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**HYUNDAI MOTOR COMPANY
AND SUBSIDIARIES**

CONSOLIDATED
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002
TOGETHER WITH INDEPENDENT
PUBLIC ACCOUNTANTS' REPORT

안진회계법인

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
Hyundai Motor Company:

We have audited the accompanying consolidated balance sheets of Hyundai Motor Company and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity 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. In 2003 and 2002, we did not audit the financial statements of certain subsidiaries, which statements reflect total assets of ₩11,732,826 million (\$9,795,313 thousand) and ₩10,105,983 million (\$8,437,121 thousand), respectively, and total revenues of ₩15,172,943 million (\$12,667,343 thousand) and ₩19,235,200 million (\$16,058,774 thousand), respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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 standards 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, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Motor Company and its subsidiaries as of December 31, 2003 and 2002, and the results of their operations and changes in the shareholders' equity and their cash flows for the years then ended in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 1, in 2003, the Company added two domestic companies including Aju Metal Co., Ltd. and four overseas companies including Hyundai Motor Company Australia (HMCA) to its consolidated subsidiaries. These changes in the scope of consolidation increased the Company's consolidated assets and revenues by ₩2,795,891 million (\$2,334,189 thousand) and ₩528,692 million (\$441,386 thousand), respectively, and decreased consolidated shareholders' equity and consolidated net income by ₩299,582 million (\$250,110 thousand) and ₩368,162 million (\$307,365 thousand), respectively, as compared to the results using the previous scope of consolidation.

As explained in Note 2, the Company prepared its 2003 financial statements in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 2 – "Interim Financial Reporting", No. 4 – "Revenue Recognition", No. 5 – "Tangible Assets", No. 8 – "Investments in Securities" and No. 9 – "Convertible Securities", which are effective from January 1, 2003. For comparative purposes, certain accounts in the 2002 financial statements were reclassified. Also, the statement of income for the year ended December 31, 2002 was revised in conformity with SKAS No. 4. These reclassification and revision do not affect the net assets and net income but resulted in the decrease of sales and cost of sales in 2002 by ₩3,703,293 million (US\$3,091,746 thousand) compared with the results based on the previous method.

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.



Anjin Deloitte LLC

Seoul, Korea
April 4, 2004

Notice to Readers

This report is effective as of April 4, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

| <u>ASSETS</u> | Korean won (in millions) | | Translation into U. S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|--------------|--|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| Current assets: | | | | |
| Cash and cash equivalents (Note 17) | ₩ 4,763,452 | ₩ 2,765,872 | \$ 3,976,834 | \$ 2,309,127 |
| Short-term financial instruments (Note 17) | 4,054,421 | 3,610,223 | 3,384,890 | 3,014,045 |
| Short-term investment securities (Note 4) | 393,798 | - | 328,768 | - |
| Marketable securities (Note 6) | - | 710,474 | - | 593,149 |
| Trade notes and accounts receivable, less allowance for doubtful accounts of ₩284,470 million in 2003 and ₩289,549 million in 2002, and unamortized discount of ₩1,201 million in 2003 and ₩2,820 million in 2002 | 2,703,821 | 2,198,905 | 2,257,323 | 1,835,786 |
| Inventories (Note 3) | 5,498,529 | 3,819,999 | 4,590,523 | 3,189,179 |
| Advances and other, net of allowance for doubtful accounts of ₩177,355 million in 2003 and ₩165,122 million in 2002, and unamortized discount of ₩5,735 million in 2003 and ₩9,639 million in 2002 | 1,918,753 | 2,005,079 | 1,601,898 | 1,673,968 |
| Total current assets | 19,332,774 | 15,110,552 | 16,140,236 | 12,615,254 |
| Non-current assets: | | | | |
| Long-term financial instruments (Note 17) | 208,300 | 102,195 | 173,902 | 85,319 |
| Long-term investment securities (Notes 4 and 17) | 3,591,502 | - | 2,998,415 | - |
| Investment securities accounted for using the equity method (Notes 5 and 17) | 520,171 | 402,465 | 434,272 | 336,004 |
| Investment securities (Note 6) | - | 1,658,808 | - | 1,384,879 |
| Property, plant and equipment, net of accumulated depreciation of ₩7,445,356 million in 2003 and ₩6,415,241 million in 2002 (Notes 7, 8, 9 and 17) | 17,842,898 | 16,745,238 | 14,896,392 | 13,979,995 |
| Intangibles (Note 10) | 1,862,057 | 1,678,110 | 1,554,564 | 1,400,993 |
| Other assets (Note 11) | 1,083,349 | 693,842 | 904,449 | 579,264 |
| Deferred income tax assets (Note 19) | 2,524,618 | 1,366,637 | 2,107,712 | 1,140,956 |
| Total non-current assets | 27,632,895 | 22,647,295 | 23,069,706 | 18,907,410 |
| Other financial business assets (Note 12) | 7,287,008 | 8,367,841 | 6,083,660 | 6,986,009 |
| Total assets | ₩ 54,252,677 | ₩ 46,125,688 | \$ 45,293,602 | \$ 38,508,673 |

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2003 AND 2002

| LIABILITIES AND SHAREHOLDERS' EQUITY | Korean won (in millions) | | Translation into U. S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|---------------------|--|----------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Current liabilities: | | | | |
| Short-term borrowings (Note 13) | ₩ 9,457,854 | ₩ 7,526,948 | \$ 7,896,021 | \$ 6,283,977 |
| Current maturities of long-term debt, net of unamortized discount of ₩5,163 million in 2003 and ₩657 million in 2002 (Note 14) | 5,653,180 | 3,049,849 | 4,719,637 | 2,546,209 |
| Trade notes and accounts payable | 4,230,095 | 4,695,480 | 3,531,553 | 3,920,087 |
| Accrued warranties and product liabilities | 1,220,380 | 901,254 | 1,018,851 | 752,424 |
| Accounts payable-other | 2,356,840 | 2,741,462 | 1,967,641 | 2,288,748 |
| Accrued expenses | 858,883 | 314,674 | 717,050 | 262,710 |
| Income tax payable | 725,739 | 585,447 | 605,893 | 488,769 |
| Other current liabilities | <u>815,259</u> | <u>1,016,682</u> | <u>680,630</u> | <u>848,791</u> |
| Total current liabilities | <u>25,318,230</u> | <u>20,831,796</u> | <u>21,137,276</u> | <u>17,391,715</u> |
| Long-term liabilities: | | | | |
| Long-term debt, net of current maturities (Note 14) | 6,432,270 | 8,010,263 | 5,370,070 | 6,687,480 |
| Accrued severance benefits, net of National Pension payments for employees of ₩104,223 million in 2003 and ₩123,960 million in 2002, and individual severance insurance deposits of ₩1,641,600 million in 2003 and ₩1,513,268 million in 2002 (Note 2) | 1,031,582 | 955,281 | 861,231 | 797,530 |
| Accrued loss on valuation of derivatives (Note 2) | 209,285 | 17,053 | 174,724 | 14,237 |
| Accrued warranties and product liabilities | 3,391,690 | 2,401,220 | 2,831,600 | 2,004,692 |
| Deferred income tax liabilities (Note 19) | 911,537 | 124,295 | 761,009 | 103,769 |
| Other long-term liabilities | 703,381 | 334,966 | 587,228 | 279,651 |
| Total long-term liabilities | <u>12,679,745</u> | <u>11,843,078</u> | <u>10,585,862</u> | <u>9,887,359</u> |
| Other financial business liabilities | <u>-</u> | <u>12,732</u> | <u>-</u> | <u>10,629</u> |
| Total liabilities | <u>₩ 37,997,975</u> | <u>₩ 32,687,606</u> | <u>\$ 31,723,138</u> | <u>\$ 27,289,703</u> |

Commitments and contingencies (Note 24)

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2003 AND 2002

| LIABILITIES AND SHAREHOLDERS' EQUITY | Korean won (in millions) | | Translation into U. S. dollars (Note 2) (in thousands) | |
|--|-----------------------------|--------------|--|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| Shareholders' equity: | | | | |
| Capital stock (Note 15) | ₩ 1,478,603 | ₩ 1,476,454 | \$ 1,234,432 | \$ 1,232,638 |
| Capital surplus | 5,328,775 | 5,286,061 | 4,448,802 | 4,413,142 |
| Retained earnings | | | | |
| (Net income of ₩1,775,481 million in 2003 and ₩1,434,395 million in 2002) | 5,147,775 | 3,677,983 | 4,297,692 | 3,070,615 |
| Capital adjustments (Note 16) | 380,692 | (106,417) | 317,826 | (88,843) |
| Minority interests | 3,918,857 | 3,104,001 | 3,271,712 | 2,591,418 |
| Total shareholders' equity | 16,254,702 | 13,438,082 | 13,570,464 | 11,218,970 |
| Total liabilities and shareholders' equity | ₩ 54,252,677 | ₩ 46,125,688 | \$ 45,293,602 | \$ 38,508,673 |

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean won (in millions, except per share amounts) | | Translation into U. S. dollars (Note 2) (in thousands, except per share amounts) | |
|---|--|-------------------|---|-------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Sales (Note 25) | ₩ 46,588,410 | ₩ 44,419,626 | \$ 38,894,982 | \$ 37,084,343 |
| Cost of sales | <u>32,801,126</u> | <u>31,759,528</u> | <u>27,384,476</u> | <u>26,514,884</u> |
| Gross profit | 13,787,284 | 12,660,098 | 11,510,506 | 10,569,459 |
| Selling and administrative expenses (Note 18) | <u>11,092,841</u> | <u>9,529,256</u> | <u>9,261,013</u> | <u>7,955,632</u> |
| Operating income | <u>2,694,443</u> | <u>3,130,842</u> | <u>2,249,493</u> | <u>2,613,827</u> |
| Other expenses (income), net: | | | | |
| Interest expense, net | 47,804 | 210,619 | 39,910 | 175,838 |
| Loss (gain) on foreign currency translation, net | 65,155 | (132,258) | 54,396 | (110,417) |
| Gain on foreign currency transactions, net | (26,877) | (209,587) | (22,439) | (174,977) |
| Loss (gain) on valuation of investments accounted for using the equity method, net | (169,161) | 70,065 | (141,226) | 58,495 |
| Loss (gain) on disposal of investments and other assets, net | (127,567) | 63,971 | (106,501) | 53,407 |
| Loss on disposal of property, plant and equipment, net | 269,723 | 206,424 | 225,182 | 172,336 |
| Loss on valuation of inventories | 15,002 | 5,331 | 12,525 | 4,451 |
| Provision for accrued warranties and product liabilities, net | - | 291,708 | - | 243,536 |
| Gain on redemption of debentures, net | (115) | (37,022) | (96) | (30,908) |
| Other, net | <u>(48,569)</u> | <u>(81,206)</u> | <u>(40,549)</u> | <u>(67,796)</u> |
| | <u>25,395</u> | <u>388,045</u> | <u>21,202</u> | <u>323,965</u> |
| Ordinary income | <u>2,669,048</u> | <u>2,742,797</u> | <u>2,228,291</u> | <u>2,289,862</u> |
| Extraordinary item | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean won (in millions, except per share amounts) | | Translation into U. S. dollars (Note 2) (in thousands, except per share amounts) | |
|--|--|--------------------|---|---------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Income before income tax | ₩ 2,669,048 | ₩ 2,742,797 | \$ 2,228,291 | \$ 2,289,862 |
| Income tax expense (Note 19) | <u>652,439</u> | <u>844,344</u> | <u>544,698</u> | <u>704,912</u> |
| Income before minority interests | 2,016,609 | 1,898,453 | 1,683,593 | 1,584,950 |
| Minority interests | <u>(241,128)</u> | <u>(464,058)</u> | <u>(201,308)</u> | <u>(387,425)</u> |
| Net income | <u>₩ 1,775,481</u> | <u>₩ 1,434,395</u> | <u>\$ 1,482,285</u> | <u>\$ 1,197,525</u> |
| Ordinary income per ordinary common share | <u>₩ 7,845</u> | <u>₩ 6,313</u> | <u>\$ 6.55</u> | <u>\$ 5.27</u> |
| Earnings per ordinary common share | <u>₩ 7,845</u> | <u>₩ 6,313</u> | <u>\$ 6.55</u> | <u>\$ 5.27</u> |
| Ordinary income per fully diluted common share | <u>₩ 7,820</u> | <u>₩ 6,290</u> | <u>\$ 6.53</u> | <u>\$ 5.25</u> |
| Earnings per fully diluted common share | <u>₩ 7,820</u> | <u>₩ 6,290</u> | <u>\$ 6.53</u> | <u>\$ 5.25</u> |

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean won (in millions) | | | | | Total amount | Translation into U.S. dollars (Note 2) (in thousands) Total amount |
|---|-----------------------------|--------------------|----------------------|------------------------|-----------------------|--------------------|---|
| | Capital stock | Capital surplus | Retained earnings | Capital adjustments | Minority interests | | |
| January 1, 2002 | ₩1,476,454 | ₩5,306,332 | ₩2,473,940 | ₩ (65,435) | ₩ 2,512,837 | ₩11,704,128 | \$ 9,771,354 |
| Additional investment in subsidiaries | - | (24,222) | - | - | - | (24,222) | (20,222) |
| Disposal of treasury stock | - | (18) | - | - | - | (18) | (15) |
| Merger between subsidiaries | - | - | 1,785 | - | - | 1,785 | 1,490 |
| Application of the equity method | - | - | (1,219) | - | - | (1,219) | (1,018) |
| Effect of change in the scope of consolidation | - | (588) | 590 | 1,906 | 52,300 | 54,208 | 45,256 |
| Effect of change in the scope of equity method | - | - | - | (3,182) | - | (3,182) | (2,657) |
| Payment of cash dividends (Note 19) | - | - | (215,145) | - | (5,002) | (220,147) | (183,793) |
| Net income | - | - | 1,434,395 | - | - | 1,434,395 | 1,197,525 |
| Treasury stock | - | - | - | (6,867) | - | (6,867) | (5,733) |
| Discount on stock issuance | - | 1 | - | 248 | - | 249 | 208 |
| Loss on valuation of investment equity securities | - | - | - | (4,704) | - | (4,704) | (3,927) |
| Stock options | - | - | - | (82) | - | (82) | (68) |
| Cumulative translation debits | - | - | - | (67,578) | - | (67,578) | (56,418) |
| Loss on transaction of derivatives | - | - | - | 39,277 | - | 39,277 | 32,791 |
| Effect of change in the minority interests | - | - | - | - | 543,866 | 543,866 | 454,054 |
| Others | - | 4,556 | (16,363) | - | - | (11,807) | (9,857) |
| December 31, 2002 | <u>₩1,476,454</u> | <u>₩5,286,061</u> | <u>₩3,677,983</u> | <u>₩(106,417)</u> | <u>₩ 3,104,001</u> | <u>₩13,438,082</u> | <u>\$ 11,218,970</u> |

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean won (in millions) | | | | | Total amount | Translation into U.S. dollars (Note 2) (in thousands) |
|--|-----------------------------|--------------------|----------------------|------------------------|-----------------------|---------------------|--|
| | Capital stock | Capital surplus | Retained earnings | Capital adjustments | Minority interests | Total amount | Total amount |
| January 1, 2003 | ₩1,476,454 | ₩5,286,061 | ₩3,677,983 | ₩(106,417) | ₩3,104,001 | ₩ 13,438,082 | \$ 11,218,970 |
| Additional investment in subsidiaries | - | (124,104) | - | - | 46,168 | (77,936) | (65,066) |
| Disposal of subsidiaries' stock | - | 138,579 | (1) | - | - | 138,578 | 115,694 |
| Extinguishment of treasury stock by surplus | - | - | (58,367) | 9,172 | (49,878) | (99,073) | (82,712) |
| Application of the equity method | - | - | 20,741 | - | - | 20,741 | 17,316 |
| Effect of change in the scope of consolidation | - | (17,159) | (45,326) | - | 131,065 | 68,580 | 57,255 |
| Effect of change in the scope of equity method | - | - | (44,149) | - | - | (44,149) | (36,858) |
| Payment of cash dividends (Note 19) | - | - | (243,079) | - | (48,096) | (291,175) | (243,092) |
| Net income | - | - | 1,775,481 | - | - | 1,775,481 | 1,482,285 |
| Treasury stock | - | 15,220 | - | (15,848) | - | (628) | (524) |
| Discount on stock issuance | - | - | (171) | (2,641) | - | (2,812) | (2,348) |
| Gain on valuation of available-for-sale securities | - | - | - | 550,328 | - | 550,328 | 459,449 |
| Gain on valuation of investment equity securities | - | - | - | 11,380 | - | 11,380 | 9,501 |
| Stock options | 2,149 | - | - | 3,061 | - | 5,210 | 4,350 |
| Cumulative effect of foreign currency translation | - | - | - | 38,420 | - | 38,420 | 32,075 |
| Loss on transaction of derivatives | - | - | - | (106,763) | - | (106,763) | (89,133) |
| Effect of change in the minority interests | - | - | - | - | 241,128 | 241,128 | 201,309 |
| Others | - | 30,178 | 64,663 | - | 494,469 | 589,310 | 491,993 |
| December 31, 2003 | <u>₩1,478,603</u> | <u>₩5,328,775</u> | <u>₩5,147,775</u> | <u>₩ 380,692</u> | <u>₩3,918,857</u> | <u>₩ 16,254,702</u> | <u>\$ 13,570,464</u> |

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean won | | Translation into | |
|--|------------------|------------------|------------------------|------------------|
| | (in millions) | | U. S. dollars (Note 2) | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Cash flows from operating activities: | | | | |
| Net income | ₩ 1,775,481 | ₩ 1,434,395 | \$ 1,482,285 | \$ 1,197,525 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | 1,437,823 | 1,537,250 | 1,200,387 | 1,283,395 |
| Loss (gain) on foreign currency translation, net | 65,305 | (131,965) | 54,521 | (110,173) |
| Loss (gain) on disposal of investments, net | (127,567) | 63,971 | (106,501) | 53,407 |
| Loss (gain) on valuation of investments accounted for using the equity method, net | (169,161) | 70,065 | (141,226) | 58,495 |
| Loss on disposal of property, plant and equipment, net | 273,696 | 206,424 | 228,498 | 172,336 |
| Loss on valuation of inventories | 15,001 | 5,331 | 12,524 | 4,451 |
| Loss (gain) on redemption of debentures, net | 115 | (37,022) | 96 | (30,908) |
| Loss on impairment of investments | 45,590 | 40,850 | 38,061 | 34,104 |
| Loss on disposal of trade receivables | 77,926 | 88,006 | 65,058 | 73,473 |
| Amortization of discount on debentures | 41,193 | 68,157 | 34,391 | 56,902 |
| Amortization of intangibles, net | 488,954 | 830,727 | 408,210 | 693,544 |
| Provision for severance benefits | 591,737 | 753,464 | 494,020 | 629,040 |
| Provision for warranties and product liability | 1,463,308 | 1,765,807 | 1,221,662 | 1,474,209 |
| Provision for doubtful accounts | 1,533,664 | 592,345 | 1,280,401 | 494,527 |
| Amortization of present value discount accounts | (107,948) | (13,245) | (90,122) | (11,059) |
| Net income (loss) on minority interests | (4,793) | 464,058 | (4,002) | 387,425 |
| Changes in operating assets and liabilities: | | | | |
| Increase in trade notes and accounts receivable | (1,631,248) | (1,076,727) | (1,361,870) | (898,921) |
| Decrease in advances | 136,828 | 158,826 | 114,233 | 132,598 |
| Increase in inventories | (1,412,848) | (310,670) | (1,179,536) | (259,367) |
| Decrease (increase) in other current assets | (94,041) | 63,411 | (78,512) | 52,940 |
| Decrease in long-term notes and accounts receivables | 4,346 | 10,906 | 3,628 | 9,105 |
| Increase in deferred income tax assets | (1,158,341) | (32,119) | (967,057) | (26,815) |
| Increase in other financial business assets | (1,666,097) | (4,114,688) | (1,390,964) | (3,435,205) |
| Increase (decrease) in trade notes and accounts payable | (464,741) | 1,630,804 | (387,995) | 1,361,500 |
| Increase (decrease) in accounts payable-other | (385,383) | 846,440 | (321,742) | 706,662 |
| Increase (decrease) in other current liabilities | 487,079 | (239,565) | 406,645 | (200,004) |
| Increase in individual severance insurance deposits | (19,526) | (266,017) | (16,302) | (222,088) |
| Decrease in accrued warranties and accrued product liabilities | (129,315) | (143,349) | (107,960) | (119,677) |
| Decrease in accrued loss on valuation of derivatives | (961) | (38,318) | (802) | (31,990) |
| Increase in cumulative translation debits, net | (70,830) | (1,282) | (59,134) | (1,070) |
| Increase (decrease) in deferred income tax liabilities | 786,795 | (103,728) | 656,867 | (86,599) |
| Payment of severance benefits | (406,840) | (308,575) | (339,656) | (257,618) |
| Others | (96,439) | (86,229) | (80,514) | (71,990) |
| | <u>1,278,762</u> | <u>3,727,738</u> | <u>1,067,592</u> | <u>3,112,154</u> |

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | Korean won | | Translation into | |
|--|---------------------|---------------------|------------------------|---------------------|
| | (in millions) | | U. S. dollars (Note 2) | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Cash flows from investing activities: | | | | |
| Cash inflows from investing activities: | | | | |
| Proceeds from disposal of short-term investment securities | ₩ 4,483,700 | ₩ - | \$ 3,743,279 | \$ - |
| Proceeds from disposal of marketable securities | - | 6,487,542 | - | 5,416,214 |
| Reduction in short-term financial instruments and other current assets | 7,854,036 | 4,442,551 | 6,557,051 | 3,708,926 |
| Proceeds from disposal of long-term investment securities | 5,245,529 | - | 4,379,303 | - |
| Proceeds from disposal of investments | - | 307,792 | - | 256,964 |
| Reduction in other assets | 670,947 | 280,860 | 560,150 | 234,481 |
| Proceeds from disposal of property, plant and equipment | <u>196,153</u> | <u>183,709</u> | <u>163,761</u> | <u>153,372</u> |
| | <u>18,450,365</u> | <u>11,702,454</u> | <u>15,403,544</u> | <u>9,769,957</u> |
| Cash outflows from investing activities: | | | | |
| Purchase of short-term financial instruments | (7,728,526) | (6,318,491) | (6,452,267) | (5,275,080) |
| Acquisition of short-term investment securities | (4,084,863) | - | (3,410,305) | - |
| Acquisition of marketable securities | - | (6,271,525) | - | (5,235,870) |
| Additions to other current assets | (135,126) | (42,308) | (112,812) | (35,321) |
| Acquisition of long-term investment securities | (2,699,658) | - | (2,253,847) | - |
| Acquisition of investments | - | (821,821) | - | (686,109) |
| Additions to other assets | (1,245,987) | (222,059) | (1,040,231) | (185,390) |
| Acquisition of property, plant and equipment | (2,830,903) | (1,686,611) | (2,363,418) | (1,408,091) |
| Expenditures for development costs | <u>(391,349)</u> | <u>(291,690)</u> | <u>(326,723)</u> | <u>(243,521)</u> |
| | <u>(19,116,412)</u> | <u>(15,654,505)</u> | <u>(15,959,603)</u> | <u>(13,069,382)</u> |
| | <u>(666,047)</u> | <u>(3,952,051)</u> | <u>(556,059)</u> | <u>(3,299,425)</u> |
| Cash flows from financing activities: | | | | |
| Cash inflows from financing activities: | | | | |
| Proceeds from short-term borrowings | 6,990,449 | 21,315,448 | 5,836,074 | 17,795,499 |
| Proceeds from long-term debt | 4,246,163 | 4,993,859 | 3,544,968 | 4,169,193 |
| Proceeds from issuance of stock | 236,816 | 58,761 | 197,709 | 49,057 |
| Proceeds from disposal of treasury stock | 86,502 | 4,931 | 72,217 | 4,117 |
| Others | <u>194,262</u> | <u>20,647</u> | <u>162,183</u> | <u>17,237</u> |
| | <u>11,754,192</u> | <u>26,393,646</u> | <u>9,813,151</u> | <u>22,035,103</u> |
| Cash outflows from financing activities: | | | | |
| Repayment of short-term borrowings | (5,972,761) | (20,629,745) | (4,986,443) | (17,223,030) |
| Payment of current maturities of long-term debt | (3,152,809) | (2,768,331) | (2,632,166) | (2,311,180) |
| Payment of cash dividends | (395,989) | (276,089) | (330,597) | (230,497) |
| Repayment of long-term debt | (856,872) | (1,916,307) | (715,372) | (1,599,856) |
| Purchase of treasury stock | (192,957) | (20,215) | (161,093) | (16,877) |
| Others | <u>(120,746)</u> | <u>(125,460)</u> | <u>(100,806)</u> | <u>(104,741)</u> |
| | <u>(10,692,134)</u> | <u>(25,736,147)</u> | <u>(8,926,477)</u> | <u>(21,486,181)</u> |
| | <u>1,062,058</u> | <u>657,499</u> | <u>886,674</u> | <u>548,922</u> |

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

| | <u>Korean won</u> <u>(in millions)</u> | | <u>Translation into</u> <u>U. S. dollars (Note 2)</u> <u>(in thousands)</u> | |
|---|---|--------------------|---|---------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Effect of cash due to the merger | ₩ - | ₩ (63) | \$ - | \$ (52) |
| Effect of exchange rate on cash | 55,623 | (27,028) | 46,438 | (22,564) |
| Effect of change in consolidated subsidiaries | <u>267,184</u> | <u>55,353</u> | <u>223,062</u> | <u>46,212</u> |
| Net increase in cash and cash equivalents | 1,997,580 | 461,448 | 1,667,707 | 385,247 |
| Cash and cash equivalents, beginning of year | <u>2,765,872</u> | <u>2,304,424</u> | <u>2,309,127</u> | <u>1,923,880</u> |
| Cash and cash equivalents, end of year | <u>₩ 4,763,452</u> | <u>₩ 2,765,872</u> | <u>\$ 3,976,834</u> | <u>\$ 2,309,127</u> |

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

1. GENERAL INFORMATION:

The Company

Hyundai Motor Company (the "Company") was incorporated in December 1967, under the laws of the Republic of Korea, to manufacture and distribute motor vehicles and parts. The shares of the Company have been listed on the Korea Stock Exchange since 1974.

The Company acquired 214,200 thousand shares (51 percent) of the outstanding shares of Kia Motors Corp. (Kia) and Asia Motors Co., Inc. (Asia Motors) through a consortium with its affiliates, for ₩1,178,100 million paid on March 29, 1999 based on a stock acquisition agreement dated December 1, 1998, enabling the Company to exercise substantial control on Kia (Asia Motors merged into Kia on June 30, 1999) and its subsidiaries. In addition, as of July 31, 1999, the Company merged the Automobile and Machine Tool divisions of Hyundai Precision and Industry Co., Ltd. Due to such merger and acquisition, the Company's production and sales in domestic and foreign market have expanded significantly.

The Company has three domestic production plants as follows:

| <u>Location</u> | <u>Commenced production</u> | <u>Types of major products</u> |
|-----------------|-----------------------------|--|
| Ulsan | December 1967 | Passenger cars, Commercial vehicles (Small trucks) |
| Jeonbuk Jeonju | April 1995 | Commercial vehicles (Bus and Trucks) |
| Chungnam Ahsan | November 1996 | Passenger cars |

As of December 31, 2003, 48.75 percent of the Company's stock (excluding preferred stock) is owned by Korean investors, including Hyundai MOBIS (13.18 percent) and INI Steel (4.86 percent), and the remaining 51.25 percent is owned by foreign investors, including Daimler Chrysler (10.44 percent) and Mitsubishi of Japan (2.52 percent), under foreign investment agreements.

The Company determined to discontinue Hyundai Truck America, which was a branch for the distribution of commercial vehicles' sales operations, effective on January 1, 2004 and established a representative office to continue supporting certain branch's services.

Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Company and its consolidated domestic and foreign subsidiaries over which the Company has control, is the largest shareholder and owns more than thirty percent of the voting shares. The consolidated subsidiaries as of December 31, 2003 are as follows:

| <u>Subsidiaries</u> | <u>Business</u> | <u>Shareholders' equity</u> | | | | <u>Indirect ownership (**)</u> |
|-------------------------------|-----------------|-----------------------------|-----------------------|-----------------------|--------------------|--------------------------------|
| | | <u>Korean won</u> | <u>U.S. dollars</u> | <u>Percentage</u> | <u>Shares (**)</u> | |
| | | <u>(in millions)(*)</u> | <u>(in thousands)</u> | <u>ownership (**)</u> | | |
| <u>Domestic subsidiaries:</u> | | | | | | |
| Kia Motors Corporation (Kia) | Manufacturing | 5,342,179 | 4,459,992 | 170,465,491 | 47.39 | HCS 10.06% |
| Hyundai HYSKO | " | 893,662 | 746,086 | 40,248,868 | 50.19 | Kia 24.06% |

| | | Shareholders' equity As of December 31, 2003 | | | | |
|---|----------------------------|---|--------------------------|-------------|------------------------------|-------------------------------|
| Subsidiaries | Business | Korean won (in millions)(*) | U.S. dollars (Note 2) | | Percentage ownership (**) | Indirect ownership (**) |
| | | | (in thousands) | Shares (**) | | |
| Hyundai Capital Service Inc.(HCS) | Financing service | 625,547 | 522,247 | 59,813,430 | 84.24 | |
| Hyundai Card Co., Ltd. | " | 110,474 | 92,231 | 109,861,085 | 77.61 | Kia 20.72% |
| KEFICO Corporation | Manufacturing | 164,178 | 137,066 | 1,670,000 | 50.00 | |
| Hyundai Powertech | " | 256,610 | 214,234 | 48,000,000 | 100.00 | Kia 50.00% |
| WIA Corporation (WIA) | " | 192,389 | 160,619 | 6,949,476 | 90.60 | Kia 45.30% |
| Dymos Inc. | " | 178,676 | 149,170 | 23,911,245 | 79.68 | Kia 27.29%, WIA 5.12% |
| e-HD.com | Information service | 7,349 | 6,135 | 2,724,770 | 68.04 | Kia 22.76%, HCS 3.72% |
| ROTEM | Manufacturing | 328,476 | 274,233 | 40,306,304 | 78.36 | |
| Haevichi Resort (formerly Cheju Dynasty Co., Ltd.) | Real estate development | 10,553 | 8,810 | 2,015,000 | 65.00 | Kia 40.00%, WIA 25.00% |
| Bontek Co., Ltd. | Manufacturing | 46,354 | 38,699 | 390,000 | 39.00 | Kia 39.00% |
| Aju Metal Co., Ltd. | " | (5,150) | (4,300) | 72,680 | 72.68 | WIA50.00%, DYMOS 22.68% |
| Daimler Hyundai Truck Co., Ltd. | " | 54,605 | 45,588 | 10,000,000 | 50.00 | |
| Autoever Systems Corp. (formerly Autoever Co., Ltd.) | Information technology | 16,445 | 13,729 | 499,000 | 49.90 | Kia 20.00%, HCS4.90% |
| Foreign subsidiaries: | | | | | | |
| Hyundai Motor India (HMI) | Manufacturing | 337,299 | 281,599 | 8,127,785 | 100.00 | |
| Hyundai Motor America (HMA) | Sales | 697,516 | 582,331 | 1,150 | 100.00 | |
| Hyundai Motor Japan Co. (HMJ) | " | (54,754) | (45,712) | 40,000 | 100.00 | |
| Hyundai Motor Poland Sp. Zo.O (HMP) | " | (446) | (372) | - | 100.00 | |
| Hyundai Motor Europe GmbH(HME) | " | 15,653 | 13,068 | - | 100.00 | |
| Hyundai Motor Company | | | | | | |
| Australia (HMCA) | " | 13,696 | 11,434 | - | 100.00 | |
| Hyundai Translead (HT) | " | 12,830 | 10,711 | 1,160,000 | 100.00 | |
| Hyundai Machine Tool Europe | | | | | | |
| GmbH (HYME) | " | 12,496 | 10,432 | - | 100.00 | |
| Hyundai America Technical | | | | | | |
| Center Inc. (HATCI) | R & D | 16,057 | 13,405 | 1,000 | 100.00 | |

| Shareholders' equity As of December 31, 2003 | | | | | | |
|---|--------------------------|--------------------------------|--------------------------|-------------|------------------------------|----------------------------|
| Subsidiaries | Business | Korean won (in millions)(*) | U.S. dollars (Note 2) | | Percentage ownership (**) | Indirect ownership (**) |
| | | | (in thousands) | Shares (**) | | |
| Beijing Mobis Transmission Co., Ltd. | Manufacturing | 44,214 | 36,913 | - | 60.00 | Kia 30.00% |
| World Marketing Group LLC (WMG) | Sales | 10,624 | 8,870 | - | 100.00 | HMA 50.00%, KMA 50.00% |
| Hyundai Motor Manufacturing | | | | | | |
| Alabama, LLC (HMMA) | Manufacturing | 277,561 | 231,726 | - | 100.00 | HMA 100.00% |
| Hyundai Motor Finance Company (HMFC) | Financing service | 235,738 | 196,809 | 750 | 100.00 | HMA 100.00% |
| Hyundai Auto Canada Captive | | | | | | |
| Insurance Incorporation (HACCII) | Insurance | 2,206 | 1,842 | 100 | 100.00 | HMA 100.00% |
| Sevenwood Property Inc. | Real estate rent | (421) | (351) | 4,088,071 | 100.00 | HMA 100.00% |
| Hyundai de Mexico, S.A. de C.V. (HYMEX) | Manufacturing | 4,437 | 3,704 | 9,996 | 99.96 | HT 99.96% |
| Kia Japan Co., Ltd. (KJC) | Sales | 25,821 | 21,557 | 85,800 | 100.00 | Kia 100.00% |
| Kia Motors America Inc. (KMA) | " | 17,745 | 14,815 | 1,000,000 | 100.00 | Kia 100.00% |
| Kia Motors Deutschland GmbH (KMD) | " | 6,326 | 5,281 | - | 100.00 | Kia 100.00% |
| Kia Canada, Inc. (KCI) | " | (373) | (311) | 6,298 | 100.00 | Kia 82.5%, KMA 17.5% |
| Kia Motors Polska Sp.z.o.o. (KMP) | " | (6,532) | (5,453) | 15,637 | 99.60 | KMD 99.60% |
| Kia Motors Europe GmbH (KME) | Managing subsidiaries | 55,316 | 46,181 | 25,000 | 100.00 | Kia 100.00% |
| Kia Motors Belgium (KMB) | Sales | 937 | 782 | 1,000,000 | 100.00 | KME 100.00% |
| Kia Motors Czech s.r.o. (KMCZ) | " | 1,493 | 1,246 | 106,870,000 | 100.00 | KME 100.00% |
| Kia Motors (UK) Ltd. (KMUK) | " | 35,242 | 29,422 | 17,000,000 | 100.00 | KME 100.00% |
| Kia Motors Austria GmbH (KMAS) | " | 3,985 | 3,327 | 2,107,512 | 100.00 | KME 100.00% |
| Kia Motors Hungary Kft (KMH) | " | 4,074 | 3,401 | 30,000,000 | 100.00 | KME 100.00% |
| Dong Feng Yueda Kia Motor Co., Ltd. | Manufacturing | 122,037 | 101,884 | - | 50.00 | Kia 100.00% |
| Hyundai Pipe of America, Inc. | Sales | 4,786 | 3,996 | 250,000 | 100.00 | HYSCO 100% |
| Hyundai Hysco Vietnam Co., Ltd. | Manufacturing | (10,003) | (8,351) | - | 100.00 | HYSCO 100% |
| Beijing Hyundai Hysco Steel | | | | | | |
| Process Co., Ltd. | Manufacturing | 6,396 | 5,340 | - | 100.00 | HYSCO 100% |
| Kia Heavy Industries U.S.A., Corp. | Sales | (1,898) | (1,585) | 1,200 | 100.00 | WIA 100.00% |

(*) Local currency is translated into Korean won using the Bank of Korea basic rate at December 31, 2003.

(**) Shares and ownership are calculated by combining the shares and ownership, which the Company and its subsidiaries hold as of December 31, 2003. Indirect ownership represents subsidiaries' holding ownership.

Among the consolidated domestic subsidiaries, Kia and Hyundai HYSCO have been listed on the Korea Stock Exchange, and Bontek Co., Ltd. and AJU Metal Co., Ltd. are under composition with creditors according to the Composition Act.

In 2003, the Company added two domestic companies including Hyundai Card Co., Ltd. and four overseas companies including Hyundai Motor Company Australis (HMCA) to its consolidated subsidiaries and excluded two companies including Hyundai-Assan Otomotiv Sanayi Ve Ticaret Anonim Sirketi (HAOSVT). The details of these changes in the scope of consolidation are as follows:

- (1) Hyundai Card Co., Ltd. and AJU Metal Co., Ltd. are included in the consolidation mainly due to the holding and acquisition of ownership enabling the Company and its subsidiaries to exercise substantial control.
- (2) World Marketing Group LLC are included in 2003 consolidation since its individual total assets at the end of the preceding year exceeded the required level of ₩7,000 million (\$5,844 thousand).
- (3) Hyundai Motor Company Australia (HMCA), Beijing Mobis Transmission Co., Ltd., Beijing Hyundai Hysco Steel Process Co., Ltd. are included in the consolidation due to the new acquisition of ownership enabling the Company and its subsidiaries to exercise substantial control.
- (4) Hyundai-Assan Otomotiv Sanayi Ve Ticaret Anonim Sirketi (HAOSVT) and WISCO, which had been included in the 2002 consolidation, are excluded in 2003 consolidation due to the disposal of ownership.

The inclusion of the individual accounts of the subsidiaries mentioned above in the Company's 2003 consolidated financial statements increased the Company's consolidated assets and revenues by ₩2,795,891 million (\$2,334,189 thousand) and ₩528,692 million (\$441,386 thousand), respectively, and decreased consolidated shareholders' equity and consolidated net income by ₩299,582 million (\$250.110 thousand) and ₩368,162 million (\$307,365 thousand), respectively, as compared to the results using the previous scope of consolidation.

In 2002, the Company added two domestic companies including Daimler Hyundai Truck Co., Ltd. and ten overseas companies including Hyundai Motor Europe GmbH (HME) to its consolidated subsidiaries. The details of these changes in the scope of consolidation are as follows:

- (1) DongFeng Yueda Kia Motor Co., Ltd. (formerly Hyundai-Kia-Yueda Motor Company) and Daimler Hyundai Truck Co., Ltd. whose equity securities had been accounted for using the equity method in 2001 are included in the consolidation mainly due to the holding and acquisition of ownership enabling the Company and its subsidiaries to exercise substantial control.
- (2) Hyundai Motor Europe GmbH (HME) and Autoever, which had not been included in the consolidation nor accounted for using the equity method in 2001, are included in 2002 consolidation since its individual total assets at the end of the preceding year exceeded the required level of ₩7,000 million (\$5,844 thousand).
- (3) Hyundai Motor Manufacturing Alabama, LLC (HMMA), Kia Motors Europe GmbH (KME), Kia Motors Belgium (KMB), Kia Motors Czech s.r.o. (KMCZ), Kia Motors (UK) Ltd. (KMUK), Kia Motors Austria GmbH (KMAS), Kia Motors Hungary Kft (KMH) and Hyundai Auto Canada Captive Insurance Incorporation (HACCII) are included in the consolidation due to the new acquisition of ownership enabling the Company and its subsidiaries to exercise substantial control.

The inclusion of the individual accounts of the subsidiaries mentioned above in the Company's 2002 consolidated financial statements increased the Company's consolidated assets, shareholders' equity and revenues by ₩698,043 million (\$582,771 thousand), ₩29,926 million (\$24,984 thousand) and ₩1,094,755 million (\$913,971 thousand), respectively and decreased consolidated net income by ₩22,069 million (\$18,425 thousand) as compared to the results using the previous scope of consolidation.

In 2002, Korea Precision Co., Ltd, which was an indirect consolidated subsidiary through investment of WIA, one of the Company's domestic subsidiaries, was merged into Dymos Inc, another subsidiary. In accordance with financial accounting standards for consolidated financial statements in the Republic of Korea, which state that when consolidated companies are merged together during a fiscal year, consolidated financial statements would reflect this transaction as if the controlling company acquired additional interest rather than a merger took place; therefore, net loss for Korea Precision Co., Ltd. as of the merger date, amounting to ₩4,864 million (\$4,061 thousand), is reflected in the consolidated income statement.

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company and its domestic subsidiaries may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results operations of the Company and its domestic subsidiaries. Actual results may differ materially from management's current assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory consolidated 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 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 and its subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean won into U.S. dollars based on the Bank of Korea basic rate of ₩1,197.80 to US\$1.00 at December 31, 2003, solely for the convenience of the reader. This convenience translation into U.S. dollars should not be construed as a representation that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

The Company prepared its 2003 financial statements in accordance with the Statements of Korea Accounting Standards ("SKAS") No. 2, 4, 5, 8 and 9, effective from January 1, 2003. Major changes compared with the standards applied in preparing the 2002 financial statements are as follows:

| Statements of Korea Accounting Standards (SKAS) | Major changes | Before application | After application |
|---|---|--|---|
| No. 2 Interim Financial Reporting | <ul style="list-style-type: none"> • Presentation of comparative balance sheet • Statement of cash flows | <ul style="list-style-type: none"> • Balance sheet as of the end of the current interim period is compared with the end of the comparable interim period of immediately preceding fiscal year • Not included in interim financial statements | <ul style="list-style-type: none"> • Balance sheet of the end of the current interim period is compared with the end of the immediately preceding fiscal year • Included in interim financial statements • 4th quarter financial statements can be replaced with the disclosure of key items of current operations in annual financial statements |
| No. 4 Revenue Recognition | <ul style="list-style-type: none"> • Recognition of sales to vendor to be repurchased under the outsourcing contract | <ul style="list-style-type: none"> • Revenue recognition on a gross basis | <ul style="list-style-type: none"> • Revenue recognition on a net basis |

| Statements of Korea Accounting Standards (SKAS) | Major changes | Before application | After application |
|---|---|--|---|
| No. 5 Tangible Assets | <ul style="list-style-type: none"> • Explanatory notes | - | <ul style="list-style-type: none"> • Clarification of definition, scope, recognition and disclosures |
| No. 8 Investments in Securities | <ul style="list-style-type: none"> • Classification • Accounting for gain or loss on valuation of marketable securities | <ul style="list-style-type: none"> • Investments are classified into marketable securities (current assets) and investment securities (non-current assets) at the time of purchase. • Gain or loss on valuation of marketable securities is recorded in current operations | <ul style="list-style-type: none"> • Investments are classified into short-term investment securities (current assets) and long-term investment securities (non-current assets) based on the maturities and disposal plan within one year • SKAS No. 8 is not applied to the investments accounted for using the equity method. • Accounting for valuation depends on whether the investments are securities held for trading, available-for-sale securities or held-to-maturity securities (see Note 2 -Investments in Securities). |

The Company's accounting policies have not been changed since the preparation of the 2002 financial statements, except for changes due to the application of the above SKAS. The significant accounting policies followed by the Company in the preparation of its consolidated financial statements are summarized below.

Principles of Consolidation

The consolidated financial statements include the individual accounts of the Company and its domestic and foreign subsidiaries over which the Company has control, is the largest shareholder and owns more than 30 percent of the voting shares, except for companies with total assets of less than ₩7,000 million (\$5,844 thousand) at the end of the preceding fiscal year. Investments in affiliates in which a consolidated entity is able to exercise significant influence over the operating and financial policies of a non-consolidated company are accounted for using the equity method. Significant influence is deemed to exist when the investor owns more than twenty percent of the investee's voting shares unless there is evidence to the contrary. If the changes in the investment value due to the changes in the net assets of affiliates, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million (\$5,844 thousand), are not material, investments in affiliates can be excluded from using the equity method.

The investment account of the Company and corresponding equity accounts of subsidiaries are eliminated at the dates the Company obtained control over the subsidiaries. The difference between the investment cost and the fair value of the Company's portion of assets acquired less liabilities assumed of a subsidiary is accounted for as goodwill or negative goodwill. Goodwill is amortized on a straight-line basis over its useful life, not exceeding twenty years. The amount of negative goodwill not exceeding the total fair value of acquired identifiable non-monetary assets is recognized as income on a straight-line basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and the amount of negative goodwill in excess of the total fair value of the acquired identifiable non-monetary assets is recognized as non-operating gain at the date of acquisition.

When the Company acquires additional interests in a subsidiary after obtaining control over the subsidiary, the difference between incremental price paid by the Company and the amount of incremental interest in the stockholders' equity of the subsidiary is reflected in the consolidated capital surplus. In case a subsidiary still belongs to a consolidated economic entity after the Company disposes a portion of the stocks of subsidiaries to non-subsidiary parties, gain or loss on disposal of the subsidiary's stock is accounted for as consolidated capital surplus.

When consolidated companies are merged together during a fiscal year, for purposes of consolidation, the merger is regarded as additional acquisition of ownership. The net income for the acquiree as of the merger date is reflected in the consolidated income statement.

Intercompany receivables and payable and revenues and expenses arising from transactions between the Company and its subsidiaries or among subsidiaries are eliminated against each other in the consolidated financial statements. On sales from the Company to its subsidiaries (downstream sales), the full amounts of unrealized gains or loss are eliminated in the consolidated income and charged (credited) to the majority interests. On sales from a subsidiary to the Company (upstream sales), unrealized gains and losses are eliminated and allocated proportionately between majority and minority interests.

The accounting methods adopted by the Company and its subsidiaries for similar transactions and circumstances are generally the same. However, if the differences resulting from applying different accounting methods are not material, such different methods are applied. Financial statements of a subsidiary as of the same closing date of the Company are used in preparing the consolidation.

Revenue Recognition

Sales of goods is recognized at the time of shipment only if it meet the conditions that significant risks and rewards of ownership of the goods have been transferred to the customer, and neither continuing managerial involvement nor effective control over the goods sold is retained.

Interest income arising from long-term installment sales is recognized using the level yield method. In the case of subsidiaries in financial business, interest revenues earned on financial assets are recognized as time passes and fees and commissions in return for services rendered are recognized as services are provided.

In conformity with SKAS No. 4 - "Revenue Recognition", as initially applied in 2003, the Company changed the accounting method for revenue recognition of sales to vendors to be repurchased under the outsourcing contracts from a gross basis to a net basis. For comparative purposes, the 2002 statement of income was revised in conformity with SKAS No. 4 and this revision resulted in the decrease of sales and cost of sales by ~~₩~~3,703,293 million (US \$ 3,091,746 thousand) as compared with the results based on the previous method.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimated loss on uncollectible accounts.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the moving average cost method.

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 short-term investment securities, whereas available-for-sale and held-to-maturity securities are classified as long-term securities, 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 short-term investment securities.

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 or 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 and if the securities are determined to be impaired, 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 debt 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 stated at fair value, 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. For non-marketable equity securities accounted for at acquisition costs, the impairment loss is equal to the difference between the recoverable amount and the carrying amount.

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.

Equity 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. The Company's share in the net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings, capital surplus or capital adjustments.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. 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.

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

| | <u>Useful lives (years)</u> |
|--------------------------|-----------------------------|
| Buildings and structures | 2 – 60 |
| Machinery and equipment | 2 – 20 |
| Vehicles | 2 – 10 |
| Tools, dies and molds | 2 – 10 |
| Tools | 2 – 10 |
| Other equipment | 2 – 10 |

In 2003, the Company has applied Statement of SKAS No. 5 – “Tangible Assets”, which provides more clarifications of accounting method of tangible assets including definition, scope, recognition, amortization and valuation.

Intangibles

Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures on intangible assets after their purchases or completions, which will probably enable the assets to generate future economic benefits and can be measured and attributed to the assets reliably, are treated as additions to intangible assets.

Amortization is computed using the straight-line method based on the estimated useful lives of the assets as follows:

| | <u>Useful lives (years)</u> |
|------------------------------|-----------------------------|
| Goodwill (Negative goodwill) | Within 20 years |
| Development costs | 3 – 10 |
| Other | 3 – 40 |

If the recoverable value of intangible assets is lower than book value, book value is adjusted to the recoverable value with impairment loss charged to current operations.

Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loan (borrowing) transactions are stated at present value, if the difference between nominal value and present value is material. The present value discount is amortized using the effective interest rate method. Effective interest rate for long-term accounts receivable in 2003 and 2002 is from 8.25 percent to 10.00 percent.

Restructuring of Receivables and Payables

If principal, interest rate or repayment period of receivables is changed unfavourably for the Company by the court imposition such as commencement of reorganization or by mutual agreements and the difference between nominal value and present value is material, such difference is recorded in other expense as provision for doubtful accounts. The difference is amortized using the effective interest method, with the amortization included in interest income or interest expense.

Discount on Debentures

Discount on debentures is the difference between the issued amount and the face value of debentures. It is presented as a deduction from to the face value of debentures and amortized over the redemption period of the debentures using the effective interest rate method. Amortization of discount is recognized as interest expense on the debenture.

Accrued Severance Benefits

Employees and directors of the Company and its subsidiaries are entitled to receive a lump-sum payment upon termination of their service based on the applicable severance plan of each company. The accrued severance benefits that would be payable assuming all eligible employees of the Company and its domestic subsidiaries terminated their employment amount to ~~¥~~2,777,405 million (\$2,318,755 thousand) and ~~¥~~2,592,509 million (\$2,164,392 thousand) as of December 31, 2003 and 2002, respectively.

Accrued severance benefits are funded through an individual severance insurance plan. Individual severance insurance deposits, of which a beneficiary is a respective employee, are presented as deduction from accrued severance benefits. Actual payments of severance benefits amounted to ~~¥~~406,840 million (\$339,656 thousand) and ~~¥~~308,575 million (\$257,618 thousand) in 2003 and 2002, respectively.

Accrued Warranties and Product Liabilities

The Company and its subsidiaries generally provide a warranty to the ultimate consumer with each product and accrue warranty expense at the time of sale based on actual claims history. Also, the Company accrues potential expenses, which may occur due to product liabilities suits, pending voluntary recall campaign and other obligation as of the balance sheet date. Actual costs incurred are charged against the accrual when paid.

Stock Options

The Company and its subsidiaries compute total compensation expense to stock options, which are granted to employees and directors, by the fair value method using the option-pricing model. The compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments from the grant date using the straight-line method.

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 and its domestic subsidiaries entered into derivative instrument contracts including forwards, options and swaps to hedge the exposure to changes in foreign exchange rate. As of December 31, 2003 and 2002, the Company and its domestic subsidiaries deferred the loss of ~~¥~~83,863 million (US \$ 70,014 thousand) and gain of ~~¥~~22,900 million (US \$ 19,118 thousand), respectively, on valuation of the effective portion of derivative instruments for cash flow hedging purposes from forecasted exports as capital adjustments. The Company and its subsidiaries recognized loss on valuation of the ineffective portion of such derivative instruments and the other derivative instruments in current operations.

The Company entered into derivative instrument contracts with the settlement for the difference between the fair value and the contracted initial price of Kia Motors Corporation shares as follows:

| <u>Contract Parties</u> | <u>Derivatives</u> | <u>Period</u> | <u>Number of Kia shares</u> | <u>Initial Price</u> |
|--|--------------------|---|---------------------------------|----------------------|
| Credit Suisse First Boston International | Equity swap | September 17, 2003 ~ September 8, 2008 | 12,145,598 | US\$ 8.2611 |
| Credit Suisse First Boston International | Call option (*) | " | 12,145,598 | US\$ 11.5300 |
| Credit Suisse First Boston International | Equity swap | " | 21,862,076 | US\$ 8.2611 |
| JP Morgan Chase Bank, London Branch | Equity swap | " | 14,574,717 | US\$ 7.8811 |

(*) The Company has the position of seller.

The gain or loss on valuation of these derivatives related to the fair value of Kia shares is recognized in current operations. As of December 31, 2003, all premiums to be paid by the Company are recorded as long-term other accounts payable in long-term liabilities of ₩89,864 million (US \$ 75,024 thousand) and accounts payable – other of ₩27,706 million (US \$ 23,131 thousand), after deducting the present value discount of ₩20,959 million (US \$ 17,498 thousand). Also, as of December 31, 2003, all premiums to be received by the Company are recorded as long-term other accounts receivable of ₩14,745 million (US \$ 12,310 thousand) and accounts receivable-other of ₩4,547 million (US \$ 3,796 thousand), after deducting the present value discount of ₩3,441 million (US \$ 2,873 thousand). The present value discount will be amortized using the effective interest method.

In 2003 and 2002, the Company and its subsidiaries recognized the net loss of ₩39,548 million (US \$ 33,017 thousand) and the net gain of ₩ 30,653million (US \$ 25,591thousand), respectively, on valuation of the ineffective portion of such instruments and the other derivative instruments in current operations.

The Company and its domestic subsidiaries recorded total gain on valuation of outstanding derivatives and present value of premiums of ₩162,722 million (US \$ 135,851 thousand) and ₩51,622 million (US \$ 43,097 thousand) in other assets as of December 31, 2003 and 2002, respectively. Also, total loss on valuation of outstanding derivatives and present value of premiums of ₩209,285 million (US \$ 174,724 thousand) and ₩17,053 million (US \$ 14,237 thousand) is recorded in liabilities as of December 31, 2003 and 2002, respectively.

Financing Costs

The Company recognizes all financing costs including interest expense and similar expenses in current operations.

Accounting for Foreign Currency Transaction and Translation

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

Assets and liabilities of subsidiaries outside the Republic of Korea are translated at the rate of exchange in effect at the balance sheet dates; income and expenses of subsidiaries are translated at the average rates of exchange prevailing during the year, which was ₩1,191.60 and ₩1,251.18 to US\$1.00 in 2003 and 2002, respectively. Cumulative translation debits or credits, which occurred in the translations of financial statements of foreign subsidiaries and branch, are recorded as capital adjustments.

Income Tax Expense

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax debits (credits).

Earnings Per Common Share

Primary earnings per common share is computed by dividing net income, after deduction for expected dividends on preferred stock, by the weighted average number of common shares. The number of shares used in computing earnings per common share is 218,173,808 and 218,084,933 in 2003 and 2002, respectively. Earnings per diluted common share is computed by dividing net income, after deduction for expected dividends on preferred stock and addition for the effect of expenses related to dilutive securities on net income, by the number of the weighted average number of common shares plus the dilutive potential common shares. The number of shares used in computing diluted earnings per diluted share is 218,859,929 and 218,863,816 in 2003 and 2002, respectively. There is no dilution effect in 2001.

Reclassifications

For comparative purposes, certain accounts in the consolidated subsidiaries' financial statements were reclassified to conform to the Company's financial statement presentation. Such reclassifications had no effect on the net income or the net equity reported in the consolidated subsidiaries' financial statements. Assets and liabilities in the financial industry are classified by method of current arrangement. When method of current arrangement is impossible, assets and liabilities are classified to other financial assets and liabilities. In addition, certain accounts in the consolidated financial statements of the prior period were reclassified for comparative purposes. Such reclassifications had no effect on the consolidated net income or net equity in the accompanying financial statements of the prior period.

3. INVENTORIES:

Inventories as of December 31, 2003 and 2002 consist of the following:

| <u>Accounts</u> | <u>Korean won</u> <u>(in millions)</u> | | <u>U. S. dollars (Note 2)</u> <u>(in thousands)</u> | |
|---|---|--------------------|--|---------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Finished goods and merchandise | ₩ 2,844,499 | ₩ 2,660,531 | \$ 2,374,769 | \$ 2,221,181 |
| Semi finished goods and work in process | 829,780 | 459,998 | 692,753 | 384,036 |
| Raw materials and supplies | 650,427 | 499,787 | 543,018 | 417,254 |
| Materials in transit | 1,155,321 | 176,346 | 964,536 | 147,225 |
| Other | 18,502 | 23,337 | 15,447 | 19,483 |
| | <u>₩ 5,498,529</u> | <u>₩ 3,819,999</u> | <u>\$ 4,590,523</u> | <u>\$ 3,189,179</u> |

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

(1) Short-term investment securities as of December 31, 2003 consist of the following:

| <u>Description</u> | <u>Korean won</u> <u>(in millions)</u> | | <u>U.S. dollars</u> <u>(Note 2)</u> <u>(in thousands)</u> |
|-------------------------------|---|-------------------|---|
| | <u>Acquisition</u> <u>cost</u> | <u>Book value</u> | <u>Book value</u> |
| Trading securities | | | |
| Beneficiary certificates | ₩ 54,505 | ₩ 26,634 | \$ 22,236 |
| Available-for-sale securities | | | |
| Government bonds | 58 | 58 | 48 |
| Asset backed securities | 11,993 | 11,993 | 10,013 |
| Beneficiary certificates | 710,665 | 212,147 | 177,114 |
| Other | 136,521 | 136,521 | 113,976 |
| Held-to-maturity securities | | | |
| Government bonds | 6,445 | 6,445 | 5,381 |
| | <u>₩ 920,187</u> | <u>₩ 393,798</u> | <u>\$ 328,768</u> |

Trading securities and available-for-sale securities in short-term investment securities are stated at fair value with the resulting net loss on valuation of trading securities amounting to ₩27,871million (US\$23,268 thousand) in current operations, and loss on valuation of available-for-sale securities amounting to ₩498,518 million (US\$416,195 thousand) in capital adjustments as of December 31, 2003.

- (2) Long-term investment securities as of December 31, 2003 consist of available-for-sale securities of ₩3,510,232 million (US\$2,930,566 thousand) and held-to-maturity of ₩81,270 million (US\$67,849 thousand).
- (3) Available-for-sale securities of long-term investment securities consist of the following:

| Description | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|--|-----------------------------|--|
| Equity securities stated at fair value | ₩ 1,632,936 | \$ 1,363,279 |
| Equity securities stated at acquisition cost | 173,243 | 144,634 |
| Debt securities | <u>1,704,053</u> | <u>1,422,653</u> |
| | <u>₩ 3,510,232</u> | <u>\$ 2,930,566</u> |

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

| Companies | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | Ownership percentage (*2) (%) |
|---|-----------------------------|--------------------|--|-------------------------------------|
| | Acquisition cost | Book value | Book value | |
| INI Steel (*1) | ₩ 137,175 | ₩ 247,264 | \$ 206,432 | 23.81 |
| Hyundai MOBIS (*1) | 132,056 | 1,120,347 | 935,337 | 20.61 |
| Jin Heung Mutual Savings Bank | 2,166 | 1,990 | 1,661 | 8.66 |
| Korea Mutual Savings Bank | 2,846 | 3,501 | 2,923 | 8.13 |
| Saehan Media | 4,933 | 3,284 | 2,742 | 6.52 |
| Korea Information Service, Inc. | 5,252 | 8,301 | 6,930 | 4.41 |
| Daewoo Engineering & Construction Co., Ltd | 42,483 | 56,945 | 47,541 | 3.06 |
| Hyundai Heavy Industries Co., Ltd. | 56,924 | 82,125 | 68,563 | 2.88 |
| Daewoo International Corporation | 9,822 | 17,301 | 14,444 | 2.51 |
| Hyundai Information Technology Co., Ltd. | 10,000 | 1,260 | 1,052 | 2.21 |
| Korea Industrial Development Co., Ltd. | 5,058 | 3,279 | 2,738 | 2.20 |
| ICOLS Inc. | 160 | 272 | 227 | 1.78 |
| LG Telecom, Ltd. | 19,851 | 13,536 | 11,301 | 1.34 |
| Hyundai Corporation | 13,626 | 747 | 624 | 1.08 |
| Chohung Bank | 73,545 | 26,705 | 22,295 | 0.95 |
| Hyundai Merchant Marine Co., Ltd. | 7,329 | 5,565 | 4,646 | 0.55 |
| Hyundai Engineering & Construction Co., Ltd | 13,332 | 3,053 | 2,549 | 0.53 |
| Kanglim Co., Ltd | 347 | 48 | 40 | 0.38 |
| KT Freetel | 18,000 | 10,627 | 8,872 | 0.29 |
| Prochips Technology Inc. | 904 | 33 | 28 | 0.22 |
| Kia Steel Co., Ltd. | 955 | 779 | 650 | 0.19 |
| Hynix Semiconductor Inc. | 2,047 | 4,043 | 3,375 | 0.16 |
| Treasury Stock Fund | 4,067 | 1,498 | 1,251 | - |
| Stock Market Stabilization Fund | 6,010 | 20,414 | 17,043 | - |
| Other | 313 | 19 | 15 | - |
| | <u>₩ 569,201</u> | <u>₩ 1,632,936</u> | <u>\$ 1,363,279</u> | |

(*1) Excluded in applying the equity method since a part of ownership is restricted to voting rights in accordance with the laws and the Company and subsidiaries believe there is no significant influence on the investees.

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

The difference of ₩1,063,735 million (US \$ 888,074 thousand) as of December 31, 2003, between the book value and the acquisition cost of equity securities stated at fair value in long-term investment securities is recorded as gain on valuation of available-for-sale securities in capital adjustments. The net gain on valuation of available-for-sale securities amounting to ₩565,217 million (US \$ 471,879 thousand) in capital adjustments as of December 31, 2003 consists of loss on valuation of short-term investment securities amounting to ₩498,518 million (US \$ 416,195 thousand) and gain on valuation of long-term investment securities amounting to ₩1,063,735 million (US \$ 888,074 thousand).

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

| Companies | Korea won (in millions) | | U.S. dollars (Note 2) (in thousands) | | Ownership percentage (*2) |
|--|----------------------------|------------|--|--|------------------------------|
| | Acquisition cost | Book value | Book value | | |
| Hyundai Jingxian Motor Safeguard Service Co., Ltd. (*1) | ₩ 2,019 | ₩ 2,019 | \$ 1,686 | | 84.87 |
| NGVTEK.com (*1) | 571 | 571 | 477 | | 53.66 |
| Mco | 950 | 950 | 793 | | 19.99 |
| Dongyong Industries Co., Ltd | 241 | 241 | 201 | | 19.35 |
| Jinil MVC Co., Ltd. | 180 | 180 | 150 | | 18.00 |
| Mobil.Com Co., Ltd. | 1,800 | 1,800 | 1,503 | | 17.39 |
| Industri Otomotif Komersial | 4,439 | 4,439 | 3,706 | | 15.00 |
| Hyundai Technology Investment Co., Ltd. | 4,490 | 4,490 | 3,749 | | 14.97 |
| Hyundai Unicorns Co., Ltd. | 5,795 | 137 | 114 | | 14.90 |
| Hyundai Research Institute | 1,359 | 1,271 | 1,061 | | 14.90 |
| Gyeongnam Credit Guarantee Foundation | 2,500 | 2,500 | 2,087 | | 13.66 |
| Kihyup Finance, Inc. | 3,700 | 3,700 | 3,089 | | 12.75 |
| 3Gcore, Inc | 225 | 225 | 188 | | 10.43 |
| Hyundai Motor Deutschland GmbH | 863 | 863 | 720 | | 10.00 |
| Wisco Co., Ltd | 348 | 280 | 234 | | 9.68 |
| Hyundai Finance Corporation | 9,888 | 9,888 | 8,255 | | 9.29 |
| Namyang Industrial Co., Ltd. | 200 | 200 | 167 | | 8.00 |
| KOENTECH | 1,550 | 1,550 | 1,294 | | 7.50 |
| Hankyoreh Plus Inc. | 4,800 | 284 | 237 | | 7.41 |
| Hyundai Oil refinery Co., ltd. | 88,857 | 88,857 | 74,184 | | 7.24 |
| Korea Credit-card Electronic-settlement Service Co., Ltd | 484 | 255 | 213 | | 6.72 |
| Hyundai Asan Corporation | 22,500 | 8,861 | 7,398 | | 5.00 |
| Dongwon Capital Co., Ltd. | 3,000 | 3,000 | 2,505 | | 4.62 |
| U.S Electrical Inc. | 2,204 | 2,204 | 1,840 | | 3.80 |
| ROTIS | 1,000 | - | - | | 3.76 |
| KIS Information & Communication, Inc. | 220 | 220 | 184 | | 1.67 |
| Yonhap Capital Co., Ltd. | 10,500 | 10,500 | 8,766 | | 1.49 |

| Companies | Korea won (in millions) | | U.S. dollars (Note 2) (in thousands) | | Ownership percentage (*2) |
|--|----------------------------|------------------|--|------------|------------------------------|
| | Acquisition cost | Book value | Book value | Book value | |
| Koryo Co., Ltd | ₩ 6,625 | ₩ 727 | \$ 607 | | 1.02 |
| Korea Software Financial Cooperative | 500 | 500 | 417 | | 0.60 |
| Cheju International Convention Center | 500 | 500 | 417 | | 0.59 |
| Daewoo Motor Co., Ltd. | 2,213 | - | - | | 0.02 |
| Machinery Insurance Cooperative | 8,188 | 8,188 | 6,836 | | - |
| Space Imaging LLC | 5,319 | 5,319 | 4,441 | | - |
| Korea Defense Industry Association | 4,690 | 4,690 | 3,916 | | - |
| Daejoo Heavy Industry Co. Ltd. | 650 | 650 | 543 | | - |
| Hyundai RB Co. | 550 | 550 | 459 | | - |
| Yonhi Information & Communication Co., Ltd. | 500 | - | - | | - |
| Toba Telecom | 405 | - | - | | - |
| Other | 5,332 | 2,634 | 2,197 | | - |
| | <u>₩ 210,155</u> | <u>₩ 173,243</u> | <u>\$ 144,634</u> | | |

(*1) The equity securities of these affiliates were excluded from using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million (US \$5,844 thousand), are not material.

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

In 2003, impairment loss between the acquisition cost and the estimated recoverable amount of Hyundai Unicorns Co., Ltd., Hankyoreh Plus Inc. (formerly Internet Hankyoreh Inc.), ROTIS Inc. and others are recognized in current operations.

Debt securities, classified into available-for-sale securities, included in long-term investment securities as of December 31, 2003 consist of the following:

| Description | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|-------------------------|-----------------------------|-------------------|--|------------|
| | Acquisition cost | Book value | Book value | Book value |
| Government bonds | ₩ 6,683 | ₩ 6,683 | \$ 5,579 | |
| Corporate bonds | 8,584 | 6,204 | 5,179 | |
| Asset backed securities | 1,735,478 | 1,690,816 | 1,411,601 | |
| Other | 1,153 | 350 | 294 | |
| | <u>₩1,751,898</u> | <u>₩1,704,053</u> | <u>\$ 1,422,653</u> | |

(4) Debt securities included in held-to-maturity of long-term investment securities as of December 31, 2003 consist of the following:

| Description | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|------------------|-----------------------------|-----------------|--|------------|
| | Acquisition cost | Book value | Book value | Book value |
| Government bonds | ₩ 21,015 | ₩ 21,015 | \$ 17,545 | |
| Corporate bonds | 789 | 789 | 659 | |
| Other | 64,700 | 59,466 | 49,645 | |
| | <u>₩ 86,504</u> | <u>₩ 81,270</u> | <u>\$ 67,849</u> | |

(5) Maturity of debt securities as of December 31, 2003 consist of the following:

| | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|--------------------|-----------------------------|--|
| <u>Maturity</u> | <u>Book value</u> | <u>Book value</u> |
| 1 year ~ 5 years | ₩ 1,648,494 | \$ 1,376,268 |
| 6 years ~ 10 years | 136,829 | 114,234 |
| | <u>₩ 1,785,323</u> | <u>\$ 1,490,502</u> |

5. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

Investment securities accounted for using the equity method as of December 31, 2003 consist of the following:

| Description | Ownership percentage (*2) | Book value | | | | | |
|--|------------------------------|------------------|------------------|-----------------------------|-------------------|---|--|
| | | 2003 | | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
| | | Historical cost | 2003 | 2002 | 2003 | 2002 | |
| Kia Tigers Co., Ltd. (*1) | 100.00 | ₩ 20,300 | ₩ 10,090 | ₩ 14,083 | \$ 8,424 | \$ 11,757 | |
| Hysco America Co., Ltd (*1) | 100.00 | 5,955 | 5,690 | - | 4,750 | - | |
| HMJ R&D (*1) | 100.00 | 1,510 | 2,391 | 2,090 | 1,996 | 1,745 | |
| Yan Ji Kia Motors A/S (*1) | 100.00 | 1,792 | 1,792 | - | 1,496 | - | |
| Beijing-Hyundai Motor | 50.00 | 133,691 | 281,997 | 29,468 | 235,429 | 108,088 | |
| HAOSVT | 50.00 | 48,013 | 25,859 | - | 21,589 | - | |
| Donghui Auto Co., Ltd. | 35.12 | 10,530 | 5,608 | 10,530 | 4,682 | 8,791 | |
| Korea Space & Aircraft Co., Ltd. | 33.33 | 129,800 | 79,312 | 84,690 | 66,215 | 70,705 | |
| PT. Kia Timor Motors | 30.00 | 10,908 | 12,865 | 10,996 | 10,741 | 9,180 | |
| Korea Economy Daily | 29.57 | 19,973 | 14,129 | 17,568 | 11,796 | 14,667 | |
| TRW Steering Co., Ltd. | 29.00 | 8,952 | 8,254 | 8,692 | 6,891 | 7,257 | |
| NGVTEK.com | 24.39 | 250 | 250 | - | 209 | - | |
| EUKOR Car Carriers, Inc. | 20.00 | 48,912 | 53,323 | - | 44,517 | - | |
| Iljin Bearing Co., Ltd. (formerly Iljin Automotive Co., Ltd.) | 20.00 | 826 | 12,794 | 11,890 | 10,681 | 9,927 | |
| Daesung Automotive Co., Ltd. | 20.00 | 400 | 5,619 | 5,200 | 4,691 | 4,341 | |
| Kia Service Philippines Co. | 20.00 | 185 | 185 | - | 154 | - | |
| Eukor Car Carriers Singapore Pte. | 20.00 | 13 | 13 | - | 11 | - | |
| First CRV | 50.00 | - | - | 99,240 | - | 82,852 | |
| Wuhan Grand Motor Co., Ltd. | 21.40 | - | - | 8,018 | - | 6,694 | |
| | | <u>₩ 442,010</u> | <u>₩ 520,171</u> | <u>₩ 402,465</u> | <u>\$ 434,272</u> | <u>\$ 336,004</u> | |

(*1) These companies are excluded in the consolidation since individual beginning balance of total assets is less than ₩7,000 million (US \$5,844 thousand).

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES:

(1) Marketable securities as of December 31, 2002 consist of the following:

| <u>Description</u> | Korean won | U.S. dollars |
|--------------------------|-------------------|----------------------------|
| | (in millions) | (Note 2) (in thousands) |
| | <u>Book value</u> | <u>Book value</u> |
| Beneficiary certificates | ₩ 690,209 | \$ 576,231 |
| Debt securities | 20,265 | 16,918 |
| | <u>₩ 710,474</u> | <u>\$ 593,149</u> |

(2) Investments securities as of December 31, 2002 consist of the following:

| <u>Description</u> | Korean won | U.S. dollars |
|------------------------------|-------------------|----------------------------|
| | (in millions) | (Note 2) (in thousands) |
| | <u>Book value</u> | <u>Book value</u> |
| Marketable equity securities | ₩ 936,108 | \$ 781,523 |
| Unlisted equity securities | 262,543 | 219,188 |
| Debt securities | 460,157 | 384,168 |
| | <u>₩1,658,808</u> | <u>\$ 1,384,879</u> |

(3) Marketable investments that are excluded from the consolidation and the application of the equity method as of December 31, 2002 consist of the following:

| <u>Companies</u> | Korea won | | U.S. dollars | Ownership percentage (*2) |
|---|------------------------|-------------------|----------------------------|------------------------------|
| | (in millions) | (in millions) | (Note 2) (in thousands) | |
| | <u>Historical cost</u> | <u>Book value</u> | <u>Book value</u> | |
| Hyundai MOBIS | ₩ 83,102 | ₩ 343,963 | \$ 287,162 | 18.51 |
| Korea Industrial Development Co., Ltd. | 5,091 | 2,614 | 2,182 | 10.54 |
| INI Steel (*1) | 137,175 | 136,584 | 114,029 | 20.03 |
| Saehan Media | 1,607 | 2,418 | 2,019 | 4.93 |
| Jin Heung Mutual Savings & Finance Co., Ltd. | 2,181 | 2,045 | 1,707 | 8.66 |
| Korea Mutual Savings Bank | 2,846 | 2,983 | 2,490 | 8.13 |
| Hyundai Heavy Industries Co., Ltd. | 56,924 | 41,720 | 34,831 | 2.88 |
| Hyundai Corporation | 13,626 | 2,079 | 1,736 | 2.99 |
| Hyundai Information Technology Co., Ltd. | 10,000 | 1,267 | 1,058 | 2.21 |
| LG Telecom Co., Ltd. | 19,851 | 16,198 | 13,523 | 1.28 |
| Chohung Bank | 73,545 | 28,003 | 23,379 | 1.10 |
| Hyundai Merchant Marine Co., Ltd. | 7,329 | 1,040 | 868 | 0.55 |
| Kia Steel Co., Ltd. | 96 | 169 | 141 | 0.52 |
| Hyundai Engineering & Construction Co., Ltd. | 13,332 | 4,280 | 3,573 | 0.55 |
| Kanglim Specific Equipment Automotive Co., Ltd. | 347 | 68 | 57 | 0.38 |
| Prochips Technology Inc. | 905 | 80 | 67 | 0.27 |
| DongYang Investment Bank | 283 | 22 | 18 | 0.02 |
| Korea Information Service. Inc. | 1,098 | 1,497 | 1,250 | 2.21 |
| SK Telecom | 837 | 5,716 | 4,772 | 0.03 |
| Nonhyup Trust Cash Fund | 199,839 | 315,625 | 263,504 | - |
| Samho Company Ltd. | 16 | 1 | 1 | - |
| Samlip General Food | 14 | - | - | - |
| Treasury Stock Funds | 20,737 | 4,489 | 3,748 | - |
| Stock Market Stabilization Fund | 14,754 | 23,247 | 19,408 | - |
| | <u>₩ 665,535</u> | <u>₩ 936,108</u> | <u>\$ 781,523</u> | |

(*1) Excluded in applying the equity method since the increase in ownership was caused mainly by investee's stock retirement and the Company believes the increase of ownership is temporary.

(*2) Percentage ownership is calculated by combining the ownership of the Company and its subsidiaries.

(4) Non-listed investments that are excluded from the consolidation and the application of the equity method as of December 31, 2002 consist of the following:

| Companies | Korea won (in millions) | | U.S. dollars (Note 2) (in thousands) | Ownership percentage (*2) |
|---|----------------------------|------------|--|------------------------------|
| | Acquisition cost | Book value | Book value | |
| Yan Ji Kia Motors A/S (*1) | ₩ 1,792 | ₩ 1,792 | \$ 1,496 | 100.00 |
| Hyundai Capital Asset Management Co., Ltd. (*1) | 2,000 | 2,000 | 1,670 | 100.00 |
| Hyundai Jingxian Motor Safeguard Service Co., Ltd. (*1) | 2,019 | 2,019 | 1,686 | 84.88 |
| NGVTEK.com (*1) | 700 | 700 | 584 | 68.29 |
| Kia Service Philippines Co. (*1) | 185 | 185 | 154 | 20.00 |
| Eukor Car Carriers, Inc. | 48,912 | 48,912 | 40,835 | 19.99 |
| Mco | 950 | 950 | 793 | 19.99 |
| Dongyong Industries Co., Ltd. | 241 | 241 | 201 | 19.23 |
| Hyundai RB Co. | 550 | 550 | 459 | 18.64 |
| Mobil.Com Co., Ltd. | 1,800 | 1,800 | 1,503 | 17.61 |
| Jinil MVC Co., Ltd. | 180 | 180 | 150 | 18.00 |
| Industri Otomotif Komersial | 4,439 | 4,439 | 3,706 | 15.00 |
| Hyundai Technology Investment Co., Ltd. | 4,490 | 4,490 | 3,749 | 14.97 |
| Hyundai Unicorns Co., Ltd. | 5,795 | 5,795 | 4,838 | 14.90 |
| Hyundai Research Institute | 1,271 | 1,271 | 1,061 | 14.90 |
| Gyeongnam Credit Guarantee Foundation | 2,500 | 2,500 | 2,087 | 13.66 |
| Kihyup Finance, Inc. | 3,700 | 3,700 | 3,089 | 12.75 |
| SoltechIM Co., Ltd. | 157 | 157 | 131 | 10.47 |
| Toba Telecom | 405 | 405 | 338 | 10.02 |
| 3Gcore, Inc | 225 | 225 | 188 | 10.90 |
| Yonhap Capital Co., Ltd. | 10,500 | 10,500 | 8,766 | 10.49 |
| Hyundai Motor Deutschland GmbH | 802 | 802 | 670 | 10.00 |
| Hyundai Finance Corporation | 9,888 | 9,888 | 8,255 | 9.29 |
| Daejoo Heavy Industry Co. Ltd. | 650 | 650 | 543 | 9.29 |
| A.P. Co., Ltd. | 550 | - | - | 9.20 |
| Namyang Industrial Co., Ltd. | 200 | 200 | 167 | 8.00 |
| KOENTECH (formerly Ulsan Environmental Development) | 1,550 | 1,550 | 1,294 | 7.75 |
| Internet Hankyoreh Inc. | 4,800 | 4,800 | 4,007 | 7.41 |
| Hyundai Oil refinery Co., ltd. | 88,857 | 88,857 | 74,184 | 6.33 |
| Hyundai Asan Corporation | 22,500 | 8,861 | 7,398 | 5.00 |
| Yonhi Information & Communication Co., Ltd. | 500 | 500 | 417 | 4.90 |
| Dongwon Capital Co., Ltd. | 3,000 | 3,000 | 2,505 | 4.62 |
| U.S Electrical Inc. | 2,204 | 2,204 | 1,840 | 3.80 |
| ROTIS | 1,000 | 1,000 | 835 | 3.76 |
| Q&V Korea | 400 | 400 | 334 | 3.70 |
| Daishin Factoring Co., Ltd | 2,000 | - | - | 3.33 |
| Korea Auto Industries Coop Association | 16 | 16 | 13 | 2.06 |
| ICOLS Inc. | 160 | 160 | 134 | 2.50 |

| Companies | Korea won (in millions) | | U.S. dollars (Note 2) (in thousands) | Ownership percentage (*2) |
|---------------------------------------|----------------------------|------------------|--|------------------------------|
| | Acquisition cost | Book value | Book value | |
| KT ICOM Co., Ltd. (formerly I-COM) | 18,000 | 18,000 | 15,028 | 1.00 |
| Cheju International Convention Center | 500 | 500 | 417 | 0.59 |
| Kyongnam Shinmun Co., Ltd. | 20 | 3 | 3 | 0.28 |
| Daewoo Commercial Vehicle | 40 | 2 | 2 | 0.05 |
| Daewoo Motor Co., Ltd. | 2,213 | - | - | 0.02 |
| Space Imaging LLC | 5,319 | 5,319 | 4,441 | - |
| Machinery Insurance Cooperative | 8,188 | 8,188 | 6,836 | - |
| Other | 15,544 | 14,832 | 12,381 | - |
| | <u>₩ 281,712</u> | <u>₩ 262,543</u> | <u>\$ 219,188</u> | |

(*1) The equity securities of these affiliates were excluded from using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million (US\$5,844 thousand), are not material.

(*2) Percentage ownership is calculated by combining the ownership of the Company and its subsidiaries.

(5) Held-to-maturity debt securities as of December 31, 2002 consist of the following:

| Description | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) |
|------------------------|-----------------------------|------------------|--|
| | Acquisition cost | Book value | Book value |
| Foreign currency bonds | ₩ 167,293 | ₩ 163,962 | \$ 136,886 |
| Subordinated bonds | 237,450 | 210,371 | 175,631 |
| Private placed bonds | 68,110 | 49,950 | 41,701 |
| Other | 38,845 | 35,874 | 29,950 |
| | <u>₩ 511,698</u> | <u>₩ 460,157</u> | <u>\$ 384,168</u> |

7. LEASED ASSETS:

The Company and its subsidiaries have entered into lease agreements for certain machinery and equipment. The capital lease obligations are included in long-term debt in the accompanying balance sheets. Annual payments on these lease agreements as of December 31, 2003 are as follows (won in millions):

| | Financing leases | | | Operating leases |
|------------|------------------|------------------|------------------|------------------|
| | Lease payments | Interest portion | Lease obligation | Lease payments |
| 2004 | ₩ 75,573 | ₩ 10,049 | ₩ 65,524 | ₩ 42,953 |
| 2005 | 62,479 | 5,240 | 57,239 | 22,385 |
| 2006 | 61,937 | 4,640 | 57,297 | 8,950 |
| 2007 | 38,376 | 2,512 | 35,864 | 6,325 |
| Thereafter | 105 | 10 | 95 | 23,651 |
| | <u>₩ 238,470</u> | <u>₩ 22,451</u> | <u>₩ 216,019</u> | <u>₩ 104,264</u> |

8. INSURED ASSETS:

As of December 31, 2003, certain property, plant and equipment are insured for ₩10,929,715 million (US \$9,124,825 thousand) and the Company and its certain subsidiaries carry general insurance for vehicles and workers' compensation and casualty insurance for employees. In addition, the Company and Kia carry products and completed operations liability insurance with a maximum coverage of ₩234,211 million (US \$195,534 thousand) with Hyundai Marine & Fire Insurance Co., Ltd.

9. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2003 and 2002 consist of the following:

| Description | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|--------------------------------|-----------------------------|--------------|---|---------------|
| | 2003 | 2002 | 2003 | 2002 |
| Buildings and structures | ₩ 5,759,631 | ₩ 5,266,364 | \$ 4,808,508 | \$ 4,396,697 |
| Machinery and equipment | 8,633,803 | 8,270,212 | 7,208,051 | 6,904,502 |
| Vehicles | 168,568 | 142,681 | 140,731 | 119,119 |
| Tools, dies and molds | 3,603,200 | 3,486,128 | 3,008,182 | 2,910,442 |
| Other equipment | 1,048,891 | 948,627 | 875,681 | 791,975 |
| | 19,214,093 | 18,114,012 | 16,041,153 | 15,122,735 |
| Less: Accumulated depreciation | (7,445,356) | (6,415,241) | (6,215,859) | (5,355,853) |
| | 11,768,737 | 11,698,771 | 9,825,294 | 9,766,882 |
| Land | 3,983,127 | 3,942,288 | 3,325,369 | 3,291,274 |
| Construction in progress | 2,091,034 | 1,104,179 | 1,745,729 | 921,839 |
| | ₩ 17,842,898 | ₩ 16,745,238 | \$ 14,896,392 | \$ 13,979,995 |

The changes in property, plant and equipment in 2003 are as follows:

| Description | Korean won (in millions) | | | | | U. S. dollars (Note 2) (in thousands) | | |
|-----------------------------|-----------------------------|-------------|-------------|-------------|---------------|---|----------------|----------------|
| | Beginning of year | Acquisition | Transfer | Disposal | Depreciation | Other changes | End of year | End of year |
| Land | ₩ 3,942,288 | ₩ 23,133 | ₩ 55,963 | ₩ (38,606) | ₩ - | ₩ 349 | ₩ 3,983,127 | \$ 3,325,369 |
| Buildings and structures | 4,496,765 | 166,648 | 407,721 | (74,198) | (169,403) | 2,247 | 4,829,780 | 4,032,209 |
| Machinery and equipment | 5,493,823 | 71,515 | 747,144 | (288,234) | (673,746) | 8,825 | 5,359,327 | 4,474,309 |
| Vehicles | 85,991 | 8,706 | 38,765 | (5,294) | (19,043) | 171 | 109,296 | 91,247 |
| Tools, dies and molds | 1,154,080 | 46,574 | 299,679 | (68,952) | (424,050) | (106) | 1,007,225 | 840,896 |
| Other equipment | 468,112 | 62,944 | 113,184 | (31,506) | (149,581) | (44) | 463,109 | 386,633 |
| Construction in progress | 1,104,179 | 2,634,107 | (1,662,514) | (137,733) | - | 152,995 | 2,091,034 | 1,745,729 |
| | ₩ 16,745,238 | ₩ 3,013,627 | ₩ (58) | ₩ (644,523) | ₩ (1,435,823) | ₩ 164,437 | ₩ 17,842,898 | \$ 14,896,392 |

As of December 31, 2003 and 2002, the value of the land, which the Company and its subsidiaries own domestically, totals ₩3,340,181 million (US \$2,788,597 thousand) and ₩3,097,198 million (US \$2,585,739 thousand), respectively, in terms of land prices officially announced by the Korean government.

10. INTANGIBLES

Intangibles as of December 31, 2003 and 2002 consist of the following:

| Description | Korean won (in millions) | | | | U. S. dollars (Note 2) (in thousands) | | |
|----------------------------|-----------------------------|--------------|--------------------|-------------|--|--------------|--------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | |
| | Acquisition | Accumulated | Accumulated | Book value | Book value | Book value | Book value |
| | cost | amortization | Impairment loss | | | | |
| Goodwill | ₩ 981,855 | ₩ 176,104 | ₩ - | ₩ 805,751 | ₩ 859,857 | \$ 672,692 | \$ 717,863 |
| Negative goodwill | (88,216) | (4,620) | - | (83,596) | (112,669) | (67,791) | (94,063) |
| Industrial property rights | 40,862 | 19,658 | - | 21,204 | 19,397 | 17,703 | 16,194 |
| Development costs | 1,858,815 | 825,467 | 353 | 1,032,995 | 829,843 | 862,410 | 692,806 |
| Other | 119,682 | 33,979 | - | 85,703 | 81,682 | 71,550 | 68,193 |
| | ₩ 2,192,998 | ₩ 1,050,588 | ₩ 353 | ₩ 1,862,057 | ₩ 1,678,110 | \$ 1,554,564 | \$ 1,400,993 |

The changes in intangibles in 2003 are as follows:

| Description | Korean won (in millions) | | | | | | U. S. dollars (Note 2) (in thousands) |
|-----------------------|-----------------------------|-------------------|----------------------------|-------------------|----------|-------------|---|
| | Goodwill | Negative goodwill | Industrial property rights | Development costs | Other | Total | Total |
| Beginning of the year | ₩ 859,857 | ₩ (112,669) | ₩ 19,397 | ₩ 829,843 | ₩ 81,682 | ₩ 1,678,110 | \$ 1,400,993 |
| Addition: | | | | | | | |
| Expenditures | 9,770 | - | 9,170 | 974,994 | 12,860 | 1,006,794 | 840,536 |
| Deduction: | | | | | | | |
| Disposal | (460) | 443 | (41) | (5,970) | (111) | (6,139) | (5,125) |
| Amortization | (63,416) | 28,630 | (7,322) | (269,012) | (8,728) | (319,848) | (267,030) |
| Research | - | - | - | (298,420) | - | (298,420) | (249,140) |
| Ordinary development | - | - | - | (195,330) | - | (195,330) | (163,074) |
| Impairment loss | - | - | - | (3,110) | - | (3,110) | (2,596) |
| End of the year | ₩ 805,751 | ₩ (83,596) | ₩ 21,204 | ₩ 1,032,995 | ₩ 85,703 | ₩ 1,862,057 | \$ 1,554,564 |

Amortization on intangible assets except negative goodwill is recorded in selling and administrative expenses and manufacturing cost, and amortization on negative goodwill is recorded in other income. In addition, the Company accounted for ordinary development expenses, research expenses and impairment loss as manufacturing cost, selling and administrative expenses and other expenses, respectively.

As of December 31, 2003, goodwill consists of ₩305,419 million (\$254,983 thousand) related to investments in subsidiaries and ₩500,332 million (\$417,709 thousand) related to mergers with non-subsidiary companies or business divisions. As of December 31, 2002, goodwill consists of ₩340,288 million (\$284,094 thousand) related to investments in subsidiaries and ₩519,569 million (\$433,769 thousand) related to mergers with non-subsidiary companies or business divisions.

As of December 31, 2003, negative goodwill consists of ₩79,596 million (\$66,452 thousand) related to investments in subsidiaries and ₩4,000 million (\$3,339 thousand) related to mergers with non-subsidiary companies or business divisions. As of December 31, 2002, negative goodwill is ₩108,169 million (\$90,306 thousand) related to investments in subsidiaries and ₩4,500 million (\$3,757 thousand) related to mergers with non-subsidiary companies or business divisions.

11. OTHER ASSETS:

Other assets as of December 31, 2003 and 2002 consist of the following:

| Description | Korean won (in millions) | | U. S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|-----------|--|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Long-term notes and accounts receivable, net of allowance for doubtful accounts of ₩314 million in 2003 and ₩1,630 million in 2002, and unamortized discount of ₩3,853 million in 2003 and ₩6,332 million in 2002 | ₩ 25,974 | ₩ 31,203 | \$ 21,685 | \$ 26,050 |
| Lease and rental deposits | 391,939 | 322,505 | 327,216 | 269,248 |
| Long-term deposits | 18,659 | 36,186 | 15,578 | 30,210 |
| Deferred gain on valuation of derivatives (see Note 2) | 162,722 | 51,622 | 135,851 | 43,097 |
| Long-term loan, net of allowance for doubtful accounts of ₩133 million in 2003 and ₩45 million in 2002, and unamortized discount of nil in 2003 and ₩4,397 million in 2002 | 168,182 | 168,008 | 140,409 | 140,264 |
| Other | 315,873 | 84,318 | 263,710 | 70,395 |
| | ₩ 1,083,349 | ₩ 693,842 | \$ 904,449 | \$ 579,264 |

12. OTHER FINANCIAL BUSINESS ASSETS

Other financial business assets as of December 31, 2003 and 2002 consist of the following:

| | Korean won (in millions) | | U. S. dollars (Note 2) (in thousands) | |
|---------------------|-----------------------------|--------------------|--|---------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Finance receivables | ₩ 6,597,890 | ₩ 8,059,742 | \$ 5,508,339 | \$ 6,728,788 |
| Lease receivables | 680,011 | 290,169 | 567,718 | 242,252 |
| Other | 9,107 | 17,930 | 7,603 | 14,969 |
| | <u>₩ 7,287,008</u> | <u>₩ 8,367,841</u> | <u>\$ 6,083,660</u> | <u>\$ 6,986,009</u> |

13. SHORT-TERM BORROWINGS

Short-term borrowings as of December 31, 2003 and 2002 amount to ₩9,457,854 million (\$7,896,021 thousand) and ₩7,526,948 million (\$6,283,977 thousand), respectively, and consist primarily of bank loans and export financing loans with annual interest rates ranging from 0.34 percent to 10.10 percent.

14. LONG-TERM DEBT

Long-term debt as of December 31, 2003 and 2002 consists of the following:

| Description | Interest rate (%) | Korean won (in millions) | | U. S. dollars (Note 2) (in thousands) | |
|--------------------------|-------------------|-----------------------------|--------------------|--|---------------------|
| | | 2003 | 2002 | 2003 | 2002 |
| Debentures | 2.60 ~ 9.40 | ₩10,543,894 | ₩ 9,250,885 | \$ 8,802,717 | \$ 7,723,230 |
| Won currency loans | | | | | |
| Capital lease | 6.30 ~ 14.25 | 46,214 | 62,490 | 38,582 | 52,171 |
| Reorganization claims | (*) | 434,895 | 524,855 | 363,078 | 438,183 |
| Composition obligation | 4.25 ~ 6.75 | 25,968 | 5,812 | 21,680 | 4,852 |
| General loans | 1.00 ~ 9.30 | 369,778 | 475,597 | 308,715 | 397,058 |
| | | <u>876,855</u> | <u>1,068,754</u> | <u>732,055</u> | <u>892,264</u> |
| Foreign currency loans | | | | | |
| Capital lease | L+0.88 ~ 4.85 | 156,654 | 219,621 | 130,785 | 183,354 |
| Reorganization claims | (*) | 121,596 | 148,611 | 101,516 | 124,070 |
| Other | 3.24 ~ 7.73 | 386,451 | 372,241 | 322,634 | 310,771 |
| | | <u>664,701</u> | <u>740,473</u> | <u>554,935</u> | <u>618,195</u> |
| | | 12,085,450 | 11,060,112 | 10,089,707 | 9,233,689 |
| Less: Current maturities | | <u>(5,653,180)</u> | <u>(3,049,849)</u> | <u>(4,719,637)</u> | <u>(2,546,209)</u> |
| | | <u>₩ 6,432,270</u> | <u>₩ 8,010,263</u> | <u>\$ 5,370,070</u> | <u>\$ 6,687,480</u> |

(*) 3 year non-guaranteed bond circulating earning rate at the end of every quarter

Debentures as of December 31, 2003 and 2002 consist of the following:

| Description | Maturity | Annual interest rate (%) | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|---------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------|---|---------------------|
| | | | 2003 | 2002 | 2003 | 2002 |
| Domestic debentures | | | | | | |
| Guaranteed debentures | 27 Mar, 2004 | 6.6 | ₩ 10,000 | ₩ 10,500 | \$ 8,349 | \$ 8,766 |
| Non-guaranteed debentures | 14 Feb, 2004 ~ 14 Jan, 2009 | 5.45 ~ 8.54 | 8,568,260 | 8,218,132 | 7,153,330 | 6,861,022 |
| Convertible bonds | 31 Jan, 2009 | 4.0 | 299,946 | 69,972 | 250,414 | 58,417 |
| Overseas debentures | 18 Oct, 2004 ~ 19 Dec, 2008 | 2.60 ~ 9.40 | <u>1,741,601</u> | <u>1,025,586</u> | <u>1,454,000</u> | <u>856,225</u> |
| | | | 10,619,807 | 9,324,190 | 8,866,093 | 7,784,430 |
| Discount on debentures | | | <u>(75,913)</u> | <u>(73,305)</u> | <u>(63,376)</u> | <u>(61,200)</u> |
| | | | <u>₩ 10,543,894</u> | <u>₩ 9,250,885</u> | <u>\$ 8,802,717</u> | <u>\$ 7,723,230</u> |

Convertible bonds with the carrying value of ₩300,000 million (\$250,459 thousand) as of December 31, 2003 were issued by Hyundai Card Co., Ltd, a subsidiary. In, 2003, convertible bonds with the face value of ₩54 million (\$45 thousand) were converted to 10,820 shares of common stock.

The maturity of long-term debt as of December 31, 2003 is as follows:

| | Korean won (in millions) | | | U.S dollars (Note 2) (in thousands) | |
|------------------------------|-----------------------------|----------------------------|------------------------------|---|----------------------|
| | Debentures | Local currency loans | Foreign currency loans | Total | Total |
| 2004 | ₩ 5,151,950 | ₩ 237,454 | ₩ 268,939 | ₩ 5,658,343 | \$ 4,723,946 |
| 2005 | 2,434,452 | 202,499 | 219,373 | 2,856,324 | 2,384,642 |
| 2006 | 1,631,585 | 142,105 | 75,922 | 1,849,612 | 1,544,174 |
| 2007 | 181,860 | 137,911 | 52,421 | 372,192 | 310,730 |
| Thereafter | 1,219,960 | 156,886 | 48,046 | 1,424,892 | 1,189,591 |
| | 10,619,807 | 876,855 | 664,701 | 12,161,363 | 10,153,083 |
| Less: Discount on debentures | (75,913) | - | - | (75,913) | (63,376) |
| | <u>₩ 10,543,894</u> | <u>₩ 876,855</u> | <u>₩ 664,701</u> | <u>₩ 12,085,450</u> | <u>\$ 10,089,707</u> |

15. CAPITAL STOCK

Capital stock as of December 31, 2003 consists of the following:

| | Authorized | Issued | Par value | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|-----------------|--------------------|--------------------|-----------|-----------------------------|--|
| Common stock | 450,000,000 shares | 219,518,502 shares | ₩ 5,000 | ₩ 1,147,592 | \$ 958,083 |
| Preferred stock | 150,000,000 shares | 65,202,146 shares | 5,000 | 331,011 | 276,349 |
| | | | | <u>₩ 1,478,603</u> | <u>\$ 1,234,432</u> |

Capital stock as of December 31, 2002 consists of the following:

| | Authorized | Issued | Par value | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|-----------------|--------------------|--------------------|-----------|-----------------------------|--|
| Common stock | 450,000,000 shares | 219,088,702 shares | ₩ 5,000 | ₩ 1,145,443 | \$ 956,289 |
| Preferred stock | 150,000,000 shares | 65,202,146 shares | 5,000 | 331,011 | 276,349 |
| | | | | <u>₩ 1,476,454</u> | <u>\$ 1,232,638</u> |

In 2003, a part of the stock options granted to the directors were exercised at an exercise price of ₩14,900 and the new common stock of 429,800 shares were issued. This issue of new common stock resulted in the increase in paid-in capital in excess of par value by ₩8,197 million (US \$6,843 thousand).

The preferred shares are non-cumulative, participating and non-voting. Of the total preferred stock issued of 65,202,146 shares as of December 31, 2003, a total of 27,588,281 preferred shares (First and Third preferred shares) are eligible to receive cash dividends, if declared, equal to that declared for common shares plus an additional 1 percent minimum increase while the dividend rate for the remaining 37,613,865 preferred shares (Second preferred shares) is 2 percent higher than that declared for common shares.

The Company acquired treasury stock after cancellation of Trust Cash Fund on March 2, 2001. In accordance with the decision of the Board of Directors, on March 5, 2001, the Company retired 10,000,000 common shares in treasury and 1,000,000 second preferred shares in treasury, which had additional dividend rate of 2 percent to the rate of common stock, using the retained earnings.

The Company issued 10,000,000 Global Depository Receipts (GDRs) representing 5,000,000 shares of preferred stock in November 1992, 4,675,324 GDRs representing 2,337,662 shares of preferred stock in June 1995 and 7,812,500 GDRs representing 3,906,250 shares of preferred stock in June 1996, all of which have been listed on the Luxembourg Stock Exchange.

In the second half of 1999, the Company issued 45,788,000 Global Depository Shares representing 22,894,000 common shares for ₩601,356 million (US\$502,050 thousand), which include paid-in capital in excess of par value of ₩486,886 million (\$406,484 thousand).

16. CAPITAL ADJUSTMENTS

Capital adjustments as of December 31, 2003 and 2002 consist of the following:

| Description | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|--------------------|---|--------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Treasury stock | ₩ (93,191) | ₩ (86,514) | \$ (77,802) | \$ (72,227) |
| Discounts on stock issuance | (3,015) | (374) | (2,517) | (312) |
| Gain on valuation of available-for-sale securities (see Note 4) | 565,217 | - | 471,879 | - |
| Gain (Loss) on valuation of investment securities accounted for using the equity method | 11,380 | (104,232) | 9,501 | (87,020) |
| Gain on valuation of investment securities | - | 119,121 | - | 99,450 |
| Stock option cost | 16,667 | 13,605 | 13,915 | 11,358 |
| Cumulative translation adjustments | (32,503) | (70,923) | (27,136) | (59,211) |
| Gain (Loss) on valuation of derivatives (see Note 2) | (83,863) | 22,900 | (70,014) | 19,119 |
| | <u>₩ 380,692</u> | <u>₩ (106,417)</u> | <u>\$ 317,826</u> | <u>\$ (88,843)</u> |

(1) Treasury stock

For the stabilization of stock price, the Company has treasury stock consisting of 889,470 common shares and 3,138,600 preferred shares with a carrying value of ₩89,706 million (US\$74,892 thousand) as of December 31, 2003 and 1,005,570 common shares and 3,167,300 preferred shares with a carrying value of ₩73,036 million (US\$60,975 thousand) as of December 31, 2002, acquired directly or indirectly through the Treasury Stock Fund and Trust Cash Fund. In addition, the Company's ownership portion of subsidiaries' treasury stock held by themselves, amounting to ₩3,485 million (US\$2,910 thousand) and ₩13,478 million (US\$11,252 thousand) as of December 31, 2003 and 2002, respectively, are included in the treasury stock.

(2) Discounts on stock issuance

Certain subsidiaries accounted for expense on issuance of new stock as discounts on stock issuance. The Company's ownership portion of these discounts amounting to ₩3,015 million (US\$2,517 thousand) and ₩374 million (US\$312 thousand) is accounted for as a debit to capital adjustments as of December 31, 2003 and 2002, respectively.

(3) Stock option cost

The Company granted directors stock options at an exercise price of ₩26,800 (grant date: February 14, 2003, beginning date for exercise: February 14, 2006, expiry date for exercise: February 13, 2011) and of ₩14,900 (grant date: March 10, 2000, beginning date for exercise: March 10, 2003, expiry date for exercise: March 9, 2008). These stock options all require at least two-year continued service starting from the grant date. If all of the stock options as of December 31, 2003 are exercised, 2,352,200 shares (1,492,000 shares and 860,200 shares for the options granted as of February 14, 2003 and March 10, 2000, respectively) will be issued as new shares or using treasury stock or will be compensated by cash, according to the decision of the Board of Directors. In 2003, 429,800 shares of stock options granted as of March 10, 2000 were exercised by directors.

The Company calculates the total compensation expense using an option-pricing model. In the model, the risk-free rate of 4.94% and 9.04%, an expected exercise period of 5.5 years and an expected variation rate of stock price of 63.29 percent and 71.1 percent are used for the options granted as of February 14, 2003 and March 10, 2000, respectively. Total compensation expenses amounting to ~~₩~~17,088 million (US\$14,266 thousand) and ~~₩~~11,832 million (US\$9,878 thousand) for the options granted as of February 14, 2003 and March 10, 2000, respectively, have been accounted for as a charge to current operations and a credit to stock option cost in capital adjustments over the required period of service (two years) from the grant date using the straight-line method.

(4) Cumulative translation adjustments

Cumulative translation debits of ~~₩~~32,503 million (US \$ 27,136 thousand) and ~~₩~~70,923 million (US\$59,211 thousand) as of December 31, 2003 and 2002, respectively, which result from the translation of financial statements of overseas subsidiaries and the two branches located in the United States, are included in capital adjustments on the basis set forth in Note 2.

(5) Gain (loss) on valuation of derivatives

The gain (loss) on valuation of the effective portion of derivative instruments for cash flow hedging purpose from forecasted exports is included in capital adjustments on the basis set forth in Note 2. The Company recorded a loss of ~~₩~~83,863 million (US\$70,014 thousand) and a gain of ~~₩~~22,900 million (US\$19,118 thousand) as of December 31, 2003 and 2002, respectively.

17. PLEDGED ASSETS, CHECKS AND NOTES

As of December 31, 2003, the following assets, checks and notes are pledged as collateral:

- (1) The Company's and its domestic subsidiaries' property, plant and equipment are pledged as collateral for various loans to a maximum of ~~₩~~3,265 billion (\$2,726 million).
- (2) The Company's and its domestic subsidiaries' cash and cash equivalents of ~~₩~~13,115 million (\$10,949 thousand), financial instruments of ~~₩~~196,346 million (\$163,922 thousand), some investment securities including 4,183,466 shares for Kia, 4,400,000 shares for Eukor Car Carriers Inc. and others are pledged as collateral for various borrowings, debentures, payables, lease agreements, guarantees of a customer financing system and others.
- (3) Certain overseas subsidiaries' receivables, inventories and other financial business assets are pledged as collateral for their borrowings.
- (4) 132 blank checks, 246 blank promissory notes, 2 checks amounting to ~~₩~~6,624 million (\$5,530 thousand) and 4 promissory notes amounting to ~~₩~~10,320 million (\$8,616 thousand) are pledged as collateral to financial institutions and others.

18. SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses are as follows:

| | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|-------------------------|-----------------------------|--------------------|---|---------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Salaries | ₩ 1,728,168 | ₩ 1,636,321 | \$ 1,442,785 | \$ 1,366,105 |
| Export related expenses | 925,061 | 839,878 | 772,300 | 701,184 |
| Sales promotion | 2,320,814 | 2,159,849 | 1,937,564 | 1,803,180 |
| Sales commission | 403,840 | 405,419 | 337,151 | 338,470 |
| Sales warranties | 2,028,818 | 2,211,522 | 1,693,787 | 1,846,320 |
| Taxes and dues | 55,574 | 47,906 | 46,397 | 39,995 |
| Communications | 79,475 | 57,040 | 66,351 | 47,621 |
| Utilities | 46,065 | 41,350 | 38,458 | 34,522 |
| Freight and warehousing | 145,941 | 159,823 | 121,841 | 133,430 |
| Rent | 73,693 | 48,136 | 61,524 | 40,187 |
| Travel | 114,055 | 107,469 | 95,220 | 89,722 |
| Service charges | 539,698 | 345,069 | 450,574 | 288,086 |
| Supplies | 84,031 | 76,684 | 70,154 | 64,021 |
| Research | 478,197 | 313,865 | 399,229 | 262,035 |
| Depreciation | 219,658 | 180,301 | 183,385 | 150,527 |
| Amortization | 233,051 | 78,139 | 194,566 | 65,235 |
| Provision for bad debt | 1,532,102 | 598,448 | 1,279,097 | 499,623 |
| Other | 84,600 | 222,037 | 70,630 | 185,369 |
| | <u>₩11,092,841</u> | <u>₩ 9,529,256</u> | <u>\$ 9,261,013</u> | <u>\$ 7,955,632</u> |

19. INCOME TAX EXPENSE AND DEFERRED INCOME TAX DEBITS (CREDITS)

Income tax expense in 2003 and 2002 consists of the following:

| Description | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|------------------|---|-------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Income tax currently payable | ₩1,145,758 | ₩1,023,118 | \$ 956,552 | \$ 854,164 |
| Changes in deferred income taxes due to: | | | | |
| Temporary differences | (411,850) | (247,882) | (343,839) | (206,948) |
| Tax loss carried forward | (61,446) | 95,899 | (51,299) | 80,063 |
| Tax credit carried over | (20,023) | (6,159) | (16,716) | (5,142) |
| Deduction of capital surplus and retained earnings | - | (480) | - | (401) |
| Excess of limitation on donation to designated organization, others | - | 607 | - | 507 |
| Changes in retained earnings due to consolidation adjustments | - | (20,759) | - | (17,331) |
| | <u>(493,319)</u> | <u>(178,774)</u> | <u>(411,854)</u> | <u>(149,252)</u> |
| Income tax expense | <u>₩ 652,439</u> | <u>₩ 844,344</u> | <u>\$ 544,698</u> | <u>\$ 704,912</u> |

As of December 31, 2003, accumulated temporary differences of the Company and its subsidiaries amount to ₩4,287,892 million (\$3,579,806 thousand) and net operating loss carry-forwards and tax exemption carry-forwards of subsidiaries amount to ₩700,472 million (\$584,799 thousand) and ₩135,998 million (\$113,540 thousand), respectively. Some portion of the temporary difference, net operating loss carry-forwards and tax exemption carry-forwards, which are more likely than not, were not realized as deferred tax assets. Deferred tax assets was calculated using the expected tax rate (for 2004: 29.7%, from 2005 forward: 27.5%) with residual temporary differences. As of December 31, 2003 and 2002, deferred tax assets amount to ₩2,524,618 million (\$2,107,712 thousand) and ₩1,366,637 million (\$1,140,956 thousand), respectively and deferred tax liabilities amount to ₩911,537 million (\$761,009 thousand) and ₩124,295 million (\$103,769 thousand), respectively.

20. DIVIDENDS

The proposed dividends for 2003 are computed as follows:

| | Number of shares | Dividend rate | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|---|---------------------|---------------|-----------------------------|--|
| Common shares, net of treasury shares | 218,629,032 | 20% | ₩ 218,629 | \$ 182,526 |
| Preferred shares, net of treasury shares: | | | | |
| First and Third preferred shares | 24,492,541 | 21% | 25,717 | 21,470 |
| Second preferred shares | 37,571,005 | 22% | 41,328 | 34,503 |
| | | | <u>₩ 285,674</u> | <u>\$ 238,499</u> |

The proposed dividends for 2002 were computed as follows:

| | Number of shares | Dividend rate | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|---|---------------------|---------------|-----------------------------|--|
| Common shares, net of treasury shares | 218,083,132 | 17% | ₩ 185,371 | \$ 154,760 |
| Preferred shares, net of treasury shares: | | | | |
| First and Third preferred shares | 24,492,541 | 18% | 22,043 | 18,403 |
| Second preferred shares | 37,542,305 | 19% | 35,665 | 29,775 |
| | | | <u>₩ 243,079</u> | <u>\$ 202,938</u> |

The proposed dividends for 2003 and 2002 were approved at the shareholders' meeting being held on March 12, 2004 and March 14, 2003, respectively.

21. ELIMINATION OF UNREALIZED PROFITS AND LOSSES

Unrealized profits and losses resulting from intercompany sales are calculated based on the average gross margin rate of selling companies and are eliminated in the consolidated financial statements. Unrealized profits related to sales of inventories and property, plant and equipment as of December 31, 2003 are as follows:

| | Korean won (in millions) | | | U.S. dollars (Note 2) (in thousands) | | |
|--|-----------------------------|--|---------------|---|--|---------------|
| | <u>Inventories</u> | <u>Property, plant and equipment</u> | <u>Others</u> | <u>Inventories</u> | <u>Property, plant and equipment</u> | <u>Others</u> |
| Upstream sales | ₩ 3,442 | ₩ 11,616 | ₩ - | \$ 2,874 | \$ 9,698 | \$ - |
| Downstream sales | 338,234 | 24,269 | (151,712) | 282,379 | 20,261 | (126,659) |
| Downstream sales between consolidated subsidiaries | 315,921 | 1,067 | - | 263,751 | 891 | - |

Unrealized profits related to sales of inventories and property, plant and equipment as of December 31, 2002 are as follows:

| | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|--|-----------------------------|--|---|--|
| | <u>Inventories</u> | <u>Property, plant and equipment</u> | <u>Inventories</u> | <u>Property, plant and equipment</u> |
| Upstream sales | ₩ 3,152 | ₩ 1,042 | \$ 2,631 | \$ 870 |
| Downstream sales | 280,045 | - | 233,799 | - |
| Downstream sales between consolidated subsidiaries | 230,651 | - | 192,652 | - |

22. INTERCOMPANY TRANSACTIONS

Significant transactions in 2003 and 2002 between the Company and consolidated subsidiaries are as follows:

| | Korean won (in millions) | | | | U.S. dollars (Note 2) (in thousands) | | | |
|--|-----------------------------|-----------------------|---------------------|-----------------------|---|-----------------------|---------------------|-----------------------|
| | 2003 | | 2002 | | 2003 | | 2002 | |
| | Company's income | Company's expenses | Company's income | Company's expenses | Company's income | Company's expenses | Company's Income | Company's expenses |
| Hyundai Capital Service Inc | ₩ 13,476 | ₩ 1,949 | ₩ 18,167 | ₩ - | \$ 11,251 | \$ 1,627 | \$ 15,167 | \$ - |
| KEFICO Corporation | 65 | 310,959 | 19,058 | 297,864 | 54 | 259,608 | 15,911 | 248,676 |
| Hyundai Powertech | 28,489 | 151,647 | 15,198 | 86,734 | 23,784 | 126,605 | 12,688 | 72,411 |
| Dymos Inc. | 7,092 | 296,523 | 101,271 | 297,940 | 5,921 | 247,556 | 84,548 | 248,739 |
| Kia Motors Corporation | 979,937 | 415,209 | 870,662 | 443,576 | 818,114 | 346,643 | 726,884 | 370,326 |
| Hyundai HYSCO | 3,294 | 196,561 | 4,636 | 189,809 | 2,750 | 164,102 | 3,870 | 158,465 |
| Wia Corporation | 2,982 | 161,650 | - | 115,608 | 2,490 | 134,956 | - | 96,517 |
| Autoever Systems Corp. | 1,230 | 50,396 | - | 29,717 | 1,027 | 42,074 | - | 24,810 |
| Hyundai Motor America | 6,424,304 | - | 6,652,505 | - | 5,363,420 | - | 5,553,936 | - |
| Hyundai America Technical Center Inc. | - | 26,476 | - | 13,937 | - | 22,104 | - | 11,635 |
| Hyundai Motor India | 267,171 | 75 | 173,748 | - | 223,051 | 63 | 145,056 | - |
| Hyundai Motor Japan Co. | 23,031 | - | 33,182 | - | 19,228 | - | 27,702 | - |
| Hyundai Motor Poland Sp. Zo. O | 87,350 | - | 65,652 | - | 72,925 | - | 54,810 | - |
| Hyundai Motor Europe GmbH | 972,411 | - | - | - | 811,831 | - | - | - |
| HAC | 742,206 | - | 759,513 | - | 619,641 | - | 634,090 | - |
| Hyundai Motor Company Australia | 181,678 | - | - | - | 151,676 | - | - | - |
| Hyundai Machine Tool Europe GmbH | 13,192 | - | 15,053 | - | 11,014 | - | 12,567 | - |
| HAOSVT | - | - | 124,339 | - | - | - | 103,806 | - |

Significant transactions in 2003 and 2002 between the consolidated subsidiaries are as follows:

| Subsidiaries | Counterpart subsidiaries | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|------------------------|----------------------------------|------------------------------|------------------------|---|-----------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | Hyundai Capital Service Inc. | Kia Motors Corporation | ₩ 2,786 | ₩ 6,485 |
| Autoever Systems Corp. | Kia Motors Corporation | 4,304 | 19,442 | 3,593 | 16,231 |
| KEFICO Corporation | Kia Motors Corporation | 60,376 | 49,113 | 50,406 | 41,003 |
| Dymos Inc. | Kia Motors Corporation | 22,851 | 9,918 | 19,077 | 8,280 |
| Kia Motors Corporation | Wia Corporation | 281 | 99,123 | 235 | 82,754 |
| Kia Motors Corporation | KIA Motors Deutschland GmbH | 443,686 | 357,430 | 370,417 | 298,405 |
| Kia Motors Corporation | KIA Canada, Inc | 389,781 | 283,940 | 325,414 | 237,051 |
| Kia Motors Corporation | Hyundai Powertech | 1,179 | 10,018 | 984 | 8,364 |
| Kia Motors Corporation | KIA Motors America Inc. and etc. | 3,341,616 | 3,060,285 | 2,789,795 | 2,554,922 |
| Wia Corporation | Kia Motors Corporation | 530,520 | 403,914 | 442,912 | 337,213 |
| Hyundai Powertech | Kia Motors Corporation | 199,208 | 150,031 | 166,312 | 125,255 |
| Hyundai HYSCO | Hyundai Motor India | 1,605 | - | 1,340 | - |
| Hyundai HYSCO | Kia Motors Corporation | 76,872 | 83,417 | 64,178 | 69,642 |
| Hyundai Motor India | Kia Motors Corporation | 3,074 | 22,895 | 2,566 | 19,114 |

As of December 31, 2003 and 2002, significant balances related to the transactions between the Company and consolidated subsidiaries are as follows:

| | Korean won (in millions) | | | | U.S. dollars (Note 2) (in thousands) | | | |
|-----------------------------------|-----------------------------|----------------------|-------------------------|----------------------|---|----------------------|-------------------------|----------------------|
| | 2003 | | 2002 | | 2003 | | 2002 | |
| | Company's receivable | Company's payable | Company's receivable | Company's payable | Company's receivable | Company's payable | Company's receivable | Company's payable |
| Hyundai Capital Service Inc. | ₩ 34,852 | ₩ 7,931 | ₩ 572 | ₩ 7,023 | \$ 29,097 | \$ 6,621 | \$ 478 | \$ 5,863 |
| ROTEM | 902 | 11,842 | 251 | 14,784 | 753 | 9,886 | 209 | 12,343 |
| Hyundai Card | 38,334 | 57,371 | - | - | 32,004 | 47,897 | - | - |
| KEFICO Corporation | 2,365 | 54,579 | 471 | 41,196 | 1,974 | 45,566 | 393 | 34,393 |
| Hyundai Dymos | 7,666 | 73,276 | 2,080 | 57,828 | 6,400 | 61,175 | 1,737 | 48,279 |
| Hyundai Powertech | 17,927 | 30,669 | 6,907 | 30,242 | 14,967 | 25,604 | 5,766 | 25,248 |
| WIA Corporation | 3,327 | 36,175 | 51,135 | 13,858 | 2,778 | 30,201 | 42,691 | 11,570 |
| Kia Motors Corporation | 264,780 | 13,211 | 124,266 | 106,006 | 221,055 | 11,029 | 103,745 | 88,501 |
| Autoever Systems Corp. | 5,114 | 53,034 | 31 | 26,001 | 4,269 | 44,276 | 26 | 21,707 |
| Hyundai HYSCO | 100 | 30,786 | 129 | 40,466 | 83 | 25,702 | 108 | 33,784 |
| Hyundai Motor America | 1,276,476 | 48,700 | 1,413,608 | 23,253 | 1,065,684 | 40,658 | 1,180,170 | 19,413 |
| Hyundai Motor India | 33,039 | 68 | 6,586 | - | 27,583 | 57 | 5,498 | - |
| Hyundai Motor Japan Co. | 38,959 | - | 32,292 | - | 32,525 | - | 26,959 | - |
| Hyundai Motor Poland Sp. Zo. O | 13,233 | 76 | 10,037 | 168 | 11,048 | 63 | 8,380 | 140 |
| HAOSVT | - | - | 66,460 | 10 | - | - | 55,485 | 8 |

As of December 31, 2003 and 2002, significant balances related to the transactions between the consolidated subsidiaries are as follows:

| Subsidiaries | Counterpart subsidiaries | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|---------------------------------|---------------------------------------|-----------------------------|---------|---|---------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | ₩ | ₩ | \$ | \$ |
| Kia Motors Corporation | WIA Corporation | 610 | 11,593 | 509 | 9,679 |
| Kia Motors Corporation | Hyundai Capital Service Inc. | 7,609 | - | 6,352 | - |
| Kia Motors Corporation | Kia Motors America Inc. and others | 683,481 | 636,022 | 570,614 | 530,992 |
| Kia Motors Corporation | KIA Canada, Inc | 113,620 | 100,956 | 94,857 | 84,285 |
| Kia Motors Corporation | Kia Motors Deutschland GmbH. | 39,065 | 211,704 | 32,614 | 176,744 |
| Kia Motors Corporation | Kia Motors Europe | 349,486 | - | 291,773 | - |
| Kia Motors Europe | KIA Motors Deutschland GmbH | 166,831 | - | 139,281 | - |
| Kia Motors Europe | KIA Motors UK | 110,851 | - | 92,546 | - |
| Autoever Co., Ltd. | Kia Motors Corporation | 12,340 | 8,706 | 10,302 | 7,268 |
| KEFICO Corporation | Kia Motors Corporation | 10,136 | 7,606 | 8,462 | 6,350 |
| Hyundai Dymos | Kia Motors Corporation | 5,927 | 2,413 | 4,948 | 2,015 |
| Hyundai Capital Service Inc. | Hyundai Powertech | 13,151 | 16,047 | 10,979 | 13,397 |
| Wia Corporation | Kia Motors Corporation | 83,813 | 93,340 | 69,972 | 77,926 |
| Hyundai Powertech | Kia Motors Corporation | 46,845 | 26,902 | 39,109 | 22,460 |
| Hyundai HYSCO | Kia Motors Corporation | 7,918 | 16,788 | 6,610 | 14,016 |
| Hyundai Translead | HAOSVT | - | 30,245 | - | 25,250 |

23. RELATED PARTY TRANSACTIONS

In 2003, significant transactions with related parties other than the consolidated subsidiaries are as follows:

| <u>Companies</u> | <u>Related party</u> | <u>Korean won (in millions)</u> | | <u>U.S. dollars (Note 2) (in thousands)</u> | |
|------------------------|----------------------|-------------------------------------|--------------------------------|---|--------------------------------|
| | | <u>Sales/ revenues</u> | <u>Purchases/ expenses</u> | <u>Sales/ revenues</u> | <u>Purchases/ expenses</u> |
| Hyundai Motor Company | Hyundai Mobis | ₩ 133,565 | ₩ 953,080 | \$ 111,509 | \$ 795,692 |
| Kia Motors Corporation | Hyundai Mobis | 46,798 | 488,651 | 39,070 | 407,957 |

In 2002, significant transactions with related parties other than the consolidated subsidiaries are as follows:

| <u>Companies</u> | <u>Related Party</u> | <u>Korean won (in millions)</u> | | <u>U.S. dollars (Note 2) (in thousands)</u> | |
|------------------------|----------------------|-------------------------------------|--------------------------------|---|--------------------------------|
| | | <u>Sales/ revenues</u> | <u>Purchases/ expenses</u> | <u>Sales/ revenues</u> | <u>Purchases/ expenses</u> |
| Hyundai Motor Company | Hyundai Mobis | ₩ 95,288 | ₩ 656,140 | \$ 79,553 | \$ 547,788 |
| Kia Motors Corporation | Hyundai Mobis | 38,038 | 277,375 | 31,757 | 231,570 |

As of December 31, 2003, significant balances related to the transactions other than the consolidated subsidiaries are as follows:

| <u>Companies</u> | <u>Related Party</u> | <u>Korean won (in millions)</u> | | <u>U.S. dollars (Note 2) (in thousands)</u> | |
|------------------------|----------------------|-------------------------------------|-----------------|---|-----------------|
| | | <u>Receivables</u> | <u>Payables</u> | <u>Receivables</u> | <u>Payables</u> |
| Hyundai Motor Company | Hyundai Mobis | ₩ 56,098 | ₩ 178,071 | \$ 46,834 | \$ 148,665 |
| Kia Motors Corporation | Hyundai Mobis | 33,031 | 150,626 | 27,576 | 125,752 |

As of December 31, 2002, significant balances related to the transactions other than the consolidated subsidiaries are as follows:

| <u>Companies</u> | <u>Related Party</u> | <u>Korean won (in millions)</u> | | <u>U.S. dollars (Note 2) (in thousands)</u> | |
|------------------------|----------------------|-------------------------------------|-----------------|---|-----------------|
| | | <u>Receivables</u> | <u>Payables</u> | <u>Receivables</u> | <u>Payables</u> |
| Hyundai Motor Company | Hyundai Mobis | ₩ 6,497 | ₩ 96,838 | \$ 5,424 | \$ 80,847 |
| Kia Motors Corporation | Hyundai Mobis | 111,345 | 137,978 | 92,958 | 115,193 |

24. COMMITMENTS AND CONTINGENCIES

- (1) The Company and its consolidated subsidiaries are contingently liable for guarantees of indebtedness of other companies including subsidiaries as of December 31, 2003 as follows:

| <u>Company providing guarantee of indebtedness</u> | <u>Beneficiary Companies</u> | <u>Korean won (in millions)</u> | <u>U.S. dollars (Note 2) (in thousands)</u> |
|--|--|-------------------------------------|---|
| Hyundai Motor Company | Hyundai Merchant Marine | ₩ 375,209 | \$ 313,248 |
| | Hyundai Motor Finance Company | 215,604 | 180,000 |
| | Hyundai Translead | 142,538 | 119,000 |
| | Hyundai Motor India | 117,580 | 98,163 |
| | Hyundia Assan Otomotiv Sanayi Ve Ticaret Anonim Sirketi | 116,499 | 97,261 |
| | Hyundai Motor Japan Co. | 30,229 | 25,237 |
| | Hyundai Motor America | 135,191 | 112,866 |
| | Hyundai Motor Poland Sp.Zo.O | 12,771 | 10,662 |
| | Hyundai Motor Europe GmbH | 82,639 | 68,992 |
| | Hyundai Motor Manufacturing Alabama LLC | 479,120 | 400,000 |

| <u>Company providing guarantee of indebtedness</u> | <u>Beneficiary Companies</u> | Korean won (in millions) | U.S. dollars (Note 2) (in thousands) |
|--|---|------------------------------|---|
| Hyundai Motor Company | Hyundai Machine Tool Europe GmbH | 1,198 | 1,000 |
| | HMJR&D | 1,120 | 935 |
| | Equus Cayman Finance Ltd. | 479,120 | 400,000 |
| | Other domestic | <u>987</u> | <u>824</u> |
| | | <u>₩2,189,805</u> | <u>\$ 1,828,189</u> |
| Dymos Inc. | Wia Corporation | 121,020 | 101,035 |
| WIA Corporation | Dymos Inc. | 8,868 | 7,404 |
| Hyundai HYSCO | Hyundai Pipe of America, Inc. | 11,978 | 10,000 |
| | Bejing Hyundai Hysco Steel Process Co., Ltd. | 24,009 | 20,444 |
| | Hyundai-Huy Hoang Pipe Company Limited | <u>1,021</u> | <u>852</u> |
| | | <u>₩ 166,896</u> | <u>\$ 139,335</u> |

- (2) As of December 31, 2003, the outstanding balance of accounts receivable discounted with recourse and transferred by the Company and its subsidiaries amounts to ~~₩~~254,829 million (\$212,748 thousand) except for short-term borrowings of ~~₩~~2,664,964 million (\$2,224,882 thousand) resulting from elimination of significant balances related to the transactions between the subsidiaries.
- (3) The Company and its subsidiaries have used a customer financing system related to a long-term installment sales system and have provided guarantees to related banks amounting to ~~₩~~233,893 million (\$195,269 thousand) as of December 31, 2003. These guarantees are all covered by insurance contracts, which specify the customer and the Company and its subsidiaries as contractor and beneficiary, respectively.
- (4) The Company accrues estimated product liabilities expenses and carries the products and completed operations liability insurance (see Note 8) in order to cover the potential loss, which may occur due to the lawsuits related to its operation such as product liabilities. The Company expects that the resolution of cases pending against the Company as of December 31, 2003 will not have any material effect on its financial position.

Kia, a domestic subsidiary, is a defendant pertaining to its claim in the in-court reorganization proceeding, the lawsuits related to its operation such as product liabilities, lawsuits for compensation of losses or damages. Kia also has a pending lawsuit in a Brazilian court pertaining to the disputes with the Brazilian Government and the Brazilian shareholders of Asia Motors Do Brasil S.A. (AMB), which was established as a joint venture by Asia Motors with a Brazilian investor. Also, in 2002, Kia brought the case to the International Court of Arbitration to settle the disputes. Kia, a stockholder of AMB, had already written off its investment of ~~₩~~14,057 million (\$11,736 thousand) and estimates that the above matter does not and will not affect its financial statements at this time. The outcome of the creditors' claims in relation to Kia's denial of their claims in the in-court reorganization proceedings is not currently determinable.

25. SEGMENT INFORMATION

- (1) Consolidated financial statements by industry
The consolidated balance sheets as of December 31, 2003 and 2002, and consolidated statements of income for the years then ended, by industry under which the Company and its subsidiaries' business are classified, are as follows:

Consolidated Balance Sheet as of December 31, 2003

| | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|-----------------------|---|-----------------------|
| | Non-financial industry | Financial industry | Non-financial industry | Financial industry |
| <u>ASSETS</u> | | | | |
| Current assets: | ₩ 19,143,071 | ₩ 1,454,071 | \$ 15,981,860 | \$ 1,213,951 |
| Non-current assets: | | | | |
| Investments, net of unamortized present value discount | 9,476,086 | 514,252 | 7,911,242 | 429,330 |
| Property, plant and equipment, net of accumulated depreciation | 17,729,546 | 133,755 | 14,801,758 | 111,667 |
| Intangibles, net of amortization | 1,643,366 | 9,486 | 1,371,987 | 7,920 |
| Other financial business assets | - | 9,681,586 | - | 8,082,807 |
| Total non-current assets | <u>28,848,998</u> | <u>10,339,079</u> | <u>24,084,987</u> | <u>8,631,724</u> |
| Total assets | <u>₩ 47,992,069</u> | <u>₩ 11,793,150</u> | <u>\$ 40,066,847</u> | <u>\$ 9,845,675</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities | ₩ 18,889,131 | ₩ 7,469,636 | \$ 15,769,854 | \$ 6,236,129 |
| Non-current liabilities | 8,833,298 | 3,350,055 | 7,374,602 | 2,796,840 |
| Other financial business liabilities | - | - | - | - |
| Total liabilities | <u>27,722,429</u> | <u>10,819,691</u> | <u>23,144,456</u> | <u>9,032,969</u> |
| Shareholders' equity: | | | | |
| Capital stock | 4,670,695 | 1,153,978 | 3,899,395 | 963,414 |
| Capital surplus | 7,024,204 | 287,897 | 5,864,254 | 240,355 |
| Retained earnings | 6,266,457 | (675,422) | 5,231,639 | (563,885) |
| Capital adjustments | 1,417,994 | 207,006 | 1,183,832 | 172,822 |
| Minority interests | 890,290 | - | 743,271 | - |
| Total shareholders' equity | <u>20,269,640</u> | <u>973,459</u> | <u>16,922,391</u> | <u>812,706</u> |
| Total liabilities and shareholders' equity | <u>₩ 47,992,069</u> | <u>₩ 11,793,150</u> | <u>\$ 40,066,847</u> | <u>\$ 9,845,675</u> |

Consolidated Balance Sheet as of December 31, 2002

| | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|---|-----------------------------|-----------------------|---|-----------------------|
| | Non-financial industry | Financial industry | Non-financial industry | Financial industry |
| ASSETS | | | | |
| Current assets: | ₩ 14,445,860 | ₩ 665,305 | \$ 12,060,327 | \$ 555,439 |
| Non-current assets: | | | | |
| Investments, net of unamortized present value discount | 3,439,440 | 1,352,270 | 2,871,465 | 1,128,961 |
| Property, plant and equipment, net of accumulated depreciation | 16,636,969 | 108,269 | 13,889,605 | 90,390 |
| Intangibles, net of amortization | 1,670,883 | 5,849 | 1,394,960 | 4,883 |
| Other financial business assets | - | 8,386,928 | - | 7,001,944 |
| Total non-current assets | <u>21,747,292</u> | <u>9,853,316</u> | <u>18,156,030</u> | <u>8,226,178</u> |
| Total assets | <u>₩ 36,193,152</u> | <u>₩ 10,518,621</u> | <u>\$ 30,216,357</u> | <u>\$ 8,781,617</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities | ₩ 14,719,420 | ₩ 6,140,458 | \$ 12,288,713 | \$ 5,126,447 |
| Non-current liabilities | 8,211,003 | 3,566,741 | 6,855,070 | 2,977,743 |
| Other financial business liabilities | - | 12,732 | - | 10,630 |
| Total liabilities | <u>22,930,423</u> | <u>9,719,931</u> | <u>19,143,783</u> | <u>8,114,820</u> |
| Shareholders' equity: | | | | |
| Capital stock | 1,475,312 | 476,182 | 1,231,685 | 397,547 |
| Capital surplus | 5,287,270 | 43,721 | 4,414,151 | 36,501 |
| Retained earnings | 3,561,797 | 286,405 | 2,973,616 | 239,109 |
| Capital adjustments | (81,940) | (7,618) | (68,409) | (6,360) |
| | | - | | |
| Minority interests | <u>3,020,290</u> | | <u>2,521,531</u> | <u>-</u> |
| Total shareholders' equity | <u>13,262,729</u> | <u>798,690</u> | <u>11,072,574</u> | <u>666,797</u> |
| Total liabilities and shareholders' equity | <u>₩ 36,193,152</u> | <u>₩ 10,518,621</u> | <u>\$ 30,216,357</u> | <u>\$ 8,781,617</u> |

Consolidated Statement of Income for the year ended December 31, 2003

| | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|-------------------------------------|-----------------------------|-----------------------|---|-----------------------|
| | Non-financial industry | Financial industry | Non-financial industry | Financial industry |
| Sales | ₩ 54,999,044 | ₩ 2,264,339 | \$ 45,916,717 | \$ 1,890,415 |
| Cost of sales | 42,495,126 | 878,383 | 35,477,647 | 733,330 |
| Selling and administrative expenses | <u>8,948,206</u> | <u>2,173,053</u> | <u>7,470,534</u> | <u>1,814,204</u> |
| Operating income | 3,555,712 | (787,097) | 2,968,536 | (657,119) |
| Other expenses, net | <u>(16,098)</u> | <u>(69,257)</u> | <u>(13,440)</u> | <u>(57,820)</u> |
| Ordinary income | 3,539,614 | (856,354) | 2,955,096 | (714,939) |
| Extraordinary items, net | - | - | - | - |
| Income before income tax | 3,539,614 | (856,354) | 2,955,096 | (714,939) |
| Income tax expense | <u>531,052</u> | <u>(66,316)</u> | <u>443,356</u> | <u>(55,365)</u> |
| Income before minority interests | 3,008,562 | (790,038) | 2,511,740 | (659,574) |
| Minority interests | <u>476,462</u> | - | <u>397,781</u> | - |
| Net income | <u>₩ 2,532,100</u> | <u>₩ (790,038)</u> | <u>\$ 2,113,959</u> | <u>\$ (659,574)</u> |

Consolidated Statement of Income for the year ended December 31, 2002

| | Korean won (in millions) | | U.S. dollars (Note 2) (in thousands) | |
|-------------------------------------|-----------------------------|-----------------------|---|-----------------------|
| | Non-financial industry | Financial industry | Non-financial industry | Financial industry |
| Sales | ₩ 46,461,645 | ₩ 1,678,629 | \$ 38,789,151 | \$ 1,401,427 |
| Cost of sales | 34,937,000 | 1,089,731 | 29,167,641 | 909,777 |
| Selling and administrative expenses | <u>8,605,494</u> | <u>380,996</u> | <u>7,184,416</u> | <u>318,080</u> |
| Operating income | 2,919,151 | 207,902 | 2,437,094 | 173,570 |
| Other expenses, net | <u>284,157</u> | <u>20,784</u> | <u>237,232</u> | <u>17,352</u> |
| Ordinary income | 2,634,994 | 187,118 | 2,199,862 | 156,218 |
| Extraordinary items, net | - | - | - | - |
| Income before income tax | 2,634,994 | 187,118 | 2,199,862 | 156,218 |
| Income tax expense | <u>796,065</u> | <u>57,413</u> | <u>664,606</u> | <u>47,932</u> |
| Income before minority interests | 1,838,929 | 129,705 | 1,535,256 | 108,286 |
| Minority interests | <u>456,792</u> | - | <u>381,359</u> | - |
| Net income | <u>₩ 1,382,137</u> | <u>₩ 129,705</u> | <u>\$ 1,153,897</u> | <u>\$ 108,286</u> |

The above figures are not tally with the consolidated balance sheets and statements of income because the transactions between non-financial and financial companies were not eliminated.

(2) Regional Results of Operations

Results of operations, by region where the Company and its subsidiaries in 2003 are located, are as follows:

| | Korean won (in millions) | | | | Consolidation adjustments | Consolidated amounts |
|--------------------|-----------------------------|------------------|-------------|-------------|------------------------------|-------------------------|
| | Domestic | North America | Asia | Europe | | |
| Total sales | ₩ 45,546,451 | ₩ 13,376,443 | ₩ 1,714,070 | ₩ 4,398,121 | ₩ (18,446,675) | ₩ 46,588,410 |
| Intercompany sales | (17,954,166) | (54,932) | (3,148) | (434,429) | 18,446,675 | - |
| Net sales | ₩ 27,592,285 | ₩ 13,321,511 | ₩ 1,710,922 | ₩ 3,963,692 | ₩ - | ₩ 46,588,410 |
| Operating income | ₩ 2,654,952 | ₩ 25,069 | ₩ 148,442 | ₩ (13,293) | ₩ (120,727) | ₩ 2,694,443 |
| Total assets | ₩ 52,722,751 | ₩ 6,301,869 | ₩ 1,184,506 | ₩ 1,209,251 | ₩ (7,165,700) | ₩ 54,252,677 |

Results of operations, by region where the Company and its subsidiaries in 2002 are located, are as follows:

| | Korean won (in millions) | | | | Consolidation adjustments | Consolidated amounts |
|--------------------|-----------------------------|------------------|-----------|-----------|------------------------------|-------------------------|
| | Domestic | North America | Asia | Europe | | |
| Total sales | ₩ 44,953,294 | ₩ 8,786,610 | ₩ 846,618 | ₩ 888,230 | ₩ (11,055,126) | ₩ 44,419,626 |
| Intercompany sales | (10,367,452) | (663,818) | (23,856) | - | 11,056,126 | - |
| Net sales | ₩ 34,585,842 | ₩ 8,122,792 | ₩ 822,762 | ₩ 888,230 | ₩ - | ₩ 44,419,626 |
| Operating income | ₩ 2,789,221 | ₩ 261,068 | ₩ 34,612 | ₩ 7,647 | ₩ 38,294 | ₩ 3,130,842 |
| Total assets | ₩ 46,663,159 | ₩ 3,556,458 | ₩ 609,081 | ₩ 366,032 | ₩ (5,069,042) | ₩ 46,125,688 |

26. MERGER AND SALES OF BUSINESS DIVISION BETWEEN SUBSIDIARIES

- (1) As of December 1, 2002, Dymos merged with Korea Precision Co., Ltd. with assets of ₩91,844 million (\$76,677 thousand) and liabilities of ₩82,063 million (\$68,511 thousand) by issuing new common stock.
- (2) Effective January 1, 2002, ROTEM acquired Heavy Equipment and Plant division with assets and liabilities of ₩294,478 million (\$245,849 thousand) and ₩187,138 million (\$156,235 thousand), respectively, from Hyundai MOBIS. This acquisition resulted in negative goodwill of ₩5,000 million (\$4,174 thousand).
- (3) Effective December 31, 2002, KIA Motors Deutschland GmbH (KMD) sold its Euro Part division, which had been engaged in selling and distribution of motor parts to agents in Europe excluding Germany, to Hyundai Motor Europe Parts N.V.-Deutschland (HMEP-D). As part of the consideration for the disposal of the division, KMD will purchase parts from HMEP-D at 12 percent discounted price of ordinary price during a ten-year period starting in 2003, which is payable every year during the said period.
- (4) Effective June 4, 2003, Hyundai Card Co., Ltd. merged First CRV, which had been a 100% owner of Hyundai Card Co., Ltd., by issuing new common stock for its shareholders (the exchange rate for merger – Hyundai Card Co. Ltd. : First CRV = 1.41 : 1, the number of stock issued : 79,540,897 shares). Applying the pooling of interest method, Hyundai Card Co., Ltd. recorded acquired assets and liabilities on a basis of the carrying amount as of the merger date. Through this issuance of new common stock, the treasury stock of ₩118,295 million (\$98,760 thousand) held by Hyundai Card Co., Ltd. was extinguished by approval at the shareholders' meeting on September 3, 2003.

- (5) Effective July 1, 2003, Autoever Systems Corp. entered into a sales contract of Used Cars Auction Business division with Glovis Co., Ltd. under the decision of the Board of Directors on June 10, 2003. In accordance with the contract, Autoever Systems Corp. transferred the assets and liabilities of ₩1,141 million (\$953 thousand) and ₩1,350 million (\$1,127 thousand), respectively, and paid cash of ₩209 million (\$174 thousand) for the excess of transferred liabilities over transferred assets.

27. DISPOSAL OF RECEIVABLES IN FINANCIAL SUBSIDIARIES

Hyundai Capital Service Inc., Hyundai Card Co., Ltd. and Hyundai Motor Finance Company dispose their finance receivable assets to special purpose companies or financial intermediaries for the purpose of funding its operating capital. Hyundai Capital Service Inc. disposed such assets of ₩6,794,631 million (\$5,672,592 thousand) and ₩5,358,818 million (\$4,473,884 thousand) in 2003 and 2002, respectively, with a resultant gain of ₩62,046 million (\$51,800 thousand) and ₩4,927 million (\$4,113 thousand) in 2003 and 2002, respectively. Also, Hyundai Card Co., Ltd. disposed its finance receivable assets of ₩549,555 million (\$458,804 thousand) and ₩496,511 million (\$414,519 thousand) in 2003 and 2002, respectively, with a resultant gain of ₩30,247 million (\$25,252 thousand) and loss of ₩46,973 million (\$39,216 thousand) in 2003 and 2002, respectively. The gain on disposal of finance receivables assets were accounted for as operating income and included in sales in the consolidated financial statements.

28. CHANGE OF SUBSIDIARIES' COMPANY NAME

In 2002, ROTEM changed its company name from Korea Rolling Stock Co. effective January 1, 2002. Also, in 2003, Haevichi Resort, Dymos Inc. and Autoever Systems Co., Ltd. changed their company name from Cheju Dynasty Co., Ltd., Hyundai Dymos Inc. and Autoever Co., Ltd. to the present company names, effective February 24, March 15 and December 1, 2003, respectively.

29. TERMINATION OF THE COMPOSITIONS FOR SUBSIDIARIES

In 2002, the composition for WIA Corporation was terminated by approval of the managerial committee of the court and the favourable decision of creditors' conferences. In relation to the termination, WIA made an early redemption of composition obligation amounting to ₩9,257 million (\$7,728 thousand) and ₩287,596 million (\$240,104 thousand) in 2003 and 2002, respectively, with a resultant loss on redemption of ₩166 million (\$139 thousand) and ₩630 million (\$526 thousand) in 2003 and 2002, respectively, and gain on redemption of ₩44,027 million (\$36,757 thousand) in 2002.

30. THE STOCK RETIREMENT OF SUBSIDIARIES

Kia Motors Corporation completed stock retirement of 10,000,000 treasury stock, which was acquired at ₩88,742 million (\$74,087 thousand) for such retirement purposes under the decision of the Board of Directors on May 9, 2003. Also, Hyundai Hysco made a stock retirement of 4,715,660 and 4,530,000 treasury stock, which were acquired at ₩22,190 million (\$18,526 thousand) and ₩25,515 million (\$21,302 thousand), respectively, for such retirement purposes by the approval at the shareholders' meeting on March 14, 2003 and under the decision of the Board of Directors on October 17, 2003, respectively.

31. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

- (1) The Board of Directors of the Company decided to retire the common stock of 1,320,000 shares using the retained earnings on March 12, 2004.
- (2) The Board of Directors of Kia Motors Corporation decided to retire the common stock of 12,500,000 shares using the retained earnings on March 19, 2004.
- (3) Effective February 1, 2004, Autoever Systems Corp. made an acquisition contract of the On-line Education Business division with E-HD.com. Autoever Systems Corp. paid cash of ₩941 million (\$786 thousand) for consideration related to the transferred assets of ₩447 million (\$373 thousand).

- (4) Hyundai Capital Service Inc. disposed all finance receivable assets of ₩226,994million (\$189,509 thousand) to financial intermediaries including Citibank for the purpose of funding its operating capital on January 12, 19 and February 2, 2004, respectively.
- (5) Effective April 1, 2004, E-HD.com is scheduled to be merged with WIA under the decision of Board of Directors on February 11, 2004. The exchange rate of stock for this merger will be 1:0.0162 (WIA:E-HD.com).
- (6) Effective February 1, 2004, ROTEM is in progress for business acquisition contract of its Aircraft Business division with Hyundai Mobis Co., Ltd. The consideration amounts to ₩14,700million (\$12,272 thousand), but it could be changed according to the assets revaluation.

32. UNCERTAINTY RELATED TO GOING CONCERN ASSUMPTION OF SUBSIDIARIES:

The accompanying 2003 consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the below, some subsidiaries are in the situation which may indicate that the subsidiaries will be unable to continue as a going concern for a reasonable period of time unless their restructuring plans are not achieved. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the subsidiaries be unable to continue as a going concern.

- (1) Aju Metal Co., Ltd.'s total liabilities exceeded its total assets by ₩5,150million (\$4,300 thousand) due to accumulated deficit as of December 31, 2003. In order to resolve this uncertainty, AJU Metal Co., Ltd. has plans to issue additional stock, improve the profit by increasing sales price, expanding the export and reducing the cost and expenditures.
- (2) Hyundai Card Co., Ltd. had net loss of ₩627,338 million (\$523,742 thousand) on a non-consolidated basis in 2003. For financial improvement, Hyundai Card Co., Ltd. issued subordinated bonds of ₩65,000 million (\$54,266 thousand), subordinated convertible bonds of ₩300,000 million (\$250,459 thousand) and new stock of ₩490,000 million (\$409,083 thousand) in 2003.
- (3) Hyundai Hysco Vietnam Co., Ltd. had operating loss and net loss of ₩1,051million (\$877 thousand) and ₩2,026 million (\$1,691 thousand), respectively, on a non-consolidated basis in 2003. Also, Hyundai Hysco Vietnam Co., Ltd.'s current liabilities exceeded its current assets by ₩15,272 million (\$12,750 thousand) and total liabilities exceeded its total assets by ₩10,003 million (\$8,351 thousand) as of December 31, 2003. The independent auditor of Hyundai Hysco Vietnam Co., Ltd. has expressed a qualified opinion due to this situation.
- (4) Daimler Hyundai Truck Co., Ltd.'s current liabilities exceeded its current assets by ₩83,212 million (\$69,471 thousand) due to accumulated deficit as of December 31, 2003. Daimler Hyundai Truck Co., Ltd. has plans to make an additional loan and issue additional stock.