

Powered by People

The imagination and vision
of our people propells our success.

2002 Annual Report

Produced by UCC, Inc.

△ HYUNDAI HEAVY INDUSTRIES

HEAD OFFICE

1 Jeonha-dong, Dong-gu,
ULSAN, KOREA
TEL: (82) (52) 230-2361/5924
FAX: (82) (52) 230-3450
IR Team / Cost Control Dept.

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)

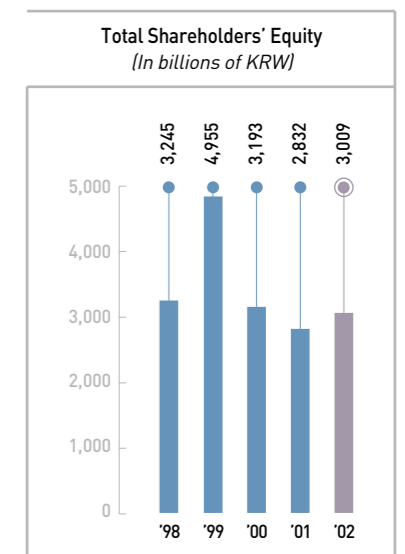
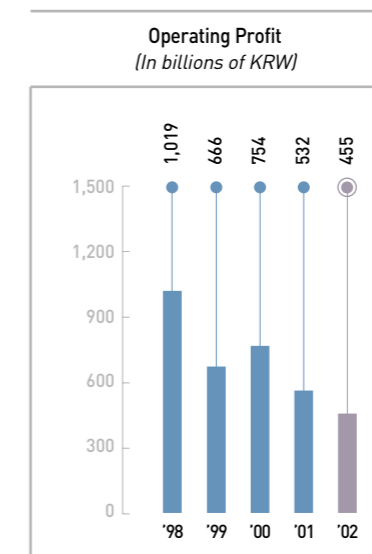
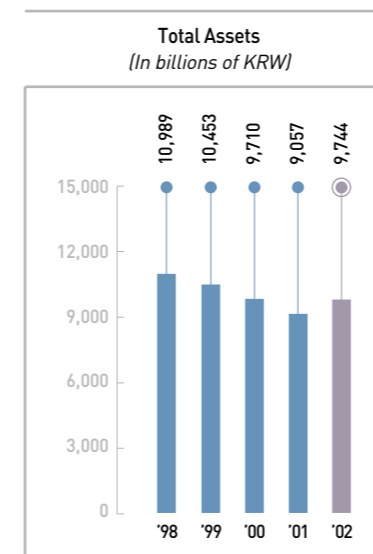


Financial Highlights

	(In millions of USD)	(In billions of KRW)		
	2002	2002	2001	2000
For the Year				
Sales	\$ 6,776.2	₩ 8,134.1	₩ 7,404.2	₩ 6,626.1
Gross Profit	894.5	1,073.8	1,213.6	1,279.2
Operating Profit	378.6	454.5	532.3	753.7
Net Income	(204.4)	(245.4)	(78.1)	(161.5)
At Year-end				
Total Assets	8,117.0	9,743.7	9,057.1	9,710.3
Total Liabilities	5,610.1	6,734.4	6,224.8	6,516.9
(Total Debt)	2,890.8	3,470.1	3,753.8	3,787.4
Total Shareholders' Equity	2,506.9	3,009.3	2,832.4	3,193.3
Financial Ratio				
Liability to Equity (%)	223.8	223.8	219.8	204.1
Debt to Equity (%)	115.3	115.3	132.5	118.6
EBITDA	665.2	798.5	838.6	853.5
EV/EBITDA (Multiple)	6.1	6.1	6.5	6.3
Orders Received and Backlog				
Orders Received During the Fiscal Year (bil.\$)	5.8	5.8	6.4	7.7
Backlog at Fiscal Year-end (bil.\$)	9.2	9.2	10.0	9.1

* Note: Won amounts for FY2002 have been translated at ₩1,200.4 per \$1.00, the basic rate as of Dec. 31, 2002.

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When Hyundai Heavy Industries opened its doors for business in Korea in 1973, a door also opened to the world of heavy industry as a whole. The Company not only boasts the largest, most respected shipbuilding yard in the world, it also reaches beyond the shipyard to provide innovative new products in offshore and engineering, industrial plants, engine and machinery, electro electric systems and construction equipment.

With employees who are experts in their fields, technology that is cutting-edge, and an unwavering commitment to satisfy customers' needs, Hyundai Heavy Industries continues to set a standard of excellence that is unparalleled in Korea's heavy industry environment.

Hyundai Heavy Industries is a history-making company that will continue to make history well into the future: on that you can depend.

Dong Seob Lee
Manager, Technical Education Institute

Mr. Lee holds a total of nine government-certified licenses, four of which he received within sixteen months. Notably, he is the only "Master Craftsman" in Plumbing in Korea.



Gab Sig Youn
Manager, Two Stroke Engine Design Department, Engine & Machinery Division

Mr. Youn is an engineer in the Two Stroke Engine Design Department. He has received numerous "Suggestion Awards" including five first grade awards in 1995, 1997, 1998, and 2000.



Seung Joong Oh
Engineer, Unit Assembly Department, Shipbuilding Division

Mr. Oh has been engaged in cutting work for 20 years. He was granted a patent for developing the "Improved Announcement System for Movable Automatic Cutting Machines."



Bong Hee Nam
Senior Engineer, Pre-Production Department, Industrial Plant & Engineering

Mr. Nam holds technician licenses for Lathe and Machine processing. Interestingly, he has climbed Dhaulagiri No.6 of Himalayan Mountains.



Chun Geun Joo
Head Engineer, Steel Preparation Department, Shipbuilding Division

Starting as a technician, Mr. Joo has risen to become the Head Engineer in the Steel Preparation Department. He has worked at HHI for 30 years.



Sung Chul Jung
General Manager, Ship Sales Department, Shipbuilding Division

Mr. Jung has been an important contributor to the Company. He actively explored markets in North, Central, and South America. He was awarded an Industrial Prize on Trade Day.



Song Seob Shim
Senior Manager, Basic Engineering Department, Offshore & Engineering Division

Mr. Shim is an engineer in the Basic Engineering Department, whose research for the on-land construction of the Amenam FSO was selected as one of Korea's Ten Best New Technologies in 2002.



Hyuck Jung Kim
Engineer, Offshore Production Department, Offshore & Engineering Division

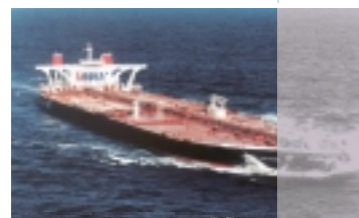
Mr. Kim is responsible for KIZOMBA FPSO Welding. He boasts a 100% pass rate for both the Radioactive Test (R/T) and the Ultrasonic Test (U/T). He possesses a variety of licenses in special welding for pipe.



Our Business Structure

Hyundai Heavy Industries' Divisions are committed to innovation and expansion to ensure that we deliver the best service and product in the industry.

Shipbuilding



The Shipbuilding Division has firmly established its position as a global leader in the world shipbuilding industry ever since it was selected as the top shipyard in the world by Diamond Weekly of Japan in 1985. The Division is capable of building all types of ships to meet various demands by its clients as it holds nine large-scale dry docks including Dry Dock #3 boasting the largest production capacity of one million DWT, and six Goliath Cranes.

Boasting the world's largest offshore yard, the Offshore & Engineering Division supplies a wide range of large-scale offshore oil production facilities. The Division is now playing the role of market leading EPIC (Engineering, Procurement, Installation and Commissioning) contractor in the offshore and engineering field, covering the needs of world's leading oil companies.

Offshore & Engineering



Industrial Plant & Engineering



The Industrial Plant & Engineering Division provides a full range of service from planning to commissioning of industrial plants on a turnkey basis as well as package basis and is proud of state-of-the-art facilities, technology, and experience to deliver just what its customers want. The Division is accredited as one of the most reliable EPC contractors for oil and gas production facilities, gas processing plants, desalination plants, power generation plants, and material handling equipment, striving to provide trustworthy products with reasonable prices in the most efficient way.

Capitalizing on its cutting-edging technology and extensive experience, HHI currently manufactures a wide range of industrial products, including ships, offshore, industrial plants, engines, electro electric systems, and construction equipment.

Engine & Machinery



The Engine & Machinery Division has maintained the top place in the market ever since 1988 with a 50% of share in the extra-large engine (K98MC, RTA96C) market. With state-of-the-art precision processing facilities including foundry and forging facilities and the assembly and test run facilities, its production lines encompass the entire marine propulsion system, which makes the Division the top contributor to enhancing competitiveness of the shipbuilding industry.

Electro Electric Systems



The Electro Electric Systems Division is a comprehensive electric solution supplier with the extensive global network of design, production and R&D partners and offers quality electric equipment to households and industries around the world. Its extensive product line encompasses a variety of total electric solutions including power generation facilities, distribution, transmission and substation facilities; hardware and software for vessels, locomotives, and electric automobiles; power electronics and control systems; motors; and generators.

Construction Equipment



Starting the business in 1985, the Construction Equipment Division has grown into a world class total construction equipment producer, boasting an annual production capacity of 16,000 units. The Division currently produces its unique line of models including excavators, wheel loaders, forklifts, skid steer loaders, and cranes. The Division has a global network of 419 dealers in 70 countries centering around overseas subsidiaries in Europe, the US, and Changzhou and Beijing in China.



Kil Seon Choi | President & CEO

Keh Sik Min | President & CEO



CEO's Message

Dear Shareholders, Customers and Partners:

The world economy hinted at the possibility of recovery last year. Yet, a series of uncertain events may dim this year's economic outlook: a possible war in Iraq and fluctuating oil prices caused by uncertainty in the Middle East; prolonged economic recovery of advanced countries; and the simultaneous downturn of the world stock markets. Despite sluggish economic conditions around the world, the Korean economy showed an exceptional growth owing to its low interest rate policy and increasing domestic demands. However, it became vulnerable to outside changes beginning in the second half of last year as it fell into a downward spiral due to the credit crisis, dwindling consumer spending, and North Korean nuclear issues.

Performance in 2002

The Shipbuilding Division set a new record for building the largest number of ships in the shortest

period time as it delivered 1,000 ships within 30 years since its foundation. Highlighting the achievements of Hyundai Heavy Industries(HHI) is the Stena Britannica, a Ro-Pax ordered by the Swedish Stena Ro-Ro. This vessel was selected as one of the world's best vessels in 2002, solidifying HHI's reputation as the world's premiere shipbuilder for more than twenty years.

The Offshore & Engineering Division proudly brought in sales of ₩1 trillion as it carried out a number of large-scale EPIC constructions including the Kizomba, Nakika, and Amenam projects. The Division firmly established its reputation as a specialized offshore project firm after successfully completing the world's first on-land construction of a super-large Floating Production Unit (FPU). This was an epoch-making event in the history of offshore construction technology.

Despite fierce competition, the Industrial Plant &

Engineering Division won the Bonny Terminal Integrated Project (BTIP) worth \$600 million on a turnkey basis from Shell in Nigeria in February 2003. Thanks to continued efforts by the entire staff, the Division turned around to become profitable and our management is now back on track.

The Engine & Machinery Division developed its proprietary medium speed diesel engine, the HiMSEN, for both land and marine purposes. The HiMSEN engine was selected as one of Korea's Ten Best New Technologies and First Class Products in 2002 for its performance and environment-friendly characteristics. Now, HHI proudly joins the rank of top engine makers in the world.

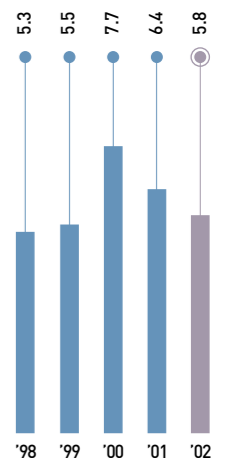
The Electro Electric Systems Division's investment in R&D has paid off as new products such as 145KV high-voltage gas circuit breakers for export, 500KV economic transformers, and Q-class motors for nuclear energy have been successfully introduced in

the market. The Division launched the largest number of new products last year, laying firm ground to lead the market amid harsh technological competition.

The Construction Equipment Division maintained the No.1 position in the Chinese excavator market. The Division's Chinese subsidiary was selected as the Technology and Knowledge Intensive Enterprise by the Chinese government. It marked the beginning of rapid growth last year as it posted sales of more than ₩500 billion, up 29.5% from the previous year.

Let's look into HHI's overall business performance in 2002. HHI received new orders worth \$5.8 billion, which accounts for 73.6% of the year's goal. As for the sales revenue, it accomplished 96.2% of the year's target, recording ₩8,134 billion. The operating profit and net income for the year stood at ₩454.5 billion and ₩-245.4 billion, respectively. The net loss is the result of reflecting valuation loss for unsold shares of Hynix Semiconductor on the profit and loss accounts in FY

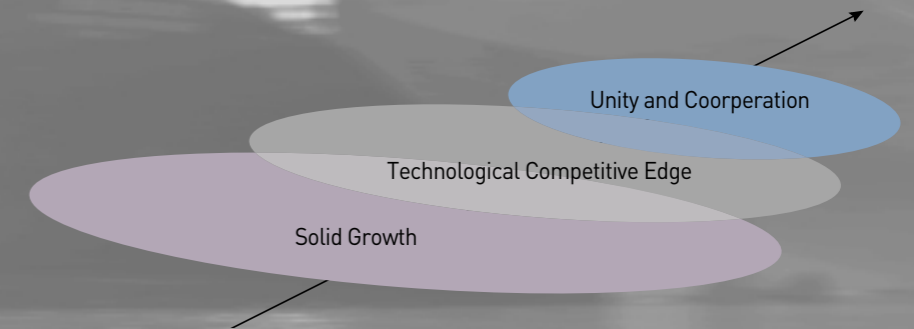
New Orders
(In billions of USD)



Hyundai Heavy Industries is a global leader backed by the unwavering support of shareholders, our strong team of employees, progressive strategic initiatives and our enterprising spirit.

Hyundai Heavy Industries is determined to achieve its sales target of ₩8,328 billion through solid growth, technological competitive edge and unity and cooperation.

Management Principles
"Relentless Innovation and Challenge"



FY 2002. As the investment loss was already reflected in 2002 financial statement, HHI expects a sound operating profit that will secure a profitable net income for FY 2003. Proper evaluation of the sales performance will be made at HHI this year, excelling the corporate value to a higher level.

Outlook for 2003

The economic forecast for 2003 is hard to predict as pessimistic economic analysts cautiously express the anxiety of worldwide deflation as a series of unsettling events aggravate uncertainty in the world economy. Rapid fluctuations in oil prices caused by the possibility of war against Iraq, the increasing tension of financial crisis in Latin America, and the prolonged weakness in the financial markets are all factors that contribute to gloomy economic outlook. Moreover, the Shipbuilding Division, HHI's core business, is expected to face a difficult year as worldwide oversupply in the shipbuilding industry will cause a decrease in shipbuilding prices, thus promoting more intense competition among market players.

Despite these factors, HHI set the sales revenue target for 2003 at ₩8,328 billion, a slight increase from the previous year. Considering last year's weak performance in orders, the target for orders is set at \$7.33 billion in 2003, up 26.9% over the previous year. In light of uncertainties in the market, capital expenditure will be reduced to \$283.7 billion. HHI, however, is planning to expand the R&D investment by 26.7%, to ₩117.9 billion in order to lay the groundwork for its long-term development and enhance the competitiveness through securing a technological competitive edge.

HHI has established the following management principles to achieve our goals:

First, HHI pursues solid growth. HHI will outperform its competitors in selecting profitable business lines by making accurate predictions of future market changes. It will accomplish solid growth and enhance profitability by eliminating inefficiency within the organization.

Second, HHI pursues a technological competitive edge. HHI is firmly convinced that it must further develop its core technology and manufacture world-class products in order to secure long-term, stable growth. It will strengthen collaboration for technology development between the fieldwork and research institutes to enhance the competitiveness of existing business lines and take a leading position in the new business market.

Third, HHI pursues unity and cooperation. HHI will make efforts to build a strong partnership between the management and employees. This partnership is what HHI needs to equip itself with competitiveness in the current unstable business environment and cutthroat competition. HHI will make every effort to create an atmosphere where its management and employees build trust and understanding through smooth communications between Divisions.

We expect to face many challenges in 2003. However, HHI has performed miracles in overcoming numerous obstacles based on its founder's unwavering spirit and

devotion of its entire staff in the past. HHI will surprise the world again with its outstanding performance and increasingly fierce competition. Adapting to the needs in the new century, HHI will spare no effort to maximize the benefits of its shareholders through transparent management and, at the same time, emerge as a world-class enterprise.

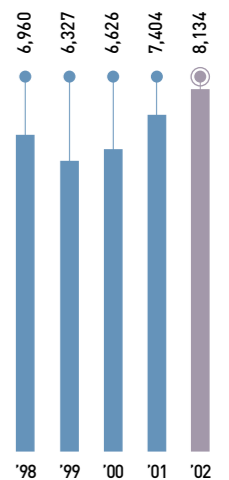
We would like to ask for your continued support and interest in HHI.

Thank you.
March 2003

Kil Seon Choi
Kil Seon Choi | President & CEO

Keh Sik Min
Keh Sik Min | President & CEO

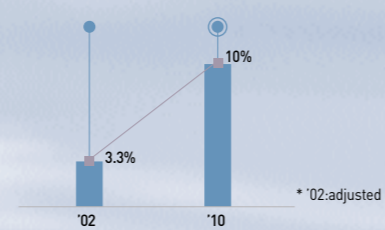
Sales Revenue
(In billions of KRW)



Song Seob Shim, Senior Manager, Basic Engineering Department, Offshore & Engineering Division



Our Long-term goals (Recurring profit)



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Flexibility to take on big challenges with confidence, unity and cooperation are the foundation upon which Hyundai Heavy Industries builds its reputation as a company with competitive edge, integrity, and vision.

Mr. Shim is a Senior Manager in the Basic Engineering Department of the Offshore & Engineering Division. The Department's research for the on-land construction of the Amenam FSO was selected as one of Korea's Ten Best New Technologies in 2002. The Department also received an award bestowed by the Ministry of Commerce, Industry and Energy. Mr. Shim exemplifies the innovative employees working at HHI. With creative and innovative people, HHI will prosper well into the future.

Our Vision, Strategy & Targets

Through the eyes of flexibility and creativity.



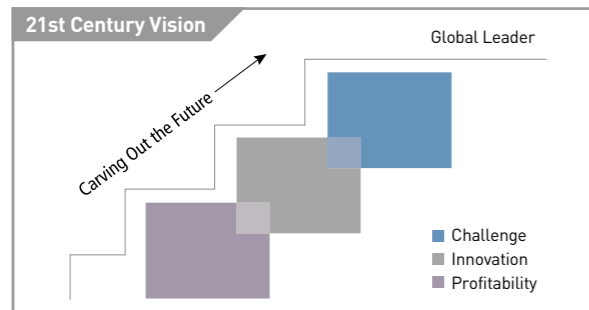
Long-term Development Strategy

Hyundai Heavy Industries (HHI) established a new set of vision and strategies for the Company in March 2002 as it celebrated its 30th anniversary and stepped into the era of independent management after the legal disaffiliation from the Hyundai Group. Our new vision and strategies are designed to accomplish stable and continued development through flexible response to the rapidly changing management environment in the 21st century.

Our vision for the 21st century is encapsulated as follows: "HHI: A Global Leader, Carving Out the Future." We will

become a global leader in the heavy industries by providing the world's best quality products and service. Building upon the founder's spirit of creating something out of nothing, HHI will carve out the future and grow into the world's No. 1 company.

We will strive to become a company that offers satisfaction to our customers, fulfillment to our employees, and corporate value to our investors. To this end, HHI will make continued efforts to provide world-class technology, service, and value-added products.



As a global leader, HHI's targets for 2010 are as follows: HHI will post sales of \$17.5 billion in 2010. Exports will take up more than 80% of sales, or \$14 billion. Above all, HHI will improve its recurring profit up to the 10% level from current 3.3% (adjusted) by focusing its management and sales strategies on highly profitable businesses.

We plan to stabilize our business structure by lowering our dependency on the shipbuilding business from 45.6% at present to 26% by 2010. We will place greater emphasis on other businesses including the Offshore & Engineering and Industrial Plant & Engineering, increasing their proportion to 20% each.

We have set out the following strategies to fulfill our vision and goals:

1. Optimize Business Structure

- Focus on promising business divisions equipped with competitiveness
- Secure a market position in the business sector where fast growth and huge world markets are guaranteed
- Expand new business based on its core competency and liquidate low-profit marginal businesses

2. Maximize Global Sales Capabilities

- Maximize sales for high value-added products
- Tap into new markets and enhance the sales campaign in local markets
- Build and manage a competitive sales and marketing

network around the world

3. Develop Advanced Technology

- Secure its core technology and develop cutting-edge technology
- Enhance system engineering capacity
- Create a global R&D network
- Strengthen the collaborations between the field and research institutions

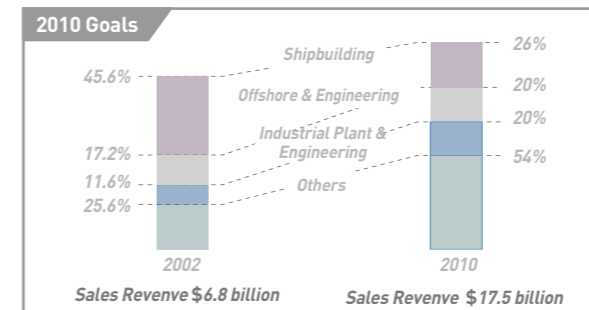
4. Secure Production System Efficiency

- Maximize existing operational efficiency
- Improve quality and productivity through automation
- Build an integrated production management system

5. Innovate the Business Operation

- Expand outsourcing businesses with low value-added
- Maintain the flexibility of facilities, human resources, and finance
- Secure a global production center

HHI pursues fair management principles in achieving its vision and long-term development strategy. HHI will evolve into the best heavy industries company in the world by realizing its vision of "HHI: A Global Leader, Carving Out the Future," by building upon its present management philosophy and corporate culture.



Our Shares

1. Stock Market in 2002

Stock markets around the world centering around the US market continued to slide in 2002 for three consecutive years. The recent recession in 2002 was especially due to various factors: the aftermath of downdraft in technology shares, threat of double dip in the US economy, and possible war between the US and Iraq. Under these circumstances, the Korean stock market showed a relatively steady growth curve. In 2002 alone, equity markets around the world, as measured by the MSCI World IndexSM, lost 21.06% in USD terms from 1003.516 to 792.215 while all of the MSCI Developed Market Indices for 23 countries excluding the MSCI Austria IndexSM decreased. The MSCI Emerging Market Free IndexSM, including the MSCI Korea IndexSM, posted a comparatively lower fall from 317.4 to 292.09, down by 7.97% from the previous year. Amid these negative results, South Korea showed rather impressive results by climbing up 7.9%.

The KOSPI, South Korea's benchmark stock index, maintained an upward trend for the six months since the September 11 terrorist attacks on the U.S., reaching its record year high of 937.6 points on April 18. Yet, the Korean stock market turned bearish due to the following reasons: due correction after the bullish market; diminishing effect of low interest rate in the middle of

economic recovery; falling semiconductor prices; and window-dressing and other irregularities of Korean firms. This bearish trend continued as the US stock market fluctuated due to uncertainties over the financial market, corporate earnings and weak financial indices. The KOSPI index recorded its record year low of 584 points on October 10 amid the simultaneous downturn of stock markets around the world. Just before closing for the year, a series of bad news heavily hit the Korean stock market: the increasing possibility of the US attack on Iraq; the rise of international oil prices, and North Korea's threat of leaving the NPT. As a result, the stock index, which has constantly climbed up to 736 points since its low on October 10, closed at 620-point level, 66 points down from the year earlier.

2. Hyundai Heavy Industries' Shares in 2002

On February 28, 2002, Hyundai Heavy Industries(HHI) successfully completed its legal disaffiliation from the Hyundai Group with the authorization from the Fair Trade Commission. Since its disaffiliation, HHI's stock price showed a steady growth until it hit its record year high of ₩36,800 on May 15. HHI's shares have been inappropriately valued before the disaffiliation in consideration of the Hyundai Group related risk rather than the Company's own competitiveness and sales capacity. However, disaffiliation from the Hyundai Group

reaffirmed HHI's commitment to independent and transparent management, giving lift to its shares.

Even with uncertainties over HHI cleared away, its share prices hit its record year low of ₩16,200 on September 30 largely because of sluggish economy both in and out of Korea. The share prices of shipbuilding, machinery, and industrial plant sectors plunged more than the average of overall stock prices due to fall of shipbuilding prices since the third quarter of 2000, decline in orders and backlog, dwindling capital expenditure, and appreciation of the KRW against the USD since April 2002. Beginning from the fourth quarter until mid December, shipbuilding shares attempted to rebound on the back of turnaround in the shipbuilding prices, improving business environment, and expectations for increasing demands in oil tankers to replace outdated tankers after the Prestige accident. However, the KOSPI fell to the 620 mark just before ending the year due to a number of reasons: increasing possibility of war between the US and Iraq; rise in international oil prices; and North Korea's nuclear issues. Along with the composite index, the shares of HHI ended at ₩19,050, down 32.8% from the beginning of the year.

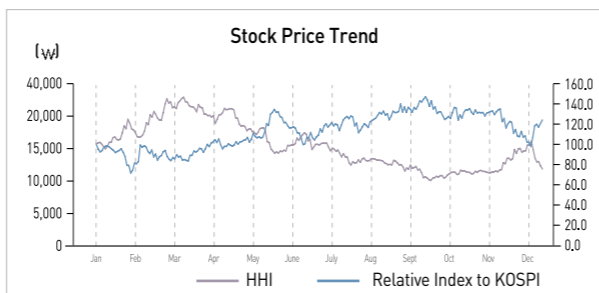
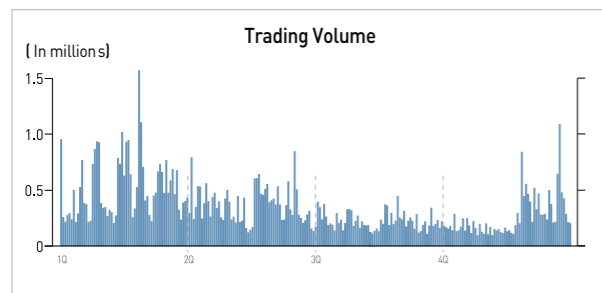
3. Stock Price Index

Before the completion of its disaffiliation from the

Hyundai Group, HHI recorded ₩314.7 billion and ₩217.5 billion of loss on equity method evaluation; and ₩222.9 billion and ₩51.3 billion of loss on disposal of investment securities in 2000 and 2001 respectively. As a result, HHI posted ₩161.5 billion and ₩78.1 billion loss in net income in 2000 and 2001, respectively. In 2002, HHI posted ₩-322.3 billion in recurring profit and ₩-245.4 billion in net income by recognizing losses of total ₩582 billion on reduction and disposal of Hynix Semiconductor Inc. shares. Assuming that these investment related losses are not ordinary costs, adjusted EPS and PER have been adopted here, excluding the investment related losses above.

4. Operation of Treasury Fund

HHI has entered into specified money trust contract worth a total of ₩705 billion for treasury fund with five local banks since January 2000 including the acquisition of 5.39 million shares worth ₩130 billion in June 2001. As of the end of 2002, HHI acquired 30.35% of the issued shares or 23.06 million shares. In relation to the treasury fund, HHI renewed its trust contracts for treasury fund worth ₩705 billion to mature on April 20, 2003.



Share Information	2002	2001
No. of shares(issued) (million)	76	76
Total Market Value (in billions of KRW)	1,448	1,923
Share Price (High) (KRW)	37,700	32,000
{Low} (KRW)	15,700	18,300
Foreign Ownership (%)	8.36	6.28
PER(H/L) (x)	5.7/ 2.4	7.5/4.3
EPS(KRW)	6,581	4,263
EV/EBITDA (x)	6.1	6.5

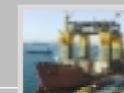
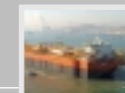
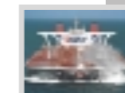
* EPS, PER: adjusted

Status of Treasury Fund (As of December 31, 2002)	
(Unit: In millions of KRW)	
Total	
Contract Amount	705,000
No. of Shares	23,063,850
Valuation Amount	439,366



Dreams begin with our Pioneering Spirit

The Innovators
The Dreamers
The Builders
The Inventors
The Pioneers
The Creators



There are no limits to what can be accomplished

when people put their minds to it...

The Innovators



STENA V-MAX
Next Generation
Vessel
Twin Skeg VLCC

The Dreamers



Amenam FSO
The world's first
super-large FSO
(floating,
storage &
offloading) of
340,000 DWT
made by on-
land
construction

The Builders



**West Seno
Oil drilling
facility**

On December 17, 1903, the Wright Brothers proved to the world that any dream can become a reality and that invention is as endless as the imagination. At Hyundai Heavy Industries, we hold these principles close to our hearts.

The Industrial Revolution came about as a result of rapid innovations in technology when "the country" literally became "the city." At Hyundai Heavy Industries, we continue with this tradition as we continuously strive for new, modern, and innovative techniques.

HHI takes innovation to the highest level-

We make dreams real.

The Inventors



HiMSEN Engine
Selected as one of
Korea's 10 Best
New Technologies

The Pioneers



**Marine
Generator
(6,500kW)**



The Creators



**Crawler
Excavator
ROBEX
290LC-7**



1973, Dec. This date marks our inception as Hyundai Shipbuilding and Heavy Industry Ltd., (in 1978 our company name was changed to Hyundai Heavy Industries). From the beginning, we have been diligent in overcoming various challenges in order to maintain our position as one of the leading shipbuilding companies in the world. With six business Divisions, Hyundai Heavy Industries stands as a full-fledged heavy industries company with a modern 21st century vision: Think Global!

1983, Jan. Diamond, a Japanese weekly economic magazine, selected the world's top 50 companies ranking Hyundai at the top of the Shipbuilding category in 1983. Just ten years after its establishment HHI has reached the summit of the world shipbuilding industry.

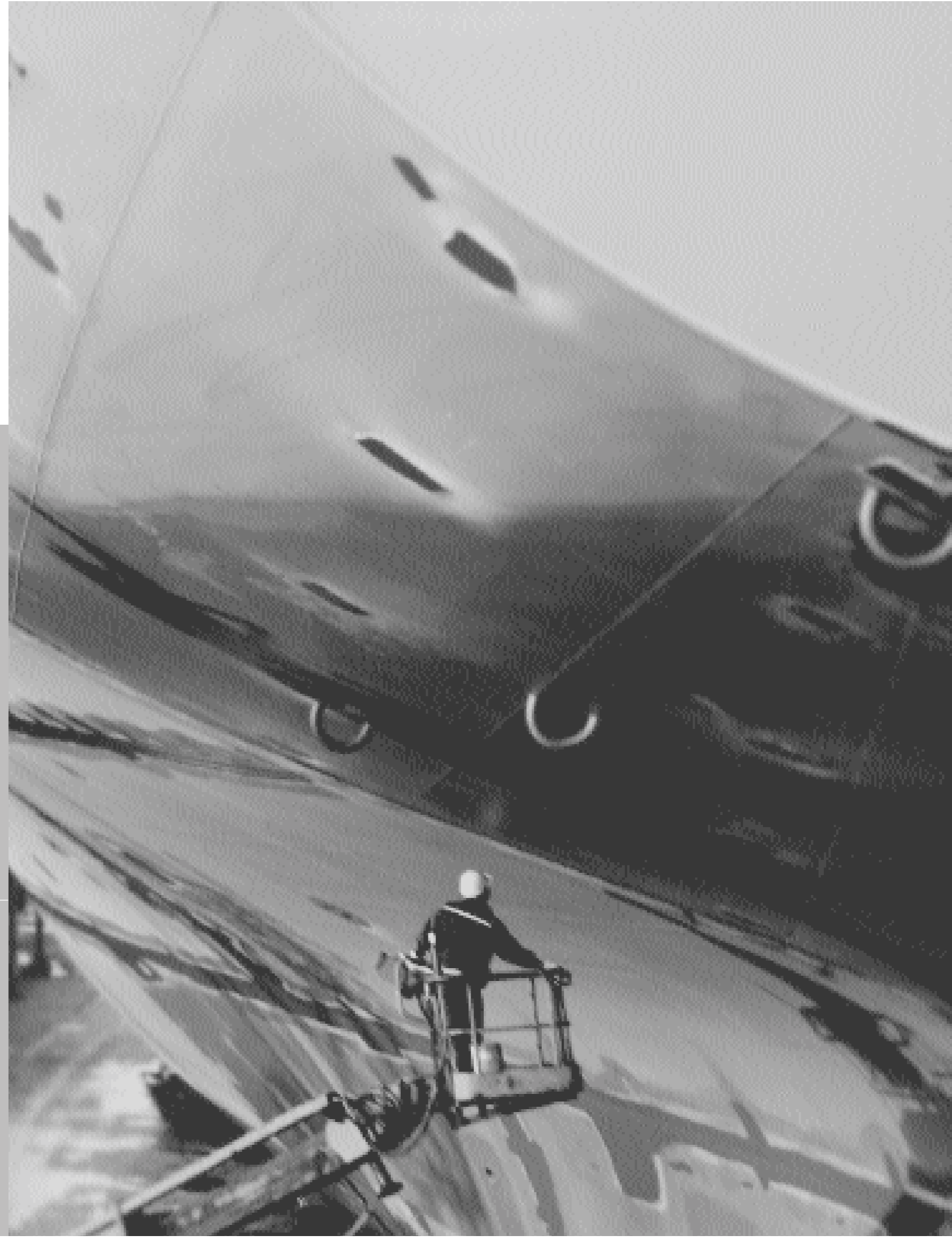
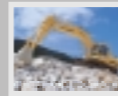
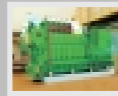
1986, Jan. Hyundai Heavy Industries had the honor of being listed in the Guinness Book of World Records as the manufacturer of the largest cargo ship in the world: a huge oil carrier (365,000 DWT).

1992 Hyundai Heavy Industries was proud to receive the National V.E. Best Company Prize. We continually strive to maintain our status as a "best company" - now and into the future.

1998 It takes more than just awards to make a good and strong company - it takes great employees and a supportive community. With the purchase of the Ulsan Hyundai Horangi Football Club in 1997, the opening of the

Hyundai Art Center in 1998, and Hyundai's selection as an "Excellent Company using Green Energy" in 1998, HHI maintained its legacy as one that cares and gives something back.

1999, Aug. Hyundai Heavy Industries was listed on the Korea Stock Exchange in 1999. As well, the first LNG order came in from abroad; two 138,000 m³ LNG Carriers from Bonny Gas Transport Co., in Nigeria.





Seung Joong Oh, Engineer, Unit Assembly Department, Shipbuilding Division

2002 Performance (In millions of USD)



Our Business At a Glance ...28

Review of Operations ...30

Our continual development of innovative technologies and world-class industrial products ensures that we are able to meet the needs of our clients around the world. At Hyundai Heavy Industries, our dedicated employees are committed to delivering maximized customer service - the key to our success.

Mr. Oh has been engaged in cutting work for 20 years. He was granted a patent for developing the "Improved Announcement System for Movable Automatic Cutting Machines." He is one of the most committed employees working at HHI. With such an asset like him, HHI has made a remarkable performance every year.

Our Business at a Glance



Shipbuilding Division

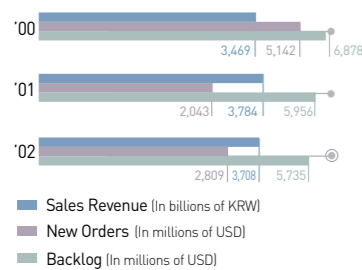
Market Position

- The largest shipyard in the world (15% of global market share)
- Built a total of 1,000 ships within 30 years since its foundation, the largest number of ships within the shortest period of time (as of March 2002)

Major Products

- Tankers, Product Carriers, Chemical Tankers
- Bulk Carriers, OBO Carriers
- Containerships
- Passenger Ships, Ro-Ro Ships, Pure Car Carriers
- LNG Carriers, LPG Carriers
- FPSOs

Key Figures



Offshore & Engineering Division

Market Position

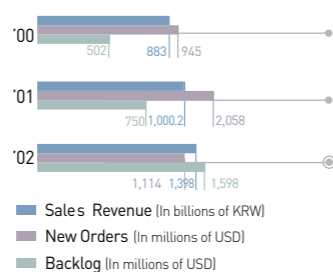
- Operates the world's largest offshore yard spread over 22.3 acres
- Built the world's largest Jack-Up Platform on land, weighing 28,800 tons
- Built the world's largest Semi-Submersible Drilling Rig on land, weighing 25,500 tons
- Set the world record for the successful loading of the world's largest Nakika FPU, weighing 12,100 tons
- Selected as one of Korea's Ten Best New Technologies of 2002 for the on-land construction of the Amenam FSO



Major Products

- FPSO/FSOs
- Semi-Submersible Units
- TLPs
- Fixed Platforms
- Jack-up Platforms
- Subsea Pipelines
- Onshore Facilities

Key Figures



Industrial Plant & Engineering Division

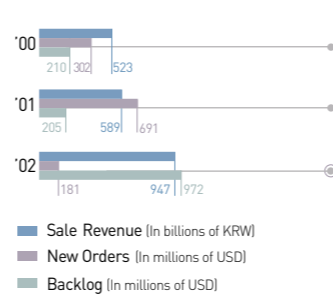
Market Position

Provider of a broad range of products and services as an EPC contractor

Major Products

- Oil & Gas Facilities/Plants
- Desalination Plants
- Power Plant/Co-generation Plants
- Material Handling Systems
- Steel Towers

Key Figures



Engine & Machinery Division

Market Position

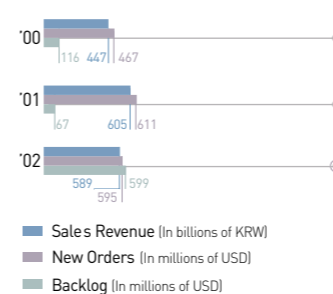
- The world's largest marine diesel engine builder (35% of global market share)
- Accomplished the aggregate production of 38.53 million bhp of low speed engines
- Manufactured the first in-house developed engine, HiMSEN, in Korea and awarded one of Korea's Top Ten New Technologies in January 2002

Major Products

- Low and Medium speed diesel engine and HiMSEN engine
- Propellers and shafts
- Marine steam turbines and turbochargers
- Diesel power plants
- Industrial robots
- Industrial and marine pumps
- Press, conveyer system and steel strip process line



Key Figures



Electro Electric Systems Division

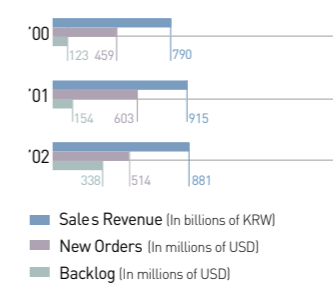
Market Position

- The largest manufacturer of marine generators in the world (40% of global market share)
- Largest exporter of the heavy electric machinery in Korea
- Korea's first exporter of heavy electric machinery technology

Major Products

- Transformers
- High Voltage Circuit Breakers
- Switchgears
- Medium and Low voltage Circuit Breaker
- Power Electrics and Control Systems
- Rotating Machinery

Key Figures



Construction Equipment Division

Market Position

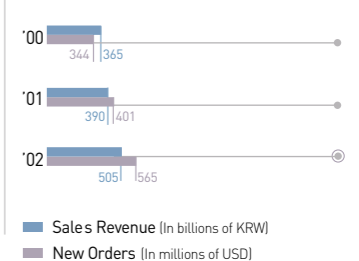
- Ranked No.1 in the Chinese excavators market (22.4 %)
- Changzhou Hyundai Construction Machinery was awarded as the Technology and Knowledge Intensive Enterprise Prize by the Chinese Science and Technology Administration for the first time among foreign construction equipment companies (November 2002)



Major Products

- Hydraulic Excavators
- Wheel Loaders
- Forklifts
- Skid Steer Loaders
- Truck Cranes

Key Figures





A RO-PAX, the Stena Britannica, selected as one of the world's best ships.



Mu Su Hwang
Chief Operation Officer of
Shipbuilding Division

“Building ships is more than just our job - it’s our passion. This passion has been translated time and time again into building the best-quality ships the world has ever seen.”

▶ Shipbuilding

Despite the prolonged downturn of the world economy and the sluggish shipping market after the September 11 terrorist attacks, the Shipbuilding Division won orders for 61 ships valued at \$2.8 billion in 2002, and it has a backlog of orders worth of \$5.7 billion including special & naval vessels, securing two years of workload. The Division recorded sales revenue of \$3.1 billion after it delivered 49 ships including high value-added ships such as LNG carriers. As of the end of 2002, the Shipbuilding Division delivered a total of 1,045 ships weighing 83 million DWT to approximately 190 clients in 42 countries around the world. The Division is focusing its marketing resources on high value-added ships such as LNG carriers and offshore facility in order to maximize profitability. In particular, the Division has produced the world's best ships for 20 consecutive years as the Stena Britannica of Sweden delivered has been selected as one of the world's best ships.

The economic rebound forecasted for the second half of 2003 is expected to be very beneficial for the Shipbuilding Division. A stronger cargo transportation would prompt an increase in shipping freight, and as such, the Shipbuilding Division expects to capture more orders in 2003. New orders are projected for oil tankers to replace old single-hull tankers to comply with strengthened regulations after the Prestige accident;

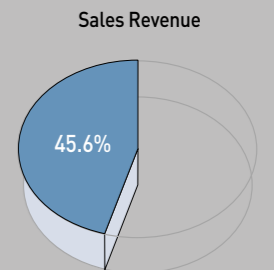
for bulk carriers to meet the increasing shipment; for LNG carriers with its growing market; and for containerships to catch up with the growing marine shipment.

Market conditions are expected to remain difficult because of various factors such as a war in Iraq, high oil prices, weak U.S. dollars, and fierce competition among shipbuilders to win new orders. Under these circumstances, the Shipbuilding Division has set this year's sales and order target at ₩3,553 billion and \$3.04 billion, respectively, in order to secure stable growth and development. As a part of its strategy to maximize profitability, the Division will concentrate on winning orders for high value-added ships while, at the same time, securing stable amount of orders for commercial vessels. In particular, this year the Division starts full-scale production of Ro-Pax, FPSO, membrane LNG carriers, and submarines. Accordingly, it is planning to enhance the productivity of these high value-added ships and develop market-leading vessels by improving its design capability and production technology. This will result in boosting its overall competitiveness and efficiency, thus providing better service and advanced technology to its clients.



Major Performance in 2002

Moss type LNG carrier (137,000m3)
– Delivered to NLNG of Nigeria on August 29, 2002.
Reduced construction period by a third by improving general process with design optimization, large-size block and state-of-the-art technology.





KIZOMBA A FPSO, ordered by ExxonMobil, scheduled to be installed in the Angolan territorial waters in June 2004.



Jae Byung Song
Chief Operation Officer of
Offshore & Engineering
Division

“Expanding our Offshore & Engineering plant activities to encompass the global market is more than just our hope - it is our reality. Our advanced technology and EPIC capabilities make it all possible.”

Offshore & Engineering

The Offshore & Engineering Division started its business with the construction of the Open Sea Tanker Terminal in Saudi Arabia, in 1976. Since then, it has completed a number of large-scale construction projects both in and out of Korea including the steel frame construction of the Korea's tallest building, 63 Building, in 1980. The Division has implemented a large-scale project system with the successful completion of the world's largest Exxon Harmony and Heritage Jacket. It has also secured a solid basis for full turnkey projects after winning the order from India's ONGC for three platforms including ABCD, ICP and ICW. Moreover, to enhance its basic design capabilities for offshore facilities, the Division has founded an engineering center.

The Division moved beyond the Southeast Asian market as it delivered the Topside of Goodwyn 'A' to Woodside, Australia and the Bragge Jacket to Norsk Hydro in Norway in 1990. Its work in the international market includes the production of Hibernia Platform in Canada in 1993 and the world's largest Jack-Up platform for BP in 1995. In 1996, the Division won orders for FPSO P-33 and P-35 from Petrobras of Brazil on a turnkey basis, and completed the Semi-Submersible Troll-C FPU Hull for Norsk Hydro of Norway in 1997, which established a bridgehead into the deep-sea sector.

It completed the entire production of two semi-submersible rigs (semi-rigs), RBS-8M and RBS-8D on land and delivered these 25,000-ton-semi-rigs to RBF of the U.S. in 1999. It received the hull and topside production order of the world's largest Elf's Girassol FPSO in 1998 and established a record for completing on a single yard, 25,000 tons for both the Shipbuilding and Offshore & Engineering Divisions each.

The Division shifted its business strategy to EPIC construction-oriented projects, and broadened its business spectrum from jackets and decks to semi-rigs, Jack-Ups, FPSOs and TLPs. It has established a firm foundation through winning the world's largest Kizomba-A FPSO project worth ₩1 trillion in 2001, and Kizomba-B FPSO project in the following year from ExxonMobil, and proved its capabilities of being a world-leading EPIC contractor.

The Division also expanded the market from the Southeast Asia and India to other parts of the world. It won the orders from Veba of the Netherlands and Amenam of Nigeria for FSO since 1998.

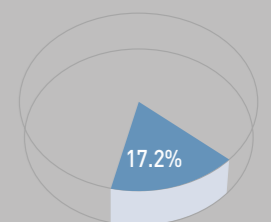
The Division's long-term strategies are to take the leading market share in FPSO, semi-submersible and special floater markets. It is preparing new business strategies as well as capital expenditure in order to participate in the deep-sea pipeline constructions, which are showing potentials of rapid growth.



Major Performance in 2002

Amenam FSO
- The world's first super-large FSO (floating, storage & offloading) of 340,000 DWT made by on-land construction.

Sales Revenue





Al Khobar ph.2 Desalination Plant



Byung Sang Cho
Chief Operation Officer of
Industrial Plant & Engineering
Division

“Carrying out various turnkey projects at home and abroad has enhanced our Division's technology and experience levels. We offer quality products at reasonable prices which certainly makes for very happy, satisfied customers.”



Industrial Plant & Engineering

The Industrial Plant & Engineering Division has successfully carried out various turnkey projects in Korea and abroad based on decades long accumulated expertise and abundant experiences. These projects include the new 100,000 BPSD Oil Refinery and 200,000 BPSD Oil Refinery Expansion Project featuring Crude Distillation, Hydrotreating, Catalytic Reforming and Sulfur Recovery Units in Daesan, Korea and the Diesel Hydro Desulfurization facilities with the annual capacity of 1.5 million tons in India. As a result of the Division's relentless operational efforts to win orders for oil and gas development projects in the Middle East and Africa, the Constructions of the Forcados Gas-Gathering Facilities and the Bonny Terminal crude oil storage facilities ordered from SPDC on a turnkey basis are currently in progress in Nigeria.

As for desalination plants, the Division has completed a total of 14 projects with 284 MIGD including the 76 MIGD Taweelah B desalination plant in the United Arab Emirates and the 30 MIGD Al Hidd desalination plant in Bahrain. Recently, it was selected as either a potential contractor or a priority negotiator for projects including the Sabiya desalination plant in Kuwait, the ALBA combined cycle power plant in Bahrain, and the Jebel Ali “L” CCPP and desalination plant in the UAE.

The Division has successfully carried out construction of numerous power plants and co-generation power plants on a turnkey basis in Korea and overseas, totaling 7,201 MW with 44 units including 12 combined cycle power plants with the total capacity of 1,629 MW.

The Division is one of the most competitive contractors for harbor facilities such as portainer and transtainer and material handling equipment as it has already supplied more than 80 units of equipment to the market around the world. As for steel towers, the Division focuses on the production of selective items fit for the scale of its production facilities and provides quality products at reasonable prices.

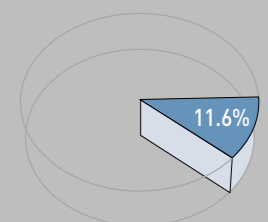
Taking advantage of decades long accumulated technology and know-how, the Division provides price-competitive facilities utilizing cutting-edge technology in its construction. This year the Division is preparing for the full-fledged business for LNG and GTL projects by collaborating with firms that possess advanced technology and necessary licenses. The Industrial Plant & Engineering Division will make every effort to achieve this year's order target of \$800 million through enlarging overseas turnkey projects.



Major Performance in 2002

The West Seno Project
– FPSO and undersea pipeline construction worth \$300 million ordered by Unocal of Indonesia, The facility through which collect natural gas, refine and transport it to ground terminal through the pipeline undersea. Composed of deep sea special facilities, TLP(Tension-Leg Platform), FPU (Floating Production Unit), and undersea pipeline

Sales Revenue





Electronically Controlled Engine, Two-stroke Diesel Engine



Soo Kyung Kim
Chief Operation Officer of
Engine & Machinery Division

“Continuing our technology development is the key to fortify our top rank in the market. Our world-class engine and machinery manufacturing is recognized and respected by the world.”

▶ Engine & Machinery

As of the end of 2002, the Engine & Machinery Division produced a total of 1,598 engines with 38.53 million bhp and delivered them to the shipyards in 15 countries including Germany, Denmark, Italy, Poland, Britain, Brazil, Singapore, Taiwan, and the U.S. This year's production target is 146 large engines with 4.04 million bhp, 410 mid-size engines with 0.74 million bhp including the HiMSEN engines and 1,000 intelligent robots.

The Division's proprietary engine model, HiMSEN, has marked the beginning of domestic technology exports and emerged as the major product in the mid-size engine market as it has acquired the type approval certificates from eight classification societies including DNV(Norway), LR(Britain), and the ABS(US). The HiMSEN engine will play a major role in improving profitability with enlarged sales as its market share is expected to climb up gradually in the long run.

The market prospect for marine diesel engines is fairly bright since orders for oil tankers are expected to increase due to IMO's regulations on single hull tankers and the recovery of the containership market.

As for the power plant market, the Division is becoming animated once again as it recently received an order for a 60 MW diesel power plant construction worth of \$60 million on a turnkey basis from Barbados. As for the Machinery, it is expanding its market for marine pumps, which were developed last year, to other domestic shipyards.

It has recently laid the groundwork for the entry into the overseas market as it received an order for its conveyor system for automobile painting from a Malaysian automobile maker.

Also, it embarked on the mass-production of six proprietary robot models along with the recently developed model, HX165. The Division is making an aggressive advance into the overseas market as it successfully received an order for its welding system from a Chinese automobile maker.

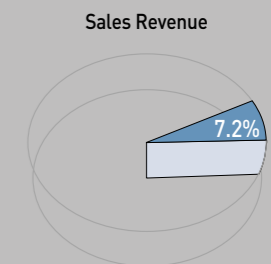
In particular, its proprietary engine model, HiMSEN, has made a success in the marine propulsion engine market after tapping into the marine and land power generation markets. It is also making its way into Europe market. Its market share is on the increase with enhanced marketing strategies. Moreover, the Division is focusing on the Package Power Station business with the HiMSEN engines and expects to see increased sales for this year amid the booming demands for self-powered generation in the industrial parks and islands of the Middle East and Latin America.

As a world class engine and machinery manufacturer with the cutting-edge production facilities and well-skilled human resources, HHI will make every effort to accomplish this year's order and sales target and enhance its profitability through continued technology development, market expansion, and cost savings.



Major Performance in 2002

Type approval Test for HiMSEN Engine
– Acquired type approval certificates from eight classification societies including DNV(Norway), LR(Britain), and the ABS(US).





Gas Insulated Switchgear



Young Nam Kim
Chief Operation Officer of
Electro Electric Systems
Division

“Expanding our overseas network and placing high importance on applying innovative IT solutions to both new and existing products ensure us that we are always ahead of the game. The future of Electro Electric Systems certainly looks bright.”

▶ Electro Electric Systems

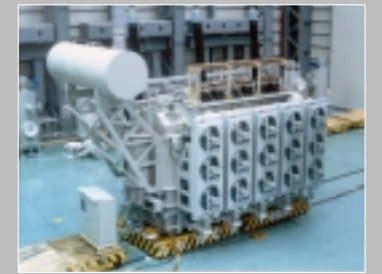
Carving out the future of the power industry, the Electro Electric Systems Division has selected ultra high voltage circuit breakers, large capacity transformers, and marine generators as key products based on its advanced facilities and technology in the ultra high voltage field and focused on the development of these products to enhance the market competitiveness and brand power in the world market. Aligned with its strategy to existing products, the Division places great stress on the development of both digital technology such as digital relays for the substation automation, electronic circuit breakers and vessel automation systems, and environment-friendly products, and technology including propulsion systems for electric vehicles, Distributed Generation (DG) systems, energy saving products, and superconductivity technology.

The electric equipment market in 2002 can be characterized by two conditions: the shrinking US market and the prolonged stagnation of Japan market. Especially, the dwindling power generation market is expected to make the recovery of the electric equipment market difficult within a few years. Meanwhile, the Middle Eastern countries are expected to be able to afford capital expenditure in desalination plants, power plants, and crude oil exploitation, and transportation facilities on the back of high oil prices and their plans to improve infrastructure. A possible war between the US and Iraq is a key factor in determining the future situation in this region.

Last year alone, the Division has completed the development of a wide range of products: 145 kV high-voltage circuit breakers for export, 500 kV economical transformers, 25.8 kV C-GIS (Cubicle-Gas Insulated Switchgear), Q-class motors for nuclear energy, medium and low voltage circuit breakers, and small and medium size motors. The Division plans to finalize the development of ring main unit, light weight transformers, 550 kV GIS and other new models in order to achieve technological independence and expand the market. The Electro Electric Systems Division will surely outperform its competitors in terms of technology development by focusing on the superconductivity equipment research.

The Division adopted an intensified marketing in domestic market last year to expand the agent network for commercial products while building the overseas agent network and securing long-term supply contracts for transformers and generators for wind power plants, which guarantees stable sales. This year the Division will establish a joint venture in China to secure its presence in China market and to establish a bridgehead in advancing into the neighbor countries including Southeast Asia and the Middle East while, at the same time, continuing last year's marketing efforts.

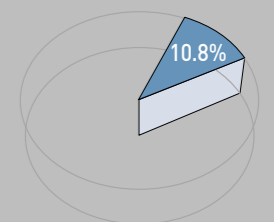
Moreover, the Electro Electric Systems Division is planning to organize the New Business Idea Group(N-BIG) aiming to secure a continued, stable growth in the time of fierce competition. The N-BIG will not only maintain and expand existing business lines but also create new profit models to bring more lucrative future to the Division.



Major Performance in 2002

Main transformer at Wolsung Nuclear Power Plant (840MVA)
– Manufactured Korea's largest capacity transformer with HHI's proprietary technology.
The Division is striving to occupying the No. 1 position in transformers.

Sales Revenue





Crawler Excavator / Robex 450LC-7



Jong Kie Kim
Chief Operation Officer of
Construction Equipment
Division

“Leading the domestic construction equipment market has always been a source of pride for the Construction Equipment Division. Our vast global network gives us even more visibility and the opportunity to introduce our high-quality construction equipment to the world.”



Construction Equipment

The Construction Equipment Division has made remarkable progress in the development of products. It has led the domestic construction equipment market with the development of the HX series and ROBEX-3 series respectively in 1993 and 1994. The Division reaffirmed its reputation as the top excavator producer in Korea and overseas markets with the launch of its state-of-the-art ROBEX-7 series in 2001.

Last year, the Division posted the sales of ₩504 billion for 10,200 Units, up 29% from the previous year. In the domestic market alone, it recorded sales growth of 39%. This sales increase was made thanks to revived construction industry, reinforced marketing campaigns during the off season, and expanded monitoring system among VIP clients.

Especially, in China market, the Division has laid a firm foundation as a total construction equipment manufacturer with the establishment of two subsidiaries in Changzhou and Beijing respectively in 1995 and 2002. Its status in China is expected to escalate further as the construction of the second factory for Changzhou Hyundai Construction Machinery was completed in February 2003. Those subsidiaries in China posted noticeable performance by showing the sales growth of 98% from last year's figure and the market share of 22.4%, ranking first in China market. Great success in the Chinese market is mainly attributable to the following strategies.

First, the Division helped lower the financial burden on its clients by extending sales on bank loan. Second, it proved to be effective to provide special incentives to sales agents based on their performance. Last but not the least, the Division employed contact sales strategies through equipment exhibitions, workshops, and counseling.

The Division will embark on active marketing campaigns to accomplish this year's sales target of ₩600 billion or 13,700 units, up 19% from the previous year. Despite the expected slight downturn in the construction industry, the Division plans to maintain its growth by swiftly responding to the market needs through facilitating the reuse of used equipment, expanding financial support programs, and reinforcing the sales network. The good news is that China is expected to record 7.8% increase in economic growth this year and this translates into increased demand for construction equipment. Riding on China's growth, the Division plans to keep up its growth in the Chinese market by doubling its production in China and enhancing its after-sales service with traveling overhaul teams. In Europe, the Division plans to organize its network of dealers in more effective ways and take advantage of various exhibitions and events. It will expand its market share in the American region by highlighting its brand image and launching marketing campaigns focusing on the strategic models.

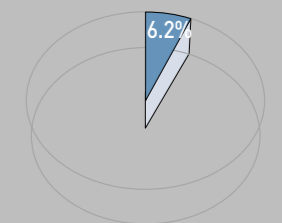
The Division enhances its worldwide network every minute to provide differentiated after-sales service and swift supply of parts. It also makes every effort to improve the quality of its products to the level of the best construction equipment in the world.

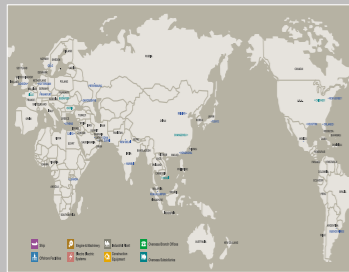


Major Performance in 2002

Changzhou Hyundai Construction Machinery a subsidiary in China, the first joint venture to be named as the most technologically advanced and knowledge intensive enterprise by the Chinese Science and Technology Administration [November 2002]

Sales Revenue





Marketing

Hyundai Heavy Industries integrated and realigned the marketing capabilities of the Shipbuilding, Offshore & Engineering, and Industrial Plant & Engineering Divisions in January 2003. The newly established Marketing Division aims to secure stable supply of orders, enhance the global marketing network for core products and employ differentiated marketing strategies in this rapidly changing global market. Under the leadership of Chief Operation Officer Ik Young Chung, the Division consists of 13 departments, with 183 specialized marketing forces making the synergy of marketing capability integration.

A series of uncertain events outside the market are likely to aggravate competition among domestic and international players: the world economy recession, the KRW appreciation against the USD, a possible war against Iraq, North Korean nuclear issues, and high oil prices. Despite these disappointing forecasts, the Marketing Division will strive to strengthen its competitiveness through an accurate market analysis, reinforced network and differentiated strategies.

In 2003, the Division expects to win orders worth \$5.34 billion, up 30.1% from the previous year. The Shipbuilding Division set this year's goal at \$3.04 billion, up 8.2% from last year's \$2.81 billion. The Offshore & Engineering Division plans to win orders worth \$1.5 billion, a 34.7% increase from last year. The Industrial Plant & Engineering Division aims to record \$800 million.



Ik Young Chung
Chief Operation Officer of
Marketing Division

The Shipbuilding Division will take a swift and preemptive measure for new orders with the demand increase. Especially, the Division will focus on winning new orders for large-scale projects and core products such as large containerships and oil tankers, and also high value-added vessels such as LNG, RO-PAX, LNG-FPSO, CNG and PLNG through active marketing strategy. Additionally, the Division will provide the shipowners with flexible delivery and further make every effort to improve profitability.

The Offshore & Engineering Division will reinforce its business capabilities through better budget estimation, improving contract terms and reducing project risks. The Division will concentrate on projects operated by major oil companies in West Africa, Nigeria, and Angola. It will also maintain firm partnerships and form strategic alliances with its competitors for long-term prospective.

The Industrial Plant & Engineering Division will establish an EPC turnkey project structure by focusing on core businesses such as oil, gas, desalination and power plant. The Division will bid jointly by setting up an international consortium with advanced engineering and construction companies for the markets with high entry barrier. Trained experts on industrial plants for West Africa and Middle East market, discovering promising local partners and creating large modules for core equipment are major plans to enhance the market competitiveness.

Research & Development

Starting with the registration of the HHI Research Institute at the Ministry of Science and Technology in 1982, HHI established the Hyundai Maritime Research Institute (HMRI), the Hyundai Electro-Mechanical Research Institute (HEMRI), and inaugurated the Research and Development Division in 1994. It has also established the Techno-Design Research Institute in 2000.

Each research institute constitutes the R&D Division which aims to bring the quality of HHI's key products up to top-class level by producing high value-added ships and offshore facilities, automated production facilities, energy & environment facilities and electro/electric system. Every member of the R&D Division, with a motivation to provide people with resources they need, works diligently to achieve further sophistication of core technologies and to secure preemptive technology for advancing into promising new businesses.

The R&D Division maintains a global network of technology composed of overseas research institutes in countries with advanced technology such as the US, EU and Japan, for the purpose of directly acquiring and utilizing up-to-date technology. Regarding the research environment, the Division continually invests in building its research infrastructure and in nurturing the researchers who are bright, creative, and energetic.

The budget for 2003 is ₩118 billion or 1.4% of sales, 26.7% up from last year's performance.

Maritime Research Institute

Makes valuable contributions to leverage our products to top-class level and improve our core technologies through specialized researches on hydrodynamics basic designs and performance tests as to ships, offshore vessels and floating structures, engines, pumps, construction equipment and various parts. It is also involved in other researches including dynamics, structural mechanics, noises & vibration.

Industrial Research Institute

Conducts researches on welding, materials, automation, energy & environment, engine and protective coatings and corrosion. In particular, it focuses on the research of core component technology and on processing technology that improves productivity in securing key design technology, optimizes welding processes and coating procedure for better product quality, improves material processing, and analyzes optimized production structure.

Electro-Mechanical Research Institute

Carries out in-depth research to secure key technology in the fields of power conversion, electric power machinery, system control and intelligent machine. It also looks to improve the performance of existing products including power conversion system, industrial robots, circuit breakers and power transformers through applying information technology; and develops new products with fresh concepts such as the distributed generation systems and the digital ship and electric propulsion system.

Techno-Design Research Institute

Contributes to enhancing competitiveness and adding value to main products of HHI through developing exterior/interior designs and graphics/color designs. It strives to obtain advanced design technology through collaborating with other design research institutes and universities both in and out the country.

Technology Management Sub-Division

Facilitates the sharing and distribution of knowledge by systematically collecting and analyzing internal and external technology-related knowledge and information; managing intellectual property such as patents; capitalizing HHI's proprietary technology, transfer and dissemination of the recently developed technology.

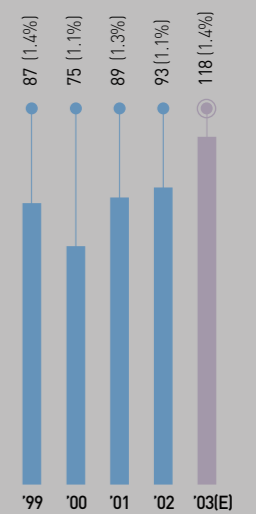


Towing Tank for Modelship Test



CRP-POD Model

R&D investment
(In billions of KRW)
(% to sales revenue)





Dong Seob Lee, Manager, Technical Education Institute



The People ...46

The Community ...47

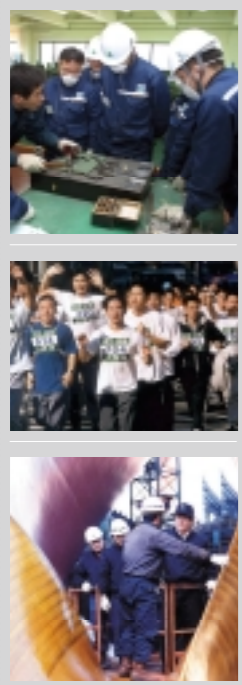
The Environment ...48

By reaching out to our employees, their families, and their community, HHI seeks to benefit the entire community. At the same time, we strive to preserve the environment for the benefit of all of mankind.

Mr. Lee holds a total of nine government-certified licenses, four of which he received within sixteen months, the shortest time ever. He acquired the license for skills in Boiler in June 2001, Plumbing in December 2001, Welding in July 2002, and Metal plate and Canning in October 2002. Notably, he is the only Plumbing "Master Craftsman" in Korea.

▶ The People

Through the eyes of our expert employees and people-oriented management.



Hyundai Heavy Industries(HHI) sees the potential of corporate prosperity and people-oriented management through successful HR management. To this end, HHI has implemented individual capability and performance oriented HR policies and organized training programs to cultivate experts with global leadership. HHI also encourages individuals to have a clear vision at work and runs a wide range of self-development programs: to achieve its goal to enhance HHI's competitiveness with its employees who are the experts in their own fields.

In addition, HHI is making continued efforts in order to introduce "fun-to-work" environment, where every employee can enrich one's identity through work. Thus, HHI strives to improve the quality of life through both substantial and cultural welfare support, also provides a variety of leisure programs.

Motivated by the belief that great people with great values are the keys to enhancing HHI's corporate competitiveness, and under the philosophy that talents are not born in nature but cultivated with both individual and corporate efforts, HHI provides a series of training programs such as Junior Board, domestic and overseas MBAs, and Techno-MBAs to share the following values with the employees: passion for bright future, open and creative attitude, and self-committment to humanity. HHI intends to a cultivate global business ability among all employees-from ordinary workers to executives-through diversified globalization training programs.

Community and employee welfare are included in the highest priorities, thus HHI endeavors to create a conscientious company culture by providing diverse welfare facilities that upgrade the quality of life both inside and outside the firm. First, housing for employees is the highest priority among all welfare policies. To this end, HHI has provided the employees with affordable housing, built or renovated residential buildings and dormitories. Second, HHI supports the families of its employees with tuition fee and daily necessities expenses and so on. Third, HHI schedules regular physical checkups for all employees, as there is nothing more important than maintaining one's health. In addition to the regular checkup, HHI supports the hospitalization and treatment expenses of the employees including their close family members. Last, for the pursuit of leisure, HHI operates a recreational condominium through the Corporate Welfare Fund.

▶ The Community

Hosting of World Cup Training Camps and Provision of Flood Relief

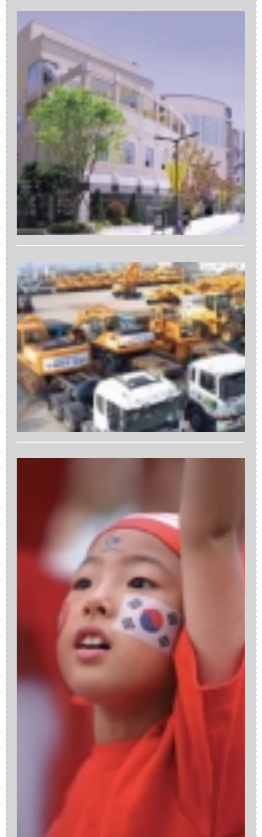
Hyundai Heavy Industries (HHI) has built and currently runs seven cultural and welfare centers. The Hyundai Arts Center, Hanmaum Center, Mipo Center, Eastern Center, Eastern Culture Class, Western Center, and the Daesong Center all provide local residents places to enjoy the arts and various leisure activities. At present, a daily average of ten thousand people visit these facilities to participate in cultural events, hobby classes, or sports such as swimming, ice skating, bowling, rock-climbing, and racket ball. HHI has also constructed the Hyundai Arts Park and Bangojin Sports Park to provide a place where its employees, their families, and local residents can spend a refreshing and relaxing time. It also offers a wide range of programs including mothers' college, children's camps, lectures, and cultural events such as writing, drawing, and singing contests. HHI has also extended its services to foreigners by offering language courses to help newcomers better adapt to their life in Korea.

HHI is committed to strengthening the community. In addition to its cultural and welfare centers, HHI makes a positive contribution to the educational development of the community as it runs five middle and high schools, three kindergartens, and a day-care center for dual-income families. In an effort to foster community spirit, it operates two professional sports teams of the Ulsan Hyundai Horangi Football Club and the Hyundai Cokkiri Korean Wrestling Team. These professional sports teams boost the morale of local residents and strengthen solidarity within their communities.

HHI's desire to create better communities is illustrated by its efforts that extend beyond its educational, cultural, and sporting facilities. In response to the growing parking problem, HHI constructed two parking lots that have a total capacity of 1,450 automobiles. Moreover, it also built a parking lot for 4,500 automobiles sprawling across 20 acres of land near HHI's building. Notably, this facility is free for the public.

HHI also recognizes the importance of contributing to the community with projects that are short-term in scope. Two notable events captured the attention of HHI in 2002: the 2002 FIFA World Cup and the flood that severely damaged many areas in Korea. With respect to the World Cup, HHI opened its six world-class, four -season football pitches and the Hyundai Club House so that Ulsan could host training camps for Spain, Turkey, and Brazil. Moreover, HHI built a splendid outdoor theater so that the visiting players could enjoy cultural performances. In response to the tragic flood, HHI offered relief aid to inundated areas such as Gangneung, Gimcheon, Yeongdong, and Gimhae. HHI sent a team of engineers, along with heavy equipment, to the areas that were the most destitute.

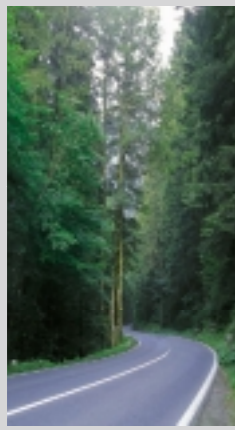
The short-term reactionary efforts and the long-term visionary projects all reflect HHI's desire to leave a positive and devoted impression on the community. The programs seek to enhance the quality of life for HHI's employees, their families, and surrounding communities.



Through the eyes of humanity.

 The Environment

Through
the
GREEN
eyes of
preservation.



With the dawn of 21st century, the world is undergoing rapid changes and developing in every aspect. Especially the changes taking place in the environment sector require us to find a way to better preserve the environment.

Amid these changes, consumers are becoming more environmentally aware, while governments around the world are strengthening domestic environment regulations and coming together to create international agreements to save the earth. With increasing attention on the Green Round, corporations of today must come up with green marketing strategies to survive in the market.

To this end, Hyundai Heavy Industries (HHI) has put in place an environmental management system in 1995 in accordance with ISO14001 certification. In an effort to implement better environmental and safety policies, HHI has created an integrated environmental management system by incorporating the safety and health system in 2001. In addition, HHI operates independent organizations including the Environment Pollution Prevention Task Force and the Energy Preservation Committee in order to prevent and deal with potential environmental accident and save energy. HHI's Safety and Environment Department assumes the responsibility of environmental management and will focus on the continuous development of its environmental management system to create a cleaner environment.

Since the implementation of the environmental management system, waste management has greatly improved. All of the Company's employees actively participate in waste recycling and the Company currently operates its own plant to increase the recycling of waste.

The Industrial Research Institute conducts various studies on subjects such as the atmosphere, water quality, waste, energy, environment, and safety in order to develop up-to-date environment technology. HHI strives to make positive contributions to the development of environment technology through technology transfers and joint research projects with outside research institutes. HHI has completed a number of value-added environment projects based on its broad experience and advanced technology and will continue to focus its effort on this business line.

HHI maintains annual environmental and safety training programs to broaden the environmental awareness of its employees, and provides in-depth environmental knowledge to workers in that field. From now on, it will enhance professional aspects of its training programs by adopting a course evaluation system. As a member of the local community, HHI and its entire staff lead the way in protecting the environment and spearheading a wide range of environmental campaigns.

SHE (Safety, Health and Environment) Policy

Developing mankind's affluent future through values management for people, society, and the future, HHI strongly recognizes that safety, health, and the environment are integral to mankind's happiness and business management.

Therefore, HHI pledges to continually perform and improve on the following activities in order to realize high living standards and to become the global leader in the heavy industries field.

Basic safety and health requirements:

- Continual improvement of safety facilities and working environment
- Improving the prevention system to reach the goals of zero accident and no disease
- Education and training on accident prevention and health promotion
- Application and enforcement of strict internal regulations based on legal requirements

Environmental technology development and pollution prevention program

- Development of energy-saving and environmentally friendly products
- Introduction of cleaner production technologies and environmental pollution prevention activities
- Actively accommodating international agreements and legal requirements
- Publishing periodic environmental reports

** Environmental Certification*



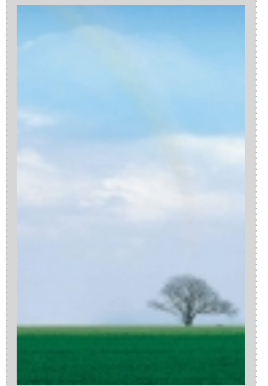
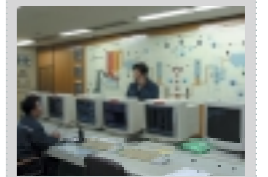
a)



b)

a) ISO 14001 Environmental Management System Certification from Det Norske Veritas(DNV) (March, 1997)

b) OHSAS 18001 Health and Safety Management System Certification from DNV (May, 2001)



As a member of the local community, HHI and its entire staff lead the way in protecting the environment and spearheading a wide range of environmental campaigns.

▶ Board of Directors

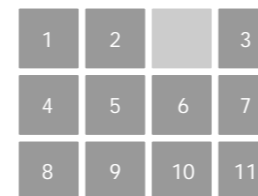


- 1▶ **Keh Sik Min**_Chairman of the Board of Directors_CEO
- 2▶ **Kil Seon Choi**_Director_CEO
- 3▶ **Byung Ki Park**_Director_CFO
- 4▶ **Myung Sun Shin**_Director_Senior Executive Vice President
- 5▶ **Ki Tai Park**_Outside Director_Audit Committee
- 6▶ **Gang Yon Lee**_Outside Director
- 7▶ **Moon Mo Chung**_Outside Director_Audit Committee
- 8▶ **Yoo Whan Chang**_Outside Director_Audit Committee

▶ Company Officers

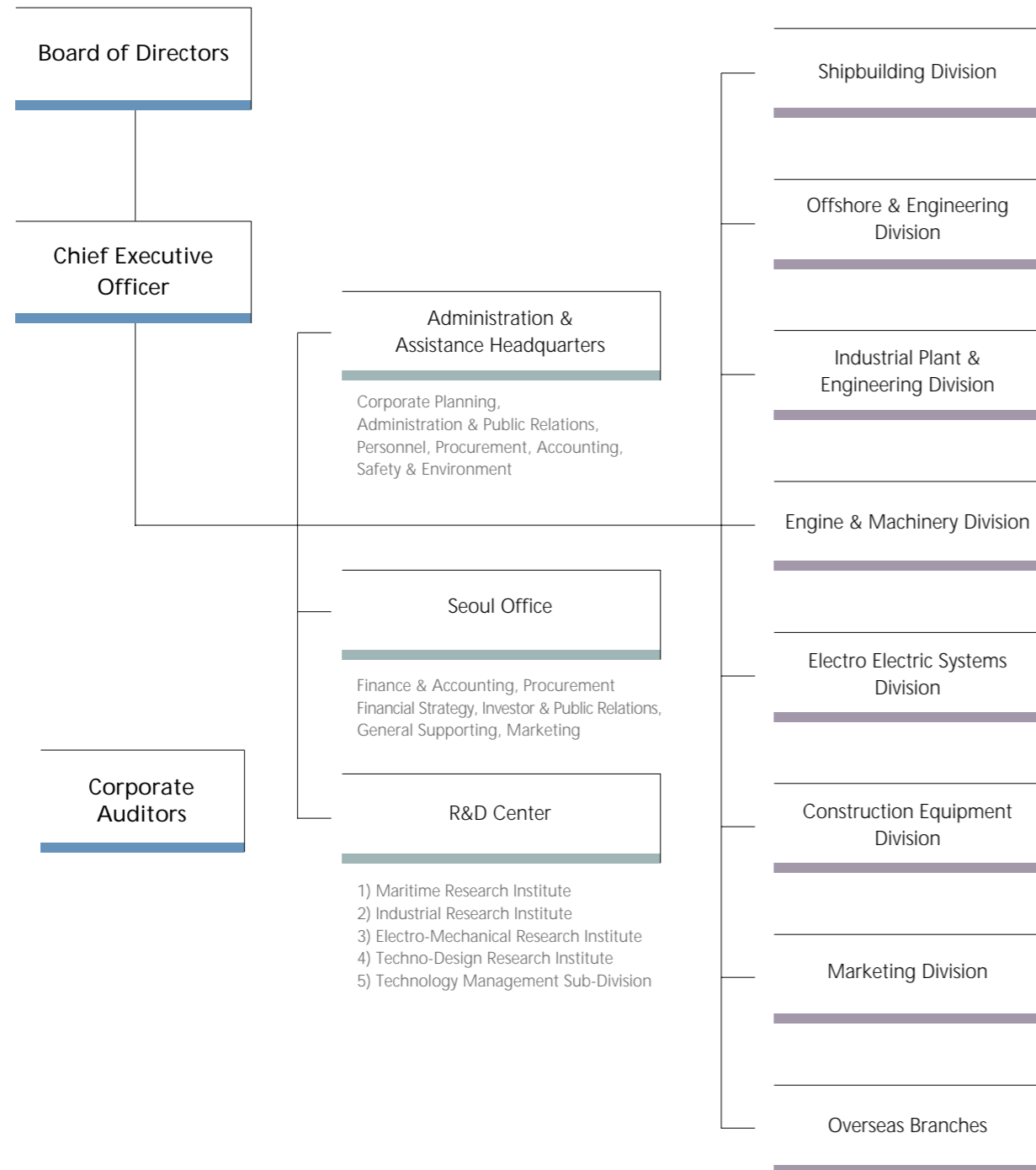


Senior Management:
A strong team at the helm
of a modern, profitable,
innovative corporation
focused resolutely
on the future.



- 1▶ **Kil Seon Choi**_Chief Executive Officer
- 2▶ **Dr. Keh Sik Min**_Chief Executive Officer
- 3▶ **Byung Ki Park**_Chief Financial Officer
- 4▶ **Ik Young Chung**_Chief Operation Officer of Marketing Division
- 5▶ **Mu Su Hwang**_Chief Operation Officer of Shipbuilding Division
- 6▶ **Jae Byung Song**_Chief Operation Officer of Offshore & Engineering Division
- 7▶ **Byung Sang Cho**_Chief Operation Officer of Industrial Plant & Engineering Division
- 8▶ **Soo Kyung Kim**_Chief Operation Officer of Engine & Machinery Division
- 9▶ **Young Nam Kim**_Chief Operation Officer of Electro Electric Systems Division
- 10▶ **Jong Kie Kim**_Chief Operation Officer of Construction Equipment Division
- 11▶ **Myung Sun Shin**_Chief of Administration & Assistance Headquarters

Organization Chart



History

1970s

<p>Dec. 1970 Secured orders for construction of two 260,000 DWT supertankers</p> <p>Mar. 1972 Groundbreaking for the Shipyard</p> <p>Dec. 1973 Founded Hyundai Shipbuilding & Heavy Industries Co. Ltd.</p> <p>June 1974 Dedicated the Shipyard to coincide with christening of first two VLCCs</p>	<p>Nov. 1974 Conferred the \$100 million Export Tower</p> <p>Mar. 1975 Established Industrial Plant Division</p> <p>May 1975 Completed Dry Dock #3 (1 million DWT capacity)</p> <p>Jan. 1977 Established Electro Electric Systems Division</p> <p>Feb. 1977 Established Engine & Machinery Division</p>	<p>Feb. 1978 Changed company name to Hyundai Heavy Industries Co., Ltd.</p> <p>Nov. 1978 Engine & Machinery Division incorporated as Hyundai Engines Manufacturing Co., Ltd.; Electro Electric Division incorporated as Hyundai Electronical Engineering Co., Ltd.</p>
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1980s

<p>July 1982 Established Construction Equipment Division</p> <p>April 1983 Established Special and Naval Shipbuilding Division</p> <p>Nov. 1983 Awarded \$1 billion Export Tower</p> <p>Nov. 1983 Inaugurated Hyundai Industrial Research Institute</p>	<p>Oct. 1984 Inaugurated Hyundai Maritime Research Institute</p> <p>June 1985 Established Offshore & Engineering Division</p> <p>Dec. 1986 Delivered the world's largest ore carrier (365,000 DWT)</p> <p>May 1989 Delivered the world's largest steel-jacket platform for the Exxon corporation</p>	<p>Aug. 1989 Construction Equipment Division incorporated as Hyundai Construction Equipment Industries Co., Ltd.</p> <p>Dec. 1989 Merged with Hyundai Engines Manufacturing Co., Ltd.</p>
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1990s

<p>Sept. 1991 Started building Korea's first LNG carrier/completed LNG tank fabrication shop</p> <p>Dec. 1993 Merged with Hyundai Electronical Engineering Co., Ltd. and Hyundai Construction Equipment Industries Co., Ltd.</p> <p>June 1994 Listed on KOSDAQ</p> <p>June 1994 Delivered Korea's first LNG carrier (Hyundai Utopia)</p> <p>July 1995 Awarded IE Grand Prize</p>	<p>May 1996 Dedicated joint construction equipment assembly plant in Changzhou, China</p> <p>Oct. 1996 Dedicated joint steel tower factory in Vietnam</p> <p>Apr. 1997 Acquired ISO 14001 International Environment Management Certificate</p> <p>Sept. 1997 Acquired transformer factory in Bulgaria</p> <p>Nov. 1997 Conferred Korea Quality Generator</p> <p>Sept. 1998 Exported Korea's first gas turbine</p>	<p>Mar. 1999 Awarded Order of Industry Service, Silver Tower</p> <p>Aug. 1999 Became Korea's first shipyard to receive an order for LNG carriers from overseas</p> <p>Aug. 1999 Listed on the Korea Stock Exchange</p> <p>Oct. 1999 Contracted management agreement with Samho Heavy Industries</p> <p>Dec. 1999 Awarded \$3 billion Export Tower</p>
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2000s

<p>June 2000 Granted the enterprise-wide ISO 9001 certificate</p> <p>Sept. 2000 Developed the proprietary diesel engine model for the first time in Korea</p> <p>Sept. 2000 Built the second Large Engine Factory</p> <p>Nov. 2000 Entered into the Government Next Generation Submarine Project (Building of three 1,800 Ton submarines by 2009)</p> <p>Feb. 2001 Completed the construction of the world's largest deep-ocean FPSO</p>	<p>Apr. 2001 Produced ship engines of 30 million bhp in the shortest period in the world</p> <p>Apr. 2001 Built the first double hull oil tanker (315,000 DWT) in Korea</p> <p>June 2001 Granted the OHSAS 18001 certificate</p> <p>Nov. 2001 HHI's proprietary engine model, "HIMSEN," awarded the New Technology (NT) and Excellent Machinery, Mechanism & Materials (EM) certificates</p> <p>Dec. 2001 Awarded the \$ 4-Billion Export Tower</p> <p>Jan. 2002 Advanced into the membrane LNG carrier market</p>	<p>Feb. 2002 Disaffiliated as a specialized heavy industry group</p> <p>Mar. 2002 Built one thousand ships within a period of 30 years</p> <p>Apr. 2002 HHI's large ship engines and LNG carriers designated as 2002 World Class Products by the Ministry of Commerce, Industry and Energy</p> <p>May 2002 Acquired Samho Heavy Industries Co., Ltd.</p> <p>Oct. 2002 HHI's "HIMSEN" engine acquired the type approval certificates from eight classification societies.</p>
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Overseas Network

Europe

London

11th Fl., St. Martin's House,
1 Hammersmith Grove,
London W6 ONB, U.K
Tel: 8741-0501, 1531
Fax: 8741-5620, 4571

Rotterdam

Waalstaete, 4th Fl. Waalhaven
Z.Z.2 3088 HH Rotterdam,
The Netherlands
Tel: 10212-1567
Fax: 10212-5134

Piraeus

5-7, Kanari Street,
185 37 Piraeus, Greece
Tel: 428-2992, 3
Fax: 428-2144

Oslo

Hyundai Oslo (Liaison) Office
Radhusgt. 20, 0151 Oslo.
Norway
Tel: 2241-0920
Fax: 2242-6671

Africa

Cairo

Apartment No.503, 5th Fl. Bldg.
No7, Block 2, 9th Division.
EL-NASR Road,
New Maadi,Cairo, Egypt
Tel: 520-0148, 0149
Fax: 754-7528

Luanda

Rua Lucrecia Paim, No.28/30
Luanda, Angola
Tel: 370692, 370669
Fax:399667, 338011

Middle East

Dubai

Hyundai Dubai Office
AL Dana Center Bldg. #609,
Maktoum Street,
P.O.Box 22034, Dubai, U.A.E.
Tel: 223-2533
Fax: 222-0943

Asia & Oceania

Beijing

Hyundai Heavy Industries Co., Ltd.
Beijing Office Room 506, 1 Tower
Landmark Bldg. 8 North
Dongsanhuan Road Chaoyang
District, Beijing, China 100004
Tel: 6590-0677, 0678
Fax: 6590-6532, 6554

Hong Kong

Suites 3201-2, Great Eagle
Centre, 23 Harbour Road,
Wanchai, Hong Kong
Tel: 2586-1291, 1470
Fax: 3106-5602, 5603

Singapore

7 Temasek Blvd., #41-02 Suntec
Tower One, Singapore 038987
Tel: 6337-2366
Fax: 6337-8966

Mumbai

Unit No.2, 17th Fl.,Commerce
Center No.1,World Trade
Center,Cuffe Parade, Colaba,
Mumbail-400 005, India
Tel: 2218-0062, 9523-6
Fax: 2218-0061/9522

Tokyo

8th Fl. Yurakucho Denki Bldg.,
1-7-1 Yuraku-cho, Chiyoda-ku,
Tokyo, JAPAN 100-0006
Tel: 001-81-3-3211-4792
Fax: 001-81-3-3211-2093

North America

New Jersey

Hyundai Heavy
Industries Co., Ltd.
300 Sylvan Avenue Englewood
Cliffs, NJ 07632 U.S.A
Tel: 816-4080, 4081
Fax: 816-4083

Houston

1400 Broadfield, Suite 110,
Park 10 Center
Houston, Texas 77084 U.S.A
Tel: 578-7097
Fax: 578-8317

Orlando

3452 Lake Lynda Drive
Suite 110 Orlando, Florida,
U.S.A. 32817
Tel: 249-7350
Fax: 275-4940

Latin America

Ukraine

(Representative Office of
Hyundai Heavy
Industries Co.,Ltd)
11, Dnepropetrovskoye
Shosse Zaporozhye,
69069 Ukraine
Tel: 139839, 595538
Fax: 595368

Firms Incorporated

Belgium

(Hyundai Heavy Industries
Europe N.V.) Vossendaal 11,
2440 Geel, Belgium
Tel: 56-2201, 2232, 2211
Fax: 59-3405

Hungary

Hunelec Engineering and
Technologies Ltd.
1146 Budapest,
Hermina UT 22, Hungary
Tel: 273-3730, 3733, 3739
Fax: 220-6708

Hanoi

(Hyundai Donganh Steel
Tower Co., Ltd.)
Block 3A Donganh Town
Hanoi, Vietnam
Tel: 883-3649, 3650, 3651
Fax: 883-3648

Beijing

(Beijing Hyundai Jingcheng
construction Machinery Co., Ltd.)
NO.2, Nanli, Luguoqiao,
Fengtai District, Beijing, China
Tel: 8321-8348, 4730, 4735,
8321-8347, 9880
Fax: 8321-1353, 4730

Bulgaria

Hyundai Elplom Trafo
1271, Sofia 41, Rojen Blvd.
Bulgaria
Tel: 938-1068, 3105, 2937
Fax: 936-0742, 0305

Changzhou

(Changzhou Hyundai
Construction Machinery
Co., Ltd.) Lushu, Changzhou,
Jiangsu, China (213002)
Tel: 675-0060, 5188
Fax: 675-5332, 5870

Chicago

(Hyundai Construction Equip.
U.S.A. Inc) 955 Estes Avenue
Elk Grove Village Il. U.S.A. 60007
Tel: 2228-8850, 8847, 8854, 8832
Fax: 437-3574

Financial Section

Management's Discussion & Analysis

Financial Statements

Independent Auditors' Report

Non-Consolidated Balance Sheets

Non-Consolidated Statements of Losses

Non-Consolidated Statements of
Appropriations of Retained Earnings

Non-Consolidated Statements of Cash Flows

Note to Non-Consolidated Financial Statements



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." The following sections contain forward-looking statements with respect to the financial condition, results of operations, and business of Hyundai Heavy Industries and plans and objectives of the management of Hyundai Heavy Industries. Statements that are not historical facts, including statements about Hyundai Heavy Industries' 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 Hyundai Heavy Industries to be materially different from any future results or performance expressed or implied by such forward-looking statements. Hyundai Heavy Industries does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this management 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 Hyundai Heavy Industries and the political and economic environment in which Hyundai Heavy Industries 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 Hyundai Heavy Industries undertakes no obligation to update publicly any of them in light of new information or future events.

I. Overview

In 2002, the Korean economy experienced a surge in growth despite the sluggish global economic reality. The domestic credit crisis, reduced consumer spending, and tensions surrounding North Korea's nuclear program dampened Korea's economic situation in the second half of 2002. Further, the weak U.S. dollar and declining shipbuilding prices created a challenging reality for Hyundai Heavy Industries (the Company). In response to these uncertainties, the Company focused its resources on meeting its 2002 objectives. As a result, the Company won new orders totaling \$5.8 billion. The Company's financial results for 2002 show ₩8,134 billion in sales revenue, ₩454.5 billion in operating profit, ₩-322.3 billion in recurring profit, and ₩-245.4 billion in net income.

With sales revenue of \$2.8 billion, the Shipbuilding Division continued to be prosperous in 2002. Highlighting the Division's longevity and sustained success is its record for producing the greatest number of ships in the shortest period of time: Since its foundation 30 years ago, the Shipbuilding Division has delivered over 1,000 vessels. In 2002, the Company once again demonstrated that it is a world-class shipbuilder when the Stena Britannica, a Ro-Pax built for Swedish Stena Ro-Ro, was selected as one of the world's best vessels.

The Offshore & Engineering Division boasted sales revenue of ₩1 trillion in 2002 as it executed a number of large-scale EPIC constructions including the Kizomba, Nakika, and Amenam projects. Notably, the future of offshore construction technology was greatly shaped by the Offshore & Engineering Division's successful completion of the world's first on-land construction of a super-large Floating Production Unit (FPU).

Despite intense competition, the Industrial Plant & Engineering Division won Shell's Bonny Terminal Integrated Project (BTIP) in Nigeria worth \$600 million on a turnkey basis in February 2003. It must be noted that the Division is once again profitable as a result of the efforts of the Company's management and staff.

The Engine & Machinery Division's HiMSEN engine was selected as one of Korea's Ten Best New Technologies and First Class Products in 2002 for its performance and environment-friendly characteristics. The HiMSEN is the Division's proprietary medium speed engine developed for both land and marine purposes. With the success of its HiMSEN engines, the Engine & Machinery Division is recognized as one of the best engine producers in the world.

The Electro Electric Systems Division introduced new lines of models including 145kV high-voltage gas circuit breakers, 500kV economic transformers, and Q-class motors for nuclear energy into the market in 2002. Clearly, the Division's investment in R&D is producing positive results. Despite intense technological competition, the Division is committed to emerging as a market leader.

The performance of the Construction Equipment Division was remarkable in 2002. It posted a 129.5% year-on-year increase in sales revenue to reach ₩504.7 billion in 2002. In doing so, it retained its number one position in the Chinese excavator market. In compensation to the Company's accomplishments, the Chinese government selected Changzhou Hyundai Construction Machinery, a subsidiary in China, as one of the most Technologically Advanced and Knowledge Intensive Enterprise in 2002.

Trend of Sales Revenue (In billions of KRW)						
	2002		2001		2000	
		Change		Change		Change
Shipbuilding	3,707.6	-2.0%	3,784.0	8.2%	3,496.5	2.6%
Offshore & Engineering	1,398.0	39.7%	1,000.4	13.3%	882.6	40.0%
Industrial Plant & Engineering	946.9	60.8%	589.0	12.7%	522.6	-14.0%
Engine & Machinery	589.2	-3.6%	611.1	30.8%	467.3	9.0%
Electro Electric Systems	881.0	-3.7%	914.8	15.8%	790.0	2.1%
Construction Equipment	504.7	29.5%	389.6	6.7%	365.0	45.2%
Others	106.7	-7.5%	115.3	12.9%	102.1	-53.3%
Total	8,134.1	9.9%	7,404.2	11.7%	6,626.1	4.7%

The Company firmly established a framework for independent management and corporate transparency when it completed its legal disaffiliation from the Hyundai Group on February 28, 2002. Other former Hyundai affiliates, Hyundai Mipo Dockyard Co., Ltd., Hyundai Finance Corporation,

Hyundai Futures Corporation, and Hyundai Venture Investment Corporation also disaffiliated from the Group to join the Company to form the Hyundai Heavy Industries Group. The Company acquired 100% shares of Hyundai Samho Heavy Industries on May 15, 2002, making a total of

Management's Discussion & Analysis

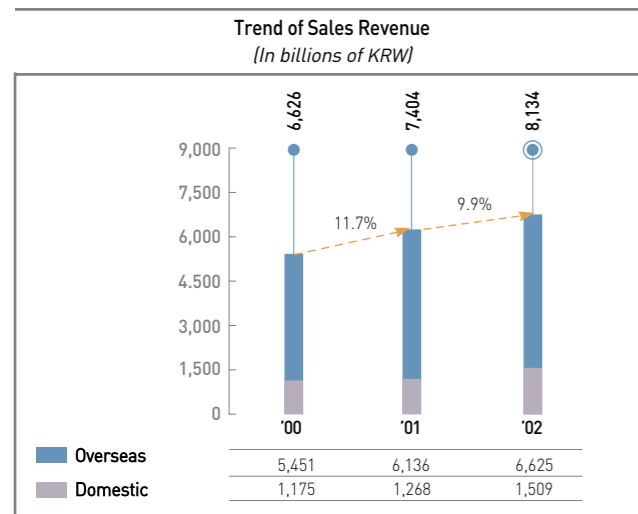
six Hyundai Heavy Industries affiliates. The management of Hyundai Samho Heavy Industries had been entrusted to the Company by contract since late September 2000.

As is widely known, the Company satisfied all the legal prerequisites for disaffiliation required under the provisions of the Fair Trade Act. In the process, the Company purchased 4.39 million treasury stocks (5.78%) possessed by Hyundai Merchant Marine through the Korea Stock Exchange.

II. Result of Operations

1. Analysis on Profit and Loss

The Company's sales revenue was ₩8,134 billion, up ₩730 billion, or 9.9%, compared to the previous year's ₩7,404 billion. This figure includes ₩3,708 billion of the Shipbuilding Division.



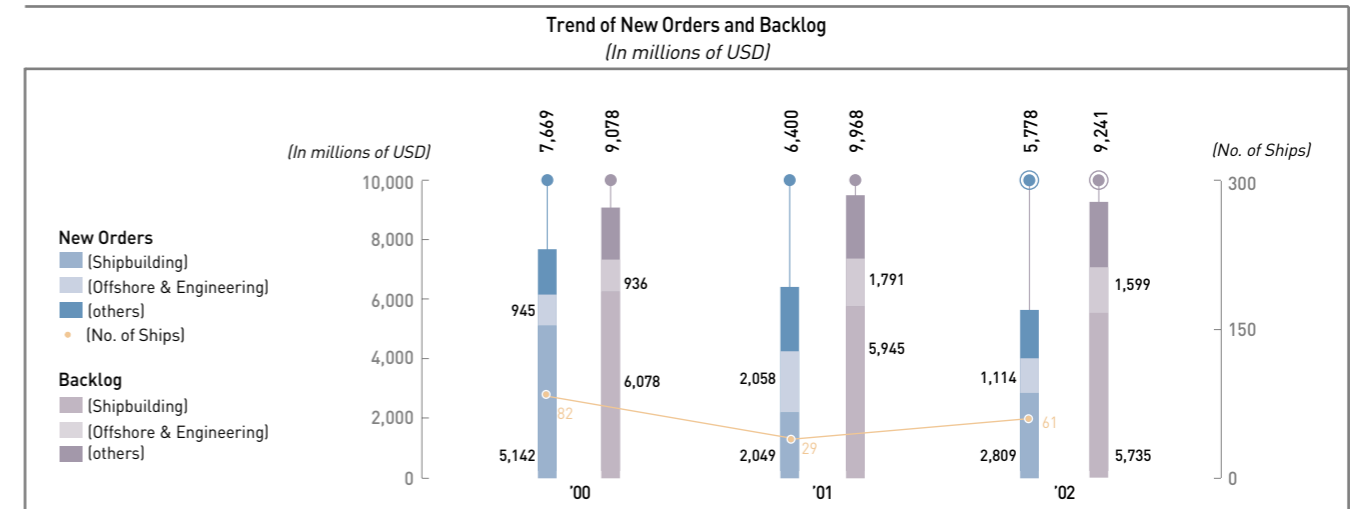
In terms of profit and loss, gross profit dropped by ₩139 billion to ₩1,074 billion in 2002 from ₩1,213 billion in 2001 mainly because of the KRW appreciation against the USD. Although the Company managed to reduce selling and

administration expenses by ₩62 billion and recorded a gain of ₩23 billion on equity method evaluation, the financial results of the Company reflected a loss of ₩582.3 billion on disposal and reduction of Hynix Semiconductor Inc.(HSI) shares. As a result, the Company posted ₩-322.4 billion in recurring profit and ₩-245.4 billion in net income.

On December 13, 2002, the Company disposed of 30% of its shares in HSI in accordance with the "Custody Agreement" made on June 14, 2001 with Korea Exchange Bank with regard to GDR issuance of the shares. Accordingly, the Company recorded a loss of ₩174.1 billion. Further, a valuation loss of ₩408.2 billion was recorded on the profit and loss statement for FY2002 for the remaining shares reflecting the market price at the end of 2002(₩280/share). The decision to make an early entry of the total sum of relevant loss in the accounting for FY2002 is to eliminate the possibility of future loss. This prudent accounting decision was made as the shares of HSI showed no sign of recovery. The gain on equity method evaluation was a result of the profit incurred by Hyundai Samho Heavy Industries and Hyundai Oilbank whose management has been stabilized. Such results occurred as the Company sold out investment assets, which were a major burden to the Company and aggravated its financial structure.

2. Analysis on Financial Structure

Concerning the financial structure, the Company reduced its debt by ₩283.5 billion to ₩470.2 billion, thereby improving its debt-to-equity ratio to 115.32% from 132.5% in the previous year. The liability-to-equity ratio increased by 4.02% to 223.79% in 2002. This was a result of the total shareholders' equity being reduced as the stake of the Company's treasury stocks (₩704.5 billion) was deducted from the capital adjustment account. Accounts receivable with respect to Hyundai Samho Heavy Industries decreased by ₩68.3 billion, and ₩146.5 billion resulting from the



Hyundai Securities' reimbursement of ₩97.2 billion regarding the lawsuit for full recovery of the Company's payment of the Canadian Imperial Bank of Commerce (CIBC) on behalf of HSI

Investment securities increased by ₩103.5 billion as a result of the acquisition and right's offerings of Hyundai Samho Heavy Industries.

3. Analysis on New Orders and Backlog

In 2002, the Company received new orders worth \$5.8 billion including \$2.8 billion for 61 ships in the Shipbuilding Division and \$1.1 billion in the Offshore & Engineering Division. Despite the unstable world economy and continuous decrease in shipbuilding prices, the Shipbuilding Division garnered \$2.8 worth of new orders, accounting for 48% of the total new orders in 2002. The Offshore & Engineering Division made a remarkable achievement as it received new orders exceeding \$1.0 billion for two consecutive years with \$1.1 billion in 2002 following \$2.0 billion in 2001. The Engine & Machinery, Electro Electric Systems, and Construction Equipment Divisions all received new orders over \$500

million in 2002 as well as in 2001. The Industrial Plant & Engineering Division ended the year in review with \$200 million because projects under negotiation have been delayed. Unfortunately, this result falls short of the Division's 2002 target of \$1.2 billion.

The Company has secured a two-year workload with a backlog totaling \$9.2 billion. Of this, the Shipbuilding Division claims \$5.7 billion while the Offshore & Engineering Division accounts for \$1.6 billion

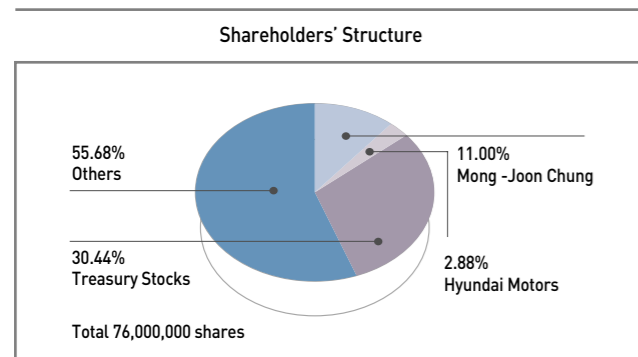
III. Current Issues

1. Treasury Fund

The Company purchased Hyundai Merchant Marine's 4.39 million shares in the Company (a 5.78% shareholder ratio) through the Korea Stock Exchange on January 2, 2002, as a part of its plans to complete the disaffiliation from the Hyundai Group on February 28, 2002. The Company also entered into a specified money trust contract (treasury fund) worth ₩705 billion with five domestic banks on December 31,

 Management's Discussion & Analysis

2002. Accordingly, the Company has acquired 30.35% of total shares issued, or 23,063,850 shares (with a total value of ₩704 billion) since January 2000. The contract, which expires on April 21, 2003, puts an emphasis on securing the Company's share prices and shareholders' rights and considers a way of gradually disposing of shares in a manner that does not adversely affect the share prices. The Company will continue to repay its debt to improve its financial structure with the overall disposal amount of the shares.



2. Performance Guarantee for HSI Manufacturing America Inc. (HSMA)

On May 22, 1997, HSI established Hynix Semiconductor Inc. Manufacturing America Inc., (HSMA), with a capital of \$200 million, in Eugene, Oregon to serve as a semiconductor fabrication facility in the U.S. in order to provide security for the \$1.2 billion facility loan to the creditors, HSI made an "Off-take Agreement" with HSMA to purchase all output from the facility.

At the request of Chase Manhattan Bank, the leading bank for the facility loan, three affiliates of the Hyundai Group at that time with superior credit positions (Hyundai Heavy Industries, Hyundai Merchant Marine, and Hyundai Corporation) entered a Group Support Agreement with HSMA to effectively guarantee HSI's purchase obligations.

Key terms of the agreement commit the three guarantor companies to purchase all output from the HSMA, should HSI fail to meet its purchase obligations. The balance for HSMA's borrowings stands at \$790 million as of February 28, 2003.

In late 2000, HSI's creditors announced plans to sell off the company after normalization while the Creditor Financial Institution Commission (CFIC) conferred on debt restructuring plans including debt-to-equity swaps and the rollover of debt. Recently, the CFIC decided on a large-scale capital write-down to enhance the capital efficiency and improve financial structure of HSI

The ongoing restructuring effort gained momentum when Hyundai Display Technology Inc., (HYDIS), the longstanding TFT-LCD arm of HSI, was successfully sold to China's BOE Technology Group (BOE) for \$380 million. This sale provided a sizable amount of cash for HSI. Additionally, the debt-restructuring plans allowed HSI to significantly improve its 2002 business performance and partly attributed to a decline in its financial and restructuring-related costs. Therefore, regardless of whether HSI is eventually sold off to a third party or survives on its own after its restructuring process, the three guarantors are not likely to incur a substantial loss as a result of the performance guarantee.

3. Lawsuit for Full Recovery of the Company's Payment to CIBC

In July 1997, as HSI (formerly Hyundai Electronics Industries Co. Ltd.) attempted to acquire foreign capital by selling off 13 million shares of Hyundai Investment & Securities Co., Ltd (HITS) to the Canadian Imperial Bank of Commerce (CIBC). The Company made a "Share Option Agreement" with CIBC in the form of a payment guarantee, and was provided with a written promise from HSI and Hyundai Securities Co., Ltd., (HSC) exempting the Company from any losses incurred in connection with the transaction. At the time of expiration of

the above agreement on July 20, 2000, neither HSC nor HSI honored their obligations, and as such, the Company had to pay the CIBC the amount of \$220 million owed to it by HSI

This payment was made in order to prevent the negative impact on the Company's external credit rating if the Company refused to honor the debt. On July 28, 2000, in light of the current global standards in corporate management that puts shareholders' value and transparent management first, it was determined that this situation could no longer be ignored. Consequently, the Company filed a lawsuit against HSI and HSC for full recovery of the FX amount that had been paid on their behalf and additional compensation for damages. On January 25, 2002, the Seoul District Court ruled that HSI and HSC were jointly and severally liable for 70% of the ₩245.4 billion (\$220 million) that the Company paid to CIBC. Accordingly, these two companies must pay the Company ₩171.8 billion, plus 5% interest calculated from July 21, 2000 to January 25, 2002, and 25% per annum thereafter until the payment is completed. On February 8, 2002, the Company appealed to the Seoul High Court for the remaining 30%. In compliance with the judgment on January 25, 2002 order, HSC paid 50% of the ruled amount, ₩97.2 billion (interest included) to the Company on April 17, 2002.

IV. 2003 Outlook

Despite cautious economy forecasts predicting a gradual recovery of the global economy in 2003, the tense Iraqi situation, the political and financial crisis in South and Central America, the simultaneous slowdown in the global stock markets, and the threat of deflation all combine to dampen the optimistic outlooks. In spite of the sluggish global marketplace, the local economy enjoyed exceptional growth as a result of low interest rates and rising consumption. However, beginning in the second half of last

year, growth began to falter as it became vulnerable to external changes due to credit uncertainty and flagging consumer confidence. Consequently, an in-depth analysis of the economic changes is necessary to strengthen the Company's foundation and core capabilities in order to react with flexibility and achieve stable growth while withstanding external pressures.

In light of the economic circumstances, the Company set projected sales revenue for 2003 at ₩8,328 billion, slightly up from last year's performance. Since valuation loss for unsold HSI shares has been reflected in advance in the profit and loss statement of FY2002, future large-scale loss on investments is unlikely to be incurred, and profitability is expected to improve by a large margin with operating income for FY2003 expected to reach ₩617.4 billion. In light of last year's dim figures, orders are projected to rise 26.9% over the previous year to reach \$7.33 billion. As of the end of February 2003, orders of Shipbuilding Division stood at \$1 billion, 34% achievement of the initial target, which indicates that this year's target will be easily achieved. Reflecting uncertainties in the market, capital expenditure is expected to decrease slightly from the previous year to hit ₩283.7 billion. However, because it constitutes the foundation for long-term company growth and competitiveness, R&D investment is projected to ₩117.9 million, a 26.7% increase from the previous year's performance.



Independent Auditors' Report

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

We have audited the accompanying non-consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2002 and 2001 and the related non-consolidated statements of losses, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. These 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion we draw your attention to the following matters.

As discussed in Note 13 to the accompanying non-consolidated financial statements, Hynix Semiconductor Inc. (HSI) sold the 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. (HITS) to the Canadian Imperial Bank of Commerce (CIBC) on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was

obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. In relation to this agreement, the Company was provided a written promise from HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances.

Based on above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC at a price of USD 220,480 thousand. The Company required HSI and HSC to honor their written promises. 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 found in favor of the Company and awarded a partial settlement of claim in the amount of ₩172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and accrued interest, related to the original claim. The ultimate outcome of the claim cannot be presently determined, and this litigation is pending as of the date of this report.

As discussed in Note 12 to the accompanying non-consolidated financial statements, the Company sold the 11,476,380 shares of HSI to the Credit Suisse First Boston International (CSFBi) for ₩203,028 million in September 2000. In relation to this transaction, the Company made a call option agreement with CSFBi whereby the purchase price of the shares may be retroactively adjusted upwards if the market price of the shares exceeds USD 15.6909 per share during the period as defined in the agreement.

As discussed in Note 14 to the accompanying non-consolidated financial statements, pursuant to the resolution of the board of directors on February 19, 2002, the Company entered into an agreement with Hyundai Asan Co., Ltd. to transfer the 8,905,000 common shares it previously acquired back to Hyundai Asan Co., Ltd. without any consideration. This was legally needed for the Company and its four affiliates to be deconsolidated from the Hyundai Group. On February 28, 2002, the Company was officially recognized to be independent from the Hyundai Group.

As discussed in Note 14 to the accompanying non-consolidated financial statements, the Company deposited

with Korea Exchange Bank the 34,379,440 common shares of HSI, which were required as part of HSI's restructuring and separation from the Hyundai Group, pursuant to the resolution of the board of directors on May 21, 2001 and June 1, 2001. As of December 31, 2002, the remaining shares were 24,065,440. In addition, on June 1, 2001, the Company provided Korea Exchange Bank a stock sale contract, a release of the right to vote and manage, and a letter of attorney to sell the shares subject to stock market conditions.

As discussed in Note 14 to the accompanying non-consolidated financial statements, pursuant to the resolution of the board of directors on April 30, 2002, the Company acquired the total common shares of Hyundai Samho Heavy Industries Co., Ltd. (HSHI), which had been managed by the Company under a trusteeship agreement, for par value. In relation with the increased paid-in capital of HSHI on December 20, 2002, the Company purchased additional 17,967 thousand common shares of HSHI, and became a major stockholder of HSHI with a 94.92 percent ownership as of December 31, 2002.

As discussed in Note 12 to the accompanying non-consolidated financial statements, the Company entered into an agreements to transfer its trade accounts and notes receivables of ₩294,858 million to Good & Safe Co. Ltd., pursuant to the resolution of the board of directors on November 11, 2002. The receivables transferred by the Company were recognized by revenue recognition as of October 31, 2002 and were from the shipbuilding contracts of eight vessels entered by the Company and Fiona Trust and Holding Corp. and six other ship-owners (total contract amount : USD 415,850,000).

As discussed in Note 12 to the accompanying non-consolidated financial statements, HSI has entered into a purchase agreement (off-take agreement) with Hynix Semiconductor Manufacturing America Inc. (HSMA), and 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 a collateral for the long-term borrowings of HSMA. The ultimate outcome of this agreement cannot be presently determined, and no

provision for any liability that may result has been made in the financial statements.

As discussed in Note 21 to the accompanying non-consolidated financial statements, the Company has entered into certain transactions with affiliated companies within the Hyundai Heavy Industries Group of companies and related parties for the year ended December 31, 2002. The Company's total sales to and purchases from affiliated companies amount to ₩669,364 million and ₩408,773 million, respectively. The related accounts receivable and accounts payable are ₩161,786 million and ₩53,571 million, respectively.

Without qualifying our opinion, we draw attention to Note 12 of the non-consolidated financial statements which states that the operations of the Company may be directly or indirectly affected by the general unstable economic conditions in the Republic of Korea and the impact of the implementation of structural reforms.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used 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 non-consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea

February 15, 2003

This report is effective as of February 15, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.



Non-Consolidated Balance Sheets

December 31, 2002 and 2001

In Millions of Korean Won	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	₩ 17,837	₩ 36,156
Short term financial instruments (Note 3)	23,586	130,760
Marketable securities	33,671	48,443
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩50,507,596 thousand in 2002 and ₩40,305,130 thousand in 2001 and present value discounts of ₩4,889,381 thousand in 2001 (Notes 2, 4, 12 and 21)	2,480,848	1,956,395
Other accounts receivable, net of allowance for doubtful accounts of ₩118,065,724 thousand in 2002 and ₩97,574,394 thousand in 2001 (Note 13)	459,479	602,311
Inventories (Note 5)	653,091	504,539
Advance payments, net of allowance for doubtful account of ₩434,808 thousand in 2002 and ₩619,616 thousand in 2001	80,089	99,834
Accrued income	1,420	3,103
Other current assets	87,892	18,959
Total current assets	3,837,913	3,400,500
Property, plant and equipment, net (Note 7)	4,373,994	4,339,868
Investments (Note 6)	1,111,515	1,025,064
Long term financial instruments, net of present value discounts of ₩4,674,353 thousand in 2002 and ₩6,610,047 thousand in 2001 (Notes 3 and 4)	45,322	43,020
Intangible assets (Note 8)	137,965	129,650
Deferred income tax assets (Note 19)	192,702	66,807
Other assets	44,296	52,221
Total assets	₩ 9,743,707	₩ 9,057,130

The accompanying notes are an integral part of these non-consolidated statements.

In Millions of Korean Won	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts and notes payable (Note 21)	₩ 890,434	₩ 812,993
Short term borrowings (Notes 2 and 9)	787,360	1,174,324
Current maturities of long-term borrowings and other long-term liabilities, net of discount of ₩5,986,286 thousand in 2002 and ₩4,249,084 thousand in 2001 (Notes 2 and 10)	1,125,773	924,344
Advances from customers	1,967,508	1,425,637
Income taxes payable	34,208	3,840
Withholdings	47,021	49,887
Accrued expenses	90,258	28,714
Other current liabilities	11,895	9,930
Total current liabilities	₩ 4,954,457	₩ 4,429,669
Debentures, net of discounts of ₩19,022,356 thousand in 2002 and ₩44,387,448 thousand in 2001 (Note 10)	₩ 1,531,038	₩ 1,392,923
Long term borrowings, net (Notes 2 and 10)		
Accrued severance benefits, net of severance insurance deposits and others of ₩701,136,952 thousand in 2002 and ₩681,458,820 thousand in 2001 (Note 11)	25,964	262,181
Other long term liabilities	197,613	126,260
	25,322	13,729
Total liabilities	6,734,394	6,224,762
Commitments and contingencies (Note 12)		
Shareholders' equity :		
Capital stock (Note 1)		
Common stock	380,000	380,000
Capital surplus (Note 15)	2,727,879	2,727,879
Retained earnings (Note 16)	629,995	878,082
Capital adjustments (Notes 17)	(728,561)	(1,153,593)
Total shareholders' equity	3,009,313	2,832,368
Total liabilities and shareholders' equity	₩ 9,743,707	₩ 9,057,130

The accompanying notes are an integral part of these non-consolidated financial statements.



Non-Consolidated Statements of Losses

For the years ended December 31, 2002 and 2001

In Millions of Korean Won
except per share amounts

	2002	2001
Sales (Notes 18 and 21)	₩ 8,134,063	₩ 7,404,230
Cost of sales (Notes 18 and 21)	7,060,233	6,190,606
Gross profit	1,073,830	1,213,624
Selling and administrative expenses (Note 22)	619,303	681,313
Operating income	454,527	532,311
Non-operating income:		
Interest and dividend income (Note 4)	94,966	142,807
Gain on foreign currency transaction	102,944	85,654
Gain on foreign currency translation	24,229	7,760
Gain on disposal of marketable securities	131	5,593
Gain on disposal of investments	256	9,144
Gain on disposal of property, plant and equipment	3,586	1,310
Gain on valuation of investments using the equity method of accounting (Note 6)	22,983	-
Others	71,806	71,124
	320,901	323,392
Non-operating expenses:		
Interest expense	259,228	350,554
Loss on foreign currency transaction	103,919	78,006
Loss on foreign currency translation	26,729	22,372
Loss on valuation of investments using the equity method of accounting	-	217,463
Loss on disposal of property, plant and equipment	5,093	6,608
Loss on disposal of investments (Note 6)	174,185	51,306
Loss on impairment of investments (Note 6)	442,329	60,412
Donation	41,205	16,889
Others	45,033	103,996
	1,097,721	907,606
Ordinary loss	322,293	51,903
Income tax expense (benefit) (Note 19)	[76,913]	26,218
Net loss	₩ 245,380	₩ 78,121
Loss per share (Note 20)	₩ [4,641]	₩ [1,376]
Ordinary loss per share (Note 20)	₩ [4,641]	₩ [1,376]

The accompanying notes are an integral part of these non-consolidated statements.



Non-Consolidated Statements of Appropriations of Retained Earnings

For the years ended December 31, 2002 and 2001
Dates of appropriations : March 14, 2003 and March 15, 2002
For the years ended December 31, 2002 and 2001, respectively

In Millions of Korean Won

	2002	2001
Retained earnings before appropriations:		
Unappropriated retained earnings (accumulated deficit) carried over from prior year	₩ -	₩ [164,936]
Cumulative effect of accounting changes		
Adoption of equity method of accounting for investments (Note 6)	(3,792)	(6,948)
Adoption of deferred income tax method (Note 19)	1,085	2,140
Net loss	(245,380)	(78,121)
	(248,087)	(247,865)
Transfers from voluntary reserves:	338,087	288,825
Appropriations:		
Reserve for business rationalization	-	2,460
Reserve for research and human development	90,000	38,500
	90,000	40,960
Unappropriated retained earnings to be carried over to the subsequent year	₩ -	₩ -

The accompanying notes are an integral part of these non-consolidated statements.



Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

In Millions of Korean Won	2002	2001
Cash flows from operation activities:		
Net loss	₩ (245,380)	₩ (78,121)
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	292,838	295,071
Bad debts expense	32,950	78,299
Provision for severance benefits	168,845	160,383
Amortization of discount on debentures	34,564	40,315
Loss on foreign currency translation	26,728	22,372
Loss on valuation of investments using the equity method of accounting	-	217,463
Loss on impairment of investments	442,329	60,412
Loss on disposal of investments	174,185	51,306
Loss on disposal of property, plant and equipment	5,093	6,608
Amortization of development costs	39,302	46,698
Gain on disposal of marketable securities	(131)	(5,593)
Gain on disposal of property, plant and equipment	(3,586)	(1,310)
Gain on foreign currency translation	(24,229)	(7,760)
Gain on disposal of investments	(256)	(9,144)
Gain on valuation of investments using the equity method of accounting	(22,983)	-
Others	42,279	35,189
	₩ 1,207,928	₩ 990,309
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts and notes receivable	₩ (546,731)	₩ 41,662
Decrease (increase) in accrued income and other receivables	122,431	(72,987)
Decrease (increase) in advance payment and prepaid expenses	(47,744)	31,167
Increase in inventories	(148,406)	(25,287)
Increase in trade accounts payable	78,712	75,695
Increase (decrease) in advances from customers	541,872	(362,485)
Decrease in accrued income tax and deferred income tax credits	(94,442)	(32,497)
Payments of severance benefits	(77,814)	(60,071)
Others	53,270	14,606
	(118,852)	(390,197)
Net cash provided by operating activities	843,696	521,991

The accompanying notes are an integral part of these non-consolidated statements.

In Millions of Korean Won	2002	2001
Cash flows from investing activities:		
Disposal of financial instruments	₩ 116,659	₩ 84,123
Disposal of marketable securities	11,173	44,706
Disposal of investment securities	4,964	99,948
Disposal of property, plant and equipment	13,014	9,460
Disposal of other investments	3,825	1,080
Acquisition of financial instruments	(1,029)	-
Acquisition of marketable securities	(6,136)	(39,259)
Acquisition of investment securities	(224,619)	(87,700)
Acquisition of property, plant and equipment	(139,849)	(172,296)
Acquisition of other investments	(30,109)	(53,286)
Payments for construction in-progress	(200,086)	(182,218)
Expenditures for development costs	(49,657)	(53,085)
Net cash used in investing activities	₩ (501,850)	₩ (348,527)
Cash flows from financing activities:		
Proceeds from short-term borrowings	2,298,836	2,193,310
Issuance of debentures	1,067,139	975,228
Proceeds from long-term borrowings	477,585	408,664
Repayment of short-term borrowings	(2,686,618)	(2,341,265)
Repayment of current maturities of long-term borrowings and other long-term liabilities	(928,593)	(996,101)
Repayment of debentures	(225,138)	(18,863)
Repayment of long-term borrowings	(301,904)	(275,668)
Acquisition of treasury stocks	(61,472)	(77,420)
Payment of dividends	-	(58,252)
Net cash used in financing activities	(360,165)	(190,367)
Net decrease in cash and cash equivalents	(18,319)	(16,903)
Cash and cash equivalents at the beginning of the year	36,156	53,059
Cash and cash equivalents at the end of the year	₩ 17,837	₩ 36,156

The accompanying notes are an integral part of these non-consolidated statements.



Note 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, sea-structures, plants, engines and other items.

The Company listed its shares on the Korean 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 52,861,876 shares of common stock are outstanding as of December 31, 2002. Of the total outstanding shares, Hyundai Motor Company and Mong-Joon Chung, own 2.88% and 11.00%, 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. As of December 31, 2002, no preferred stock, convertible debentures or debentures with stock options have been issued. Under the Articles of Incorporation, the Company is authorized to issue depository receipts free from any preemptive rights of shareholders by the approval of the Board of Directors. As of December 31, 2002, no depository receipts have been issued. 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 or by granting stock options to employees.

In addition, under the Articles of Incorporation, the Company is authorized to grant stock options to the Company's employees and directors, up to 15% of issued common stock. As of December 31, 2002, no stock options have been granted to the Company's employees and directors.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements in accordance with Financial Accounting Standards of the Republic of Korea are summarized below:

Basis of Financial Statement Presentation -

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with financial accounting standards generally accepted in the Republic of Korea. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. 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 non-consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain information attached to the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position and results of operations, is not presented in the accompanying non-consolidated financial statements.

Use of Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles in the Republic of Korea requires management to make estimates and assumptions that affect the amount reported therein. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

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. Other sales revenues are recognized upon delivery of goods.

Marketable Securities -

Marketable securities held for short-term cash management purposes are stated at fair market value, and valuation gains or losses are reported in current operations.

Valuation of Assets at Present Value -

As part of the composition proceedings, the repayment terms of certain assets and liabilities of the Company were restructured and extended. These assets and liabilities were then revalued at their net present value using the Company's effective interest rate. The difference between the pre-composition carrying amount and the net present value of the restructured repayment terms has been reflected in the accompanying non-consolidated financial statements as bad debt expense. The discounts will be amortized over the lives of the respective assets using the effective interest method. Amortization will be recorded as interest income.

Allowance for Doubtful Accounts -

The Company provides an allowance for doubtful accounts receivable based on the historical collection experience and estimated collectibility of the receivables.

Inventories -

Inventories are stated at the lower of cost or market. Cost is determined using the moving average method, except for materials in-transit which are recorded using the specific identification method.

Investments -

Investments in equity and debt securities are initially carried at cost including incidental expenses with cost determined using the weighted average method. In the case of debt securities, cost includes the premium paid or discount received at the time of purchase.

Investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are accounted for in the capital adjustment account, a component of shareholders' equity. Declines in fair value which are anticipated to be permanent are recorded in current operations after

eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Investments in non-marketable equity securities of non-controlled investees are carried at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in equity securities of companies over which the Company exerts significant control or influence (controlled investees) are recorded using the equity method of accounting. 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 Company records changes in its proportionate ownership of the book value of the investee is current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee. 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.

Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums (amortized cost). Declines in the fair value of debt securities, which are anticipated to be permanent are recorded in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

Other investments in debt securities are carried at fair value. Temporary differences between fair value and

amortized cost are accounted for in the capital adjustment account. Declines in fair value which are anticipated to be permanent are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Foreign currency financial statements of equity method investees are translated into Korean Won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustment account, a component of shareholders' equity.

Property, Plant and Equipment and Related Depreciation - Property, plant and equipment are recorded at cost, except for certain assets subject to upward revaluation in accordance with the Korean Asset Revaluation Law.

Expenditures, which enhance the value or extend the useful life of the related assets, are capitalized, whereas expenditures for routine maintenance and repairs are expensed as incurred.

Interest cost is capitalized in connection with the purchase or construction of major property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life [see Note 7].

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

	Estimated Useful Lives (Years)
Buildings and structures	20 - 40
Machinery and equipment	10
Ships	12
Vehicles	5
Tools, furniture and fixtures	5

Lease Transactions -

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

Capital leases -

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.

Operating leases -

Operating lease payments are recognized as current expenses on an accrual basis over the term of the lease.

Intangible Assets -

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

	Estimated Service Lives (Years)
Development costs	5
Usage right for donated properties	20 - 40

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

Discounts on Debentures -

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

Foreign Currency Translation -

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates prevailing at the balance sheet date (in case of U.S. Dollars for the year ended December 31, 2002, USD 1= ₩1,200.40).

Resulting translation losses and gains are recognized in current operations.

Assets and liabilities denominated in foreign currencies as of December 31, 2002 are as follows:

Account	In Thousands of Foreign Currencies		In Millions of Won	
Assets				
Trade accounts receivable	USD	186,882	₩	224,333
	EUR	17,674		22,223
	Others			15,597
Cash and cash equivalents & other assets	USD	35,757		42,923
	INR	191,700		4,808
	Others			1,038
			₩	310,922
Liabilities				
Short-term borrowings	USD	42,970	₩	51,581
	Others			17,610
Long-term borrowings and others	USD	321,019		385,352
	Others			18,355
			₩	472,898

Provision for Forseeable Losses from Construction Contracts -

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

companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

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 represent the amount which would be payable assuming all eligible employees were to terminate their employment as of the balance sheet date. As of December 31, 2002, total accrued severance benefits amounts to ₩ 898,750 million. Accrued severance benefits are funded approximately 71.1% as of December 31, 2002 through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance

In accordance with the Korean National Pension Act, a certain portion of accrued severance benefits is contributed to the National Pension Fund and deducted from accrued severance benefits. The contributed amount shall be refunded from the National Pension Fund to employees on their retirement.

Deferred Income Taxes -

The Company applies the deferred method of accounting for income taxes. Under this method, the future tax effects of temporary differences between the financial accounting and tax bases of assets and liabilities are reflected in the balance sheet as of December 31, 2002.

3. Restricted Financial Instruments

As of December 31, 2002 and 2001, bank deposits amounting to ₩7,576 million and ₩6,669 million, respectively, are subject to withdrawal restrictions in

relation to certain short-term and long-term borrowings and ship construction contracts (see Notes 9 and 10).

4. Trade Notes Receivable and Long-Term Financial Instruments

Pursuant to the resolution of the creditors' committee of the Hyundai Petrochemical Co., Ltd. on October 17, 2001, the repayment terms of certain assets of the Company

were restructured and extended. Therefore, these assets were revalued at their net present value using the Company's effective interest rate as follows :

Unit : Millions of Won

	Nominal value	Present value discount	Book value
Trade note receivable	₩ 42,500	₩ -	₩ 42,500
Long-term financial instruments	43,000	4,674	38,326
	₩ 85,500	₩ 4,674	₩ 80,826

In relation to the above trade notes receivable and long-term financial instruments, the interest revenue amounting

to ₩6,825 million are recorded as non-operating income.

5. Inventories

Inventories as of December 31, 2002 and 2001 comprise the following :

Unit : Millions of Won

	2002	2001
Merchandise	₩ 45,181	₩ 102,667
Finished products	24,102	29,455
Work-in-process	37,245	33,010
Materials	176,060	180,481
Supplies	8,284	7,875
Materials in-transit	362,219	151,051
	₩ 653,091	₩ 504,539

6. Investments

Investments as of December 31, 2002 and 2001 comprise the following:

Unit : Millions of Won

	2002				2001
	Number of shares	Equity share(%)	Acquisition cost	Recorded book value	Recorded book value
Listed stocks :					
Hyundai Motor Company (common stock)	3,735,000	1.70	₩ 59,078	₩ 103,646	₩ 100,471
Hynix Semiconductor Inc.	24,065,440	0.46	414,957	6,738	83,198
Chohung Bank	12,089,238	1.78	118,709	49,566	50,049
Tong Yang Investment Bank	3,757,865	4.43	99,828	7,140	14,806
Hyundai Corporation	2,142,000	2.91	11,227	2,024	3,406
Hyundai Elevator Co., Ltd.	120,320	2.14	1,632	758	1,113
Korea Industrial Development Co., Ltd.	-	-	-	-	785
Kia Motors Co., Ltd.	88,245	0.02	2,682	777	782
			708,113	170,649	254,610
Unlisted stocks :					
Hyundai Asan Co., Ltd.	8,949,840	9.94	44,749	17,079	45,123
Hynix Semiconductor America Inc.	85,398	1.33	34,526	-	17,524
Daehan Oil Pipeline Corporation	1,438,554	6.39	14,512	14,512	14,512
Alcan Taihan Aluminum Ltd.	177	0.15	11,539	492	11,539
Yunhap Machinery Finance Co., Ltd.	2,000,000	9.99	10,000	10,000	10,000
Bexco., Ltd.	946,000	7.96	9,460	9,460	9,460
Thrunet Co., Ltd.	1,568,000	2.18	7,948	7,948	7,948
Others			7,291	7,291	5,531
			140,025	66,782	121,637
Investments in affiliated companies : (Equity-method)					
Hyundai Oilbank	81,167,566	33.12	₩ 443,584	₩ 285,129	₩ 281,274
Hyundai Finance Corp.	12,350,000	67.49	78,198	75,419	80,761
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,200	249,633	-
Hyundai Mipo Dockyard Co., Ltd.	4,040,936	27.68	22,687	51,131	76,609
Inchon Energy	3,284,884	31.00	16,424	9,749	12,401
Hyundai Heavy Industries Europe N.V.	1,049	100.00	30,948	3,358	5,532
Hyundai Construction Equipment U.S.A	23,900,000	100.00	26,713	-	-
Hyundai Elprom Trafo AD	4,290,089	97.78	5,650	4,387	4,018
Others			87,895	86,375	79,319
			916,299	765,181	539,914

Unit : Millions of Won

	2002				2001
	Number of shares	Equity share(%)	Acquisition cost	Recorded book value	Recorded book value
Investments in affiliated companies : (Not using equity-method)					
Hyundai Vinashin Shipyard	-	10.00	₩ 2,544	₩ 2,544	₩ 2,544
Hyundai S/V Indonesia	7,200	45.00	262	-	-
Others			43	26	26
			2,849	2,570	2,570
Other investments					
Investments in capital			4,928	4,928	4,928
			1,772,214	1,010,110	923,659
Investments in debt-securities					
Hyundai Petrochemical Co., Ltd. debentures			101,405	101,405	101,405
			101,405	101,405	101,405
Total			₩ 1,873,619	₩ 1,111,515	₩ 1,025,064

Investments in listed companies are stated at market value. The resulting unrealized valuation losses of ₩72,735 million as of December 31, 2002 (including ₩6,717 million for the year ended December 31, 2002) are recorded as a separate component of shareholders' equity ("capital adjustment").

Investments in unlisted companies are stated at cost. The net asset value of the investments in Hynix Semiconductor America Inc. and Hyundai Asan Co., Ltd. has declined significantly and is not expected to recover. Accordingly, the differences between the recorded book value as of December 31, 2002 and net realizable value of these investments amounting to ₩34,110 million have been written-off and are recorded as non-operating expenses.

The Company has adopted the equity method of accounting for all investments in which the Company has significant influence over the operations of the investee. Gain on valuation of investments using equity method of ₩22,983 million for the year ended December 31, 2002 is recorded as non-operating income. Decrease in the investee's retained earnings for the year ended December 31, 2002

amounting to ₩3,792 million is recorded as an adjustment to retained earnings. The effect of the equity method of accounting on the ending balance of capital adjustments was ₩51,643 million as of December 31, 2002 including a ₩16,380 million decrease of capital adjustments for the year then ended.

The Company acquired the shares of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) on May 15, 2002. However, the Company applied the equity method using the financial statements as of June 30, 2002 because the financial statements were not available at the time of acquisition.

As of December 31, 2002, the Company has discontinued the equity method of accounting for investments in H.C.E. USA, Vladivostok Business Center Co., Ltd. and Hyundai Furniture Industries at the time the Company's share of accumulated losses was equal to the costs of the investments, and until the subsequent changes in its proportionate net income of the investees equals its proportionate net losses, which were not recognized during the period the equity method of accounting was suspended.

Investments securities valued by the equity method as of December 31, 2002 and 2001 are summarized as follows:

Unit : Millions of Won

	2002					2001
	Number of shares	Equity share(%)	Acquisition cost	Net Asset book value	Recorded book value	Recorded book value
Hyundai Oilbank	81,167,566	33.12	₩ 443,584	₩ 269,327	₩ 285,129	₩ 281,274
Hyundai Finance Corp.	12,350,000	67.49	78,198	74,202	75,419	80,761
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,200	227,964	249,633	-
Hyundai Mipo Dockyard Co., Ltd.	4,040,936	27.68	22,687	50,665	51,131	76,609
Inchon Energy	3,284,884	31.00	16,424	9,749	9,749	12,401
Hyundai Heavy Industries Europe N.V.	1,049	100.00	30,948	6,674	3,358	5,532
H.C.E U.S.A	23,900,000	100.00	26,713	-	-	-
Hyundai Elprom Trafo AD	4,290,089	97.78	5,650	4,914	4,387	4,018
Others			86,875	86,906	86,375	79,319
			₩ 916,299	₩ 730,401	₩ 765,181	₩ 539,914

The changes in the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee for the years ended December 31, 2002 and 2001 as follows:

Unit : Millions of Won

	2002				2001
	Beginning balance	Increase (Decrease)	Amortization	Ending Balance	Ending balance
Hyundai Oilbank	₩ 12,861	₩ -	₩ (7,781)	₩ 5,080	₩ 12,861
Hyundai Finance Corp.	2,852	-	(1,636)	1,216	2,852
Hyundai Samho Heavy Industries Co., Ltd.	-	35,370	(3,537)	31,833	-
Hyundai Mipo Dockyard Co., Ltd.	932	-	(466)	466	932
Hyundai Elprom Trafo AD	(659)	-	132	(527)	(659)
Others	121	-	(116)	5	121
	₩ 16,107	₩ 35,370	₩ (13,404)	₩ 38,073	₩ 16,107

Gains or losses on valuation of investment securities using the equity method are as follows:

Unit : Millions of Won

	2002				2001
	January 1, 2002	Gains (losses) on valuation of investment securities[*]	Other increase or decrease	December 31, 2002	December 31, 2001
Hyundai Oilbank	₩ 281,274	₩ 6,211	₩ (2,356)	₩ 285,129	₩ 281,274
Hyundai Finance Corp.	80,761	(5,365)	23	75,419	80,761
Hyundai Samho Heavy Industries Co., Ltd.	-	45,433	204,200	249,633	-
Hyundai Mipo Dockyard Co., Ltd.	76,609	(25,517)	39	51,131	76,609
Inchon Energy	12,401	(2,093)	(560)	9,748	12,401
Hyundai Heavy Industries Europe N.V.	5,532	(3,158)	983	3,357	5,532
Hyundai Elprom Trafo AD	4,018	575	(206)	4,387	4,018
Others	79,319	6,897	161	86,377	79,319
	₩ 539,914	₩ 22,983	₩ 202,284	₩ 765,181	₩ 539,914

[*] Unrealized profit arising from the sales by the Company to equity method investees, amounting to ₩4,979 million is fully eliminated.

The investments securities using most recent available financial information, which have not been audited or reviewed, are as follows:

Unit : Millions of Won

	2002			2001
	Net asset value before Adjustment	Adjustment	Net asset value after adjustment	Net asset value after adjustment
Hyundai Finance Corp.	₩ 74,201	₩ -	₩ 74,201	₩ 77,909
Changzhou Hyundai Construction Machinery Co., Ltd.	28,170	-	28,170	21,972
Information & Telecommunication				
Investment MIC 99-1 IT				
Venture Partnership	8,420	-	8,420	12,479
Incheon Airport Energy Co., Ltd.	9,749	-	9,749	12,401
HITC-Hyundai Hightech Investmen Partnership	10,342	-	10,342	10,453
Hyundai & Terasource				
D-Convergence Venture				
Investment Partnership	10,426	-	10,426	9,891
Hyundai Heavy Industries Europe N.V.	6,674	-	6,674	5,532
New Korea Country Club	1,368	-	1,368	1,148
Hyundai Dongahn Steel	1,098	-	1,098	707
	₩ 150,448	₩ -	₩ 150,448	₩ 152,492

Pursuant to the resolutions of the creditors' committee of Hyundai Petrochemical Co., Ltd. on October 17, 2001, the convertible bonds were converted to private corporate debentures. In relation to the conversion, the Company stated these investments in debt securities at cost because the Company has the intent and ability to hold the investments to maturity.

903,300 common shares and 1,600,000 common shares of Hyundai Motor Company and Hyundai Mipo Dockyard Co., Ltd., respectively, are pledged as collateral for the Company's various bank loans as of December 31, 2002 (see Notes 9 and 10).

7. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2002 and 2001 comprise the following:

Unit : Millions of Won

	2002	2001
Buildings and structures	₩ 2,065,922	₩ 1,936,126
Machinery and equipment	1,663,550	1,550,222
Ships	115,932	84,429
Vehicles	21,240	18,804
Tools, furniture and fixtures	718,695	739,436
	4,585,339	4,329,017
Less: accumulated depreciation	(1,614,857)	(1,427,283)
	2,970,482	2,901,734
Land	1,222,539	1,178,648
Construction in-progress	180,973	259,486
	₩ 4,373,994	₩ 4,339,868

A substantial portion of buildings, machinery and equipment were insured against fire and other casualty losses up to approximately ₩1,590,982 million as of December 31, 2002. The Company maintains insurance coverage against fire and other casualty losses of up to ₩1,323,065 million for ships and sea structures under construction and the insurance proceed of ₩911,547 million is pledged as collateral for loans from Export-Import Bank of Korea and other banks as of December 31, 2002 (See Notes 9 and 10).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability

On June 14, 2001, the Company entered into an agreement wherein 34,379,440 shares of Hynix Semiconductor Inc. (HSI) were deposited with Korea Exchange Bank as a requirement for the restructuring of HSI (see Note 14). The Company sold the 10,314,000 shares of HSI in exchange for ₩3,790 million and recognized a loss on disposal of investment amounting to ₩174,053 million. Also, the difference amounting to ₩408,219 million between the acquisition cost and fair value of the remaining 24,065,440 shares, which will be sold until September 2003, is recorded as non-operating expenses.

insurance policy up to ₩1,569,907 million as of December 31, 2002. The Company also maintains insurance on cargo against damage and claims losses of up to ₩1,456,648 million for products being exported and imported.

A substantial portion of property, plant and equipment is pledged as collateral for various bank loans up to ₩401,318 million as of December 31, 2002 (see Notes 9 and 10).

The Company capitalized ₩25,833 million of interest costs as part of the cost of construction and the acquisition cost of inventories for the year ended December 31, 2002.

8. Development Costs

Development costs included in intangible assets as of December 31, 2002 and 2001 are summarized as follows :

	Unit : Millions of Won			
	2002		2001	
Beginning balance	₩	95,240	₩	88,853
Capitalized		49,657		53,085
Amortized		(39,302)		(46,698)
Ending balance	₩	105,595	₩	95,240

Ordinary development expenses incurred for the years ended December 31, 2002 and 2001 amounted to ₩41,037 million and ₩27,037 million, respectively.

9. Short-term Borrowings

Short-term borrowings as of December 31, 2002 and 2001 comprise the following :

	Interest rate as of December 31, 2002 (%)	Unit : Millions of Won	
		2002	2001
Bank overdraft facilities	-	₩ -	₩ 42,420
General term loans	6.80	40,000	-
Notes discounted by merchant banks	4.85 ~ 7.95	110,000	98,200
Foreign trade financing	JPY L + 0.4 ~ 0.7		
	USD L + 0.4 ~ 0.7	69,191	444,114
Pre-delivery financing	Prime rate + 0.3		
	USD L + 0.31~0.8	568,169	589,589
		₩ 787,360	₩ 1,174,323

Certain financial instruments, investments and property, plant and equipment are pledged as collateral for the above short-term borrowings (see Notes 3, 6 and 7)

10. Long-term Debts

Long-term debts as of December 31, 2002 and 2001 comprise the following :

	Interest rate as of December 31, 2002 (%)	Unit : Millions of Won	
		2002	2001
Non-guaranteed debentures	5.0-11.0	₩ 2,275,100	₩ 2,072,310
Won currency loans		368,694	388,181
Foreign currency loans		63,989	167,593
		2,707,783	2,628,084
Less : discounts		(19,022)	(44,387)
current maturities		(1,131,759)	(928,593)
		₩ 1,557,002	₩ 1,655,104

Debentures comprise publicly issued debentures of ₩1,895,000 million and private debentures of ₩380,100 million.

December 31, 2002 and recorded losses amounting to ₩902 million as loss on redemption of debentures.

The Company made an early redemption debentures amounting to ₩219,700 million for the year ended

Certain financial instruments, investments and property, plant and equipment are pledged as collateral for the above loans (see Notes 3, 6 and 7).

Won currency loans as of December 31, 2002 and 2001 comprise the following :

	Interest rate as of December 31, 2002 (%)	Unit : Millions of Won	
		2002	2001
Predelivery financing from	yield rate+0.58~1.06		
Export-Import Bank of Korea	prime rate+0.2	₩ 368,487	₩ 379,686
Facility loans from Seoul Bank and two other banks	-	-	8,200
Others	3.0~9.0	207	295
		368,694	388,181
Less : current maturities		(346,297)	(216,494)
		₩ 22,397	₩ 171,687

Foreign currency loans as of December 31, 2002 and 2001 comprise the following :

	Interest rate as of December 31, 2002 (%)	Unit : Millions of Won	
		2002	2001
Facility loan from CLB and a bank	6ML+0.675~3ML+0.7	₩ 5,809	₩ 17,864
Pre-delivery financing from			
Export-Import Bank of Korea	Libor+1.48~1.77	58,180	149,729
		63,989	167,593
U.S. Dollar equivalent (in thousands)		(USD 53,307)	(USD 126,380)
Less : current maturities		(60,422)	(77,099)
		₩ 3,567	₩ 90,494

The maturities of long-term debt outstanding as of December 31, 2002, before discounts, are as follows :

Unit : Millions of Won

	Debtures (par value)	Won Currency Loans	Foreign Currency Loans	Total
2004.1.1~2004.12.31	₩ 580,000	₩ 22,397	₩ 2,242	₩ 604,639
2005.1.1~2005.12.31	970,060	-	442	970,502
2006.1.1~2006.12.31	-	-	442	442
Thereafter	-	-	441	441
	₩ 1,550,060	₩ 22,397	₩ 3,567	₩ 1,576,024

11. Accrued Severance Benefits

Accrued severance benefits as of December 31, 2002 and 2001 are as follows :

Unit : Millions of Won

	2002	2001
Beginning balance	₩ 807,719	₩ 707,407
Severance payments	(77,814)	(60,071)
Provisions	168,845	160,383
	898,750	807,719
Less : Severance insurance deposits	(638,934)	(614,942)
Cumulative contribution to the national pension fund	(62,203)	(66,517)
	₩ 197,613	₩ 126,260

12. Commitments and Contingencies

The Company has entered into bank overdraft agreements with 11 Banks amounting to ₩258,000 million as of December 31, 2002.

As of December 31, 2002, the Company has entered into agreements with various banks for the guarantees of letters of credit and usance related to the Company's exports and imports, totaling USD 1,557,843 thousand. Also, as of December 31, 2002, the Company has entered into agreements with various banks for the Company's import transaction in terms of documents against acceptance, totaling USD 89,654 thousand.

In order to secure the guarantees provided by the banks for borrowings and the performance of construction contracts entered into by the Company, the Company has provided 20 blank checks and notes and 37 notes with a total amount of ₩114,384 million as of December 31, 2002. In addition, the Company will retire 32 notes and 17 checks which were issued previously under the permission of the courts.

The outstanding balance of the accounts receivable sold to financial institutions with recourse is ₩52,144 million as of December 31, 2002.

As of December 31, 2002, the Company has accounts receivable totaling ₩44,643 million from Hanbo Steel Co., Ltd. and Hanbo Co., Ltd. These companies are in the

process of business reorganization by the courts after declaring bankruptcy in January 1997. In connection with these accounts receivable, the Company has won a lawsuit against Hanbo Steel Co., Ltd. for a settlement of ₩52,674 million including ₩50,454 million of construction charges and accrued interest thereon.

As of December 31, 2002, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of affiliated companies and Hyundai Samho Heavy Industries Co., Ltd. (HSHI) amounting to ₩453,271 million and USD 233,208 thousand. The Company has provided buyers with contract performance guarantees related to the construction of ships amounting to USD 2,376,823 thousand. Also, the Company entered into joint construction contracts with HSHI for the construction 46 ships (Contract amount : USD 2,086,185 thousand).

As of December 31, 2002, the Company has entered into 11 forward foreign exchange contracts with Citi Bank, as follows :

Currency	Bought	Sold		Exchange Rate (USD basis)
	Contract Amount	Currency	Contract Amount	
EUR	2,047,500	USD	1,853,397.00	0.9052
EUR	279,000	USD	252,857.70	0.9063
EUR	273,000	USD	247,665.60	0.9072
EUR	75,160	USD	67,343.36	0.8960
EUR	75,160	USD	67,456.10	0.8975
JPY	242,000,000	USD	2,005,469.46	120.67
JPY	242,000,000	USD	2,029,690.51	119.23
EUR	1,394,000	USD	1,333,500.40	0.9566
EUR	1,394,000	USD	1,325,554.60	0.9509
EUR	1,394,000	USD	1,322,906.00	0.9490
EUR	1,394,000	USD	1,322,627.20	0.9488

The Company has entered into swap contracts with Union Bank of Switzerland and another bank to avoid the risk of changes in foreign exchange rates and recognized a gain on valuation amounting to ₩1,220 million and loss on valuation amounting to ₩316 million from the swap contracts.

In connection with Company's loans and contract performance guarantees, the Company has also been provided with guarantees of up to ₩1,273,485 million and USD 5,247,036 thousand by various banking facilities.

The Company sold the 11,476,380 shares of Hynix Semiconductor Inc. (HSI) to the Credit Suisse First Boston International (CSFBi) for ₩203,028 million in September 2000. In relation to this transaction, the Company made a call option agreement with CSFBi whereby the purchase price of the shares may be retroactively adjusted upwards if the market price of the shares exceeds USD 15.6909 per share during the period as defined in the agreement.

In relation to the call option agreement with CSFBi, the Company recognized valuation losses amounting to ₩1,611 million in current operations and paid the option premium of USD 12,245 thousand for the year ended December 31, 2002.

The Company has entered into six various operating lease agreements with Hanareum Merchant Banking Co., Ltd. and three other financial institutions. Those agreements can be extended by a mutual agreement among the parties the prior to the expiration of the relevant contract.

Future anticipated lease payments under operating lease agreements as of December 31, 2002 are as follows:

Unit : Millions of Won, Thousands of U.S. Dollars

	Won Currency	Foreign Currency	Total (Won Currency)
2003.1.1~2003.12.31	₩ 39,605	USD 9,873	₩ 51,458
2004.1.1~2004.12.31	39,605	10,286	51,953
2005.1.1~2005.12.31	39,605	10,730	52,485
2006.1.1~2006.12.31	6,145	6,537	13,991
	₩ 124,960	USD 37,426	₩ 169,887

HSI has entered into a purchase agreement (off-take agreement) with Hynix Semiconductor Manufacturing America Inc. (HSMA), and 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 a collateral for the long-term borrowings of HSMA. The ultimate outcome of this agreement cannot be presently determined, and no provision for any liability that may result has been made in the financial statements.

may result has been made in the financial statements.

The Company entered into several agreements to dispose the common shares of Aluminum of Korea jointly with Alcan Taihan Aluminum Ltd. and certain affiliated companies of the Hyundai Group. Under the agreements, the Company and eight other affiliated companies of the Hyundai Group are contingently liable for indemnification for additional losses. As of December 31, 2002, conditions requiring the indemnification for additional loss have not occurred.

Under the borrowing agreement between HSMA and 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 be presently determined, and no provision for any liability that

The Company entered into agreements to construct eight ships (total contract amount : USD 415,850,000) with Fiona Trust and Holding Corp. and others. Based on the agreements, pursuant to the resolution of the board of directors on November 11, 2002, the Company has entered into agreement to transfer its trade accounts receivable of ₩294,858 million to Good & Safe Co., Ltd.

The trade accounts and notes receivable transferred comprise the following:

Unit : Millions of Won, Thousands of U.S. Dollars

Owner of Ship	Total contract amount	Receivables transferred
Fiona Trust and Holding Corp.	USD 44,500	₩ 32,145
Hapag-Lloyd Container Linie GmbH	72,900	47,335
Arcadia Shipmanagement Co., Ltd.	36,725	29,588
Arcadia Shipmanagement Co., Ltd.	36,725	26,513
Dynacom Tankers Management Ltd	46,930	34,980
Stena Ferris Ltd	74,770	48,729
K.G. Jebsen Skiprederi A/S	44,600	36,774
Consolidated Marine Management Inc.	58,700	38,794
	USD 415,850	₩ 294,858

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. 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.

13. Lawsuit Events

A fine in the amount of ₩21,377 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. 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, 2002. In addition, the Company has been brought into 12 legal actions by its employees with claims amounting to ₩1,276 million for damages from on industrial disaster, all of which are pending as of December 31, 2002.

Hynix Semiconductor Inc. (HSI) sold the 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. (HITS) to the Canadian Imperial Bank of Commerce (CIBC) on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for USD 16.96 per share, if CIBC exercised its option. In relation to this agreement, the Company was provided a written promise from HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances.

Based on above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC at a price of USD 220,480 thousand. The Company required HSI and HSC to honor their written promises. However, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the Company won this litigation for the settlement of claim including ₩172 billion of principal and accrued interest thereon and recovered ₩97,256 million, about 50 percent of the settlement. However, the Company didn't accept the court's decision and filed an appeal to a high court for claiming the whole amount of the principal and accrued interest. The appeal is still pending on the date of this report.

Pursuant to the restructuring of financial institutions, Chohung Bank, Kangwon Bank and Hyundai Investment Bank (HIB), a subsidiary of the Company were merged in September 1999. A special tax for rural development amounting to ₩47.3 billion was imposed on the liquidation income of HIB, which was paid to the Company.

The Company instituted an administrative litigation to cancel the tax to the Seoul Administrative Court through Chohung Bank. ₩18.4 billion of the total ₩47.3 billion imposed on the liquidation income of HIB was reduced as a result of the sentence of the first and second trials on July 27, 2001 and May 9, 2002, respectively. Also the Company appealed to the Supreme Court for an entire elimination of the special tax on June 8, 2002.

14. Major Business Event

The Company deposited Korea Exchange Bank the 34,379,440 common shares of Hynix Semiconductor Inc. (HSI) for the restructuring and separation of HSI, pursuant to the resolution of the board of directors on May 21, 2001 and June 1, 2001. As of December 31, 2002, the remaining shares were 24,065,440. In addition, June 1, 2001, the Company has provided Korea Exchange Bank a stock sale contract, a release of the right to vote and manage and a letter of attorney to sell the stock according to the stock market conditions hereafter.

Pursuant to the resolution of the board of directors on February 19, 2002, the Company entered into an agreement with Hyundai Asan Co., Ltd. to transfer the 8,905,000 common shares it previously acquired back to Hyundai Asan Co., Ltd. without any consideration. This was legally needed for the Company and its four affiliates to be deconsolidated from the Hyundai Group. On February 28, 2002, the Company was officially recognized to be independent from the Hyundai Group.

Pursuant to the resolution of the board of directors on April 30, 2002, the Company took over the total common shares of Hyundai Samho Heavy Industries Co., Ltd. (HSHI), which had been managed by the Company under a trusteeship agreement for par value. In relation with the increased paid-in capital of HSHI on December 20, 2002, the Company purchased additional 17,967 thousand common shares of HSHI, and became a major stockholder with a 94.92 percent ownership as of December 31, 2002.

15. Capital Surplus

Capital surplus as of December 31, 2002 and 2001 comprise the following :

	Unit : Millions of Won	
	2002	2001
Paid in capital in excess of par value	₩ 843,324	₩ 8,043,324
Asset revaluation surplus	1,862,725	1,862,725
Other surplus	21,830	21,830
	₩ 2,727,879	₩ 2,727,879

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

16. Retained Earnings

Retained earnings as of December 31, 2002 and 2001 comprise the following :

	Unit : Millions of Won	
	2002	2001
Appropriated		
Legal reserve (A)	₩ 121,350	₩ 121,350
Reserve for business rationalization	87,277	92,756
Reserve for overseas market development (B)	6,667	16,667
Reserve for export losses (B)	3,333	10,667
Reserve for research and human development (B)	303,098	398,633
Other voluntary reserve	108,270	238,009
	₩ 629,995	₩ 878,082

(A) The Korean Commercial Code requires the Company to appropriate as 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 suitable resolution of shareholders.

(B) 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. The unused portion of the reserve is generally added back to taxable income over three to four years after certain grace periods. This reserve may be restored to unappropriated retained earnings by a shareholders' resolution.

17. Capital Adjustments

As of December 31, 2002 and 2001, capital adjustments are as follows :

	Unit : Millions of Won	
	2002	2001
Loss on valuation of investment (Note 6)	₩ (21,092)	₩ (507,596)
Treasury stock	(707,469)	(645,997)
	₩ (728,561)	₩ (1,153,593)

The Company has been operating a fund for treasury stock amounting to ₩705 billion since January 2000 for the purpose of keeping the stock price of the Company stable. Also, the acquisition cost of treasury stock amounting to ₩704,505 million (Fair value : ₩439,366

million) was recorded as capital adjustment. In addition, the Company obtained treasury stock of ₩2,964 million as a result of the transfer from capital surplus to paid-in capital and intends to sell the shares in the near future.

18. Sales and Cost of Sales

Information by major industry segment for the year ended December 31, 2002 is as follows :

	Unit : Millions of Won	
	Sales	Cost of Sales
Shipbuilding	₩ 3,707,606	₩ 3,133,362
Offshore & Engineering	1,397,899	1,347,329
Industrial Plant & Engineering	946,931	851,922
Engine & Machinery	589,224	470,983
Electro Electric Systems	881,029	786,210
Construction Equipment	504,706	378,041
Others	106,668	92,386
	₩ 8,134,063	₩ 7,060,233

The Company's outstanding contracts as of December 31, 2002 are summarized as follows :

	Unit : Millions of Won		
	Shipbuilding	Others	Total
Beginning of the period	₩ 7,292,055	₩ 4,752,651	₩ 12,044,706
Increase during the period	3,349,898	3,890,011	7,239,909
Recognized as revenue in current operations	3,707,606	4,426,457	8,134,063
Ending of the period	₩ 6,934,347	₩ 4,216,205	₩ 11,150,552

As of December 31, 2002, in connection with construction contracts, the Company provides certain amounts of

guarantee deposits or letters of guarantee from various financial institutions to the customers (See Note 12).

19. Income Tax

The statutory corporate income tax rate, including resident tax surcharges, applicable to the Company is approximately 29.7% for this year.

Income tax expenses as of December 31, 2002 comprise the following :

Unit : Millions of Won	
Current income taxes	₩ 47,897
Deferred income taxes	(123,725)
Net asset of investee	(1,085)
Income tax benefit	₩ (76,913)

The details of income tax assets are as follows:

Account	Unit : Millions of Won			
	Beginning balance	Increases (Decreases)	Ending balance	Tax effect
Loss on valuation of investments using equity method of accounting	₩ 266,118	₩ (19,560)	₩ 246,558	₩ 73,228
Loss on impairment of investments	60,412	420,678	481,090	142,884
Reserve for research and human development	(398,633)	95,535	(303,098)	(90,020)
Reserve for overseas market development	(16,667)	10,000	(6,667)	(1,980)
Reserve for export losses	(10,666)	7,333	(3,333)	(990)
Allowance for bad debts	114,767	25,975	140,742	41,800
Accrued income	(2,540)	1,523	(1,017)	(302)
Others	212,149	(117,596)	94,553	28,082
	₩ 224,940	₩ 423,888	₩ 648,828	₩ 192,702

20. Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the year ended December 31, 2002. Basic ordinary loss per share is computed by dividing ordinary loss, after adjustment of extraordinary gains or losses and related income taxes by the weighted average number of common shares outstanding for the year ended December 31, 2002.

Basic loss per share and ordinary loss per share for the year ended December 31, 2002 are calculated as follows:

Net loss (operating loss) (In Thousands of Won)	₩ 245,379,867
Weighted average number of common shares outstanding	52,868,589
Basic loss per share and ordinary loss for share (in Korean won)	₩ 4,641

The Company's loss per share and ordinary loss for the year ended December 31, 2001 was ₩1,376 .

21. Transactions with Related Parties

Significant transactions with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai

Group for the year ended December 31, 2002 and the related account balances as of December 31, 2002, are summarized as follows:

Related Party	Unit : Millions of Won			
	Sales	Purchases	Receivables	Payables
Hyundai Mipo Dockyard Co., Ltd.	₩ 181,573	₩ 9,995	₩ 32,947	₩ 3,654
Hyundai Engineering & Construction Co., Ltd.	11,103	97,121	27,963	9,267
Hyundai Merchant Marine Co., Ltd.	565	12,840	449	627
Hyundai Motor Company	15,895	21,611	9,327	5,560
INI Steel Co., Ltd.	12,762	77,119	6,960	24,561
Hyundai Samho Heavy Industry Co., Ltd.	220,048	33,982	30,071	3,712
Hyundai Corporation	66,582	12,988	52,464	3,634
Hyundai Oilbank	9	142,869	139	2,556
Changzhou Hyundai Construction Machinery Co., Ltd.	160,827	248	1,466	-
	₩ 669,364	₩ 408,773	₩ 161,786	₩ 53,571

The Company has entered into rental agreements (Total deposit : 3,486 million) with affiliated companies.

On May 15, 2002, the trusteeship agreement between the Company and Hyundai Samho Heavy Industries Co., Ltd. (HSHI) was terminated. The Company received ₩8,077

million and ₩12,639 million as service fee for the years ended December 31, 2002 and 2001, respectively. Management service fee, which is 10% of operating income, amounted to ₩6,128 million and ₩11,151 million for the years ended December 31, 2002 and 2001, respectively.

22. Selling and Administrative Expenses

Selling and administrative expenses for the year ended December 31, 2002 are as follows:

Unit : Millions of Won

Wages	₩	175,075
Sales commission		108,195
After-service expenses		50,700
Depreciation and amortization		47,122
Employee Welfare		43,245
Ordinary development expenses		41,037
Provision for severance benefits		25,929
Service charges		18,627
Transportation		14,171
Advertisement		13,134
Others		82,068
	₩	619,303

23. Financial Information of Industry Segments

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 segments are as follows :

Unit : Millions of Won

	Ship-Building	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric System	Construction Equipment	Others
Sales	₩ 3,707,606	₩ 1,397,898	₩ 946,931	₩ 589,224	₩ 881,029	₩ 504,706	₩ 106,667
Operating Profit	₩ 413,703	₩ (3,615)	₩ 59,909	₩ 87,216	₩ 62,067	₩ 59,086	₩ (223,839)
Tangible & Intangible Assets	₩ 1,161,328	₩ 302,048	₩ 143,626	₩ 492,594	₩ 276,202	₩ 95,728	₩ 2,040,435
Depreciation	₩ (103,906)	₩ (32,359)	₩ (15,419)	₩ (28,947)	₩ (33,445)	₩ (10,168)	₩ (68,595)

Corporate Data

Head Office

#1, Jeonha-dong, Dong-gu, Ulsan, Korea
Tel: 82-52-230-3899
Fax: 82-52-230-3450

Seoul Office

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

Date of Establishment

March 1972

Paid-in Capital

KRW 380 billion

Common Stock

76,000,000 shares

Number of Employees

26,061

General Shareholders' Meeting

March 14, 2003

Listing

Listed on Korea Stock Exchange in August 1999

For More Information

IR Team/Finance Dept.
E-mail: choyc@hhi.co.kr
Tel: 82-2-746-4555
Fax: 82-2-746-4662
Website: www.hhi.co.kr(Main) / www.hhiir.com(IR)