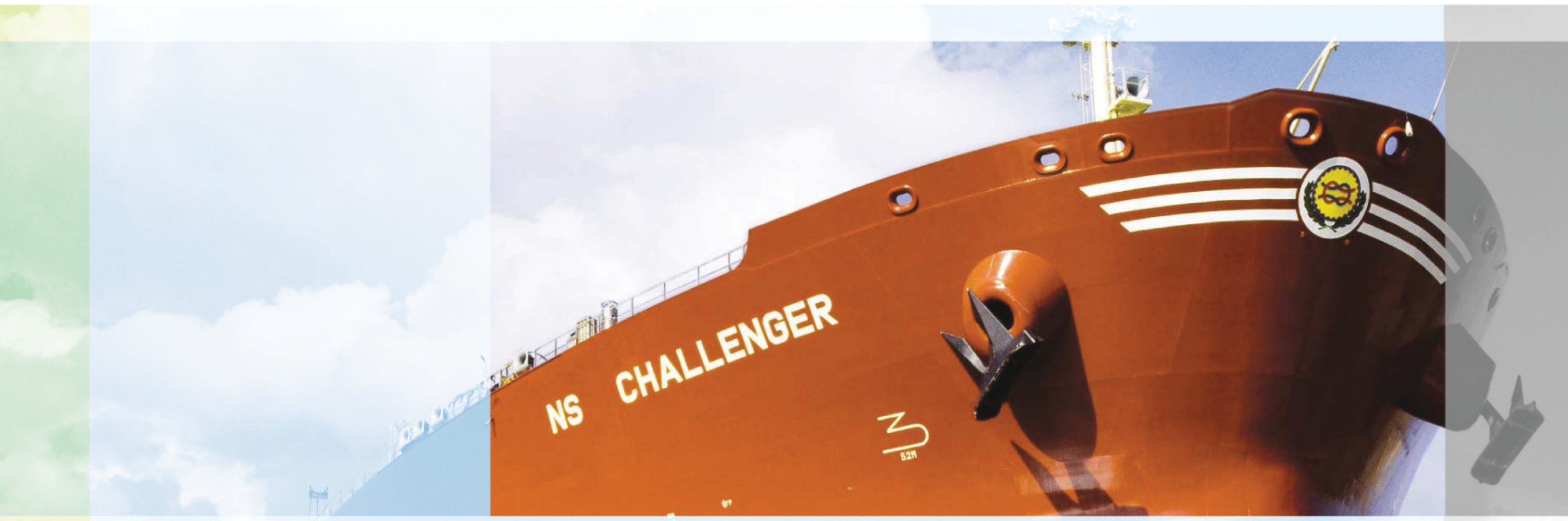
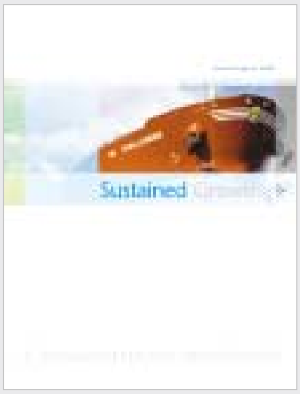
Annual Report 2004



Sustained Growth

HYUNDAI HEAVY INDUSTRIES



Cover

The Challenger (a 105,000-dwt crude oil tanker): the world's first ship built on land without using dry docks, for Russian shipping company, Novoship.

EFFICIENT MANAGEMENT p8

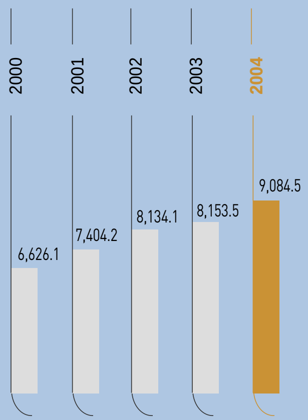
PROFITABLE BUSINESSES p18

results from

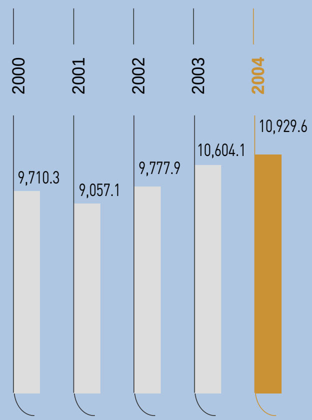
Financial Highlights

	(In millions of US$)	(In billions of KRW)		
	2004	2004	2003	2002
For the Year				
Sales	8,703.3	9,084.5	8,153.5	8,134.1
Gross Profit	521.2	544.0	955.3	1,060.9
Operating Income	(94.0)	(98.1)	274.5	441.6
Net Income	35.2	36.7	113.9	-25.9
At Year-end				
Total Assets	10,471.0	10,929.6	10,604.1	9,777.9
Total Liabilities	7,002.4	7,309.1	7,128.0	6,874.1
(Total Debts)	633.9	661.7	1,402.6	3,470.1
Total Shareholders' Equity	3,468.6	3,620.5	3,476.1	2,903.8
Financial Ratio				
Liabilities-to-Equity	201.9%	201.9%	205.1%	236.7%
Debt-to-Equity	18.3%	18.3%	40.3%	119.5%
Financial Expense Ratio				
EBITDA	217.2	226.7	579.4	736.4
EV/EBITDA (multiple)	11.1	11.1	6.9	6.6
ROA	0.3%	0.3%	1.1	N/A
ROE	1.0%	1.0%	3.3	N/A
Orders Received and Backlog				
Orders(bil. US$)	13.4	13.4	9.8	5.8
Exports(bil.US$)	6.1	6.1	5.5	5.5
Backlog(bil.US$)	18.4	18.4	12.5	9.2

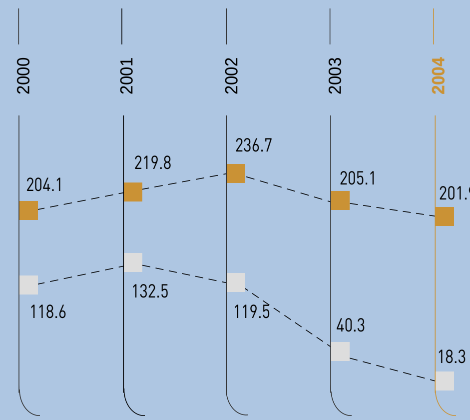
** Note: Won amounts for FY2004 have been translated at W1,043.8 per $1.00, the basic rate as of Dec. 31, 2004.*



Sales
(In billions of KRW)



Total Assets
(In billions of KRW)



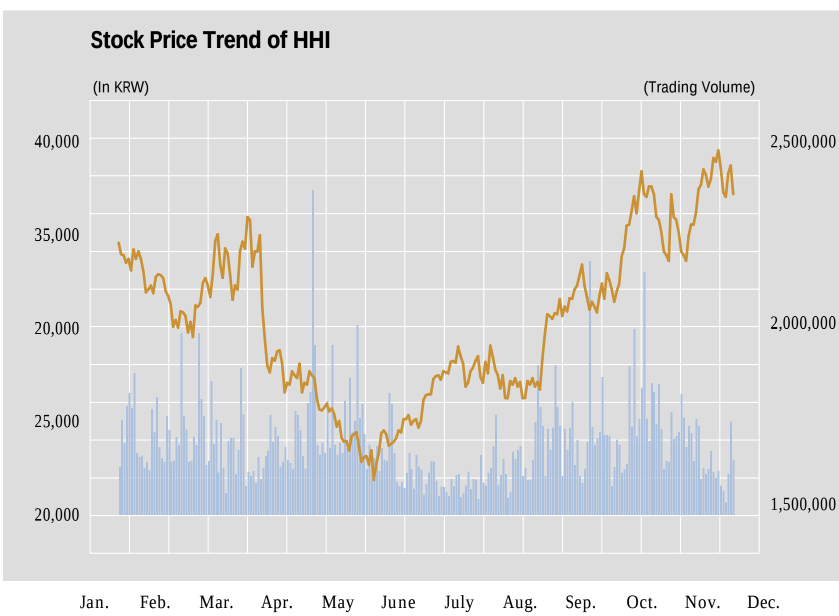
Financial Stability Ratio (%)
Debt-to-Equity Liabilities-to-Equity

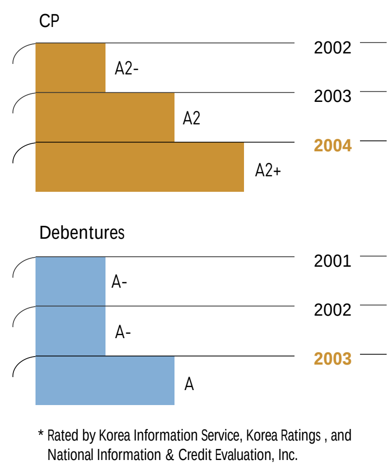
Hyundai Heavy Industries (HHI) is legendary for starting Korea's shipbuilding industry in a small fishing village in Korea with virtually no infrastructure, back in 1972, and then growing to become the world's leading shipbuilder in little more than 30 years. HHI, comprising six business divisions, went independent from the Hyundai Group in 2002, taking the nation ever closer to becoming a heavy industries powerhouse.

Thanks to HHI's efficient business practices and large pool of talented human resources, HHI has continued to grow this year, despite unfavorable domestic economic conditions, with new orders worth US$13.4 billion and US$18.4 billion in backlog as of the end of 2004. By actively responding to a rapidly changing environment, HHI is driving to become a 'Global Leader' in heavy industries in the march to a brighter future.

HHI shares stable and improving

In 2004, the Korean stock market performed relatively well as a result of favorable stock market conditions around the world and a large boost in foreigners' net purchases of stocks, both of which helped trigger a dramatic increase in the share prices of shipbuilding companies. The shipbuilding industry’s strong share performances also stemmed from booming market conditions caused by an increase in the quantity of goods transported worldwide and an increase in energy demand for such fuels as petroleum and LNG. After eliminating risk factors, which had acted as a drag on Hyundai Heavy Industries’ shares in the past, its share price resumed the upward trajectory supported by robust business in the shipbuilding sector and a rise in shipbuilding share prices.





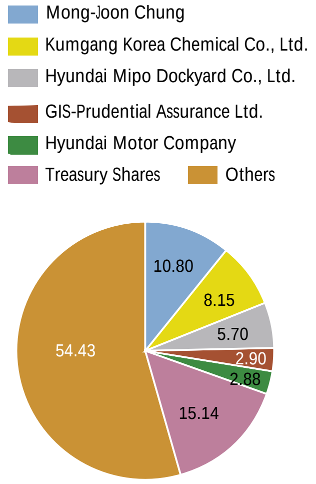
Credit Ratings

Stock Price Index

	2004	2003
Face Value (KRW)	5,000	5,000
No. of shares (issued) (million)	76	76
Total Market Cap. (Bil. of KRW)	2,681	2,850
Share Price (High) (KRW)	39,300	41,200
(Low) (KRW)	22,450	16,200
Foreign Ownership (%)	22.6%	20.5%
PER (H/L) (x)	69.1/39.4	19.9/7.8
EPS (KRW)	569	2,068

Starting the year 2004 strongly at KRW37,000, HHI's share price fluctuated throughout the year and hit a low of KRW22,000 on August 4th, but thereafter, rebounded and ended the year at KRW34,450. Entering 2005, HHI's share price has continuously increased on the expectation of improvements in profitability and in market conditions.

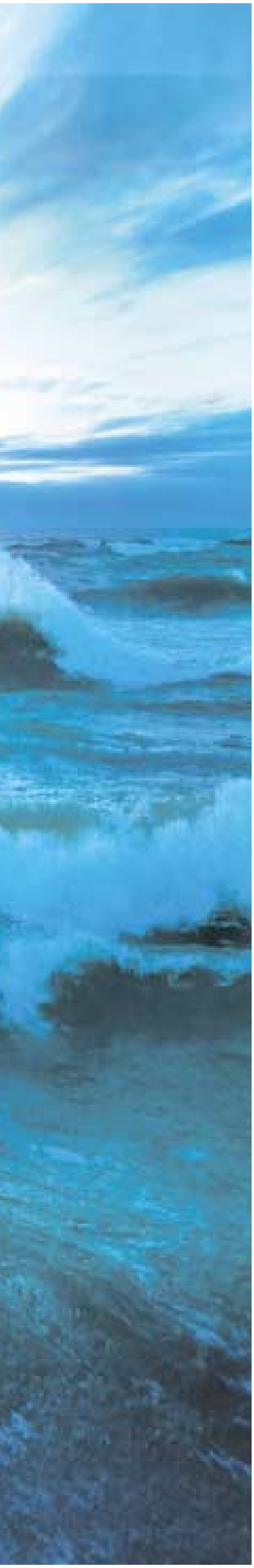
In 2005, the Korean stock market is expected to remain bullish after exceeding the Korea Composite Stock Price Index (KOSPI) 1000 point level. As Korea's securities market is generally reckoned to be under-valuated, many foreign investors are interested in buying Korean securities. Shares in the shipbuilding business are expected to be particularly bullish due to brisk growth in the shipbuilding and shipping industries.



Shareholder Structure
(%)

Shareholder Structure

Category	No. of Shares	Proportion (%)
Mong-Joon Chung	8,210,005	10.80
Kumgang Korea Chemical Co., Ltd.	6,190,410	8.15
Hyundai Mipo Dockyard Co., Ltd.	4,332,046	5.70
GIS-Prudential Assurance Ltd.	2,204,820	2.90
Hyundai Motor Company	2,190,000	2.88
Treasury Shares	11,506,544	15.14
Others	41,366,175	54.43
Total	76,000,000	100.00



Strategy in Focus

Our five-point strategy guides the Group's major business decisions. Every partner and employee works with the knowledge that these five goals are the basis on which we conduct our day-to-day activities.

OUR LATEST MID- AND LONG-TERM STRATEGIES ARE SUMMARIZED BELOW:

1. Optimize Business Structure
   - Make existing business sectors more competitive, advanced and profitable
   - Secure strong positions in sectors with sizable markets and high growth prospects
   - Venture into new businesses utilizing core competencies and liquidate low-profit marginal businesses
2. Maximize Global Sales Competitiveness
   - Secure production, sales and R&D centers
   - Establish head offices in regional bases
   - Open up global networks between the headquarters and bases and between bases
3. Advance Existing Technologies
   - Enhance competitive edge of major products by developing core and state-of-the-art technologies further
   - Strengthen our system engineering capacities
   - Build our global R&D network
   - Enhance partnerships between R&D centers and field businesses
4. Provide Efficient Production Systems
   - Increase efficiency of existing facilities
   - Improve quality and productivity through automation and effective use of facilities
   - Create efficient and integrated production management systems
5. Innovate Business Operation Practices
   - Expand outsourcing businesses and projects with low added value
   - Maintain flexibility in utilizing facilities, employees, and financial resources
   - Forge strategic partnerships

HHI is committed to enacting and achieving these visions and strategies, while pursuing fair and transparent management principles. In the near future, following the ambitious vision embodied in the slogan, 'Global Leader: Sailing into a brilliant future,' we will stand tall as a global leader of heavy industries. We are developing and improving our current management principles and corporate culture, in response to changing environments in the 21st century. Watch how HHI's dynamic future will unfold and expand over the next few years.

Global Leader :

Sailing into a Brilliant Future

Hyundai Heavy Industries (HHI) makes history.
We have set records and are drawing a big picture of the future.
From a small-scale shipbuilder,
we have become a leader in the global heavy industries market.

'Global Leader: Sailing into a brilliant future'

HHI intends to continue on its upward trajectory towards becoming the world's leading company in the heavy industries field.

To be the 'Global Leader' is our ultimate goal. As a front-runner in the industry, our outstanding products and services will allow us to stay one step ahead of the others in the field. Our founding philosophy of creating something out of nothing is enshrined in the phrase, 'Sailing into a brilliant future,' which means that we cherish and nurture the spirit of challenge. This spirit has brought us incredible growth and will take us to the top as the global leader in our industry.

We will do our best to ensure that the needs of our customers are fully met, our employees are fairly rewarded for their efforts and our shareholders are satisfied with the Company's increasing value. To accomplish these, we will hone our services and technologies to exceed international standards, produce value-added products, and exploit profitable businesses.

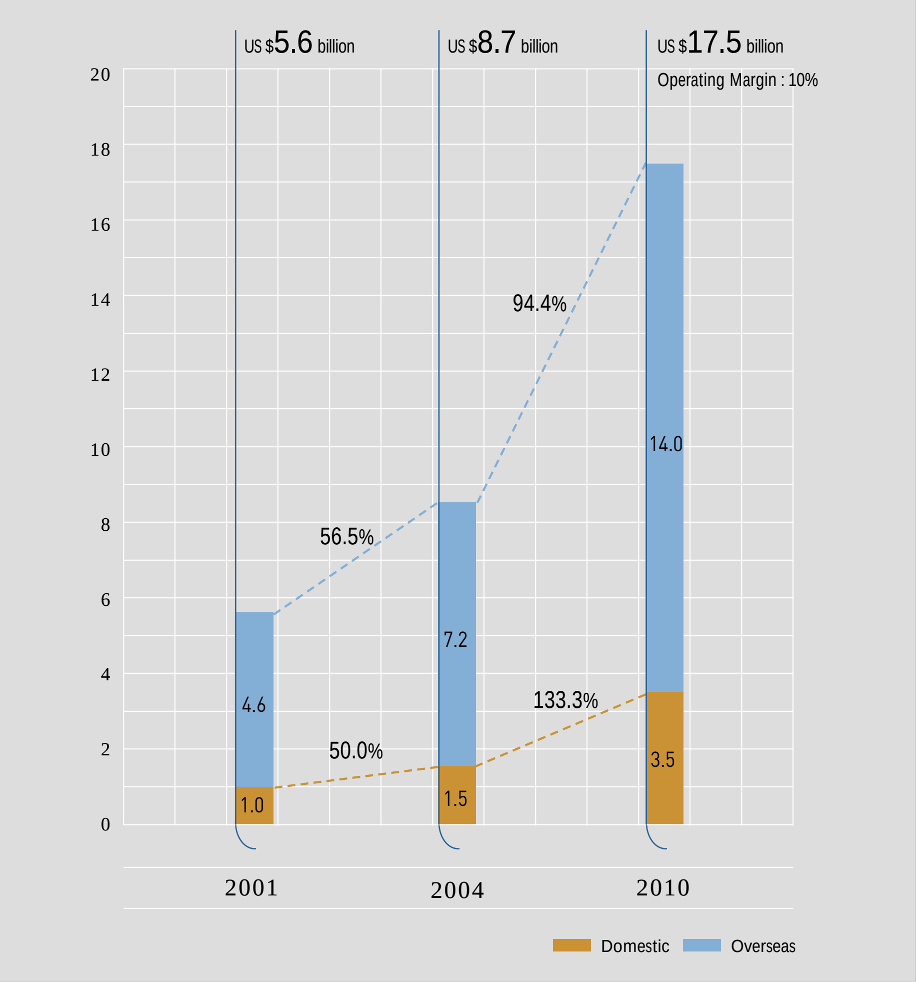
The following are the targets that HHI aims to achieve by 2010:

Our goal is to reach US$17.5 billion in sales by 2010 from US$8.7 billion in 2004 and we are aiming to increase our operating profit margin to 10% utilizing sales and management strategies centered on profitable businesses.

In addition, we plan to lower our dependence on shipbuilding to 36% from the current 50% by 2010, while focusing more on other core businesses, such as Offshore & Engineering and Construction Equipment. In taking these measures, HHI aims to build a more stable business structure.

HHI's Long-term Revenue Goals

With a clear target of reaching US$17.5 billion in Sales with 10% in operating margin in 2010, Hyundai Heavy Industries is well on the way to a brighter future.



Message from the CEO

In this adverse environment, we were able to weather the storm and overcome all difficulties and even strengthen our presence as a global leader in the industry as a comprehensive company in heavy industries.

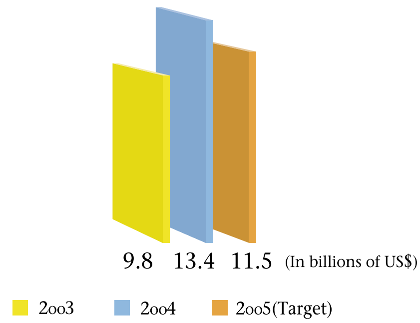
As we look back on each of the last 12 months of 2004, what strikes us most is that although it was another eventful year for Korea and the Company, it was also a defining year for us at HHI. The economic conditions were very challenging to the point where we had to declare a management emergency, due to hikes in oil and raw material prices, strengthening of won against the US dollar, sluggish domestic demand, and consequent lack-luster investment.

In this adverse environment, we were able to weather the storm and overcome all difficulties and even strengthen our presence as a comprehensive heavy industries leader. This was all made possible by the support and encouragement of our shareholders and the concerted efforts of the employees.

In addition, based on a stable foundation of labor-management relations, we achieved zero labor disputes for the last decade. The sending of a thank-you letter by the head of our labor union to ExxonMobil, one of our ship owners, is proof of how well the labor and management of HHI cooperate and understand each other. It also serves as an excellent example of a desirable labor-management culture.

In 2004, the Company received US$13.4 billion in new orders, an exceptional 36.5% increase year-on-year. Meanwhile, although total sales were KRW9,084.5 billion, an 11.4% increase from 2003, part of a stable growth trend, our operating income was in the red by KRW98.1 billion due to some unexpected factors such as the increases in raw material prices and the sharp appreciation of won against the US dollar. However, due to a

New Orders



Hyundai Heavy Industries has set a target for new orders at US$11.5 billion, set slightly lower than last year's level, due to the current large backlog.

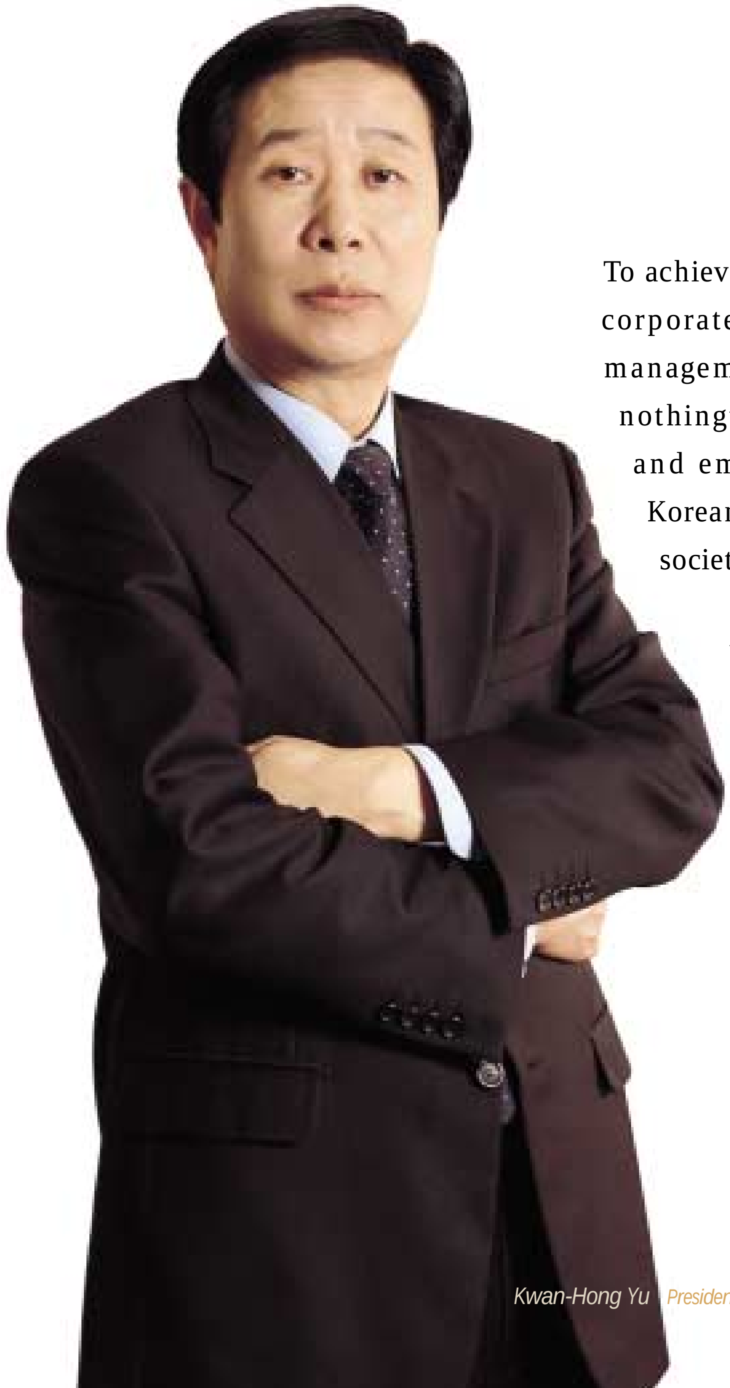
considerable increase in gain on valuation of investment securities accounted for using the equity method worth KRW162.8 billion, we recorded KRW55.5 billion in ordinary income with KRW36.7 billion in net income.

One doesn't need a team of economic experts to predict that conditions in 2005 are going to be more challenging than those of last year. To secure a competitive edge even in these harsh circumstances, the Company has set a new sales target of KRW10,164.8 billion, up 11.9% from 2004, while reducing the target for new orders by 14.2% to US$11.5 billion, due to the current large backlog. We will allocate KRW265.0 billion to capital expenditure and target the investment towards sectors that make direct contributions to sales and to those that generate greater income. We will also invest KRW137.9 billion into R&D activities, a 23.6% increase from the previous year to add to our competitive edge through technological superiority.

Keh-Sik Min Vice Chairman & CEO/CTO

Message from the CEO

All of our achievements can be attributed to the continuous support and encouragement of our shareholders, customers, and employees.

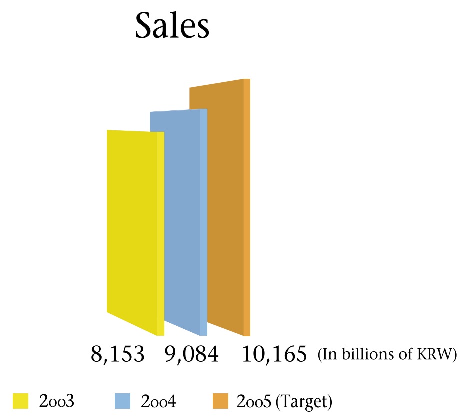


Kwan-Hong Yu | President & CEO

To achieve our new goals, we plan to adhere to the following corporate philosophies that portray an optimal type of management: ‘Management that creates something from nothing’; ‘Management that brings hope to shareholders and employees’; ‘Management that contributes to the Korean economy’; and ‘Management that serves human society’.

We have long been recognized as the world’s best shipbuilder and engine manufacturer. Our Construction Equipment Division, though a late-comer to the market, has laid a stable foundation for growing into a world-class construction equipment manufacturer by reaching KRW1 trillion in sales in such a short period. In addition, the Company successfully carried out a number of ground and offshore construction projects and client response was very favorable.

Although we are proud of what we have



To secure a competitive edge despite the difficult circumstances,
Hyundai Heavy Industries has set a new sales target of KRW10,165 billion, up 11.9% from 2004.

achieved so far, our constructive discontent with our successes drives us to challenge ourselves to do even better. In order to take a fresh leap forward to make HHI a great company, we will spare no effort, while utilizing all the resources and knowledge at our disposal.

All of our achievements can be attributed to the continuous support and encouragement of our shareholders, customers, and employees. Our outstanding performances in 2004 were made possible because we joined together and made ceaseless efforts to rise above the difficulties.

In closing, we would like to express our appreciation for your continued support on behalf of the Company and we look forward to meeting the challenges and opportunities of 2005. We wish you and your families the best of luck and happiness in a brighter future with HHI.

Thank you.

Keh-Sik Min Vice Chairman & CEO/CTO

Kwan-Hong Yu President & CEO

Paving the Way to Greater Success

February

- Industrial Plant & Engineering Division won US$420 million contract from Aramco of Saudi Arabia to build 1,050MW cogeneration power plant.

March

- Construction Equipment Division participated in BAUMA 2004 Exhibition held in Munich, Germany from March 29 to April 4. During the week-long exhibition, HHI received orders worth about €32 million and named seven of its local dealers as top performers.

April

- Industrial Plant & Engineering Division received KRW104.8 billion order to build two units of 100MW power generation equipment from Korea Southern Power Co., Ltd. (KOSPO)

- Shipbuilding and Offshore & Engineering Divisions were awarded US$350 million contract by BP Angola to build FPSO.

- Industrial Plant & Engineering Division formed a partnership with a Chinese company to set up a boiler factory in the area of Yantai, China.

- Construction Equipment Division was awarded a €1.3-million order from the Hellenic Olympic Committee to supply 98 forklift trucks for Athens 2004 Olympics. The forklifts were used at logistics sites near the Olympic stadium.

- Offshore & Engineering Division received US$600 million order from India's state-owned ONGC for MUT Submarine Pipeline Project.

- Electro Electric Systems Division supplied the main components for the new Korean bullet train, Korea Train Express (KTX).

- Engine & Machinery Division produced the world's largest marine propellers at 106.3 tons and 9.1m in diameter.

In 2004, HHI worked tirelessly to achieve the best in all of its six divisions. HHI has received many awards and recognitions along the way by producing world-class products by a world-class team with common goals.

June

•• Engine & Machinery Division's medium-speed diesel engine was designated as a "world-class product" by the Korean Ministry of Commerce, Industry and Energy for 2004.

October

•• Shipbuilding Division won US$1.5 billion order from BP Shipping Ltd. for eight 155,000m^3 LNG carriers. (including 4 options)

November

•• Shipbuilding Division won an order to build the world's largest 216,000m^3 LNG carriers from the US-based Overseas Shipholding Group (OSG).

December

•• The Construction Equipment Division recently received an order for 249 equipments from PLC of Iran. The US$18 million worth order includes a total of 249 construction equipments including 160 units of R170W-7 excavators and 89 units of HL757-7 wheel loaders.

August

•• Electro Electric Systems Division successfully tested high-voltage SF6 gas circuit breaker for the first time in the world.

•• Offshore & Engineering Division successfully loaded out and delivered a 105,000-dwt crude oil tanker built using the 'On-land Building Method' without dry docks.

•• Construction Equipment Division gained a GD (Good Design) mark for excavators R555-7 and HL770-7.

•• Electro Electric Systems Division developed an electric motor for commercial hybrid vehicles.

•• Offshore & Engineering Division won US$150 million contract for Korea National Oil Corporation's Rong-Doi-Tay Gas Field Development Project in Vietnam.

••Construction Equipment Division maintained its leading position in the Chinese excavator market for three consecutive years.


Profitable

Sales Revenue

9,084.5

In billions of KRW

New Orders

13,402

In millions of US$

Order Backlog

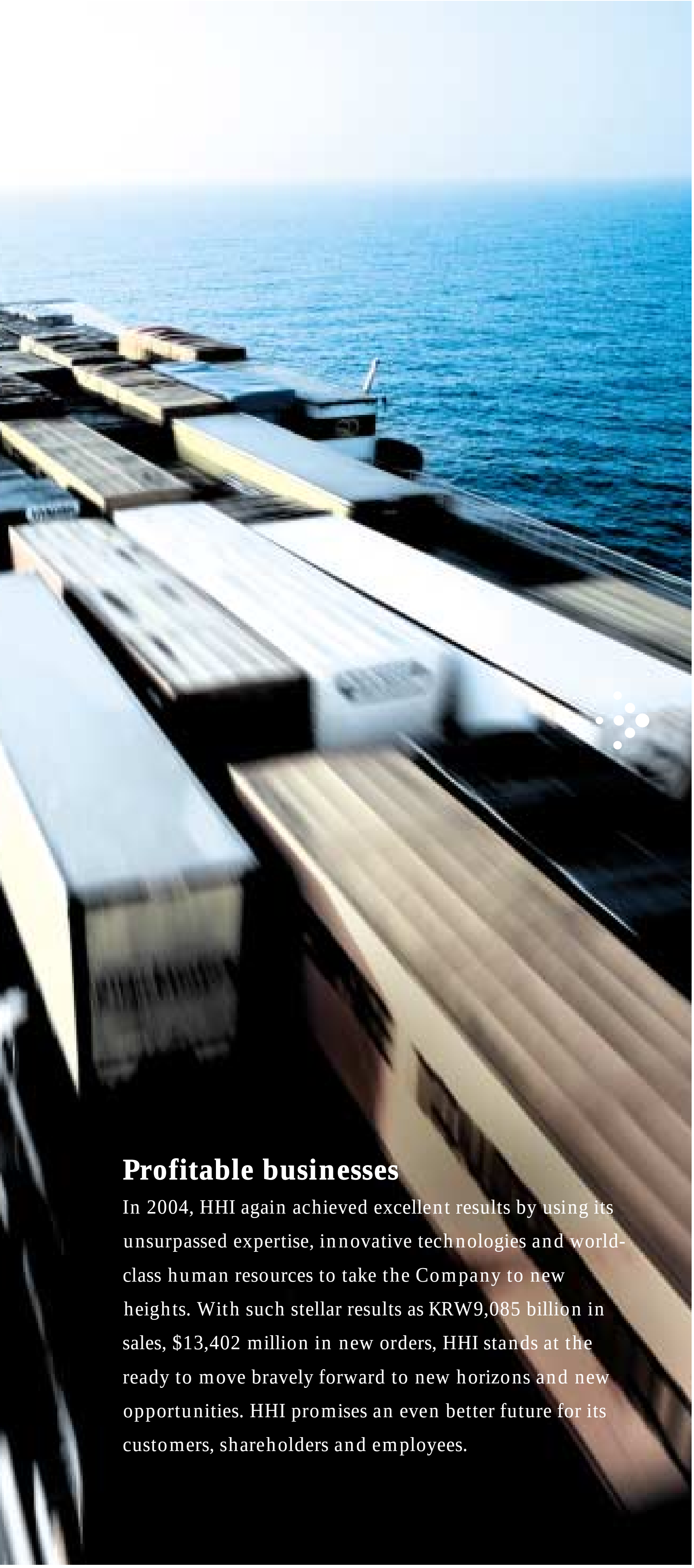
18,388

In millions of US$

Excellence

Excellence is a way of life at HHI, and we hold this value high in all our endeavors. Whether for customers, shareholders, employees or the community, we always aim to provide the best.

Profitable Businesses



Profitable businesses

In 2004, HHI again achieved excellent results by using its unsurpassed expertise, innovative technologies and world-class human resources to take the Company to new heights. With such stellar results as KRW9,085 billion in sales, $13,402 million in new orders, HHI stands at the ready to move bravely forward to new horizons and new opportunities. HHI promises an even better future for its customers, shareholders and employees.

Sales Revenue

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In billions of KRW

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HHI Business at a Glance

As the world's No.1 shipbuilder, the Shipbuilding Division is capable of building all types of ships to meet various demands from its clients with its nine large-scale dry docks and six huge Goliath Cranes. Established in 1972, HHI's Shipbuilding Division has continued to set new records in the shipbuilding industry, while becoming the leading player in the global shipbuilding industry.

The Offshore & Engineering Division has played a major role in the energy industries of the world. Since being launched in 1976, the Division has completed more than 150 projects for over 30 global oil and gas developers including ExxonMobil, BP, and Shell. Through its own R&D efforts, the Division has strengthened its presence in the world's offshore markets, and has expanded facilities investment, improved technological prowess, and boosted project management capacity.

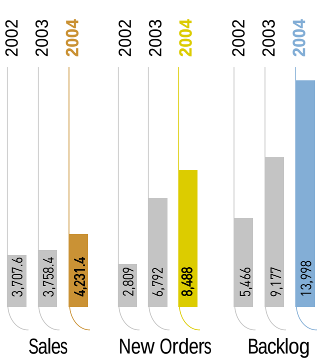
The Industrial Plant & Engineering Division is credited as being an extremely reliable EPC (Engineering, Procurement, and Construction) contractor for turnkey industrial plant projects in power generation, desalination, and oil & gas. By combining accurate and sophisticated fabrication technologies and wide experience in industrial plant projects with EPC, the Division makes utmost efforts to meet the demands of customers worldwide.

Sales Proportion by Division

Shipbuilding

Major Products

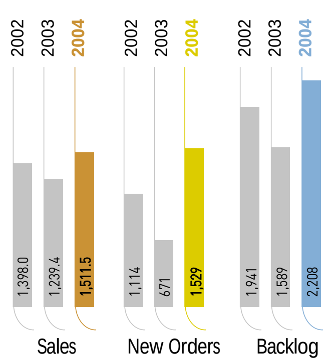
- VLCCs, Tankers, Product Carriers, Chemical Tankers
- Containerships, Bulk Carriers, OBO Carriers
- Ro-Pax Ships, Ro-Ro Ships, Pure Car Carriers
- LNG Carriers, LPG Carriers
- FPSOs
- Submarines, Destroyers, Frigates

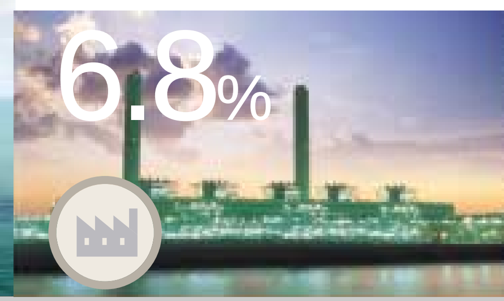


Offshore & Engineering

Major Products

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

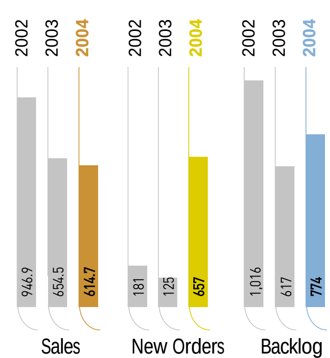




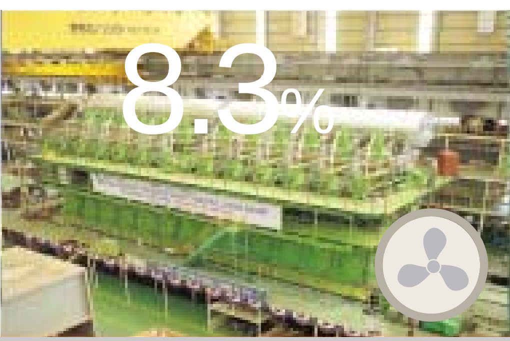
Industrial Plant & Engineering

Major Products

- Power Plant
  (Combined Cycle, Co-Generation, Thermal Power Plants)
- Desalination Plant
  (MSF (Multi Stage Flash) Type, MED (Multi Effect Distillation)
- Oil & Gas Plant
  (Oil & Gas Facilities, Gas Processing Facilities, Refinery Facilities, LNG Plants, GTL (Gas to Liquids) Plants)
- Others
  (Industrial Boilers, Large Vessel & Reactors, Heater Exchangers)



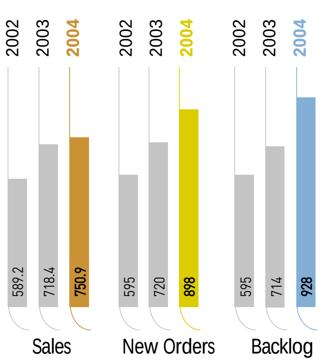
The Engine & Machinery Division is the world's largest marine diesel engine manufacturer with a 35% share of the global market. The Division developed Korea's first in-house medium-speed diesel engine, the Hyundai HiMSEN, which was named one of 'Korea's Top Ten Technologies' by the Korean government. With state-of-the-art precision processing facilities, the Division is a top contributor to HHI's enhanced competitiveness in the shipbuilding industry.



Engine & Machinery

Major Products

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

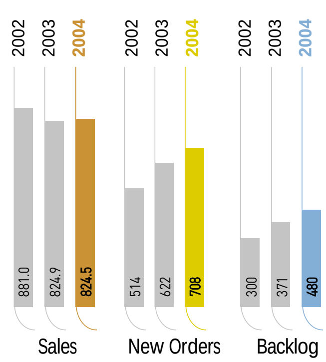


The Electro Electric Systems Division has established a well-functioning global network that covers R&D, design, and production. The Division not only provides electro-electric hardware and software products as well as comprehensive solutions from everyday electrical supplies to high-tech industrial services, but has also developed such ground-breaking products as the largest transformers and generators in Korea.

Electro Electric Systems

Major Products

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



The Construction Equipment Division is well-equipped for producing high-quality construction equipment, with an automated state-of-the-art production system, an accurate quality control system, and a technological development system that relies on heavy investment. With 412 dealer networks worldwide in 90 countries, the Division aggressively conducts sales activities through local firms in the US, Europe, and China. In construction and logistics, HHI is well known for its outstanding quality.

Construction Equipment

Major Products

- Excavators
- Wheel Loaders
- Forklifts
- Skid Steer Loaders

SHIPBUILDING

Due to the boom in the shipbuilding market, the Shipbuilding Division received the highest-ever new orders, consolidating its strong competitiveness as the world's No. 1 shipbuilder.

Business Environment

The overall shipbuilding market moves in accordance with international trade conditions and is affected by fluctuations in the shipping industry. Competition from local and Japanese shipbuilders has become more intense, and the Chinese and other newcomers, while taking advantage of low wages, have increased production capacity and expanded share in the world's new building market. With the world economy turning toward recovery, ship owners have felt pressure to increase investment in shipbuilding due to the increasing quantity of containers transported, especially to and from China, the reinforced environmental regulations on ships, and the rising demand for LNG as a clean energy.

Major Initiatives in 2004

Due to the boom in the shipbuilding market, the Shipbuilding Division received new orders in 2004 for 104 ships or 6.9 million GT, amounting to US$8.5 billion. This total easily outpaced the US$6.8 billion of 2003, a record high at that time, and completely overshot the Division's target for new orders by 189%, set at US$4.5 billion at the beginning of 2004. This outstanding performance was made possible by the increase in demand due to the recovering world economy and further economic growth in China. Additionally, the Division used its strong competitiveness as the world's No. 1 shipbuilder to its advantage, while focusing energy and resources on upgrading ship quality and customer service, thereby enhancing customer trust and confidence.

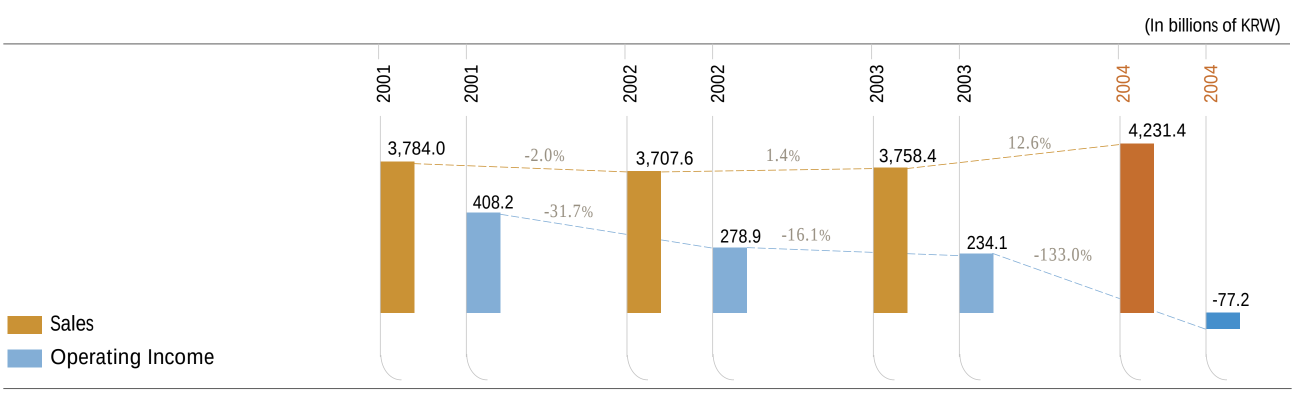
In 2004, the Division received orders for 55 containerships, 17 tankers, 13 LPG carriers, 12 LNG carriers, two pure car carriers, one FPSO and four special and navel vessels, while pursuing new orders for its mega-size 216,000m^3 LNG carriers. This record-breaking number of new orders contributed to HHI's current and largest ever backlog 213 ships or 14.8

million GT, worth US$14.0 billion. This backlog will contribute to a stable workload for the next three years.

Prospects and Strategic Directions for 2005

The favorable conditions in the global shipbuilding market of last year are expected to continue this year, with further demand for new ships and additional increases in shipbuilding prices.

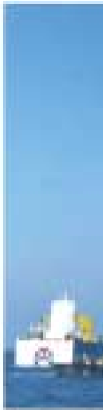
Due to the current stable backlog, the Division has lowered its target for new orders in 2005 by 35% from 2004, to US$5.5 billion. The Division will focus on strategically securing profitability with such high value-added ships as VLCCs, large-size containerships, and LNG carriers. In closely monitoring its markets, the Division is able to respond effectively to rapid changes by efficiently shaping its marketing strategies to take advantage of new trends.



OFFSHORE & ENGINEERING

Our Offshore & Engineering Division won a number of new orders during 2004 while successfully completing large-scale projects using its state-of-the-art technologies.





Business Environment

The Offshore business constructs and installs oil & gas field development facilities and market demand varies depending on energy consumption rates and oil prices. Recently, as oil production has moved from onshore to offshore and from shallow to deeper seas, the size of the global market has expanded. The world offshore oil development market amounted to US$55 billion as of 2004 and this is expected to grow steadily, due to continuing oil price hikes, and increasing offshore oil and alternative energy development.

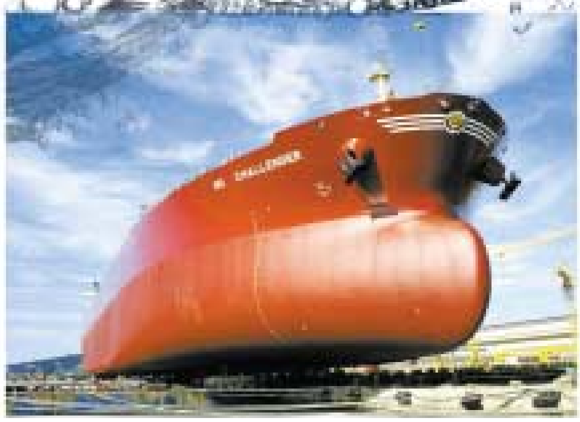
Major Initiatives in 2004

Due to hikes in global oil prices during 2004, the Offshore & Engineering Division witnessed an increase in new orders. Major contracts included a project to build an FPSO from BP Angola, an MUT Submarine Pipeline Project from India's Oil and Natural Gas Corporation (ONGC), a Sakhalin Project and Nigeria's East Area Platform Project from ExxonMobil, and a Rong Doi Tay Gas Field Development Project in Vietnam from Korea National Oil Corporation (KNOC).

Overall, the Division received new orders totalling US$1.5 billion, up 127.9% from the previous year, and recorded KRW1,511.5 billion in sales, up 22% over 2003.

The Division successfully completed and delivered an FPSO, the Kizomba-A, ordered by ExxonMobil in 2001, to the sea of Angola in 2004. Weighing 81,000 tons and capable of producing 250,000 barrels of oil per day, the FPSO was put into service producing crude oil in an oil field 380km west of Angola in waters 1,200m deep. In addition, the Division made successful deliveries to Huizhou Wellhead Platform project of China's CACT-OG, Sabratha project of Libya's AGIP, and MSP Platform project of India's ONGC.

The Division also received an order for 16 crude oil tankers: 10 ships for the Russian shipping company, Novoship, four for Canada's Teekay, and two for Qatar's QSC, which will be built on land using HHI's 'On-land building method,' instead of in conventional dry docks. Indeed, in successfully loading out and delivering a 105,000-dwt crude oil tanker

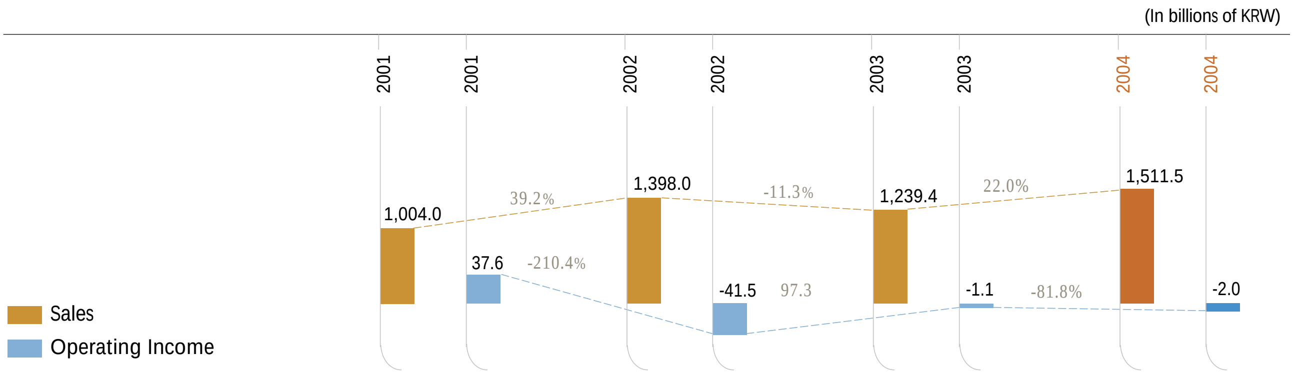


(COT) built on land without using dry docks, to Novoship, the Company opened a new chapter in the world's shipbuilding industry.

Prospects and Strategic Directions for 2005

The mid- to long-term prospects for the offshore industry are forecast to be bright since oil companies world-wide are expected to make heavy investments in the fields, encouraged by brisk R&D efforts in offshore oil production and alternative energy development, fueled by continuing oil price hikes and a rise in energy demand.

For 2005, the Offshore & Engineering Division has set a target for new orders of US$1.7 billion and for sales of KRW1,457.7 billion. In order to reach these targets, the Division plans to upgrade its capabilities in project management, design/engineering, and procurement and fabrication, thereby maintaining its leading role in EPIC (Engineering, Procurement, Installation, and Construction) for FPSOs, fixed platforms, and semi-submersibles. In addition, the Division will actively participate in a variety of promising projects, including subsea pipeline and installation projects.



INDUSTRIAL PLANT & ENGINEERING

With its technological prowess and wealth of experience accumulated over several decades, the Industrial Plant & Engineering Division has successfully completed a variety of turnkey projects.



Business Environment

Overseas industrial plant construction markets have recently been in a rapid recovery as countries in the Middle East, South Africa, and the BRICs(Brazil, Russia, India, and China) have increased investments in industrial infrastructures. In the Middle East in particular, high oil prices have led to construction or expansion of industrial plants in the oil and gas, petrochemicals, and and refinery fields. Intensive investment has also been made in combined power generation plants, desalination plants, and environmental facilities, once again making the booming Middle East region a major client of the high value-added plant industry.

Major Initiatives in 2004

The Industrial Plant & Engineering Division, with its technological prowess and wealth of experience accumulated over several decades, has successfully completed a variety of turnkey base projects. In 2004, the Division recorded US$657 million in new orders, up 425.6% from 2003, and KRW614.7 billion in sales, a 6.1% decrease from KRW654.5 billion in 2003.

In terms of power plants, the Division won a contract worth US$420 million for a 1,050MW cogeneration power plant from Aramco of Saudi Arabia, which will be the largest power plant project ever built by the Division on a turnkey basis. This co-generation power plant will provide electricity and steam for oil and gas refinery plants, in four regions of the Persian Gulf. In terms of oil and gas plants, the Division won a turnkey plant contract from the Shell Petroleum Development Company (SPDC) to construct the Forcados natural gas gathering facility and Bonny Terminal Integrated Project in Nigeria in targeting the African region.

Prospects and Strategic Directions for 2005

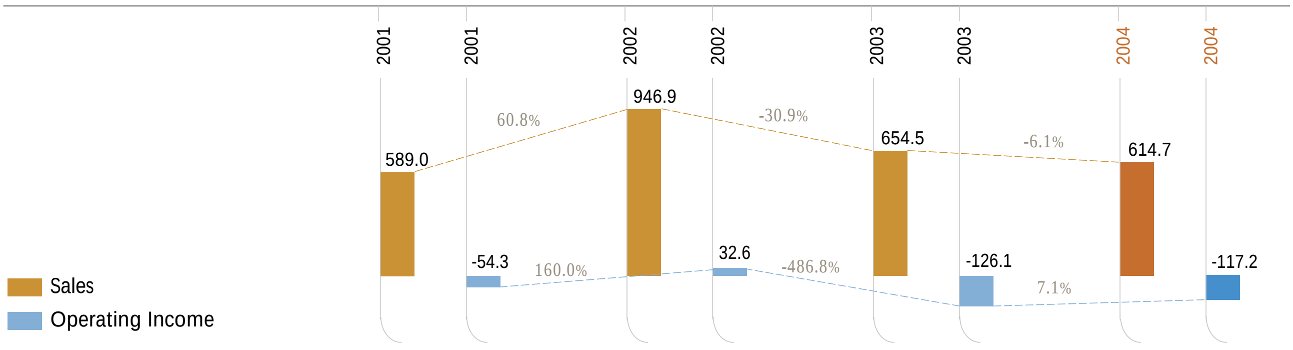
With investment recovering in the oil & gas and power generation equipment markets, the Division has upgraded its goal for new orders to US$1.2 billion, up 82.6% year-on-year and has set a sales target of KRW665.0 billion, up 8% over 2004.

With the availability of surplus funds in the Middle East due to recent high oil prices, investment in power plant construction is expected to recover. Therefore, the Division

will focus on strategic Middle East markets, where a power generation market worth US$10 billion is expected to grow. Due to the rapid growth in population and the aging of desalination plant facilities built in the 1970's and 1980's, improvement or enlargement of facilities in this region will be required and to this end, capital expenditures of US$15 billion is expected over the next 10 years. The Division will focus on winning privately-funded projects and orders to build combined power and desalination plants placed by countries in the Middle East.

As for the oil and gas plant market in 2005, continuing high oil prices are leading oil producing countries and major oil companies to actively develop natural gas by making investments in Gas to Liquid (GTL) and Liquid Natural Gas (LNG) production. Areas with high prospects for future orders, such as Nigeria, southwestern Africa, and the Middle East, are where the Division will focus sales resources, and HHI will make a foray into the LNG and GTL plant business by partnering with high-tech companies or related license holders.

(In billions of KRW)



ENGINE & MACHINERY

The Engine & Machinery Division produced 160 large-size diesel engines with 5.61 million bhp in 2004, an unprecedented performance in the industry.

Business Environment

The performance of the Division corresponds to conditions in the shipbuilding business as well as to the demand for facilities at home and abroad. Following the Erica oil spill incident in December 1999, orders for alternative ships to replace tankers and for large-size containerships have been remarkably growing, increasing the demand for engines. As for machinery, the demand for diesel power plants, industrial pumps, robots and conveyors is expected to rise, as China and countries in the Caribbean Sea and the Middle East expand investment in the related industries.

Major Initiatives in 2004

The Division produced 160 large-size diesel engines with 5.61 million bhp in 2004, an unprecedented performance in the industry. The Division received new orders amounting to US$898 million, up 24.7%, and recorded KRW750.9 billion in sales, up 4.5 % from the previous year. Four products of the Division including large- and medium-size engines, crankshafts, and propellers were each selected as a "world-class product" by the Korean Ministry of Commerce, Industry and Energy, thereby demonstrating once again the superiority of our technologies and the quality of our products. In addition, the Division set a world record by producing the most powerful electronically controlled engines delivering the output of 93,360 bhp and 106.3 tons of the world's largest propellers and sold 600 units of its proprietary engine model, the HiMSEN, in a short period of time.

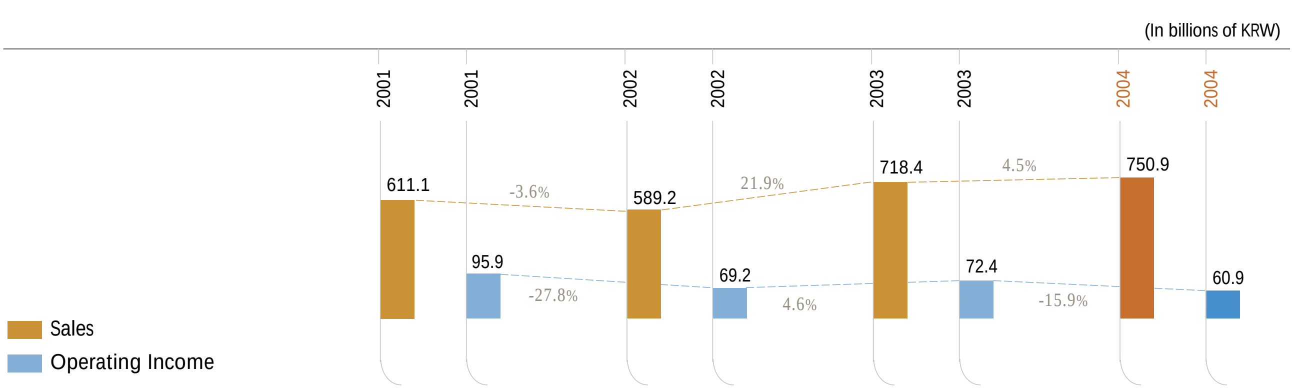
The demand for marine pumps, large-size industrial pumps, steam turbines for LNG use, conveyers, presses, and automation systems steadily increased. In particular, with the export of industrial robots increasing to the US, Europe, India, and Southeast Asia, the Division maintained stable growth with ventures into overseas markets and establishment of a mass-production system.

Prospects and Strategic Directions for 2005

Encouraged by a continuing boom in new building orders especially in large containerships, the Division has set a goal for new orders of US$970 million, up 8.0% year-on-year. The

Division has secured enough orders for marine engines to create a backlog until 2007 and is expected to win a stable amount of new engine orders for 2008 as demand for large containerships and LNG carriers, whose primary source of propeller power is the diesel engine rather than the steam turbine, is expected to grow.

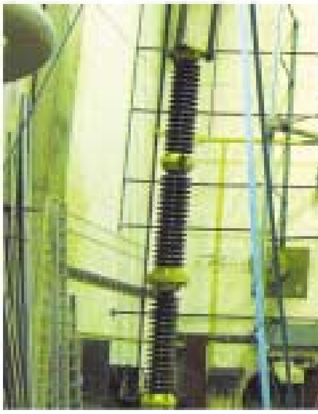
As for onshore power generation facilities using diesel engines, the Division will participate in turnkey projects to build over 50MW-class diesel power plants. Along with stable orders for industrial and marine pumps, the Division also expects an increase in demand for industrial robots as auto manufacturers from China, Europe, and North America have expanded production facilities and investment. The Division also aims to produce 2,000 robots in 2005 and become a 'Global Top 5' company by 2008 by expanding system packaging sales, which include conveyer systems, auxiliary equipment, and presses.



ELECTRO ELECTRIC SYSTEMS

Under sluggish domestic market conditions, the Electro Electric Systems Division weathered the storms and further ventured into overseas market.





Business Environment

The Electro Electric Systems business is largely dependent on the construction industries and capital expenditures of developing countries, and on investment in Korea's SOC (Social Overhead Capital). Domestic market conditions are not fortuitous at the present, due to a contraction of the generator set market as a consequence of weak domestic demand. Nonetheless, the Division expects to see an increase in new orders in overseas markets with the world economy in recovery, as the Middle East, empowered by oil price hikes, expands investment in power generation facilities and improves desalination facilities to upgrade infrastructures. Additional new orders are expected from U.S. facility maintenance upgrades and Chinese plans to develop the country's western regions to attract investment for the Beijing Olympics in 2008.

Major Initiatives in 2004

Although sluggish domestic demand in 2004 depressed the market for power generation equipment, the Electro Electric Systems Division still received US$708 million in new orders, which, though lower than the Division's original target, has helped to establish a foundation for next-generation businesses. To venture into overseas markets, the Division set up a joint-venture factory in China as a second manufacturing base and a U.S.-based corporation in charge of sales. The Division also founded the HEITC (Hyundai Enova Innovative Technology Center) in the U.S. and forged a technological partnership between the existing R&D centers and the technology center in Hungary, thereby implementing a global management system in earnest. In addition, the Division laid a foundation for the development of new products, and new and renewable energy sources.

Prospects and Strategic Directions for 2005

Although the domestic electro electric systems market was beset by a number of difficulties last year due to a drop in the generator set market from weak domestic demand, a recovery is expected from the second half of 2005 with forecasts for economic recovery in domestic markets. Prospects for overseas markets are expected to be bright due to world economic recovery, expanded capital expenditures

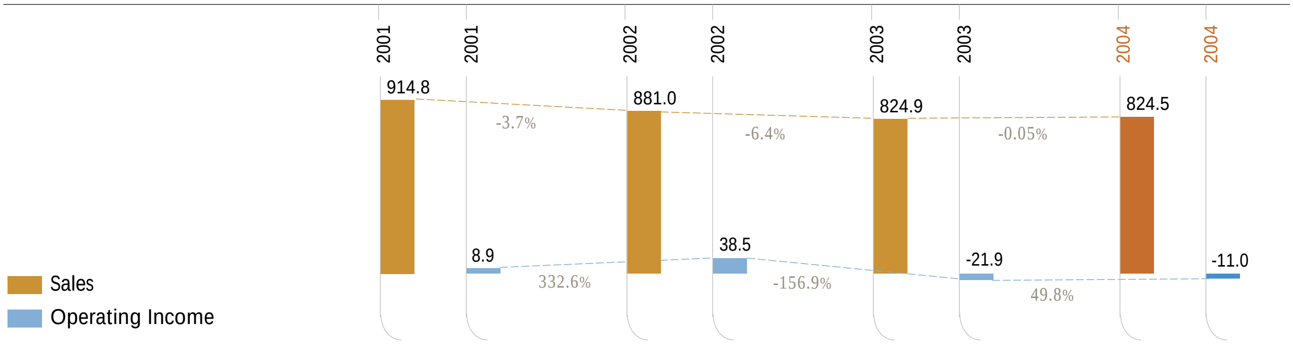
on power facilities in the Middle East encouraged by high oil prices, a power facilities maintenance project in the US, development projects in China's Western provinces, and the 2008 Olympics in China.

As such, the Electro Electric Systems Division has set this year's goal for new orders at US$973 million, up 37.4% year-on-year, and for sales at KRW918.8 billion, up 11.4%. To achieve these goals, the Division has formulated the following strategies: First, the Division will place its highest priority on securing a stable backlog. To this end, the Division established a structural foundation for winning more orders through massive restructuring and operational adjustment at the end of 2004.

Second, the Division will improve profitability with effective cost saving measures.

Third, the Division will lay a stable foundation for growth by securing the core technologies needed for a solar photovoltaic development project slated for commencement in 2005.

(In billions of KRW)



CONSTRUCTION EQUIPMENT

The Construction Equipment Division has continued to grow on a steady basis in overseas markets and implemented various sales strategies tailored for individual markets.

Business Environment

Sales in the Construction Equipment Division are strongly influenced by economic conditions in advanced nations and by investment in SOC. Due to the downturn in the domestic construction industry, sales in construction equipment have decreased, but in the EU, sales are expected to increase due to price competitiveness driven by the strong Euro. Growth in the Chinese market has slowed down since economic retrenchment measures were taken by the Chinese government for a soft landing of the country's over-heated economy. Nonetheless, the government has continued to attract large-scale investment in SOC, in connection with the West Development project and the Beijing Olympics of 2008. The Chinese economy is expected to continue its overall rapid pace of growth until 2010, which should result in a steady stream of new orders for the Construction Equipment Division.

Major Initiatives in 2004

After a rapid increase in sales in the early part of the year, the construction market in China then took a sudden turn for the worse, due to the retrenchment measures taken by the Chinese government. Because of this sudden downturn, the Division's sales trajectory slowed to KRW1,033.5 billion, or 87.6% of its initial target of KRW1,180.0 billion. Nonetheless, the Company's overseas subsidiaries, Hyundai Heavy Industries Europe N.V. in Belgium and Hyundai Construction Equipment U.S.A. Inc. in Chicago contributed outstanding performances to the Company with domestic sales and direct exports leading the way, exceeding their sales targets and proceeding on to an exceptional 22% increase in sales over the previous year, 2003.

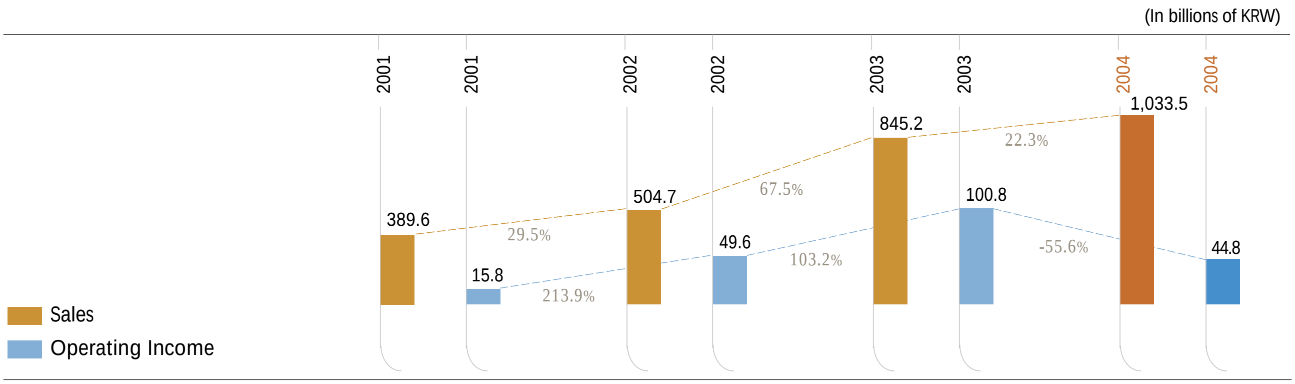
Prospects and Strategic Directions for 2005

Despite the sharp increase in overall sales last year, the Division has set sales goals for 2005 of KRW1,005.0 billion, 2.8% lower than the KRW1,033.5 billion from the previous year, in consideration of the continuing downturn in construction markets in Korea and China, increases in raw material prices, and US dollar depreciation.

As for overseas markets, accountable for 70% of sales, the

Division will take a ‘selection and concentration’ approach to each nation and region. The Division will focus more on increasing sales in the U.S., Europe, and China where market conditions are recovering and will expand the sales base directly into exporting regions by nurturing core dealers in each region. Although the construction market in china, in particular, is currently undergoing a recession, growth potential remains large. The Division plans to promote efficient sales activities there in the mid- to long-term.

The domestic construction market is forecast to remain weak, as it has been since the latter half of last year. In order to overcome such conditions and expand market share, the Division plans to improve profit structures through market price normalization, transform the sales system from the current direct-control one to an agency network, and introduce upgraded models of its main excavators.



RESEARCH & DEVELOPMENT

Our future-oriented, flexible and innovative approach to outputting the world's highest quality products will continue to spread in 2005 as we embrace new high-demand markets to broaden our corporate profile.

Our research and development efforts began in 1982 when we registered our Hyundai Heavy Industries General Research Institute with the Ministry of Science and Technology. Since then, the institute has grown to include the Hyundai Maritime Research Institute (HMRI), the Hyundai Industrial Research Institute (HIRI) and the 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 in our R&D Division strives to develop high value-added ships 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 such countries as the United States and Hungary, which possess advanced high-tech bases, we have built a global technological network that enables us to acquire technologies developed by these countries firsthand. Within the R&D Division, the Technology Management Center was established to conduct strategic technology management, and we regularly expand and improve our R&D infrastructures and recruit and train highly talented human resource personnel to maintain the best R&D environment possible.

In 2005, we plan to allocate KRW138 billion for R&D, which represents an amount equal to 1.4% of our sales target and a 23.6% increase over our 2004 investments in R&D.

R&D Strategies

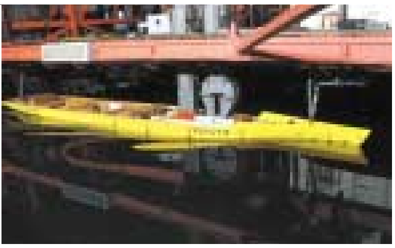
The R&D Division has led technology development efforts, while conducting approximately 1,000 technology development projects each year, helping the Company become a well-equipped leader with the world's best technological competitiveness in the global heavy industries field. The management goal of our R&D Division in 2005 is 'Develop market-oriented optimal technologies'. To reach that goal, we have implemented the following four strategies:

_ Improve our main products to ensure world-class standards
_ Advance core technologies
_ Develop new technologies and businesses
_ Strengthen production technologies to first-class quality

Currently, we have eight products that were selected in the category, 'World-class Product' by Korea's Ministry of Commerce, Industry and Energy and expect to have more than 20 selected by 2010. To accomplish this, our R&D Division together with other divisions, has selected and improved our major products, while developing HHI's own proprietary technologies to improve core technologies and competitiveness. In addition, we are actively developing new technologies and businesses to ensure long-term growth of the company, while undertaking our strongest efforts to improve production technologies for increasing profitability and upgrading quality.

In order to secure technology experts, we operate education programs such as Hyundai Technical College (HTC), Best-Practice initiate program, Short-term Development and Study Course, etc. and have opened the Cyber Learning Center to nurture professionals. We also plan to establish a network of technological professionals at home and abroad and to utilize global technological experts.

Through close communication between the R&D Division and other divisions, we seek to improve the efficiency of our technological developments. We also strive to ensure timely development of core technologies necessary to our business, and commercial technologies essential to our customers, by spurring positive synergies in all areas. Furthermore, we are strengthening cooperation between academic institutes, R&D centers and businesses, as well as the partnership with the




Hyundai-Enova Innovative Technology Center in the U.S.A and the Hunelec Technology Center in Hungary. In addition to our joint R&D system with Hyundai Samho Heavy Industries and Hyundai Mipo Dockyard, these cooperative efforts and strong partnerships help HHI to efficiently develop necessary technologies.

In parallel with the successful implementation of the aforementioned technological development strategies, we are reorganizing our systems so as to enable our R&D investments to lead the Company to further success. For efficient technology development, we are also building a company-wide knowledge-based management system with introduction of the Six-Sigma system for technology development.

_ 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.

Sustainable

No. of Employees

25,958

persons

Environmental Investment

99%

clean fuel rate

R&D Investments

113.2

In billions of KRW

Future

A sustainable future is what drives HHI to act. We continually seek to solidify our platforms and our foundations so as to provide the perfect vehicle for stable growth and better results.

Sustainable Future

Sustainable Future

HHI stands committed to people, the environment, the community, and society. The Company aims to satisfy, improve and sustain the lives of people and the environment. We encourage our employees to take steps towards bettering themselves, have set in place policies to enhance and sustain the environment, and have contributed in a myriad of ways to the betterment of communities and society. Together, we can all make a difference to the world.

No. of Employees
25,958
persons

Environmental Investment
99%
clean fuel rate

R&D Investments
113.2
In billions of KRW

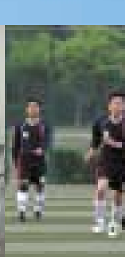
Future

A sustainable future is what drives HHI to act. We continually seek to solidify our platforms and our foundations so as to provide the perfect vehicle for stable growth and better results.

We at HHI firmly believe that human resources are the key to our competitiveness. Our philosophy is that 'although talent may or may not be born, it cannot flourish without strong individual and corporate efforts.'

Hyundai Heavy Industries (HHI) takes its competitive edge from the spirit of its people. Promoting human-centered management systems and policies is part of our strategy towards reaching a more prosperous future, and in line with this, we provide employees with a variety of training opportunities to help them become experts in their fields, as well as welfare programs to improve the quality of life for their families. HHI has also implemented a professional performance-based personnel system to systemically nurture 'Global Leaders.' We encourage our people to develop a clear vision for their future, and run a wide assortment of self-development programs to help them realize their goals and potential. What sets HHI apart is our endeavor to create a positive work environment where employees are encouraged and motivated to reach for their dreams. In addition, we make substantial efforts towards improving the lives of our people with various leisure and cultural programs, and because we take our responsibilities to society seriously, we actively contribute to the prosperity of the community by sharing our welfare facilities with local citizens. HHI continues to search for more ways to enrich the lives of people, communities, and society.

We at HHI firmly believe that human resources are the key factor to our competitiveness, and in line with our philosophy that 'although talent may or may not be born, it cannot flourish without strong individual and corporate efforts.' In order to nurture creative and open-minded experts who can contribute to the development of humanity, HHI established Hyundai Technical Education Institute (HTEI). HTEI's intensive vocational programs provide organized and specialized training to employees about manufacturing techniques, attitudes and safety regulations in workplace, and encourage them to cope with the technical challenges of the global economic conditions. We also founded the Hyundai Technical College and set up the Continuing Education Program in Ulsan College. We also conduct such training and education programs as a 'Junior Board,' an 'MBA course at home and abroad (Global Manager, HHI-MBA,)' and a 'Techno- MBA course,' and provide learning opportunities in foreign countries so our people can develop a better understanding of the world.



The followings are specific programs developed in conjunction with our welfare policies. At the top of our priorities is the enrichment of the lives of our people, as well as the lives of communities.

•• Housing programs

Housing for employees is its highest priority welfare policy. HHI builds or renovates residential buildings for our staff and provides dormitories for singles.

•• Leisure programs

Through the Corporate Welfare Fund, HHI runs leisure facilities and owns condominiums and lets employees who received promotion take leave for self-development.

•• Family support programs

HHI supports the families of its employees with free tuition coverage, as well as with funds to cover daily expenses and other necessities.

•• Physical checkup programs

HHI schedules regular physical checkups for all employees, because we believe that good health is crucial to good living. HHI also provides full or limited coverage of medical expenses to all employees and family members in case of hospitalization and treatment.

•• Others

HHI supports various cultural activities and its welfare centers are open to the general public. HHI also provides special programs for its retirees and for female employees with children.

Employees

As of December 31, 2004

	No. of Employees				Average Working Period (years)
	Administration	Technical & Skilled Workers	Others	Total	
Male	7,599	16,776	183	24,558	17.7
Female	889	341	170	1,400	12.2
Total	8,488	17,117	353	25,958	17.4

HHI desires to create a better society, and has made contributions to education, culture, and sports activities to boost the morale of local residents and strengthen solidarity within communities.

As a good corporate citizen, HHI feels indebted to and wishes to give back to society.

HHI ESTABLISHES CULTURAL INFRASTRUCTURES

Hyundai Heavy Industries (HHI) is located in the city of Ulsan. Since its establishment in 1972, HHI has taken the lead in improving city infrastructures and has helped to

equip the region with the best cultural infrastructures and living environments among local cities. 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. These centers provide large performance halls and galleries in which an average of ten thousand people per day visit to participate in cultural events, hobby classes and sports activities such as swimming, ice skating, bowling, rock-climbing, and racket ball. HHI also built the 5,550 pyong (18,347.2m^2) Hyundai Arts Park to offer a wide range of programs including mothers' college, children's camps, lectures, and cultural events such as writing, drawing, and singing contests. In addition, HHI introduced new programs to develop regional cultures such as a ‘Visiting Classical Concert’ and ‘outdoor movie screening’ and also constructed a splendid outdoor theater so that local citizens can enjoy performances all year-round.

HHI INVESTS IN HEALTH AND EDUCATION

In an effort to boost the morale of local residents and strengthen solidarity within their communities, HHI built six lawn soccer fields in four locations and operates a professional sports team, the Ulsan Hyundai Horangi Football Club. HHI has also extended its services to foreigners by offering language courses to help newcomers better adapt to life in Korea. In addition to its cultural and welfare centers, HHI makes a positive contribution to the educational development of the community with its ownership of five middle and high schools, three kindergartens, and a day-care center for dual-income families. HHI has been involved in notable events of a national scale, such as the 2002 FIFA World Cup. HHI opened six world-class, all-season football pitches, as well as the Hyundai Club House so that the city of Ulsan could host training camps for teams from Spain, Turkey, and Brazil.

•• HHI TAKES CARE OF REGIONAL COMMUNITY

HHI's desire to create better communities extends beyond educational, cultural, and sporting facilities. In response to a growing parking problem, HHI constructed enough parking spaces for 4,500 automobiles in ten locations near HHI facilities. HHI has also continuously supported the underprivileged in the community ever since its foundation. We have provided the necessities of life and food to nursing homes, orphanages, senior citizen's centers and teenagers who support their family. At year-end, women's clubs at HHI hold charity bazaars and with the proceeds, distribute Kim chi (the traditional Korean picked vegetables) or provide free lunch for poor children. In addition, for co-development with the regional community, HHI invited families of employees and 50,000 citizens and celebrated a huge festival.

•• HHI SHARES THE PAIN

Along with heavy equipment, HHI sent a team of engineers to inundated areas such as Gangneung, Gimcheon, Yeongdong, and Gimhae, the most severely-hit areas of the typhoon MAEMI in 2003. HHI donated two 20-ton-class excavators and other construction equipment to Ryongchon, North Korea, the site of a devastating train explosion to aid in the recovery efforts. After the tragic subway accident in Daegu, HHI offered aid for the bereaved families who lost loved ones. The labor union of HHI carried out fund-raising campaigns for the victims and survivors of the South-East Asian earthquake and tsunami.

HHI is committed to playing a pivotal role in conserving and preserving the environment of our precious earth for the sake of future generations.

HHI has a high stake in protecting and preserving the environment. Although our lifestyles and livelihoods depend on the health of the environment, our natural capital is continually being encroached upon, while our heritage and traditions are being threatened or destroyed. To counter these threats, we at HHI follow green policies in all of our operations.

Humanity has witnessed rapid changes and great progress in human activities with the dawn of the 21st century. Changes are occurring at a dizzying pace, and HHI is committed to playing a part in the important task of conserving and preserving the earth's environment. Consumers at home and abroad are becoming more environmentally aware and governments around the world are strengthening environmental regulations. Meanwhile, the number of international agreements on environmental protection is steadily rising, and the global community has given birth to the Green Round, which ties trade to environmental issues.

In this context, corporations are today encouraged to establish 'Green Marketing' strategies. Success in implementing such strategies will be a deciding factor in determining who will survive tomorrow. To this end, Hyundai Heavy Industries (HHI) put in place a certified environmental management system in accordance with ISO 14001 as far back as 1995 and introduced such advanced environmental management tools as the Life Cycle Assessment and the Environmental Performance Evaluation (EPE). Based on the EPE, HHI issues annual Environmental Reports, which are available for viewing on our website (www.hhi.co.kr).

•• Environmental Strategy

For the 21st Century, we have devised a long-term environmental management strategy with two main aims: to comply with the Green Round initiatives and to minimize environmental pollution. Still not satisfied with our present environmental performance, we will continue to drive towards our goal of being 'Among the Top Environmentally Friendly Companies.'

•• HSE (Health, Safety and Environment) Policy

HHI clearly recognizes that health, safety and the environment are not only integral to better management, and ultimately, greater success for our business, but also to the general happiness level of mankind, as well. Therefore, HHI pledges to continually improve on the following activities in order to realize higher standards of living for our employees and to become the global leader in the heavy industries field.

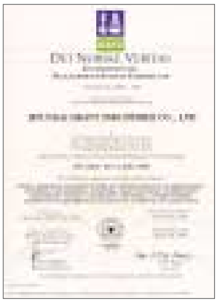
Basic safety and health requirements

- ❏ Continue improvement of safety facilities and working environment
- ❏ Improve prevention system to reach goals of zero accidents and no diseases
- ❏ Increase education and training on accident prevention and health promotion
- ❏ Apply and enforce strict internal regulations based on legal requirements

Environmental Technology Development and Pollution Prevention Program

- Develop energy-saving and environmentally friendly products
- Introduce cleaner production technologies, environmental pollution prevention activities
- Implement international agreements and closely follow legal requirements
- Publish periodic environmental reports

HSE Certificate

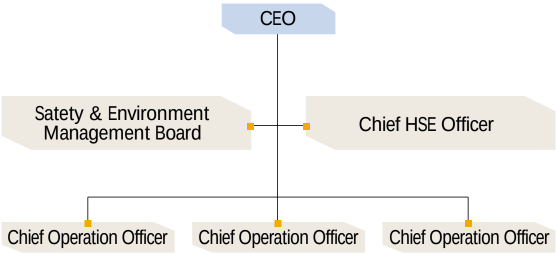


a) Acquired ISO 14001 Environmental Management System Certification from Det Norke Veritas. (March, 1997)

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

Environmental Management Activities

Environmental Management System and Organization



In accordance with ISO 14001, we formulated three levels of environmental management standards: manual, procedures and sub-procedures. Having obtained an ISO 14001 certificate from the certification body DNV in order to guarantee the clarity and objectivity of the EMS, HSE management systems were integrated after acquiring OHSAS 18001 certification. For efficient and systematic environmental management, our environmental organization consists of a “Safety and Environment Department” and a “Safety and Environmental Management Board,” which are overseen by the Chief Executive Officer and the Chief HSE Officer. The Department and Board are connected to each business division, and to prevent and cope with environmental accidents and to save energy, the “Environmental Pollution Prevention Center” and the “Energy Saving Committee” were established to fulfill important roles in HHI’s environmental management activities.

Environmental Audits and Regular Inspections

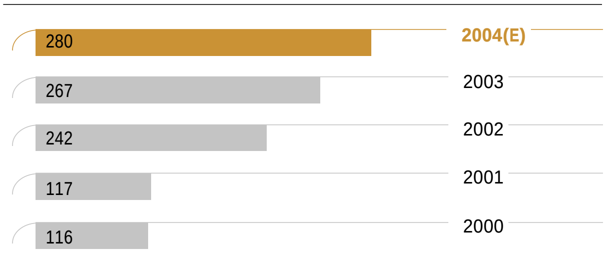
We perform internal environmental audits twice a year not only to prevent environmental problems and potential environmental hazards, but also to improve the environmental management system. To maintain ISO 14001 certification and to evaluate environmental management objectively, we undergo periodic audits or renewal audits from a certification body every year. Regular environmental inspections are implemented by the line organization, Safety Section, after integration of the Safety and Environment organizations.

Environmental Investment

Since 1997, we have replaced old fuel consumption facilities with clean fuel consumption ones to save energy and reduce air emissions, and the present clean fuel rate is at 99%. Through environmental cost evaluations performed according to 'Green Accounting' standards, we will give priority to efficient environmental investments to aid environmental preservation and save on future environmental costs.

Environmental Cost Increase

unit: Increased rate compared of 100 of 1998 (%)



Environmental Education and Training

Each year HHI has provided training and education on the environment to raise awareness and to improve the skills and knowledge of those in charge of the environment agenda. Through courses such as the LCA (Life Cycle Assessment) and the DfE (Design for Environment), HHI has focused on the environmental education of its people.

Resources and Energy Saving

HHI is working to change the focus of its environmental operations from an "end-control" approach to a "reduction-at-source" approach. Although energy and chemical use have increased this year, due to factory automation and installation of new energy-consuming facilities such as furnaces, water and hazardous chemicals saw gradual reductions in use.

Air Emission Control

To protect air quality, we set our environmental air emission standards at a rate 50% stricter than the legally required rates. We are making stringent efforts to reduce our emissions through the use of clean fuel and the installation of air pollution control equipment.

Wastewater Control

According to the standards of the Korean Water Quality Act, our wastewater generation is relatively small, with HHI rated as a third-level wastewater generation company with a very low pollutant concentration level, made lower by our own water pollutant standards that are 50% stricter than the legal requirements. Through wastewater reuse and by using more advanced wastewater treatment systems, we plan to build a zero discharge system by 2010.

Solid Waste Management

We are working on reducing waste generation and improving our recycling rate by operating a resource recycling shop and a waste incineration plant.

Environmental R&D

We operate three research institutes under the R&D Division and develop applications for environmentally friendly technologies, such as alternative energies, low flue gas emission engines and environmental analysis technologies.

Environmentally Friendly Design and Products

We have applied the LCA (Life Cycle Assessment) to our design and production processes to reduce the environmental load of our products and to actively conform to international environmental standards. In the near future, we plan to utilize our own environmentally friendly design and production tools, which have been designed to fit the specific characteristics of heavy industry.

•• Environmental Performance Evaluation

HEPEM and Results

We have developed our own environmental performance evaluation method: HEPEM (HHI Environmental Performance Evaluation Method), which takes into consideration the main characteristics of the heavy industry, while evaluating environmental performance using an EPE method that is applicable to HHI's unique situation.

Management Performance

To measure environmental management performance, 23 performance indicators have been compiled from four categories: EMS (environmental management system), organization management, environmental cost, and stakeholders' relationship.

Operational Performance

To measure environmental operational performance, 20 performance indicators were tallied from four categories: resource and energy use, air emissions management, wastewater management, and waste management.

Environmental Conditions

To evaluate environmental conditions, nine environmental condition indicators were used, with inshore seawater quality and local atmosphere air quality being the main categories for evaluation.

Environmental Quality of Community

HHI is located in Bangeojin, Ulsan, on the southeast coast of Korea, and we make every effort to protect ocean ecology. To prevent sea pollution, HHI has divided the adjacent sea into 14 areas for 'Sea Pollution Prevention Responsible Management' and has implemented regular emergency contingency drills and prevention activities to cope with various sea and air pollution emergencies.

•• Social Relationship

Decades ago, Ulsan was branded as a polluted city, but environmental conditions in Ulsan have now improved greatly due to the continuing efforts of citizens and the industrial sector. HHI has contributed with various environmental conservation activities and environmental campaigns. We take our responsibilities to the environment and our communities seriously.

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

Board of Directors

(As of Mar. 18, 2005 after the General Shareholders' Meeting)

Directors

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

Kwan-Hong Yu
- President & CEO

Jae-Sung Lee
- Senior Executive Vice President and CFO

Outside Directors

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

> Audit Committee

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

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

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

Jae-Sung Lee
- Senior Executive Vice President and CFO
- 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

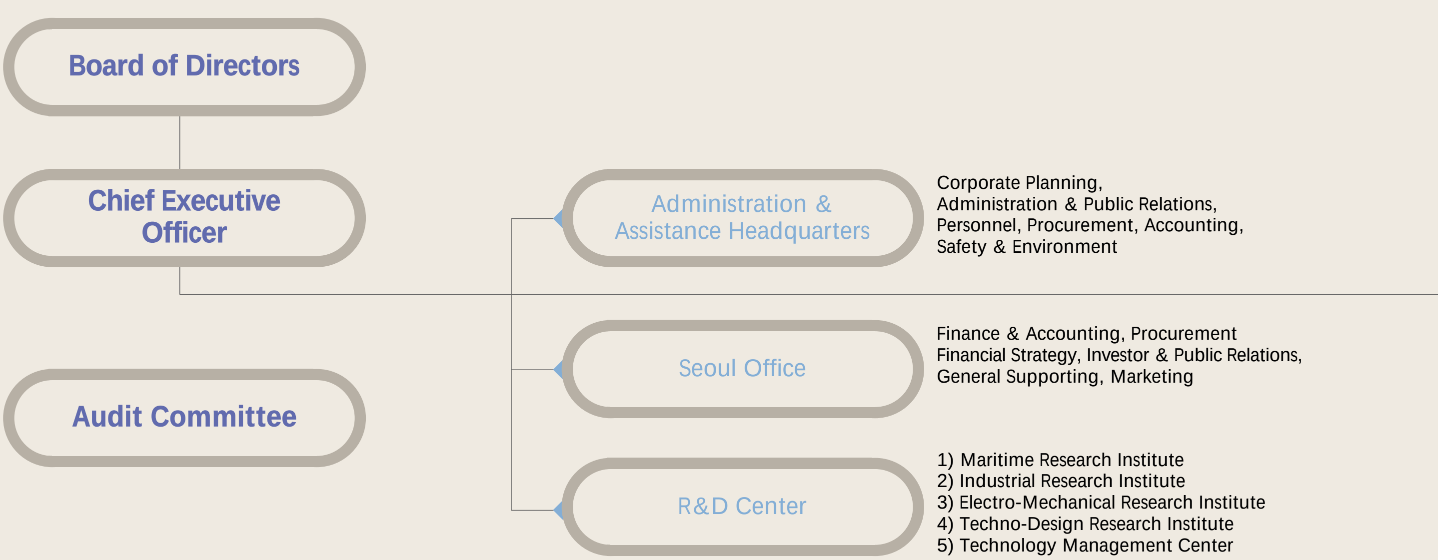
Myung-Woo Jang
- Senior Executive Vice President and Chief Operating Officer of Industrial Plant & Engineering Division

Sueg-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



THE BOARD OF DIRECTORS

HHI's board of directors is comprised of three standing directors and four outside directors who collectively assume ultimate responsibility of managing HHI's affairs. All Board member appointments are made based on each individual's expertise and experience in a variety of fields such as law, economy, finance, and accounting, and appointments of the Board members are implemented within the parameters of HHI's Articles of Incorporation.

The board of directors meets on a regular basis to discuss and resolve material corporate matters. All directors should approach HHI and business issues armed with a broad perspective. The Board has responsibilities and authority to decide on the material matters stipulated in related laws and Articles of Incorporation, matters assigned by the shareholders' meeting, basic corporate principles and important issues related to corporate operations. The Board also possesses authority to appoint the CEO and the chairman of the Board and supervise the operations of the board members and the management. HHI's board held a total of 11 meetings and resolved cirtical corporate issues in 2004.

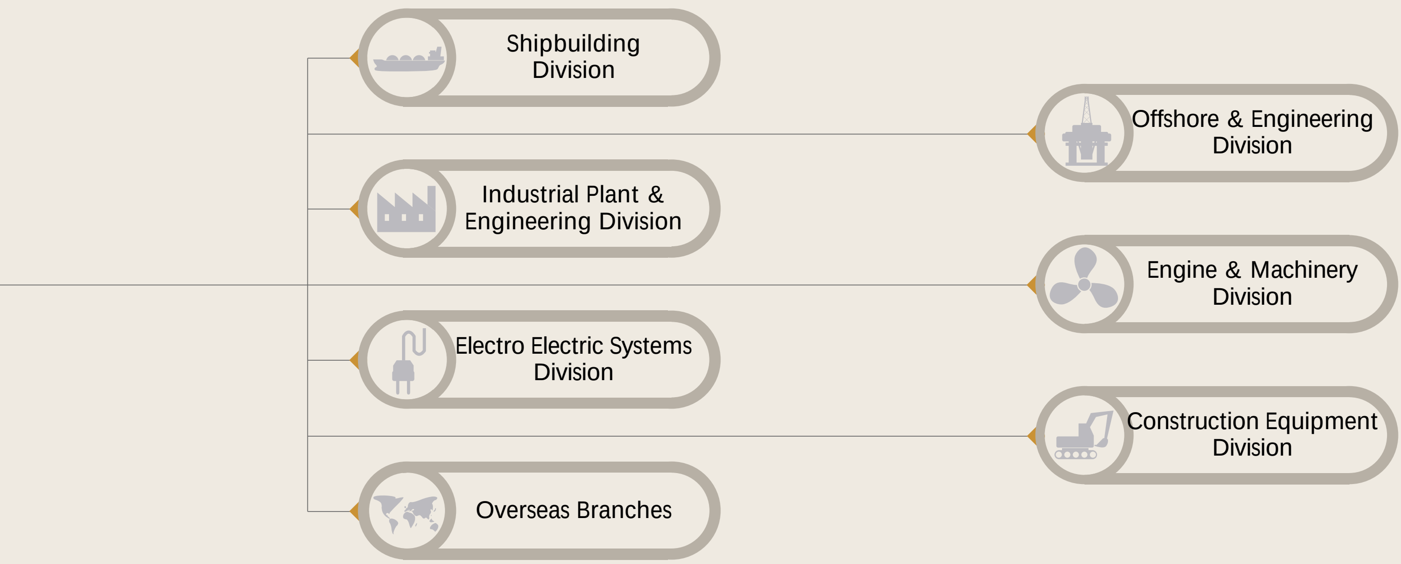
Committees

Audit Committee

HHI's Audit Committee is a standing committee of the board of directors. Its responsibilities are manifold: (i) to decide on matters related to shareholders' meetings; the BOD calls temporary shareholders' meetings and sets forth their views on the agenda and documents at the shareholders' meetings (ii) to oversee the board members and the BOD in matters including reporting to the BOD, producing independent annual audits while supervising the financial reporting process (iii) to address matters related to audits including contracts with independent auditors and evaluation of their qualifications, eligibility, and performance. All the three Audit Committee members are outside directors. During 2004, the Audit Committee held three meetings and discussed a number of crucial agendas.

Outside Director Nominating Committee

The Outside Director Nominating Committee is responsible for identifying individuals who are qualified to be Board members at HHI, and recommends nominees for outside director prior to the general shareholders' meeting. HHI's outside director nominating committee is composed of one standing and two outside directors.



History

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 a 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 largest 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
Jan. 2004
Crankshaft designated as “World-class Product”
May 2004
Synchronous generator for marine application & medium-speed diesel engine designated as a “World-class Product”
July 2004
Developed nation’s first electric propulsion device for electric cars
Aug. 2004
Won order to build KDX-III AEGIS destroyer (from Korea Navy)
Oct. 2004
Awarded the best firm in Korea (by Korea Business Committee)

Overseas Network

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Fax: 20-2-754-7528

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Fax: 244-2-399667, 338011

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Suntec Tower One, Singapore
038987
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Fax: 65-6337-8966

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Fax: 359-2-936-0742, 0305

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Fax: 1-847-437-3574

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ETDA. Shandong, China
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Fax: 86-535-658-5029

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Tel: 7-4232-40-7300
Fax: 7-4232-40-7007


Solid

Total Shareholders' Equity

3,620.5

In billions of KRW

Debt-to-equity Ratio

18.3%

Total Assets

10,929.6

In billions of KRW

Stable

Financial stability and management stability are the watchwords by which we conduct our everyday practices and performances. HHI is a leading light to the industry and the world with a solid foundation for growth.

Solid Performance

Total Shareholders' Equity

3,620.5

In billions of KRW

Debt-to-equity Ratio

18.3%

Total Assets

10,929.6

In billions of KRW

Solid Performance

During 2004, HHI further improved its financial condition, by reducing debt, which resulted in a remarkable improvement in the debt-to-equity ratio. Such achievements added to the Company's strong performances in other areas, such as an outstanding increase in new orders and a healthy increase in sales, are the building blocks by which the Company is constructing a solid foundation for future growth.

Stable

Financial stability and management stability are the watchwords by which we conduct our everyday practices and performances. HHI is a leading light to the industry and the world with a solid foundation for growth.

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 (W) 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

Hyundai Heavy Industries Co., Ltd. ('the Company') has a world-wide business network in each of its six main divisions: Shipbuilding, Offshore & Engineering, Industrial Plant & Engineering, Engine & Machinery, Electro Electric Systems, and Construction Equipment. Most business performances are affected by the domestic economy, as well as the global economy since the Company's exports hold over 80% of total sales. Specifically, the Shipbuilding industry is a technology-, labor-, and capital-intensive industry as well as a massive process industry and its business is mostly influenced by the global economy, international trade volume and shipping freight prices. The changes in demand caused by the level of energy consumption and oil price trends affect the Offshore & Engineering Division, since its business involves the construction and setting up of oil & gas exploration facilities. The Engine & Machinery business is under the influence of conditions in the shipbuilding market and internal and external capital investment markets. The Electro Electric Systems business depends on market conditions based on the market consumption of electric power, which are related to spending on social overhead capital (SOC), and the economic recovery level of developing countries. The business conditions of developed countries and investment plans regarding SOC mainly affect the construction equipment business.

Despite brisk exports, Korea's economic growth slowed to a 4.7% GDP growth rate mainly because of unfavorable domestic market conditions caused by a contraction in domestic consumption, slowed facility investments, and a sluggish construction industry. Similarly, the Company was over-burdened by the weak domestic market, a rise in raw material prices, and a surge in value of the Korean won against the US dollar. Furthermore, it faced unfavorable external factors such as global terrorism, as well as the Chinese government's tighter control over its economy.

Despite the unfavorable market conditions in 2004, the Company was still able to accomplish various noteworthy achievements. The Shipbuilding Division received US$8.5 billion in new orders and four of its ships were selected as 'world's best ship' in their respective categories. The Division was also awarded an order to build a 10,000 TEU ultra-size containership, the first of its kind in the world.

The Offshore & Engineering Division completed and delivered the largest oil development facilities ever built, one and a half months earlier than the contracted deadline and became the first company to succeed in developing and utilizing the 'On-ground Building Method,' opening another chapter for the industry. The Industrial Plant & Engineering Division proceeded with construction projects in Nigeria and with ones for Aramco in Saudi Arabia, heightening its status in the world market. With the expansion of its large-size engine plant, the Engine & Machinery Division demonstrated its competitiveness in the world market as a company that holds 35% of the market share in its industry. The Electro Electric Systems Division provided core engines for KTX (Korea Train Express), as proof of its competitive edge in technology. The Construction Equipment Division surpassed W1 trillion in sales and was placed first in terms of excavator sales among foreign-invested companies in China, drawing the interest and attention of the world.

In 2004, the Company secured a foundation for stable growth by achieving $13.4 billion in new orders, a 142.6% increase over its target of $9.4 billion, set early in the year. This was also an increase of 36.5% over the previous year's performance. In terms of sales, the Company recorded W9,084.5 billion, representing 97.7% of its W9,300 billion sales target, an 11.4% increase from the previous year. The Company recorded an operating loss of W98.1 billion due to increases in raw material prices and the strong value of the Korean won against the US dollar. Gains on valuation of investment and decreased interest expenses helped increase non-operating income to mark an ordinary income of W55.5 billion. Hyundai Heavy Industries' net income recorded W36.7 billion in 2004 after expenses of W18.8 billion in corporate taxes.

II. Results of Operations

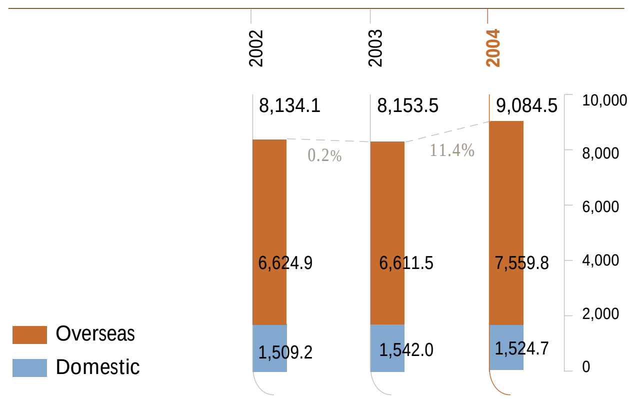
1. Analysis on Profit and Loss

SALES

The Company's overall sales increased steadily in 2004, except in the Industrial Plant & Engineering Division and Electro Electric Systems Division, to post W9,084.5 billion, up by W931.0 billion, or 11.4%, compared to the previous year of W8,153.5 billion. Backed by a surge in exports during 2004, overseas sales posted W7,559.8 billion, while domestic sales decreased by W17.3 billion to record W1,524.7 billion. This steady increase was mainly due to sales contributions from an increase in orders in the Shipbuilding, Offshore & Engineering and Construction Equipment Divisions. In particular, the Offshore & Engineering Division saw its sales increase by approximately 22%, mainly due to an increase in sales recognition of newly built ships using on-ground building technology received since 2003.

In terms of sales by division, those in the Shipbuilding Division increased by W473.0 billion, or 12.6%, to W4,231.4 billion in 2004, and the Offshore & Engineering Division increased by W272.1 billion in sales to amount to W1,511.5 billion, up by 22.0%. With the unprecedented production of 5.61 million BHP including 160 large-size engines, the sales of the Engine & Machinery Division

Trend of Sales (In billions of KRW)



Trend of Sales

(In billions of KRW)

DIVISION	2004		2003		2002	
		Change(%)		Change(%)		Change(%)
Shipbuilding	4,231.4	12.6	3,758.4	1.4	3,707.6	-2.0
Offshore & Engineering	1,511.5	22.0	1,239.4	-11.3	1,398.0	39.7
Industrial Plant & Engineering	614.7	-6.1	654.5	-30.9	946.9	60.8
Engine & Machinery	750.9	4.5	718.4	21.9	589.2	-3.6
Electro Electric Systems	824.5	0.04	824.9	-6.4	881.0	-3.7
Construction Equipment	1,033.5	22.3	845.2	67.5	504.7	29.5
Others	118.0	4.7	112.7	5.6	106.7	-7.5
TOTAL	**9,084.5**	**11.4**	**8,153.5**	**0.2**	**8,134.1**	**9.9**

improved by W32.5 billion, or 4.5%, to W750.9 billion in 2004. The Construction Equipment Division's sales showed a steady rise in 2004 by W188.3 billion, or 22.3%, to record W1,033.5 billion despite a W65.8 billion decrease in sales at its local subsidiaries established in China due to the Chinese government's retrenchment policy. On the other hand, the sales of the Industrial Plant & Engineering Division and the Electro Electric Systems Division declined slightly by W39.8 billion, or 6.1% and W0.4 billion, or 0.04% in response to a fall in new orders. The sales of both divisions were W614.7 billion and W824.5 billion, respectively.

GROSS PROFIT

The Company's cost of sales in 2004 rose 18.6% from the previous year to post W8,540.5 billion mainly due to increases in raw materials costs from price increases of steel materials including steel plates. As a result, gross profit decreased by W411.2 billion to W544.0 billion in 2004. The gross profit margin also dropped by 5.7% to 6.0% in 2004 from 11.7% in 2003.

SELLING AND ADMINISTRATIVE EXPENSES

The Company's selling and administrative (S&A) expenses decreased by W38.7 billion, or 5.7% from 2003, mainly due to a decrease of W89.4 billion or 84.1% in sales commission expenses as the brokerage commissions of the Shipbuilding, Offshore & Engineering and Industrial Plant & Engineering were recognized as other cost of sales. However, wages and bonuses increased by W3.7 billion and employee welfare by 8.6 billion. Also, transportation expenses increased by W18.2 billion or 74.6% mainly due to increased overseas sales on the back of growing demand in the construction equipment market. Commission expenses also increased by W10.3 billion or 29.7% mainly attributable to an increase of guarantee commissions caused by an increase in advanced payments in the Shipbuilding Division.

OPERATING PROFIT

In 2004, the Company recorded an operating loss of W98.1 billion, a 135.7% decrease from W274.5 billion in 2003. The operating profit margin also fell by 4.5% to minus 1.1% in 2004 from 3.4% in 2003. The main reason for this was a significant increase in the cost of sales of the Shipbuilding Division. The sales of low-priced ship orders received in 2002 and 2003 were recognized during 2004, and these accounted for over 80% of sales made during 2004. The average price of steel plates was up more than 40%, contributing to the increase in cost of sales. Furthermore, the strong value of the won, which increased by W154 (12.9%) caused a considerable decrease in operating income by W311.3 billion or 133% to post minus W77.2 billion with an operating profit margin of

Trend of Operating Profit

(In billions of KRW)

DIVISION	2004	2004 Margin(%)	2003	2003 Margin(%)	2002	2002 Margin(%)
Shipbuilding	-77.2	-1.8	234.1	6.2	278.9	7.5
Offshore & Engineering	-2.0	-0.1	-1.1	-0.1	-41.5	-3.0
Industrial Plant & Engineering	-117.2	-19.1	-126.1	-19.3	32.6	3.4
Engine & Machinery	60.9	8.1	72.4	10.1	69.2	11.7
Electro Electric Systems	-11.0	-1.3	-21.9	-2.7	38.5	4.4
Construction Equipment	44.8	4.3	100.8	11.9	49.6	9.8
Others	3.6	3.1	16.3	14.5	14.3	13.4
TOTAL	**-98.1**	**-1.1**	**274.5**	**3.4**	**441.6**	**5.4**

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

minus 1.8%. In addition, the Construction Division's operating income decreased by W56.0 billion or 55.6% mainly due to a drastic decrease in CKD sales to our Chinese local subsidiaries and increases in raw material costs. The Engine & Machinery Division also recorded a decrease in operating income by W11.5 billion or 15.9% because of a drop in engine unit costs following a decrease in shipbuilding prices and increases in ingot unit prices.

NON-OPERATING GAIN AND LOSS

The Company posted a net non-operating gain and loss of W153.6 billion in 2004, which was a considerable improvement of W244.1 billion from a net loss of W90.5 billion in the previous year. Major reasons for this drastic improvement in non-operating gain and loss were reduced interest expenses by W109.5 billion mainly due to a decrease in borrowings, increased gain on valuation of investment securities accounted for using the equity method by W71.7 billion including gain from Hyundai Oilbank, and a W32.7 billion gain on valuation of foreign exchange forward contracts.

NET INCOME

In 2004, the Company recorded the net income of W36.7 billion with a net income margin of 0.4%, down by 67.7% from the previous year mainly because of decreased operating income from rising costs of sales affected by external factors despite a drastic decrease of one-time losses and a remarkable increase in gain on valuation of investments using the equity method.

2. Analysis of Financial Structure

ASSETS

The Company's total assets as of the end of 2004 stood at W10,929.6 billion, a 3.1% increase from W10,604.0 billion in 2003. The current assets at year-end of 2004 were W4,802.7 billion, up by 8.4% from the previous year. This was primarily due to enlarged cash & cash equivalents and short-term financial instruments with large inflows of advances from customers in the Shipbuilding Division. Cash & cash equivalents increased by W124.8 billion with a considerable order performance, and short-term financial instruments grew by W369.5 billion. However, non-current assets decreased by W48.6 billion to post W6,126.9 billion as long-term investment decreased by W183.5 billion even though investment securities accounted for using the equity method increased by W220.3 billion. The Company's holdings of securities for equity-method valuation were enlarged by W110.1 billion from Hyundai Oilbank and W71.9 billion from Hyundai Samho Heavy Industries.

LIABILITIES

Trend of Non-Operating Profit

(In billions of KRW)

		2004	2003	2002
Non-operating income	Interest Income	103.6	75.3	91.5
	Gain on Foreign Currency Translation	25.9	6.6	24.2
	Gain on Foreign Currency Transactions	180.1	136.1	102.9
	Gain on Valuation of Investment Securities Accounted for Using the Equity Method	162.8	91.1	17.1
	Gain on Valuation of Foreign Exchange forward Contracts	32.7	-	-
	Others	128.4	39.3	79.4
		633.5	**348.4**	**315.1**
Non-operating expenses	Interest Expense	64.4	173.9	259.2
	Loss on Foreign Currency Translation	93.1	4.6	26.7
	Loss on Foreign Currency Transactions	157.6	136.4	103.9
	Loss on Disposal of Available-for-sales Securities	80.3	0.2	174.2
	Loss on Valuation of Investment Securities Accounted for Using the Equity Method	-	-	-
	Loss on Impairment of Long-term Investment Securities	3.2	22.5	442.3
	Others	81.3	101.3	91.4
		479.9	**438.9**	**1,097.7**
Net Non-operating Gain and Loss		**153.6**	**-90.5**	**-782.6**

The Company's total liabilities in 2004 reached W7,309.0 billion, a 2.5% increase from W7,127.9 billion in 2003. Its liabilities-to-equity ratio improved by 4.8% from 205.1% in 2003 to 201.9% in 2004. This was attributed to a W144.4 billion increase in shareholders' equity, caused by the gain on valuation of foreign exchange forward contracts of W208.6 billion.

By using advances from customers to repay debt, the Company reduced its total debt by W740.9 billion, or 52.8%, to W661.7 billion in 2004 from W1,402.6 billion in 2003. As a result, its debt-to-equity ratio remarkably improved to 18.3% in 2004 from 40.3% in the previous year, and further improved a solid financial structure.

SHAREHOLDERS' EQUITY

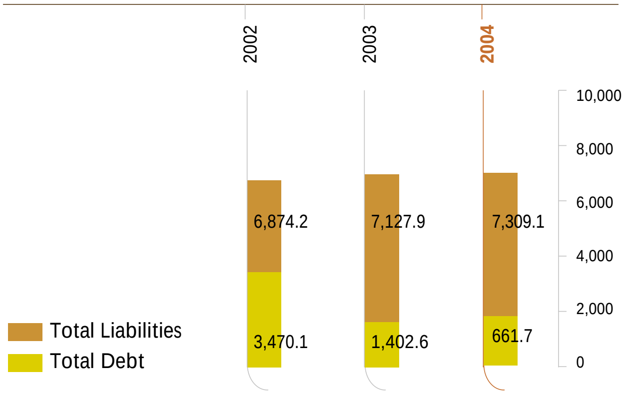
Total shareholders' equity was W3,620.5 billion in 2004, up by W144.4 billion, or 4.2% from the previous year's W3,476.1 billion. This reflected an increase in capital adjustments, which increased by W210.4 billion, or 66.9% in the wake of gains of W208.6 billion from valuation of foreign exchange forward contracts.

3. Analysis on New Orders and Backlog

In 2004, the Company received new orders worth $13.4 billion, which exceeded its $9.3 billion initial target by 44%. This satisfactory result stemmed from stable increases in new orders by all divisions. In particular, the Shipbuilding Division acquired new orders worth $8.5 billion, a 25% increase from the previous year. The Offshore & Engineering Division and the Industrial Plant & Engineering

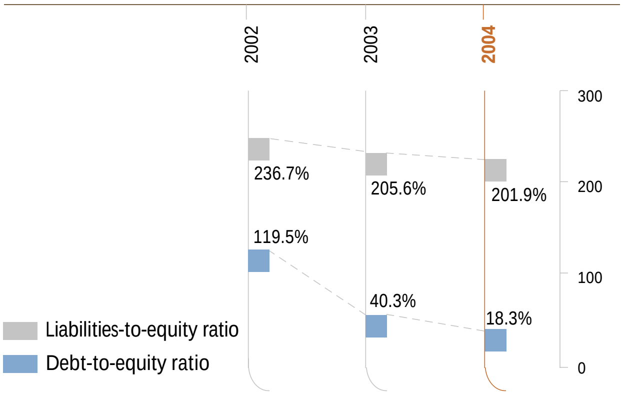
Total Liabilities & Debt

(In billions of KRW)



Liabilities-to-equity ratio & Debt-to-equity ratio

(%)



Division also greatly contributed to this robust growth trend of new orders with considerable increases of 127.9% and 425.6%, respectively. As of the end of 2004, the Company had secured a backlog totaling $18.4 billion, and of this, the Shipbuilding Division claimed $14.0 billion.

THE SHIPBUILDING DIVISION

Thanks to the favorable shipbuilding market conditions and an increase in new orders for high value-added ships such as LNG carriers, the Shipbuilding Division won new orders worth $8.5 billion, accounting for 63% of the Company's total new orders in 2004 and recording a 25% increase from $6.8 billion in 2003. The new orders totaled 104 vessels including 17 tankers, 55 containerships, 12 LNG carriers and four special and naval vessels and 16 others. This remarkable result was attributed to growing demand in the shipbuilding market influenced by world economic recovery and increased trade volumes following China's fast economic growth. Our aggressive sales activities also contributed to these all-time high results by the Company by focusing our management capabilities on enhancing shipbuilding quality and upgrading client service so as to fortify client confidence in the Company. With our innovations and marketing activities forming the basis of our competitiveness, HHI commands respect as the World's No. 1 Shipbuilder. As of December 31, 2004, the Shipbuilding Division had secured a large backlog, amounting to over a three-year workload, totaling 213 vessels, worth $14.0 billion, including 54 tankers, 117 containerships, 16 LNG carriers, nine special and naval vessels, and 17 other vessels.

THE OFFSHORE & ENGINEERING DIVISION

Demand for the products and services of the Offshore & Engineering Division continued to increase throughout the year due to rising oil prices and demands for the development of offshore oil fields and alternate energy sources. In 2004, the Offshore & Engineering Division acquired new orders worth $1.5 billion, achieving 117.6% of its preset target, $1.3 billion by acquiring such projects as one FPSO from BP Angola, MUT Submarine Pipeline Project from India's Oil and Natural Gas Corporation (ONGC), Sakhalin Project and Nigeria's East Area Platform Project from ExxonMobil and many others. It ended 2004 with a backlog of $2.2 billion.

THE INDUSTRIAL PLANT & ENGINEERING DIVISION

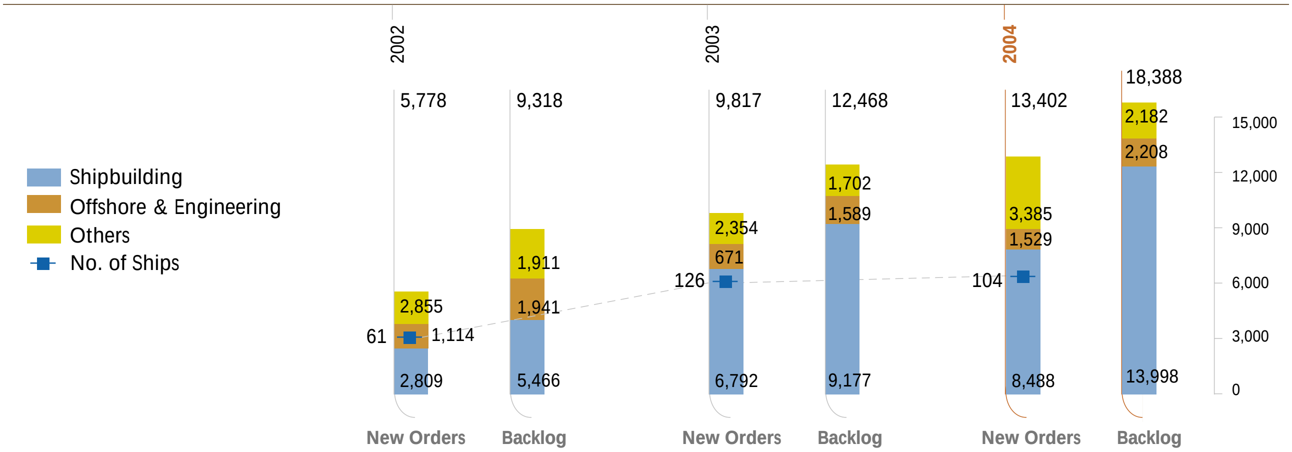
Along with drastic growth in the industrial plant market centering around countries in the Middle East, South Africa and the BRICs, the Industrial Plant & Engineering Division achieved a remarkable performance, reaching 425.6% of its preset target with $657 million worth of new orders, and a stable backlog of $774 million.

THE ENGINE & MACHINERY DIVISION

Due to an increase in new orders generated by the increase in shipbuilding orders, new orders for mid-size engines also received a greater than expected healthy boost. Therefore, the Engine & Machinery Division recorded $898 million in

Trend of New Orders and Backlog

(In millions of US$)



new orders in 2004, representing 112.3% of its $800 million target. The total backlog of the Division in 2004 was $928 million.

THE ELECTRO ELECTRIC SYSTEMS DIVISION

New orders for the Electro Electric Systems Division were worth $708 million, or a 13.8% increase from the previous year. However, this was 99.3% of the preset target. This below-target performance was mainly due to a fall in orders with difficulties coming from a contraction of the power facilities market following continued sluggish domestic consumption.

THE CONSTRUCTION EQUIPMENT DIVISION

The Construction Equipment Division acquired new orders worth $1.1 billion in 2004, up 26.5% over 2003 to measure 85.5% of its preset target. This lower-than-expected result was mainly attributed to a reduction in demand from the Chinese market due to the Chinese government retrenchment policy on their economy.

III. Major Issues

1. 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 believed Hynix Semiconductor intended 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 purchase obligations rather than debt obligations.

After HSMA repaid $980 million of its total $1.2 billion debt in a timely manner, its balance for borrowings stood at $220 million as of the end of February 2005. HSMA should be able to repay the remaining borrowings, considering the plant's value pledged by J.P. Morgan Chase Bank, cash reserves at the end of 2004, and the full operations of the plant helped by the U.S. decision on compensation duty. Furthermore, HSI is currently realizing operating profits with the normalization of its business. As HIS has honored its purchase obligations, HIS is not likely to incur any substantial losses for the three guarantors including the Company as a result of this performance guarantee.

2. 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 W705.0 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 W30,546 and total value of W704.5 billion). However, the Company sold off its treasury shares in the stock market on four separate occasions between October 15, 2003 and October 29, 2003. As a result, Hyundai Mipo Dockyard Co., Ltd. (3,800,000 shares, W119.7 billion) 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 W31,814 and with a total value of W370.0 billion. Accordingly, the Company terminated the specified money trust contract of W392.0 billion (out of a total W705.0 billion). The total treasury fund at the end of 2004 stood at 11,432,270 shares, representing 15.04% of the total shares issued.

3. 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 W245.4 billion ($220 million) that the Company paid to CIBC. Accordingly, these two companies were ordered to pay the Company W171.8 billion, plus 5% interest calculated from July 21, 2000 to January 25, 2002, and 25% per annum thereafter until the payment was completed. In compliance with the judgment on January 25, 2002, HSC paid 50% of the ruled amount, W97.2 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 W76.0 billion. The case is still on trial, and as of December 31, 2004, the Company reserved allowances to cover appeal suit costs and other related costs.

4. Share Conversion Agreement with IPIC

The share conversion agreement made with IPIC took effect on February 28, 2004 regarding $450 million of independent financial assistance to Hyundai Oilbank, which was subject to equity-method valuation. IPIC is a major shareholder of Hyundai Oilbank. In accordance with this agreement, 16,233,514 shares, or 20% of the 81,167,566 shares HHI holds in Hyundai Oilbank, were converted into non-voting preferred stocks until IPIC is fully paid $200 million in dividends by Hyundai Oilbank as of March 27, 2004. Once the dividend is fully paid, the stocks shall be reconverted to voting common stocks. IPIC also possesses call option rights to buy a certain amount of Hyundai Oilbank's shares owned by the Company until IPIC is fully paid the $200 million equivalent amount in KRW from the effective date of this agreement.

IV. 2005 Outlook

In this section, the Company presents the explanation and analysis of its 2004 business plan, which is based on the most relevant key indices, such as the most appropriate FX rate, oil prices, price increase rate, interest rates, steel prices 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.

With sluggish world economic growth expected, various stumbling blocks lie ahead of us such as fiercer competition among countries, high oil prices, fluctuating foreign exchange rates, and increases in raw material prices. Notwithstanding these difficulties, Hyundai Heavy Industries plans to continue its robust growth by equipping itself with a foundation for securing its competitive edge under any circumstances through adaptability and through utilizing its power to face any change. The Company set a new sales target of W10,164.8 billion, up 11.9% from 2004, while reducing the target of new orders by 14.2% to $11.5 billion, due to the current large backlog. We will allocate W265.0 billion to capital expenditure and target the investment towards sectors that make direct contributions to sales and to those that generate greater income. We will also invest W137.9 billion into R&D activities, a 23.6% increase from the previous year.

The Shipbuilding Division is expected to perform well in the last half of 2005, as demand for newbuilding ships and shipbuilding prices continues to grow. The Company set a target of $5.5 billion for new orders, down 35% from last year, in consideration of the large order backlog. The Shipbuilding Division's sales for 2005 are projected to be W5,157.5 billion, an increase of 21.9% from W4,231.4 billion in 2004. The company will place its focus on such high-value added ships as VLCCs, large-size containerships, and LNG carriers to take advantage of the sustainable profit such products provide. At the same time, the Company will monitor the rapidly changing trends in the market to adjust its management strategy in a timely manner.

The future for the Offshore & Engineering Division will be bright as we expect active investments from large oil companies for underwater oil wells and alternative energy due to on-going high oil prices and rising demands for energy. Although new orders for fixed platform and large-size FPSO will decrease as those markets mature, overall markets will maintain the levels of 2002 and 2003 due to increases in new orders for mid-size floaters, sub-sea pipelines, gas well development projects, and replacements for obsolete facilities. Therefore, the Company aims to achieve new orders and sales of $1.7 billion and W1,457.7 billion, respectively, by securing its competitive edge in EPIC, based on 30 years of experience. At the same time, the Company will maintain its dominance in the floater construction market and seek to diversify by expanding its market share in such promising areas as sub-sea pipeline construction.

Despite instability in the Middle East, high oil prices contributed to the improving financial condition of many Middle Eastern countries. The Industrial Plant & Engineering Division plans to win new orders worth $1.2 billion, an increase of 82.6% from the previous year and to record W665.0 billion in sales, amid careful prediction of a recovery in investment for petrochemical and power plant facilities in the region. The Division has already completed the majority of its non-performing offshore projects. In 2005, the Company will lay a foundation to normalize management by putting an EPC services system in place and by obtaining profitable new orders. To reach these goals, the Division will focus its sales power on power generation and oil & gas markets, especially those in the Middle East and Africa where market expansion is expected.

The Engine & Machinery Division plans to achieve $970 million in new orders and W850.0 billion in sales for 2005. Last year, an increase in the construction of large-size containerships led to a strong demand for engines. The Division expects not only the trend to continue due to a robust shipbuilding market but also the demand for diesel engines to escalate due to increased demand for large on-land power generation facilities with a capacity of over 50MW, as well as for mid- and small-size independent power plants in Latin America, India, and Africa. The Division will strive to enhance its profit by selecting and proceeding with high-quality projects and place its focus on orders already received.

Korea's electricity market, which slowed last year, will show steady growth due to the recovering domestic market. In the foreign market, the outlook for 2005 will be much brighter as global economic recovery and high oil prices will lead to more investments in power plant facilities in the Middle East, expansions of power generation facilities in the U.S., an increase in development projects in the western part of China and new investments related to the 2008 Beijing Olympic games. Accordingly, the Electro Electric Systems Division upgraded its target for new orders by 37.4% to a mark of $973 million as compared to last year. The Division will enhance its competitiveness in products and advance into new alternative energy markets so as to achieve these goals. Furthermore, the Division will foster closer cooperation between the headquarters and overseas branches for better performance in foreign markets.

The demand for construction equipment in the domestic market will continue to maintain the level of the second half of last year due to the continued constraint of the domestic construction market. In the Chinese market where the Division witnessed a surge in sales in the early part of last year, demand will continue to be weak into 2005 due to Chinese government policies geared towards slowing the country's rapid economic growth. In 2006, however, the market will recover with the number of projects to develop the western part of the country increasing and as investments related to the 2008 Beijing Olympic games and other SOC continues. The Division will improve its income structure with an overall equipment price rise and cost-cutting measures, so as to reach its target of $1.2 billion in new orders and W1,005.0 billion in sales.

Amidst uncertain market conditions, the Company will solidify its dominant position in the market based on its 30 years of experience and expertise and improve its core competency, and will innovate management with the participation and trust of all employees working together to achieve the goals of the Company. All employees of the Company will put forth concerted efforts and act as one to maintain sound growth for the next year, while holding with pride the knowledge that HHI is truly a front-runner in the world's heavy industries.

English Translation of a Report Originally issued in Korean.

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

We have audited the accompanying non-consolidated balance sheets of Hyundai Heavy Industries Co., Ltd. as of December 31, 2004 and 2003, and the related non-consolidated statements of income, proposed appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Heavy Industries Co., Ltd. as of December 31, 2004 and 2003, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with the financial accounting standards in the Republic of Korea.

As explained in Note 2, the Company prepared its financial statements as of December 31, 2004 in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 10 - "Inven-tories" and No. 13 - "Troubled Debt Restructurings", effective from January 1, 2004. Also, the Company adopted early the written accounting reporting opinion (2005-1), which was issued by the Financial Supervisory Service, on the currency hedging account of the foreign currency long-term contracts in preparing its financial statements as of December 31, 2004, and it was applied prospectively from 2004 because the retrospective effect of this new accounting policy cannot reasonably be determined.

As discussed in Note 13, 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. Based on this agreement, the Company was provided with a written promissory note by HSI and Hyundai Securities Co., Ltd. (HSC) to compensate the Company for any losses incurred in connection with the transaction with CIBC under certain circumstances. On July 24, 2000, the Company repurchased the 13 million shares from CIBC for 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 W172 billion of principal and accrued interest thereon. The Company filed an appeal to a high court claiming the remaining amount of principal and also filed additional lawsuit for the advanced payments and related expenses, which are not covered in the prior claim. As of December 31, 2004, allowance for the balances related to this claim was provided. The appeal is in progress as of the date of this report and its ultimate outcome cannot presently be determined. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

As discussed in Note 12, HSI has entered into a Purchase Agreement ("off-take agreement") with Hynix Semiconductor Manufacturing America Inc. ("HSMA"), an overseas subsidiary of HSI, as collateral for the long-term borrowings of HSMA. In addition, the Company has entered into a Group Support Agreement with HSMA together with two other companies within the former Hyundai Group of companies, and provided this agreement as collateral for the long-term borrowings of HSMA. The ultimate outcome of this agreement cannot presently be determined, and no provision for any liability that may result has been made in the accompanying financial statements.

As discussed in Note 22, 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, 2004, the Company's total sales to and purchases from affiliated companies amount to W914,330 million and W175,362 million, respectively. As of December 31, 2004, the related accounts receivable and accounts payable are W285,332 million and W22,873 million, respectively. In addition, the Company has provided loan guarantees and performance guarantees for the related companies.

As discussed in Note 12, pursuant to the resolution of the board of directors on March 14, 2003, the Company entered into a common stock conversion agreement (the "Agreement") with IPIC, main shareholder of Hyundai Oilbank, together with US£§450 million financial support of IPIC in 2002, and the Agreement has been finally executed on February 28, 2004. According to the Agreement, the Company has converted 16,233,514 shares of common stock, as part of 81,167,566 shares of common stock owned by the Company, to non-voting preference stock, which will be converted back to common stock upon satisfaction of certain condition. Also, the Company has provided call option right to IPIC to buy certain Hyundai Oilbank's shares owned by the Company, until Hyundai Oilbank completes the payment of dividend obligation of US$200 million to IPIC, which holds voting preference stock.

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

Deloitte HanaAnjin LLC

Seoul, Korea
February 19, 2005

Notice to Readers

This report is effective as of February 19, 2005, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

Non-Consolidated Balance Sheets

As of December 31, 2004 and 2003

In thousands of Korean Won

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 3 and 23)	W 358,213,436	W 233,395,481
Short-term financial instruments	394,126,014	24,572,912
Short-term investment securities (Note 5)	126,681,848	2,701,795
Trade accounts and notes receivable, net of allowance for doubtful accounts of W 78,174,167 thousand in 2004 and W 56,326,168 thousand in 2003 (Notes 19, 22 and 23)	2,095,916,883	2,516,528,272
Accounts receivable-other, net of allowance for doubtful accounts of W 161,967,038 thousand in 2004 and W 145,520,018 thousand in 2003 (Notes 22 and 23)	281,529,043	439,308,080
Inventories (Note 4)	1,137,136,741	927,897,784
Advanced payments, net of allowance for doubtful accounts of W 2,307,841 thousand in 2004 and W 840,100 thousand in 2003	56,606,978	57,503,575
Accrued income	6,357,361	10,705,557
Foreign exchange forward contracts (Note 12)	255,759,978	-
Other current assets (Note 23)	90,377,688	215,928,668
Total current assets	**4,802,705,970**	**4,428,542,124**
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Notes 7, 9, 10 and 24)	4,326,631,978	4,335,244,649
Long-term investment securities (Note 5)	159,266,137	342,797,429
Investment securities accounted for using the equity method (Notes 6 and 12)	1,023,448,611	803,104,770
Long-term trade accounts and notes receivable, net of allowance for doubtful accounts of W 2,487,034 thousand in 2004 and W 2,993,925 thousand in 2003 (Notes 12 and 23)	246,216,362	333,104,806
Long-term financial instruments (Notes 3 and 23)	6,613,882	7,185,235
Intangible assets (Notes 8 and 24)	160,983,579	145,817,745
Deferred income tax assets (Note 20)	159,276,388	162,808,665
Other investment assets (Notes 22 and 23)	44,471,543	45,451,453
Total non-current assets	**6,126,908,480**	**6,175,514,752**
Total Assets	**W 10,929,614,450**	**W 10,604,056,876**

(Continued)

In thousands of Korean Won

	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings (Notes 9 and 23)	W -	W 150,217,859
Current maturities of long-term borrowings and other long-term liabilities, net of discount of W980,721 thousand in 2004 and W2,642,788 thousand in 2003 (Notes 10 and 23)	660,973,248	513,831,039
Trade accounts and notes payable (Notes 22 and 23)	893,641,280	883,000,039
Accounts payable-other (Note 23)	136,914,174	157,158,844
Advances from customers (Note 19)	5,040,601,881	4,068,880,384
Income tax payable (Note 20)	7,665,065	807,880
Other current liabilities (Note 23)	189,956,743	193,804,513
Total current liabilities	**6,929,752,391**	**5,967,700,558**
LONG-TERM LIABILITIES:		
Debentures and long-term borrowings, net of discounts of W4,162,155 thousand in 2003 (Notes 10 and 23)	767,939	738,535,934
Accrued severance benefits, net of severance insurance deposits and others of W838,246,030 thousand in 2004 and W740,389,710 thousand in 2003 (Note 11)	167,694,266	231,774,908
Long-term accrued expenses (Note 13)	172,135,546	153,594,366
Other long-term liabilities (Note 22)	38,730,645	36,356,492
Total long-term liabilities	**379,328,396**	**1,160,261,700**
Total Liabilities	**7,309,080,787**	**7,127,962,258**
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)		
SHAREHOLDERS' EQUITY:		
Capital stock - common stock (Note 1)	380,000,000	380,000,000
Capital surplus (Note 15)	2,771,383,687	2,771,383,687
Appropriated retained earnings (Note 16)	542,684,044	629,994,922
Retained earnings before appropriations (Net income of W36,719,496 thousand in 2004 and net income of W113,857,159 thousand in 2003)	30,744,325	9,429,309
Capital adjustments (Notes 5, 6, 12 and 17)	(104,278,393)	(314,713,300)
Total Shareholders' Equity	**3,620,533,663**	**3,476,094,618**
Total Liabilities and Shareholders' Equity	**W 10,929,614,450**	**W 10,604,056,876**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

For the Years Ended December 31, 2004 and 2003

In thousands of Korean Won, except per share amounts

	2004	2003
Sales (Notes 19, 22 and 24)	W 9,084,484,155	W 8,153,499,952
Cost of sales (Notes 19 and 22)	8,540,502,376	7,198,199,411
Gross profit	543,981,779	955,300,541
Selling and administrative expenses (Note 25)	642,042,563	680,788,615
Operating income (loss) (Note 24)	(98,060,784)	274,511,926
Non-operating income:		
Interest and dividend income	107,867,659	79,111,755
Gain on foreign currency transactions	180,076,397	136,101,181
Gain on foreign currency translation	25,929,043	6,649,385
Gain on valuation of investment securities accounted for using the equity method (Note 6)	162,834,227	91,120,394
Gain on disposal of available-for-sales securities	80,518,377	1,274,229
Gain on valuation of foreign exchange forward contracts (Note 12)	32,712,127	-
Others	43,565,285	34,156,819
	633,503,115	348,413,763
Non-operating expenses:		
Interest expense	64,433,135	173,971,869
Loss on foreign currency transactions	157,559,693	136,368,593
Loss on foreign currency translation	93,086,979	4,628,508
Loss on disposal of available-for-sales securities	80,297,342	209,383
Loss on disposal of property, plant and equipment	9,895,073	8,015,387
Loss on impairment of long-term investment securities (Note 5)	3,235,189	22,535,926
Loss on redemption of debentures (Note 10)	1,487,429	8,476,817
Others	69,901,617	84,738,696
	479,896,457	438,945,179
Ordinary income	55,545,874	183,980,510
Extraordinary items	-	-
Net income before income tax	55,545,874	183,980,510
Income tax expense (Note 20)	18,826,378	70,123,351
Net income	**W 36,719,496**	**W 113,857,159**
Earnings per share (Notes 21 and 26)	**W 569**	**W 2,068**
Ordinary income per share (Notes 21 and 26)	**W 569**	**W 2,068**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Proposed Appropriations of Retained Earnings

For the Years Ended December 31, 2004 and 2003

In thousands of Korean Won

	2004		2003	
Retained earnings before appropriation :				
Beginning of year	W	3	W	(105,552,941)
Beginning balance adjustments:				
Adjustments in investment securities accounted for using the equity method (Notes 6 and 20)		(5,975,174)		1,125,091
Net income		36,719,496		113,857,159
		30,744,325		9,429,309
Transfer from reserve:				
Reserve for export losses		-		3,333,333
Reserve for overseas market development		-		6,666,667
Reserve for research and human development		59,908,313		161,165,616
		59,908,313		171,165,616
Appropriations:				
Legal reserve		8,061,682		9,674,018
Voluntary reserve		1,974,130		74,180,720
Cash dividends (Note 18)		80,616,820		96,740,184
		90,652,632		180,594,922
Unappropriated retained earnings , end of year	**W**	**6**	**W**	**3**

See accompanying notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

For the Years Ended December 31, 2004 and 2003

In thousands of Korean Won

	2004	2003
Cash flows from operating activities:		
Net income	**W 36,719,496**	**W 113,857,159**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance benefits	158,257,363	162,370,669
Provision for doubtful accounts	86,434,640	69,361,992
Amortization of development costs	32,959,055	36,367,216
Depreciation	322,769,432	302,853,135
Amortization of discount on debentures	5,311,807	14,531,521
Loss on foreign currency translation	93,083,009	4,628,493
Loss on impairment of long-term investment securities	3,235,189	22,535,926
Loss on disposal of available-for-sales securities	80,297,342	209,383
Loss on disposal of property, plant and equipment	9,895,073	8,015,387
Loss on redemption of debentures	1,487,429	8,476,817
Gain on disposal of property, plant and equipment	(8,897,554)	(614,190)
Gain on foreign currency translation	(25,928,646)	(6,649,385)
Gain on valuation of investment securities accounted for using the equity method	(162,834,227)	(91,120,394)
Gain on valuation of foreign exchange forward contracts	(120,332,831)	-
Others	(45,162,140)	11,277,438
	430,574,941	**542,244,008**
Changes in operating assets and liabilities:		
Decrease in trade accounts and notes receivable	359,775,176	11,375,569
Decrease (Increase) in accounts receivable-other	131,769,250	(26,563,814)
Decrease (Increase) in accrued income	4,348,197	(9,285,373)
Decrease (Increase) in advanced payments	(1,548,910)	22,088,787
Decrease in foreign exchange forward contracts	85,268,233	-
Increase in inventories	(192,408,334)	(272,692,818)
Increase in long-term trade accounts and notes receivable	-	(388,683,325)
Increase in trade accounts payable	12,074,053	123,431,836
Increase (Decrease) in accounts payable-other	(19,230,559)	26,250,073
Increase in advances from customers	959,591,087	2,101,371,936
Increase (Decrease) in income tax payable	6,857,185	(37,676,569)
Increase in long-term accrued expenses	18,541,180	13,837,330
Payments of severance benefits	(124,481,685)	(88,956,286)
Decrease in deferred income tax assets	6,056,639	69,455,226
Others, net	110,091,440	(69,249,481)
	1,356,702,952	**1,474,703,091**
Net cash provided by operating activities	**1,823,997,389**	**2,130,804,258**

(Continued)

In thousands of Korean Won

	2004		2003	
Cash flows from investing activities:				
Withdrawal of short-term financial instruments	W	471,060,661	W	2,708,606,388
Withdrawal of long-term financial instruments		-		135,987,043
Disposal of short-term investment securities		2,760,099		5,494,137
Disposal of long-term investment securities		169,001,680		116,502,638
Disposal of investment securities accounted for using the equity method		2,258,935		36,489,652
Disposal of other investment assets		3,492,091		1,042,581
Disposal of property, plant and equipment		37,679,282		12,464,812
Disposal of development costs		2,723,000		-
Decrease in severance insurance deposits		76,933,761		-
Acquisition of short-term financial instruments		(840,613,763)		(2,710,240,172)
Acquisition of short-term investment securities		(98,670,000)		(5,380,000)
Acquisition of long-term financial instruments		(2,000)		(93,016,649)
Acquisition of long-term investment securities		(43,564,729)		(5,469,870)
Acquisition of investment securities accounted for using the equity method		(46,914,540)		(18,524,860)
Acquisition of property, plant and equipment		(374,957,250)		(286,390,045)
Payment of severance insurance deposits		(180,770,705)		(44,140,917)
Acquisition of intangible assets		(57,006,275)		(46,258,889)
Acquisition of other investment assets		(1,476,566)		(2,196,327)
Net cash used in investing activities		**(878,066,319)**		**(195,030,478)**
Cash flows from financing activities:				
Proceeds from short-term borrowings		265,276,790		3,034,727,640
Issuance of debentures		-		40,805,041
Proceeds from long-term borrowings		186,981,514		129,333,867
Disposal of treasury stock		-		370,046,757
Repayment of short-term borrowings		(415,494,648)		(3,671,995,497)
Repayment of current maturities of long-term borrowings and other long-term liabilities		(516,862,072)		(1,131,895,514)
Repayment of debentures		(20,586,770)		(400,538,195)
Repayment of long-term borrowings		(223,687,745)		(90,698,970)
Payment of cash dividends		(96,740,184)		-
Net cash used in financing activities		**(821,113,115)**		**(1,720,214,871)**
Net increase in cash and cash equivalents		124,817,955		215,558,909
Cash and cash equivalents at the beginning of the year		233,395,481		17,836,572
Cash and cash equivalents at the end of the year (Note 27)	**W**	**358,213,436**	**W**	**233,395,481**

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: W5,000, authorized: 160,000,000 shares) of common stock are issued and 64,493,456 shares of common stock are outstanding as of December 31, 2004. Of the total issued shares, Mong-Joon Chung, Kumgang Korea Chemical Co., Ltd., Hyundai Mipo Dockyard Co., Ltd., GIS-Prudential Assurance Ltd. and Hyundai Motor Co., Ltd. own 10.80%, 8.15%, 5.70%, 2.90% 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 W400,000 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, 2004. 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.

2. Summary of Significant Accounting Policies:

Basis of Financial Statement Presentation

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

The Company prepared its financial statements as of December 31, 2004 in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 10 and No. 13, effective from January 1, 2004.
Major changes compared with the standards applied in preparing the financial statements as of December 31, 2003 are as follows:

Statements of Korea Accounting Standards	Major changes
No.10 - Inventories	Supplemental accounting policies
No.13 - Troubled Debt Restructurings	Supplemental accounting policies

Except for the accounting changes above, the significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

Revenue Recognition

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

Under the percentage-of-completion method, revenues are recognized based on the percentage of costs incurred (including man hours and raw material costs) over total estimated costs for each contract. As a result, the timing of revenue recognition of which the Company reports may differ materially from the timing of actual contract payments received. The Company's estimates reflect information during construction activities. In addition, since most contracts are completed over several months, the timing of the recognition of related revenues could have a significant impact on quarterly operating results. The revenue recognized in excess of the payment received by the Company is reflected as accounts receivable, while the payments received in excess of the revenue recognized by the Company is reflected as advances from customers. The expenditures incurred before the construction contract is entered into are recognized as prepaid construction costs, if they are directly related to making a contract, separately identifiable and reliably measurable, and an agreement to construction is probable. The prepaid construction costs are transferred to construction cost at the commencement of the construction. The Company adopted early the written accounting reporting opinion (2005-1), which was issued by the Financial Supervisory Service, on the currency hedging account of the foreign currency long-term contracts in preparing its financial statements as of December 31, 2004, and it was applied prospectively from 2004 because the retrospective effect of this new accounting policy cannot reasonably be determined.

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Classification of Securities

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

Valuation of Securities

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

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

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

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

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

Investment Securities Accounted for Using the Equity Method

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

Property, Plant and Equipment and Related Depreciation

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

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

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

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

Lease Transactions

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

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

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

Intangible Assets

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

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

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

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

Discounts on Debentures

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

Foreign Currency Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing exchange rates on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Seoul Money Brokerage Service Ltd Basic Rate, which was W1,043.80 and W1,197.80 to US$1.00 at December 31, 2004 and 2003, 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 W1,005,940,296 thousand and W972,164,618 thousand as of December 31, 2004 and 2003, respectively (see Note 11). Accrued severance benefits are funded approximately 78.2% and 70.3% as of December 31, 2004 and 2003, 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 are 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 to hedge the exposure to changes in foreign exchange rate. As of December 31, 2004 the Company deferred the gain of W208,565 million on valuation of the effective portion of derivative instruments for cash flow hedging purposes from forecasted exports as capital adjustments. Also, for the year ended December 31, 2004, the Company recognized the net gain of W32,712 million on valuation of the ineffective portion of such instruments and the other derivative instruments in current operations.

The period in which the forecasted transactions are expected to occur is within 18 months as of December 31, 2004 and the net gain on valuation recorded as capital adjustments as of December 31, 2004 amounting to W147,310 million will be realized in the operation within 12 months as of December 31, 2004. Total discounted premium and gain on valuation of outstanding derivatives of W255,760 million on outstanding derivatives transaction not to be executed as of December 31, 2004 is recorded in the current assets.

3. Restricted Financial Instruments:

As of December 31, 2004 and 2003, financial instruments amounting to W6,833,777 thousand and W7,405,130 thousand, respectively, which are included in cash & cash equivalents and long-term financial instruments are subject to withdrawal restrictions in relation to certain short-term and long-term borrowings, and ship construction contracts (see Notes 9 and 10).

4. Inventories:

Inventories as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004	2003
Merchandise	W 10,121,918	W 13,118,276
Finished products	64,170,395	58,848,301
Work-in-process	54,957,536	55,148,986
Materials	288,371,870	184,526,646
Supplies	9,329,659	8,034,537
Materials in-transit	710,185,363	608,221,038
	W 1,137,136,741	**W 927,897,784**

5. Short-term and Long-term Investment Securities:

(1) Short-term investment securities consist of beneficiary certificates of W126,681,848 thousand and W2,701,795 thousand as of December 31, 2004 and December 31, 2003, respectively. All short-term investment securities are classified into available-for-sale securities. Available-for-sale securities are stated at fair value, which was calculated at the market discount determined by independent appraiser with unrealized holding gain (loss) on valuation of available-for-sale securities amounting to W(389,505) thousand and W11,795 thousand in capital adjustments for the years ended December 31, 2004 and 2003, respectively.

(2) Long-term investment securities as of December 31, 2004 and 2003, all of which are classified into available-for-sale, consist of the following:

Korean won (in thousands)

	2004		2003	
Available-for-sale :				
Equity securities stated at fair value	W	96,717,355	W	250,954,431
Equity securities stated at acquisition cost		58,570,360		62,892,075
Debt securities		3,978,422		28,950,923
	W	**159,266,137**	**W**	**342,797,429**

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

Korean won (in thousands)

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

(*) Koentec Co., Ltd. was reclassified to equity securities stated at fair value from equity securities stated as acquisition cost as its stock was listed on the KOSDAQ in 2004.

Equity securities stated at fair value included in long-term investment securities as of December 31, 2003 consist of the following:

Korean won (in thousands)

Company	Number of shares	% of ownership	Historical cost		Book value	
Hyundai Motor Company	3,735,000	1.70	W	59,077,954	W	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
			W	**293,156,277**	**W**	**250,954,431**

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

Korean won (in thousands)

Company	Number of shares	% of ownership	Historical cost	Book value(**)
Unlisted equity securities: (**)				
Hyundai Asan Corp.	894,984	9.16	W 44,749,200	W 9,761,579
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	0.13	11,538,753	486,849
Yunhap Capital Co., Ltd.	2,000,000	9.99	10,000,000	10,000,000
Bexco Ltd.	946,000	7.96	9,460,000	9,460,000
Korea Thrunet Co., Ltd.	13,066	0.17	7,947,667	-
Hunelec Engineering & Technologies Ltd. (*)	-	100.00	26,302	26,302
Others (*)	-	-	9,194,542	8,915,392
			141,953,885	**53,161,924**
Other investments:				
Investments in capital (*)	-	-	5,447,696	5,408,436
			W 147,401,581	**W 58,570,360**

Equity securities stated at acquisition cost 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	W 44,749,200	W 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
Korea 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
			W 148,448,848	**W 62,892,075**

(*) In conformity with financial accounting standards in the Republic of Korea, the equity securities of Hunelec Engineering & Technologies Ltd., Hyundai S/V Indonesia, Hyundai Malaysia and HHI Mauritius Ltd., Hyundai-Enova I.T.C, etc. were not accounted for using the equity method since the Company believes the changes in the investment value resulting from the changes in the net assets of the investees, whose individual beginning balance of total assets or paid-in capital as of December 31, 2004 and 2003 is less than w7,000 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 year end was valuated at the net book value of the most available financial statements.

Long-term investment securities of Hyundai Asan Co., Ltd. has been determined to be impaired and the impairment loss amounting to W3,235,189 thousand is accounted for non-operating expenses for the year ended December 31, 2004.

(5) Debt securities included in long-term investment securities as of December 31, 2004 are as follows:

Korean won (in thousands)

	Historical cost	Book value
Available-for-sale		
Government and municipal bonds	W 3,592,107	W 3,978,422

Maturities of debt securities included in long-term investment securities as of December 31, 2004 are as follows:

Korean won (in thousands)

2006.01 ~ 2009.12	W 3,972,505
2010.01 ~ 2014.12	5,917
	W 3,978,422

(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, 2004, are as follows.

Korean won (in thousands)

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

In 2004, equity security of Hyundai Motor Company were disposed to improve its financial structure. Also, all shares of Chohung Bank were disposed in connection with incorporation of Chohung Bank as a wholly-owned subsidiary of Shinhan Financial Group. Accordingly, gain (loss) on valuation of long-term investment securities in capital adjustments was recognized in current operation.

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)	Impairment loss	Ending balance
Hyundai Motor Company	W 44,568,296	W 84,971,250	W -	W 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 Motors 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
	W (72,735,346)	**W 88,368,975**	**W (9,203,244)**	**W 24,836,873**

6. Investment Securities Accounted for Using the Equity Method:

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

Korean won (in thousands)

Company	Number of shares	% of ownership	Historical cost	Book value
Hyundai Oilbank	81,167,566	33.12	W443,583,902	W 408,612,233
Hyundai Finance Corp.	12,350,000	67.49	78,197,738	71,732,244
Hyundai Samho Heavy Industries Co., Ltd.	37,967,000	94.92	204,259,700	391,529,980
Changzhou Hyundai Construction Machinery Co., Ltd.	-	60.00	20,215,057	31,805,716
Beijing Hyundai Construction Machinery Co., Ltd.	-	60.00	15,661,020	12,713,797
MOST #3 Venture Investment	130	24.53	13,000,000	6,973,158
MIC99-9 STIC IT Partnership	1,000	25.00	10,000,000	7,573,763
Incheon Airport Energy	3,284,884	31.00	16,424,420	8,206,616
HITC-Hyundai Hightech Investment	1,000	50.00	10,000,000	6,852,929
Hyundai & Terasource D-Convergence Venture Investment	1,000	50.00	10,000,000	5,692,060
MIC 99-1 IT Venture Partnership	1,000	40.82	10,012,055	5,951,967
Hyundai Jiangsu Construction Machinery Co., Ltd.	-	60.00	17,662,068	8,765,148
Hyundai Elprom Trafo AD	12,155,829	99.09	11,620,593	14,171,732
New Korea Country Club	16,457	20.00	500,000	1,968,313
Hyundai Dongahn Steel Tower	-	54.99	1,231,036	2,445,544
Hyundai Heavy Industries Europe N.V.	10	100.00	35,656,728	11,078,425
Hyundai Vinashin Shipyard	-	10.00	2,543,678	3,119,739
Yantai Hyundai Moon Heavy Industries Co., Ltd.	-	55.00	5,842,858	5,842,858
Jiangsu Hyundai Nanzi Electric Co., Ltd.	-	80.00	18,256,250	14,639,411
Hyundai Construction Equipment U.S.A.	23,900,000	100.00	26,712,810	3,772,978
Hotel Hyundai Vladivostock (*)	-	40.00	3,870,566	-
			W955,250,479	**W1,023,448,611**

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

(2) 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	W443,583,902	W298,456,000
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	35,710,197
Beijing Hyundai 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	8,005,976
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 Dongahn 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	-
			W912,137,010	**W803,104,770**

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

(3) Under the equity method, the differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized (reversed) over the reasonable periods within 20 years and the changes in the differences in 2004 are as follows:

Korean won (in thousands)

Company	Beginning balance	Increase (Decrease)	Amortization	Ending balance
Hyundai Oilbank	W 2,480,445	W -	W 620,111	W 1,860,334
Hyundai Samho Heavy Industries Co., Ltd.	24,759,418	59,740	7,103,989	17,715,169
MIC 99-1 IT Venture Partnership	2,411	-	2,411	-
Hyundai Elprom Trafo AD	(263,739)	(45,745)	(141,018)	(168,466)
Hyundai Vinashin Shipyard	-	(990,852)	(297,256)	(693,596)
	W 26,978,535	**W (976,857)**	**W 7,288,237**	**W 18,713,441**

(4) The movements of investment securities using the equity method for the year ended December 31, 2004 are as follows:

Korean won (in thousands)

Company	Beginning balance	Gain (Loss)(*)	Other	Ending balance
Hyundai Oilbank	W 298,456,000	W 102,419,613	W 7,736,620	W 408,612,233
Hyundai Finance Corp.	71,868,917	(490,120)	353,447	71,732,244
Hyundai Samho Heavy Industries Co., Ltd.	319,567,899	60,276,126	11,685,955	391,529,980
Changzhou Hyundai Construction Machinery Co., Ltd.	35,710,198	4,252,460	(8,156,941)	31,805,716
Beijing Hyundai Construction Machinery Co., Ltd.	8,072,320	141,958	4,499,519	12,713,797
MOST #3 Venture Investment	10,517,611	(3,544,453)	-	6,973,158
MIC99-9 STIC IT Partnership	8,005,975	(2,177,723)	1,745,510	7,573,763
Incheon Airport Energy	7,548,909	40,990	616,717	8,206,616
HITC-Hyundai Hightech Investment	7,576,106	(593,508)	(129,669)	6,852,929
Hyundai & Terasource D-Convergence Venture Investment	8,037,962	(2,345,902)	-	5,692,060
MIC 99-1 IT Venture Partnership	6,226,726	(229,171)	(45,588)	5,951,967
Hyundai Jiangsu Construction Machinery Co., Ltd.	7,126,380	(6,822,271)	8,461,039	8,765,148
Hyundai Elprom Trafo AD	7,200,555	1,530,433	5,440,744	14,171,732
New Korea Country Club	1,631,816	336,497	-	1,968,313
Hyundai Dongahn Steel Tower	2,306,995	792,054	(653,505)	2,445,544
Hyundai Heavy Industries Europe N.V.	3,250,401	8,854,627	(1,026,603)	11,078,425
Hyundai Vinashin Shipyard	-	1,088,044	2,031,695	3,119,739
Yantai Hyundai Moon Heavy Industries Co., Ltd.	-	-	5,842,858	5,842,858
Jiangsu Hyundai Nanzi Electric Co., Ltd.	-	(2,259,575)	16,898,986	14,639,411
Hyundai Construction Equipment U.S.A.	-	1,564,148	2,208,830	3,772,978
Hotel Hyundai Vladivostock (**)	-	-	-	-
	W 803,104,770	**W 162,834,227**	**W 57,509,614**	**W 1,023,448,611**

(*) 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, 2004 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.

Decrease in the investee's retained earnings in 2004 amounting to W5,975,174 thousand including the reflection of deferred income tax adjustment accounting to W2,524,363 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 W40,880,034 thousand as of December 31, 2004, including the increase of W28,620,184 thousand for the year ended December 31, 2004.

7. Property, Plant and Equipment:

Property, plant and equipment as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004	2003
Buildings and structures	W 2,186,748,996	W 2,145,030,457
Machinery and equipment	1,884,125,436	1,784,140,319
Ships	177,581,214	115,803,976
Vehicles	23,513,947	22,669,797
Tools, furniture and fixtures	800,563,073	758,384,079
	5,072,532,666	**4,826,028,628**
Less: accumulated depreciation	(2,152,147,108)	(1,869,119,594)
	2,920,385,558	**2,956,909,034**
Land	1,278,859,636	1,292,195,299
Construction in-progress	127,386,784	86,140,316
	W 4,326,631,978	**W 4,335,244,649**

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

Korean won (in thousands)

	Land	Buildings	Structures	Machinery and equipment	Other	Total
Beginning of year	W1,292,195,299	W1,545,392,434	W599,638,024	W1,784,140,319	W 982,998,167	W6,204,364,243
Acquisition and other	12,531,422	33,057,345	18,546,030	114,794,180	175,012,214	353,941,191
Disposal	(25,867,085)	(9,416,554)	(468,283)	(14,809,063)	(28,965,363)	(79,526,348)
End of year	**W1,278,859,636**	**W1,569,033,225**	**W617,715,771**	**W1,884,125,436**	**W1,129,045,018**	**W6,478,779,086**
Depreciation	W -	W 39,325,726	W 15,418,093	W 182,156,652	W 85,868,961	W 322,769,432
Accumulated depreciation	W -	W 244,185,817	W109,423,861	W1,092,626,895	W 705,910,535	W2,152,147,108

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 year	W1,222,538,655	W1,506,506,446	W559,415,486	W1,663,549,663	W1,036,840,433	W5,988,850,683
Acquisition and other	76,989,815	43,627,844	40,224,951	136,032,820	(12,905,940)	283,969,490
Disposal	(7,333,171)	(4,741,856)	(2,413)	(15,442,164)	(40,936,326)	(68,455,930)
End of year	**W1,292,195,299**	**W1,545,392,434**	**W599,638,024**	**W1,784,140,319**	**W 982,998,167**	**W6,204,364,243**
Depreciation	W -	W 38,290,720	W 14,682,132	W 168,725,331	W 81,154,952	W 302,853,135
Accumulated depreciation	W -	W 206,534,550	W 94,061,283	W 920,291,579	W 648,232,182	W1,869,119,594

A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately W1,530,094 million as of December 31, 2004. The Company maintains insurance coverage against fire and other casualty losses of up to W3,844,608 million for ships and sea structures under construction and the insurance proceed of W2,627,613 million is pledged as collateral for loans from Export-Import Bank of Korea and other banks as of December 31, 2004 (See Notes 9 and 10).

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to W2,286,150 million as of December 31, 2004. The Company also maintains insurance on cargo against damage and claims losses of up to W1,421,482 million for products being exported and imported as of December 31, 2004.

A substantial portion of property, plant and equipment is pledged as collateral for various bank loans up to W389,264 million as of December 31, 2004 (see Notes 9 and 10).

As of December 31, 2004, the value of land owned by the Company is W1,004,538 million, as announced by the Korean government.

8. Intangible Assets:

Intangible assets as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004	2003
Development costs	W 132,691,315	W 115,486,197
Others	28,292,264	30,331,548
	W 160,983,579	**W 145,817,745**

Development costs included in intangible assets as of December 31, 2004 and 2003 are summarized as follows:

Korean won (in thousands)

	2004	2003
Beginning balance	W 115,486,197	W 105,594,524
Capitalized	57,006,275	46,258,889
Amortized	(32,959,055)	(36,367,216)
Disposed	(6,842,102)	-
Ending balance	**W 132,691,315**	**W 115,486,197**

Research costs amounting to W16,021,643 thousand and W14,288,632 thousand and ordinary development costs amounting to W38,693,631 thousand and W36,927,000 thousand are included in selling and administrative expenses for the years ended December 31, 2004 and 2003, respectively. The amortized development costs of W32,959,055 thousand and W36,367,216 thousand are included in the cost of sales for the years ended December 31, 2004 and 2003, respectively.

9. Short-term Borrowings:

Short-term borrowings as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	Interest rate as of December 31, 2004 (%)	2004	2003
Foreign trade financing	-	-	3,611,611
Pre-delivery financing	-	-	146,606,248
		W -	**W 150,217,859**

Certain property, plant and equipment are pledged as collateral for the above short-term borrowings (see Note 7).

10. Debentures and Long-term Borrowings:

Long-term borrowings as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	Interest rate as of December 31, 2004 (%)	2004	2003
Non-guaranteed debentures	6ML+1.9 ~ 7.01	W 661,570,000	W 1,194,670,000
Won currency loans	See Detail	-	8,055,091
Foreign currency loans	"	1,151,908	56,446,825
		662,721,908	1,259,171,916
Less: Discounts of debentures		-	(4,162,155)
Current maturities		(661,953,969)	(516,473,827)
		W 767,939	**W 738,535,934**

Debentures comprise publicly issued debentures of W505,000 million and W1,015,000 million and private debentures of W156,570 million and W179,670 million as of December 31, 2004 and 2003, respectively. The Company made an early redemption of debentures amounting to W100,800 million for the year ended December 31, 2004 and recorded W1,487 million as loss on redemption of debentures.

Won currency loans as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	Interest rate as of December 31, 2004 (%)	2004	2003
Pre-delivery financing from EXIM Bank of Korea	-	W -	W 8,055,091
Less: current maturities		-	(8,055,091)
		W -	**W -**

Foreign currency loans as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	Interest rate as of December 31, 2004 (%)	2004	2003
Facility loans from CLB and other bank	6ML+0.675	W 1,151,908	W 3,559,177
Pre-delivery financing from EXIM Bank of Korea	-	-	52,887,648
		1,151,908	56,446,825
Less: current maturities		(383,969)	(18,418,736)
		W 767,939	**W 38,028,089**

Certain property, plant and equipment are pledged as collateral for the above loans (see Note 7).

The maturities of long-term debt as of December 31, 2004, before discounts, are as follows:

Korean won (in thousands)

	Debentures	Foreign currency loans	Total
2006. 1~2006. 12	W -	W 383,969	W 383,969
2007. 1~2007. 12	-	383,970	383,970
	W -	**W 767,939**	**W 767,939**

11. Accrued Severance Benefits:

Accrued severance benefits as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004	2003
Beginning balance	W 972,164,618	W 898,750,235
Severance payment	(124,481,685)	(88,956,286)
Provisions	158,257,363	162,370,669
	1,005,940,296	972,164,618
Less: Severance insurance	(786,912,120)	(683,075,175)
National pension	(51,333,910)	(57,314,535)
Ending balance	**W 167,694,266**	**W 231,774,908**

Accrued severance benefits are funded approximately 78.2% and 70.3% as of December 31, 2004 and 2003, 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.

12. Commitments and Contingencies:

(1) The Company has entered into bank overdraft agreements with 7 banks amounting to W201,000 million as of December 31, 2004.

(2) As of December 31, 2004, the Company has entered into credit facilities agreements with various banks for the Company's exports and imports such as letter of credit including usance L/C, totaling US$1,555,629 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 9 blank checks / notes as of December 31, 2004.

(4) The outstanding balance of the trade accounts and notes receivable sold to financial institutions with recourse is US$82,591 thousand, equivalent to W86,208 million, as of December 31, 2004.

(5) As of December 31, 2004, the Company is contingently liable for loan guarantees and the performance guarantees of construction contracts of its subsidiaries amounting to US$145,256 thousand and W18,850 million. The Company has provided certain performance guarantees amounting to US$1,843,811 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Also, the Company entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd. ("HSHI") for the construction of 64 ships (Contract amount: US$3,720,827 thousand).

(6) In connection with the Company's loans and contract performance guarantees, the Company has also been provided with guarantees up to W1,589,578 million and US$6,612,649 thousand by various banking facilities.

(7) In an effort to alleviate fluctuations on the future cash flows that would be incurred out of the timing difference between the receipt of the ship sales and the payment of imported raw-materials, the Company has entered into currency forward contracts with various banks including Chohung Bank. As of December 31, 2004, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to W208,565 million as gain on valuation of foreign exchange forward contracts in capital adjustments. The expected period of exposure on cash flow risk, where cash flow hedging accounting is applied, is approximately within 18 months, and the above gain will be realized as addition to transaction gain or deduction from transaction loss within 12 months as of December 31, 2004. The valuation of the ineffective portion of the hedge is reflected in current operations.

Such contracts as described above that were incurred for the year ended December 31, 2004 resulted in gain on valuation of foreign exchange forward contracts amounting to W32,712 million as other income. As of December 31, 2004, in relation with the derivative contracts, the Company accounts for foreign currency forward contracts as current assets amounting to W255,760 million.

(8) 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, 2004 are as follows:

	Won currency (in thousands)	Foreign currency (in dollars)	Total (in thousands)
2005.1.1~2005. 12.31	W 37,560,924	US$ 9,395,511	W 47,367,958
2006.1.1~2006. 12.31	5,559,636	5,724,261	11,534,620
	W 43,120,560	**US$ 15,119,772**	**W 58,902,578**

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

(10) The Company has entered jointly into several agreements to dispose the common shares of Aluminum 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.

(11) Pursuant to the resolution of the board of directors on March 14, 2003, the Company entered into a common stock conversion agreement (the “Agreement”) with IPIC, main shareholder of Hyundai Oilbank, together with US£§450 million financial support of IPIC in 2002, and the Agreement has been finally executed on February 28, 2004. According to the Agreement, the Company has converted 16,233,514 shares of common stock, as part of 81,167,566 shares of common stock owned by the Company, to non-voting preference stock, which will be converted back to common stock upon satisfaction of certain condition. Also, the Company has provided call option right to IPIC to buy certain Hyundai Oilbank’s shares owned by the Company until Hyundai Oilbank completes the payment of dividend obligation of US£§200 million to IPIC, which holds voting preference stock.

13. Litigations:

(1) A penalty amounting to W19,852 million has been imposed on the Company as a result of an investigation of the Korea Fair Trade Commission for unfair transactions with affiliated companies, relating to the transactions from 1998 until 2000. However, the Company has filed an administrative appeal and the case is pending in the Supreme Court and the High Court as of December 31, 2004. Some of the above pending litigations were finalized with the Supreme Court’s

judgment in favor of the Company on April 9, 2004. As a result, the Korea Fair Trade Commission refunded W194 million. In addition, the Company has been brought into 13 legal actions by its employees with claims amounting to W1,150 million for damages from industrial disaster, all of which are pending as of December 31, 2004.

(2) Hynix Semiconductor Inc. (“HSI”) sold 13 million shares of Hyundai Investment Trust & Securities Co., Ltd. (“HITS”) for US$13.46 per share to Canadian Imperial Bank of Commerce (“CIBC”) on June 4, 1997. In relation to this transaction, the Company made a Share Option Agreement with CIBC under which the Company was obligated to buy back the 13 million shares of HITS for US$16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from HSI and Hyundai Securities Co., Ltd. (HSC) on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 24, 2000, the Company repurchased the 13 million shares from CIBC for US$ 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 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company won the litigation for the settlement of claim amounting to W171,800 million of principal and accrued interest thereon and recovered W220,933 million.

However, the Company didn’t accept the court’s decision. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal to a high court for claiming the whole amount of the principal and accrued interest. Also, the Company has filed a lawsuit for the advanced payments and reimbursable expense for those companies that were not covered in the litigation above. The Company has provided an allowance for doubtful accounts on the above amount as of December 31, 2004. The management and legal adviser of the Company predict that the case will be decided in the Company’s favor; however, the ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

(3) Pursuant to the restructuring of financial institutions, Chohung Bank, Kangwon Bank and Hyundai Investment Bank (“HIB”), a former subsidiary of the Company, were merged in September 1999. A special tax for rural development amounting to W47,300 million and a special tax for fictitious dividend income amounting to W26,073 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. The tax of W18,400 million of the total W47,300 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. On July 8, 2004, the Supreme Court rejected the Seoul high court’s decision that Chohung Bank partially won the case, and ordered that the Seoul High Court reopen the case and propose judgment. Accordingly Seoul High Court sustained the decision of the Supreme Court on December 24, 2004 and the case is pending in the Supreme Court as of December 31, 2004. In addition, the Company filed an assessment petition to National Tax Tribunal (NTT) in order to have the loss incurred in relation with the merger of Kang Won Bank and Chohung Bank included as a deductible item and the case is still in progress. The ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

(4) On February 17, 2000, the Company has been brought into legal action by Hee-in Kang and 33 individuals with claim for legal allowances and additional severance benefits payable amounting to W1,922 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, 2004. The Company recorded such additional payables as long-term accrued expenses based on the results of first trial and additional collective agreement. The ultimate effect of these litigations cannot presently be determined and no adjustment that may result has been made in the accompanying financial statements.

(5) The Company has been brought into legal action by Asan dredging S.A. with claim for advanced payment of dredger amounting to W23,312 million on September 4, 2003 and by TATA Daewoo Commercial Vehicles Co., Ltd. with claim for performance of accepting goods and payment amounting to W4,978 million on June 24, 2004, which are pending as of December 31, 2004.

14. Major Business Events:

(1) On February 22, 2002, the Company applied independence from the Hyundai Group to Fair Trade Commission. As a result, the Company was officially recognized to be independent from the Hyundai Group on February 28, 2002.

(2) The Company transferred its business of transportation and stevedoring, including all assets and liabilities amounting to W2,399 million belonging to the business, to Hyundai Samho Industries Co., Ltd. on February 1, 2004.

15. Capital Surplus:

Capital surplus as of December 31, 2004 and 2003 is as follows:

Korean won (in thousands)

	2004	2003
Paid-in capital in excess of par value	W 843,324,390	W 843,324,390
Asset revaluation surplus	1,862,725,081	1,862,725,081
Other capital surplus	65,334,216	65,334,216
	W 2,771,383,687	**W 2,771,383,687**

Other capital surplus is composed of W33,381,253 thousand of gain on disposal of investment in Hyundai Mipo Dockyard Co. Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., W10,122,896 thousand of gain on disposal of treasury stock and W21,830,067 thousand of gain on business combination and others.

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

16. Retained Earnings:

Retained earnings as of December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004		2003	
Appropriated :				
Legal reserve (A, C)	W	131,024,243	W	121,350,225
Reserve for business rationalization (B)		87,276,798		87,276,798
Reserve for overseas market development (D)		-		6,666,667
Reserve for export losses (D)		-		3,333,333
Reserve for research and human development (D)		141,932,283		303,097,899
Other voluntary reserves		182,450,720		108,270,000
	W	**542,684,044**	**W**	**629,994,922**

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

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

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

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

17. Capital Adjustments:

As of December 31, 2004 and 2003, capital adjustments are as follows:

Korean won (in thousands)

	2004		2003	
Gain on valuation of short-term and long-term investment securities (Note 5)	W	(1,901,579)	W	24,848,668
Gain on valuation of investment securities accounted for using the equity method (Note 6)		40,880,035		12,259,850
Gain on valuation of foreign exchange forward contracts(Note 12)		208,564,969		-
Treasury stock		(351,821,818)		(351,821,818)
	W	**(104,278,393)**	**W**	**(314,713,300)**

The Company has been operating special money in trust for treasury stock amounting to W705,000 million since January 2000 for the purpose of stabilizing the share price of the Company, and disposed 11,631,580 shares of treasury stock in October 2003. The acquisition cost of treasury stock amounting to W351,821,818 thousand (11,506,544 shares of treasury stock) was recorded as capital adjustments as of December 31, 2004.

18. Dividends:

(1) Proposed dividends for 2004 and 2003 are summarized below.

Korean won (in thousands)

Year	Description	Number of shares (*)	Par value	Dividend rate	Cash dividend	Net income	Dividend to net income
2004	Common stock	64,493,456	W5,000	25 %	W80,616,820	W 36,719,496	219.55%
2003	Common stock	64,493,456	W5,000	30 %	W96,740,184	W113,857,159	84.97%

(*) Net of 11,506,544 shares of treasury stock as of December 31, 2004 and 2003

(2) Yields to market price of proposed dividend for 2004 and 2003 are as follows:

Year	Description	Dividend per share	Closing price	Yield to market price
2004	Common stock	W 1,250	W 34,450	3.6%
2003	Common stock	W 1,500	W 37,500	4.0%

19. Sales and Cost of Sales:

(1) Sales and cost of sales by major industry segment for the years ended December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004		2003	
	Sales	Cost of sales	Sales	Cost of sales
Shipbuilding	W 4,231,363,655	W 4,085,224,015	W 3,758,363,884	W 3,205,056,818
Offshore & Engineering	1,511,491,545	1,439,919,116	1,239,385,016	1,150,407,190
Industrial Plant & Engineering	614,743,772	637,897,931	654,510,220	719,989,481
Engine & Machinery	750,864,007	648,157,588	718,372,483	603,100,283
Electro Electric Systems	824,480,185	758,304,433	824,930,297	784,848,083
Construction Equipment	1,033,504,083	856,610,672	845,219,831	638,347,568
Others	118,036,908	114,388,621	112,718,221	96,449,988
	W 9,084,484,155	**W 8,540,502,376**	**W 8,153,499,952**	**W 7,198,199,411**

(2) The Company's outstanding contracts as of December 31, 2004 are summarized as follows:

Korean won (in millions)

	Shipbuilding	Others	Total
Beginning of year	W 9,991,278	W 4,465,745	W 14,457,023
Increase during the year	8,860,219	5,129,708	13,989,927
Recognized as revenue in current operations	(4,231,364)	(4,853,120)	(9,084,484)
End of year	**W 14,620,133**	**W 4,742,333**	**W 19,362,466**

As of December 31, 2004, 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 12).

(3) As of December 31, 2004, accumulated cost of construction and others connected with construction in progress by major industry segment are as follows:

Korean won (in millions)

	Accumulated cost of construction	Accumulated profit and loss	Advances on construction contracts	Accounts receivable	Billed receivables on construction contracts	Not billed receivables on construction contracts
Shipbuilding	W 5,986,665	W 698,688	W4,655,205	W 615,706	W 248,404	W 367,302
Offshore & Engineering	3,613,516	252,057	217,356	446,327	96,745	349,582
Industrial Plant & Engineering	2,116,705	26,837	67,300	315,606	125,171	190,435
Engine & Machinery	1,089,905	174,173	86,634	161,106	107,437	53,669
Electro Electric Systems	827,325	146,709	4,842	254,748	92,314	162,434
Construction Equipment (*)	-	-	8,972	102,618	102,618	-
Others (*)	-	-	293	277,980	277,980	-
	W13,634,116	**W1,298,464**	**W5,040,602**	**W2,174,091**	**W1,050,669**	**W1,123,422**

(*) Industry segment recognized revenues by delivery basis.

20. Income Tax Expense:

(1)Income tax expense for the years ended December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004	2003
Current income tax	W 12,769,738	W 4,944,797
Deferred income taxes	3,532,277	69,930,548
Income tax deducted from gain on disposal of treasury stock	-	(4,276,671)
Income tax adjusted in retained earnings before appropriations (*)	2,524,363	(475,323)
Income tax expense	18,826,378	70,123,351
Income before income tax expense	55,545,874	183,980,510
Effective income tax rate	**33.9%**	**38.1%**

(*) 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, 2004 and 2003, 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)

	2004	2003
Income before income tax	W 55,545,874	W 183,980,510
Addition	505,580,298	552,038,842
Deduction	(493,548,717)	(723,361,419)
Taxable income	**W 67,577,455**	**W 12,657,933**

(3) Details of changes in, and effects on income tax expense of, cumulative temporary differences for the years ended December 31, 2004 and 2003 are summarized as follows:

Korean won (in thousands)

	December 31, 2004		December 31, 2003	
Description	Beginning	Ending	Beginning	Ending
Investment securities accounted for using the equity method	W 145,546,693	W (15,132,747)	W 252,390,960	W 145,546,693
Loss on valuation of investment securities	95,407,143	98,642,333	481,089,763	96,267,047
Reserve for overseas market development	-	-	(6,666,667)	-
Reserve for export losses	-	-	(3,333,333)	-
Reserve for technology development	(141,932,283)	(82,023,970)	(303,097,899)	(141,932,283)
Provision for bad debt expense	173,884,070	217,762,592	140,741,675	173,884,070
Accrued income	(1,032,796)	(1,619,938)	(1,016,627)	(1,032,796)
Loss on valuation of receivables	859,903	859,903	4,674,353	859,903
Loss on valuation of short-term investment securities and others	45,395,375	415,726	49,579,956	45,395,375

(continued)

Korean won (in thousands)

Description	December 31, 2004 Beginning	December 31, 2004 Ending	December 31, 2003 Beginning	December 31, 2003 Ending
Gain on valuation of short-term investment securities and others	(2,336,297)	(170,993)	(2,126,511)	(2,336,297)
Other	248,935,334	354,640,960	182,182,511	248,075,430
	564,727,142	**573,373,866**	**794,418,181**	**564,727,142**
Tax rate (*)		27.5%		29.7%(27.5%)
Cumulative tax effects		157,677,813		159,617,731
Tax credit carryforward		1,598,575		3,190,934
Deferred income tax assets, end of year		159,276,388		162,808,665
Deferred income tax assets, beginning of year		162,808,665		232,739,213
Changes in deferred income taxes on temporary differences		**W (3,532,277)**		**W (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 on 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, 2004, the Company believes the deferred income tax assets of W159,276,388 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.

21. 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, 2004 and 2003. 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, 2004 and 2003.

Basic income per share and ordinary income per share for the years ended December 31, 2004 and 2003 are calculated as follows:

Korean won

	2004	2003
Net income / ordinary income (in thousands)	W 36,719,496	W 113,857,159
Weighted average number of outstanding common shares (in thousands)	64,493	55,069
Income per share and ordinary income per share (in Korean won)	**W 569**	**W 2,068**

22. 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, 2004 are as follows:

Korean won(in thousands)

Related Party	Sales	Purchases	Receivables	Payables
Hyundai Mipo Dockyard Co., Ltd.	W 159,739,536	W 5,006,225	W 74,725,554	W 667,057
Hyundai Motor Company	25,189,506	27,240,503	13,621,583	2,730,829
Hyundai Samho Heavy Industries Co., Ltd.	241,210,894	28,572,430	98,964,392	12,883,672
Hyundai Corporation	41,430,848	4,391,864	33,074,821	672,347
Hyundai Oilbank	1,030,358	110,150,619	593,167	5,919,218
Changzhou Hyundai Construction Machinery Co., Ltd.	2,270,210	-	-	-
Beijing Hyundai Construction Machinery Co., Ltd.	44,172,798	-	12,704,600	-
Hyundai Heavy Industries Europe N.V.	138,927,308	-	11,546,581	-
Hyundai Construction Equipment U.S.A.	116,338,061	-	18,292,292	-
Hyundai Jiangsu Construction Machinery Co., Ltd.	143,977,493	-	21,765,766	-
Jiangsu Hyundai Nanzi Electric Co., Ltd.	42,900	-	42,900	-
	W 914,329,912	**W 175,361,641**	**W 285,331,656**	**W 22,873,123**

In addition, the Company has entered into rental agreements (receiving deposits of W 778 million and paying deposits of W1,632 million) with Hyundai Motor Company and other affiliated companies as of December 31, 2004. 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 12).

23. ASSETS AND LIABILITES DENOMINATED IN FOREIGN CURRENCIES:

Assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 are as follows:

		Foreign currencies		Korean won (in thousands)	
Account	Currency	2004	2003	2004	2003
Assets:					
Cash and cash equivalents	USD	69,746	113,043	W 72,800,928	W 135,402,431
	EUR	15,763	24,071	22,429,585	36,169,036
	Others			644,820	-
Trade accounts and notes receivable	USD	349,196	335,684	364,490,555	402,082,380
	EUR	8,214	20,588	11,687,976	30,934,922
	Others			15,809,135	16,538,675
Accounts receivable-other	USD	24,567	30,459	25,642,778	36,483,922
	EUR	168	185	239,574	278,028
	Others			1,635,573	83,117
Long-term trade accounts and notes receivable	USD	238,267	280,597	248,703,396	336,098,731
Long-term financial instruments & others	USD	12,821	9,863	13,382,423	11,813,723
	EUR	58	5	83,082	7,533
	Others			13,636,307	7,174,996
				W 791,186,132	**W 1,013,067,494**
Liabilities:					
Trade accounts and notes payable	USD	13,222	10,221	W 13,801,521	W 12,242,832
	EUR	1,516	-	2,157,424	-
	Others			2,284,760	5,809,255
Short-term borrowings	USD	-	2,316	-	2,773,566
	EUR	-	558	-	838,045
Current maturities of long-term borrowings	USD	150,368	15,377	156,953,969	18,418,736
Debentures	USD	-	149,350	-	178,891,540
long-term borrowings	USD	736	31,748	767,939	38,028,089
Accounts payable-other & others	USD	9,152	3,258	9,553,333	3,902,130
	EUR	7,764	8,442	11,047,550	12,685,277
	Others			6,054,910	7,950,800
				W 202,621,406	**W 281,540,270**

24. Financial Information by Industry Segment:

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

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

Korean won (in thousands)

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electric Systems	Construction Equipment	Others
Sales	W4,231,363,655	W1,511,491,545	W614,743,772	W750,864,007	W824,480,185	W1,033,504,083	W118,036,908
Operating income	43,691,162	30,636,599	(98,838,504)	81,131,651	27,438,902	60,250,017	(242,370,611)
Tangible & intangible assets	1,279,958,157	345,139,055	96,933,238	484,807,413	258,849,207	116,633,512	1,905,294,975
Depreciation	(116,387,549)	(36,032,517)	(12,841,432)	(62,301,156)	(38,824,870)	(11,115,517)	(45,266,391)

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

Korean won (in thousands)

	Shipbuilding	Offshore & Engineering	Industrial Plant & Engineering	Engine & Machinery	Electro Electri Systems	Construction Equipment	Others
Sales	W3,758,363,884	W1,239,385,016	W654,510,220	W718,372,483	W824,930,297	W845,219,831	W112,718,221
Operating income	393,007,875	41,019,293	(94,658,842)	94,043,120	4,649,539	115,573,652	(279,122,711)
Tangible & intangible assets	1,196,359,392	297,257,359	139,979,158	464,019,094	266,169,133	102,174,276	2,015,103,982
Depreciation	(105,932,161)	(31,877,427)	(14,301,173)	(58,271,979)	(36,072,289)	(9,638,331)	(46,759,776)

25. Selling and Administrative Expenses:

Selling and administrative expenses for the years ended December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

	2004		2003	
Wages	W	202,802,126	W	199,106,476
Provision for severance benefits		22,464,634		27,448,231
Employee welfare		56,924,993		48,356,893
Advertisement		11,316,173		13,345,980
Ordinary development expenses		38,693,631		36,927,000
Provision for bad debt		86,434,640		69,361,992
Depreciation and amortization		10,587,020		9,899,894
Service charges		45,109,087		34,780,215
Transportation		46,620,531		24,409,721
Sales commission		16,889,429		106,284,540
After-sales service expenses		34,653,978		36,170,457
Others		69,546,321		74,697,216
	W	**642,042,563**	**W**	**680,788,615**

26. Financial Performance in the Last Interim Period:

The financial performance for the three-month periods ended December 31, 2004 and 2003 is summarized as follows:

Korean won(in thousands, except per share amounts)

	2004		2003	
Sales	W	2,464,563,666	W	2,360,091,070
Net loss		(3,864,119)		(644,682)
Net loss per share		(60)		(98)

27. Statements of Cash Flows:

Non-cash transactions for the years ended December 31, 2004 and 2003 are as follows:

Korean won (in thousands)

Name of account	2004	2003
Transfer to short-term investment securities from marketable securities	W -	W 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	44,183,442	50,716,659
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
Transfer to short-term investment securities from long-term investment securities	24,339,359	-
Transfer to investment securities accounted for using the equity method from long-term investment securities	2,543,678	-
Loss on valuation of investment securities (capital adjustments)	26,750,248	5,085,653
Valuation of investment securities accounted for using the equity method (appropriated retained earnings)	8,499,537	1,600,414
Transfer to disposal from investment securities accounted for using the equity method (capital adjustments)	28,620,185	48,022,817
Transfer to accounts receivable-other from investment securities accounted for using the equity method	-	13,516,374
Transfer to property, plant and equipment from construction-in-progress	176,777,867	222,945,993
Gains on valuation of foreign exchange forward contracts(capital adjustments)	341,028,210	-
Transfer to current maturities of debentures from debentures	661,570,000	490,000,000
Transfer to current maturities of long-term borrowings from won currency long-term borrowings	-	8,055,091
Transfer to current maturities of long-term borrowings from foreign currency long-term borrowings	383,969	18,433,223
	W 1,314,696,495	**W 1,997,728,846**

28. Approval of Financial Statements:

The 2004 financial statements to be submitted to the annual shareholders’ meeting are subject to approval by the Board of Directors, which is tabled at their meeting on February 25, 2005.

Affiliated Companies

	Hyundai Mipo Dockyard Co., Ltd.	Hyundai Samho Heavy Industries
Business Line	Shipbuilding, Conversion & Repairs	Shipbuiding
Major Shareholder	Hyundai Samho Heavy Industries Co., Ltd. 34.36%	Hyundai Heavy Industries Co., Ltd. 94.92%
Paid-in Capital	W100,000 million	W200,000 million
Sales	W1,431,397 million	W1,467,142 million
Assets	W1,461,477 million	W2,601,253 million

	Hyundai Finance Corporation	Hyundai Venture Investment Corp.
Business Line	Corporate financing and management consulting	Investment in venture funds
Major Shareholder	Hyundai Heavy Industries Co., Ltd. 67.49%	Hyundai Finance Corporation 68.38%
Paid-in Capital	W91,500 million	W30,000 million
Sales	W11,077 million	W4,786 million
Assets	W118,401 million	W49,836 million

	Mipo Engineering Co., Ltd.	Hyundai Futures Corporation
Business Line	Ship Design & Engineering	Overseas futures and options brokerage
Major Shareholder	Hyundai Mipo Dockyard Co., Ltd. 100%	Hyundai Heavy Industries Co., Ltd. 100%
Paid-in Capital	W1,387 million	W20,000 million
Sales	–	W7,193 million
Assets	W1,567 million	W39,883 million

* as of the fiscal year ended Mar. 31, 2004

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Date of Establishment
Dec. 28, 1973

Paid-in Capital
KRW 380 billion

Common Stock
76,000,000 shares

Number of Employees
25,958

General Shareholders' Meeting
March 18, 2005

Listing
Listed on Korea Stock Exchange in August 1999

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