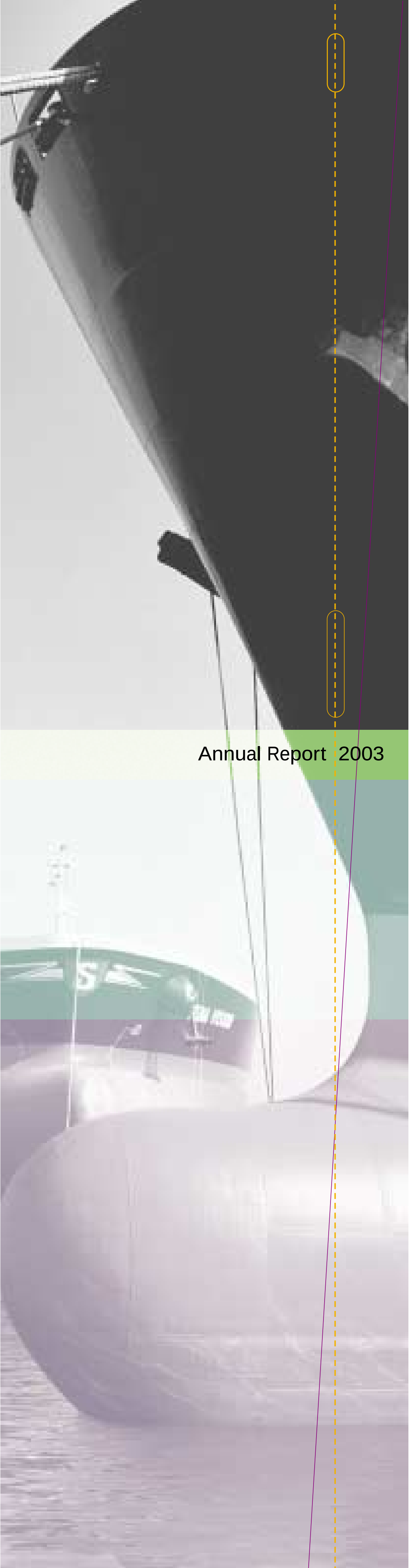
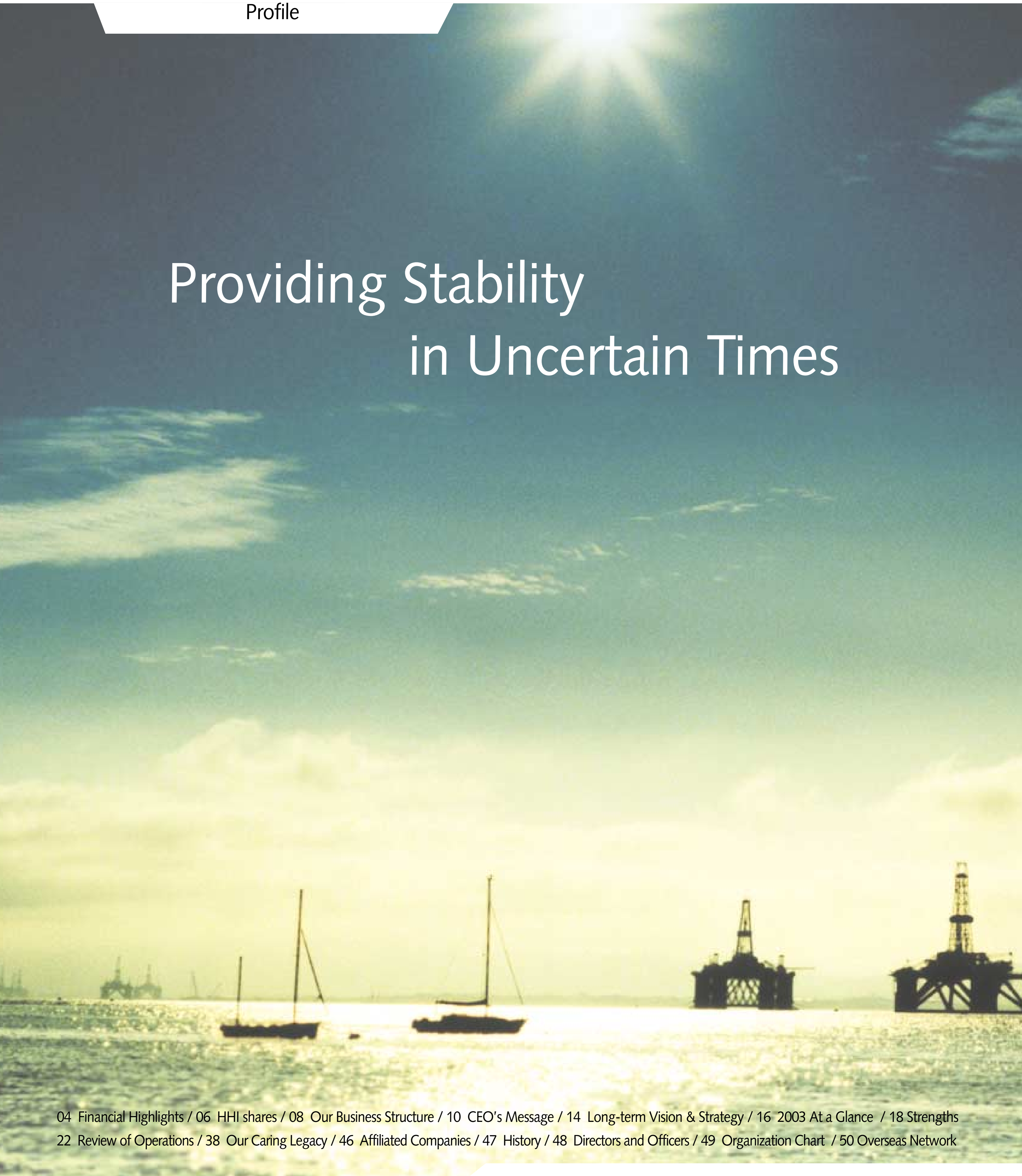
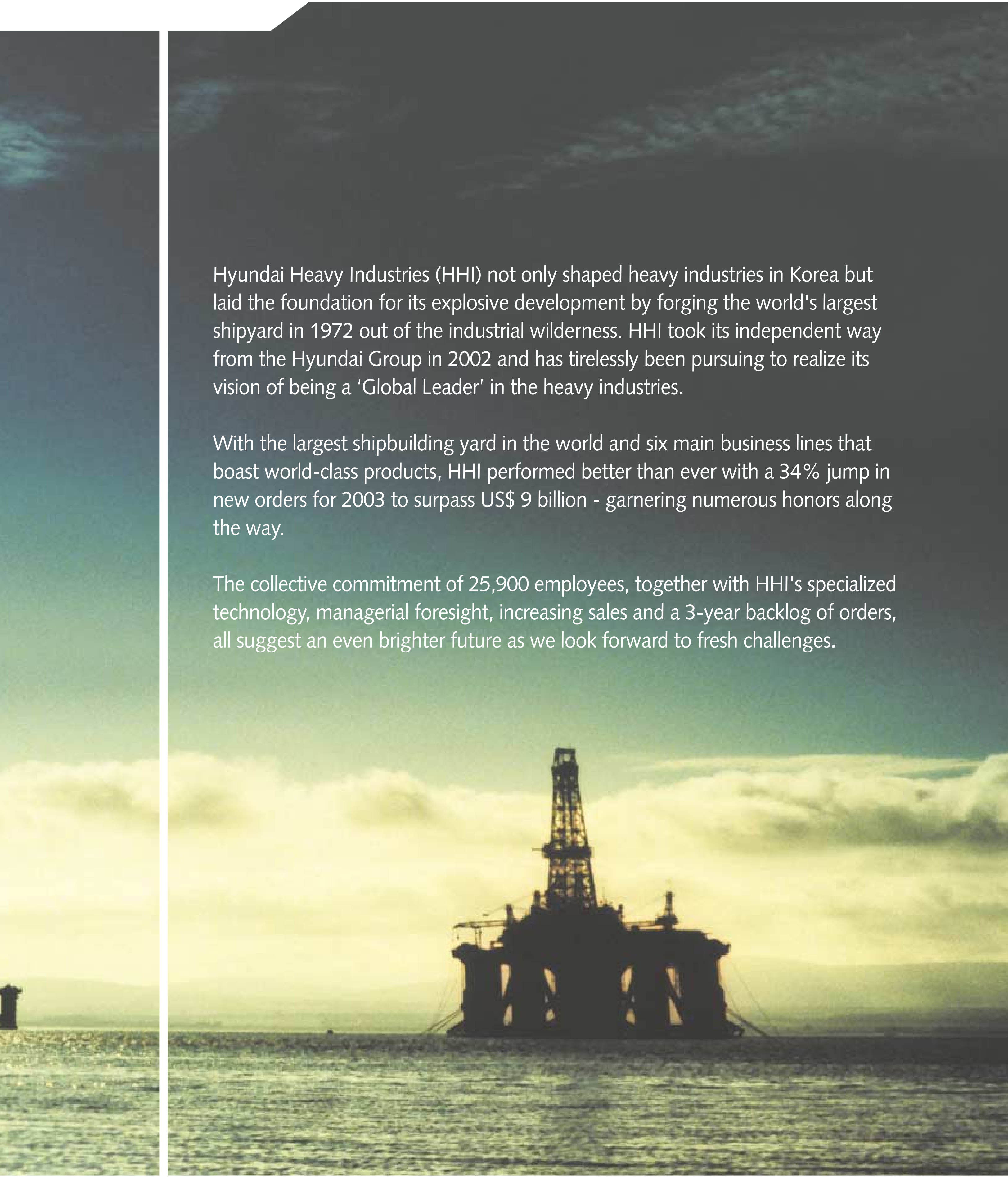


Annual Report 2003

HYUNDAI HEAVY INDUSTRIES



Providing Stability in Uncertain Times



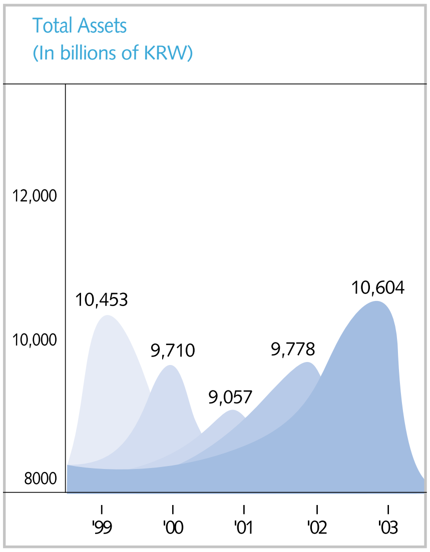
Hyundai Heavy Industries (HHI) not only shaped heavy industries in Korea but laid the foundation for its explosive development by forging the world's largest shipyard in 1972 out of the industrial wilderness. HHI took its independent way from the Hyundai Group in 2002 and has tirelessly been pursuing to realize its vision of being a ‘Global Leader’ in the heavy industries.

With the largest shipbuilding yard in the world and six main business lines that boast world-class products, HHI performed better than ever with a 34% jump in new orders for 2003 to surpass US$ 9 billion - garnering numerous honors along the way.

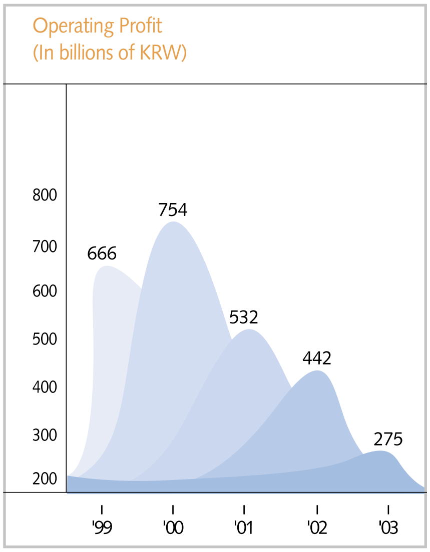
The collective commitment of 25,900 employees, together with HHI's specialized technology, managerial foresight, increasing sales and a 3-year backlog of orders, all suggest an even brighter future as we look forward to fresh challenges.

	(In millions of USD)			(In billions of KRW)
	2003	2003	2002	2001
For the Year				
Sales	6,807.1	8,153.5	8,134.1	7,404.2
Gross profit	797.5	955.3	1,060.9	1,213.6
Operating Income	229.2	274.5	441.6	532.3
Net Income	95.1	113.9	-259.0	-78.1
At Year-end				
Total Assets	8,853.0	10,604.1	9,777.9	9,057.1
Total Liabilities	5,951.0	7,128.0	6,874.1	6,224.8
(Total Debt)	1,170.0	1,402.6	3,470.1	3,753.7
Total Shareholder's Equity	2,902.0	3,476.1	2,903.8	2,832.4
Financial Ratio(%)				
Liabilities-to-equity	205.1%	205.1%	236.7%	219.8%
Debt-to-equity	40.3%	40.3%	119.5%	132.5%
Financial Expense Ratio				
EBITDA	483.7	579.4	736.4	838.6
EV/EBITDA(multiple)	6.9	6.9	6.6	6.5
ROA(%)	1.1	1.1	N/A	N/A
ROE(%)	3.3	3.3	N/A	N/A
Orders Received and Backlog				
Orders (bil.USD)	9.8	9.8	5.8	6.4
Exports(bil.USD)	5.5	5.5	5.5	4.1
Backlog (bil.USD)	12.5	12.5	9.2	10.0

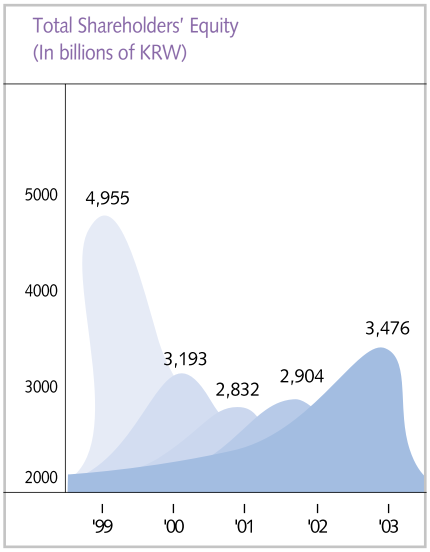
** Note: Won amounts for FY2003 have been translated at ₩1,197.8 per $1.00, the basic rate as of Dec. 31. 2003.*



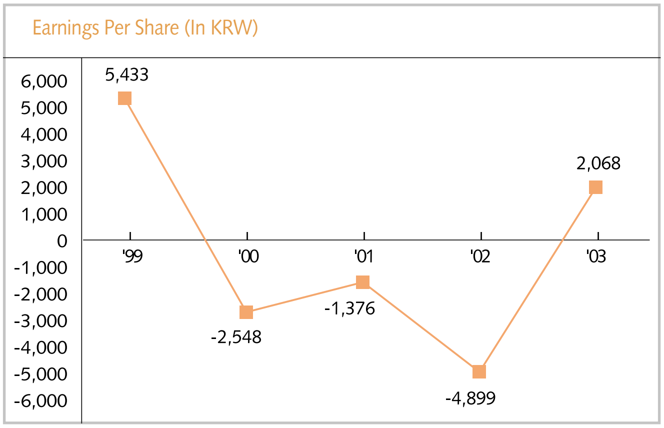
Total Assets
(In billions of KRW)
12,000
10,000
8000
10,453
9,710
9,057
9,778
10,604
'99
'00
'01
'02
'03



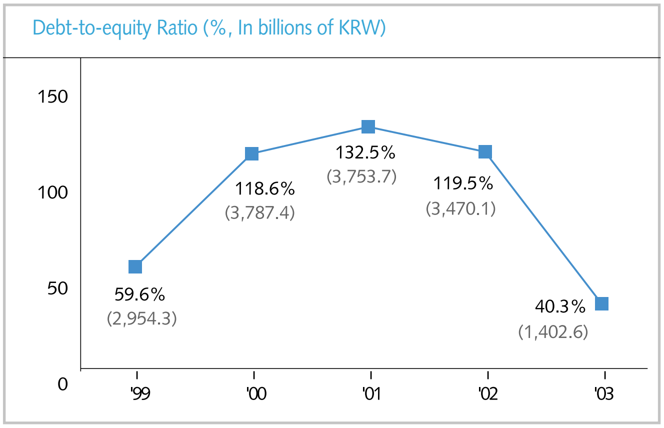
Operating Profit
(In billions of KRW)
800
700
600
500
400
300
200
666
754
532
442
275
'99
'00
'01
'02
'03



Total Shareholders' Equity
(In billions of KRW)
5000
4000
3000
2000
4,955
3,193
2,832
2,904
3,476
'99
'00
'01
'02
'03



Earnings Per Share (In KRW)
6,000
5,000
4,000
3,000
2,000
1,000
0
-1,000
-2,000
-3,000
-4,000
-5,000
-6,000
5,433
-2,548
-1,376
-4,899
2,068
'99
'00
'01
'02
'03



Debt-to-equity Ratio (%, In billions of KRW)
150
100
50
0
59.6%
(2,954.3)
118.6%
(3,787.4)
132.5%
(3,753.7)
119.5%
(3,470.1)
40.3%
(1,402.6)
'99
'00
'01
'02
'03

1. Stock Market in 2003

In 2003, the Korean economy's growth was stunted to 3% due to a global recession, high oil-prices, the war in Iraq and North Korea's nuclear dispute, as well as unstable employee relations and the repercussions of the SK Global scandal. The Korean stock market made a sluggish recovery as the Won-Dollar exchange rate rose up to ₩1,264 on March 20, 2003, the highest rate since it peaked at W1,267.50 on October 16, 2002, because of risk factors associated with North Korea. However, after reaching its year-low at 515.24 points, the Korea Composite Stock Price Index(KOSPI) recaptured its rising trend as uncertainty faded under the momentum of the early end of the U.S.-Iraq war. International economies began recuperating as the war ended earlier than expected and the possibility of a peaceful resolution of the North Korean nuclear issue became a credible option. In this context, the Korean stock market continued its rising trend and peaked at 822.16 points on Dec. 15, 2003, the highest recorded level in one year and 7 months since reaching 823.06 points in May 2002. In 2004, the market is still displaying robust growth with indications that a full-scale recovery will soon be at hand.

2. Hyundai Heavy Industries' Share Performance in 2003

In 2003, the Korean stock market was performing relatively well as a result of favorable stock market conditions around the world and a large boost in foreigners' net purchase of stocks, which helped trigger dramatic increase in share prices related to the shipbuilding industry. The year 2003 was an important year for Hyundai Heavy Industries Co., Ltd.(the Company) to revalue its shares as the risk factors related to affiliated companies were removed as it recognized all the losses incurred from Hynix Semiconductor Inc. at the end of 2003. Despite starting the year at ₩19,600, and hitting a year-low of ₩16,200 on March 10, the Company's share price resumed its upward trajectory supported by robust business in the shipbuilding sector and a rise in shipbuilding prices.

In addition, the Company successfully disposed 49.6% of its treasury shares (11.63 million shares or 15.03% of the total shares issued), starting with the disposal of 5% (38 million shares) to Hyundai Mipo Dockyard Co., Ltd. on Oct. 17. The reduction of treasury shares leveraged the stock price as investors' predicted that such a move would contribute to improvements in both the Company's management and the overall financial structure. As a result, the stock price rose by 154.3% from its lowest dip of ₩16,200 to set a new year-high of ₩41,200 on Nov. 10, 2003.

In 2004, the Korean stock market is expected to remain bullish as the global business recovers from a recession and the Chinese economy continues growing at an exceptional rate. Shares in the shipbuilding business will be particularly bullish due to brisk growth of the shipbuilding and shipping industries.

3. Operation of Treasury Fund

Hyundai Heavy Industries entered into specified money trust contracts ('treasury fund') worth ₩705 billion with five domestic banks on four occasions since January 2000. In doing so, the Company acquired 30.35% of the total shares issued, or 23,063,850 shares. This contract was geared toward securing better share prices and higher shareholders' value.

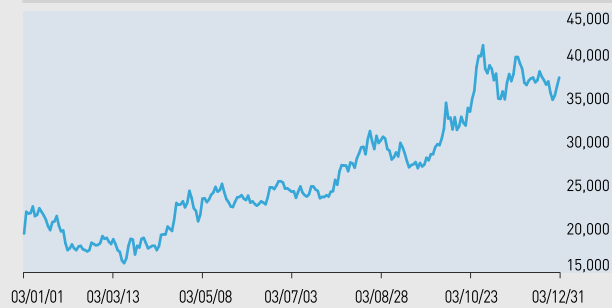
Having sought various ways to dispose of this fund, the Company sold 11,631,580 shares (15.3% of total shares issued) to investors on the Korea Stock Exchange over four separate periods in 2003, on Oct. 15, 23, 28 and 29. As a result, it currently holds a total of 11,432,270 shares (15.04% of total shares issued) in its treasury fund.

The sales amount was solely used to improve the Company's financial structure by repaying its debt. By yearend 2003, its debt had been scaled down to ₩1,402 billion from 2002's ₩3,470 billion, thereby lowering its debt-to-equity ratio from 119.5% to 40.3%.

4. Foreign Ownership

After its debut on the Korea Stock Exchange on Aug. 9, 1998 and its successful disaffiliation on Feb. 28, 2002, the Company has seen its level of foreign ownership continue to grow as foreign investors are attracted by its merit as a specialized shipbuilding company. With favorable conditions in the shipbuilding industry last year and increasing orders came a fresh boost in the level of foreign ownership, which climbed beyond 10% then set a new high in the Company's corporate history by peaking at 21.70% on Nov. 10, 2003. With this new international input and responsibility comes a demand for stable management and a better financial structure, which the Company has fully embarked on by selling off its treasury shares and repaying debt.

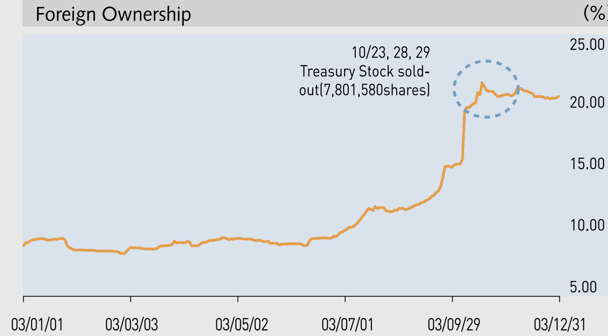
Stock Price Trend of HHI (KRW)



Stock Price Index

	2003	2002
No. of shares(issued) (million)	76	76
Total Market Cap. (Bil. of KRW)	2,850	1,448
Share Price (High) (KRW)	41,200	37,700
(Low) (KRW)	16,200	15,700
Foreign Ownership (%)	20.59	8.36
PER(H/L) (x)	19.9/7.8	N/A
EPS (KRW)	2,068	-4,899
EV/EBITDA (x)	6.9	6.1

Foreign Ownership (%)



Shipbuilding

Representing "shipbuilding Korea", HHI's Shipbuilding Division builds vessels that are tailored to clients' needs from nine expansive dry docks holding six Goliath Cranes. The Division continues to develop new shipbuilding technology based on its high-caliber R&D personnel. Maintaining its high level of prestige as a global leader since it was selected as the world's top shipyard by Japan's Diamond Weekly in 1985, the Division will continue to lead the shipbuilding industry well into the future.

Offshore & Engineering

The Offshore & Engineering Division has carried out more than 120 projects for over 30 globally renowned oil and gas development companies, such as Exxon Mobil, BP and Shell. More than half of these were EPIC projects that required a high construction capacity to manage overall process from design, purchasing, production and transportation to marine pipeline installation.

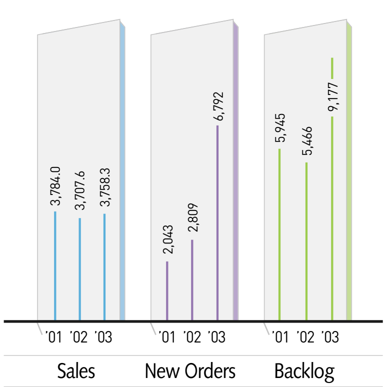
Industrial Plant & Engineering

The Industrial Plant & Engineering Division specializes in the turnkey construction of power generation plants, desalination plants and oil & gas production and processing facilities. The Division uses its expertise and sophisticated technology to satisfy the needs of customers from all over the world. Price competitiveness, efficiency and credibility are its top priorities, along with creating high value for customers and maximizing their profits.

Major Products

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

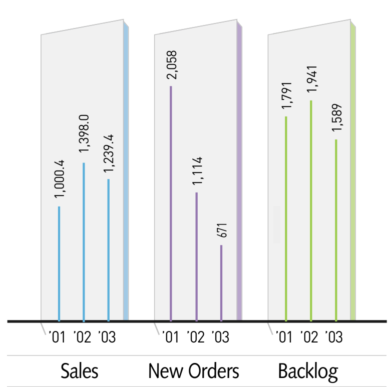
Key Figures



Major Products

- Floating Production Storage Offloadings (FPSOs)
- Semi-submersible Rigs
- Tension Leg Platforms
- Deck & Modules
- Jacket & Piles
- Quarters
- Jack-ups
- Subsea Pipelines

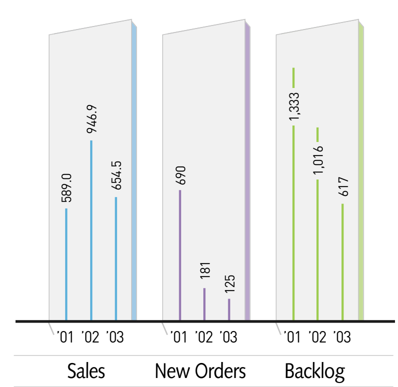
Key Figures



Major Products

- Combined cycle, cogeneration, thermal power plants
- Desalination Plants: MSF (Multi Stage Flash), MED (Multi Effect Distillation)
- Oil & Gas Plants: Oil & Gas facilities, gas-processing facilities, refinery facilities, LNG plants, GTL (Gas to Liquids) plants
- Industrial boilers, large vessels & reactors, H/Ex

Key Figures



Engine & Machinery

The Engine & Machinery Division is the one of the world's leading machinery manufacturers and the largest supplier of marine diesel engines. The Division has a full competence of supplying the high integration of propulsion systems to domestic and overseas shipyards. In 2003, it achieved a world record by producing engines with a cumulative total capacity of 40-million brake horse power within 24 years, thus building on its reputation for displaying a sharp competitive edge.

Electro Electric Systems

Not only has the Electro Electric Systems Division built a well-established global network that functions well in a design, production and R&D capacity, it has also developed into a provider of comprehensive solutions, from everyday electricity supplies to high-tech industrial services. The Division's list of products includes electro-electric hardware and software, such as power generating equipment, power transmission and substation equipment, power distribution equipment and electric motors.

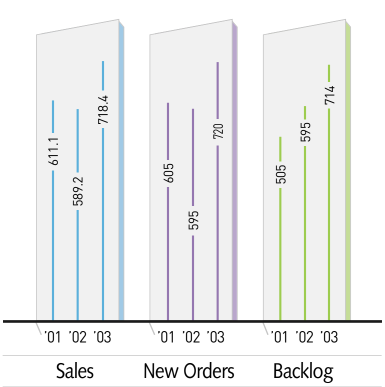
Construction Equipment

Since its establishment in 1985, the Construction Equipment Division has been producing various kinds of construction equipment and expanded its reach to encompass 90 countries around the globe. A comprehensive network of 412 dealers and overseas subsidiaries in the U.S., Europe and China have been selling and promoting its superior quality products to help secure a solid reputation abroad. In the Chinese market, the Division has secured the dominant market share for two consecutive years.

Major Products (Engine & Machinery)

- Marine diesel engine & equipment
  *Low-speed diesel engines
  *HiMSEN engines
  *Medium-speed diesel engines
  *Turbochargers *Crankshafts
  *Propellers, shafts, rudderstocks
- Steam turbines
- Diesel power plants
- Industrial pumps
- Robotics system

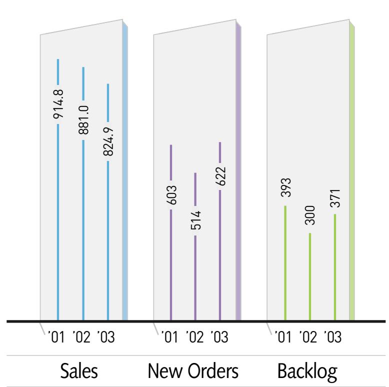
Key Figures



Major Products (Electro Electric Systems)

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

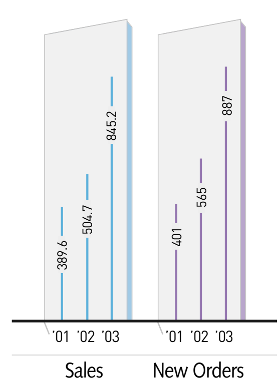
Key Figures



Major Products (Construction Equipment)

- Construction Equipment
  *Crawler Excavators
  *Wheeled Excavators
  *Wheeled Loaders
  *Skid Steer Loaders
- Industrial Vehicles
  *Diesel Forklift Trucks
  *Electric Forklift Trucks
  *LPG Forklift Trucks *Towing Trucks

Key Figures



Sales (In billions of KRW)
New Orders (In millions of USD)
Backlog (In millions of USD)

Hyundai Heavy Industries has shrugged off economic adversity for 21 years to stay at the very crest of the shipbuilding wave, buoyed up by the combined achievements of six divisions producing world-class products by a world-class team who share the same goals.

To Our Shareholders

Dear our esteemed shareholders,

The year 2003 was a very difficult year for Korea and the rest of the world. The war in Iraq, the threat of SARS, a decrease in the Won-Dollar exchange rates and an increase in the price of raw materials all contributed to a difficult economic situation both domestically and internationally. At home, Typhoon "Maemi" caused a lot of physical and economic damage while the recession and sluggish investment made corporate operations even more difficult.

Despite this difficult environment, we at HHI continued cementing our position as a "Global Leader" and a comprehensive world-class heavy industries company. This was made possible with the tireless efforts of our executives and employees, and encouraged by you our shareholders.

The Shipbuilding Division achieved a record-breaking $6.8 billion in new orders and had three ships ranked among the world's best, thus confirming its reputation as one of the world's top shipbuilding companies for 21 consecutive years.

The Company also launched a Korean-style destroyer, "King MoonMu," and established a plant exclusively for submarines. As such, it firmly established a leading position in providing armed forces with vessels.

The Offshore and Engineering Division is successfully performing the "KIZOMBA A and B" projects, the world's largest oil development facilities. It also received an order for subsea pipeline works of 472 km from the China National Petroleum Corporation, and installed FPSO (Floating Production Storage & Offloading) facilities for the East Sea gas development station. These numerous projects enabled the Division to reap fruitful results throughout the year.

The Industrial Plant & Engineering Division won a $420 million contract from Saudi Aramco to build a cogeneration power plant on a turnkey basis as well as winning the BTIP construction of the Shell Petroleum Development Co. U.S. The Division has steadily begun establishing itself as one of our core businesses after recovering from last year's slowness.

Keh-Sik Min *Vice Chairman & CEO/CTO*　　*Kwan-Hong Yu* *President & CEO*

The Engine & Machinery Division set a new world record by producing engines totaling 40-million horse power in 24 years and building 1,500 propellers in 18 years. The Division's proprietary model HiMSEN engines were selected as premium engines for ship propulsion, thus firmly establishing its standing as a world-class engine manufacturer.

The Electro Electric Systems Division expanded the scope of its business to encompass the substitute energy sector by developing the most efficient high-voltage circuit breakers in the world and successfully developing Korea's smallest industrial inverters. The Division also established a global R&D and production system by investing $39 million to establish a joint factory in Yang Zhong, China and opening the Hyundai Enova Innovative Technology Center (HEITC) in Torrance, California.

The Construction Equipment Division achieved its highest-ever performance by capitalizing on China's favorable economic conditions, and raising the Company's share of the Chinese market reaching its broadest peak for the second consecutive year. Its products proved their technological excellence with the 'World's Best Product and Good Design' mark. The Division also expanded its global presence by deciding to establish a third joint venture in Jiangsu following the precedents set in Beijing and Changzhou.

At the same time, the Company secured its ninth straight year of harmonious employee relations unmarred by labor disputes and based on the principle of fairness. We demonstrated our exemplary employee relations' culture to our clients and society by successfully hosting the "HHI Family Festival."

In 2003, we received new orders of $9.81 billion, up 134% from our initial target. Total sales were ₩8,153.5 billion, or 98% of the prescribed target. Our operating income was ₩274.5 billion and net income amounted to ₩113.9 billion. This was mostly attributable to the fact that no more additional losses were incurred from equity investments in former affiliates as we recognized all the losses in 2002. There was a considerable increase in gain on valuation of investments using the equity method and a fall in borrowings which resulted in lower interest rates.

In times of uncertainty, we have come to stun the world with the power of our operational ground, the unity of our people, and the transparency of our financial structure. At Hyundai Heavy Industries, we aspire toward the same goals, in unison with one another.

To Our Shareholders

Dear shareholders,

In 2004, the global economy is predicted to recover from its long-term recession. However, such optimistic evaluations must be carefully weighed before being applied to the corporate environment due to factors such as an unstable exchange rate caused by the devaluation of the dollar, the increasing price of raw materials, and instability in both international politics and the domestic financial market.

In this context, we will enhance our internal capabilities to secure a competitive edge regardless of external factors to attain further growth. Our confidence is reflected in a new sales target of ₩8,926 billion, up 9.5% from 2003, while we have reduced our target for new orders by 4.8% from 2003 to $9.3 billion. We will spend ₩308.6 billion on capital expenditure by focusing on sectors that directly contribute to sales and produce greater income, and invest ₩128.1 billion on R&D activities, a 12.9% increase from 2003, to retain our competitive edge by using superior technology.

To achieve our newly set targets, we will push forward with the following corporate strategies based on our motto of, "Stable Growth, Technological Competitive Edge, and Harmony & Cooperation".

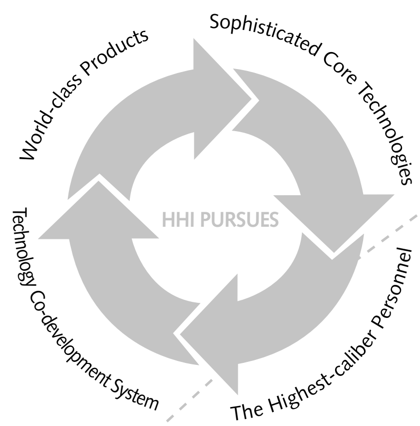
First, we will ensure our core products are world-class.
We will establish a framework for stable, long-term growth by differentiating our products from competitors by enhancing their competitiveness in the shortest period of time by pouring all of our resources into promising next-generation businesses.

Second, we will make our core technologies more sophisticated.
We will proactively secure the technologies we need to advance into emergent gaps in the market and develop the most "optimum" rather than "best" technologies. We will channel our energies into maximizing our competitiveness by linking our core technologies with our information technology.

CORPORATE STRATEGIES

First, we will ensure our core products are world-class by enhancing our competitiveness and differentiating our products from competitors

Second, we will make our core technologies more sophisticated by developing the most "optimum" rather than "best" technologies



Fourth, we will enhance our technology development cooperation program by restructuring our internal operation and establishing external R&D partnerships

Third, we will nurture and secure the highest-caliber personnel by complementing our various education program to equip our people with the skills they need

Third, we will nurture and secure the highest-caliber personnel.
To a large degree our competitiveness hinges on the quality of our manpower. We will ensure this remains strong by complementing our personnel-fostering program, or HHI Technology University, our improvement training courses, and our short-term research overseas study programs. We will also fully exploit the cyber education system that was introduced in 2004 to equip our people with the skills they need.

Fourth, we will enhance our technology development cooperation system.
We will restructure the way we operate internally so that business divisions and R&D divisions work together fluidly in proceeding with an R&D project. On an external basis, we will also institutionalize cooperative partnerships with other business, academic, and research institutes and improve relations with high-tech U.S. research institutes and the Hungarian engineering center. We will establish a common R&D system with Hyundai Samho Heavy Industries and Hyundai Mipo Dockyard to facilitate a faster and self-regulating R&D network.

Dear esteemed shareholders,

Despite having had the odds racked against us over the past 30 years, the Company has overcome a myriad of difficulties to emerge on top. In an era of dramatic change and fast-changing corporate landscapes, we believe that we can keep pace with and overcome any difficulties together, with the harmony and cooperation of our executives and employees. To make this year the beginning of the next chapter in our unfolding success story, the Company pledges to deliver the maximum results as we grow stronger with your trust, encouragement and support. We wish health and happiness for each of you and your families.

Thank you again.

Keh-Sik Min Vice Chairman & CEO/CTO

Kwan-Hong Yu President & CEO

We, at Hyundai Heavy Industries, aim high in our aspirations and goals.
Our vision is to become a genuine global leader in the heavy industries field.
To be always ready to embrace any challenges, we have set long-term strategies that will usher us in the era of globalization and open a new chapter in our history--a chapter of stable profits, solid business structure and dedication of our people.

Ascending to our goals in unison

In order to generate fresh momentum as we celebrated our 30th anniversary in 2002 and entered a new era of independent management after legally disaffiliating from the Hyundai Group, Hyundai Heavy Industries Co., Ltd.(HHI) revised and established a new set of strategies to conform to the Company's ultimate vision. These are geared toward our stable and continued development by responding with the maximum amount of flexibility to today's rapidly changing management environment, while creating a consensus among employees who all share our common vision.

Our vision for the 21st century is encapsulated in the slogan, "HHI: A Global Leader, Carving out the Future." We aim to become the leading heavy industries company by providing products and services that are unrivaled in quality. Building on our founding philosophy of creating something out of nothing, HHI will triumph over any adversity with an undaunted spirit until we emerge as the world's No.1 company.

We will not rest until our customers are consistently satisfied, our employees are consistently fulfilled, and our investors are satisfied with our high corporate value. To this end, HHI will continue to improve on our world-class technology, services, and value-added products to generate high profitability.

As a global leader, HHI has laid out a number of targets for 2010. We will post sales of $17.5 billion, based on annual increases of 13% from the $5.6 billion recorded in 2001. By the same deadline, exports will reach $14 billion to account for more than 80% of total sales. More importantly, we will raise our ordinary profit margin to a level of 10% by focusing our management and sales strategies on highly profitable businesses.

We plan to invest a total of KRW 5 trillion from 2002 to 2010. KRW 3.4 trillion of this will be channeled into capital expenditure and KRW 1.6 trillion has been allocated for R&D investment. We will stabilize our business structure by lowering our dependency on the shipbuilding business from the current 46% to 26% and place greater emphasis on other businesses including Offshore & Engineering, and Industrial Plant & Engineering.

The specific strategies we will engage to fulfill our vision and goals are as follows:

1. Create an Optimal Business Structure
- Make promising business sectors more competitive and sophisticated
- Secure a market position in the business sector conducive to fast growth and moving into world markets
- Expand new businesses based on our core competencies and liquidate low-profit marginal businesses

2. Maximize Global Sales Capabilities
- Increase orders and maximize sales for high value-added products
- Tap into new markets and enhance sales capabilities in local markets
- Establish and manage a competitive global network and marketing system

3. Develop Advanced Technology
- Secure our core technology and develop innovative and state-of-the-art technology
- Enhance our system engineering capacity
- Establish a global R&D network
- Strengthen the tech-development collaborations between field and research institutions

4. Secure Efficient Production System
- Maximize existing facilities' operational efficiency
- Improve quality and productivity through facility rationalization and automation
- Build an efficient and integrated production management system

5. Innovate Business Operations
- Expand outsourcing projects and businesses with low added value
- Maintain flexibility in terms of facilities, human resources, and financial sources
- Secure a global production center

HHI pursues fair management principles in achieving our vision and long-term development strategies. We will evolve into the world's premier heavy industries company by realizing our vision of "HHI: A Global Leader, Carving out the Future", and building on our present management philosophy and corporate culture to conform to the changing demands of the 21st century.

Chartering new courses, mapping out new goals

January ▸ February ▸ March ▸ April ▸ May ▸ June

February

Offshore & Engineering Division set a new Guinness Book world record by lifting a 12,000-ton structure

Engine & Machinery Division produced a total of 1,500 propellers in 18 years—a new world record

April

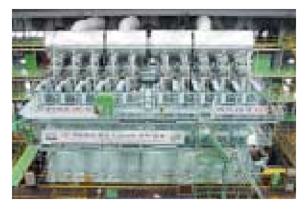
Shipbuilding Division launched Korea's largest next-generation destroyer, "King Moonmu"

May

Construction Equipment Division's series 7 excavators, selected as the World's Best Product by the Ministry of Industry and Commerce

Offshore & Engineering Division installed the largest 1,500-ton gantry crane in the world

June



Engine & Machinery Division produced engines totaling 40 million horse power in 24 years(—took Japan 75 years to complete the same output)

July

Offshore & Engineering Division received an order for offshore facilities worth $220 million from India's Oil & Natural Gas Commission

Hyundai Heavy Industries beat the odds in 2003 by setting a new record for orders, while stamping its mark overseas with new plants and technology centers.

July ▸ August ▸ September ▸ October ▸ November ▸ December

September

Shipbuilding Division completed the construction of a future-oriented submarine plant.

October

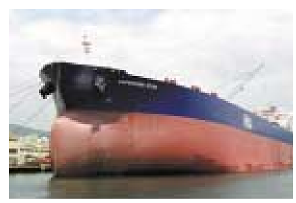
Electro Electric Systems Division opened the Hyundai Enova Innovative Technology Center (HEITC) in Torrance, California

Electro Electric Systems Division invested $39 million to establish a joint venture factory in Yang Zhong, China, in cooperation with Jiangsu Nanzi Tonghua Electrical Group Co., Ltd.

November

Construction Equipment Division signed a contract to establish the third joint venture in Changzhou, China

December

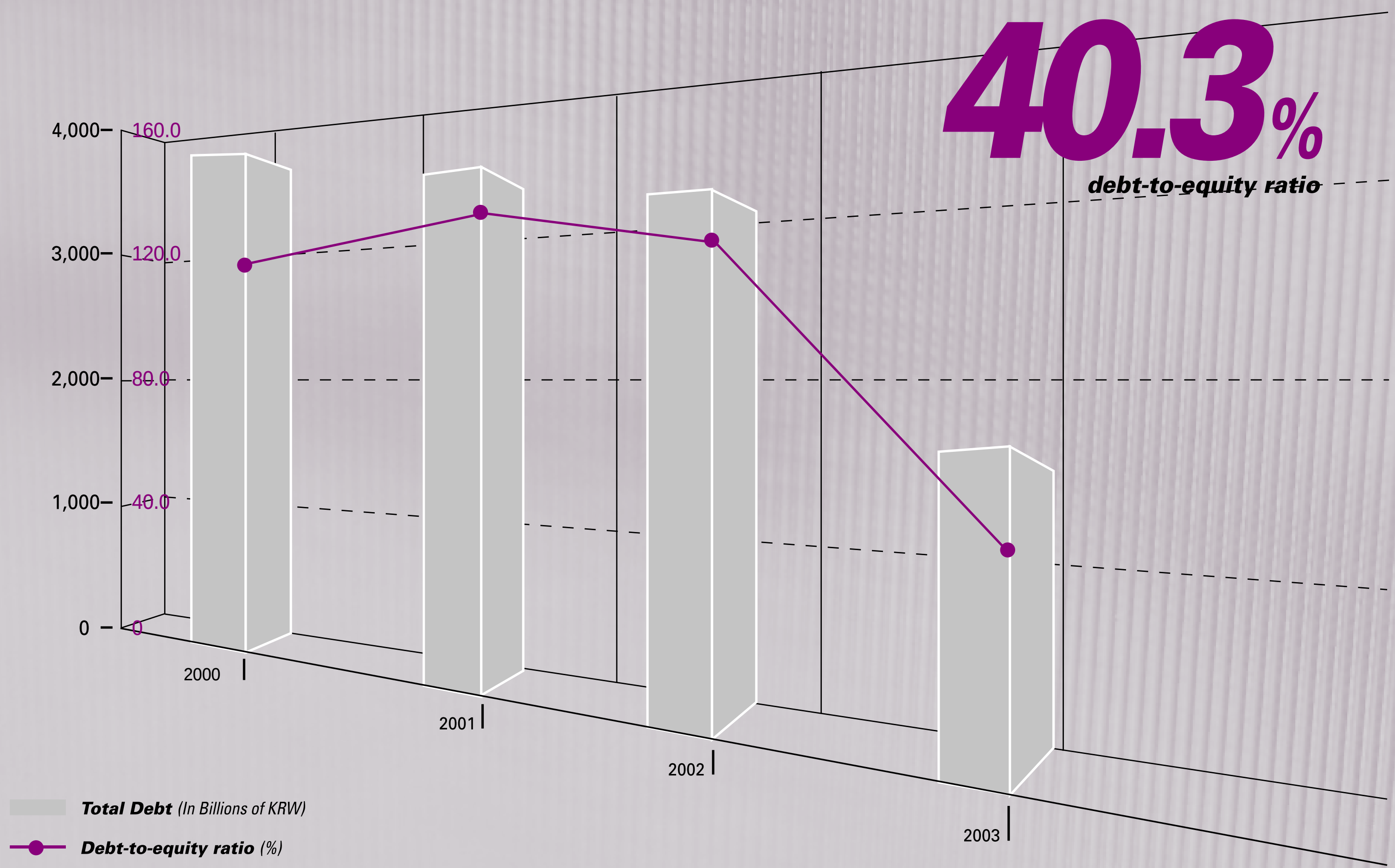


Shipbuilding Division has produced the world's most superior-ranking ships for 21 consecutive years

Awarded "the Top 100 new products of 2003" by Construction Equipment magazine after launching new line with models HL780-3A and HL780XTD-3A

Construction Equipment Division ranked No. 1 in terms of market share for excavators in China for two consecutive years (23.7% as of the end of 2003 by the China Construction Machinery Association)

Engine & Machinery Division manufactured 100 environment-friendly HiMSEN engines

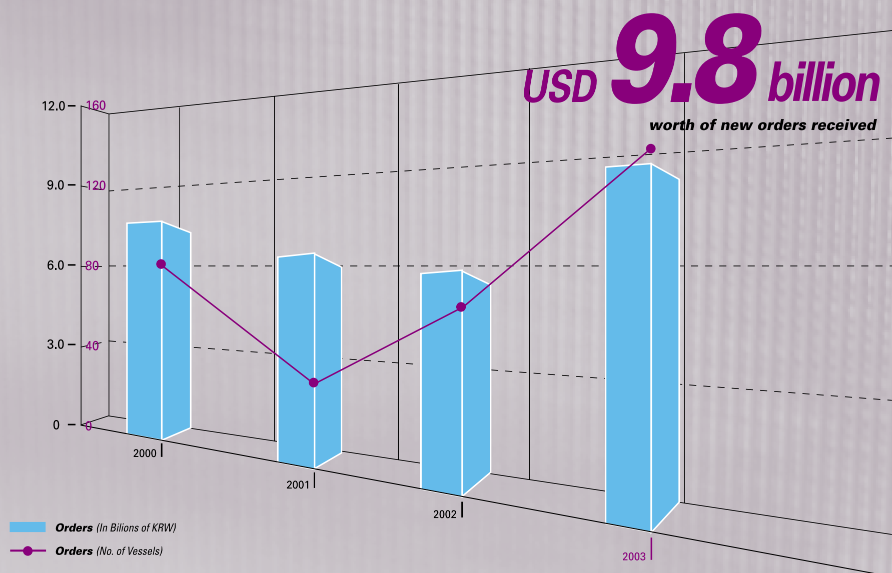


40.3%
debt-to-equity ratio
4,000
3,000
2,000
1,000
0
160.0
120.0
80.0
40.0
0
2000
2001
2002
2003
Total Debt (In Billions of KRW)
Debt-to-equity ratio (%)

Transparent and Trustworthy

HHI places a high premium on public trust. Without it, our reputation, results and all the publicity in the world mean nothing. To build faith in our company and attract more investors, we are working hard together to build a solid corporate structure based on clean financial position.

By using customers' advance payments to repay debt, the Company reduced its total debt by ₩1,402.6 billion in 2003 from ₩3,470.1 billion in 2002. As a result, its debt-to-equity ratio improved considerably by 79.2% to 40.3% in 2003 from 119.5% in the previous year and demonstrated a stable financial structure. This improved financial structure coupled with record-breaking sales revenue and new orders promises an even greater future for HHI.

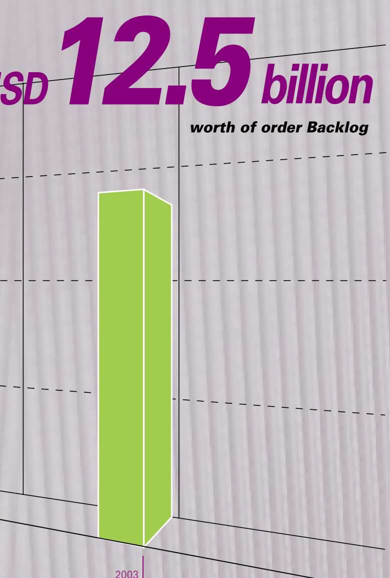


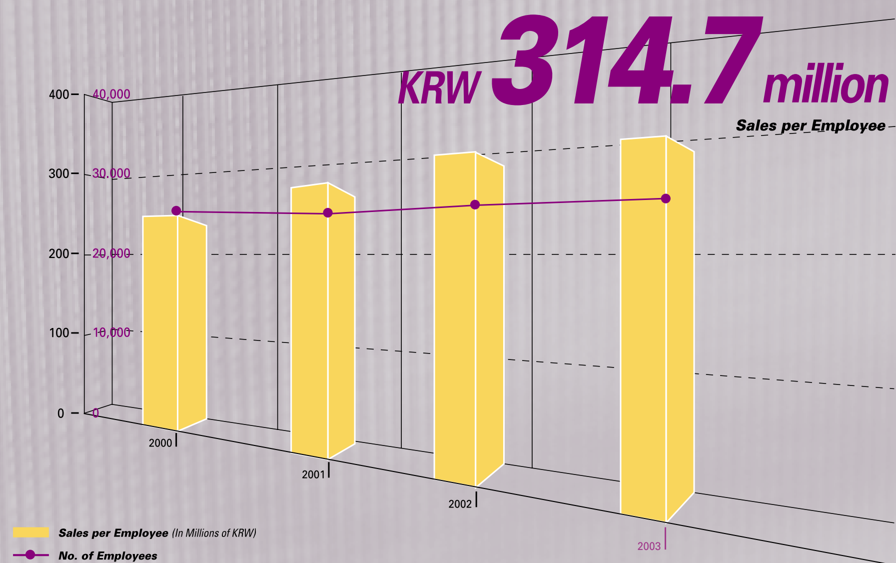
Dedicated and Innovative

Setting new standards, breaking records and creating achievement after achievement have become par for the course for HHI. Not only has it elevated Korea's reputation in terms of global leadership, but it continues to chase new markets and new technological innovations to secure its position long into the future. In 2003, HHI received new orders worth $9.8 billion, which exceeded its $7.3 billion target by 34%. In particular, the Shipbuilding Division acquired new orders worth $6.8 billion, a 141.8% increase from the previous year. Thanks to the Shipbuilding Division's performance, HHI was able to exceed its overall target despite the below-expectation- performance of the Offshore & Engineering Division and the Industrial Plant & Engineering Division. With bright-looking market conditions, our state-of-the-art technology, innovative product lines and dedicated employees, HHI will prosper as it ventures into newly-emerging areas where our analysts have predicted huge long-term growth and large orders to secure a lucrative future.

Securing Three-Year Order

HHI has established such a sound reputation at
secured order backlog long into the future, len
security and stability afforded to few of its com
received new orders worth $9.8 billion, thus ex
Thanks to the Shipbuilding Division's exception
able to exceed its overall target. As a result, the
totaling $12.5 billion. Of this, the Shipbuilding
thereby securing a three-year order backlog. Th
the Company's history and firmly sets the Com
records as it steadily realizes its vision of becom





Backlog

t home and abroad that it has
ding the Company a degree of
npetitors. In 2003, the Company
xceeding its preset target by 34%.
al performance, the Company was
e Company secured order backlog
Division claimed $9.2 billion,
his future workload is the largest in
pany on track to break new
ning a "Global Leader."

Firmly Bonded, Maximizing Productivity

Each of our employees is considered to be one of HHI's valuable assets. No matter how groundbreaking or cost-effective the Company's products are, they are useless without those who create, invent and help animate them- the HHI team. HHI is therefore proud to declare its ninth straight year of harmonious employee relations unmarred by labor disputes and based on the principle of fairness, which have translated into record sales amounts per employee during the past four years. After helping bond its people together, HHI has maximized its productivity every year. The Company demonstrated its exemplary employee relations' culture to its clients and society by successfully hosting the "HHI Family Festival." This was just one of a number of morale-boosting events that has urged HHI and its team to the forefront of the shipbuilding industry as they all look forward to a long and bright future together.

Repositioned to embrace challenges

There is no limit when it comes to our determination to achieve our aspirations. As our production capacity grows, so too does our commitment to maintaining integrity and excellence in everything we do.

USD 9.8

billion new orders

In 2003, HHI achieved excellent results backed by its cutting-edge technology, hard-working employees and advanced marketing skills. The Company received new orders worth \$9.8 billion, thus exceeding its initial target of \$7.3 billion by 34%. As it has greater consistently surpassed expectations every step of the way, HHI promises a future filled with even greater results for its customers, shareholders and employees.

Our future-oriented, flexible and innovative approach to outputting the world's highest quality products will continue to spread in 2004 as we embrace new high-demand markets to broaden our corporate profile.

Thanks to favorable shipbuilding market conditions in 2003, HHI's Shipbuilding Division achieved an unprecedented level of new orders with 126 vessels or 9.1 million GT, amounting to $6.8 billion. This exceeded the original target of $3.0 billion by 127% and trumped the previous record of 82 vessels or $5.1 billion recorded in 2000.

This remarkable achievement was made possible by an increase in cargo transportation boosted by a global economic recovery and China's explosive growth. Strengthened regulations by the International Maritime Organization for aged vessels following the Prestige accident also had positive repercussions in helping the Division outperform its initial targets. Most importantly, the Division encouraged greater sales by focusing on enhancing the quality of its products and client service based on a world-class level of competitiveness.

In terms of vessel type, the Division received orders for 66 containerships, 50 oil tankers, seven product carriers, two LPG carriers and one special & naval vessel. By confidently pursuing orders for VLCCs and ultra-large containerships, the Division created vital momentum to maximize sales volume and took the lead in new value-added vessel type market. One of these was an order for 10 ice-class tankers with reinforced bows, specially designed to navigate the Polar Regions. This has helped the Division negotiate a fresh edge in the fast-growing ice-class tanker sector.

As of the end of 2003, the Division has a backlog worth $ 9.2 billion or 12.9 million GT, with 183 vessels including 9 special & naval vessels, securing three-year workload.

In 2004, the shipbuilding industry expects to see minor adjustments to the number of large orders it enjoyed before, while demand in general will continue to rise. Calls for large LNG carriers, gas-related vessels, and FPSOs are also forecasted to rise as LNG gains greater prominence as a clean energy source.

The Division will make efforts to take larger orders of ice-class tankers and ultra-large containerships to exploit these growing fields. With more demand expected for LNG carriers, the Division will focus on attracting new orders of LNG carriers based on our capabilities of building both Moss and Membrane, accumulated technologies, superior price competitiveness, and flexible delivery that is made possible by having nine dry docks.

The Shipbuilding Division sets its new target for orders at $4.5 billion, a 34.0% decrease from the previous year with a sales target of ₩4,068 billion , a 8.2% incease from the previous year's performance. It will not cease its effort to achieve these goals.

Corporate Reflections

"World-class products, promoted by world-class sales, substantiated by a world-class level of client service."

Mu-Su Hwang *Chief Operation Officer of Shipbuilding Division*

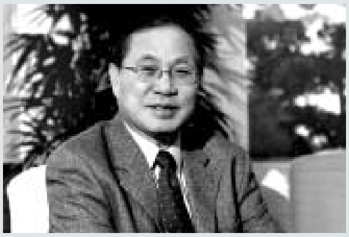
Through extensive R&D efforts, the Division has established a firm presence in the global offshore and engineering market and taken a lead in the global energy industry.

The Offshore & Engineering Division has built a reputation as a comprehensive contractor for oil and gas related facilities. It has also achieved notable success in producing semi-submersible and jack-up drilling equipment, and FPSO (Floating Production Storage & Offloading) facilities using in-house technologies that permit onshore construction. Through extensive R&D efforts, it has established a firm presence in the global offshore and engineering market and taken a lead in the global energy industry. By investing in 1,500-ton gantry cranes and enhancing its project management, the Division has buoyed up its production facilities for better oil and gas development at a lower cost.

In February 2003, it entered the Guinness Book of Records by lifting a 12,000-ton structure 52.8 meters above the ground for the Na Kika project, using its Super-Lift technology. Five months earlier, the R&D team were rewarded for all their hard work by having this ranked as one of Korea's 10 Best New Technologies. In 2003, the Offshore & Engineering Division received orders worth $670 million and achieved sales of ₩1,239 billion. Despite the order performance of 2003, which was below than expectation, it performed sufficiently to build a solid platform for future growth.

In 2004, it plans to build new portfolios by investing further in conventional fixed platforms and deep-sea floating platforms, and advancing into the offshore equipment installation market. Active marketing efforts will ensure that target orders of $1.3 billion and target sales of ₩1,365 billion will be reached by the end of the year.

The Division has now built a global network of differentiated services with the support of satisfied customers. It has responded to the contemporary security threat with higher risk management as it aspires to become the world's premier energy-equipment service provider. In line with this goal, the Division has constantly striven to improve its design, production and trial-run construction capacity, and already begun preparing capital expenditure for further subsea pipeline equipment.



Corporate Reflections

"A dynamic new portfolio for 2004 will help the Division achieve targets and enlarge its global network."

L) ***Chung-Sung Ahn*** *President of Offshore & Engineering Division*

R) ***Jae-Byung Song*** *Chief Operation Officer of Offshore & Engineering Division*

The Industrial Plant & Engineering Division is very active in Africa and the Middle East markets by forging new subsidiaries and completing prestigious turnkey projects, respectively, thus building bridges to an even more lucrative 2004.

The Industrial Plant & Engineering Division has successfully carried out a wide range of turnkey projects at home and abroad based on the technological knowledge that it has accumulated over the past decades.

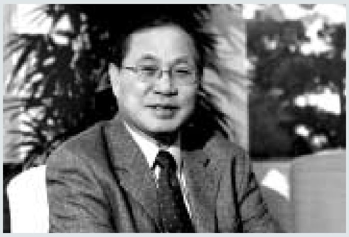
So far, it has constructed a total of 44 power generation and cogeneration plants (7,201MW), including 12 combined cycle power plants (CCPPs, 1,629MW). These include five 65MW Makkah Taif thermal power plants in Saudi Arabia and the 507MW CCPP in Daesan, South Korea.

By winning an order from Saudi Arabian oil company Saudi Aramco in February 2004 to construct its cogeneration plant, the Division seized on the opportunity to enhance our marketing activities in the Middle East and better satisfy customers in this region.

In the field of desalination plant construction, the Division has successfully completed 14 projects (284MIGD) in several Middle Eastern countries, including the construction of the 53MIGD Taweelah "A1" and 76MIGD Taweelah "B" desalination plants in the United Arab Emirates, the 30MIGD Al Hidd plant in Bahrain, and the 50MIGD Al Khobar Ph. II plant in Saudi Arabia. In 2004, the Division plans to focus on building combined power generation and desalination plants, and participate in privately invested projects in the United Arab Emirates, Saudi Arabia, Oman, Qatar, Kuwait and Libya.

The Division's experience in oil and gas plants includes establishing the 100,000 BPSD and 200,000 BPSD refineries in Korea, including hydrocracking and delayed coking units, and a 1.5 million-ton Diesel Hydro Desulphrization Plant in Mumbai, India. In addition, the Division was awarded two contracts by the Shell Petroleum Development Company of Nigeria (SPDC) to construct the Forcados natural gas-gathering facilities and the Bonny Terminal crude oil storage facilities on a turnkey basis. Particular note is the establishing of a local subsidiary in Nigeria in Aug. 2003 to enable the Division to commence business more aggressively in Africa.

In 2004, the Division plans to advance into the LNG and GTL (Gas to Liquids) business by establishing partnerships with fully-licensed, hi-tech companies. It will also attract more EPC turnkey projects from overseas by focusing on enhancing the quality of its products and constructing world-class plants.



Corporate Reflections

"2004 is a year of open doors: open to partnerships, open to LNG and GTL businesses, open to the world."

L) *Chung-Sung Ahn* *President of Industrial Plant & Engineering Division*

R) *Myung-Woo Jang* *Chief Operation Officer of Industrial Plant & Engineering Division*

The Engine & Machinery Division penetrated new markets from Central America to the Middle East in 2003 and its proprietary engine HiMSEN garnered prestigious awards for its superior output and high-quality.

The Engine & Machinery Division is the world's largest marine diesel engine builder, with a global share of 35%. By the end of 2003, the Division had manufactured 1,720 (42.29 million horse power) engines and supplied them to 15 countries, including Germany, Denmark, Italy, Poland, the UK, Brazil, China, Taiwan and the U.S.

The Division's proprietary engine model, HiMSEN engine received high recognition for its superior output, lower fuel consumption, lower vibration and noise, lower exhaust gas emission, and easy maintenance, ultimately garnering the Division the Korea's Ten Best Technologies Award and the Presidential Award in New Technology Utilization. As of the end of 2003, only three years after its launch, the Division has made a firm imprint on the market by producing 100 engines to be sold in China and Europe, India and Middle East.

To reduce high logistics costs and maximize customer satisfaction, the Division joined hands with HHI's Shipbuilding Division. This promoted the Division expand its presence in the diesel power plant market in Central and South America, and helped it acquire much recognition for its LNG vessel steam turbines, industrial and marine pumps, conveyors and presses.

The shipbuilding market is currently enjoying its highest boom, with the largest new engine anticipated for 2005. The Division looks forward to increasing orders since promoting its HiMSEN engines to the marine and land power generation market and small and medium-sized vessel market. It also expects to see an influx of orders for Packaged Power Stations using HiMSEN engines in Central and South America and the Middle East, where the demand for small self-powered generation plants keeps growing.

In the machinery business, the Division expects to see a growing demand for industrial pumps in the Middle East and Southeast Asian regions. It also plans to step up its marketing activities regarding the robot-producing business in China, Malaysia and India, and manufacture 1,500 robots in 2004.

With its superior quality products and vast expertise, the Division strives to improve its operations by developing new technologies, expanding its market presence, providing differentiated after-sales and technical support services and adopting 6-Sigma for all of its product lines.

Corporate Reflections

2004 will herald even greater demand for our emerging technology-driven products, in familiar and newly-emerging markets around the world, thus securing fresh growth.

Seug-Cheul Lee *Chief Operation Officer of Engine & Machinery Division*

Along with the other divisions of HHI, the Electro Electric Systems Division redefines the parameters of success with ground-breaking new achievements, such as by manufacturing the largest transformers and generators in Korea, and forging new relationships abroad.

In 2003, thanks to its preemptive overseas marketing efforts, the Electro Electric Systems Division seized on the opportunity to build an ideal portfolio to represent all of its business areas, simultaneously increasing overseas sales. Despite oversupply stemming from reduced capital expenditure at home and abroad, the Division succeeded in manufacturing an 840MVA transformer—the largest in Korea—using its pioneering research and technology. Moreover, the Division once again proved its unrivaled leadership in the global marine power generator market by receiving an order from a ship-owner to manufacture a 6,500kw generator—the largest of its kind in Korea.

The Division has continuously focused its efforts on establishing a stronger presence overseas. To this end, it has been pursuing diverse global business strategies by establishing local subsidiaries and research institutes abroad in line with global trends. As part of these efforts, it established a joint venture in Yang Zhong, China in 2003, thus laying the foundation for broader sales not only in the Chinese market but also in the Asian and Middle Eastern regions. To fully engage in the development of new power conversion technologies, the Division opened the Hyundai Enova Innovative Technology Center (HEITC) in Torrance, California, in cooperation with ENOVA, a U.S.-based company specializing in the development of digital power management technologies. This center has become the first overseas research institute to be jointly established by a Korean and foreign company for the development of power conversion technologies—a new field of research that has garnered much media attention of late.

With an establishment of a joint venture in Yang Zhong, the Division begins producing distributing boards, GIS's (Gas Insulated Switchgears), and low and medium voltage circuit breakers for the Chinese market and concurrently expand its product range in a bid to establish a firm presence in China and other regions as well as bolstering the competitiveness of domestically manufactured products.

Through such collaborative efforts between its overseas and domestic factories, the Division will set in motion innovative new strategies—from product development to marketing and sales—that will ultimately resolve into more orders, greater domestic sales, and provide with a plan to cope with the stricter trade barriers in an era of unlimited competition.

To aid the Division's technological development, greater research efforts will be undertaken at the Hyundai Electro-Mechanical Research Institute (HEMRI), the Hunelec Engineering and Technologies Ltd. in Hungary, and the HEITC in the U.S. The Division will also promote the technological development network run by its New Product Development Center to enhance the performance of existing products and spur the development of their next-generation successors, such as electrical and control equipment for electric cars and distributed generation systems.

Corporate Reflections

"Proactive marketing strategies to boost orders and a stronger presence in China are two of our key goals for 2004"

Young-Nam Kim *Chief Operation Officer of Electro Electric Systems Division*

The fusion of sophisticated technology and extensive in-house research has helped the Construction Equipment Division clinch the largest share of excavator markets at home and abroad, while nurturing plants and marketing channels worldwide to promote its other business lines.

The Construction Equipment Division develops new models of excavators, forklifts, wheeled loaders and skid loaders based on research carried out at the R&D Center and applied using the Division's in-house technology. New developments in the excavator market since 1988, such as the New Edge ROBEX-7 Series launched in 2001, have secured its position as the leading excavator manufacturer at home and abroad.

Currently, the Division operates five subsidiaries in Chicago, Belgium, Changzhou, Jiangsu, and Beijing. Following on from the Changzhou subsidiary in 1995, the Division continued expanding its capacity by establishing a Beijing subsidiary in Aug. 2002, the second factory for the Changzhou subsidiary in Feb. 2003, and Jiangsu subsidiary in Nov. 2003 to prepare for a dramatic demand increase in the Chinese market. The Division's current market share for the excavator market in China has reached 23.7%, thus securing its leading position for two consecutive years. In addition, the Division will develop Chinese subsidiaries into comprehensive construction equipment companies by expanding its business to include fork - lift trucks as well as excavators and by newly investing in R&D for specialized vehicles including concrete pump cars and truck cranes.

More aggressive marketing strategies will encourage this trend, based on new sales channels in Central America and South Africa and the Middle East. The Division will nurture key dealers, providing financial support and incentives in accordance with local market needs, and attend international exhibitions in a bid to generate greater brand awareness and strengthen its forklift business line.

Domestically, the Division will actively promote the sales of major models, such as the new 5-ton, 14-ton and 29-ton excavators. It will expand its market shares in wheeled loaders and other products with relevant promotional events considering the characteristics of the market. It will also create a more secure sales infrastructure by expanding its second-hand dealerships and construction equipment dealer network to wider regions. The Division will also set up more efficient customer service centers in Korea's central regions in 2004.

In 2003, the Division achieved total sales of ₩845 billion. In 2004, it aims to boost sales by 28% with a target of ₩1,080 billion. To this end, the Construction Equipment Division will push forward with business diversification policies such as enforcing its selection and concentration strategies, establishing local subsidiaries, focusing on its leasing business and the stationing of branch offices.

Corporate Reflections

"In developing our global sales infrastructure we must not overlook the crucial benefits to be gained from a strong second-hand dealership network."

Jong-Kie Kim *Chief Operation Officer of Construction Equipment Division*

The future security of the Company hinges on unrivalled R&D, backed by international partnerships and a list of research centers run by experts who keep our products timely, price competitive and one step ahead of the latest technological evolutions.

Our research and development efforts began in 1982 when we registered Hyundai Heavy Industries General Research Institute with the Ministry of Science and Technology. Since then, the institute has grown to include Hyundai Maritime Research Institute (HMRI), Hyundai Industrial Research Institute (HIRI) and Hyundai Electro-Mechanical Research Institute (HEMRI). In 1994, we established a Research & Development Division, and opened the Techno Design Research Institute (TDRI), appending numerous overseas research institutes to our inventory in 2000.

Each research institute of our R&D Division strives to develop high value-added freight and maritime equipment, automated production equipment, energy and environmental systems, electro-electric systems, and core products in the areas of design and information technology.

Through our local research centers in countries that possess advanced high-tech products like the United States and Hungary, we have built a global technological network that enables us to acquire technologies developed by these countries firsthand.

In 2004, we plan to invest ₩128 billion in our R&D efforts, which represents 1.4% of our sales target and a 12.9% increase over our 2003 investments in R&D.

R&D Strategies

Our vision in the 21st century is to become a global leader in each of our business areas. To achieve that vision, we have set up the following strategies:

First, we will secure core technologies for developing major products.
In July 2001, we selected 12 major products to develop into world-class market leaders. We concentrated our technological development resources on enhancing the quality, performance and price competitiveness of our major products in the shortest period of time to ensure the continuous growth of our company.

Second, we will lead the way in developing and advancing core technologies.
By developing and further improving cutting-edge technologies in the rapidly changing business environment, we will not only stay one step ahead of our peers, we will guarantee our future growth.

Third, we will invest in world-class technological experts.
Competitive technology requires a strong team, which is why we have put in place a wide range of programs designed to nurture experts who rank at the top of their field.

Fourth, we will strengthen technological cooperation.
We will improve the cooperation between our R&D Division and other divisions to encourage technological development and spur positive synergistic effects in the R&D area.

We will promote the successful implementation of our technological development strategies and support our R&D Division by introducing the Six-Sigma system to maximize the efficiency of our research efforts and build a company-wide knowledge-based management system.

Hyundai Maritime Research institute (HMRI)

The HMRI possesses capital facilities and equipment for hydrodynamic research on ships, offshore vessels and structures. The other aspects of research covered by the institute are offshore engineering, structure, noise, vibration, machinery, and related systems. The presence of the institute at the Ulsan site provides many opportunities for R&D associated with a variety of products manufactured by six business divisions of HHI. Long-term research, essential for survival in the competitive heavy industry business, is also undertaken in HMRI.

Hyundai Industrial Research institute (HIRI)

The HIRI plays a vital role to put the top of production technologies such as welding, casting, plastic deformation and other material processing methods including development of automatic production facilities. As well, the HIRI is a key player in engineering technologies of HHI's main products for improving their performance, life and safety. Research topics also include mechatronics such as robotics, laser systems, energy, and environmental system such as power plants, desalination plants, marine engines and environmental control system, and protective coatings for corrosion protection. The HIRI is equipped with advanced analyzing equipment, powerful simulation facilities for developing new concepts in design and production technologies

Hyundai Electro-Mechanical Research institute (HEMRI)

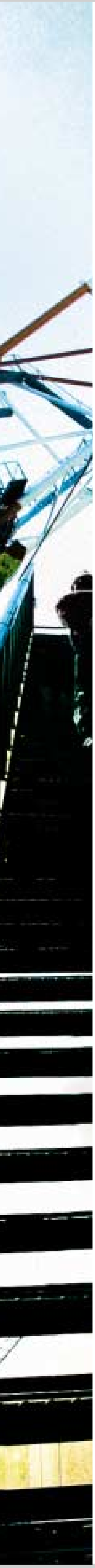
The HEMRI makes every effort to lead the future of our industry by developing key technologies for the products of Hyundai Heavy Industries Co., Ltd. Its goal is to seek new technological insights and transform them into high-quality products. In this respect, the HEMRI is engaged in a variety of R&D activities, addressing both fundamental and applied technology and products. The R&D activities of HEMRI encompass all the products and business spectrum of Hyundai Heavy Industries Co., Ltd. including not only electric machines and systems, industrial machinery and plants, shipbuilding and offshore engineering but also intangible technologies for the future.

Techno Design Research institute (TDRI)

The TDRI plays an important role in coordinating design development and supports optimal design technologies by supplying new designs of various products and constructions. It is divided into two departments; Visual Communication and Product Design Department. While Visual Communication Design Department creates and refines colors, web-based design, and corporate or brand identities, the Product Design Department develops and defines products identities. TDRI contributes to creating a new culture of enterprise and actualizing high value business by creating its own design technologies.

Technology Management Center

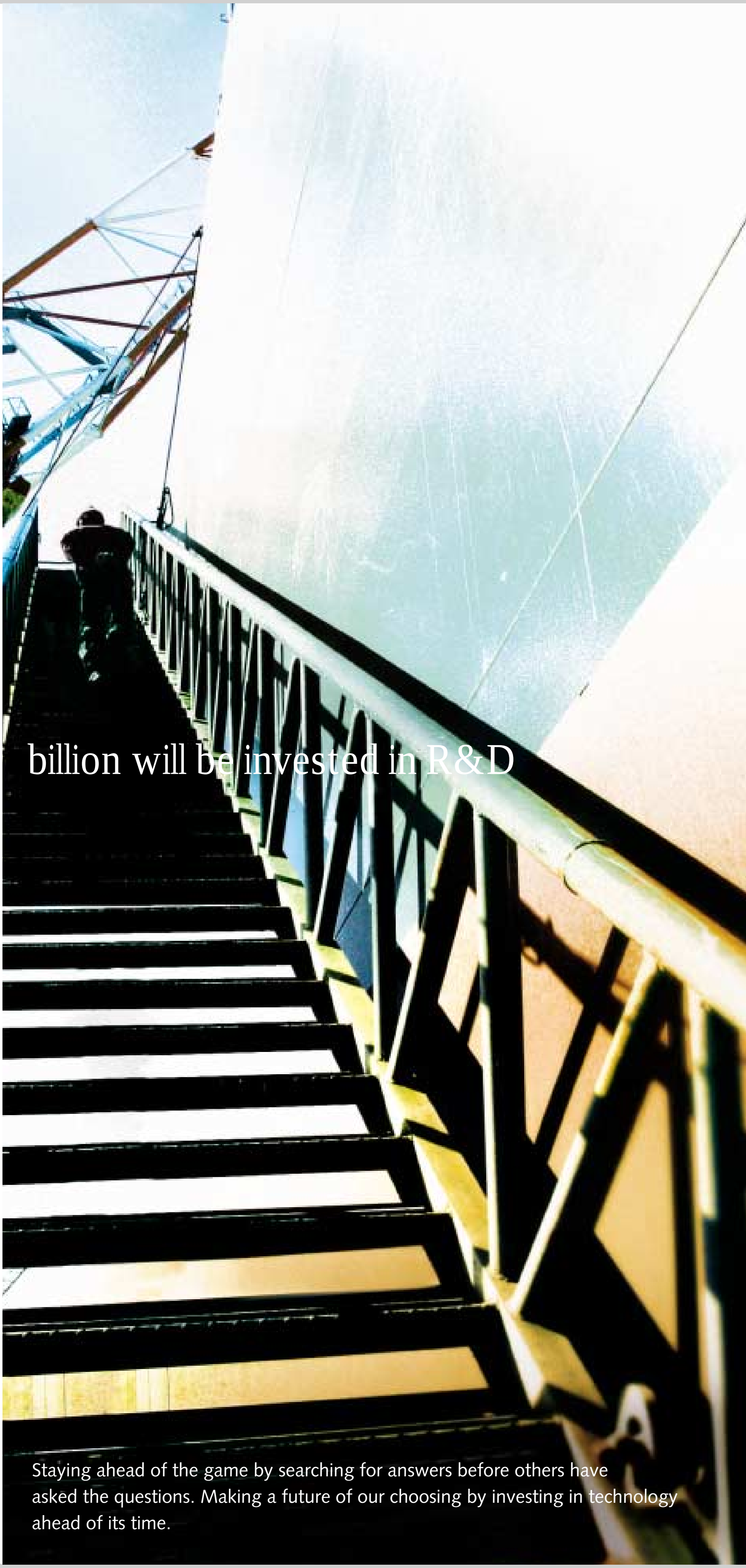
The Technology Management Center contributes to the promotion of technical innovation as well as the transfer and dissemination of the recently developed technology, it also focuses on sharing the knowledge and information related to the technology in the Company.



Treasuring the planet

Conserving the environment for the future and protecting it from the oversights of the past only represents the tip of the iceberg of what HHI is attempting to do. By fostering clean-up campaigns, social welfare activities, and family-oriented managerial policies, we are ensuring that all of our children have as great a future to look forward to as we do.

KRW 128.1


billion will be invested in R&D

Staying ahead of the game by searching for answers before others have asked the questions. Making a future of our choosing by investing in technology ahead of its time.

People are the engine that powers our business and-in that respect-every nut and bolt is crucial to HHI's success. We therefore provide a spectrum of training and welfare programs to encourage them to exploit their full potential with our complete support.

Hyundai Heavy Industries (HHI) believes corporate prosperity and people-oriented management hinge on successful HR policies. To this end, HHI has implemented a series of strategies to boost morale, maximize employees' potential and institutionalize training programs to cultivate experts with global leadership skills. HHI also encourages individuals to have a clear vision at work and runs a wide range of self-development programs. This not only gives our staff a sense of personal accomplishment as experts in their own fields, but enhances HHI's competitive edge in the world market.

In addition, HHI strives to create a work environment that is dynamic, fun and personally rewarding. We hope to enrich our employees' quality of life by offering social and cultural welfare programs, as well as with a variety of leisure activities. In order to fulfill our social responsibility as a corporate citizen, we have established various kinds of public welfare facilities, which we share with other members of the community in a bid to encourage them to learn, study and unwind in ways that ultimately benefit them.

Motivated by the belief that great people with great values are the keys to enhancing HHI's corporate competitiveness, and underpinned by the philosophy that such talent is not necessarily inborn but nurtured by a combination of individual and corporate effort, HHI runs training programs such as the 'Junior Board,' domestic and overseas MBAs, and Techno-MBAs for our employees. These are designed to create a strong value system within HHI including the passion to create a brighter future, while promoting an open-minded and creative attitude, and a sense of personal philanthropy. We are thus shaping our workforce - from floor workers to executives - into global businessmen with our diversified globalization training programs.

The welfare of the community and our staff are among our highest priorities, which is why HHI has invested in a range of welfare facilities both inside and outside the corporate sphere. Top of the agenda is affordable housing. To this end, HHI has built or renovated residential buildings and dormitories to keep our staff comfortably and conveniently located. Second, HHI supports the families of its employees with tuition fees and expenses to cover daily necessities. Third, HHI schedules regular physical checkups for all employees to ensure they stay in good health and aren't overloaded. In addition to this, HHI is always there to provide support in the event of hospital

treatment and related expenses should our staff or their close family members fall ill or encounter difficulties. Finally, HHI operates a recreational condominium through our Corporate Welfare Fund for the pursuit of sporting activities.

Having overcome instability in terms of employer-employee relations, HHI has worked hard to maintain a solid labor-management relationship for the last nine consecutive years. As the executive body of the Labor union moves to improve various labor-related problems such as layoffs and shrinking labor union fees, our flexible attitude is expected to take labor relations from strength to strength.

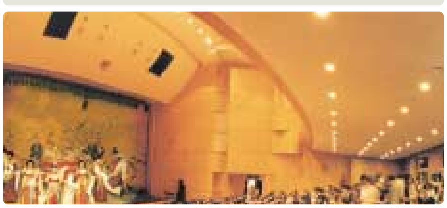
Employees by Business Sector

As of December 31, 2003

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	R&D	Administration & Assistance	Overseas Subsidiaries & Branches	Total
Administrative	2,280	1,007	709	717	748	436	483	1,641	635	8,656
Manufacturing	8,467	1,765	1,285	1,280	1,423	556	80	1,704	101	16,661
Others	48	23	12	17	13	6	6	427		595
Total	10,795	2,795	2,006	2,014	2,184	998	569	3,772	779	25,912

Our Community

HHI has become a landmark not only in the shipbuilding industry, but in the local community with a range of welfare programs, arts and sporting activities, and practical facilities to help foster a spirit of togetherness and make everyone's life a little easier.



Hyundai Heavy Industries (HHI) 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 centers provide local residents with a venue 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, develop their hobbies, or engage in sports such as swimming, ice skating, bowling, rock-climbing and racket ball.

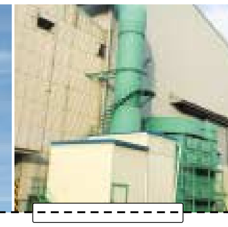
HHI has also extended its services to foreigners by offering language courses to help newcomers adapt more smoothly to their life in Korea. HHI is committed to strengthening the community. In addition to our cultural and welfare centers, HHI makes a positive contribution to the educational development of local youths 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, HHI operates two professional sports teams, the Ulsan Hyundai Horangi Football Club and the Hyundai Cokkiri Korean Wrestling Team. These professional teams boost the morale of local residents and strengthen solidarity within their communities. HHI's desire to create better-integrated communities is illustrated by its efforts that extend beyond our 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. HHI also built a parking lot for 4,500 automobiles that sprawls across 20 acres of land near our headquarters. This facility provides free public access.

HHI constructed the Hyundai Arts Park and Bangojin Sports Park to provide a place where its employees, their families, and local residents can go to relax and feel reinvigorated. HHI also offers a wide range of programs including children's camps and lectures, and operates a mothers' college while running cultural events such as writing, drawing and singing contests.

HHI makes a concerted effort to improve the quality of society's general and cultural welfare by committing fully to this wide range of projects. The short-term efforts and the long-term vision all reflect HHI's desire to display our optimism and devotion to the community, by pursuing these programs in a bid to enhance the quality of life for HHI's employees, their families, and the surrounding communities.

Our Environment



Contrary to the negative press pegged on large corporations, HHI is helping to reinvigorate the environment with a list of 'green' guidelines, corporate campaigns and environmental management tools to guarantee a rosy future all round.

1. Introduction

As we enter the 21st Century, the world is continuing to develop at an accelerating pace. New threats to the global environment have charged mankind with the responsibility of conserving planet Earth or losing some of its treasures forever. At HHI, we take our social role seriously and continually strive to protect the environment as a major player in the industrial sector.

All over the world, the environmental mindset of consumers is hardening, environmental regulations in many countries are becoming stricter, and forward-looking international agreements are multiplying. Furthermore, the Green Round is being set in motion to protect environmental trade and to encourage the industry to establish a strategy of 'Green Marketing'.

Since 1995 HHI has adhered to an environmental management system in accordance with ISO 14001. HHI is also introducing advanced environmental management tools such as Life Cycle Assessment and Environmental Performance Evaluation.

Not satisfied with current efforts to mitigate the damage being wrought on the natural landscape, HHI will persevere in building an environmentally sound, sustainable society through considerate production methods and environmentally conscious management.

HHI's employees can positively contribute to a cleaner environment with longer-lasting energy supplies by observing our guidelines on issues such as waste recycling or by joining one of its corporate campaigns. Meanwhile, HHI's Industrial Research Institute is frequently measuring atmospheric change and water quality levels to make sure our Mother Nature doesn't swing out of balance, so our staff are safe both at work and outside.

2. SHE (Safety, Health, Environment) Policy

In creating a prosperous future for society free of unnecessary risks and health hazards, HHI recognizes that safety, health, and the environment are integral part of corporate management.

Therefore, HHI pledges to pursue and improve on the following activities in order to realize high living standards and to establish itself as the global leader in the heavy industries field in all aspects.

Environmental technology development and pollution prevention program

_ Develop energy-saving and environment friendly products
_ Introduce cleaner production technologies and environmental pollution prevention activities
_ Actively comply with international agreements and legal requirements
_ Publish periodic environmental reports

Guarantee basic requirements of safety and health

_ Continually improve safety facilities and working environment
_ Improve the prevention system in line with zero tolerance of accidents and disease
_ Provide education and training on accident prevention and health promotion
_ Apply and enforce strict internal regulations based on legal requirements

3. Environmental Certification

DET NORSKE VERITAS

a)

DET NORSKE VERITAS
MANAGEMENT SYSTEM CERTIFICATE

b)

a) Acquired ISO 14001 Environmental Management System Certification from Det Norke Veritas. (March, 1997)

b) Acquired OHSAS 18001 Health and Safety Management System Certification from Det Norke Veritas (May, 2001)

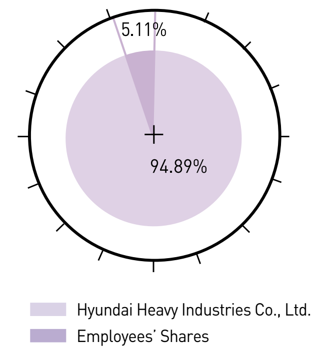
4. Environmental Awards

Nov. 1998 : Named an Excellent Company for using "Green Energy."
Dec. 2001 : Awarded the Presidential Award for Resource Saving.
Dec. 2003 : Selected as a superior environmental management company by Ulsan City.

Hyundai Samho Heavy Industries Co., Ltd.

Profile

On December 6, 1997, just months after Korea got swept into the Asian financial crisis, Halla Heavy Industries collapsed under the weight of increasing debt and was declared bankrupt. Under a business normalization plan conceived with U.S. Investment Company Rothchild, Halla Heavy Industries Co., Ltd. was reborn as Samho Heavy Industries (SHI) and made a management entrustment contract with Hyundai Heavy Industries Co., Ltd. (HHI). Under HHI's management from Oct. 1999, SHI finally turned around to make a profit in 2001. On May 15, 2003, HHI acquired 100% of SHI shares by exercising its call option (20,000,000 shares at par value, KRW 5,000 each). This led to SHI's affiliation with Hyundai Heavy Industries Group on July 1, 2002, after which it established itself as the fifth-biggest shipbuilder in the world. On Jan. 1, 2003, SHI changed its company name to Hyundai Samho Heavy Industries Co., Ltd.



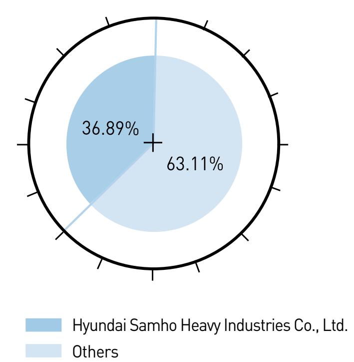
Business Line Shipbuilding

Major Shareholder Hyundai Heavy Industries Co., Ltd. (94.89%)

Hyundai Mipo Dockyard Co., Ltd.

Profile

Hyundai Mipo Dockyard Co., Ltd. (HMD) was founded in 1975. It has since gained a golden reputation for conducting the highest quality ship conversions and repairs. Despite incurring large-scale losses for two consecutive years as it wrestled with a change in direction from ship repairs & renovation to full-scale shipbuilding, HMD experienced a staggering turnaround in 2003 that put it back in the black. This was primarily due to streamlined vessel lines, specialization, and the introduction of HHI's shipbuilding technology and management techniques. HMD has set its sights on becoming the number one shipbuilder in the world for medium-sized, specialized, sophisticated and high value-added ships with its uniquely accumulated and advanced technology.



Business Line Shipbuilding, conversion and repairing

Major Shareholder Hyundai Samho Heavy Industries Co., Ltd. (36.89%)

Hyundai Finance Corp.

Business Line

Corporate financing and management consulting

Major Shareholder

Hyundai Heavy Industries Co., Ltd. (67.49%)

Hyundai Futures Corp.

Business Line

Overseas futures and options brokerage

Major Shareholder

Hyundai Finance Corporation (67.49%)

Hyundai Venture Investment Corp.

Business Line

Investment in venture funds

Major Shareholder

Hyundai Finance Corporation (68.38%)

1970s

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

1980s

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

1990s

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

2000s

June 2000
Granted the enterprise-wide ISO 9001 certificate
Sept. 2000
Developed the proprietary diesel engine model for the first time in Korea
Sept. 2000
Built the second Large Engine Factory
Nov. 2000
Entered into the Government Next Generation Submarine Project (Building of three 1,800 Ton submarines by 2009)
Apr. 2001
Produced ship engines of 30 million bhp in the shortest period in the world
Apr. 2001
Built the first double hull oil tanker (315,000 DWT) in Korea
June 2001
Granted the OHSAS 18001 certificate
Dec. 2001
Awarded the $4billion Export Tower
Feb. 2002
Disaffiliated as a specialized heavy industry group
Mar. 2002
Built one thousand ships within a period of 30 years
May 2002
Acquired Samho Heavy Industries Co., Ltd.
Oct. 2002
HHI's "HiMSEN" engine acquired the type approval certificates from eight classification societies.
Jan. 2003
"Ground integration method" for offshore facilities selected as one of Korea's 10 Best New Technologies
Feb. 2003
Delivered 10 LNG carriers, the lagest record in Korea
Apr. 2003
Launched Korea's next-generation destroyer, "King Moonmu"
July 2003
Produced ship engines of 40 million bhp in the shortest period in the world
Nov. 2003
Awarded $5 billion Export Tower
Dec. 2003
Produced the world's most superior-ranking ships for 21 consecutive years

Directors and Officers

Directors

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

Kwan-Hong Yu
- President & CEO

Byung-Ki Park
- Senior Executive Vice President and Chief Financial Officer

Myung-Sun Shin
- Senior Executive Vice President and Chief of Administration & Assistance Headquarters

Outside Directors

Yoo-Whan Chang
- Chief Executive Officer of Bizfarm Co., Ltd.
- Member of Audit Committee

Moon-Mo Chung
- Former Managing Director of Korea Export Import Bank
- Member of Audit Committee

Ki-Tai Park
- Lawyer, Kim, Shin & Yu International Law office
- Member of Audit Committee

Gang-Yon Lee
- Advisor of Korea Institute for International Economic Policy

Officers

Keh-Sik Min
- Vice Chairman & CEO/CTO

Kwan-Hong Yu
- President & CEO

Chung-Sung Ahn
- President of Offshore & Engineering and Industrial Plant & Engineering Divisions

Byung-Ki Park
- Senior Executive Vice President and Chief Financial Officer

Myung-Sun Shin
- Senior Executive Vice President and Chief of Administration & Assistance Headquarters

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

Jae-Byung Song
- Senior Executive Vice President and Chief Operating Officer of Offshore & Engineering Division

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

Seug-Cheul Lee
- Executive Vice President and Chief Operating Officer of Engine & Machinery Division

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

Jong-Kie Kim
- Senior Executive Vice President and Chief Operating Officer of Construction Equipment Division

Organization Chart

- **Board of Directors**
  - **Chief Executive Officer**
    - Administration & Assistance Headquarters
      - Corporate Planning, Administration & Public Relations, Personnel, Procurement, Accounting, Safety & Environment
    - Seoul Office
      - Finance & Accounting, Procurement Financial Strategy, Investor & Public Relations, General Supporting, Marketing
    - R&D Center
      1) Maritime Research Institute
      2) Industrial Research Institute
      3) Electro-Mechanical Research Institute
      4) Techno-Design Research Institute
      5) Technology Management Center
    - Shipbuilding Division
    - Offshore & Engineering Division
    - Industrial Plant & Engineering Division
    - Engine & Machinery Division
    - Electro Electric Systems Division
    - Construction Equipment Division
    - Overseas Branches
- **Audit Committee**

Overseas Network

Europe

U.K. / London
11th Fl., St. Martin's House,
1 Hammersmith Grove,
London W6 ONB, U.K.
Tel: 44-208-741-0501, 1531
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The Netherlands / Rotterdam
Waalstaete, 4th Fl. Waalhaven
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The Netherlands
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Fax: 31-10212-5134

Greece / Piraeus
5-7, Kanari Street,
185 37 Piraeus, Greece
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Fax: 30-210-428-2144

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Hyundai Oslo (Liaison) Office
Radhusgt. 20, 0151 Oslo.
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Fax: 47-2242-6671

Ukraine
(Representative Office of
Hyundai Heavy
Industries Co.,Ltd.)
11, Dnepropetrovskoye Shosse
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69069 Ukraine
Tel: 308-612-139839, 595538
Fax: 308-612-595368

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New Maadi,Cairo, Egypt
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Fax: 20-2-754-7528

Angola / Luanda
Rua Lucrecia Paim, No.28/30
Luanda, Angola
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Fax: 244-2-399667, 338011

Middle East

U.A.E. / Dubai
Hyundai Dubai Office
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Fax: 971-4-222-0943

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Fax: 86-10-6590-6532, 6554

Singapore
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Tower One, Singapore 038987
Tel: 65-6337-2366
Fax: 65-6337-8966

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Fax: 81-3-3211-2093

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Centre, 23 Harbour Road,
Wanchai, Hong Kong
Tel: 852-3106-5600
Fax: 852-3106-5602

India / Mumbai
Unit No.2, 17th Fl.,Commerce
Center No.1,World Trade
Center,Cuffe Parade, Colaba,
Mumbail-400 005, India
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Fax: 91-22-2218-0061/9522

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Cliffs, NJ 07632 U.S.A.
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Fax: 1-201-816-4083

U.S.A. / Houston
1400 Broadfield, Suite 110, Park
10 Center
Houston, Texas 77084 U.S.A.
Tel: 1-281-578-7097
Fax: 1-281-578-8317

U.S.A. / Orlando
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Suite 110 Orlando, Florida,
U.S.A. 32817
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Fax: 1-407-275-4940

Firms Incorporated

Belgium
(Hyundai Heavy Industries Europe
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Vossendaal 11, 2440 Geel,
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Tel: 32-14-56-2201, 2232, 2211
Fax: 32-14-59-3405

Bulgaria
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1271, Sofia 41, Rojen Blvd.
Bulgaria
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Fax: 359-2-936-0742, 0305

Hungary / Budapest
(Hunelec Engineering and
Technologies Ltd.)
1146 Budapest,
Hermina UT 22, Hungary
Tel: 36-1-273-3730, 3733, 3739
Fax: 36-1-220-6708

Vietnam / Hanoi
(Hyundai Donganh Steel
Tower Co., Ltd.)
Block 3A Donganh Town
Hanoi, Vietnam
Tel: 84-4-883-3649, 3650, 3651
Fax: 84-4-883-3648

U.S.A. / Chicago
(Hyundai Construction Equip.
U.S.A. Inc) 955 Estes Avenue
Elk Grove Village Il. U.S.A. 60007
Tel: 1-847-228-8847
Fax: 1-847-437-3574

U.S.A. / California
Hyundai-Enova ITC
19850 S. Magellan drive,
Torrance, CA. USA. 90502
Tel: 1-310-527-0767
Fax: 1-310-527-7888

China / Changzhou
(Changzhou Hyundai
Construction Machinery
Co., Ltd.) Lushu, Changzhou,
Jiangsu Province (213002)
Tel: 86-519-675-0060, 5188
Fax: 86-519-675-5332, 5870

China / Beijing
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N0.2, Nanli, Luguoqiao,
Fengtai District, Beijing
Tel: 86-10-8321-8348, 4730, 4735,
8321-8347, 9880
Fax: 86-10-8321-1353, 4730

China / Yangzhong
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Co., Ltd.)
Xinba Kejiyuan, Yangzhong city,
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Fax: 86-519-511-836-7596

China / Changzhou
(Hyundai Jiangsu Construction
Machinery Co., Ltd.)
China National Technology
Industry Development Institute
Tel: 86-519-675-0060, 5188
Fax: 86-519-675-5332, 5870

Financial Section

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

The Company does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this section, and nothing contained herein is, or shall be relied upon as, a promise, whether as to the past or the future. Such forward-looking statements were based on current plans, estimates, and projections of the Company and the political and economic environment in which the Company will operate in the future, and therefore you should not place undue reliance on them.

Forward-looking statements only represent conditions as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events.

I. Overview

The Company has a worldwide business network in each of its six main divisions: Shipbuilding, Offshore & Engineering, Industrial Plant & Engineering, Engine & Machinery, Electro Electric Systems, and Construction Equipment. Most of its business performance is affected by the domestic economy, as well as the global economy since the Company's export holds over 80% of total sales. In detail, the Shipbuilding business is mostly influenced by the global economy, international trade volume and shipping freight price. The changes in demand caused by the level of energy consumption and the oil price trend affect the Offshore & Engineering Division, since its business involves construction and setting up of oil & gas exploration facilities. The Engine & Machinery business is under the influence of the shipbuilding market condition and internal and external capital investment market. The Electro Electric Systems business depends on the market conditions based on the market consumption of electric power, which are related to social overhead capital (SOC), and the economic recovery level of developing countries. The business conditions of developed countries and the investment plan on SOC mainly affect the construction equipment business.

The overall Korean economy in 2003 was unfavorable due to some international factors, such as the war in Iraq, outbreak of Severe Acute Respiratory Syndrome (SARS), the weak U.S. dollar, dispute on trade agreement, and price hike of raw materials. In 2003, the Korean economy was also affected by some internal factors, such as a severe damage from typhoon, slowdown in consumer consumption and investment activities. Despite those unfavorable market conditions in 2003, the Company showed the following achievements: (1) received an award for achieving over $5 billion in export, (2) selected as the world's best shipbuilder for 21 consecutive years, (3) set a new world record in its cumulative marine diesel engine output topping 40 million BHP, (4) produced 1,500 large-scale propellers in the shortest time among any other propeller producers, and (5) ranked as a top supplier in the Chinese construction equipment market.

In 2003, the Company secured the foundation of growth with $9.81 billion worth of new orders received, a 134% of increase from its target, $7.33 billion. Also, the Company recorded ₩8,153.5 billion in total sales, representing 97.9% of its ₩8,328 billion sales target. The operating profit and net income in 2003 showed ₩274.5 billion and ₩113.9 billion, respectively. In 2001 and 2002, the Company posted a deficit due to a huge one-time loss related to equity investment occurring in the process of disaffiliation from the former Hyundai Group. However, the additional losses have not been recorded in 2003, further, gains on valuation of investment using the equity method improved by ₩74.0 billion from the previous year thanks to a favorable results from its affiliates. In addition, reduced borrowings resulted in lowered interest expense by ₩85.3 billion compared to the previous year, and it contributed to the overall profit in 2003. Under the unstable and poor business environment in 2003, the Company, as a world-class company, was able to show steady development and growth in the result of its transparent management.

II. Results of Operations

1. Analysis on Profit and Loss

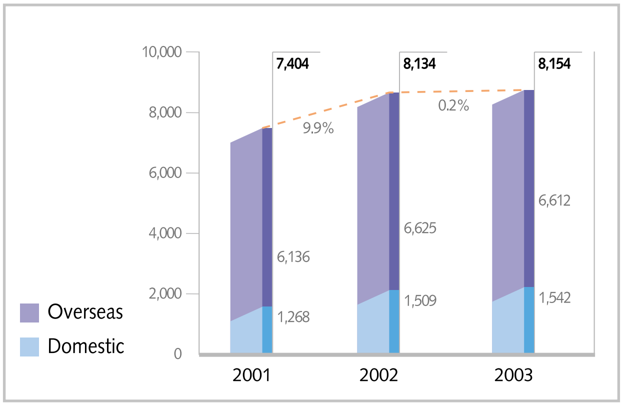
SALES

The Company's total sales in 2003 was ₩8,153.5 billion, up ₩19.4 billion, or 0.2%, compared to the previous year's ₩8,134.1 billion. This slight increase was due mainly to reduced sales contributions by a decrease in order performance in the Offshore & Engineering Division and the Industrial Plant & Engineering Division, which recorded 23.2% and 28.8% of total sales in 2003 and 2002 respectively. The new orders received by those two Divisions have been dropped due to a slowdown in the offshore and plant market and changes in sales strategies since 2002 from volume-oriented projects to profit-oriented projects.

The sales of the Shipbuilding Division increased by ₩50.8 billion, or 1.4%, to ₩3,758.4 billion in 2003. With remarkable development in the areas of robot and internal combustion engines, excluding mid- and large-size engines, the sales of the Engine & Machinery Division improved by ₩129.2 billion, or 21.9%, to ₩718.4 billion in 2003. The Construction Equipment Division's sales showed a remarkable rise in 2003 by ₩340.5 billion, or 67.5%, to record ₩845.2 billion due to an increased demand in the Chinese market. On the other hand, the sales of the Offshore & Engineering Division, the Industrial Plant & Engineering Division, and the Electro Electric Systems Division declined by ₩158.6 billion (11.3%), ₩292.4 billion (30.9%), and ₩56.1 billion (6.4%), respectively, in response to a fall in new orders. The latter three divisions' sales for the year recorded ₩1,239.4 billion, ₩654.5 billion, and ₩824.9 billion, respectively.

Trend of Sales

(In billions of KRW)



Trend of Sales

(In billions of KRW)

DIVISION	2001	Change(%)	2002	Change(%)	2003	Change(%)
Shipbuilding	3,784.0	8.2	3,707.6	-2.0	3,758.4	1.4
Offshore & Engineering	1,000.4	13.3	1,398.0	39.7	1,239.4	-11.3
Industrial Plant & Engineering	589.0	12.7	946.9	60.8	654.5	-30.9
Engine & Machinery	611.1	30.8	589.2	-3.6	718.4	21.9
Electro Electric Systems	914.8	15.8	881.0	-3.7	824.9	-6.4
Construction Equipment	389.6	6.7	504.7	29.5	845.2	67.5
Others	115.3	12.9	106.7	-7.5	112.7	5.6
Total	**7,404.2**	**11.7**	**8,134.1**	**9.9**	**8,153.5**	**0.2**

GROSS PROFIT

The Company's cost of sales in 2003 rose 1.8% from the previous year to post ₩7,198.2 billion. As a result, its gross profit decreased by ₩105.6 billion to ₩955.3 billion in 2003. The gross profit margin also dropped by 1.3% to 11.7% in 2003 from 13.0% in 2002.

SELLING AND ADMINISTRATIVE EXPENSES

The Company's selling and administrative (S&A) expenses increased by ₩61.5 billion, or 9.9% from 2002, mainly due to ₩36.4 billion in allowance for doubtful accounts including ₩9.9 billion in Hynix Semiconductor Inc. (HSI). Also, transportation expenses increased by 71.8% (₩10.2 billion) due to increased overseas sales on the back of the growing demand in the construction equipment market including China. In addition to higher transportation expenses, sales commission expenses were up 86.7% (₩16.1 billion), which triggered higher S&A expenses in 2003.

OPERATING PROFIT

The Company's operating profit in 2003 was ₩274.5 billion, a 37.8% decrease from ₩441.6 billion in 2002. The operating profit margin also fell by 2.0% to 3.4% in 2003 from 5.4% in 2002. The main reason for this was a significant reduction in the sales performance of the Industrial Plant & Engineering Division caused by a decrease in the number of large-scale projects overseas and unpredictable delays at jobsites which triggered higher costs. These were largely attributable to insufficient work experience, as exemplified in the Block-5 Project of Qatar and the West Seno Project of Indonesia, and the repercussions of the damage wrought by typhoon "Mae-Mi" in 2003. As a result, operating profit in the Industrial Plant & Engineering Division declined by ₩158.6 billion to ₩126.0 billion in 2003. The Shipbuilding Division's operating profit and operating profit margin also declined by ₩44.8 billion and 1.3%, respectively, due to a lowered margin in the special and naval vessels area in 2003. Despite highly increased sales, the Engine & Machinery Division recorded a mere ₩3.2 billion increase in operating profit, and a 1.6% fall in its operating profit margin. The fall in growth rate of this Division was exacerbated by a decrease in engine prices, which fell in tandem with the shipbuilding prices from the second half of 2001 to 2002. The Electro Electric Systems Division also saw its operating profit and operating profit margin drop in 2003 by ₩60.4 billion, and 7.1% respectively, mainly due to a decline in demand in the North American market, as well as less projects in domestic market.

On the other hand, the Offshore & Engineering Division and the Construction Equipment Division showed improved operating results in 2003 compared to the previous year. With the completion of major projects, such as AP Moller and AMENAM, the Offshore & Engineering Division greatly reduced its operating deficit from ₩41.5 billion in 2002 to ₩1.1 billion in 2003. Thanks to an

Trend of Operating Profit

(In billions of KRW)

DIVISION	2001		2002		2003	
		Change(%)		Change(%)		Change(%)
Shipbuilding	408.2	10.8	278.9	7.5	234.1	6.2
Offshore & Engineering	37.6	3.8	-41.5	-3.0	-1.1	-0.1
Industrial Plant & Engineering	-54.3	-9.2	32.6	3.4	-126.1	-19.3
Engine & Machinery	95.9	15.7	69.2	11.7	72.4	10.1
Electro Electric Systems	8.9	1.0	38.5	4.4	-21.9	-2.7
Construction Equipment	15.8	4.0	49.6	9.8	100.8	11.9
Others	20.2	17.6	14.3	13.4	16.3	14.5
Total	**532.3**	**7.2**	**441.6**	**5.4**	**274.5**	**3.4**

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

ongoing boom in the Chinese market triggered by demand ahead of the 2008 Olympic Games, the Construction Equipment Division's operating profit soared by ₩51.2 billion to ₩100.8 billion in 2003 from ₩49.6 billion in 2002.

NON-OPERATING GAIN AND LOSS

The Company posted a net non-operating gain and loss of ₩-90.5 billion in 2003, which was a marked improvement of ₩692.1 billion from ₩-782.6 billion in the previous year. In 2002, the Company incurred an impairment loss of ₩408.0 billion and an investment loss of ₩174.1 billion after completely disposing of and reducing HSI shares. However, the additional losses have not been recorded in 2003. Instead, gains on valuation of equity investment using equity method improved by ₩74.0 billion from the previous year with interest expenses decreased by ₩ 85.3 billion from the previous year helped by reduced borrowings. The details pertaining to the gain on valuation of investment using the equity method are summarized as follows: a gain of ₩67.5 billion from Hyundai Samho Heavy Industries Co., Ltd., a gain of ₩24.1 billion from Changzhou Hyundai Construction Machinery Co., Ltd., a gain of ₩13.5 billion from Hyundai Oilbank, and a loss of ₩14.0 billion from other affiliates.

NET INCOME

The Company turned to a profit recording a net income of ₩113.9 billion in 2003 because, unlike 2002, there weren't any significant investment losses. (The Company recorded a net loss of ₩259.0 billion in 2002.)

Trend of Non-Operating Profit

(In billions of KRW)

	2001	2002	2003
Non-operating Income	323.4	315.1	348.4
Interest Income	141.4	91.5	75.3
Gain on Foreign Currency Translation	7.8	24.2	6.6
Gain on Foreign Currency Transaction	85.6	102.9	136.1
Gain on Valuation of Investments Using Equity Method		17.1	91.1
Others	88.6	79.4	39.3
Non-operating Expenses	907.6	1,097.7	438.9
Interest Expense	350.6	259.2	173.9
Loss on Foreign Currency Translation	22.4	26.7	4.6
Loss on Foreign Currency Transaction	78.0	103.9	136.4
Loss on Disposal of Investments	51.3	174.2	0.2
Loss on Valuation of Investments Using Equity Method	217.5		
Loss on Impairment of Investments	60.4	442.3	22.5
Others	127.4	91.4	101.3
Non-operating Gain and Loss	-584.2	-782.6	-90.5

2. Analysis of Financial Structure

ASSETS

The Company's total assets for the end of 2003 stood at ₩10,604.1 billion, a 8.4% increase from ₩9,777.9 billion in 2002. This was primarily due to enlarged cash & cash equivalents and accounts receivables. Cash & cash equivalents increased by ₩215.6 billion with a considerable order performance, and accounts receivable grew by ₩333.1 billion with increased promissory note regarding shipbuilding projects.

LIABILITIES

The Company's total liabilities in 2003 reached ₩7,127.9 billion, a 3.7% increase from ₩6,087.2 billion in 2002. The major attributable factor was increased advance payments from customers by 106.8% to ₩4,069.8 billion, helped by healthy growth in new orders received. However, its liability-to-equity ratio was improved by 31.6% from 236.7% in 2002 to 205.1% in 2003. This was attributed to a ₩572.3 billion increase in shareholders' equity, caused by the disposal of the Company's treasury shares and net income in 2003.

By using customers' advance payments to repay debt, the Company reduced its total debt by ₩2,067.5 billion, or 59.6%, to ₩1,402.6 billion in 2003 from ₩3,470.1 billion in 2002. As a result, its debt-to-equity ratio was dramatically improved to 40.3% in 2003 from 119.5% in the previous year, and demonstrated a solid financial structure.

SHAREHOLDERS' EQUITY

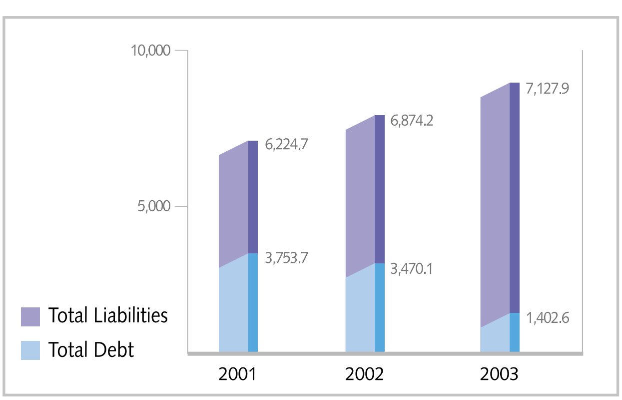
Total shareholders' equity was ₩3,476.1 billion in 2003, up ₩572.3 billion from the previous year. This reflected an increase in capital surplus, retained earnings, and capital adjustments. The capital surplus was up ₩43.5 billion after the disposal of 4,040,936 of Hyundai Mipo Dockyard's shares (27.68%) and 11,631,580 of its treasury shares (15.04%). The gains from those transactions were ₩33.4 billion and ₩10.1 billion, respectively. Retained earnings also increased by ₩115.0 billion due to a net income of ₩113.9 billion in 2003 compared to a net loss of ₩259.0 billion in 2002. Capital adjustments recorded an increase of ₩413.8 billion in the wake of gains from the disposal of treasury shares and investment valuation. Those gains were up ₩355.6 billion and ₩58.2 billion, respectively.

3. Analysis on New Orders and Backlog

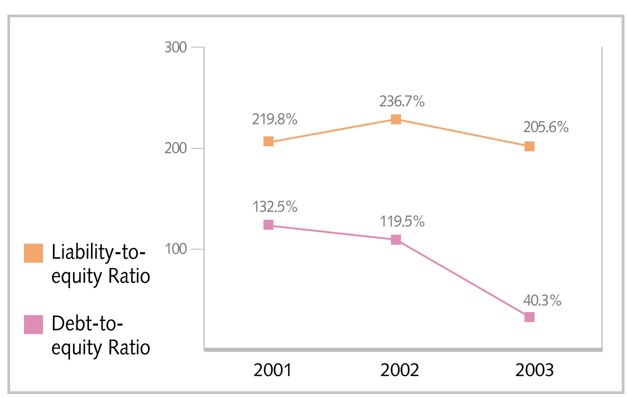
In 2003, the Company received new orders worth $9.82 billion, which exceeded its $7.33 billion of initial target by 34%. In particular, the Shipbuilding Division acquired new orders worth $6.79 billion, a 141.8% increase from the previous year. Thanks to the Shipbuilding Division's outstanding performance, the Company was able to exceed its overall target despite the below-target performance of the Offshore & Engineering Division and the Industrial Plant & Engineering Division. In 2003, the Company secured a backlog totaling $12.46 billion, and of this, the Shipbuilding Division claimed $9.18 billion.

Total Liabilities & Debt

(In billions of KRW)



Liability-to-equity ratio & Debt-to-equity ratio



THE SHIPBUILDING DIVISION

The Shipbuilding Division won new orders worth $6.79 billion, accounting for 69% of the Company's total new orders in 2003 and recording a 141.8% increase from $3.04 billion in 2002. The new orders totaled 126 vessels including 57 tankers, 66 containerships, one special and naval vessel, and two other vessels. This remarkable result was attributed to growing demand in the shipbuilding market influenced by strengthened regulations on tankers and aged vessels, China's increased trade volume, and strengthened international safety rules regarding vessels. As of December 31, 2003, the Shipbuilding Division secured a three-year workload totaling 183 vessels, worth $9.18 billion, including 72 tankers, 88 containerships, six LNG carriers, four bulk carriers, nine special and naval vessels, and four other vessels.

THE OFFSHORE & ENGINEERING DIVISION

The Offshore & Engineering Division acquired new orders worth $670 million, achieving 44.7% of its preset target, $1.5 billion. In the area of offshore installations, the Division acquired new orders worth $293 million, representing 84% of its initial target, from China and India. However, regarding its overseas offshore construction, the Division underperformed with the $378 million worth of new orders far lower than coming in at under the target of $1.1 billion. It ended 2003 with a backlog of $1.59 billion.

THE INDUSTRIAL PLANT & ENGINEERING DIVISION

Affected by a continuous slowdown in the industrial plant market, the Industrial Plant & Engineering Division had a difficult year, only managing to achieve 15.6% of its preset target with $125 million worth of new orders, and a backlog of $617 million.

THE ENGINE & MACHINERY DIVISION

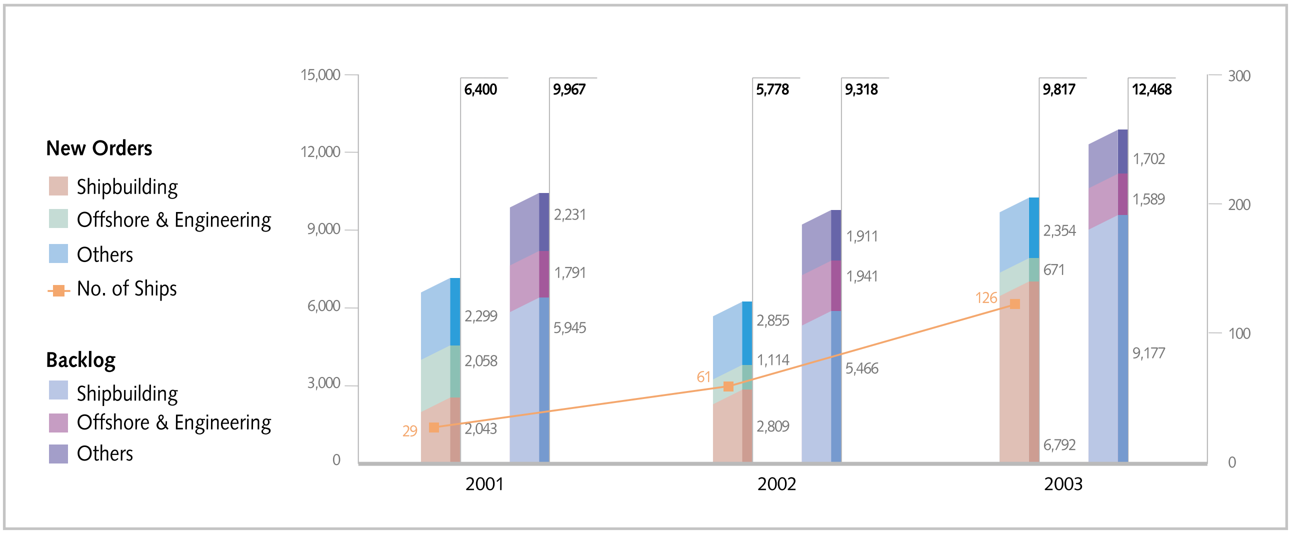
Thanks to increased new orders generated by the increased shipbuilding orders, new orders for mid- and large-scale engines also received a healthy boost. Therefore, the Engine & Machinery Division recorded $720 million of new orders in 2003, representing 110.8% of its $650 million target. The total backlog of the Division in 2003 was $714 million.

THE ELECTRO ELECTRIC SYSTEMS DIVISION

New orders for the Electro Electric Systems Division were worth $622 million, or 94% of its preset target, although the Division recorded a 21.0% increase compared to the previous year. With

Trend of New Orders and Backlog

(In millions of USD)



reduced large-scale facility construction, this below-target performance was mainly due to a fall in orders in the areas of high-voltage switchgear installations, small electro-motors, and electric power control units. The backlog totaled $371 million at the end of 2003.

THE CONSTRUCTION EQUIPMENT DIVISION

The Construction Equipment Division acquired new orders worth $887 million in 2003, up 57.0% over 2002 to measure over 130.6% of its preset target. In particular, new export-based orders accounted for about 70% of the total new orders, registering an increase of more than 30% compared to the previous year. This result contributed to the favorable new orders received in 2003.

III. Current Issues

1. Accounting Change in Accrued Severance Benefits

The Company changed its policy of accounting for accrued severance benefits to consider certain special bonus and other items, which had not been included in the severance payment. This policy's change was driven by the mutual agreement between labor and management, and legal actions that have been brought by its employees, which are still pending as of December 31, 2003 (See Note 15). The 2002 financial statements were restated to conform to the new method mentioned above. As a result of this change, the cumulative effect of the change amounting to ₩105,553 million was charged to beginning retained earnings and accrued severance benefits at January 1, 2003, This change decreased net income and earnings per share by ₩12,374 million and ₩224, respectively, in 2003.

2. Performance Guarantee for Hynix Semiconductor Manufacturing America Inc. (HSMA)

On May 22, 1997, Hynix Semiconductor Inc. (HSI, formerly Hyundai Electronics Co., Ltd.) established Hynix Semiconductor Manufacturing America Inc., (HSMA) in Eugene, Oregon, with a capital of $200 million to serve as a semiconductor fabrication facility in the U.S. In order to provide security for a $1.2 billion facility loan to creditors, HSI made an "Off-take Agreement" with HSMA to purchase all output from the facility. At the request of J.P. Morgan Chase Bank (formerly Chase Manhattan Bank), the leading bank engaged in the facility loan, three affiliates of Hyundai Group at that time with superior credit positions (Hyundai Heavy Industries Co., Ltd., Hyundai Merchant Marine Co., Ltd., and Hyundai Corporation) entered a Group Support Agreement with HSMA to effectively guarantee HSI's purchase obligations. This agreement was settled based on the reasoning that the Company firmly believes Hynix Semiconductor intends to purchase HSMA's entire output considering their success relative to the boom in the semiconductor market at that time. The Company was also not concerned about incurring a substantial loss as a result of HSI's performances, since this is to guarantee for purchase obligations rather than a debt obligations.

Effects of Accounting Policy Change

(In billions of KRW)

	2000	2001	2002	2003
Ordinary Income (loss)	-230.1	-64.2	-341.1	183.9
Net income (loss)	-169.8	-87.1	-259.0	113.9
Ordinary income (loss) per share (unit: KRW)	-2,679	-1,534	-4,899	2,068
Earnings (loss) per share (unit: KRW)	-2,679	-1,534	-4,899	2,068

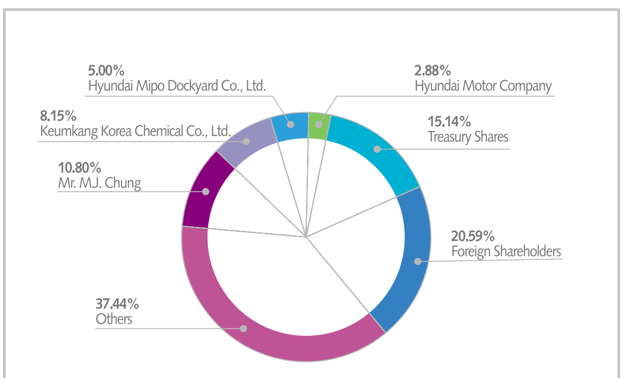
After HSMA repaid $510 million of its total $1.2 billion debt in a timely manner, its balance for borrowings stood at $690 million as of February 28, 2004. HSMA has should be able to repay the remaining borrowings, considering the plant's value pledged by J.P. Morgan Chase Bank, cash reserve at the end of 2003, and the full operations of plant helped by the U.S. decision on compensation duty. Furthermore, HSI is currently making efforts to normalize its business and realize an operating profit given a price hike in the market for semiconductors. HSI will also honor its purchase obligations, especially regarding the proceeds from selling off its non-semiconductor affiliate, which is currently in the planning stage. In conclusion, the three guarantors are not likely to incur a substantial loss as a result of the performance guarantee.

3. Treasury Fund

To secure the Company's share price and shareholders' value, the Company has entered into a specified money trust contract (treasury fund) worth ₩705.0 billion with five domestic banks since January 2000. Accordingly, the Company has acquired 30.35% of total shares issued, or 23,063,850 shares (with an average price of ₩30,546 and total value of ₩704.5 billion). However, the Company sold off its treasury shares in the stock market from October 15, 2003 to October 29, 2003. As a result, Hyundai Mipo Dockyard Co., Ltd. and other domestic and foreign investment institutions have acquired 11,631,580 of the Company's shares, or 15.30%of the total shares issued, at an average price of ₩31,814 and with a total value of ₩370.0 billion. Accordingly, the Company terminated the specified money trust contract of ₩392.0 billion (out of a total ₩705.0 billion). The total treasury fund at the end of 2003 stood at 11,432,270 shares, representing 15.0% of the total shares issued.

The Company's financial structure has been considered unfavorable, with shareholders' equity reduced by holding treasury shares. However, disposing of the treasury shares in this way resulted in an improved financial structure, greater liquidity, and the ability to payout dividends.

Shareholders' Structure



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

In July 1997, as HSI 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 had honored their obligations, and as such, the Company had to pay the CIBC the $220 million owed to it by HSI.

This payment was made in order to prevent any negative impact on the Company's external credit rating if the Company refused to honor the debt. On July 28, 2000, in line with contemporary standards of corporate management around the world that prioritize shareholders' value and transparent management, 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 were ordered to 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. In compliance with the judgment on January 25, 2002, HSC paid 50% of the ruled amount, ₩97.2 billion (interest included) to the Company on April 17, 2002. On February 8, 2002, the Company appealed to the Seoul High Court for the remaining 30% which amounted to ₩76.0 billion. The case is still on trial, and on December 31, 2003, the Company reserve allowances to cover appeal suit costs and other related costs.

IV. 2004 Outlook

In this section, the Company presents the explanation and analysis of its 2004 business plan based on most relevant key indices, such as the most appropriate FX rate, oil price, price increase rate, interest rate, steel price and salary increase rate. However, the 2004 business plan excludes the potential impact of unforeseeable events and other variables; therefore, undue reliance should not be placed on the figures presented therein.

The Company will continue to deliver a solid performance throughout 2004, despite unfavorable factors in the current economy, including the inflating price of raw materials due to imbalanced fluctuations in supply and demand, instability in the FX rate, an increase in oil prices, and intensified competition. Considering its phenomenal performance in 2003 in terms of winning new orders, the Company set its target for new orders in 2004 at $9.3 billion. This 4.8% decrease reflected slightly lowered expectations in light of the previous year's outstanding performance in terms of orders received by the Shipbuilding Division. Sales for 2004 is projected at ₩8,926.0 billion, a 9.5% increase from 2003. By focusing investment on the areas of direct contribution to sales and profit, the capital expenditure plan for 2004 has dropped 26.5% from ₩420.0 billion in 2003 to ₩308.6 billion. On the other hand, the Company has allocated ₩128.1 billion to invest in R&D work in 2004, up 12.9% from ₩98.4 billion in 2003, in order to secure a more competitive edge with new technology.

The Shipbuilding market is expected to see more demand for large-scale projects in 2004, in the wake of a recovering long-term slump in the Japanese market, and increasing trade volume with improved market conditions in America and Europe. Therefore, the Company is focusing on winning value-added and profit-oriented projects, such as large-sized containerships, VLCC, and LNG carriers in 2004. With this market expectation and the Company's sales strategy, it has set a new order target for 2004 at 74 ships, worth ₩4.45 billion. Sales for 2004 is projected at ₩4,068.0 billion, up 8.4% from ₩3.758.4 billion in 2003. The Shipbuilding Division will be capable of achieving its plan by pursuing a profit-oriented product mix and continuously enhancing productivity.

The Offshore & Engineering Division and the Industrial Plant & Engineering Division are concentrating on profit-oriented projects in order to redress the balance upset by their recent poor performances. New orders and the forecast sales for the Offshore & Engineering Division for 2004 are planned at $1.3 billion and ₩1,365.0 billion, respectively. By continuing the restructuring and reformation process, the Industrial Plant & Engineering Division will completely resolve delays in works-in-process throughout 2004. This Division's new orders and sales for 2004 are estimated at $770 million and ₩690.0 billion.

Sales and new orders for the Engine & Machinery Division are expected to increase in 2004, since both the Company and competitors have been engaging in increasing numbers of shipbuilding projects. The Division's performance has a direct relation to shipbuilding projects. Large-size diesel engines for large vessels, in particular, are a major contributor to sales. Therefore, new orders and sales for 2004 are forecasted at $800.0 million and ₩800.0 billion, respectively, up 11.1% and

11.4% from 2003. On the other hand, the Electro Electric Systems Division, which is mostly dependent on domestic consumption, showed relatively flat results in 2003 due to stagnant domestic market conditions. However, the Division's plan for new orders in 2004 is set at $713 million, a 14.6% increase from $622 million in 2003, since the Company is searching out fresh opportunities in the Chinese market by establishing a joint venture with a local company. The sales plan for 2004 has been reduced by 0.8% to ₩818.0 billion from ₩824.9 billion in 2003, because it is forecasted that the conditions in the domestic market will slowly recover in the second half of 2004.

Thanks to the booming Chinese market, the Construction Equipment Division predicts $1.31 billion in new orders for 2004 and a ₩1,080.0 billion in sales. Those new orders and sales targets are up 48.0% and 27.8%, respectively, from 2003. In the domestic construction equipment market, the Company takes pains to maintain sound management and a firm market share in major products by introducing new products, enhancing after-sales service, and providing various financial support to customers. In addition, the Company keeps a grip on - and strengthens - its dominant share in the rapidly growing Chinese market. In particular, the Company achieved a production capacity of 13,000 units by completing the establishment of a third joint venture in Jiangsu in April 2004, and has plans to increase its production capacity to 20,000 units by 2006. The Construction Equipment Division's mid- to long-term plan involves separating the sales and production functions, expanding its marketing and sales channels, introducing new products matched with local interests, unifying the management structure, and providing financial support to customers who are purchasing equipment, in order to pursue continuous growth in the Chinese market.

With the adoption of the 5-day workweek, starting in July 2004, some concerns have been expressed about a foreseeable slowdown in sales and profit affected by reduced workdays. However, the Company's employees work every alternate Saturday and are granted additional holidays when a holiday overlaps with a Sunday. Therefore, the actual workdays will not be significantly reduced by the 5-day workweek. On the contrary, the Company's performance will be improved as it provides employees with a better quality of life, which in turn will spur them to greater productivity.

The Company has used its expertise and 30 years of experience to overcome various hostile business environments. The combined dedication of 25,900 proud employees and officers has ensured that the Company stands tall as a global leader in the arena of heavy industries. Although the domestic and global market conditions remain unfavorable, the Company's employees and officers will try their best to meet the targets set for 2004 and to cement another year of solid growth.

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

We have audited the accompanying non-consolidated balance sheet of Hyundai Heavy Industries Co., Ltd. as of December 31, 2003, and the related non-consolidated statements of operations, proposed appropriations of retained earnings and cash flows for the year then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The non-consolidated financial statements of the Company as of December 31, 2002, which is presented in this report were audited by other accountants in accordance with auditing standards generally accepted in the Republic of Korea, and in their audit report dated February 15, 2003, expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2003, and the results of its operations, changes in its retained earnings and its cash flows for the year then ended in conformity with the financial accounting standards in the Republic of Korea.

As explained in Note 2, the Company prepared its 2003 financial statements in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 2 - "Interim Financial Reporting", No. 4 - "Revenue Recognition", No. 5 - "Tangible Assets", No 7 - "Capitalization of Financing Costs", No. 8 - "Investments in Securities" and No. 12 - "Construction - Type Contracts", which are effective from January 1, 2003. As of December 31, 2003, the Company has elected to adopt the accounting method of charging all financing cost to current operations as its accounting policy and this change is accounted for using prospective approach in accordance with SKAS No. 7 - "Capitalization of Financing Costs". In accordance with SKAS No. 8 "Investment in Securities", the Company reclassified "marketable securities" to "short-term investment securities" and "investment securities" to "long-term investment securities" as of December 31, 2003. As explained in Notes 2 and 15, the Company also changed its policy of accounting for accrued severance benefits to consider certain special bonus and other items, which had not been included in the severance payment. This change in policy was driven by the mutual agreement between labor and management, and legal actions that have been brought by its employees, which are still pending as of December 31, 2003. The 2002 financial statements were restated to conform to the new method mentioned above. As a result of this change, the cumulative effect of the change on prior years amounting to ₩105,553 million was charged to beginning retained earnings at January 1, 2003. This change decreased net income and earnings per share by ₩12,374 million and ₩224, respectively, in 2003.

As discussed in Note 15, Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for US$16.96 per share, if CIBC exercised its option. In relation to this agreement, the Company was provided with a written promissory note from HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for any losses incurred in connection with the transaction with CIBC under certain circumstances. On July 24, 2000, the Company repurchased the 13 million shares from CIBC for US$220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the court decided in favor of the Company and awarded a partial settlement of the claim amounting to ₩172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and is going to file additional lawsuit for the advancement, which is not covered by the prior claim. As of December 31, 2003, allowance for the balances related this claim was provided. The appeal is in progress as of the date of this report and its ultimate outcome cannot be presently determined. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

As discussed in Note 14, the Company sold 11,476,380 shares of HSI to 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 upward if the market price of the shares exceeds US$329.5089 per share during the period as defined in the agreement.

As discussed in Note 16, 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 previously acquired back to Hyundai Asan Co., Ltd. without any consideration. This was legally required for the Company and its four affiliates to be disaffiliated from the Hyundai Group. On February 28, 2002, the Company was officially recognized to be independent from the Hyundai Group.

Also discussed in Note 14, HSI has entered into a Purchase Agreement ("off-take agreement") with Hynix Semiconductor Manufacturing America Inc. (HSMA), an overseas subsidiary of HSI, as collateral for the long-term borrowings of HSMA. In addition, the Company has entered into a Group Support Agreement with HSMA together with two other companies within the Hyundai Group of companies, and provided this agreement as collateral for the long-term borrowings of HSMA. The ultimate outcome of this agreement cannot presently be determined, and no provision for any liability that may result has been made in the accompanying financial statements.

As discussed in Note 24, the Company has made certain transactions with affiliated companies within the Hyundai Heavy Industries Group of companies and related parties. For the year ended December 31, 2003, the Company's total sales to and purchases from affiliated companies amount to ₩938,342 million and ₩321,690 million, respectively. As of December 31, 2003, the related accounts receivable and accounts payable are ₩313,304 million and ₩40,990 million, respectively. In addition, the Company has provided loan guarantees and performance guarantees for the related companies and disposed its shares of investments in Hyundai Mipo Dockyard Co., Ltd. and its treasury stocks to the related parties in 2003.

As discussed in Note 30, the Company has entered into a common stock conversion agreement (the "Agreement") with IPIC, main shareholder of Hyundai Oilbank, together with US$450 million financial support of IPIC in 2002, pursuant to the resolution of the board of directors on March 14, 2003, and the Agreement will be finally executed by February 28, 2004. According to the Agreement, the Company has to convert 16,233,514 common shares, as part of 81,167,566 common shares owned by the Company, to non-voting preference stock and provide call option right to IPIC to buy certain Hyundai Oilbank's shares owned by the Company until Hyundai Oilbank completes the payment of dividend obligation for US$200 million to IPIC.

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

Anjn Deloitte LLC

Anjin Deloitte LLC

Seoul, Korea
February 14, 2004

Notice to Readers

This report is effective as of February 14, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Non-Consolidated Balance Sheets

December 31, 2003 and 2002

In Thousands of Korean Won	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 3 and 25)	₩ 233,395,481	₩ 17,836,572
Short-term financial instruments (Note 3)	24,572,912	23,586,159
Short-term investment securities (Note 6)	2,701,795	-
Marketable securities (Note 8)	-	33,671,115
Trade accounts and notes receivable, net of allowance for doubtful accounts of ₩56,326,168 thousand in 2003 and ₩50,507,596 thousand in 2002 (Notes 14, 24 and 25)	2,516,528,272	2,480,848,202
Accounts receivable-other, net of allowance for doubtful accounts of ₩145,520,018 thousand in 2003 and ₩118,065,724 thousand in 2002 (Notes 15, 24 and 25)	439,308,080	459,478,948
Inventories (Note 5)	927,897,784	653,091,225
Advanced payments, net of allowance for doubtful accounts of ₩840,100 thousand in 2003 and ₩434,808 thousand in 2002	57,503,575	80,088,748
Accrued income	10,705,557	1,420,184
Other current assets	215,928,668	87,892,282
Total current assets	**4,428,542,124**	**3,837,913,435**
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 9 and 26)	4,335,244,649	4,373,994,303
Long-term investment securities (Note 6)	342,797,429	-
Investment securities accounted for using the equity method (Note 7)	803,104,770	-
Investment securities (Note 8)	-	1,105,681,507
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of ₩2,993,925 thousand in 2003 (Notes 12 and 25)	333,104,806	-
Long-term financial instruments, net of present value discounts of ₩4,674,353 thousand in 2002 (Notes 3, 4 and 25)	7,185,235	45,321,935
Intangible assets (Notes 10 and 26)	145,817,745	137,965,355
Deferred income tax assets (Note 22)	162,808,665	232,739,213
Other investment assets (Note 24)	45,451,453	44,295,639
Total non-current assets	**6,175,514,752**	**5,939,997,952**
Total Assets	**₩ 10,604,056,876**	**₩ 9,777,911,387**

See accompanying notes to non-consolidated financial statements.

In Thousands of Korean Won

	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings (Notes 11 and 25)	₩ 150,217,859	₩ 787,360,188
Current maturities of long-term borrowings and other long-term liabilities, net of discount of ₩2,642,788 thousand in 2003 and ₩5,986,286 thousand in 2002 (Notes 12 and 25)	513,831,039	1,125,772,648
Trade accounts and notes payable (Notes 24 and 25)	883,000,039	759,350,134
Accounts payable-other (Notes 24 and 25)	157,158,844	131,084,239
Advances from customers	4,068,880,384	1,967,508,448
Income tax payable	807,880	34,207,778
Other current liabilities	193,804,513	149,173,676
Total current liabilities	**5,967,700,558**	**4,954,457,111**
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discounts of ₩4,162,155 thousand in 2003 and ₩19,022,356 thousand in 2002 (Notes 12 and 25)	738,535,934	1,557,001,696
Accrued severance benefits, net of severance insurance deposits and others of ₩740,389,710 thousand in 2003 and ₩701,136,952 thousand in 2002 (Note 13)	231,774,908	197,613,283
Long-term accrued expenses (Note 2)	153,594,366	139,757,036
Other long-term liabilities	36,356,492	25,322,094
Total long-term liabilities	**1,160,261,700**	**1,919,694,109**
Total Liabilities	**7,127,962,258**	**6,874,151,220**
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY:		
Capital stock - common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 17)	2,771,383,687	2,727,879,538
Appropriated retained earnings (Note 18)	629,994,922	878,081,853
Unappropriated retained earnings (undisposed deficit) (Net income of ₩113,857,159 thousand in 2003 and net loss of ₩259,014,060 thousand in 2002)	9,429,309	(353,639,872)
Capital adjustments (Note 19)	(314,713,300)	(728,561,352)
Total Shareholders' Equity	**3,476,094,618**	**2,903,760,167**
Total Liabilities and Shareholders' Equity	**₩ 10,604,056,876**	**₩ 9,777,911,387**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Operations

For the Years ended December 31, 2003 and 2002

In Thousands of Korean Won except per share amounts

	2003	2002
Sales (Notes 21, 24 and 26)	₩ 8,153,499,952	₩ 8,134,062,780
Cost of sales (Notes 21 and 24)	7,198,199,411	7,073,205,696
Gross profit	955,300,541	1,060,857,084
Selling and administrative expenses (Note 27)	680,788,615	619,302,736
Operating income (Note 26)	274,511,926	441,554,348
Non-operating income:		
Interest and dividend income (Note 4)	79,111,755	94,966,212
Gain on foreign currency transactions	136,101,181	102,943,959
Gain on foreign currency translation	6,649,385	24,228,735
Gain on valuation of investments using the equity method (Note 7)	91,120,394	17,149,740
Gain on disposal of marketable securities	123,902	131,494
Gain on disposal of investments	1,150,327	255,531
Others	34,156,819	75,392,134
	348,413,763	315,067,805
Non-operating expenses:		
Interest expense	173,971,869	259,228,110
Loss on foreign currency transactions	136,368,593	103,918,706
Loss on foreign currency translation	4,628,508	26,729,459
Loss on disposal of marketable securities	23,200	320,571
Loss on disposal of property, plant and equipment	8,015,387	5,092,600
Loss on disposal of investments	186,183	174,184,709
Loss on impairment of long-term investments (Note 6)	22,535,926	442,328,512
Loss on redemption of debentures (Note 12)	8,476,817	901,766
Others	84,738,696	85,016,352
	438,945,179	1,097,720,785
Ordinary income (loss)	183,980,510	(341,098,632)
Extraordinary items	-	-
Net income (loss) before income tax	183,980,510	(341,098,632)
Income tax expense (benefits) (Note 22)	70,123,351	(82,084,572)
Net income (loss)	₩ **113,857,159**	₩ **(259,014,060)**
Earnings (loss) per share (Note 23)	₩ **2,068**	₩ **(4,899)**
Ordinary income (loss) per share (Note 23)	₩ **2,068**	₩ **(4,899)**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Proposed Appropriations of Retained Earnings

For the Years ended December 31, 2003 and 2002

In Thousands of Korean Won

	2003		2002	
Retained earnings before appropriation (accumulated deficit beforedisposition):				
Beginning of year	₩	(105,552,941)	₩	10
Beginning balance adjustments:				
Adjustments in investment securities using the equity method (Notes 7 and 22)		1,125,091		(2,707,069)
Cumulative effects of accounting changes (Notes 2 and 22)		-		(91,918,753)
Net income (loss)		113,857,159		(259,014,060)
		9,429,309		(353,639,872)
Transfer from reserve:				
Reserve for export losses		3,333,333		7,333,333
Reserve for overseas market development		6,666,667		10,000,000
Reserve for research and human development		161,165,616		185,535,435
Other voluntary reserve		-		129,738,753
Reserve for business rationalization		-		5,479,410
		171,165,616		338,086,931
Appropriations:				
Legal reserve		9,674,018		-
Reserve for research and human development		-		90,000,000
Voluntary reserve		74,180,720		-
Cash dividends (Note 20)		96,740,184		-
		180,594,922		90,000,000
Unappropriated retained earnings (undisposed deficit), end of year	₩	**3**	₩	**(105,552,941)**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

December 31, 2003 and 2002

In Thousands of Korean Won

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	₩ 113,857,159	₩ (259,014,060)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for severance benefits	162,370,669	168,844,687
Provision for doubtful accounts	69,361,992	32,950,343
Amortization of development costs	36,367,216	39,302,499
Depreciation	302,853,135	292,838,436
Amortization of discount on debentures	14,531,521	34,563,820
Loss on foreign currency translation	4,628,493	26,728,135
Loss on impairment of investments	22,535,926	442,328,512
Loss on disposal of investments	186,183	174,184,709
Loss on disposal of property, plant and equipment	8,015,387	5,092,600
Loss on redemption of debentures	8,476,817	901,766
Gain on disposal of property, plant and equipment	(614,190)	(3,585,955)
Gain on foreign currency translation	(6,649,385)	(24,228,735)
Gain on valuation of investments using the equity method	(91,120,394)	(17,149,740)
Others	11,300,638	40,990,128
	542,244,008	1,213,761,205
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease (Increase) in trade accounts and notes receivable	11,375,569	(550,023,336)
(Increase) Decrease in accounts receivable-other	(26,563,814)	120,747,872
(Increase) Decrease in accrued income	(9,285,373)	1,682,865
Decrease in advanced payments	22,088,787	19,824,991
Increase in inventories	(272,692,818)	(148,405,536)
(Increase) Decrease in long-term trade accounts and notes receivable	(388,683,325)	3,292,372
Increase in trade accounts payable	123,431,836	96,355,756
Increase (Decrease) in accounts payable-other	26,250,073	(17,643,829)
Increase in advances from customers	2,101,371,936	541,871,701
(Decrease) Increase in income tax payable	(37,676,569)	30,367,830
Increase in long-term accrued expenses	13,837,330	12,972,550
Payments of severance benefits	(88,956,286)	(77,813,619)
Decrease (Increase) in deferred income tax assets	69,455,226	(129,981,415)
Others, net	(69,249,481)	(14,299,267)
	1,474,703,091	(111,051,065)
Net cash provided by operating activities	2,130,804,258	843,696,080

See accompanying notes to non-consolidated financial statements.

In Thousands of Korean Won

	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawal of short-term financial instruments	₩ 2,708,606,388	₩ 116,658,725
Disposal of marketable securities	-	11,172,525
Withdrawal of long-term financial instruments	135,987,043	-
Disposal of investment securities	-	4,964,078
Disposal of short-term investment securities	5,494,137	-
Disposal of long-term investment securities	116,502,638	-
Disposal of investment securities accounted for using the equity method	36,489,652	-
Disposal of property, plant and equipment	12,464,812	13,013,754
Disposal of other investment assets	1,042,581	3,825,430
Acquisition of short-term financial instruments	(2,710,240,172)	-
Acquisition of short-term investment securities	(5,380,000)	-
Acquisition of marketable securities	-	(6,136,205)
Acquisition of long-term financial instruments	(93,016,649)	(1,029,334)
Acquisition of investment securities	-	(224,619,255)
Acquisition of long-term investment securities	(5,469,870)	-
Acquisition of investment securities accounted for using theequity method	(18,524,860)	-
Acquisition of property, plant and equipment	(286,390,045)	(339,934,616)
Payment of severance insurance deposits	(44,140,917)	(23,991,864)
Acquisition of intangible assets	(46,258,889)	(49,656,797)
Acquisition of other investment assets	(2,196,327)	(6,116,729)
Net cash used in investing activities	**(195,030,478)**	**(501,850,288)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	3,034,727,640	2,298,835,823
Issuance of debentures	40,805,041	1,067,138,826
Proceeds from long-term borrowings	129,333,867	477,585,155
Disposal of treasury stock	370,046,757	-
Repayment of short-term borrowings	(3,671,995,497)	(2,686,618,200)
Repayment of current maturities of long-term borrowings and other long-term liabilities	(1,131,895,514)	(928,592,768)
Repayment of debentures	(400,538,195)	(225,137,616)
Repayment of long-term borrowings	(90,698,970)	(301,903,802)
Acquisition of treasury stock	-	(61,472,196)
Net cash used in financing activities	**(1,720,214,871)**	**(360,164,778)**
Net increase (decrease) in cash and cash equivalents	215,558,909	(18,318,986)
Cash and cash equivalents at the beginning of the year	17,836,572	36,155,558
Cash and cash equivalents at the end of the year (Note 29)	₩ **233,395,481**	₩ **17,836,572**

See accompanying notes to non-consolidated financial statements.

1. THE COMPANY:

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

The Company listed its shares on the Korea Stock Exchange in August 1999, and a total of 76,000,000 shares (par value: ₩5,000, authorized: 160,000,000 shares) of common stock are issued and 64,493,456 shares of common stock are outstanding as of December 31, 2003. Of the total issued shares, Mong-Joon Chung, Kumgang Korea Chemical Co., Ltd., Hyundai Mipo Dockyard Co., Ltd. and Hyundai Motor Co., Ltd. own 10.80%, 8.15%, 5.00% and 2.88%, respectively.

Under the Articles of Incorporation, the Company is authorized to issue 20,000,000 shares of cumulative, participating, non-voting preferred stock and to issue convertible debentures and debentures with common or preferred stock purchase options up to ₩400,000 million each, depository receipts free from any preemptive rights of shareholders by the approval of the board of directors and grant stock options to the Company's employees and directors, up to 15% of issued common stock; however, no preferred stock, convertible debentures or debentures with stock options and depository receipts have been issued, and no stock options have been granted to the Company's employees and directors as of December 31, 2003. 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 common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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

The Company prepared its 2003 financial statements in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 2 to No. 9 and No. 12, effective from January 1, 2003. Major changes compared with the standards applied in preparing the 2002 financial statements are as follows:

Statements of Korea Accounting Standards (SKAS)	Major Changes
No.3 Intangible Assets	Explanatory notes
No.5 Tangible Assets	Explanatory notes
No.6 Events Occurring after the Balance Sheet Date	Recording of appropriations of retainedearnings in the balance sheet
No.7 Capitalization of Financing Costs	Current operation expenses, in principle
No.8 Investments in Securities	Classification and fair market valuation
No.12 Construction-Type Contracts	Expansion of accounting policies andapplicable scope about construction-type contracts

Until 2002, the Company had capitalized a portion of financial cost including interest expense and similar expenses in conformity with financial accounting standards of the Republic of Korea. However, in 2003, the Company elected to adopt the accounting method of charging all financing cost to current operations as its accounting policy and this change is accounted for using prospective approach in accordance with SKAS No. 7 - "Capitalization of Financing Costs". In accordance with SKAS No. 8 - "Investments in Securities", the Company reclassified "marketable securities" to "short-term investment securities" and "investment securities" to "long-term investment securities". The financial statements as of December 31, 2002, which are presented for comparative purposes, are not restated.

In accordance with SKAS No. 6 - "Events Occurring after the Balance Sheet Date", in 2003, appropriations of retained earnings to be approved at the Annual shareholders' meeting subsequent to the balance sheet date are not recorded in the accompanying financial statements and to be accounted in the following year. Therefore, relevant accounts and unappropriated retained earnings (undisposed deficit) for the preceding year have been restated to conform to the provision of this statement.

Also, the Company changed its policy of accounting for accrued severance benefits to consider certain special bonus and other items, which had not been included in the severance payment. This policy's change was driven by the mutual agreement between labor and management, and legal actions that have been brought by its employees, which are still pending as of December 31, 2003 (See Note 15). The 2002 financial statements were restated to conform to the new method mentioned above. As a result of this change, the cumulative effect of the change amounting to ₩105,553 million was charged to beginning retained earnings and accrued severance benefits at January 1, 2003, This change decreased net income and earnings per share by ₩12,374 million and ₩224, respectively, in 2003.

The effect of the accounting changes in the financial statements of 2003 and preceding 3 years are summarized below.

Korean Won (in thousands, except per share amounts)

Classification	2003	2002	2001	2000
Ordinary income (loss)	₩ 183,981	₩ (341,099)	₩ (64,248)	₩ (230,069)
Net income (loss)	113,857	(259,014)	(87,071)	(169,821)
Ordinary income (loss) per share	2,068	(4,899)	(1,534)	(2,679)
Earnings (loss) per share	2,068	(4,899)	(1,534)	(2,679)

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

Revenue Recognition

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

Under the percentage-of-completion method, revenues are recognized based on the percentage of costs incurred (including man hours and raw material costs) over total estimated costs for each contract. As a result, the timing of recognition of revenues the Company reports may differ materially from the timing of actual contract payments received. The Company's estimates reflect information during construction activities. In addition, since most contracts are completed over several months, the timing of the recognition of related revenues could have a significant impact on quarter-to-quarter operating results. The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company is reflected as advances from customers.

Cash and Cash equivalents

Cash and cash equivalents include cash on hand and in banks and short-term investments with original maturities of less than ninety days, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

Valuation of Marketable Securities

Marketable securities are recorded at purchase price plus incidental costs. However, if the fair value of marketable securities differs from the book value determined by the weighted average method, the securities are stated at fair value and the 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 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 amounts has been reflected in the accompanying financial statements as bad debt expense. The discounts are amortized over the lives of the respective assets using the effective interest method and amortization is recorded as interest income.

Allowance for Doubtful Accounts

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

Inventories

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

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

Classification of Securities

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

Valuation of Securities

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

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

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

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

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

Investment Securities Accounted for Using the Equity Method

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

Property, Plant and Equipment and Related Depreciation

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

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

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

The Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount as a result of technological obsolescence or rapid decline in market value. When it is determined that a tangible asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss were recognized.

Lease Transactions

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

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

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

Intangible Assets

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

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

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

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

Discounts on Debentures

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

Foreign Currency Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rates on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Bank of Korea Basic Rate, which was ₩1,197.80 and ₩1,200.40 to US$1.00 at December 31, 2003 and 2002, respectively, and translation gains or losses are reflected in current operations.

Provision for Foreseeable Losses from Construction Contracts

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

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their services with the Company, based on their length of service and rate of payment at the time of termination. Accrued severance benefits that would be payable assuming all eligible employees were to terminate their employment amount to ₩972,164,618 thousand and ₩898,750,235 thousand as of December 31, 2003 and 2002, respectively (see Note 13). Accrued severance benefits are funded approximately 70.3% and 71.1% as of December 31, 2003 and 2002, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

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

Income Tax Expense

The Company recognizes deferred income tax arising from temporary differences between pretax accounting income and taxable income. Accordingly, income tax expense consists of the total income tax and surtaxes currently payable and the changes in deferred income tax assets or liabilities during the period. The deferred income tax assets or liabilities will be charged or credited to income tax expense in the period each temporary difference reverses in the future. Deferred income taxes will be recalculated based on the actual tax rate in effect at each balance sheet date.

Derivative Instruments

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

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

The Company entered into derivative instrument contracts including forwards, options and swaps to hedge the exposure to changes in foreign exchange rate. The Company recorded total gain on valuation of outstanding derivatives of ₩1,437 million in other assets as of December 31, 2003.

3. RESTRICTED FINANCIAL INSTRUMENTS:

As of December 31, 2003 and 2002, financial instruments amounting to ₩7,405,130 thousand and ₩7,576,288 thousand, respectively, are subject to withdrawal restrictions in relation to certain short-term and long-term borrowings, and ship construction contracts (see Notes 11 and 12).

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. These assets were collected on September 30, 2003 earlier than the original repayment terms.

5. INVENTORIES:

Inventories as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003	2002
Merchandise	₩ 13,118,276	₩ 24,102,039
Finished products	58,848,301	45,180,855
Work-in-process	55,148,986	37,245,395
Materials	184,526,646	176,059,563
Supplies	8,034,537	8,284,035
Materials in-transit	608,221,038	362,219,338
	₩ 927,897,784	**₩ 653,091,225**

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

(1) Short-term investment securities as of December 31, 2003, all of which are classified into available-for-sale securities, consist of beneficiary certificates of ₩2,701,795 thousand. Available-for-sale securities are stated at fair value with the resulting gain on valuation of available-for-sale securities amounting to ₩11,795 thousand in capital adjustments as of December 31, 2003.

(2) Long-term investment securities as of December 31, 2003, which are classified into available-for-sale, consist of the following:

		Korean Won (in thousands)
Availavle-for-sale:		
Equity securities stated at fair value	₩	250,954,431
Equity securities stated at acquisition cost		62,892,075
Debt securities		28,950,923
	₩	342,797,429

(3) Equity securities stated at fair value included in long-term investment securities as of December 31, 2003 are as follows:

Korean Won (in thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Motor Company				
- Common stock	3,735,000	1.70	₩ 59,077,954	₩188,617,500
Chohung Bank	12,089,238	1.78	118,708,535	47,268,921
Tong Yang Investment Bank	3,757,865	4.43	99,828,399	5,787,112
Hyundai Corporation	240,674	1.05	11,227,434	726,835
Hyundai Elevator Co., Ltd.	120,320	2.14	1,632,339	7,592,192
Kia Motors Corp.	88,245	0.02	2,681,616	961,871
			₩293,156,277	₩250,954,431

The net asset value of long-term investment securities in Hyundai Corporation has declined significantly and is not expected to recover. Accordingly, the differences between the recorded book value and net realizable value of these investments have been written-off. The write-off loss from these investments, amounting to ₩10,500,598 thousand is recorded as non-operating expenses in 2003.

Hyundai Motor Company's common stock of 262,200 shares is pledged as collateral for the Company's loans with EXIM Bank of Korea as of December 31, 2003 (see Notes 11 and 12).

All shares of Hynix Semiconductor Inc. (HSI) was sold in 2003, together with the sales of 10,314,000 shares in the 2nd half of 2002, which had been deposited with Korea Exchange Bank as a requirement for the restructuring of HSI (see Note 16).

(4) Equity securities stated at acquisition cost and included in long-term investment securities as of December 31, 2003 are as follows:

Korean Won (in thousands)

Company	Number of shares	% of ownership	Historical cost	Book value (**)
Unlisted equity securities : (**)				
Hyundai Asan Co., Ltd.	8,949,840	9.94	₩ 44,749,200	₩ 12,996,768
Hynix Semiconductor America Inc.	85,398	1.33	34,525,619	-
Daehan Oil Pipeline Corporation	1,438,554	6.39	14,511,802	14,511,802
Alcan Taihan Aluminum Ltd.	177	0.15	11,538,753	486,848
Yunhap Capital Finance Co., Ltd.	2,000,000	9.99	10,000,000	10,000,000
Bexco, Ltd.	946,000	7.96	9,460,000	9,460,000
Thrunet Co., Ltd.	522,666	0.67	7,947,667	-
Hyundai Vinashin Shipyard (*)	-	10.00	2,543,678	2,543,678
Hunelec Engineering & Technologies (*)	-	100.00	26,302	26,302
Others (*)	-	-	7,698,131	7,418,981
			143,001,152	**57,444,379**
Other investments :				
Investments in capital	-	-	5,447,696	5,447,696
			₩148,448,848	**₩ 62,892,075**

(*) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hyundai Vinashin Shipyard, Hungary Hunelec Engineering & Technologies Ltd., Hyundai S/V Indonesia, Hyundai Malaysia and HHI Mauritius Ltd., Hyundai-Enova I.T.C were not accounted for using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million, are not material.

(**) The book value of unlisted equity security was recorded at their acquisition because the fair value cannot be reliably estimated. However, the equity security impaired at the year end was valuated at the net book value of the most available financial statement.

The net asset value of long-term investment securities in Hyundai Asan Co., Ltd., Thrunet Co., Ltd. and Alcan Taihan Aluminum Ltd. has declined significantly and is not expected to recover. Accordingly, the differences between the recorded book value and net realizable value of these investments have been written-off. The write-off loss from these investments, amounting to ₩12,035,328 thousand is recorded as non-operating expenses in 2003.

(5) Debt securities included in long-term investment securities as of December 31, 2003 are as follows:

Korean Won (in thousands)

	Historical cost	Book value
Available-for-sale		
Government and municipal bonds	₩ 3,902,415	₩ 3,950,923
Tong Yang Investment Bank's subordinated bonds	25,000,000	25,000,000
	₩ 28,902,415	**₩ 28,950,923**

Maturities of debt securities included in long-term investment securities are as follows

Korean Won (in thousands)

		Government and municipal bonds		Tong Yang Investment Bank's subordinated bonds		Total
2005.01 ~ 2008.12	₩	3,945,038	₩	25,000,000	₩	28,945,038
2009.01 ~ 2013.12		5,885		-		5,885
	₩	**3,950,923**	₩	**25,000,000**	₩	**28,950,923**

(6) Valuation of available-for-sale securities in capital adjustments, all of which are classified into long-term investment securities stated at fair value as of December 31, 2003, are as follows.

Korean Won (in thousands)

Company	Beginning balance	Increase (Decrease)	Disposition	Ending Balance
Hyundai Motor Company				
- Common stock	₩ 44,568,296	₩ 84,971,250	₩ -	₩129,539,546
Chohung Bank	(69,142,659)	(2,296,955)	-	(71,439,614)
Tong Yang Investment Bank	(36,178,356)	(1,352,832)	-	(37,531,188)
Hyundai Corporation	(9,203,244)	-	(9,203,244)	-
Hyundai Elevator Co., Ltd.	(874,323)	6,834,176	-	5,959,853
Kia Motor Corp.	(1,905,060)	185,314	-	(1,719,746)
	(72,735,346)	**88,340,953**	**(9,203,244)**	**24,808,851**
Government and municipal bonds	**-**	**28,022**	**-**	**28,022**
	₩(72,735,346)	**₩ 88,368,975**	**₩ (9,203,244)**	**₩ 24,836,873**

7. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Equity securities accounted for using the equity method as of December 31, 2003 are as follows:

Korean Won (in thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank	81,167,566	33.12	₩ 443,583,902	₩ 298,456,000
Hyundai Finance Corp.	12,350,000	67.49	78,197,738	71,868,917
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,259,700	319,567,899
Changzhou Hyundai Construction Machinery Co., Ltd	-	60.00	20,215,057	35,710,198
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd	-	60.00	9,352,200	8,072,320
MOST #3 Venture Investment	130	24.53	13,000,000	10,517,611
MIC99-9 STIC IT Partnership	1,000	25.00	10,000,000	8,005,975
Incheon Airport Energy	3,284,884	31.00	16,424,420	7,548,909
HITC-Hyundai Hightech Investment	1,000	50.00	10,000,000	7,576,106
Hyundai & Terasource D-Convergence Venture Investment	1,000	50.00	10,000,000	8,037,962
MIC 99-1 IT Venture Partnership	1,000	40.82	10,012,055	6,226,726
Hyundai Jiangsu Construction Machinery Co., Ltd	-	60.00	7,126,380	7,126,380
Hyundai Elprom Trafo AD	4,290,089	97.78	5,649,668	7,200,555
New Korea Country Club	16,457	20.00	500,000	1,631,816
Hyundai Donganh Steel Tower	-	54.99	1,231,036	2,306,995
Hyundai Heavy Industries Europe N.V.	10	100.00	35,656,728	3,250,401
Hyundai Construction Equipment U.S.A (*)	23,900,000	100.00	26,712,810	-
Hotel Hyundai Vladivostock (*)	-	40.00	3,870,566	-
Hyundai Furniture Industries (*)	5,000,000	21.85	6,344,750	-
			₩ 912,137,010	**₩ 803,104,770**

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

(2) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the change of the differences in 2003 is as follows:

Korean Won (in thousands)

Company	Beginning balance	Increase (Decrease)	Amortization	Ending Balance
Hyundai Oilbank	₩ 8,180,171	₩ -	₩ 5,699,726	₩ 2,480,445
Hyundai Finance Corp.	1,216,856	-	1,216,856	-
Hyundai Samho Heavy Industries Co., Ltd.	31,833,538	-	7,074,120	24,759,418
MIC 99-1 IT Venture Partnership	4,822		2,411	2,411
Hyundai Elprom Trafo AD	(395,608)	-	(131,869)	(263,739)
	₩ 40,839,779	**₩ -**	**₩ 13,861,244**	**₩ 26,978,535**

(3) The movements of investment securities using the equity method for the year ended December 31, 2003 are as follows:

Korean Won (in thousands)

Company	Beginning balance	Gain (Loss)(*)	Other	Ending Balance
Hyundai Oilbank	₩285,129,376	₩ 13,496,990	₩ (170,366)	₩298,456,000
Hyundai Finance Corp.	75,418,532	(95,723)	(3,453,892)	71,868,917
Hyundai Samho Heavy Industries Co., Ltd.	243,799,630	67,476,993	8,291,276	319,567,899
Hyundai Mipo Dockyard Co., Ltd.	51,131,216	-	(51,131,216)	-
Changzhou Hyundai Construction Machinery Co., Ltd	26,560,112	24,130,159	(14,980,073)	35,710,198
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd	7,683,217	(1,031,275)	1,420,378	8,072,320
MOST #3 Venture Investment	12,531,575	(886,516)	(1,127,448)	10,517,611
MIC99-9 STIC IT Partnership	8,420,662	(289,683)	(125,004)	8,005,975
Incheon Airport Energy	9,748,772	(2,199,863)	-	7,548,909
HITC-Hyundai Hightech Investment	10,341,627	(2,849,743)	84,222	7,576,106
Hyundai & Terasource D-Convergence Venture Investment	10,425,792	(2,387,830)	-	8,037,962
MIC 99-1 IT Venture Partnership	7,946,358	(1,490,847)	(228,785)	6,226,726
Hyundai Jiangsu Construction Machinery Co., Ltd	-	-	7,126,380	7,126,380
Hyundai Elprom Trafo AD	4,386,855	1,460,895	1,352,805	7,200,555
New Korea Country Club	1,367,992	313,824	(50,000)	1,631,816
Hyundai Donganh Steel Tower	1,097,971	1,217,674	(8,650)	2,306,995
Hyundai Heavy Industries Europe N.V.	3,357,798	(5,744,661)	5,637,264	3,250,401
Hyundai Construction Equipment U.S.A (**)	-	-	-	-
Hotel Hyundai Vladivostock (**)	-	-	-	-
Hyundai Furniture Industries (**)	-	-	-	-
	₩759,347,485	**₩ 91,120,394**	**₩ (47,363,109)**	**₩803,104,770**

(*) Gain (loss) on valuation of investment securities after eliminating unrealized profit arising from the inter-company transactions.
(**) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit.

Equity securities accounted for using the equity method as of December 31, 2003 are valued based on the financial statements of the investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor.

Increase in the investee's retained earnings in 2003 amounting to ₩1,600,414 thousand are recorded as an adjustment to retained earnings.

(5) The effect of the equity method of accounting on the ending balance of capital adjustments was ₩12,259,850 thousand as of December 31, 2003, including the decrease of ₩8,639,664 thousand of capital adjustments for the year ended December 31, 2003.

8. MARKETABLE SECURITIES AND INVESTMENT SECURITIES:

(1) Marketable securities consist of beneficiary certificates of ₩2,700,234 thousand and debt securities of ₩30,970,881 thousand as of December 31, 2002.

(2) Investment securities as of December 31, 2002 are as follows:

Korean Won (in millions)

Company	Number of shares	% of ownership	Historical cost	Book value
Listed equity securities :				
Hyundai Motor Company				
- Common stock	3,735,000	1.70	₩ 59,077,954	₩ 103,646,250
Hynix Semiconductor Inc.	24,065,440	0.46	414,956,869	6,738,323
Chohung Bank	12,089,238	1.78	118,708,535	49,565,876
Tong Yang Investment Bank	3,757,865	4.43	99,828,399	7,139,943
Hyundai Corporation	2,142,000	2.91	11,227,434	2,024,190
Hyundai Elevator Co., Ltd.	120,320	2.14	1,632,339	758,016
Kia Motors Corp	88,245	0.02	2,681,616	776,556
			708,113,146	**170,649,154**
Unlisted equity securities :				
Hyundai Asan Co., Ltd.	8,949,840	9.94	44,749,200	17,078,968
Hynix Semiconductor America Inc.	85,398	1.33	34,525,619	-
Daehan Oil Pipeline Corporation	1,438,554	6.39	14,511,802	14,511,802
Alcan Taihan Alumimun Ltd.	177	0.15	11,538,753	492,310
Yunhap Machinery Finance Co., Ltd.	2,000,000	9.99	10,000,000	10,000,000
Bexco, Ltd.	946,000	7.96	9,460,000	9,460,000
Thrunet Co., Ltd.	1,568,000	2.18	7,947,667	7,947,667
Others	-	-	10,140,361	9,861,211
			142,873,402	**69,351,958**

[continued]

Korean Won (in millions)

Company	Number of shares	% of ownership	Historical cost	Book value
Equity securities accounted for using the equity method :				
Hyundai Oilbank	81,167,566	33.12	443,583,902	285,129,376
Hyundai Finance Corp.	12,350,000	67.49	78,197,738	75,418,532
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,199,960	243,799,630
Hyundai Mipo Dockyard Co., Ltd.	4,040,936	27.68	22,687,120	51,131,216
Changzhou Hyundai Construction Machinery Co., Ltd	-	60.00	15,007,897	26,560,112
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd	-	60.00	7,929,240	7,683,217
MOST #3 Venture Investment	130	24.53	13,000,000	12,531,575
MIC99-9 STIC IT Partnership	1,000	25.00	10,000,000	8,420,662
Incheon Airport Energy	3,284,884	31.00	16,424,420	9,748,772
HITC-Hyundai Hightech Investment	1,000	50.00	10,000,000	10,341,627
Hyundai & Terasource D-Convergence Venture Investment	1,000	50.00	10,000,000	10,425,792
MIC 99-1 IT Venture Partnership	1,000	40.82	10,012,055	7,946,358
Hyundai Heavy Industries Europe N.V.	2,600	100.00	30,948,108	3,357,798
Hyundai Elprom Trafo AD	4,290,089	97.78	5,649,668	4,386,855
New Korea Country Club	16,457	20.00	500,000	1,367,992
Hyundai Dongahn Steel Tower	-	55.00	1,231,036	1,097,971
Hyundai Construction Equipment U.S.A (*)	23,900,000	100.00	26,712,810	-
Hotel Hyundai Vladivostock (*)	-	40.00	3,870,566	-
Hyundai Furniture Industries (*)	5,000,000	21.85	6,344,750	-
			916,299,270	**759,347,485**
Debt securities :				
Hyundai Petrochemical Co., Ltd. Debentures	**-**	**-**	**101,405,000**	**101,405,000**
Other investments :				
Investments in capital		**-**	**4,927,910**	**4,927,910**
			₩1,873,618,728	**₩1,105,681,507**

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

9. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2003 and 2002 is as follows:

Korean Won (in thousands)

	2003	2002
Buildings and structures	₩ 2,145,030,457	₩ 2,065,921,932
Machinery and equipment	1,784,140,319	1,663,549,663
Ships	115,803,976	115,932,447
Vehicles	22,669,797	21,239,974
Tools, furniture and fixtures	758,384,079	718,694,693
	4,826,028,628	4,585,338,709
Less: accumulated depreciation	(1,869,119,594)	(1,614,856,380)
	2,956,909,034	2,970,482,329
Land	1,292,195,299	1,222,538,655
Construction in-progress	86,140,316	180,973,319
	₩ 4,335,244,649	**₩ 4,373,994,303**

The changes in property, plant and equipment for the year ended December 31, 2003 are as follows:

Korean Won (in thousands)

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩1,222,538,655	₩1,506,506,446	₩ 559,415,486	₩1,663,549,663	₩1,036,840,433	₩5,988,850,683
Acquisition and other	76,989,815	43,627,844	40,224,951	136,032,820	(12,905,939)	283,969,491
Disposal	(7,333,171)	(4,741,856)	(2,413)	(15,442,164)	(40,936,326)	(68,455,930)
End of period	**₩1,292,195,299**	**₩1,545,392,434**	**₩ 599,638,024**	**₩1,784,140,319**	**₩ 982,998,169**	**₩6,204,364,244**
Depreciation	-	38,290,720	14,682,132	168,725,331	81,154,952	302,853,135
Accumulated depreciation	-	206,534,550	94,061,283	920,291,579	648,232,182	1,869,119,594

The changes in property, plant and equipment for the year ended December 31, 2002 are as follows:

Korean Won (in thousands)

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of period	₩1,178,647,670	₩1,421,687,525	₩ 514,438,689	₩1,550,222,474	₩1,102,155,253	₩5,767,151,611
Acquisition and other	48,778,721	87,622,316	46,025,551	123,106,656	312,739,864	618,273,108
Disposal	(4,887,736)	(2,803,395)	(1,048,754)	(9,779,467)	(378,054,684)	(396,574,036)
End of period	**₩1,222,538,655**	**₩1,506,506,446**	**₩ 559,415,486**	**₩1,663,549,663**	**₩1,036,840,433**	**₩5,988,850,683**
Depreciation	-	37,032,684	13,661,731	157,363,146	84,780,875	292,838,436
Accumulated depreciation	-	168,809,943	79,379,322	760,635,802	606,031,313	1,614,856,380

A substantial portion of buildings, machinery and equipment were insured against fire and other casualty losses up to approximately ₩1,638,161 million as of December 31, 2003. The Company maintains insurance coverage against fire and other casualty losses of up to ₩1,773,638 million for ships and sea structures under construction and the insurance proceed of ₩1,653,094 million is pledged as collateral for loans from Export-Import Bank of Korea and other banks as of December 31, 2003 (See Notes 11 and 12).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩3,599,256 million as of December 31, 2003. The Company also maintains insurance on cargo against damage and claims losses of up to ₩1,458,946 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 ₩437,752 million as of December 31, 2003 (see Notes 11 and 12).

As of December 31, 2003, the value of land owned by the Company is ₩964,391 million, as announced by the Korean government.

10. INTANGIBLE ASSETS:

Intangible assets as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003		2002	
Development costs	₩	115,486,197	₩	105,594,524
Others		30,331,548		32,370,831
	₩	**145,817,745**	₩	**137,965,355**

Development costs included in intangible assets as of December 31, 2003 and 2002 are summarized as follows:

Korean Won (in thousands)

	2003		2002	
Beginning balance	₩	105,594,524	₩	95,240,226
Capitalized		46,258,889		49,656,797
Amortized		(36,367,216)		(39,302,499)
Ending balance	₩	**115,486,197**	₩	**105,594,524**

Research costs amounting to ₩14,288,632 thousand and ordinary development costs amounting to ₩36,927,000 thousand are expensed for the year ended December 31, 2003.

11. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	Interest rate as of December 31, 2003 (%)	2003		2002	
General term loans	-	₩	-	₩	40,000,000
Notes discounted by merchant banks	-		-		110,000,000
Foreign trade financing	JPY L + 0.4 ~ 0.7		3,611,611		69,191,305
	USD L + 0.4 ~ 0.7				
Pre-delivery financing	USD L + 0.72~0.77		146,606,248		568,168,883
		₩	**150,217,859**	₩	**787,360,188**

Certain financial instruments, investments and property, plant and equipment are pledged as collateral for the above short-term borrowings (see Notes 3, 6, 8 and 9).

12. DEBENTURES AND LONG-TERM DEBTS:

Long-term borrowings as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	Interest rate as of December 31, 2003 (%)	2003	2002
Non-guaranteed debentures	5.0 - 7.67	₩ 1,194,670,000	₩ 2,275,100,000
Won currency loans	See Detail	8,055,091	368,693,715
Foreign currency loans	〃	56,446,825	63,989,271
		1,259,171,916	2,707,782,986
Less: Discounts of debentures		(4,162,155)	(19,022,356)
Current maturities		(516,473,827)	(1,131,758,934)
		₩ **738,535,934**	₩ **1,557,001,696**

Debentures comprise publicly issued debentures of ₩1,015,000 million and ₩1,895,000 million and private debentures of ₩179,670 million and ₩380,100 million as of December 31, 2003 and 2002, respectively. The Company made an early redemption of debentures amounting to ₩365,000 million for the year ended December 31, 2003 and recorded ₩8,477 million as loss on redemption of debentures.

Certain financial instruments, short-term and long-term notes receivable, investments and property, plant and equipment are pledged as collateral for the above loans (see Notes 3, 6, 8 and 9).

Won currency loans as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	Interest rate as of December 31, 2003 (%)	2003	2002
Pre-delivery financing from EXIM Bank of Korea	Yield rate+1.06	₩ 8,055,091	₩ 368,487,292
Others	3.0	-	206,423
		8,055,091	368,693,715
Less: current maturities		(8,055,091)	(346,296,566)
		₩ **-**	₩ **22,397,149**

Foreign currency loans as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	Interest rate as of December 31, 2003 (%)	2003	2002
Facility loans from CLB and other bank	6ML+0.675~6ML+0.7	₩ 3,559,177	₩ 5,809,078
Pre-delivery financing from EXIM Bank of Korea	Libor+1.60~8.00	52,887,648	58,180,193
		56,446,825	63,989,271
Less: current maturities		(18,418,736)	(60,422,368)
		₩ **38,028,089**	₩ **3,566,903**

The maturities of long-term debt as of December 31, 2003, before discounts, are as follows:

Korean Won (in thousands)

	Debentures	Foreign currency loans	Total
2005. 1~2005. 12	₩ 704,670,000	₩ 7,114,478	₩ 711,784,478
2006. 1~2006. 12	-	7,114,478	7,114,478
2007. 1~2007. 12	-	7,114,478	7,114,478
2008. 1~	-	16,684,655	16,684,655
	₩ **704,670,000**	₩ **38,028,089**	₩ **742,698,089**

13. ACCRUED SEVERANCE BENEFITS:

Accrued severance benefits as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003	2002
Beginning balance	₩ 898,750,235	₩ 807,719,167
Severance payment	(88,956,286)	(77,813,619)
Provisions	162,370,669	168,844,687
	972,164,618	898,750,235
Less: Severance insurance	(683,075,175)	(638,934,258)
National pension	(57,314,535)	(62,202,694)
	₩ **231,774,908**	₩ **197,613,283**

Accrued severance benefits are funded approximately 70.3% and 71.1% as of December 31, 2003 and 2002, respectively, through certain insurance plans with Kyobo Life Insurance Co., Ltd. and other insurance companies. The unused portion of severance insurance deposits for these insurance plans is deducted from accrued severance benefits.

14. COMMITMENTS AND CONTINGENCIES:

(1) The Company has entered into bank overdraft agreements with 8 banks amounting to ₩221,000 million as of December 31, 2003.

(2) As of December 31, 2003, the Company has entered into credit facility agreements with various banks for the Company's exports and imports such as letter of credit including usance L/C, totaling US$1,310,182 thousand.

(3) In order to secure the guarantees provided by the banks for the borrowings and the performance of construction contracts entered into by the Company, the Company has provided 12 blank checks / notes and 13 notes amounting to ₩60,349,591 thousand as of December 31, 2003.

(4) The outstanding balance of the accounts receivable (notes receivable) sold to financial institutions with recourse is US$89,662,000, equivalent to ₩107,393 million, as of December 31, 2003.

(5) As of December 31, 2003, the Company is contingently liable for the loan guarantees and the performance guarantees of construction contracts of it' s subsidiaries and Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") amounting to ₩223,643 million and US$81,681 thousand. The Company has provided certain performance guarantees amounting to US$ 2,035,173 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint construction contracts with HSHI for the construction of 66 ships (Contract amount: US$3,248,496 thousand). The Company has secured the property, inventories and accounts receivable of HSHI as collateral for the above performance guarantees the Company has provided for HSHI.

(6) In connection with the Company's loans and contract performance guarantees, the Company has also been provided with guarantees up to ₩1,344,297 million and US$5,190,484 thousand by various banking facilities.

(7) The Company sold 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 US$329.5089 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 ₩7 million in current operations for year ended December 31, 2003.

(8) As of December 31, 2003, the Company has entered into 5 forward foreign exchange contracts with Citibank as follows:

Bought		Sold		
Currency	Contract amount	Currency	Contract amount	Exchange rate (USD basis)
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
EUR	1,487,500	USD	1,728,177.50	1.1618
JPY	242,000,000	USD	2,029,690.51	119.23

The Company has recognized a gain on valuation amounting to ₩1,437 million from forward contracts for the year ended December 31, 2003.

(9) Pursuant to the resolution of the board of directors on November 11, 2002, the Company has transfered its trade accounts receivable of ₩294,858 million (US$245,633 thousand) with Fiona Trust and Holding Corp. and others (total contract amount: US$415,850,000) to Good & Safe Co., Ltd. and completed the withdrawal of all ship's accounts receivable on April 3, 2003.

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

Future anticipated lease payments under operating lease agreements as of December 31, 2003 are as follows:

	Won currency (in thousands)		Foreign currency (in dollars)		Total (in thousands)	
2004.1.1~2004.12.31	₩	38,642,877	US$	8,563,516	₩	48,900,257
2005.1.1~2005. 12.31		38,642,877		8,946,375		49,358,846
2006.1.1~2006. 12.31		5,662,475		5,619,171		12,393,118
	₩	**82,948,229**	US$	**23,129,062**	₩	**110,652,221**

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

(12) The Company has entered jointly into several agreements to dispose the common shares of Aluminum of Korea 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 of additional losses.

(13) The Company has entered into a common stock conversion agreement (the "Agreement") with IPIC, single largest shareholder of Hyundai Oilbank, pursuant to the resolution of the board of directors on March 14, 2003. As of December 31, 2003, this Agreement has not been executed; therefore, the effects of the Agreement have not been reflected in the current financial statements.

15. LITIGATIONS:

(1) A penalty amounting to ₩19,852 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies. 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, 2003. In addition, the Company has been brought into 15 legal actions by its employees with claims amounting to ₩1,291 million for damages from industrial disaster, all of which are pending as of December 31, 2003.

(2) Hynix Semiconductor Inc. ("HSI") sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. ("HITS") to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997.

In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for US$16.96 per share, if CIBC exercised its option. The Company was then provided a written promissory note from HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC for US$ 220,480 thousand. The Company required HSI and HSC to honor their written promissory note; however, HSI and HSC refused. Accordingly, the Company filed a lawsuit against HSI and HSC on July 28, 2000. On January 25, 2002, the Company won the litigation for the settlement of claim amounting to ₩171,800 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 pursuant to the resolution of the board of directors on January 27, 2002, filed an appeal to a high court for claiming the whole amount of the principal and accrued interest. Also, the Company has been planning to file a lawsuit for the advanced payments

for those companies that were not covered by the litigation explained above. The Company has provided an allowance for doubtful accounts on the above amount as of December 31, 2003. The management and attorney of the Company predict that the case will be decided in the Company's favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in these financial statements.

(3) 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 ₩47,300 million and a special tax for fictitious dividend income amounting to ₩26,073 million were imposed on the liquidation income of HIB, which was paid by the Company.

The Company instituted an administrative litigation to cancel the tax to the Seoul Administrative Court through Chohung Bank. ₩18,400 million of the total ₩47,300 million imposed on the liquidation income of HIB was reduced as a result of the first and second trials on July 27, 2001 and May 9, 2002, respectively. Also, the Company appealed to the Supreme Court for the entire elimination of the special tax on June 8, 2002 and filed an appeal to the national tax tribunal claiming the reduction for the loss from the mergence and the withdrawal of the imposition of the fictitious dividend income tax. The ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in these financial statements.

(4) On September 4, 2003, the Company has been brought into legal action by Asan dredging S.A. with claim for advanced payment of dredger amounting to ₩23,312 million, which is pending as of December 31, 2003.

(5) On February 17, 2000, the Company has been brought into legal action by Hee-in Kang and 33 individuals with claim for legal allowances and additional severance benefits payable amounting to ₩2,204 million, and entered into additional collective agreement with labor union for these litigations in 2002. These litigations are pending on the appeal to Busan high court as of December 31, 2003. The Company changed its method of accounting for additional payables by estimating and recorded as long-term accrued expenses according to the results of first trial and additional collective agreement. The ultimate outcome of these litigations is uncertain as of December 31, 2003 (see Note 2).

16. MAJOR BUSINESS EVENTS:

(1) 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 previously acquired back to Hyundai Asan Co., Ltd. without any consideration. This was legally required for the Company and its four affiliates to disaffiliate from the Hyundai Group. On February 28, 2002, the Company was officially

recognized to be independent from the Hyundai Group.

(2) 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) at par value, which had been managed by the Company under a trusteeship agreement. 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 the major shareholder with a 94.92 percent ownership.

(3) Pursuant to the resolution of the board of directors on September 22, 2003, the Company disposed 4,040,936 shares of investments in Hyundai Mipo Dockyard Co., Ltd. on the Korea Stock Exchange on September 22,2003 for financial structure improvement.

(4) The Company has been operating special monetary trust fund, contracted with Korea Exchange Bank and others, for 23,063,850 shares of treasury stock since January, 2000 and disposed 11,631,580 shares of treasury stock in October, 2003. Gain on disposal of treasury stock, net of tax effect, amounting to ₩10,122,896 thousand was recorded as other capital surplus (See Note 17). The Company terminated its trust contracts amounting to ₩392 billion in relation to disposal of treasury stock.

(5) The Company transferred its transportation and stevedoring business including all assets and liabilities amounting to ₩2,399 million to Hyundai Samho Industries Co., Ltd. on February 1, 2004.

17. CAPITAL SURPLUS:

Capital surplus as of December 31, 2003 and 2002 is as follows:

Korean Won (in thousands)

	2003	2002
Paid-in capital in excess of par value	₩ 843,324,390	₩ 843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	65,334,216	21,830,067
	₩ 2,771,383,687	**₩ 2,727,879,538**

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

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

18. RETAINED EARNINGS:

Retained earnings as of December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003	2002
Appropriated :		
Legal reserve (A,C)	₩ 121,350,225	₩ 121,350,225
Reserve for business rationalization (B,C)	87,276,798	92,756,208
Reserve for overseas market development (D)	6,666,667	16,666,667
Reserve for export losses (D)	3,333,333	10,666,667
Reserve for research and human development (D)	303,097,899	398,633,333
Other voluntary reserves	108,270,000	238,008,753
	₩ 629,994,922	**₩ 878,081,853**

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

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

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

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

19. CAPITAL ADJUSTMENTS:

As of December 31, 2003 and 2002, capital adjustments are as follows:

Korean Won (in thousands)

	2003	2002
Loss on valuation of investments (Note 8)	₩ -	₩ (21,092,344)
Gain on valuation of short-term and long-term investment securities (Note 6)	24,848,668	
Gain on valuation of investment securities accounted for using the equity method (Note 7)	12,259,850	-
Treasury stock	(351,821,818)	(707,469,008)
	₩ (314,713,300)	**₩ (728,561,352)**

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

20. DIVIDENDS:

(1) Proposed dividends for 2003 are summarized below.

Korean Won (in thousands)

Description	Number of Shares	Par Value	Dividend Rate	Cash Dividends
Common stock	64,493,456(*)	₩ 5,000	30%	₩ 96,740,184
		2003 net income		₩ 113,857,159
		Dividends to net income		**84.97%**

(*) Net of 11,506,544 shares of treasury stock as of December 31, 2003

(2) Yields to market price of proposed dividend for 2003 are as follows:

Description	Dividend per Share	Closing Price in 2003	Yield to Market Price
Common stock	₩ 1,500	₩ 37,500	4.0%

21. SALES AND COST OF SALES:

(1) Sales and Cost of sales by major industry segment for the years ended December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003		2002	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	3,758,363,884	3,205,056,818	3,707,605,919	3,140,548,402
Industrial Plant & Engineering	654,510,220	719,989,481	946,930,883	853,280,519
Offshore & Engineering	1,239,385,016	1,150,407,190	1,397,898,405	1,349,049,932
Engine & Machinery	718,372,483	603,100,283	589,224,286	472,103,147
Construction Equipment	845,219,831	638,347,568	504,706,325	378,452,133
Electro Electric Systems	824,930,297	784,848,083	881,029,478	787,385,303
Others	112,718,221	96,449,988	106,667,484	92,386,260
	8,153,499,952	**7,198,199,411**	**8,134,062,780**	**7,073,205,696**

(2) The Company's outstanding contracts as of December 31, 2003 are summarized as follows:

Korean Won (in millions)

	Shipbuilding	Others	Total
Beginning of period	6,656,715	4,715,181	11,371,896
Increase during period	8,095,586	3,605,539	11,701,125
Recognized as revenue in current operations	(3,758,364)	(4,395,136)	(8,153,500)
End of period	**10,993,937**	**3,925,584**	**14,919,521**

As of December 31, 2003, in connection with construction contracts, the Company provides certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers (See Note 14).

22. INCOME TAX EXPENSE:

(1) Income tax expense (benefits) for the years ended December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003	2002
Current income tax	₩ 4,944,797	₩ 47,896,843
Deferred income taxes	69,930,548	(131,066,287)
Income tax deducted from gain on disposal of treasury stock (*)	(4,276,671)	-
Income tax adjusted in unappropriated retained earnings (**)	(475,323)	1,084,872
Income tax expense (benefits)	70,123,351	(82,084,572)
Income before income tax expense	₩ 183,980,510	₩ (341,098,632)
Effective income tax rate	**38.1%**	- **24.1%**

(*) ₩14,399,567 thousand of gain on disposal of treasury stock (other capital surplus) is taxable income and ₩4,276,671 of deferred income tax is deducted from gain on disposal of treasury stock

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

(2) For the years ended December 31, 2003 and 2002, the differences between income before income tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

Korean Won (in thousands)

	2003		2002	
Income before income tax	₩	183,980,510	₩	(341,098,632)
Addition		552,038,842		880,593,002
Deduction		(723,361,419)		(393,174,344)
Taxable income	₩	**12,657,933**	₩	**146,320,025**

(3) Details of changes in, and effects on income tax expense of, cumulative temporary differences are summarized as follows:

Korean Won (in thousands)

Description		Beginning		Decrease		Increase		Ending
Equity securities accounting for equity method valuation	₩	252,390,960	₩	14,123,458	₩	(92,720,809)	₩	145,546,693
Loss on valuation of investment securities		481,089,763		408,218,546		23,395,830		96,267,047
Reserve for technology development		(303,097,899)		(161,165,616)		-		(141,932,283)
Reserve for overseas market development		(6,666,667)		(6,666,667)		-		-
Reserve for export losses		(3,333,333)		(3,333,333)		-		-
Provision for bad debt expense		140,741,675		140,741,675		173,884,070		173,884,070
Accrued income		(1,016,627)		(1,016,627)		(1,032,796)		(1,032,796)
Loss on valuation of receivables		4,674,353		4,674,353		859,903		859,903
Loss on valuation of beneficial certificates and others		49,579,956		4,192,040		7,459		45,395,375
Gain on valuation of beneficial certificates and others		(2,126,511)		(1,227,705)		(1,437,491)		(2,336,297)
Other		182,182,511		41,956,237		107,849,156		248,075,430
	₩	**794,418,181**	₩	**440,496,361**	₩	**210,805,322**		564,727,142
Tax rate (*)								29.7%(27.5%)
Cumulative tax effects								159,617,731
Tax credit carryforward								3,190,934
Deferred income tax assets, end of period								162,808,665
Deferred income tax assets, beginning of period								232,739,213
Changes in deferred income taxes on temporary differences							₩	**(69,930,548)**

(*) In accordance with the revision of Corporate Income Tax Law of Korea, starting from 2005, the Company's statutory income tax rate is expected to be 27.5 percent.

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

When each temporary difference reverses in the future, it will result in a decrease (increase) of taxable income and income tax payable. Deferred income tax assets are recognized only when it is probable the tax benefits from temporary differences will be realized in the future and calculated using the expected corporate tax rate in the period when the tax benefits will be realized. As of December 31, 2003, the Company believes the deferred income tax assets of ₩162,808,665 thousand can be realized in the future. Additionally, the Company believes average ordinary income in the coming years will exceed the amount of deferred taxes to be realized every year based on its assessment.

(4) Adjustments arising from change in statutory tax rate from 29.7 percent to 27.5 percent are ₩8,106,230 thousand as per revision of the Corporate Income Tax Law of Korea.

23. INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the years ended December 31, 2003 and 2002. Basic ordinary income per share is computed by dividing ordinary income, after adjustment of extraordinary gains or losses and related income tax by the weighted average number of common shares outstanding for the years ended December 31, 2003 and 2002.

Basic income per share and ordinary income (loss) per share for years ended December 31, 2003 and 2002 are calculated as follows:

Korean Won (in thousands)

	2003	2002
Net income (loss) / ordinary income (loss) (in thousands)	₩ 113,857,159	₩ (259,014,060)
Weighted average number of outstanding common shares (in thousands)	55,069	52,869
Income (loss) per share and ordinary income (loss) per share (in Korean won)	₩ **2,068**	₩ **(4,899)**

24. TRANSACTIONS WITH RELATED PARTIES:

Significant transactions and outstanding balances with subsidiaries and affiliated companies within the Hyundai Heavy Industries Group of companies and former affiliated companies of Hyundai Group for the year ended and as of December 31, 2003 are as follows:

Korean Won (in thousands)

Related Party	Sales	Purchases	Receivables	Payables
Hyundai Mipo Dockyard Co., Ltd.	₩ 134,317,382	₩ 6,954,063	₩ 44,080,694	₩ 1,304,970
Hyundai Engineering & Construction Co., Ltd.	20,781,584	21,541,480	17,770,328	3,227,373
Hyundai Merchant Marine Co., Ltd.	25,133	31,646	22,350	653,000
Hyundai Motor Company	27,611,678	45,885,717	15,990,411	7,790,417
INI Steel Co., Ltd.	15,495,690	76,165,553	5,897,228	23,603,404
Hyundai Samho Heavy Industries Co., Ltd.	197,214,393	17,468,047	99,951,640	1,563,836
Hyundai Corporation	31,608,052	7,302,178	31,950,005	555,382
Hyundai Oilbank	170,275	145,895,025	-	2,291,747
Changzhou Hyundai Construction Machinery Co., Ltd.	261,192,746	123,976	128,528	-
Beijing Hyundai Construction Machinery Co., Ltd	69,725,631	-	27,310,360	-
Hyundai Heavy Industries Europe N.V	128,121,557	4,322	36,281,371	-
Hyundai Construction Equipment U.S.A	52,077,544	317,540	33,921,207	-
	₩ 938,341,665	**₩ 321,689,547**	**₩ 313,304,122**	**₩ 40,990,129**

In addition, the Company has entered into rental agreements (receiving deposits of ₩1,854 million and paying deposit of ₩1,632 million) with Hyundai Motor Company and other affiliated companies as of December 31, 2003. In addition, the Company is contingently liable for loan guarantees and performance guarantees of construction contracts of Hyundai Samho Heavy Industries Co., Ltd. (HSHI) and other affiliated companies including joint construction contracts with HSHI (See Note 14). Also, the Company disposed its investments in Hyundai Mipo Dockyard Co., Ltd. and its treasury stock to related parties for the year ended December 31, 2003.

25. ASSETS AND LIABILITES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2003 and 2002 are as follows:

		Foreign currencies		Korean won (in thousands)	
Account	Currency	2003	2002	2003	2002
Assets:					
Cash and cash equivalents	USD	113,043	943	₩ 135,402,431	₩ 1,132,565
	EUR	24,071	-	36,169,036	-
Trade accounts and notes receivable	USD	335,684	189,980	402,082,380	228,052,723
	EUR	20,588	17,674	30,934,922	22,222,828
	Others			16,538,675	15,597,017
Accounts receivable-other	USD	30,459	22,824	36,483,922	27,397,446
	EUR	185	42	278,028	53,137
	Others			83,117	35,054
Long-term trade accounts and notes receivable	USD	280,597	-	336,098,731	-
Long-term financial instruments & others	USD	9,863	8,892	11,813,723	10,673,489
	EUR	5	76	7,533	95,863
	Others			7,174,996	5,661,666
				₩ 1,013,067,494	**₩ 310,921,788**
Liabilities:					
Trade accounts and notes payable	USD	10,221	15,923	₩ 12,242,832	₩ 19,113,389
	EUR	-	7	-	9,408
	Others			5,809,255	5,168,946
Short-term borrowings	USD	2,316	42,970	2,773,566	51,581,289
	EUR	558	10,517	838,045	13,223,730
	Others			-	4,386,286
Current maturities of long-term borrowings	USD	15,377	50,335	18,418,736	60,422,368
Debentures	USD	149,350	248,629	178,891,540	298,454,575
long-term borrowings	USD	31,748	2,971	38,028,089	3,566,903
Accounts payable-other & others	USD	3,258	3,162	3,902,130	3,794,947
	EUR	8,442	6,260	12,685,277	7,870,843
	Others			7,950,800	5,305,776
				₩ 281,540,270	**₩ 472,898,460**

26. FINANCIAL INFORMATION BY INDUSTRY SEGMENT:

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

(1) For the year ended and as of December 31, 2003

Korean Won (in thousands)

	Shipbuilding	Industrial Plant & Engineering	Offshore & Engineering	Engine & Machinery	Construction Equipment	Electro Electric Systems	Others
Sales	₩3,758,363,884	₩ 654,510,220	₩ 1,239,385,016	₩ 718,372,483	₩ 845,219,831	₩ 824,930,297	₩ 112,718,221
Operating income	393,007,875	(94,658,842)	41,019,293	94,043,120	115,573,652	4,649,539	(279,122,711)
Tangible & intangible assets	1,196,359,392	139,979,158	297,257,359	464,019,094	102,174,276	266,169,133	2,015,103,982
Depreciation	(105,932,161)	(14,301,173)	(31,877,427)	(58,271,979)	(9,638,331)	(36,072,289)	(46,759,776)

(2) For the year ended and as of December 31, 2002

Korean Won (in thousands)

	Shipbuilding	Industrial Plant & Engineering	Offshore & Engineering	Engine & Machinery	Construction Equipment	Electro Electric Systems	Others
Sales	₩3,707,605,919	₩ 946,930,883	₩ 1,397,898,405	₩ 589,224,286	₩ 504,706,325	₩ 881,029,478	₩ 106,667,484
Operating income	406,516,988	58,551,030	(5,335,646)	86,095,445	58,674,566	60,891,244	(223,839,279)
Tangible & intangible assets	1,161,327,840	143,625,588	302,048,069	492,593,822	95,727,998	276,201,827	2,040,434,514
Depreciation	(103,906,006)	(15,418,914)	(32,358,649)	(28,947,347)	(10,167,977)	(33,444,927)	(68,594,616)

27. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

	2003	2002
Wages	₩ 199,106,476	₩ 175,075,049
Provision for severance benefits	27,448,231	25,929,298
Employee welfare	48,356,893	43,245,052
Advertisement	13,345,980	13,136,541
Ordinary development expenses (Note 10)	36,927,000	41,036,664
Provision for bad debt	69,361,992	32,950,343
Depreciation and amortization (Notes 9 and 10)	9,899,894	21,569,726
Service charges	34,780,215	18,626,860
Transportation	24,409,721	14,171,484
Sales commission	106,284,540	108,194,928
After-service expenses	36,170,457	50,700,278
Others	74,697,216	74,666,513
	₩ 680,788,615	**₩ 619,302,736**

28. FINANCIAL PERFORMANCE IN FINAL INTERIM PERIOD:

The financial performance for the three-month periods ended December 31, 2003 and 2002 is summarized as follows:

Korean Won (in thousands, except per share amounts)

	2003	2002
Sales	₩ 2,360,091,070	₩ 2,442,877,105
Net loss	(644,682)	(388,351,084)
Net loss per share	(98)	(7,347)

29. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the years ended December 31, 2003 and 2002 are as follows:

Korean Won (in thousands)

Name of account	2003	2002
Transfer to short-term investment securities from marketable securities	₩ 2,700,234	₩ -
Transfer to long-term investment securities from marketable securities	30,970,881	-
Transfer to trade accounts and notes receivable from long-term trade accounts and notes receivable	50,716,659	3,719,331
Transfer to long-term investment securities from investment securities	346,334,022	-
Transfer to investment securities accounted for using the equity method from investment securities	759,347,485	-
Loss on valuation of investment securities (capital adjustments)	5,085,653	23,097,178
Valuation of investment securities accounted for using the equity method (appropriated retained earnings)	1,600,414	-
Transfer to disposal from investment securities accounted for using the equity method (capital adjustments)	48,022,817	-
Transfer to accounts receivable-other from investmentsecurities accounted for using the equity method	13,516,374	-
Transfer to property, plant and equipment from construction-in-progress	222,945,993	278,486,225
Transfer to current maturities of debentures from debentures	490,000,000	725,040,000
Transfer to current maturities of long-term borrowings from won currency long-term borrowings	8,055,091	346,296,566
Transfer to current maturities of long-term borrowings from foreign currency long-term borrowings	18,433,223	60,422,368
	₩ 1,997,728,846	**₩ 1,437,061,668**

30. SUBSEQUENT EVENTS:

(1) Actual approval of the financial statements:
The 2003 financial statements, which will be submitted to the annual shareholders' meeting, will be approved by the Board of Directors on February 28, 2004.

(2) Common stock conversion agreement:
The Company has entered into common stock conversion agreement(the "Agreement")with IPIC, single largest shareholder of Hyundai Oilbank in connection with US$450 million financial support of IPIC in 2002, pursuant to the resolution of the board of directors on March 14, 2003, and the Agreement will be finally executed by February 28, 2004. According to the Agreement, the Company has to convert 16,233,514 shares out of 81,167,566 common shares owned by the Company into non-voting preference stocks. Furthermore, IPIC shall have a call option to purchase certain Hyundai Oilbank's shares owned by the Company until Hyundai Oilbank completes the payment of dividend obligation of US$200 million to IPIC.

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Date of Establishment
March 1972

Paid-in Capital
KRW 380 billion

Common Stock
76,000,000 shares

Number of Employees
25,912

General Shareholders' Meeting
March 19. 2004

Listing
Listed on Korea Stock Exchange in August 1999

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