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HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2002 AND 2001
TOGETHER WITH INDEPENDENT PUBLIC
ACCOUNTANTS' REPORT**

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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 subsidiaries as of December 31, 2002 and 2001, 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 2002 and 2001, we did not audit the financial statements of certain subsidiaries, which statements represent total assets of ₩10,105,983 million (\$8,418,846 thousand) and ₩9,785,279 million (\$8,151,682 thousand), respectively, and total revenues of ₩19,235,200 million (\$16,023,992 thousand) and ₩15,819,077 million (\$13,178,171 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 subsidiaries as of December 31, 2002 and 2001, 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).

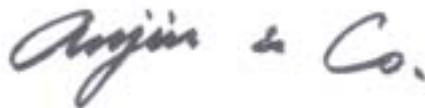
The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As discussed in Note 1, in 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. These changes in the scope of consolidation increased the Company's consolidated assets, shareholders' equity and revenues by ₩698,043 million (\$581,509 thousand), ₩29,926 million (\$24,930 thousand) and ₩1,094,755 million (\$911,992 thousand), respectively and decreased consolidated net income by ₩22,069 million (\$18,385 thousand) as compared to the results using the previous scope of consolidation.

As explained in Note 2, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 3 – Intangible Assets, SKAS No. 6 - Events Occurring after the Balance Sheet Date and SKAS No. 7 – Capitalization of Financing Costs and changed the estimated economic useful lives for certain types of development costs. Kia Motors Corp., a domestic subsidiary, changed its method in estimating accrued warranty for the exported vehicles and Hyundai HYSCO, a domestic subsidiary, changed its estimated economic useful life of development cost from twenty years to ten years. These changes of accounting principles and estimates resulted in the decrease of consolidated net income and current liabilities by ₩463,420 million (US\$386,055 thousand) and ₩301,628 million (US\$251,273 thousand), respectively and the increase in minority interests by ₩58,549 million (US\$48,775 thousand) compared with the results based on the previous method. Also, the consolidated financial statements as of December 31, 2001, which are presented for comparative purposes, were revised and this revision resulted in the decrease of current liabilities by ₩220,179 million (US\$183,421 thousand) and the increase of retained earnings and minority interests by ₩215,145 million (US\$179,228 thousand) and ₩5,035 million (US\$4,194 thousand), respectively as of December 31, 2001, compared with the results based on the previous method.

As disclosed in Note 2, in 2002, the Company and Kia Motors Corp., one of its domestic subsidiary, recognize accrued liabilities for the projected expenses due to an End-of-Life Vehicles (ELV) directive in European Union. In 2002, the provision for the accrual due to ELV directive amounting to ₩299,560 million (US\$ 249,550 thousand) was accounted for as selling expense and non-operating expense.

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.



Seoul, Korea
April 4, 2003

Notice to Readers

This report is effective as of April 4, 2003, 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, 2002 AND 2001

<u>ASSETS</u>	Korean won (in millions)		Translation into U. S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Current assets:				
Cash and cash equivalents (Note 15)	₩ 2,765,872	₩ 2,304,424	\$ 2,304,125	\$ 1,919,713
Short-term financial instruments (Note 15)	3,610,223	1,634,060	3,007,517	1,361,263
Marketable securities (Notes 4 and 15)	710,474	866,521	591,864	721,860
Trade notes and accounts receivable, less allowance for doubtful accounts of ₩ 289,549 million in 2002 and ₩ 297,372 million in 2001 and unamortized discount of ₩ 2,820 million in 2002 and ₩ 4,215 million in 2001	2,198,905	1,848,372	1,831,810	1,539,797
Inventories (Note 3)	3,819,999	3,787,927	3,182,272	3,155,554
Advances and other, net of allowance for doubtful accounts of ₩ 165,122 million in 2002 and ₩ 210,420 million in 2001 and unamortized discount of ₩ 9,639 million in 2002 and ₩ 14,540 million in 2001	2,005,079	1,597,411	1,670,343	1,330,732
Total current assets	15,110,552	12,038,715	12,587,931	10,028,919
Non-current assets:				
Long-term financial instruments (Note 15)	102,195	99,735	85,134	83,085
Investment, net of unamortized discount of ₩ 23,341 million in 2002 and ₩ 25,545 million in 2001 (Notes 4 and 15)	2,061,273	1,743,242	1,717,155	1,452,218
Property, plant and equipment, net of accumulated depreciation of ₩ 6,415,241 million in 2002 and ₩ 5,317,325 million in 2001 (Notes 5, 6, 7 and 15)	16,745,238	16,905,497	13,949,715	14,083,220
Intangibles (Note 8)	1,678,110	2,151,235	1,397,959	1,792,098
Other assets (Note 9)	693,842	731,407	578,009	609,303
Deferred income tax assets (Note 18)	1,366,637	1,134,052	1,138,485	944,728
Total non-current assets	22,647,295	22,765,168	18,866,457	18,964,652
Other financial business assets (Note 10)	8,367,841	5,068,413	6,970,877	4,222,270
Total assets	₩ 46,125,688	₩ 39,872,296	\$ 38,425,265	\$ 33,215,841

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2002 AND 2001

<u>LIABILITIES AND</u> <u>SHAREHOLDERS' EQUITY</u>	Korean won (in millions)		Translation into U. S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Current liabilities:				
Short-term borrowings (Note 11)	₩ 7,526,948	₩ 6,748,184	\$ 6,270,367	\$ 5,621,613
Current maturities of long-term debt, net of unamortized discount of ₩657 million in 2002 and ₩5,877 million in 2001 (Note 12)	3,049,849	2,768,331	2,540,694	2,306,174
Trade notes and accounts payable	4,695,480	3,775,059	3,911,596	3,144,834
Accrued warranties and product liabilities	901,254	725,040	750,795	603,999
Accounts payable-other	2,741,462	1,488,025	2,283,790	1,239,607
Accrued expenses	314,674	621,008	262,141	517,334
Income tax payable	585,447	415,405	487,710	346,055
Other current liabilities	<u>1,016,682</u>	<u>1,116,014</u>	<u>846,952</u>	<u>929,702</u>
Total current liabilities	<u>20,831,796</u>	<u>17,657,066</u>	<u>17,354,045</u>	<u>14,709,318</u>
Long-term liabilities:				
Long-term debt, net of current maturities (Note 12)	8,010,263	8,259,094	6,672,995	6,880,285
Accrued severance benefits, net of National Pension payments for employees of ₩123,960 million in 2002 and ₩141,674 million in 2001 and individual severance insurance deposits of ₩1,513,268 million in 2002 and ₩1,250,037 million in 2001 (Note 2)	955,281	752,244	795,802	626,661
Accrued loss on valuation of derivatives (Note 2)	17,053	62,382	14,206	51,968
Accrued warranties and product liabilities	2,401,220	1,171,058	2,000,350	975,556
Deferred income tax liabilities (Note 18)	124,295	84,891	103,545	70,719
Other long-term liabilities	<u>334,966</u>	<u>181,433</u>	<u>279,045</u>	<u>151,144</u>
Total long-term liabilities	<u>11,843,078</u>	<u>10,511,102</u>	<u>9,865,943</u>	<u>8,756,333</u>
Other financial business liabilities	<u>12,732</u>	<u>-</u>	<u>10,607</u>	<u>-</u>
Total liabilities	<u>₩ 32,687,606</u>	<u>₩ 28,168,168</u>	<u>\$ 27,230,595</u>	<u>\$ 23,465,651</u>

Commitments and contingencies (Note 22)

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2002 AND 2001

<u>LIABILITIES AND</u> <u>SHAREHOLDERS' EQUITY</u>	Korean won (in millions)		Translation into U. S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Shareholders' equity:				
Capital stock (Note 13)	₩ 1,476,454	₩ 1,476,454	\$ 1,229,968	\$ 1,229,968
Capital surplus	5,286,061	5,306,332	4,403,583	4,420,470
Retained earnings				
(Net income of ₩1,434,395 million in 2002 and ₩1,152,136 million in 2001)	3,677,983	2,473,940	3,063,964	2,060,930
Capital adjustments (Note 14)	(106,417)	(65,435)	(88,651)	(54,511)
Minority interests	3,104,001	2,512,837	2,585,806	2,093,333
Total shareholders' equity	13,438,082	11,704,128	11,194,670	9,750,190
 Total liabilities and shareholders' equity	 ₩ 46,125,688	 ₩ 39,872,296	 \$ 38,425,265	 \$ 33,215,841

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won (in millions, except per share amounts)		Translation into U. S. dollars (Note 2) (in thousands, except per share amounts)	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Sales	₩ 48,122,919	₩ 39,851,575	\$ 40,089,069	\$ 33,198,580
Cost of sales	<u>35,462,821</u>	<u>29,307,330</u>	<u>29,542,503</u>	<u>24,414,637</u>
Gross profit	12,660,098	10,544,245	10,546,566	8,783,943
Selling and administrative expenses (Note 16)	<u>9,529,256</u>	<u>7,426,130</u>	<u>7,938,401</u>	<u>6,186,380</u>
Operating income	<u>3,130,842</u>	<u>3,118,115</u>	<u>2,608,165</u>	<u>2,597,563</u>
Other expenses, net:				
Interest expense, net	210,619	562,326	175,457	468,449
Loss on foreign currency translations, net	(132,258)	101,732	(110,178)	84,748
Loss (gain) on foreign currency transaction, net	(209,587)	113,543	(174,598)	94,588
Loss on valuation of investments accounted for using the equity method, net	70,065	27,599	58,368	22,991
Loss on disposal of investments and other assets, net	63,971	219,694	53,291	183,017
Loss on disposal of property, plant and equipment, net	206,424	83,472	171,963	69,537
Loss on valuation of inventory	5,331	30,603	4,441	25,494
Provision for accrued warranties and product liabilities	291,708	-	243,009	-
Loss (gain) on redemption of debentures, net	(37,022)	95	(30,841)	79
Other, net	<u>(81,206)</u>	<u>80,689</u>	<u>(67,650)</u>	<u>67,219</u>
	<u>388,045</u>	<u>1,219,753</u>	<u>323,262</u>	<u>1,016,122</u>
Ordinary income	<u>2,742,797</u>	<u>1,898,362</u>	<u>2,284,903</u>	<u>1,581,441</u>
Extraordinary items:				
Other extraordinary gain, net (Note 17)	<u>-</u>	<u>190,650</u>	<u>-</u>	<u>158,822</u>

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won (in millions, except per share amounts)		Translation into U. S. dollars (Note 2) (in thousands, except per share amounts)	
	2002	2001	2002	2001
Income before income tax	₩ 2,742,797	₩ 2,089,012	\$ 2,284,903	\$ 1,740,263
Income tax expense (Note 18)	844,344	671,164	703,386	559,117
Income before minority interests	1,898,453	1,417,848	1,581,517	1,181,146
Minority interests	(464,058)	(265,712)	(386,586)	(221,353)
Net income	₩ 1,434,395	₩ 1,152,136	\$ 1,194,931	\$ 959,793
Ordinary income per ordinary common share	₩ 6,313	₩ 5,713	\$ 5.26	\$ 4.76
Earnings per ordinary common share	₩ 6,313	₩ 5,103	\$ 5.26	\$ 4.25
Ordinary income per fully diluted common share	₩ 6,290	₩ -	\$ 5.24	\$ -
Earnings per fully diluted common share	₩ 6,290	₩ -	\$ 5.24	\$ -

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, 2002 and 2001

	Korean won (in millions)						Translation into U.S. dollars (Note 2) (in thousands)
	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total amount	Total amount
January 1, 2001	₩ 1,476,454	₩ 5,354,390	₩ 1,708,256	₩ (795,174)	₩ 2,417,595	₩ 10,161,521	\$ 8,465,112
Difference between additional investment and equity of subsidiaries	-	(74,984)	-	-	-	(74,984)	(62,466)
Disposal of subsidiaries' stock	-	(75,004)	(62,139)	49,264	-	(87,879)	(73,208)
Disposal of treasury stock	-	15,380	-	213,342	-	228,722	190,538
Retirement of treasury stock by retained earnings	-	-	(168,694)	168,694	-	-	-
Retirement of subsidiaries' treasury stock	-	68,732	-	-	-	68,732	57,258
Application of the equity method	-	-	(1,649)	(2,252)	-	(3,901)	(3,250)
Effect of change in the scope of consolidation	-	(43,854)	(486)	-	48,151	3,811	3,175
Effect of change in the scope of equity method	-	-	(33)	477	-	444	370
Payment of cash dividends	-	-	(165,387)	-	(2,297)	(167,684)	(139,690)
Net income	-	-	1,152,136	-	-	1,152,136	959,793
Treasury stock	-	-	-	40,369	-	40,369	33,630
Discount on stock issuance	-	-	-	(573)	-	(573)	(477)
Loss on valuation of investment equity securities	-	-	-	194,237	-	194,237	161,810
Stock options	-	-	-	6,693	-	6,693	5,576
Cumulative translation debits	-	-	-	14,188	-	14,188	11,819
Loss on transaction of derivatives	-	-	-	45,300	-	45,300	37,737
Effect of change in the minority interest	-	-	-	-	49,388	49,388	41,143
Others	-	61,672	11,936	-	-	73,608	61,320
December 31, 2001	<u>₩ 1,476,454</u>	<u>₩ 5,306,332</u>	<u>₩ 2,473,940</u>	<u>₩ (65,435)</u>	<u>₩ 2,512,837</u>	<u>₩ 11,704,128</u>	<u>\$ 9,750,190</u>

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	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 interest		
January 1, 2002	₩ 1,476,454	₩ 5,306,332	₩ 2,473,940	₩ (65,435)	₩ 2,512,837	₩11,704,128	\$ 9,750,190
Difference between additional investment and equity of subsidiaries	-	(24,222)	-	-	-	(24,222)	(20,178)
Disposal of treasury stock	-	(18)	-	-	-	(18)	(15)
Merger between subsidiaries	-	-	1,785	-	-	1,785	1,487
Application of the equity method	-	-	(1,219)	-	-	(1,219)	(1,015)
Effect of change in the scope of consolidation	-	(588)	590	1,906	52,300	54,208	45,158
Effect of change in the scope of equity method	-	-	-	(3,182)	-	(3,182)	(2,651)
Payment of cash dividends (Note 19)	-	-	(215,145)	-	(5,002)	(220,147)	(183,395)
Net income	-	-	1,434,395	-	-	1,434,395	1,194,931
Treasury stock	-	-	-	(6,867)	-	(6,867)	(5,721)
Discount on stock issuance	-	1	-	248	-	249	207
Loss on valuation of investment equity securities	-	-	-	(4,704)	-	(4,704)	(3,919)
Stock options	-	-	-	(82)	-	(82)	(68)
Cumulative translation debits	-	-	-	(67,578)	-	(67,578)	(56,296)
Loss on transaction of derivatives	-	-	-	39,277	-	39,277	32,720
Effect of change in the minority interest	-	-	-	-	543,866	543,866	453,071
Others	-	4,556	(16,363)	-	-	(11,807)	(9,836)
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>\$ 11,194,670</u>

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Korean won (in millions)		Translation into U. S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Cash flows from operating activities:				
Net income	₩ 1,434,395	₩ 1,152,136	\$ 1,194,931	\$ 959,793
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	1,537,250	1,452,578	1,280,615	1,210,079
Loss on foreign currency translation, net	(131,965)	102,039	(109,934)	85,004
Loss on disposal of investments, net	63,971	219,694	53,291	183,017
Loss on valuation of investments accounted for using the equity method, net	70,065	27,599	58,368	22,992
Loss on disposal of property, plant and equipment, net	206,424	83,472	171,963	69,537
Loss on valuation of inventories	5,331	30,603	4,441	25,494
Loss (gain) on redemption of debentures, net	(37,022)	95	(30,841)	79
Loss on impairment of investments	40,850	38,774	34,030	32,301
Loss on disposal of trade receivables	88,006	102,830	73,314	85,663
Amortization of discount on debentures	68,157	56,180	56,779	46,801
Amortization of intangibles, net	830,727	686,380	692,042	571,793
Provision for severance benefits	753,464	404,352	627,677	336,848
Provision for warranties and product liability	1,765,807	1,189,987	1,471,015	991,325
Provision of allowance for doubtful accounts	592,345	495,165	493,456	412,500
Other extraordinary gain, net	-	(190,650)	-	(158,822)
Minority interests	464,058	265,712	386,586	221,353
Changes in operating assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(1,076,727)	190,694	(896,974)	158,859
Decrease in advances	158,826	125,825	132,311	104,819
Decrease (increase) in inventories	(310,670)	293,355	(258,805)	244,381
Decrease in other current assets	63,411	134,094	52,825	111,708
Decrease in long-term notes and accounts receivables	10,906	1,163	9,085	969
Increase in deferred income tax assets	(32,119)	(171,309)	(26,757)	(142,710)
Increase in other financial subsidiaries Assets	(4,114,688)	(3,701,979)	(3,427,764)	(3,083,955)
Increase (decrease) in trade notes and accounts payable	1,630,804	(1,671,744)	1,358,550	(1,392,656)
Increase in accounts payable-other	846,440	138,399	705,132	115,294
Increase (Decrease) in other current liabilities	(239,565)	422,723	(199,571)	352,152
Decrease in individual severance insurance deposits	(266,017)	(226,847)	(221,607)	(188,976)
Decrease in accrued warranties and accrued product liabilities	(143,349)	(581,266)	(119,418)	(484,227)
Decrease in accrued loss on valuation of derivatives	(38,318)	(83,537)	(31,921)	(69,591)
Decrease (increase) in deferred income tax liabilities	(103,728)	264,766	(86,411)	220,565
Payment of severance benefits	(308,575)	(288,906)	(257,060)	(240,675)
Others	(100,756)	(104,714)	(83,935)	(87,233)
	<u>₩ 3,727,738</u>	<u>₩ 857,663</u>	<u>\$ 3,105,413</u>	<u>\$ 714,481</u>

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>Korean won</u>		<u>Translation into</u>	
	<u>(in millions)</u>		<u>U. S. dollars (Note 2)</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Cash flows from investing activities:				
Cash inflows from investing activities:				
Proceeds from disposal of marketable securities	₩ 6,487,542	₩ 8,445,545	\$ 5,404,483	\$ 7,035,609
Reduction in short-term financial instruments and other current assets	4,442,551	4,262,003	3,700,892	3,550,485
Proceeds from disposal of investments	307,792	909,238	256,408	757,446
Reduction in other assets	280,860	847,911	233,972	706,357
Proceeds from disposal of property, plant and equipment	<u>183,709</u>	<u>395,762</u>	<u>153,040</u>	<u>329,692</u>
	<u>11,702,454</u>	<u>14,860,459</u>	<u>9,748,795</u>	<u>12,379,589</u>
Cash outflows from investing activities:				
Purchase of short-term financial instruments	(6,318,491)	(3,929,209)	(5,263,654)	(3,273,250)
Acquisition of marketable securities	(6,271,525)	(8,825,279)	(5,224,529)	(7,351,949)
Additions to other current assets	(42,308)	(864,293)	(35,245)	(720,004)
Acquisition of investments	(821,821)	(1,389,858)	(684,623)	(1,157,829)
Additions to other assets	(222,059)	(580,125)	(184,988)	(483,276)
Acquisition of property, plant and equipment	(1,686,611)	(1,984,248)	(1,405,040)	(1,652,989)
Expenditures for development costs	<u>(291,690)</u>	<u>(976,785)</u>	<u>(242,994)</u>	<u>(813,716)</u>
	<u>(15,654,505)</u>	<u>(18,549,797)</u>	<u>(13,041,073)</u>	<u>(15,453,013)</u>
	<u>(3,952,051)</u>	<u>(3,689,338)</u>	<u>(3,292,278)</u>	<u>(3,073,424)</u>
Cash flows from financing activities:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	21,315,448	13,078,341	17,756,955	10,894,986
Proceeds from long-term debt	4,993,859	6,604,869	4,160,162	5,502,224
Proceeds from issuance of stock	58,761	150,941	48,951	125,742
Proceeds from disposal of treasury stock	4,931	232,955	4,108	194,064
Others	<u>20,647</u>	<u>240,147</u>	<u>17,200</u>	<u>200,056</u>
	<u>26,393,646</u>	<u>20,307,253</u>	<u>21,987,376</u>	<u>16,917,072</u>
Cash outflows from financing activities:				
Repayment of short-term borrowings	(20,629,745)	(10,829,451)	(17,185,726)	(9,021,535)
Payment of current maturities of long-term debt	(2,768,331)	(2,583,982)	(2,306,174)	(2,152,601)
Payment of cash dividends	(276,089)	(167,653)	(229,998)	(139,664)
Repayment of long-term debt	(1,916,307)	(1,533,881)	(1,596,390)	(1,277,809)
Purchase of treasury stock	(20,215)	(352,672)	(16,840)	(293,795)
Others	<u>(125,460)</u>	<u>(455,382)</u>	<u>(104,515)</u>	<u>(379,359)</u>
	<u>(25,736,147)</u>	<u>(15,923,021)</u>	<u>(21,439,643)</u>	<u>(13,264,763)</u>
	<u>₩ 657,499</u>	<u>₩ 4,384,232</u>	<u>\$ 547,733</u>	<u>\$ 3,652,309</u>

(continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>Korean won</u> <u>(in millions)</u>		<u>Translation into</u> <u>U. S. dollars (Note 2)</u> <u>(in thousands)</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Increase in cash due to the merger	₩ (63) ₩	-	\$ (52) \$	-
Effect of exchange rate on cash	(27,028)	16,193	(22,516)	13,490
Effect of change in consolidated subsidiaries	<u>55,353</u>	<u>26,169</u>	<u>46,112</u>	<u>21,800</u>
Net increase in cash and cash equivalents	461,448	1,594,919	384,412	1,328,656
Cash and cash equivalents, beginning of year	<u>2,304,424</u>	<u>709,505</u>	<u>1,919,713</u>	<u>591,057</u>
Cash and cash equivalents, end of year	<u>₩ 2,765,872</u>	<u>₩ 2,304,424</u>	<u>\$ 2,304,125</u>	<u>\$ 1,919,713</u>

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 and 2001

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, at a total acquisition amount of ₩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)
Chunbuk Chunjoo	April 1995	Commercial vehicles (Bus and Trucks)
Chungnam Ahsan	November 1996	Passenger cars

As of December 31, 2002, 52.6 percent of the Company's stock (excluding preferred stock) is owned by Korean investors and the remaining 47.4 percent is owned by foreign investors, including Daimler Chrysler (10.5 percent) and Mitsubishi of Japan (4.5 percent), under foreign investment agreements.

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, 2002 are as follows:

	<u>Business</u>	<u>Capital stock</u> <u>as of December 31, 2002</u>		<u>Shares (*)</u>	<u>Percentage</u> <u>Ownership (*)</u>	<u>Indirect</u> <u>Ownership (*)</u>
		<u>Korean won</u> <u>(in millions)</u>	<u>U.S. dollars</u> <u>(Note 2)</u> <u>(in thousands)</u>			
Domestic Subsidiaries:						
Kia Motors Corporation (Kia)	Manufacturing	₩1,848,652	\$ 1,540,030	170,465,491	46.11	HCS 9.79%
Hyundai Powertech	"	140,000	116,628	28,000,000	100.00	Kia 50.00%
WIA Corporation (WIA)	"	38,353	31,950	6,949,476	90.60	Kia 45.30%
Hyundai Dymos Inc. (formerly Korea Drive Train System)	"	111,254	92,681	17,587,760	79.04	Kia 27.07%, WIA 5.08%

		Capital stock as of December 31, 2002					
		Korean won	U.S. dollars		Percentage	Indirect	
		(in millions)	(Note 2)	Shares (*)	Ownership (*)	Ownership (*)	
Business			(in thousands)				
ROTEM (formerly Korea Rolling Stock Co.)	"	₩ 257,200	\$ 214,262	40,306,304	78.36		
WISCO	"	3,000	2,499	301,725	50.29	WIA 50.29%	
Daimler Hyundai Truck Co., Ltd.	"	100,000	83,306	10,000,000	50.00		
KEFICO Corporation	"	33,400	27,824	1,670,000	50.00		
Hyundai HYSCO (formerly Hyundai Pipe Co., Ltd.)	"	447,228	372,566	44,308,868	49.54	Kia 21.57%, HCS 4.54%	
Bontek	"	5,000	4,165	390,000	39.00	Kia 39.00%	
Hyundai Capital Service Inc. (HCS)	Financing service	355,000	295,735	59,813,430	84.24		
e-HD.com	Information service	20,023	16,680	2,724,770	68.04	Kia 22.76%, HCS 3.72%	
Autoever	Information technology	5,000	4,165	499,000	49.90	Kia 20.00%, HCS 4.90%	
Cheju Dynasty Co., Ltd	Real estate development	15,500	12,912	2,790,000	90.00	Kia 40.00%	
Foreign Subsidiaries:							
Hyundai Motor India (HMI)	Manufacturing	203,785	169,764	8,127,785	100.00		
Hyundai Motor Manufacturing Alabama, LLC (HMMA)	"	49,216	41,000	-	100.00	HMA 100.00%	
Hyundai de Mexico, S.A. de C.V. (HYMEX)	"	119	99	9,996	99.96	HT 99.96%	
Hyundai-Huy Hoang Pipe Company Limited	"	3,677	3,063	-	64.64	HYSCO 64.64%	
Hyundai-Assan Otomotiv Sanayi Ve Ticaret Anonim Sirketi (HAOSVT)	"	126,042	105,000	34,505,731,715	63.29		
DongFeng Yueda Kia Motor Co., Ltd. (formerly Hyundai-Kia-Yueda Motor Company)		42,394	35,317	-	50.00	Kia 50.00%	
Hyundai Motor America (HMA)	Sales	200,467	167,000	1,275	100.00		
Hyundai Motor Europe GmbH (HME)	"	13,465	11,217	-	100.00		
Hyundai Motor Japan Co. (HMJ)	"	15,193	12,657	40,000	100.00		
Hyundai Motor Poland Sp. Zo.O (HMP)	"	26,996	22,489	-	100.00		
Hyundai Translead (HT)	"	139,246	116,000	1,160,000	100.00		
Hyundai Machine Tool Europe GmbH (HYME)	"	29,894	24,903	-	100.00		
Kia Motors America Inc. (KMA)	"	120,040	100,000	1,000,000	100.00	Kia 100.00%	
Kia Japan Co., Ltd. (KJC)	"	43,452	36,198	85,800	100.00	Kia 100.00%	
Kia Motors Deutschland GmbH (KMD)	"	25,072	20,886	39,000	100.00	Kia 100.00%	

		Capital stock as of December 31, 2002						
				U.S. dollars		Percentage	Indirect	
<u>Business</u>		<u>Korean won</u> <u>(in millions)</u>		<u>(Note 2)</u> <u>(in thousands)</u>	<u>Shares (*)</u>	<u>Ownership (*)</u>	<u>Ownership (*)</u>	
Kia Canada, Inc. (KCI)	Sales	₩ 66,889		\$ 55,722	6,298	100.00	Kia 82.5%, KMA 17.5%	
Kia Motors Belgium (KMB)	"	1,257		1,047	1,000,000	100.00	KME 100.00%	
Kia Motors Czech s.r.o. (KMCZ)	"	4,412		3,675	106,870,000	100.00	KME 100.00%	
Kia Motors (UK) Ltd. (KMUK)	"	33,489		27,898	17,000,000	100.00	KME 100.00%	
Kia Motors Austria GmbH (KMAS)	"	2,650		2,208	2,107,512	100.00	KME 100.00%	
Kia Motors Hungary Kft (KMH)	"	146		122	30,000,000	100.00	KME 100.00%	
Kia Motors Polska Sp.z.o.o. (KMP)	"	4,904		4,085	15,637	99.60	KMD 99.60%	
Kia Heavy Industries U.S.A., Corp.	"	720		600	1,200	100.00	WIA 100.00%	
Hyundai Pipe of America, Inc. Hyundai America Technical Center Inc. (HATCI)	" R & D	2,401 12,004		2,000 10,000	250,000 1,000	100.00 100.00	HYSCO 100%	
Hyundai Motor Finance Company (HMFC)	Financing service	120,040		100,000	750	100.00	HMA 100.00%	
Hyundai Auto Canada Captive Insurance Incorporation (HACCII)	Insurance service	1,142		951	100	100.00	HMA 100.00%	
Sevenwood Property Inc.	Real Estate rent	1,399		1,165	4,088,071	100.00	HMA 100.00%	
Kia Motors Europe GmbH (KME)	Holding company	31		26	25,000	100.00	Kia 100.00%	

(*) Shares and ownership are calculated by combining the shares and ownership, which the Company and its subsidiaries hold as of December 31, 2002. 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 is under composition with creditors according to the Composition Act.

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 (\$5,831 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 (\$581,509 thousand), ₩29,926 million (\$24,930 thousand) and ₩1,094,755 million (\$911,992 thousand), respectively and decreased consolidated net income by ₩22,069 million (\$18,385 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 Hyundai Dymos (formerly Korea Drive Train System), 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, the net income for Korea Precision Co., Ltd. as of the merger date, amounting to ₩4,864 million (\$4,052 thousand), is reflected in the consolidated income statement.

In 2001, the Company added seven domestic companies including ROTEM (formerly Korea Rolling Stock Co.) and four overseas companies including Hyundai-Assan Otomotiv Sanayi Ve Ticaret Anonim Sirketi to its consolidated subsidiaries. The details of these changes in the scope of consolidation are as follows:

- (1) ROTEM (formerly Korea Rolling Stock Co.), Hyundai-Assan Otomotiv Sanayi Ve Ticaret Anonim Sirketi, Hyundai Pipe of America, Inc. and Hyundai-Huy Hoang Pipe Company Limited whose equity securities had been accounted for using the equity method in 2000 are included in consolidation mainly due to the increase in the Company's and its subsidiaries' ownership.
- (2) Cheju Dynasty Co., Ltd, which had not been included in the consolidation nor accounted for using the equity method in 2000, is included in 2001 consolidation since its individual total assets at the end of the preceding year exceeded the required level of ₩7,000 million (\$5,831 thousand).
- (3) Hyundai Powertech, WIA Corporation, WISCO, Korea Precision Co., Ltd, Bontek and Kia Heavy Industries U.S.A., Corp. 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 2001 consolidated financial statements increased the Company's consolidated assets and revenues by ₩2,426,041 million (\$2,021,027 thousand) and ₩715,047 million (\$595,674 thousand), respectively and decreased consolidated net income and shareholders' equity by ₩6,275 million (\$5,227 thousand) and ₩2,464 million (\$2,053 thousand), respectively, as compared to the results using the previous scope of consolidation.

The Company excluded Hyundai Motor Europe Pars in its consolidated subsidiaries as of December 31, 2001 due to the disposal of investments.

Goodwill and negative goodwill related to the consolidated subsidiaries computed as the difference between the acquisition cost and the Company's portion of the subsidiaries' net equity at the date when the Company obtained control over the subsidiaries is ₩340,288 million (\$283,479 thousand) and ₩108,169 million (\$90,111 thousand) as of December 31, 2002, respectively, and ₩343,704 million (\$286,325 thousand) and ₩118,225 million (\$98,488 thousand) as of December 31, 2001, respectively, net of accumulated amortization.

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company and its subsidiaries may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company and its 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 ₩1,200.40 to US\$1.00 at December 31, 2002, solely for the convenience of the reader. This convenience translation into US 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 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 (\$5,831 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 (\$5,831 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 extraordinary 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 stocks 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 interest. On sales from a subsidiary to the Company (upstream sales), unrealized gains and losses are eliminated entirely and allocated proportionately between majority and minority interests.

The accounting methods adopted by the Company and its subsidiaries for similar transactions and circumstances is generally the same. However, if the differences resulting from applying different accounting methods are not significant, such difference 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

Revenue, including long-term installment sales, is recognized upon shipment of goods. 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.

Valuation of Marketable Securities

Marketable securities are stated at fair value. The difference between book value and fair value is recognized in current operations.

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.

Valuation of Investments Securities

Equity securities held for investment (excluding those accounted for using the equity method discussed in the next paragraph) that are not actively traded (unlisted security) are stated at acquisition cost, as determined by the moving average method. Actively quoted (listed) securities, including those traded over-the-counter, are stated at fair value, with the resulting valuation gain or loss reported as a capital adjustment within shareholders' equity. If the fair value of a listed equity security or the net equity value of an unlisted security held for investment declines compared to acquisition cost and is not expected to recover (impaired investment security), the carrying value of the equity security is adjusted to fair value or net equity value, with the resulting valuation loss charged to current operations. If the net equity value or fair value subsequently recovers, in the case of an unlisted security, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, and in the case of a listed security, the increase in value is recorded in capital adjustments.

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 capital adjustments of investees are accounted for as an adjustment to consolidated retained earnings, consolidated capital surplus or consolidated capital adjustments.

Debt securities held for investment are classified as either held-to-maturity investment debt securities or available for sale investment debt securities at the time of purchase. Held-to-maturity debt securities are stated at acquisition cost, as determined by the moving average method. When the face value of a held-to-maturity investment debt security differs from its acquisition cost, the effective interest method is applied to amortize the difference over the remaining term of the security. Available-for-sale investment debt securities are stated at fair value, resulting valuation gain or loss reported as a consolidated capital adjustment within shareholder' equity. However, if the fair value of a held-to-maturity or an available-for-sale investment debt security declines compared to the acquisition cost and is not expected to recover (impaired investment security), the carrying value of the debt security is adjusted to fair value, with the resulting valuation loss charged to current operations. If the fair value of the security subsequently recovers, in the case of a held-to-maturity debt security, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, and in the case of an available-for-sale debt security, the increase in value is recorded in capital adjustments.

The lower of the acquisition cost of investments in treasury stock funds and the fair value of treasury stock included in a fund is accounted for as treasury stock in consolidated 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	4 – 50
Vehicles	2 – 21
Dies and molds	2 – 12
Tools	2 – 12
Other equipment	2 – 12

Before 2002, the Company and Kia, one of its domestic subsidiaries, had capitalized a portion of financial cost including interest expense and similar expenses in conformity with Financial Accounting Standards of Republic of Korea. However, in 2002, the Company elected to adopt the accounting method of charging all financing cost to current operations in accordance with Statement of Korea Accounting Standards (SKAS) No. 7 – Capitalization of Financing Costs. This Statement is effective for fiscal years subsequent to December 31, 2002 but early adoption in 2002 is permitted. . This Statement provides that all financing cost must be charged to current operations but capitalization of financial cost can be acceptable under certain conditions. In accordance with SKAS No. 7, in the first effective fiscal year, the company should elect one of such accounting methods for financing cost as its accounting policy and consistently apply it. If the accounting method of charging all financing cost to current operations is selected, it would result in an accounting change and in accordance with this Statement, this change is accounted for using prospective approach. This change of accounting method resulted in the decrease of consolidated net income and assets by ₩55,515 million (US\$46,247 thousand), respectively, compared with the results based on the previous method. The Company and its subsidiaries capitalized financial cost of ₩103,083 million (US\$ 85,874 thousand) as part of the cost of constructing major facilities and equipment in 2001.

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)	not to exceed 20 years
Development costs	3 – 10
Other	4 – 20

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.

In 2002, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 3 – Intangible Assets. This Statement, effective for fiscal years subsequent to December 31, 2002 but early adoption in 2002 is permitted, provides more clarifications of accounting method of intangible assets including definition, scope, recognition, amortization and valuation. Also, considering the trend in the automotive market, the Company shortened the estimated economic useful lives for certain types of development costs and reclassified the ordinary development expenses and research expenses. This accounting change resulted in the decrease of consolidated net income by ₩445,990 million (US\$371,534 thousand) compared with the results based on the previous method.

In 2002, Hyundai HYSCO, a domestic subsidiary changed the estimated economic useful life of development cost from twenty years to ten years. This accounting change resulted in the decrease of consolidated net income by ₩1,775 million (US\$1,479 thousand) compared with the results based on the previous method.

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 ranges from 8.25 percent to 10.00 percent in 2002 and is 10.0 percent in 2001.

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, which is the difference between the issued amount and the face value of debenture, is presented as a deduction from to the face value of debentures and amortized over the redemption period of the debenture 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 ₩2,592,509 million (\$2,159,704 thousand) and ₩2,143,955 million (\$1,786,034 thousand) as of December 31, 2002 and 2001, respectively.

Accrued severance benefits are funded through a group severance insurance plan and individual severance insurance plan. The group severance insurance deposits under this insurance plan are classified as other assets. Subsequent provisions are funded at the discretion of the Company. Group severance insurance deposits may only be withdrawn for the payment of severance benefits. 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 ₩308,575 million (\$257,060 thousand) and ₩288,906 million (\$240,675 thousand) in 2002 and 2001, respectively.

Accrued Warranties and Product Liabilities

The Company and its subsidiaries generally provide a warranty to the ultimate consumer with each product and accrues 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 and voluntary recall campaign pending as of the balance sheet date. Actual costs incurred are charged against the accrual when paid. Additionally, in 2002, the Company and Kia, one of its domestic subsidiary, recognize accrued liabilities for the projected expenses due to an End-of-Life Vehicles (ELV) directive in European Union. Under the directive, manufacturers are responsible for a portion of the cost of the dismantling and recycling of vehicles placed in service prior to July 2002 that are expected to be still in operation up to January 2007 as well as all vehicles placed in service after July 2002. In 2002, the provision for the accrual due to ELV directive amounting to ₩299,560 million (US\$ 249,550 thousand) was accounted for as selling expense and non-operating expense.

In 2002, Kia, one of the Company's domestic subsidiary, changed its method in estimating accrued warranty for the exported vehicles. Kia generally offers the warranty program that is limited to certain years or certain miles from the date of first service, whichever comes first. Before 2002, Kia estimated the accrual based on the number of vehicles exported within the warranty calendar periods. However, in 2002, Kia accrues warranty expenses based on the units in operation within the warranty term considering miles in service. This change resulted an increase in net income of ₩39,860 million (\$33,206 thousand).

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 adjustment 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 forecasted 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 related to forward, option and swap to hedge the exposure to changes in foreign exchange rate. The Company and its subsidiaries accounted for the gain and loss on valuation of the effective portion of derivative instruments for cash flow hedging purpose from forecast exports as capital adjustments, with a credit of ₩22,900 million (\$19,077 thousand) and a debit of ₩16,377 million (\$13,643 thousand) as of December 31, 2002 and 2001, respectively. 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.

Deferred gain on valuation of derivative in other assets and accrued loss on valuation of derivative as of December 31, 2002 amount to ₩51,622 million (\$43,004 thousand) and ₩17,053 million (\$14,206 thousand), respectively. Deferred gain on valuation of derivative in other assets and accrued loss on valuation of derivative as of December 31, 2001 amount to ₩168 million (\$140 thousand) and ₩62,382 million (\$51,968 thousand), respectively.

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 ₩1,200.40 and ₩1,326.10 to US\$1.00 at December 31, 2002 and 2001, respectively, and translation gains or losses is 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 ₩1,251.18 and ₩1,291.01 to US\$1.00 in 2002 and 2001, 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 Share

Primary earnings per 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 218,084,933 and 215,692,671 in 2002 and 2001, respectively. Earnings per diluted 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 218,863,816 and 216,110,199 in 2002 and 2001, respectively. However, there is no dilution effect in 2001.

Adoption of Statement of Korea Accounting Standards No. 6

The Company adopted Statement of Korea Accounting Standards (SKAS) No. 6 - Events Occurring after the Balance Sheet Date. This Statement is effective for fiscal years subsequent to December 31, 2002 but early adoption in 2002 is permitted. Previously, appropriations of retained earnings had been reflected in the balance sheet at the date ended with the same fiscal year in accordance with Financial Accounting Standards in Republic of Korea. However, this Statement pronounces that appropriations of retained earnings including the dividends should not be reflected in the balance sheet until the approval at the shareholders' meeting. In conformity with SKAS No. 6, the appropriations of retained earnings to be approved at the stockholders meeting on March 14, 2003 are not recorded in balance sheet as of December 31, 2002 but would be accounted for in 2003. This change of accounting method resulted in the decrease of current liabilities by ₩301,628 million (US\$251,273 thousand) and the increase of consolidated unappropriated retained earnings and minority interests by ₩243,079 million (US\$202,498 thousand) and ₩ 58,549million (US\$48,775 thousand), respectively, as of December 31, 2002, compared with the results based on the previous method. Also, the 2001 consolidated financial statements, which are presented for comparative purposes, were revised in accordance with SKAS No. 6 and this revision resulted in the decrease of current liabilities by ₩220,179 million (US\$183,421 thousand) and the increase of consolidated unappropriated retained earnings and minority interests by ₩215,145 million (US\$179,228 thousand) and ₩ 5,035million (US\$4,194 thousand), respectively, as of December 31, 2001 compared with the results based on the previous method.

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, 2002 and 2001 consist of the following:

<u>Accounts</u>	<u>Korean won (in millions)</u>		<u>U. S. dollars (Note 2) (in thousands)</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Raw materials and supplies	₩ 499,787	₩ 548,246	\$ 416,351	\$ 456,720
Semi finished goods and work in process	459,998	395,171	383,204	329,199
Finished goods and merchandise	2,660,531	2,285,934	2,216,370	1,904,310
Materials in transit	176,346	529,464	146,906	441,073
Other	23,337	29,112	19,441	24,252
	<u>₩ 3,819,999</u>	<u>₩ 3,787,927</u>	<u>\$ 3,182,272</u>	<u>\$ 3,155,554</u>

4. Marketable Securities and Investments

(1) Marketable securities as of December 31, 2002 and 2001 consist of the following:

<u>Description</u>	<u>Korean won (in millions)</u>		<u>U. S. dollars (Note 2) (in thousands)</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Beneficiary certificates	₩ 690,209	₩ 791,518	\$ 574,983	\$ 659,379
Debt securities	20,265	75,003	16,881	62,481
	<u>₩ 710,474</u>	<u>₩ 866,521</u>	<u>\$ 591,864</u>	<u>\$ 721,860</u>

As of December 31, 2002, Kia pledged certain marketable securities of ₩8,790 million (\$ 7,323 thousand) as collateral for the foreign currency forward contracts and certain borrowings.

(2) Investments securities as of December 31, 2002 and 2001 consist of the following:

<u>Description</u>	<u>Korean won (in millions)</u>		<u>U.S. dollars (Note 2) (in thousands)</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Equity securities accounted for using the equity method	₩ 402,465	₩ 379,708	\$ 335,276	\$ 316,318
Marketable equity securities	936,108	555,583	779,830	462,832
Unlisted equity securities	262,543	230,281	218,713	191,837
Debt securities	460,157	577,670	383,336	481,231
	<u>₩2,061,273</u>	<u>₩1,743,242</u>	<u>\$1,717,155</u>	<u>\$1,452,218</u>

(3) Equity securities accounted for using the equity method as of December 31, 2002 and 2001 consist of the following:

Description	2002		Book value			
	Percentage Ownership (*2)	Historical cost	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
			2002	2001	2002	2001
Kia Tigers Co., Ltd. (*1)	100.00	₩ 20,300	₩ 14,083	₩ 18,212	\$ 11,732	\$ 15,172
HMJ R&D (*1)	100.00	1,510	2,090	1,975	1,741	1,645
First CRV	50.00	169,560	99,240	175,512	82,673	146,211
Daimler Hyundai Truck Co., Ltd.	-	-	-	49,523	-	41,255
Hyundai-Kia-Yueda Motor Company	-	-	-	259	-	216
Korea Space & Aircraft Co., Ltd.	33.33	129,800	84,690	72,720	70,551	60,580
PT. KIA Timor Motors	30.00	26,667	10,996	10,478	9,160	8,729
TRW Steering Co., Ltd.	29.00	8,952	8,692	8,952	7,241	7,458
Korea Economy Daily	29.57	19,973	17,568	17,633	14,635	14,689
Wuhan Grand Motor Co., Ltd.	21.40	5,468	8,018	8,359	6,680	6,964
Iljin Forging Co., Ltd.	20.00	826	11,890	11,283	9,905	9,399
Daesung Automotive Co., Ltd.	20.00	400	5,200	4,802	4,332	4,000
Beijing-Hyundai Motor	50.00	133,691	129,468	-	107,854	-
Donghui Auto Co., Ltd.	35.12	10,530	10,530	-	8,772	-
		<u>₩ 527,677</u>	<u>₩ 402,465</u>	<u>₩ 379,708</u>	<u>\$ 335,276</u>	<u>\$ 316,318</u>

(*1) These companies are excluded in the consolidation since individual beginning balance of total assets is less than ₩7,000 million (\$5,831 thousand).

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

Since the net asset value of Asia Motors Do Brasil SA (AMB), of which Kia holds 51 percent of ownership, has declined and is not expected to recover, the difference between the book value and the fair value was charged to operations in 1998 as an impairment loss of investment securities. In addition, AMB is excluded from the application of the equity method because AMB has been under suspension of business for more than one year and net value is lower than the acquisition cost of investment securities.

The Company and its subsidiaries amortize (reverse) goodwill (negative goodwill), which occurred in applying the equity method, using the straight-line method. The unamortized balance of goodwill is ₩21,279 million (\$17,727 thousand), and ₩5,272 million (\$4,392 thousand) as of December 31, 2002 and 2001, respectively, net of accumulated amortization.

In 2002, the equity securities in Beijing-Hyundai Motor and Donghui Auto Co., Ltd. were newly accounted for using the equity method due to acquisition of ownership. This addition of equity securities accounted for using the equity method resulted in the decrease in the consolidated net income and shareholder's equity by ₩731 million (\$609 thousand) and ₩3,182 million (\$2,651 thousand), respectively.

In 2002, among the equity securities accounted for using the equity method in 2001, DongFeng Yueda Kia Motor Co., Ltd. (formerly Hyundai-Kia-Yueda Motor Company) and Daimler Hyundai Truck 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.

In 2001, the equity securities in Kia Tigers Co., Ltd., HMJ R&D, Daimler Hyundai Truck Co., Ltd., First CRV and TRW Steering Co., Ltd. were newly accounted for using the equity method mainly due to acquisition of ownership. This addition of equity securities accounted for using the equity method increased the consolidated shareholders' equity by ₩444 million (\$370 thousand) in 2001.

In 2001, among the equity securities accounted for using the equity method in 2000, Beijing Hyundai Namyang Real Estate Development Center Ltd. and Hyundai Space & Aircraft Co., Ltd were excluded from the application of equity method mainly due to disposal of investments. ROTEM (formerly Korea Rolling Stock Co.), HAOVST, Hyundai Pipe of America, Inc. and Hyundai-Huy Hoang Pipe Company Limited are included in the consolidation in 2001 mainly due to the increase in the Company's and its subsidiaries' ownership.

Marketable 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)		Percentage Ownership (*2)
	Historical cost	Book value	Book value		
Hyundai MOBIS	₩ 83,102	₩ 343,963	\$ 286,540	18.51	
Korea Industrial Development Co., Ltd.	5,091	2,614	2,178	10.54	
INI Steel (*1)	137,175	136,584	113,782	20.03	
Saehan Media	1,607	2,418	2,014	4.93	
Jin Heung Mutual Savings & Finance Co., Ltd.	2,181	2,045	1,704	8.66	
Korea Mutual Savings Bank	2,846	2,983	2,485	8.13	
Hyundai Heavy Industries Co., Ltd.	56,924	41,720	34,755	2.88	
Hyundai Corporation	13,626	2,079	1,732	2.99	
Hyundai Information Technology Co., Ltd.	10,000	1,267	1,055	2.21	
LG Telecom.Co., Ltd.	19,851	16,198	13,494	1.28	
Chohung Bank	73,545	28,003	23,328	1.10	
Hyundai Merchant Marine Co., Ltd.	7,329	1,040	866	0.55	
Kia Steel Co., Ltd.	96	169	141	0.52	
Hyundai Engineering & Construction Co., Ltd.	13,332	4,280	3,565	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	1,247	2.21	
SK Telecom	837	5,716	4,762	0.03	
Nonhyup Trust Cash Fund	199,839	315,625	262,933	-	
Samho Company Ltd.	16	1	1	-	
Samlip General Food	14	-	-	-	
Treasury Stock Funds	20,737	4,489	3,740	-	
Stock Market Stabilization Fund	14,754	23,247	19,366	-	
	<u>₩ 665,535</u>	<u>₩ 936,108</u>	<u>\$ 779,830</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.

Marketable investments that are excluded from the consolidation and the application of the equity method as of December 31, 2001 consist of the following:

Companies	Korea won (in millions)		U.S. dollars (Note 2) (in thousands)		Percentage Ownership (*)
	Historical cost	Book value	Book value		
Hyundai MOBIS	₩ 83,102	₩ 298,207	\$ 248,423		19.98
Korea Industrial Development Co., Ltd.	19,854	6,144	5,118		12.72
INI Steel	72,719	60,327	50,256		12.55
Saehan Media	2,009	1,687	1,406		10.01
Jin Heung Mutual Savings & Finance Co., Ltd.	2,000	880	733		9.01
Comet Savings & Finance Co., Ltd.	2,700	1,709	1,424		9.00
Hyundai Heavy Industries Co., Ltd.	59,004	57,431	47,843		2.99
Hyundai Corporation	13,626	3,498	2,914		2.99
Hyundai Information Technology Co., Ltd.	10,000	3,593	2,993		2.21
LG Telecom.Co., Ltd.	19,851	30,682	25,560		1.28
Chohung Bank	62,463	28,277	23,556		1.10
Korea Investment Corporation	190	97	81		0.95
Hyundai Merchant Marine Co., Ltd.	7,329	1,400	1,166		0.55
Kia Steel Co., Ltd.	96	130	108		0.52
Hyundai Engineering & Construction Co., Ltd	13,332	8,666	7,219		0.42
Kanglim Specific Equipment Automotive Co., Ltd.	346	120	100		0.38
Prochips Technology Inc.	905	905	754		0.27
DongYang Investment Bank	283	45	38		0.23
Treasury Stock Funds	24,021	10,371	8,640		-
Stock Market Stabilization Fund	32,963	41,414	34,500		-
	₩ 426,793	₩ 555,583	\$ 462,832		

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

Marketable investment equity securities are stated at fair value and the differences between the acquisition costs and fair value are recorded in capital adjustments (see Note 14).

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)		Percentage Ownership (*2)
	Acquisition cost	Book value	Book value		
Yan Ji Kia Motors A/S (*1)	₩ 1,792	₩ 1,792	\$ 1,493		100.00
Hyundai Capital Asset Management Co., Ltd. (*1)	2,000	2,000	1,666		100.00
Hyundai Jingxian Motor Safeguard Service Co., Ltd. (*1)	2,019	2,019	1,682		84.88
NGVTEK.com (*1)	700	700	583		68.29
Kia Service Philippines Co. (*1)	185	185	154		20.00
Eukor Car Carriers, Inc.	48,912	48,912	40,747		19.99
Mco	950	950	791		19.99
Dongyong Industries Co., Ltd	241	241	201		19.23
Hyundai RB Co.	550	550	458		18.64
Mobil Com.Co., Ltd.	1,800	1,800	1,500		17.61
Jinil MVC Co., Ltd.	180	180	150		18.00
Industri Otomotif Komersial	4,439	4,439	3,698		15.00

Companies	Korea won (in millions)		U.S. dollars (Note 2) (in thousands)		Percentage Ownership (*2)
	Acquisition cost	Book value	Book value		
Hyundai Technology Investment Co., Ltd.	₩ 4,490	₩ 4,490	\$ 3,740		14.97
Hyundai Unicorns Co., Ltd.	5,795	5,795	4,828		14.90
Hyundai Research Institute	1,271	1,271	1,059		14.90
Gyeongnam Credit Guarantee Foundation	2,500	2,500	2,083		13.66
Kihyup Finance, Inc.	3,700	3,700	3,082		12.75
SoltechIM Co., Ltd	157	157	131		10.47
Toba Telecom	405	405	337		10.02
3Gcore, Inc	225	225	187		10.90
Yonhap Capital Co., Ltd.	10,500	10,500	8,747		10.49
Hyundai Motor Deutschland GmbH	802	802	668		10.00
Hyundai Finance Corporation	9,888	9,888	8,237		9.29
Daejoo Heavy Industry Co. Ltd.	650	650	541		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	1,291		7.75
Internet Hankyoreh Inc.	4,800	4,800	3,999		7.41
Hyundai Oil refinery Co., Ltd.	88,857	88,857	74,023		6.33
Hyundai Asan Corporation	22,500	8,861	7,382		5.00
Yonhi Information & Communication Co., Ltd.	500	500	417		4.90
Dongwon Capital Co., Ltd.	3,000	3,000	2,499		4.62
U.S Electrical Inc.	2,204	2,204	1,836		3.80
ROTIS	1,000	1,000	833		3.76
Q&V Korea	400	400	333		3.70
Daishin Factoring Co., Ltd	2,000	-	-		3.33
Korea Auto Industries Coop Association	16	16	13		2.06
ICOLS Inc.	160	160	133		2.50
KT ICOM Co., Ltd. (formerly I-COM)	18,000	18,000	14,995		1.00
Cheju International Convention Center	500	500	417		0.59
Kyongnam Shinmun Co., Ltd	20	3	2		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	4,431		-
Machinery Insurance Cooperative	8,188	8,188	6,821		-
Other	15,544	14,832	12,356		-
	<u>₩ 281,712</u>	<u>₩ 262,543</u>	<u>\$ 218,713</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 (\$5,831 thousand), are not material.

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

Non-listed investments that are excluded from the consolidation and the application of the equity method as of December 31, 2001 consist of the following:

Companies	Korea won (in millions)		U.S. dollars (Note 2) (in thousands)		Percentage Ownership (*2)
	Acquisition cost	Book value	Book value		
Hyundai Motor Europe GmbH (*1)	₩ 5,590	₩ 5,590	\$ 4,657	100.00	
Yan Ji Kia Motors A/S (*1)	1,792	1,792	1,493	100.00	
Hyundai Capital Asset Management Co., Ltd. (*1)	2,000	2,000	1,666	99.99	
Hyundai Jingxian Motor Safeguard Service Co., Ltd. (*1)	2,019	2,019	1,682	84.88	
NGVTEK.com (*1)	700	700	583	68.30	
Autoever Co., Ltd. (*1)	2,495	2,495	2,078	49.90	
Kia Service Philippines Co. (*1)	185	185	154	20.00	
Dongyong Industries Co., Ltd	240	240	200	19.23	
Mobil Com.Co., Ltd.	1,800	1,800	1,500	18.07	
Jinil MVC Co., Ltd.	180	180	150	18.00	
Industri Otomotif Komersial Korea Automotive Powertrain Engineering Co.	4,439	4,439	3,698	15.00	
Hyundai Technology Investment Co., Ltd.	150	150	125	15.00	
Hyundai Unicorns Co., Ltd.	4,490	4,490	3,740	14.97	
Hyundai Research Institute	5,795	5,795	4,828	14.90	
Gyeongnam Credit Guarantee Foundation	1,271	1,271	1,059	14.90	
Kihyup Finance, Inc.	2,500	2,500	2,083	13.66	
Norrinet Co., Ltd	3,700	3,700	3,082	12.75	
SoltechIM Co., Ltd	34	34	28	12.14	
3Gcore, Inc	157	157	131	12.08	
Yonhap Capital Co., Ltd.	225	225	188	10.90	
Machinery Insurance Cooperative	10,500	10,500	8,747	10.47	
Hyundai Motor Deutschland GmbH	3,070	3,070	2,558	10.38	
Hyundai Finance Corporation	802	802	668	10.00	
Daejoo Heavy Industry Co. Ltd.	9,888	9,888	8,237	9.29	
A.P. Co., Ltd.	650	650	541	9.29	
Namyang Industrial Co., Ltd.	550	550	458	9.20	
KOENTECH (formerly Ulsan Environmental Development)	200	200	167	8.00	
Internet Hankyoreh Inc.	1,550	1,550	1,291	7.75	
Hyundai Oil refinery Co., Ltd.	4,800	4,800	3,999	7.41	
Hyundai Asan Corporation	78,134	78,134	65,090	6.33	
Yonhi Information & Communication Co., Ltd.	22,500	22,500	18,744	5.00	
Dongwon Capital Co., Ltd.	500	500	417	4.90	
Biomecha Ltd	3,000	3,000	2,499	4.62	
U.S Electrical Inc.	100	100	83	4.00	
ROTIS	2,204	2,204	1,836	3.80	
O&V Korea	1,000	1,000	833	3.76	
Daishin Factoring Co., Ltd	400	400	333	3.70	
Jeonbuk corporation	2,000	2,000	1,666	3.33	
Korea Auto Industries Coop Association	100	100	83	2.84	
ICOLS Inc.	11	11	9	2.60	
Alcan Taihan Aluminum Ltd.	160	160	133	2.50	
I-COM	30,815	21,003	17,497	1.26	
Kyongnam Shinmun Co., Ltd	18,000	18,000	14,995	1.00	
Shinsegi Telecom Co.	50	33	27	0.63	
Other	837	837	697	0.41	
	8,511	8,527	7,104		
	<u>₩ 240,094</u>	<u>₩ 230,281</u>	<u>\$ 191,837</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 (\$5,831 thousand), are not material.
- (*2) Percentage ownership is calculated by combining the ownership of the Company and its subsidiaries.

Unlisted investment equity securities are stated at cost, except where an investee's net equity value has declined and is not expected to recover.

Total net equity value of unlisted investment equity securities, which the Company and its subsidiaries hold as of December 31, 2002 and 2001, amounts to ₩223,369 million (\$186,079 thousand) and ₩208,891 million (\$174,018 thousand), respectively, based on the investees' latest individual financial statements.

Debt securities as of December 31, 2002 and 2001 consist of the following:

	Korea won (in millions)	Book value			
		Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
		Historical cost	2002	2001	2002
Securities finance bonds	₩ -	₩ -	₩ 228,937	\$ -	\$ 190,717
Overseas debentures	167,293	163,962	181,976	136,589	151,596
Subordinated debt	237,450	210,371	101,458	175,251	84,520
Private bonds	68,110	49,950	15,329	41,611	12,770
Other	38,845	35,874	49,970	29,885	41,628
	<u>₩ 511,698</u>	<u>₩ 460,157</u>	<u>₩ 577,670</u>	<u>\$ 383,336</u>	<u>\$ 481,231</u>

Investment equity securities of the Company and its domestic subsidiaries pledged as collateral for various borrowings and payables as of December 31, 2002 are as follows:

Company	No. of shares pledged
Hyundai Corporation	1,514,841
Machinery Insurance Cooperative	150
Kisan Mutual Saving's & Finance	306,160
Kia Motors Corporation	3,970,000
Kia Steel Co., Ltd.	175,100
Korea Defense Industry Association	1,500

5. 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, 2002 are as follows (won in millions):

	Financing leases			Operating leases
	Lease Payments	Interest Portion	Lease Obligation	Lease Payments
2003	₩ 97,765	₩ 15,214	₩ 82,551	₩ 39,963
2004	76,111	7,758	68,353	39,436
2005	62,521	6,571	55,950	18,260
2006	61,980	6,026	55,954	5,379
Thereafter	38,773	3,408	35,365	7,488
	<u>₩ 337,150</u>	<u>₩ 38,977</u>	<u>₩ 298,173</u>	<u>₩ 110,526</u>

The changes in intangibles in 2002 are as follows:

	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	₩ 899,278	₩ (118,225)	₩ 19,298	₩ 1,310,142	₩ 40,742	₩ 2,151,235	\$ 1,792,098
Addition:							
Expenditures	19,758	(3,440)	6,082	996,742	46,449	1,065,591	887,697
Deduction:							
Disposal	-	-	-	(16,645)	-	(16,645)	(13,866)
Amortization	(59,179)	8,996	(5,983)	(710,723)	(5,509)	(772,398)	(643,451)
Research	-	-	-	(308,187)	-	(308,187)	(256,737)
Ordinary development	-	-	-	(383,157)	-	(383,157)	(319,191)
Impairment loss	-	-	-	(58,329)	-	(58,329)	(48,591)
End of the year	<u>₩ 859,857</u>	<u>₩ (112,669)</u>	<u>₩ 19,397</u>	<u>₩ 829,843</u>	<u>₩ 81,682</u>	<u>₩ 1,678,110</u>	<u>\$ 1,397,959</u>

Amortization on intangible assets except negative goodwill is recorded in selling and administrative expenses and in manufacturing cost and amortization on negative goodwill is recorded in other expenses. 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, 2002, goodwill consists of ₩340,288 million (\$283,479 thousand) related to investments in subsidiaries and ₩519,569 million (\$432,830 thousand) related to mergers with non-subsidiary companies or business divisions. As of December 31, 2001, goodwill consists of ₩343,704 million (\$286,325 thousand) related to investments in subsidiaries and ₩555,574 million (\$462,824 thousand) related to mergers with non-subsidiary companies or business divisions.

As of December 31, 2002, negative goodwill consists of ₩108,169 million (\$90,111 thousand) related to investments in subsidiaries and ₩4,500 million (\$3,749 thousand) related to mergers with non-subsidiary companies or business divisions. As of December 31, 2001, negative goodwill is ₩118,225 million (\$98,488 thousand) related to investments in subsidiaries.

9. Other Assets

Other assets as of December 31, 2002 and 2001 consist of the following:

	Korean won (in millions)		U. S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Long-term notes and accounts receivable, net of allowance for doubtful accounts of ₩1,630 million in 2002 and nil in 2001 and unamortized discount of ₩6,332 million in 2002 and ₩10,486 million in 2001	₩ 31,203	₩ 34,053	\$ 25,994	\$ 28,368
Lease and rental deposits	322,505	313,715	268,664	261,342
Long-term deposits	36,186	202,702	30,145	168,862
Deferred gain on valuation of derivatives (see Note 2)	51,622	168	43,004	140
Long-term loan, net of allowance for doubtful accounts of ₩45 million in 2002 and nil in 2001 and unamortized discount of ₩4,397 million in 2002 and ₩4,967 million in 2001	138,719	122,643	115,561	102,168
Other	113,607	58,126	94,641	48,423
	<u>₩ 693,842</u>	<u>₩ 731,407</u>	<u>\$ 578,009</u>	<u>\$ 609,303</u>

10. Other Financial Business Assets

Other financial business assets as of December 31, 2002 and 2001 consist of the following:

	Korean won (in millions)		U. S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Finance receivables	₩ 8,059,742	₩ 4,926,439	\$ 6,714,213	\$ 4,103,998
Lease receivables	290,169	120,287	241,727	100,206
Other	17,930	21,687	14,937	18,066
	<u>₩ 8,367,841</u>	<u>₩ 5,068,413</u>	<u>\$ 6,970,877</u>	<u>\$ 4,222,270</u>

11. Short-term Borrowings

Short-term borrowings as of December 31, 2002 and 2001 amount to ₩7,526,948 million (\$6,270,367 thousand) and ₩6,748,184 million (\$5,621,613 thousand), respectively, and consist primarily of bank loans and export financing loans with annual interest rates ranging from 0.48 percent to 10.50 percent.

12. Long-term Debt

Long-term debt as of December 31, 2002 and 2001 consists of the following:

	Interest rate (%)	Korean won (in millions)		U. S. dollars (Note 2) (in thousands)	
		2002	2001	2002	2001
Debentures	3.00 ~ 9.40	₩ 9,250,885	₩ 7,948,036	\$ 7,706,502	\$ 6,621,156
Won currency loans					
Capital lease	8.10 ~ 14.31	62,490	55,241	52,058	46,019
Reorganization claims	(*)	524,855	942,547	437,233	785,194
Composition obligation	0.00 ~ 5.50	5,812	225,396	4,842	187,767
General loans	1.00 ~ 14.30	475,597	440,881	396,199	367,279
		<u>1,068,754</u>	<u>1,664,065</u>	<u>890,332</u>	<u>1,386,259</u>
Foreign currency loans					
Capital lease	3.10 ~ 6.81	219,621	357,876	182,957	298,131
Reorganization claims	(*)	148,611	223,563	123,801	186,240
Composition obligation	-	-	59,786	-	49,805
Other	2.23 ~ 7.73	372,241	774,099	310,097	644,868
		<u>740,473</u>	<u>1,415,324</u>	<u>616,855</u>	<u>1,179,044</u>
		11,060,112	11,027,425	9,213,689	9,186,459
Less: Current maturities		<u>(3,049,849)</u>	<u>(2,768,331)</u>	<u>(2,540,694)</u>	<u>(2,306,174)</u>
		<u>₩ 8,010,263</u>	<u>₩ 8,259,094</u>	<u>\$ 6,672,995</u>	<u>\$ 6,880,285</u>

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

Debentures as of December 31, 2002 and 2001 consist of the following:

	Maturity	Annual Interest rate(%)	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
			2002	2001	2002	2001
Domestic debentures						
Guaranteed debentures	12 Sep, 2003 ~ 27 March, 2004	6.3 ~ 6.6	₩ 10,500	₩ -	\$ 8,747	\$ -
Non-guaranteed Debentures	3 Jan, 2003 ~ 23 Sep, 2007	5.0 ~ 8.0	8,218,132	6,718,200	6,846,161	5,596,634
Convertible bonds	31 Dec, 2003	3.0	69,972	110,478	58,291	92,035
Overseas debentures	9 April, 2003 ~ 18 July, 2006	3.07 ~ 9.40	<u>1,025,586</u>	<u>1,240,706</u>	<u>854,370</u>	<u>1,033,577</u>
			9,324,190	8,069,384	7,767,569	6,722,246
Discount on debentures			<u>(73,305)</u>	<u>(121,348)</u>	<u>(61,067)</u>	<u>(101,090)</u>
			<u>₩ 9,250,885</u>	<u>₩ 7,948,036</u>	<u>\$ 7,706,502</u>	<u>\$ 6,621,156</u>

Convertible bonds with the carrying value of ₩69,972 million (\$58,291 thousand) and ₩110,478 million (\$92,034 thousand) as of December 31, 2002 and 2001, respectively, were issued by Hyundai HYSCO, a subsidiary. In, 2002, convertible bonds with the face value of ₩28 million (\$24 thousand) were converted to 5,660 shares of common stock.

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

	Korean won (in millions)			Total	U.S. dollars (Note 2) (in thousands)
	Debentures	Won	Foreign		
		Currency Loans	Currency Loans		
2003	₩ 2,568,075	₩ 294,360	₩ 188,071	₩ 3,050,506	\$ 2,541,241
2004	3,979,803	293,595	274,074	4,547,472	3,788,297
2005	1,938,176	121,569	113,839	2,173,584	1,810,717
2006	808,136	119,267	70,365	997,768	831,196
Thereafter	<u>30,000</u>	<u>239,963</u>	<u>94,124</u>	<u>364,087</u>	<u>303,305</u>
	<u>9,324,190</u>	<u>1,068,754</u>	<u>740,473</u>	<u>11,133,417</u>	<u>9,274,756</u>
Less: Discount on debentures	<u>(73,305)</u>	<u>-</u>	<u>-</u>	<u>(73,305)</u>	<u>(61,067)</u>
	<u>₩ 9,250,885</u>	<u>₩ 1,068,754</u>	<u>₩ 740,473</u>	<u>₩ 11,060,112</u>	<u>\$ 9,213,689</u>

13. Capital Stock

Capital stock as of December 31, 2002 and 2001 consist of the following:

	Authorized	Issued	Par value	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
Common stock	450,000,000	219,088,702 shares	₩ 5,000	₩ 1,145,443	\$ 954,218
Preferred stock	150,000,000	65,202,146 shares	5,000	<u>331,011</u>	<u>275,750</u>
				<u>₩ 1,476,454</u>	<u>\$ 1,229,968</u>

The preferred shares are non-cumulative, non-participating and non-voting. Of the total preferred stock issued of 65,202,146 shares as of December 31, 2002, 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 Funds as of March 2, 2001 and in accordance with the decision of the Board of Directors, retired 10,000,000 common shares in treasury and 1,000,000 preferred shares in treasury, which had additional dividends rate of 2 percent to the rate of common stock on March 5, 2001, using 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 (\$500,963 thousand), which include paid-in capital in excess of par value of ₩486,886 million (\$405,603 thousand).

14. Capital Adjustments

Capital adjustments as of December 31, 2002 and 2001 consist of the following:

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Treasury stock	₩ (86,514)	₩ (79,648)	\$ (72,071)	\$ (66,351)
Discounts on stock issuance	(374)	(621)	(311)	(518)
Gain on valuation of investment equity securities	14,889	22,775	12,403	18,973
Stock option cost	13,605	13,687	11,334	11,402
Cumulative translation adjustments	(70,923)	(5,251)	(59,083)	(4,374)
Gain (Loss) on valuation of derivatives (see Note 2)	22,900	(16,377)	19,077	(13,643)
	<u>₩ (106,417)</u>	<u>₩ (65,435)</u>	<u>\$ (88,651)</u>	<u>\$ (54,511)</u>

(1) Treasury stock

The Company has shares held as treasury stock consisting of 1,005,570 common shares and 3,167,300 preferred shares with a carrying value of ₩73,036 million (\$60,843 thousand) as of December 31, 2002, and 992,155 common shares and 3,168,600 preferred shares with a carrying value of ₩71,786 million (\$59,802 thousand) as of December 31, 2001, acquired directly or indirectly through the Treasury Stock Funds and Trust Cash Funds. In addition, the Company's shares of subsidiaries' stocks held by themselves, amounting to ₩13,478 million (\$11,228 thousand) and ₩7,862 million (\$6,549 thousand) as of December 31, 2002 and 2001, 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 share of these discounts amounting to ₩374 million (\$312 thousand) and ₩621 million (\$517 thousand) is accounted for as a debit to capital adjustments as of December 31, 2002 and 2001, respectively.

(3) Gain on valuation of investment equity securities

The Company recorded a gain from valuation of marketable investment equity securities and investments on affiliates, which were accounted for using the equity method (see Note 4), and the Company's share of the gain on valuation of investment equity securities reported in accounts of its subsidiaries in capital adjustments as gain on valuation of investment equity securities within shareholders' equity. The Company recorded gains of ₩14,889 million (\$12,403 thousand) and ₩22,775 million (\$18,973 thousand) in 2002 and 2001, respectively.

(4) Stock option cost

The Company granted stock options to 104 directors (grant date: March 10, 2000, beginning date for exercise: March 10, 2003, expiry date for exercise: March 9, 2008), at an exercise price of ₩14,900 (\$12.41) as determined during the meeting of the shareholders on March 10, 2000. These stock options require at least two-year continued service for exercise. If all of the stock options as of December 31, 2002 and 2001 are exercised, 1,340,000 and 1,470,000 new shares or shares held as treasury stock, respectively, will be granted according to the decision of the Board of Directors.

The Company calculates the total compensation expense using an option-pricing model. In the model, the risk-free rate of 9.04 percent, an expected exercise period of 5.5 years and an expected variation rate of stock price of 71.1 percent are used. Total compensation expense amounting to ₩12,291 million (\$10,239 thousand) and ₩12,208 million (\$10,170 thousand) in 2002 and 2001, respectively, has been accounted for as a charge to current operations and a credit to capital adjustment over the required period of service (two years) from the grant date using the straight-line method.

In addition, Kia, a domestic subsidiary, granted stock options to 62 directors (grant date: March 17, 2000, beginning date for exercise date: March 17, 2003, expiry date for exercise : March 18, 2008), at an exercise price of ₩5,500 (\$4.58) as determined during the meeting of the shareholders on March 17, 2000. If all of the stock options, which require at least two-year continued service, are exercised, 950,000 new shares or shares held as treasury stock will be granted in accordance with the decision of the Board of Directors. The Company calculates the total compensation expense using an option-pricing model. In the model, the risk-free rate of 10.0 percent, an expected exercise period of 5.5 years and an expected variation rate of stock price of 83.9 percent are used. Total compensation expense amounts to ₩3,735 million (\$3,111 thousand) and to be accounted for as a charge to current operations and a credit to capital adjustment over the required period of service from the grant date using the straight-line method.

(5) Cumulative translation adjustments

Cumulative translation debits of ₩70,923 million (\$59,083 thousand) and ₩5,251 million (\$4,374 thousand) as of December 31, 2002 and 2001, respectively, which result from the translation of financial statements of overseas subsidiaries and two branches located in the United States, is included in capital adjustments on the basis set forth in Note 2.

(6) 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 gain of ₩22,900 million (\$19,077 thousand) and a loss of ₩16,377 million (\$13,643 thousand) as of December 31, 2002 and 2001, respectively.

15. Pledged Assets, Checks and Notes

As of December 31, 2002, 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 ₩3,565 billion (\$2,970 million).

- (2) The Company's and its domestic subsidiaries' cash and cash equivalents of ₩33,405 million (\$27,828 thousand), financial instruments of ₩143,889 million (\$119,868 thousand), marketable securities and investment securities (see Note 4) 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) 130 blank checks, 275 blank promissory notes, 3 checks amounting to ₩6,742 million (\$5,616 thousand) and 6 promissory notes amounting to ₩7,478 million (\$6,230 thousand) are pledged as collateral to financial institutions and others.

16. Selling and administrative expenses

Selling and administrative expenses are as follows:

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Salaries	₩ 1,636,321	₩ 1,406,531	\$ 1,363,146	\$ 1,171,719
Export related expenses	839,878	763,607	699,665	636,127
Sales promotion	2,159,849	1,862,237	1,799,275	1,551,347
Sales commission	405,419	363,607	337,737	302,905
Sales warranties	2,211,522	1,357,028	1,842,321	1,130,480
Taxes and dues	47,906	43,579	39,909	36,304
Communications	57,040	56,279	47,517	46,884
Utilities	41,350	38,364	34,447	31,959
Freight and warehousing	159,823	133,248	133,141	111,003
Rent	48,136	57,685	40,100	48,055
Travel	107,469	99,204	89,528	82,643
Service charges	345,069	281,814	287,462	234,767
Supplies	76,684	65,810	63,882	54,823
Research	313,865	108,006	261,467	89,975
Depreciation	180,301	201,389	150,201	167,768
Amortization	78,139	68,530	65,094	57,089
Provision for bad debt	598,448	452,755	498,540	377,170
Other	222,037	66,457	184,969	55,362
	<u>₩ 9,529,256</u>	<u>₩ 7,426,130</u>	<u>\$ 7,938,401</u>	<u>\$ 6,186,380</u>

17. Extraordinary Gain on Income Tax Benefits

In 1999, Kia, one of the Company's subsidiaries, and its transferor company, formerly Asia Motors, asked the Korean tax authorities to reassess the accumulated tax loss carryforward totaling ₩4,573,584 million (\$3,810,050 thousand) for the loss on prior period error corrections that is attributable to events occurring from 1991 to 1997 and charged to the operations in 1998. However, the tax authorities refused to reassess the tax loss carry forward and, instead, imposed on May 1, 2000, a corporate tax assessment of ₩380,668 million (\$317,118 thousand) pertaining to taxable year 1998. Kia appealed the dismissal of its request for reassessment and the imposition of corporate tax by the tax authorities and brought the case to the National Tax Tribunal. On January 31, 2001, the National Tax Tribunal accepted the Kia's assertion and issued its decision for the reassessment of Kia's prior years' taxable income. Pursuant to the decision of the National Tax Tribunal, the tax authorities reassessed Kia's tax loss carry forward and determined the deductible amount for tax loss carry forward as ₩640,589 million (\$533,646 thousand) as of January 1, 2001, after the utilization of ₩98,093 million (\$81,717 thousand) of tax loss carryforward during 2000. In prior years, the future tax benefits from the tax loss carryforward were not recorded by Kia as deferred income tax assets pending the outcome of the tax litigation. Accordingly, in 2001, Kia recognized the tax benefits from the reassessed tax loss carryforward as an extraordinary gain in the amount of ₩197,301 million (\$164,363 thousand). Additionally, in 2001, as a result of the determination of the deductible amount for tax loss carryforward, the asset revaluation tax amounting to ₩22,044 million (\$18,364 thousand) out of ₩34,256 million (\$28,537 thousand) paid and recorded as other receivables in 2000 with respect to the asset revaluation in 1999 was refunded to Kia.

18. Income Tax Expense and Deferred Income Tax Debits (Credits)

Income tax expense in 2002 and 2001 consists of the following:

Description	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2002	2001	2002	2001
Income tax currently payable	₩1,023,118	₩ 604,744	\$ 852,314	\$ 503,785
Changes in deferred income taxes due to:				
Temporary differences	(178,981)	(162,229)	(149,101)	(135,146)
Tax loss carried forward	95,899	138,866	79,889	115,683
Tax credit carried over	(6,159)	(8,881)	(5,131)	(7,398)
Deduction of capital surplus and retained earnings	(480)	96,499	(400)	80,389
Excess of limitation on donation to designated organization, others	607	(607)	506	(506)
Changes in temporary differences due to consolidating adjustments	(68,901)	47,036	(57,398)	39,184
Changes in retained earnings due to consolidation adjustments	(20,759)	(44,264)	(17,293)	(36,874)
	(178,774)	66,420	(148,928)	55,332
Income tax expense	₩ 844,344	₩ 671,164	\$ 703,386	\$ 559,117

In 2002, the changes in accumulated temporary difference due to consolidation adjustments are as follows:

Description	Korean won (in millions)			U.S. dollars (Note 2) (in thousand)
	Beginning Of the year	Changes	End of the year	End Of the year
Elimination of unrealized profits and losses	₩ 248,562	₩ 40,438	₩ 289,000	\$ 240,753
Reversal of accrued product liabilities	(66,700)	(29,468)	(96,168)	(80,113)
Gain on valuation of investments (equity method)	(63,135)	111,576	48,441	40,354
Others	(13,559)	109,444	95,885	79,877
	105,168	231,990	337,158	280,871
Tax rate (%)	29.7%	29.7%	29.7%	29.7%
	₩ 31,235	₩ 68,901	₩ 100,136	\$ 83,419

In 2001, the changes in accumulated temporary difference due to consolidation adjustments are as follows:

Description	Korean won (in millions)			U.S. dollars (Note 2) (in thousand)
	Beginning Of the year	Changes	End of the year	End of the year
Elimination of unrealized profits and losses	₩ 140,837	₩ 107,725	₩ 248,562	\$ 207,066
Reversal of accrued product liabilities	(54,569)	(12,131)	(66,700)	(55,565)
Gain on valuation of investments (equity method)	182,526	(245,661)	(63,135)	(52,595)
Others	(14,666)	1,107	(13,559)	(11,295)
	254,128	(148,960)	105,168	87,611
Tax rate (%)	30.8%		29.7%	29.7%
	₩ 78,271	₩ (47,036)	₩ 31,235	\$ 26,020

Deferred income taxes as of December 31, 2002 are computed as follows:

Description	Debits		Credits	
	Korean won (in millions)	U.S. dollars (in thousands)	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
Accounts of the Company	₩ 365,120	\$ 304,165	₩ -	\$ -
Accounts of subsidiaries	684,204	569,980	78,371	65,288
	1,049,324	874,145	78,371	65,288
Changes due to consolidating adjustments	317,313	264,340	45,924	38,257
Deferred income taxes	₩1,366,637	\$ 1,138,485	₩ 124,295	\$ 103,545

Deferred income taxes as of December 31, 2001 are computed as follows:

Description	Debits		Credits	
	Korean won (in millions)	U.S. dollars (in thousands)	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
Accounts of the Company	₩ 241,570	\$ 201,241	₩ -	\$ -
Accounts of subsidiaries	854,793	712,090	78,437	65,342
	1,096,363	913,331	78,437	65,342
Changes due to consolidating adjustments	37,689	31,397	6,454	5,377
Deferred income taxes	₩1,134,052	\$ 944,728	₩ 84,891	\$ 70,719

19. Dividends

The proposed dividends for 2002 is 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	\$ 154,424
Preferred shares, net of treasury shares:				
First and Third	24,492,541	18%	22,043	18,363
Second	37,542,305	19%	35,665	29,711
			₩ 243,079	\$ 202,498

The proposed dividends for 2001 was computed as follows:

	<u>Number of shares</u>	<u>Dividend rate</u>	<u>Korean won (in millions)</u>	<u>U.S. dollars (Note 2) (in thousands)</u>
Common shares, net of treasury shares	218,187,967	15%	₩ 163,641	\$ 136,322
Preferred shares, net of treasury shares:				
First and Third	24,492,541	16%	19,594	16,323
Second	37,541,005	17%	<u>31,910</u>	<u>26,583</u>
			<u>₩ 215,145</u>	<u>\$ 179,228</u>

The proposed dividends for 2002 and 2001 were approved by shareholders' meeting being held on March 14, 2003 and March 15, 2002, respectively.

20. 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, 2002 are as follows:

	<u>Korean won (in millions)</u>		<u>U.S. dollars (Note 2) (in thousands)</u>	
	<u>Inventories</u>	<u>Property, Plant and Equipment</u>	<u>Inventories</u>	<u>Property, Plant and Equipment</u>
Upstream sales	₩ 3,152	₩ 1,042	\$ 2,626	\$ 868
Downstream sales	280,045	-	233,293	-
Downstream sales between consolidated subsidiaries	230,651	-	192,145	-

Unrealized profits related to sales of inventories and property, plant and equipment as of December 31, 2001 are as follows:

	<u>Korean won (in millions)</u>		<u>U.S. dollars (Note 2) (in thousands)</u>	
	<u>Inventories</u>	<u>Property, Plant and Equipment</u>	<u>Inventories</u>	<u>Property, Plant and Equipment</u>
Upstream sales	₩ 3,747	₩ 1,057	\$ 3,121	\$ 881
Downstream sales	244,815	990	203,945	825
Downstream sales between consolidated subsidiaries	319,570	-	266,220	-

21. Intercompany Transactions

Significant transactions in 2002 and 2001 between the Company and consolidated subsidiaries are as follows:

	Korean won (in millions)				U.S. dollars (Note 2) (in thousands)			
	2002		2001		2002		2001	
	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.	₩ 18,167	₩ -	₩ 54,576	₩ -	\$ 15,134	\$ -	\$ 45,465	\$ -
KEFICO Corporation	19,058	297,864	12,776	260,587	15,876	248,137	10,643	217,083
Hyundai Powertech	15,198	86,734	-	-	12,661	72,254	-	-
Hyundai Dymos (formerly Korea Drive Train System)	101,271	297,940	71,214	222,603	84,364	248,201	59,325	185,441
Kia Motors Corporation	870,662	443,576	809,373	457,928	725,310	369,523	674,253	381,480
Hyundai HYSCO	4,636	189,809	3,608	219,062	3,862	158,121	3,006	182,491
Hyundai Motor America	6,652,505	-	5,401,377	-	5,541,907	-	4,499,648	-
Hyundai America Technical Center Inc.	-	13,937	-	18,988	-	11,610	-	15,818
Hyundai Motor India	173,748	-	113,161	24,323	144,742	-	94,269	20,262
Hyundai Motor Japan Co.	33,182	-	17,927	-	27,642	-	14,934	-
Hyundai Motor Poland Sp. Zo. O	65,652	-	32,428	-	54,692	-	27,014	-
Hyundai Machine Tool Europe GmbH	15,053	-	18,806	-	12,540	-	15,666	-
HAOSVT	124,339	-	22,746	595	103,581	-	18,949	496

Significant transactions in 2002 and 2001 between the consolidated subsidiaries are as follows:

Subsidiaries	Counterpart subsidiaries	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
		2002	2001	2002	2001
		Hyundai Capital Service Inc.	Kia Motors Corporation	₩ 6,485	₩ 17,654
Autoever Co.,Ltd	Kia Motors Corporation	19,442	10,501	16,196	8,748
KEFICO Corporation	Kia Motors Corporation	49,113	42,146	40,914	35,110
Hyundai Dymos (formerly Korea Drive Train System)	Kia Motors Corporation	9,918	9,332	8,262	7,774
Kia Motors Corporation	Wia Corporation	99,123	80,621	82,575	67,162
Kia Motors Corporation	KIA Motors Deutschland GmbH	357,430	173,658	297,759	144,667
Kia Motors Corporation	KIA Canada, Inc	283,940	276,689	236,538	230,497
Kia Motors Corporation	Hyundai Powertech	10,018	16,025	8,346	13,350
Kia Motors Corporation	KIA Motors America Inc. and etc.	3,060,285	3,076,082	2,549,388	2,562,547
Wia Corporation	Kia Motors Corporation	403,914	347,041	336,483	289,104
WISCO	Kia Motors Corporation	13,732	15,413	11,440	12,840
WISCO	WIA Corporation	21,166	15,708	17,632	13,086
Hyundai Powertech	Kia Motors Corporation	150,031	40,229	124,984	33,513
Hyundai HYSCO	Hyundai Motor India	-	6,674	-	5,600
Hyundai HYSCO	Kia Motors Corporation	83,417	94,986	69,491	79,129
Hyundai Motor India	Kia Motors Corporation	22,895	-	19,073	-

As of December 31, 2002 and 2001, 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)			
	2002		2001		2002		2001	
	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.	₩ 572	₩ 7,023	₩ 886	₩ 3,643	\$ 477	\$ 5,851	\$ 738	\$ 3,035
ROTEM	251	14,784	-	5,198	209	12,316	-	4,330
KEFICO Corporation	471	41,196	1,690	34,402	392	34,319	1,408	28,659
Hyundai Dymos (formerly Korea Drive Train System)	2,080	57,828	2,456	7,767	1,733	48,174	2,046	6,470
Hyundai Powertech	6,907	30,242	6,876	29,646	5,754	25,913	5,728	24,697
WIA Corporation	51,135	13,858	37,169	-	42,598	11,544	30,964	-
Kia Motors Corporation	124,266	106,006	77,476	97,268	103,520	88,309	64,542	81,030
Autoever Co., Ltd	31	26,001	214	23,475	26	21,660	178	19,556
Hyundai HYSCO	129	40,466	5	64,427	107	33,710	4	53,671
Hyundai Motor America	1,413,608	23,253	81,882	63,363	1,177,614	19,371	68,212	52,785
Hyundai Motor India	6,586	-	7,041	-	5,487	-	5,866	-
Hyundai Translead	-	-	-	39,265	-	-	-	32,710
Hyundai Motor Japan Co.	32,292	-	12,509	-	26,901	-	10,421	-
Hyundai Motor Poland Sp. Zo. O	10,037	168	13,567	-	8,361	140	11,302	-
HAOSVT	66,460	10	46,578	-	55,365	8	38,802	-

As of December 31, 2002 and 2001, 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)	
		2002	2001	2002	2001
Kia Motors Corporation	WIA Corporation	₩ 11,593	₩ -	\$ 9,658	\$ -
Kia Motors Corporation	Hyundai Powertech	-	119,927	-	99,906
Kia Motors Corporation	Kia Motors America Inc. and etc.	636,022	1,116,256	529,842	929,903
Kia Motors Corporation	KIA Canada, Inc	100,956	104,021	84,102	86,655
Kia Motors Corporation	Kia Motors Deutschland GmbH.	211,704	166,049	176,361	138,328
KEFICO Corporation	Kia Motors Corporation	7,606	10,077	6,336	8,395
Hyundai Dymos (formerly Korea Drive Train System)	Kia Motors Corporation	2,413	3,042	2,010	2,534
Hyundai Capital Service Inc.	Hyundai Powertech	16,047	-	13,368	-
Wia Corporation	Kia Motors Corporation	93,340	-	77,757	-
Hyundai Powertech	Kia Motors Corporation	26,902	27,128	22,411	22,599
Hyundai HYSCO	Kia Motors Corporation	16,788	18,929	13,985	15,769
Hyundai Translead(HT, formerly Hyundai Preci- Sion America Inc.)	HAOSVT	30,245	-	25,196	-
Hyundai Motor Finance Company	HAOSVT	-	10,609	-	8,838

22. Related Party Transactions

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</u> <u>(in millions)</u>		<u>U.S. dollars (Note 2)</u> <u>(in thousands)</u>	
		<u>Sales, Revenues</u>	<u>Purchases, Expenses</u>	<u>Sales, Revenues</u>	<u>Purchases, Expenses</u>
Hyundai Motor Company	Hyundai Mobis	₩ 304,130	₩ 864,982	\$ 253,357	\$ 720,578
Kia Motors Corporation	Hyundai Mobis	861,712	1,101,049	717,854	917,235

In 2001, significant transactions with related parties other than the consolidated subsidiaries are as follows :

<u>Companies</u>	<u>Related Party</u>	<u>Korean won</u> <u>(in millions)</u>		<u>U.S. dollars (Note 2)</u> <u>(in thousands)</u>	
		<u>Sales, Revenues</u>	<u>Purchases, Expenses</u>	<u>Sales, Revenues</u>	<u>Purchases, Expenses</u>
Hyundai Motor Company	Hyundai Mobis	₩ 229,478	₩ 636,316	\$ 191,168	\$ 530,087
Kia Motors Corporation	Hyundai Mobis	97,792	159,367	81,466	132,762

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</u> <u>(in millions)</u>		<u>U.S. dollars (Note 2)</u> <u>(in thousands)</u>	
		<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
Hyundai Motor Company	Hyundai Mobis	₩ 26,497	₩ 96,838	\$ 22,073	\$ 80,671
Kia Motors Corporation	Hyundai Mobis	111,345	137,978	92,757	114,943

As of December 31, 2001, significant balances related to the transactions other than the consolidated subsidiaries are as follows:

<u>Companies</u>	<u>Related Party</u>	<u>Korean won</u> <u>(in millions)</u>		<u>U.S. dollars (Note 2)</u> <u>(in thousands)</u>	
		<u>Sales, Revenues</u>	<u>Purchases, Expenses</u>	<u>Sales, Revenues</u>	<u>Purchases, Expenses</u>
Hyundai Motor Company	Hyundai Mobis	₩ 9,366	₩ 109,228	\$ 7,802	\$ 90,993
Kia Motors Corporation	Hyundai Mobis	74,557	20,789	62,110	17,318

23. 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, 2002 as follows:

<u>Company providing guarantee of indebtedness</u>	<u>Company provided guarantee of indebtedness</u>	<u>Korean won</u> <u>(in millions)</u>	<u>U.S. dollars (Note 2)</u> <u>(in thousands)</u>
Hyundai Motor Company	Hyundai Merchant Marine	₩ 411,444	\$ 342,756
	Hyundai Motor Finance Company	204,068	170,000
	Hyundai Translead	176,459	147,000
	Hyundai Motor India	117,835	98,163
	HAOSVT	86,742	72,261
	Hyundai Motor Japan Co.	15,193	12,657
	Hyundai Motor Amerida	132,706	110,551
	Hyundai Motor Poland Sp.Zo.O	10,687	8,903
	Hyundai Motor Europe GmbH	56,581	47,135
	Other overseas	2,258	1,881
	Other domestic	2,401	2,000
		<u>₩ 1,216,374</u>	<u>\$ 1,013,307</u>

<u>Company providing guarantee of indebtedness</u>	<u>Company provided guarantee of indebtedness</u>	<u>Korean won (in millions)</u>	<u>U.S. dollars (Note 2) (in thousands)</u>
Kia Motors Corporation	Kisan Corporation	2	2
Hyundai Dymos (formerly Korea Drive Train System)	Wia Corporation	112,003	93,305
WIA Corporation	Hyundai Dymos (formerly Korea Drive Train System)	7,831	6,524
Hyundai HYSCO	Hyundai Pipe of America, Inc. Hyundai-Huy Hoang Pipe Company Limited	6,002	5,000
		<u>1,751</u>	<u>1,459</u>
		<u>₩ 7,753</u>	<u>₩ 6,459</u>

- (2) As of December 31, 2002, the outstanding balance of accounts receivable discounted with recourse and transferred by the Company and its consolidated subsidiaries amounts to ~~₩~~38,051 million (\$31,699 thousand) except for short-term borrowings of ~~₩~~2,479,563 million (\$2,065,614 thousand) resulting from elimination of significant balances related to the transactions between the consolidated subsidiaries.
- (3) The Company and its consolidated subsidiaries have used a customer financing system related to a long-term installment sales system and have provided guarantees to related banks amounting to ~~₩~~375,891 million (\$313,138 thousand) as of December 31, 2002. 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 6) 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, 2002 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 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, in Brazilian court. 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 (\$11,710 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.

24. Segment Information

(1) Consolidated financial statements by industry

The consolidated balance sheets as of December 31, 2002 and 2001, 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, 2002

	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:	₩ 14,445,860	₩ 665,305	\$ 12,034,205	\$ 554,236
Non-current assets:				
Investments, net of unamortized present value discount	3,439,440	1,352,270	2,865,245	1,126,516
Property, plant and equipment, net of accumulated depreciation	16,636,969	108,269	13,859,521	90,194
Intangibles, net of amortization	1,670,883	5,849	1,391,939	4,873
Other financial business assets	-	8,386,928	-	6,986,778
Total non-current assets	<u>21,747,292</u>	<u>9,853,316</u>	<u>18,116,705</u>	<u>8,208,361</u>
Total assets	<u>₩ 36,193,152</u>	<u>₩ 10,518,621</u>	<u>\$ 30,150,910</u>	<u>\$ 8,762,597</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
Current liabilities	₩ 14,719,420	₩ 6,140,458	\$ 12,262,096	\$ 5,115,344
Non-current liabilities	8,211,003	3,566,741	6,840,222	2,971,293
Other financial business liabilities	-	12,732	-	10,607
Total liabilities	<u>22,930,423</u>	<u>9,719,931</u>	<u>19,102,318</u>	<u>8,097,244</u>
Shareholders' equity:				
Capital stock	1,475,312	476,182	1,229,017	396,686
Capital surplus	5,287,270	43,721	4,404,590	36,422
Retained earnings	3,561,797	286,405	2,967,176	238,591
Capital adjustments	(81,940)	(7,618)	(68,261)	(6,346)
Minority interests	<u>3,020,290</u>	<u>-</u>	<u>2,516,070</u>	<u>-</u>
Total shareholders' equity	<u>13,262,729</u>	<u>798,690</u>	<u>11,048,592</u>	<u>665,353</u>
Total liabilities and shareholders' equity	<u>₩ 36,193,152</u>	<u>₩ 10,518,621</u>	<u>\$ 30,150,910</u>	<u>\$ 8,762,597</u>

Consolidated Balance Sheet As Of December 31, 2001

	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:	₩ 11,357,794	₩ 771,925	\$ 9,461,674	\$ 643,056
Non-current assets:				
Investments, net of unamortized present value discount	3,491,920	922,684	2,908,964	768,647
Property, plant and equipment, net of accumulated depreciation	16,802,095	104,392	13,997,080	86,964
Intangibles, net of amortization	2,145,994	3,777	1,787,732	3,146
Other financial business assets	-	5,073,975	-	4,226,904
 Total non-current assets	<u>22,440,009</u>	<u>6,104,828</u>	<u>18,693,776</u>	<u>5,085,661</u>
 Total assets	<u>₩ 33,797,803</u>	<u>₩ 6,876,753</u>	<u>\$ 28,155,450</u>	<u>\$ 5,728,717</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
Current liabilities	₩ 13,479,051	₩ 4,438,112	\$ 11,228,799	\$ 3,697,194
Other long-term liabilities	<u>8,954,165</u>	<u>1,834,985</u>	<u>7,459,318</u>	<u>1,528,645</u>
 Total liabilities	<u>22,433,216</u>	<u>6,273,097</u>	<u>18,688,117</u>	<u>5,225,839</u>
Shareholders' equity:				
Capital stock	1,476,454	399,458	1,229,968	332,771
Capital surplus	5,339,484	33,152	4,448,087	27,618
Retained earnings	2,193,068	158,691	1,826,948	132,198
Capital adjustments	(95,031)	12,355	(79,166)	10,292
Minority interests	<u>2,450,612</u>	<u>-</u>	<u>2,041,496</u>	<u>-</u>
 Total shareholders' equity	<u>11,364,587</u>	<u>603,656</u>	<u>9,467,333</u>	<u>502,879</u>
 Total liabilities and shareholders' equity	<u>₩ 33,797,803</u>	<u>₩ 6,876,753</u>	<u>\$ 28,155,450</u>	<u>\$ 5,728,718</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	\$ 38,705,135	\$ 1,398,392
Cost of sales	34,937,000	1,089,731	29,104,465	907,807
Selling and administrative expenses	<u>8,605,494</u>	<u>380,996</u>	<u>7,168,855</u>	<u>317,391</u>
Operating income	2,919,151	207,902	2,431,815	173,194
Other expenses, net	<u>284,157</u>	<u>20,784</u>	<u>236,719</u>	<u>17,314</u>
Ordinary income	2,634,994	187,118	2,195,096	155,880
Extraordinary items, net	-	-	-	-
Income before income tax	2,634,994	187,118	2,195,096	155,880
Income tax expense	<u>796,065</u>	<u>57,413</u>	<u>663,166</u>	<u>47,828</u>
Income before minority interests	1,838,929	129,705	1,531,930	108,052
Minority interests	<u>456,792</u>	-	<u>380,533</u>	-
Net income	<u>₩ 1,382,137</u>	<u>₩ 129,705</u>	<u>\$ 1,151,397</u>	<u>\$ 108,052</u>

Consolidated Statement of Income for the Year Ended December 31, 2001

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Non-financial industry	Financial industry	Non-financial industry	Financial industry
Sales	₩ 38,966,732	₩ 913,170	\$ 32,461,456	\$ 760,721
Cost of sales	29,037,671	288,551	24,189,995	240,379
Selling and administrative expenses	<u>7,051,424</u>	<u>430,660</u>	<u>5,874,229</u>	<u>358,763</u>
Operating income	2,877,637	193,959	2,397,232	161,579
Other expenses, net	<u>1,058,709</u>	<u>59,709</u>	<u>881,964</u>	<u>49,741</u>
Ordinary income	1,818,928	134,250	1,515,268	111,838
Extraordinary items, net	<u>190,650</u>	-	<u>158,822</u>	-
Income before income tax	2,009,578	134,250	1,674,090	111,838
Income tax expense	<u>635,451</u>	<u>43,588</u>	<u>529,366</u>	<u>36,311</u>
Income before minority interests	1,374,127	90,662	1,144,724	75,527
Minority interests	<u>260,940</u>	-	<u>217,378</u>	-
Net income	<u>₩ 1,113,187</u>	<u>₩ 90,662</u>	<u>\$ 927,346</u>	<u>\$ 75,527</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 2002 are located, are as follows:

	Korean won (in millions)				Consolidation adjustment	Consolidated amounts
	Domestic	North America	Asia	Europe		
Total sales	₩ 48,656,587	₩ 8,786,610	₩ 846,618	₩ 888,230	₩(11,055,126)	₩ 48,122,919
Intercompany sales	(10,367,452)	(663,818)	(23,856)	-	11,056,126	-
Net sales	₩ 38,289,135	₩ 8,122,792	₩ 822,762	₩ 888,230	₩ -	₩ 48,122,919
Operating income	₩ 2,789,221	₩ 261,068	₩ 34,612	₩ 7,647	₩ 35,887	₩ 3,128,435
Total assets	₩ 46,663,159	₩ 3,556,458	₩ 609,081	₩ 366,032	₩ (5,069,042)	₩ 46,125,688

Results of operations, by region where the Company and its subsidiaries in 2001 are located, are as follows:

	Korean won (in millions)				Consolidation adjustment	Consolidated amounts
	Domestic	North America	Asia	Europe		
Total sales	₩ 39,258,617	₩ 7,241,581	₩ 1,030,909	₩ 100,587	₩ (7,780,119)	₩ 39,851,575
Intercompany sales	(7,740,826)	(14,970)	(24,323)	-	7,780,119	-
Net sales	₩ 31,517,791	₩ 7,226,611	₩ 1,006,586	₩ 100,587	₩ -	₩ 39,851,575
Operating income	₩ 2,840,267	₩ 270,576	₩ 24,742	₩ 856	₩ (18,326)	₩ 3,118,115
Total assets	₩ 40,182,546	₩ 2,993,154	₩ 810,640	₩ 49,707	₩ (4,163,751)	₩ 39,872,296

25. Merger and Sales of Business Division between Subsidiaries

- (1) As of December 1, 2002, Hyundai Dymos (formerly Korea Drive Train System) merged Korea Precision Co., Ltd. with assets ₩91,844 million (\$76,511 thousand) and liabilities of ₩82,063 million (\$68,363 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 (\$245,317 thousand) and ₩187,138 million (\$155,896 thousand), respectively, from Hyundai MOBIS. This acquisition resulted in negative goodwill of ₩5,000 million (\$4,165 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.

26. Disposal of Receivables in Financial Subsidiaries

Hyundai Capital Service Inc. 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 ₩5,358,818 million (\$4,464,194 thousand) and of ₩3,872,280 million (\$3,225,825 thousand) in 2002 and 2001, respectively, with a resultant gain of ₩4,927 million (\$4,104 thousand) and nil in 2002 and 2001, respectively. The gain on disposal of finance receivables assets were accounted for as operating income and included in sales in the consolidated financial statements.

27. Termination of the Compositions for Subsidiaries

In 2002, the compositions for WIA Corporation and WISCO were 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 ₩287,596 million (\$239,583 thousand) and recorded gain on redemption of ₩44,027 million (\$36,677 thousand) and loss on redemption of ₩630 million (\$525 thousand).

28. The Stock Retirement of Kia

During the shareholders' meeting on November 4, 2000, the shareholders of Kia approved the retirement by December 31, 2002 of 80 million shares, or 17.8 percent of total common stock issued as of December 31, 2001 in accordance with the provisions of the Korean Commercial Code and the stock retirement of 80 million shares was executed by the consensus in 2001. This stock retirement resulted in the increase of the Company's and its subsidiaries' ownership. Due to this increase of ownership in 2001, the Company and its subsidiaries' additional share to Kia amounting to ₩68,732 million (\$57,258 thousand) is accounted for as capital surplus.

29. Significant Event after Balance Sheet Date

- (1) The Company is scheduled to split its Commercial Vehicle division by May 2003 and establish a joint venture for commercial vehicle business in accordance with the agreement with Daimler Chrysler Aktiengesellschaft. The procedures to split the division are in progress at the date of independent public accountants' report.
- (2) Hyundai Capital Service Inc. is scheduled to dispose their financial receivables amounting to ₩578,854 million (\$482,218 thousand) to special purpose companies in 2003. On January 3, 2003, Hyundai Capital Service Inc. acquired additional shares (17 percent) of First CRV at the cost of ₩64,424 million (\$53,669 thousand).
- (3) During the shareholders' meeting on March 15, 2003, the shareholders of Hyundai HYSCO approved the purchase of treasury stock of ₩22,228 million (\$18,517 thousand) for the purpose of stock retirement.