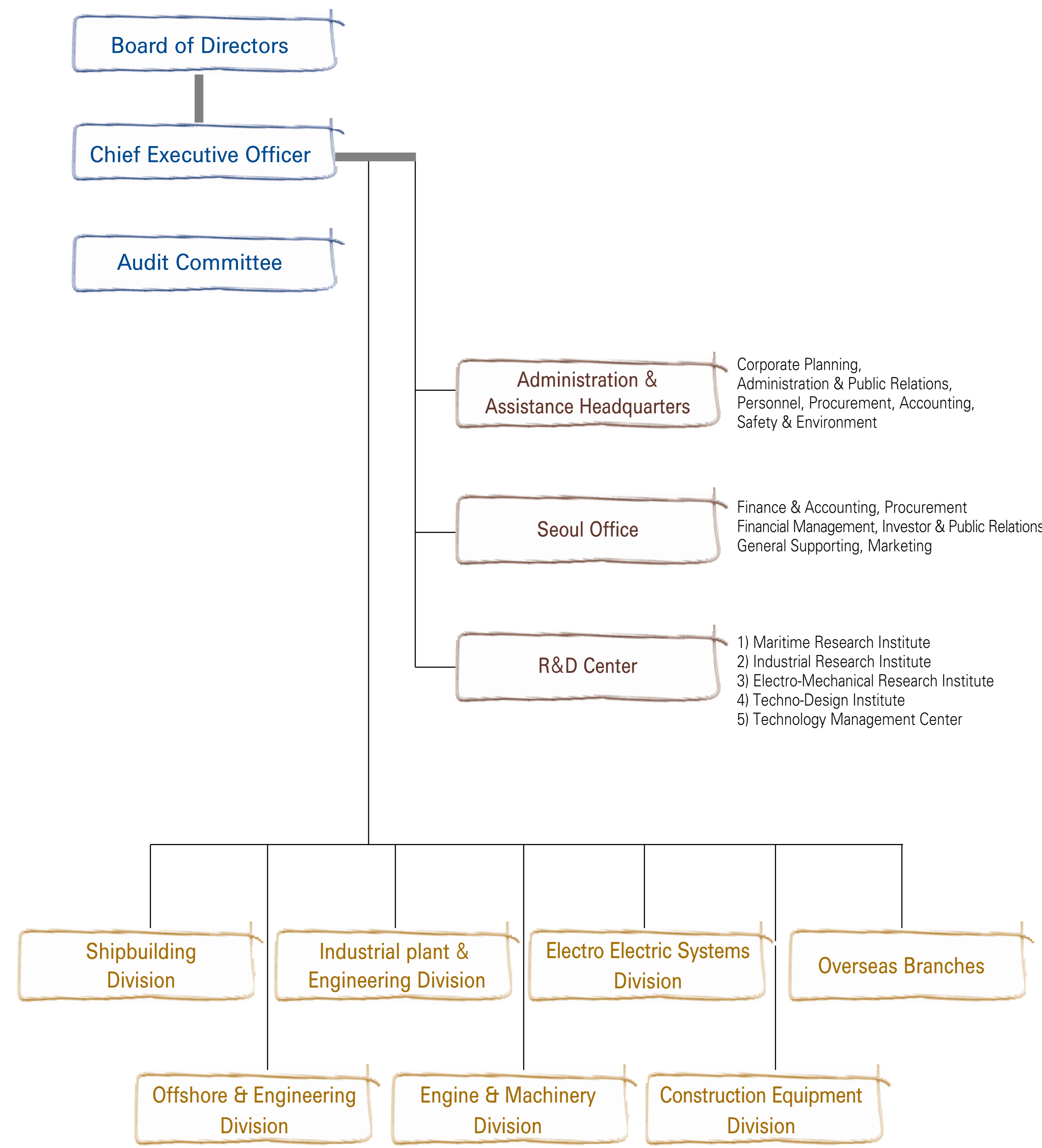
Deloitte HanaAnjin LLC

February 11, 2006

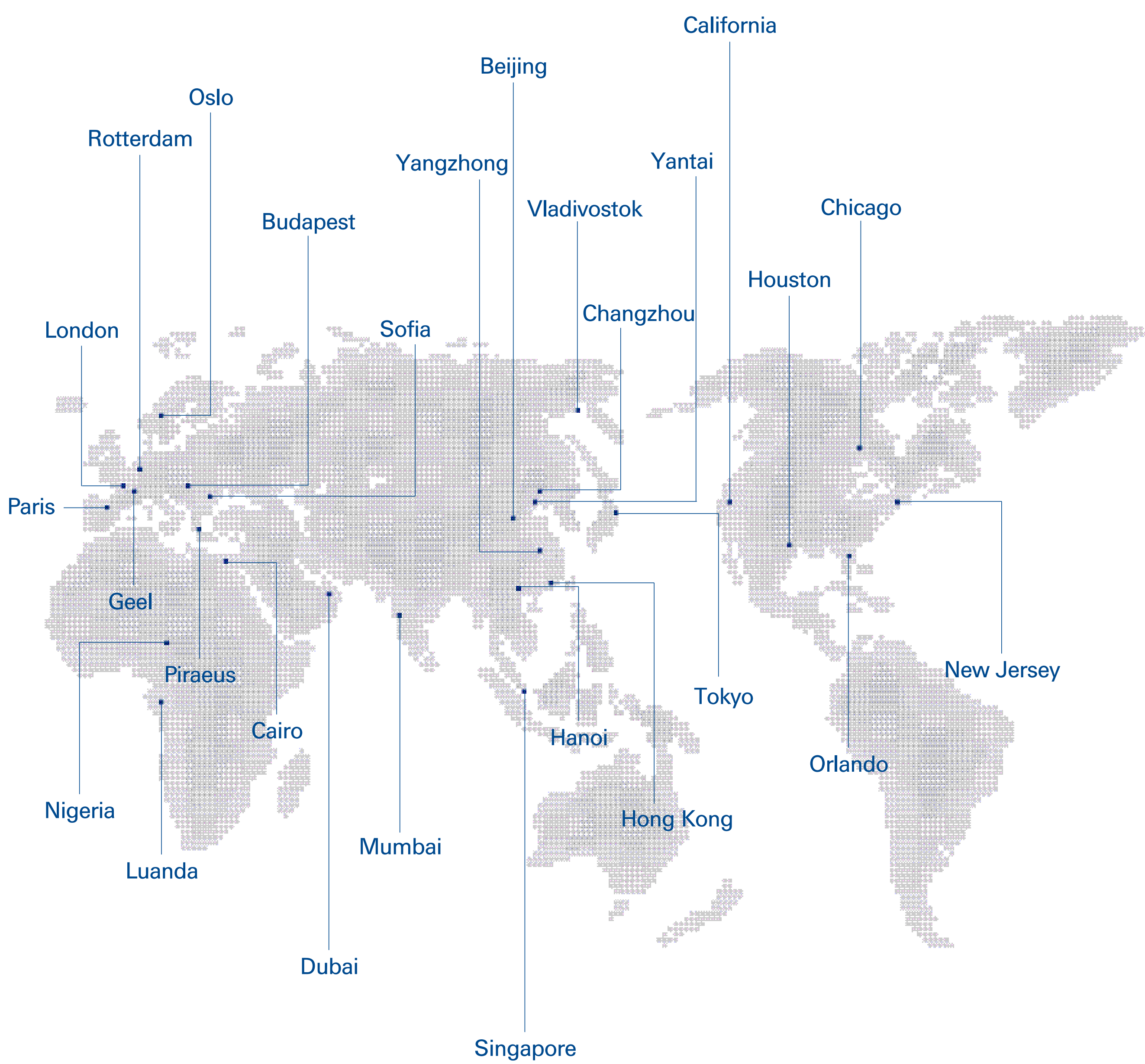
Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2005 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.

Organization



Overseas Network



OFFICES >>

EUROPE

LONDON
2ND FLOOR,THE TRIANGLE
5-17 HAMMERSMITH GROVE
LONDON W6 0LG, UK
TEL : 44-20-8741-0501
FAX : 44-20-8741-5620

ROTTERDAM
FOLKERT ELSINGASTRAAT 7
3067 NW, ROTTERDAM
THE NETHERLANDS
TEL : 31-10-212-1567
FAX : 31-10-212-5134

PIRAEUS
5-7, KANARI STREET
185 37 PIRAEUS, GREECE
TEL : 30-210-428-2992
FAX : 30-210-428-2144

OSLO
RAADHUSGT. 20, 0151
OSLO, NORWAY
TEL : 47-2241-0920
FAX : 47-2242-6671

AFRICA

CAIRO
APARTMENT NO.503, 5TH FL.
BUILDING NO.7, Block 2
9TH DIVISION. EL-NASR ROAD
NEW MAADI, CAIRO, EGYPT
TEL : 20-2-520-0148
FAX : 20-2-754-7528

LUANDA
RUA LUCRECIA PAIM, NO.28/30
LUANDA, ANGOLA
TEL : 244-222-370669
FAX : 244-222-399667

MIDDLE EAST

DUBAI
ROOM 6206, AL BUSTAN CENTRE
AL QUSAIS P.O. BOX 252458
DUBAI, U.A.E.
TEL : 971-4-263-9071
FAX : 971-4-263-9072

ASIA

BEIJING
ROOM 506, LANDMARK BLDG.
8 NORTH DONGSANHUAN ROAD
CHAOYANG DISTRICT, BEIJING
100004, CHINA
TEL : 86-10-6590-0677
FAX : 86-10-6590-6532

SINGAPORE
7 TEMASEK BOULEVARD, #41-02
SUNTEC TOWER ONE
038987, SINGAPORE
TEL : 65-6337-2366
FAX : 65-6337-8966

TOKYO
8TH FLOOR YURAKUCHO
DENKI BLDG.
1-7-1 YURAKU-CHO, CHIYODA-KU
TOKYO 100-0006, JAPAN
TEL : 81-3-3211-4799
FAX : 81-3-3211-2093

HONG KONG
SUITES 3202, GREAT EAGLE CENTRE
23 HARBOUR ROAD
WANCHAI, HONG KONG
TEL : 852-3106-5600
FAX : 852-3106-5602

MUMBAI
301, 3RD FL., SARJAN PLAZA
100, ANNIE BESANT ROAD, WORLI
MUMBAI 400 018, INDIA
TEL : 91-22-2498-6023
FAX : 91-22-2498-6020

NORTH AMERICA

NEW JERSEY
300 SYLVAN AVENUE
ENGLEWOOD CLIFFS
NJ 07632, U.S.A
TEL : 1-201- 816-4080
FAX : 1-201- 816-4083

HOUSTON
1400 BROADFIELD, SUITE 110
PARK 10 CENTER
HOUSTON TX 77084, U.S.A.
TEL : 1-281-578-7097
FAX : 1-281-578-8317

ORLANDO
3452 LAKE LYNDA DRIVE, SUITE 110
ORLANDO, FL 32817, U.S.A.
TEL : 1-407-249-7350
FAX : 1-407-275-4940

FIRMS INCORPORATED >>

EUROPE

FRANCE
(HYUNDAI HEAVY INDUSTRIES
FRANCE SAS) 17 RUE BEFFROY
92200 NEUILLY-SUR-SEINE, FRANCE
TEL : 33-1- 4637-1761
FAX : 33-1- 4637-1295

BELGIUM
(HYUNDAI HEAVY INDUSTRIES
EUROPE N.V.) VOSSENDAAL 11
2440 GEEL, BELGIUM
TEL : 32-14-56-2211
FAX : 32-14- 59-3405

BULGARIA
(HYUNDAI HEAVY INDUSTRIES CO. -
BULGARIA) 1271, SOFIA 41, ROJEN
BLVD, BULGARIA
TEL : 359-2-938-1068
FAX : 359-2-936-0742

HUNGARY
(HUNELEC ENGINEERING AND
TECHNOLOGIES LTD.) 1146, BUDAPEST
HERMINA UT 22, HUNGARY
TEL : 36-1-273-3730
FAX : 36-1-220-6708

AFRICA

NIGERIA
(HYUNDAI HEAVY INDUSTRIES CO. NIGERIA, LTD)
43 TOMBIA STREET, G.R.A PHASE I I
PORT HARCOURT, RIVERS STATE
NIGERIA
TEL : 234-803-544-2774
FAX : 234-84-231-305 (ext. 2018)

ASIA

BEIJING
(BEIJING HYUNDAI JINGCHENG
CONSTRUCTION MACHINERY CO., LTD)
NO.2, NANLI, LUGUOQIAO
FENGTAI DISTRICT, BEIJING, CHINA
TEL : 86-10-8321-8348
FAX : 86-10-8321-1353

CHANGZHOU
(HYUNDAI(JIANG SU) CONSTRUCTION
MACHINERY CO., LTD)
288, HEHAI WEST ROAD, XINBEI
DISTRICT CHANGZHOU, JIANGSU
213022, CHINA
TE L: 86-519- 519-1002
FAX : 86-519-519-1385

YANGZHONG
(JIANGSU HYUNDAI NANZI ELECTRIC CO., LTD)
LIANZHONG AVENUE, XINBA SCIENTIFIC
AND TECHNOLOGIC ZONE
YANGZHONG CITY, JIANGSU 212212
CHINA
TEL : 86-511- 842-0666
FAX : 86-511-842-0668

YANTAI
(YANTAI HYUNDAI MOON HEAVY
INDUSTRIES CO., LTD)
NO.333 CHANGJIANG ROAD
YANTAI ETDA, SHANDONG, CHINA
TEL : 86-535-216-5810
FAX : 86-535-216-5888

HANOI
(HYUNDAI DONGANH STEEL TOWER CO.,LTD)
BLOCK 23, DONGANH TOWN
HANOI, VIETNAM
TEL : 84-4-883-3649
FAX : 84-4-883-3648

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

NORTH AMERICA

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

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

HOUSTON
(PEHCO INC.)
10255 RICHMOND AVE., SUITE 202
HOUSTON, TX 77042, U.S.A.
TEL : 1-713-979-3600
FAX : 1-713-979-3601

Affiliated Companies

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

	HYUNDAI FINANCE Corp.	HYUNDAI VENTURE INVESTMENT Corp.
Business Line	Corporate financing and management consulting	Investment in venture funds
Major Shareholder	Hyundai Heavy Industries Co., Ltd. (67.49%)	Hyundai Finance Corporation (68.38%)
Paid-in Capital	₩91,500 million	₩30,000 million

	MIPO ENGINEERING CO., LTD.	HYUNDAI FUTURES Corp.
Business Line	Ship Design & Engineering	Overseas futures and options brokerage
Major Shareholder	Hyundai Mipo Dockyard Co., Ltd. (100%)	Hyundai Heavy Industries Co., Ltd. (100%)
Paid-in Capital	₩1,387 million	₩20,000 million

Corporate Data

Head Office
#1, Jeonha-dong, Dong-gu, Ulsan, Korea
Tel: 82-52-230-2361
Fax: 82-52-230-3432

Seoul Office
140-2 Gye-dong, Jongno-gu, Seoul, Korea
Tel: 82-2-746-4555
Fax: 82-2-746-4662

Date of Establishment
Dec. 28, 1973

Paid-in Capital
KRW 380 billion

Common Stock
76,000,000 shares

Number of Employees
25,175

General Shareholders' Meeting
March 17, 2006

Listing
Listed on Korea Stock Exchange in August 1999

Investor Relations Team
General Manager: Paul Cho
(822-746-4555, choyc@hhi.co.kr)

Associate Manager: Sung Min Son
(822-746-4728, smson@hhi.co.kr)

Assistant Manager: Ara Jung
(822-746-4544, araj@hhi.co.kr)