

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 a 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.