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D A E W O O I N T E R N A T I O N A L

New beginnings, New challenges, New visions

Daewoo International is planting new visions for Korea as well as for itself on the lands and the seas of the world, in such diversified areas as trade, production, distribution and resource development.

With a fresh new start in 2008, Daewoo International is aiming for complete transparency and accelerated profitability to provide shareholders, clients and friends with maximum satisfaction.

We hope that all of you will continue to afford us your warm support as Daewoo International begins to soar on the wings of new beginning, new challenges and new vision.



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Results of 2003 & Goals for 2004

	(Unit : KRW Bil.)	
	2003	2004
Sales	4,130.7	4,297.3
Exports (US\$ MIL.)	2,628	2,902
Operating Income	78.0	83.5
Ordinary Income	50.5	47.1
Net Profits	54.5	35.5

With the performance of 4,130.7 trillion won in sales, 78 billion won in operating profit and 54.5 billion won in the current net profit in 2003, Daewoo International succeeded in writing off the accumulated deficit.

Interest coverage ratio, which exceeded 1.0 in 2002, improved further to 1.35 in 2003.

The company set the target in sales, operating profit and net profit at 4,297.3 trillion won, 83.5 billion won and 35.5 billion won respectively for 2004. In the meantime, a goal of 2.21 was fixed in interest coverage ratio for 2004.

Chronology

Aug. 26, 1999	Workout decided on the 12 affiliated companies of Daewoo group including Daewoo Corp.
Mar. 15, 2000	Signed M.O.U on corporate restructuring
Dec. 27, 2000	Spun-off of Daewoo Corp. into 3 separate companies Daewoo int'l Corp, Daewoo E&C Co.,LTD, Daewoo Corp.)
Nov. 15, 2002	Granted Preliminary Graduation of Workout.
Dec. 30, 2003	Completed the Work-Out program

Various Business Activities

Export & import, trading agent, mediation

Local agent for overseas companies

Issuance of vendor agreements

Real estate activities including investments, rentals, control, sales, and consulting & development and arcade operation affairs

Resource development at home and abroad, and sales thereof

Production and sale of textiles and garments

Production and sale of electric and electronic goods

Production and sale of leather goods

Production and sale of chemical products

Production and sale of agricultural products

Production and sale of general merchandise and toys

Production and sale of metal and steel products

Production and sale of general merchandise and other daily necessities

Production and sale of construction materials

Production and sale of ores and minerals

Production and sale of wire products

Information processing and education services, rental of information processing equipment

Land, sea and air transport, storage, distribution and retail/wholesale

Tourist hotels and condominiums, tourist facilities, tourist recreation facilities, public indoor swimming pools

Forestry, livestock, horticulture and agriculture

Toll road operations and parking facility management

Production of motor vehicles and components, sales and maintenance

Fishery, fish farming, processing and sales

Databases and publication thereof; technology research and services consignment

Oil refining, electricity and city gas, production and manufacture of petrochemical products

Oil shipment

Integrated leisure and special leisure business, amusement park operation

Software sales and education

Design, engineering, construction, supervision, maintenance and operation of industrial and other plants

Athletic facilities

Restaurants, export & import of food and beverage (including liquor), sales & mediation

Agent for composite environmental, traffic and scenery impact evaluations

Agent for establishing energy consumption plans and energy conservation specialization

Investments and operation of social infrastructure facilities

Gravel collection and sales thereof

Operation of facilities for the elderly and general medical care facilities

Nuclear power utilization

Business related to youth training programs

Movie theaters; movie production, import & export, distribution and other entertainment business; integrated cable business

Passenger car terminal business

Telecommunications services (phone, FAX, DATA exchange) and value-added telecommunication network operations

Manufacture and sale of telecommunications and broadcasting equipment (BETACAM VCR, Cameras, etc)

Development and maintenance of industrial zones

Construction and operation of department stores

Credit Card business

Foreign exchange transactions

Cultural education and operation of lecture facilities

Sales of telecommunications

Sales of watches, jewelry and other precious items

Internet trading

Domestic and overseas travel, airplane reservations and ticketing

Moving agent and home delivery business

Cultural events and lifestyle services

Internet broadcasting

Insurance agent

Sales of domestic and foreign books and music albums

Residential housing construction

Investments with foreign, local and corporate clients in all of the above

Auxiliary activities related to all of the above

www.daewoo.com

C E O G R E E T I N G S

My Respected Shareholders!

I regard it as a great honor to hold the general meeting of shareholders for the 4th term of Daewoo International Corporation in the presence of my respected shareholders.

Allow me, on behalf of all the officers and employees of our company, to express my sincere appreciation of the support and encouragement you gave the company last year.

As you know, we successfully graduated from the workout program on Dec. 30, 2003. Our success therein is attributable to the consistent encouragement and interest that shareholders and creditor financial institutions have afforded the company, despite unfavorable conditions at home and abroad.

I am also pleased to report that the company achieved sales of 4 trillion 130.7 billion won, and an operating income of 78 billion won in 2003 despite unfavorable global conditions such as the war in Iraq and the SARS virus. We also succeeded in reducing our 940% debt ratio at the time of division, to 213% as of the end of last year. With this improvement in our credit rating, Daewoo International is in a position to be admitted into the upper echelons of corporate Korea as a prestigious company with a sound financial status.

With the discovery of the large Myanmar A-1 gas field in January this year, we have secured a long-term earning model and consolidated our position as a leading developer of energy resources, so needed in a country suffering from shortages in natural resources. I believe this accomplishment will have a favorable influence on the price of our stocks.

My respect to shareholders

It is our task to maximize our corporate capabilities and value and take advantage of our rising momentum, so that Daewoo International evolves into a global GTC with unsurpassed levels of competitiveness.

In 2004, the first year of our second corporate reorganization, the company plans to implement the following policies as part of our efforts to maximize shareholders' value, and improve corporate management.

Firstly, the management of the company will focus on increasing shareholder and customer value.

On the basis of our profit-oriented management, periodic IR will be conducted to provide domestic and foreign institutional investors with fair and accurate operating information of the company. This, in turn, will expand our corporate value.

Secondly, our long-term development foundation and business competitiveness will be secured, and the company's core competencies will be strengthened.

The essentials for the company's long-term development will be established through the expansion of markets by each business division, and we will focus on consolidating our core competencies as a GTC, including our sound global network and trade know-how.

Finally, corporate transparency and ethics will be

underscored at all levels of corporate management, to improve the company's competitiveness through the enhancement of the Daewoo brand image. In addition, sharing will be encouraged as part of efforts to recompense the community and the nation for their support.

My respect to shareholders

All officers and employees of Daewoo International will do everything in their power to enlarge our marketing force, and expand into overseas markets in order to place Daewoo International as a top-ranking GTC this year. We believe that nothing less will adequately express our gratitude for the support and encouragement of our shareholders.

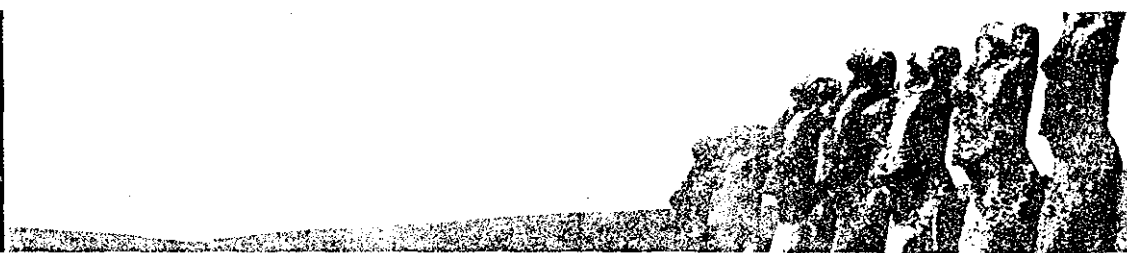
I appreciate your enduring encouragement of, and interest in, the company. All of the employees of Daewoo International are doing their best to see our company rank alongside the most outstanding of global businesses.

Thank you.

Mar. 19, 2004



President & CEO
Lee Tae-Yong



BOARD OF DIRECTORS

President & CEO

Lee Tae-Yong

President & CEO

Senior Executive Vice President

Hong Se-Hee
Kim Yong-Gil
Kang Young-Won

Domestic Business Group
Finance & Overseas Management
Commodity Business Group

Executive Vice President

Jhun Hong-Key
Jeon Byung-Woo
Kim Chang-Rae
Koo Ja-Il
Yim Dong-Ho
Lee Woo-Jin
Yoon Byoung-Eun
Rim Chae-Moon

Assistant to CEO
Assistant to CEO
Machinery & Plant Division
Assistant to CEO
Legal Division
Accounting Division
Corporate Restructuring Division
Commodity & Energy Division

Outside Director

Kang Pyung-Soo
Park Soo-Mook
Lee Chul-Song

Outside Director
Outside Director
Outside Director

Senior Vice President

Jeon Byeong Eal
Sung Ki-Dong
Lee Dan-Sung
Lee Deog-Kyu
Hwang Yang-Yeon
Seol Hong-Soo
Park Tae-Sung
Kim Hak-Soo
Woo Byung-Kypu
Lee Hyung-Ho

Textile Division
Finance Division
Media & Electronics Division
Special Business Division
Steel Division
Overseas Management Division
Metal Division I
Chemical Division
Metal Division II
Automotive & Component Division

Vice President

Kim Ik
Chang Won-Suk
Kim Hong-Ki
Woo Jeung-hwan
Yang Su-Yeong

Chasis & KD Development Team
Risk Management Team
Chemical Team III
Office of Auditing
Myanmar E&P Office

Business Activity

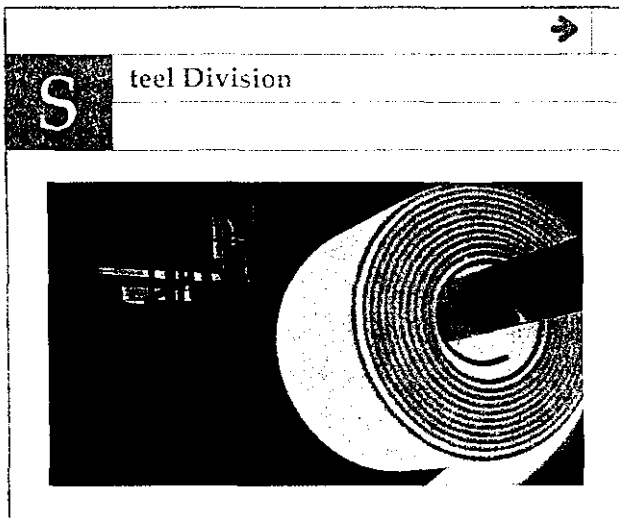
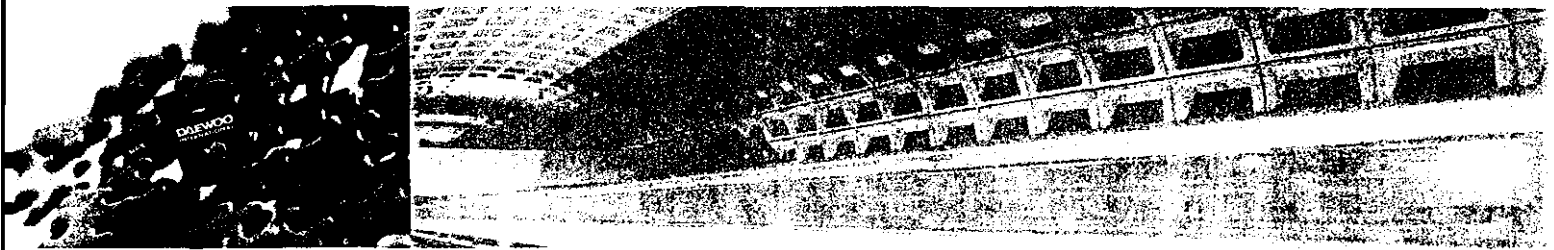


Division Activity

Overseas operations

Operation of Knowledge Management System

2003



A global steel trader who conducts the export of POSCO - the largest Korean steel maker with the only blast furnace facilities - products to world's leading steel manufacturers. Lined up with the most capable professionals for each product and region, the Steel Division's last year annual turnover was more than 600 million dollars and it is making a continuous growth through aggressive activities. With its focus on the high value-added industries such as automobile and auto-part manufacturing, the Steel Division is reinforcing its sales network for actual demands to seek higher returns while enlarging marketing activities for China and Southeast Asian countries.

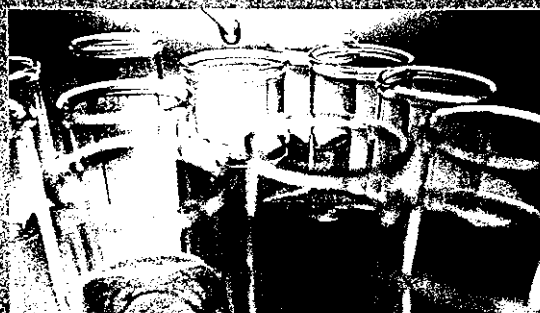


Responsible for the import, export and international marketing of steel and nonferrous metal products, making positive marketing activities for the entire suppliers and customers all over the world. In 2003, thanks to the overall increase of steel product price, its annual turnover reached 1.2 billion dollars (12% increased over last year). The Metal Division aims to become a world leader in steel and nonferrous metal products through worldwide sourcing and sales. 2004 target growth rate is more than 20%.

Division Activity

C

Chemical Division



Taking advantage of the well-established global network, the Chemical Division look to the synergy of product-line integration, from upstream aromatic to downstream precision chemicals, and the packaged supply of main raw materials, to enhance its competitiveness. This year's total sales volume is expected to be more than 300 billion Korean Won and the export volume is also estimated to exceed 5.5 billion US dollars, 6% increased over last year's figure. Especially for this year, the Division's targeting China, US and Japan markets with the strategic items of BTX, plastic resin, chemical fiber, tire materials, fertilizer and precision chemicals.

A

Automotive &

Component Division



Due to the overall stagnation of the US automobile market in 2003, the Division's sales recorded only 348.7 billion Korean Won, narrowly decreased over last year. However, as world major automobile manufacturers expand the sourcing of Korean made auto parts to uplift the competitiveness, the volume of OEM based new orders by itself recorded 360 million US dollars.

In 2004, backed by the consolidated quality management, the Division plans to visualize the objective of Global Top 20 by implementing the 3 management principles, building foundation for the long-term development, profitable management and fostering professionals. 2004 plan also includes the promotion of technology sales by positively reinforcing SQA functions and securing sales engineers as well as developing new business in the US, China, Japan and Europe markets by expanding the application of SCM. Ultimate goal of the Division is to consolidate its position as the world's leading auto parts manufacturer.

Division Activity

M

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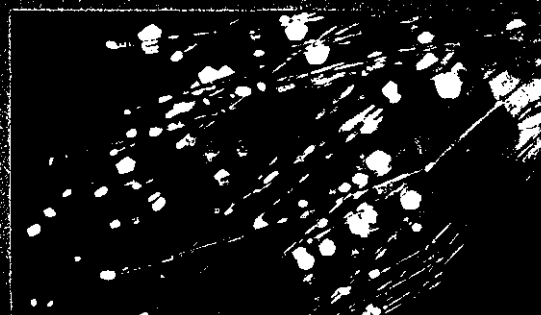
Electronics Division



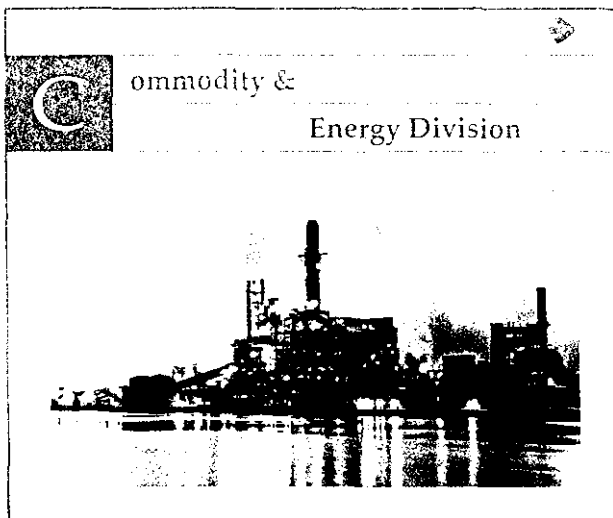
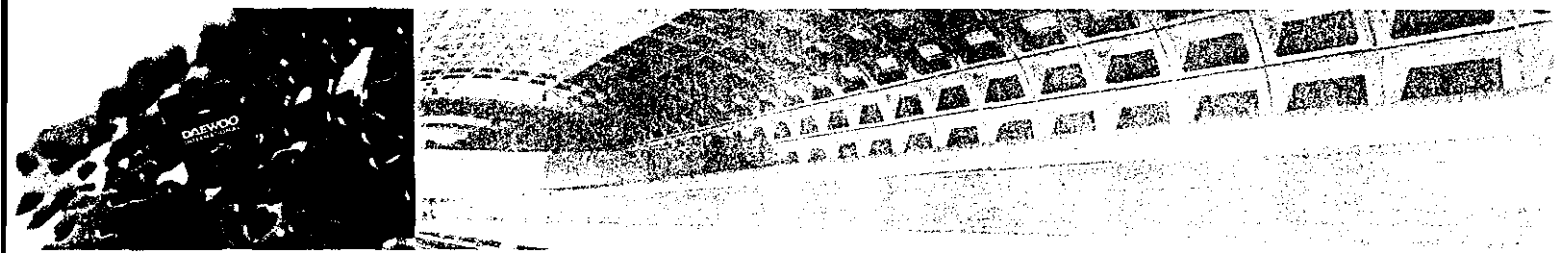
The Division deals with the home appliances and IT products such as DVD player, color TV, LCD TV, PDP, MP3 Player, vacuum cleaner, PC monitor, computer peripherals, communication equipments, WLL/mobile phone, HPW/Repeater, optical fiber, cable box, battery, set top box, cable modem and many others. The Division plans to achieve 2004 sales target of 400 billion Korean Won through expanding the sales of traditional main items and the development of new items and markets.

T

extile Division

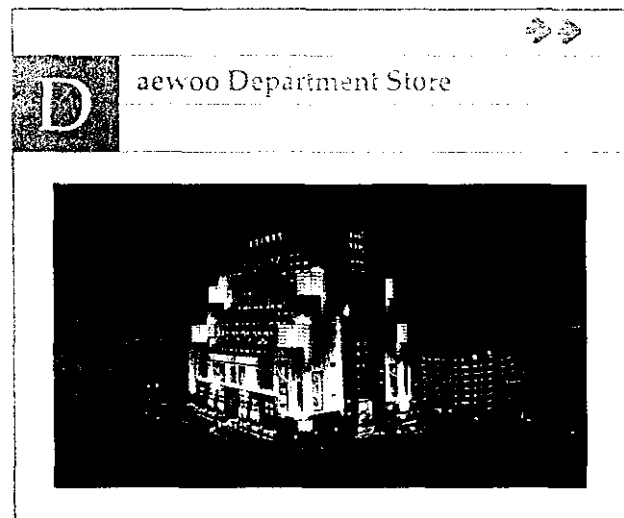


Holding the leading position in the nation's textile & light industry export, the Division deals with the entire textile related products from raw materials to finished goods. Closely associated with and backed up by the related sectors, the Division achieved the sales and gross profit of 213.6 billion and 29.5 billion Korean Won, respectively, in 2000. 2004 target figures are 324.2 and 27.2 billion Korean Won through aggressive overseas marketing and profit-oriented business by creating the synergy effect in between related products.



Commodity & Energy Division

In the rapidly changing business environment in 2003, the Division successfully completed the energy resource development projects in Peru and Oman while consolidating its leading position as an international trader of grain, raw cotton and petroleum products. The Division's sales reached 446.4 billion Korean Won with the 41.3 billion Korean Won gross profit. 2004 plan is focused on finding strategic market and enhancing risk management and efficiency with the target sales and gross profit of 487.7 billion and 56.5 billion Korean Won, respectively. The Division will verify the natural gas reserves in Myanmar A-1 gas field lot where the deposit had been confirmed by the drilling earlier. Neighboring A-3 gas field and M mine lot are also included in the Division's plan for the expansion of energy resources development.



Daewoo Department Store

While the nation's distribution industry suffer the overall stagnation due to continuing recession, Masan Daewoo Department Store also showed negative growth in sales. The store was seriously damaged from the last year's severe typhoon Mami, some of its facilities were sunk under water. However, the store is still the local people's favorite shopping place. Once drowned under water, the underground food store re-opened in May 2004, fully refurnished, and became the region's best place to check out where the shoppers can enjoy more convenient shopping. It is now preparing the 2nd big leap to become the region's best department store with the best shopping environment.

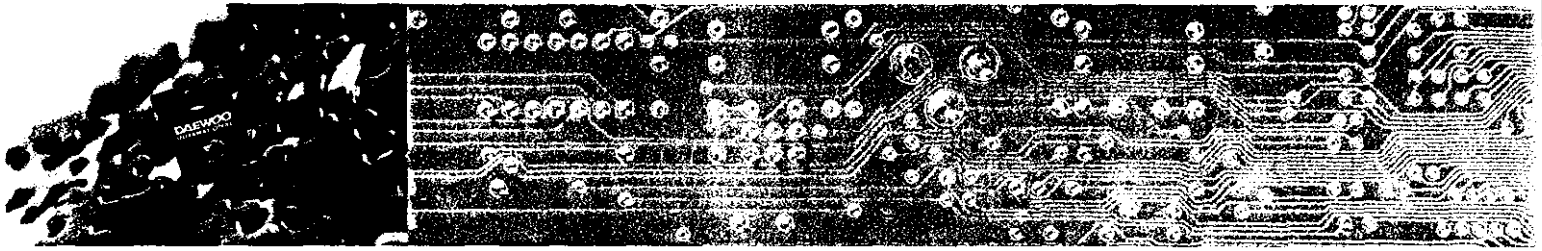
Division Activity

B

usan Factory



Busan Factory develops, produces and sells high quality new materials and eco-friendly materials with its unique technologies and development of textiles and artificial leather goods. The factory produces materials for footwear, garment industry and car seats that are well recognized in world market. First in Korean textile industry in 1999, the factory acquired the QS-9000 certificate. The factory also acquired the ISO 9001 certificate in 2001 and K-OHSMS 18001 certificate in 2002 and look to expand the export volume. Various efforts are being made to reinforce the competitiveness through continuous development in production technology and process/quality improvement. The factory implemented in February 2004 the ISO/TS 16949 system basic training for Seat & Electronics component division. Ready to move to the new facilities in Noksean, the Busan Factory has an object of enhancing efficient production and cost/personnel management for enlarging overseas markets and sales while restructuring its organization.



Overseas operations

With the 45 branches around the world, all which are specialized in Marketing and Sales and 9 trading corporations in the advanced countries, who are performing the composite trading services of local marketing, financing, and logistics etc., and also running 39 regionally invested independent corporations which are specialized in producing of the Cement, Paper, Textile goods, Plywood, and Medicines , etc., and the transportation servicing companies., and the numerous regional business strongholds which are run by the native agents in where we do not have our own post, we have the ability to perform any big scaled business around the world, timely and simultaneously.

Operation of Knowledge Management System

To attain the long term vision of becoming a "Global Leading Trading Company", relying on the global network which is the primary core strength, along with the abundant human resources of trading experts, Daewoo International is putting doubled effort to strengthen the Competing Power of Knowledge.

And also, setting the foundation of the operation system of the company on the "Knowledge Management", and making it act as the vehicle which can convey all the competing power and the resources of the company, the head office and the systematically meshed, vast global networks can share all the informations and the know-hows in real time, and with the firstly adopted among general trading companies in Korea of, the ERP system and the Intranet, and the Electronic type Internet phone(VoIP), and the Security system etc., our IT Infra for the Knowledge Management is kept reinforced and improved ceaselessly.

Financial Statements

Daewoo International Corporation has grown to become one of the world's
largest and most successful industrial enterprises



2003

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Daewoo International Corporation

We have audited the accompanying non-consolidated balance sheets of Daewoo International Corporation (the "Company") as of December 31, 2003 and 2002, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Daewoo International Corporation as of December 31, 2003 and 2002, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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

As discussed in Note 30, the Company and the creditor banks committee entered into a work-out agreement on March 15, 2000. Due to the improved operations and financial performance of the Company, the creditor banks committee decided to terminate the work-out agreement on December 30, 2003.

As discussed in Note 14 to the non-consolidated financial statements, Daewoo Corporation, Daewoo Engineering & Construction Co., Ltd. and the Company are jointly liable for Daewoo Corporation's outstanding liabilities prior to its split-off, payable to certain financial institutions, including overseas banks, which did not participate in the work-out agreement dated March 15, 2000. The Company has been named as a defendant in a number of claims related to Daewoo Corporation's split-off and continues to negotiate with some creditors, which did not participate in the work-out agreement regarding Daewoo Corporation's outstanding liabilities prior to the split-off. Therefore, the Company has established a reserve for contingencies based upon the amounts and the probabilities of the potential contingencies. The results of the lawsuits and negotiations may be different from the amount of reserve for contingencies on the non-consolidated financial statements.

As discussed in Note 13 and Note 25 to the non-consolidated financial statements, the Company's sales to, and purchases from, affiliated companies, such as Daewoo International America Corporation, amounted to ₩658,304 million and ₩119,258 million, respectively, for the year ended December 31, 2003. Related receivables and payables amounted to ₩205,707 million and ₩269,518 million, respectively, as of December 31, 2003. The Company's outstanding payment guarantees for affiliated companies, such as Daewoo Cement (Shandong) Co., Ltd., as of December 31, 2003, amounted to ₩166,877 million, and ₩82,240 million of assets are pledged as collateral for such guarantees.

As discussed in Note 25 of the non-consolidated financial statements, Daewoo Singapore Pte., Ltd. appointed a temporary liquidator and filed for liquidation in May 2003. The newly incorporated company Daewoo International Singapore Pte., Ltd. was incorporated in June 2003 and began operations on July 1, 2003.

As discussed in Note 2 to the financial statements, the Company has adopted Statement of Korean Financial Accounting Standards No. 6, and therefore the amounts included in the balance sheet show the financial position of the Company before the appropriation of retained earnings. As a result, the balance sheet of the prior period has been restated, resulting in an increase in capital surplus and a decrease in retained earnings, both amounting to ₩17,930 million.

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

The amounts expressed in U.S. Dollars are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the non-consolidated financial statements.

Samil Accounting Corporation

Seoul, Korea

February 6, 2004

This report is effective as of February 6, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

BALANCE SHEETS, Continued

December 31, 2003 and 2002

ASSETS	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Current assets				
Cash and cash equivalents (Note 20)	₩ 90,187	₩ 136,625	\$ 75,294	\$ 114,063
Short-term financial instruments (Notes 4 and 20)	38,051	105,258	31,767	87,876
Short-term investment securities (Note 7)	161	-	134	-
Trade accounts receivable, net (Notes 5, 20 and 25)	342,332	361,892	285,801	302,132
Other accounts receivable, net (Notes 5, 20 and 25)	37,513	14,733	31,318	12,300
Accrued income, net (Note 5)	305	1,426	255	1,191
Advance payments, net (Notes 5, 20 and 25)	41,881	24,140	34,965	20,154
Prepaid expenses (Note 5)	4,833	7,761	4,035	6,479
Short-term loans, net (Notes 5, 8 and 20)	396	392	331	327
Prepaid tax	-	1,435	-	1,198
Currency forwards (Note 14)	1,907	2,151	1,592	1,796
Commodity futures (Note 14)	2,422	1,795	2,022	1,499
Inventories (Note 6)	95,585	92,952	79,800	77,602
Total current assets	655,573	750,560	547,314	626,617
Long-term financial instruments (Note 4)	18	475	15	397
Long-term investment securities (Note 7)	25,661	36,053	21,423	30,099
Equity-method investments (Note 7)	493,159	479,503	411,721	400,320
Long-term accounts receivable, net (Note 5, 20 and 25)	51,095	46,545	42,657	38,859
Long-term other accounts receivable, net (Notes 5, 20 and 25)	11,928	9,294	9,958	7,759
Guarantee deposits (Note 20)	27,143	12,754	22,661	10,648
Natural resources exploration investment	12,190	11,281	10,177	9,418
Deferred income tax assets (Note 23)	79,313	53,909	66,216	45,007
Property, plant and equipment, net (Notes 9, 13 and 27)	251,401	259,281	209,886	216,464
Intangible assets (Notes 10 and 22)	29,170	31,622	24,353	26,400
TOTAL ASSETS	₩ 1,636,651	₩ 1,691,277	\$ 1,366,381	\$ 1,411,988

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

BALANCE SHEETS. Continued

December 31, 2003 and 2002

Liabilities and Shareholders' Equity	In Thousands of U.S. Dollars (Note 3)		In Japanese Yen (Note 4)	
	2003	2002	2003	2002
<i>Current liabilities</i>				
Trade accounts payable (Notes 14, 20 and 25)	¥ 320,461	¥ 384,410	\$ 267,541	\$ 320,930
Short-term borrowings (Notes 11 and 13)	8,096	25,733	6,759	21,484
Other accounts payable (Notes 14, 20 and 25)	59,285	38,793	49,495	32,387
Advances received (Note 25)	53,029	30,553	44,272	25,508
Withholdings	51,117	89,727	42,676	74,910
Accrued expenses (Note 20)	5,980	9,132	4,992	7,624
Current portion of long-term debts, net (Notes 11, 20 and 21)	75,839	23,974	63,315	20,015
Deferred revenue	17	24	14	20
Guarantee deposits received	51	8,123	43	6,782
Currency forwards (Note 14)	1,983	988	1,656	825
Commodity futures (Note 14)	31,217	1,053	26,062	879
Total current liabilities	607,075	612,510	506,825	511,364
Corporate bonds, net (Note 12)	23,900	23,587	19,954	19,692
Long-term debts, net (Notes 12, 13, 20 and 21)	381,447	464,860	318,456	388,095
Long-term other accounts payable, net	1,071	1,381	895	1,153
Long-term guarantee deposits received	7,483	7,793	6,247	6,506
Accrued severance benefits, net (Notes 4 and 16)	415	-	346	-
Reserve for contingencies (Note 14)	93,074	138,181	77,704	115,362
Total liabilities	¥ 1,114,455	¥ 1,248,312	\$ 930,417	\$ 1,042,172
Commitments and contingencies (Note 14)				
<i>Shareholders' equity</i>				
Common stock (Notes 1 and 17)	472,924	213,932	394,827	178,605
Capital surplus (Notes 17 and 23)	16	77,415	13	64,631
Retained earnings (Accumulated deficit) (Note 18)	49,772	(17,930)	41,553	(14,969)
Capital adjustments (Note 19)	(526)	169,548	(439)	141,549
Gain on valuation of investment securities (Note 7)	(652)	(2,563)	(544)	(2,140)
Gain on valuation of equity-method investments (Note 7)	68,423	84,148	57,124	70,252
Discount on stock issuance	(70,410)	-	(58,783)	-
Overseas operation translation credit (debit)	277	(482)	231	(403)
Treasury stock	-	(132)	-	(110)
Debt to be converted to equity (Notes 15 and 19)	1,836	88,577	1,533	73,950
Total shareholder's equity	522,186	442,965	433,951	369,816
Total liabilities and shareholders' equity	¥ 1,636,651	¥ 1,691,277	\$ 1,366,381	\$ 1,411,988

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

STATEMENTS OF OPERATIONS, Continued

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Sales (Notes 25 and 27)	₩ 4,130,698	₩ 3,516,789	\$ 3,448,571	\$ 2,936,040
Cost of sales (Note 25)	3,763,141	3,154,327	3,141,711	2,633,434
Gross profit	367,557	362,462	306,860	302,606
Selling and administrative expenses (Note 26)	289,547	280,371	241,732	234,072
Operating income (Note 27)	78,010	82,091	65,128	68,534
Non-operating income				
Interest income	15,753	14,151	13,152	11,814
Dividend income	2,247	642	1,876	536
Rental income	3	5	3	4
Commission income	349	335	291	280
Gain on disposal of short-term investment securities	-	224	-	187
Gain on foreign currency transactions	188,700	105,521	157,539	88,096
Gain on foreign currency translation	12,765	112,767	10,657	94,145
Recovery of allowance for doubtful accounts	3,741	29,319	3,123	24,477
Refund of income taxes	450	-	376	-
Gain on valuation currency forwards (Note 14)	1,907	2,151	1,592	1,796
Gain on valuation commodity futures (Note 14)	2,422	1,795	2,022	1,499
Gain on disposal of investment assets	18,285	22,280	15,265	18,601
Gain on valuation of Securities Market Stabilization Fund	-	1,923	-	1,605
Gain on valuation of equity-method investments (Note 7)	53,699	101,165	44,831	84,460
Gain on disposal of property, plant and equipment	142	763	119	637
Gain on disposal of intangible assets	5	384	4	321
Gain on commodity futures transaction	16,139	-	13,474	-
Recovery of reserve for contingencies	489	-	408	-
Gain on cancellation of debts	7,603	-	6,347	-
Miscellaneous	1,665	2,316	1,390	1,933
	₩ 326,364	₩ 395,741	\$ 272,469	\$ 330,391

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

STATEMENTS OF OPERATIONS, Continued

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Non operating expenses				
Interest expense	₩ 57,872	₩ 78,815	\$ 48,315	\$ 65,800
Loss on disposal of trade accounts receivable	12,067	11,810	10,074	9,860
Loss on disposal of short-term investment securities	-	4	-	3
Loss on valuation of inventories	3,470	2,464	2,897	2,057
Loss on foreign currency transactions	190,144	106,094	158,744	88,574
Loss on foreign currency translation	20,332	117,909	16,974	98,438
Additional income taxes for prior periods	-	11	-	9
Loss on valuation of currency forwards (Note 14)	1,983	988	1,656	825
Loss on valuation of commodity futures (Note 14)	31,217	1,053	26,062	879
Loss on commodity futures transaction	25,641	-	21,407	-
Loss from redemption of bonds	-	17	-	14
Loss from redemption of borrowings	902	9,165	753	7,652
Loss on impairment of investment securities (Note 7)	2,954	32,208	2,466	26,889
Loss on disposal of investment assets	4,362	7,323	3,642	6,114
Loss on disposal of property, plant and equipment	966	3,113	806	2,599
Loss on impairment of property, plant and equipment	-	29,994	-	25,041
Donations	34	70	28	58
Miscellaneous	1,971	4,140	1,646	3,457
	353,915	405,178	295,470	338,269
Ordinary income	50,459	72,654	42,127	60,656
Extraordinary gain (Note 9)	21,297	16,482	17,780	13,760
Extraordinary loss	-	2,679	-	2,237
Income before income taxes	71,756	86,457	59,907	72,179
Income tax expense (Note 23)	17,279	8,046	14,426	6,717
Net income	₩ 54,477	₩ 78,411	\$ 45,481	\$ 65,462
Per share data (In Won, US\$)				
Ordinary income per share (Note 24)	₩ 399	₩ 1,516	\$ 0.33	\$ 1.27
Earnings per share (Note 24)	₩ 578	₩ 1,847	\$ 0.48	\$ 1.54
Diluted ordinary income per share (Note 24)	₩ 397	₩ 687	\$ 0.33	\$ 0.57
Diluted earnings per share (Note 24)	₩ 575	₩ 837	\$ 0.48	\$ 0.70

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

STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Retained earnings before appropriations (Undisposed accumulated deficit)				
Unappropriated retained earnings (Undisposed accumulated deficit)				
carried over from prior years	₩ -	₩ (96,388)	\$ -	\$ (80,472)
Increase from valuation of equity-method investments (Note 7)	(4,705)	48	(3,928)	40
Net income	54,477	78,410	45,481	65,463
	49,772	(17,930)	41,553	(14,969)
Transfers from voluntary reserves				
Transfer from capital surplus	-	17,930	-	14,969
	49,772	-	41,553	-
Appropriations of retained earnings				
Reserve for financial structure improvement	4,978	-	4,155	-
Discounts on stocks issued below par	35,205	-	29,391	-
	40,183	-	33,546	-
Unappropriated retained earnings carried forward to the subsequent year	₩ 9,589	₩ -	\$ 8,007	\$ -

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

STATEMENT OF CASH FLOWS

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Cash flows from operating activities				
Net income	₩ 54,477	₩ 78,410	\$ 45,481	\$ 65,462
Adjustments to reconcile net income to net cash (used in) provided by operating activities				
Accrual of severance benefits	11,252	7,045	9,394	5,882
Depreciation	10,171	10,195	8,491	8,511
Amortization of intangible assets	2,834	3,511	2,366	2,931
Interest expense	37,689	30,660	31,465	25,597
Interest income	(636)	-	(531)	-
Loss (gain) on foreign currency translation, net	7,567	(6,202)	6,317	(5,178)
Gain on disposal of short-term investment securities, net	-	(220)	-	(184)
Loss (gain) on valuation of currency forwards, net	76	(1,163)	63	(971)
Loss (gain) on valuation of commodity futures, net	28,795	(742)	24,040	(619)
Loss on impairment of investments securities	2,954	32,208	2,466	26,889
Loss on disposal of investment assets	4,362	7,323	3,642	6,114
Loss on disposal of property, plant and equipment, net	824	2,350	688	1,962
Loss on impairment of property, plant and equipment	-	29,994	-	25,041
Loss from redemption of borrowings	902	9,165	753	7,652
Loss from redemption of bonds	-	17	-	14
Miscellaneous loss	-	2,359	-	1,969
Gain on disposal of investment securities	(18,285)	(22,317)	(15,265)	(18,632)
Gain on valuation of the Securities Market Stabilization Fund	-	(1,923)	-	(1,605)
Gain on disposal of intangible assets	(5)	(384)	(4)	(321)
Gain on valuation of equity-method investments	(53,699)	(101,166)	(44,831)	(84,460)
Gain on insurance settlement	(815)	-	(680)	-
Recovery of reserve for contingencies	(488)	-	(407)	-
Gain on cancellation of debts	(28,086)	(16,483)	(23,448)	(13,761)
	₩ 5,412	₩ (15,773)	\$ 4,519	\$ (13,169)

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

STATEMENT OF CASH FLOWS

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Changes in operating assets liabilities				
Trade accounts receivable	₩ (104,316)	₩ 15,043	\$ (87,090)	\$ 12,559
Other accounts receivable	(17,090)	(5,657)	(14,268)	(4,723)
Accrued income	1,121	270	936	225
Advance payments	(22,877)	6,921	(19,099)	5,778
Prepaid expenses	2,928	6,266	2,444	5,231
Prepaid tax	1,434	364	1,197	304
Inventories	(4,438)	(12,191)	(3,705)	(10,178)
Long-term accounts receivable	17,902	27,449	14,946	22,916
Deferred income tax assets	(26,890)	8,046	(22,449)	6,717
Trade accounts payable	22,128	37,566	18,474	31,362
Deferred revenue	(7)	13	(6)	11
Advances received	22,477	16,028	18,765	13,381
Withholdings	45,413	11,954	37,914	9,980
Accrued expenses	(2,378)	3,437	(1,985)	2,869
Other accounts payable	7,684	(4,406)	6,415	(3,678)
Payment of severance benefits	(8,406)	(8,597)	(7,018)	(7,177)
Guarantee deposits received	(8,072)	70	(6,739)	58
Overseas operation translation credit	836	(185)	698	(154)
Reserve for contingencies	(5,569)	(8,615)	(4,649)	(7,192)
Other assets	(2,441)	686	(2,038)	573
	(80,561)	94,462	(67,257)	78,861
Net cash (used in) provided by operating activities	₩ (20,672)	₩ 157,099	\$ (17,257)	\$ 131,154

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

STATEMENT OF CASH FLOWS

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Cash flows from investing activities				
Proceeds from short-term financial instruments	₩ 67,207	₩ 40,455	\$ 56,109	\$ 33,774
Acquisition of short-term financial instruments	-	(73,991)	-	(61,772)
Proceeds from short-term loans	1,235	1,550	1,031	1,294
Payments for short-term loans	(1,244)	(1,227)	(1,039)	(1,024)
Disposal of short-term investment securities	514	5,098	429	4,256
Acquisition of short-term investment securities	-	(5)	-	(4)
Decrease in currency forwards	2,151	181	1,796	151
Increase in currency forwards	(988)	(2,076)	(825)	(1,733)
Decrease in commodity futures	1,795	1,048	1,499	875
Increase in commodity futures	(1,053)	(3,692)	(879)	(3,082)
Proceeds from long-term financial instruments	494	-	412	-
Acquisition of long-term financial instruments	(34)	(461)	(28)	(385)
Disposal of investment securities	35,985	56,024	30,043	46,772
Acquisition of investment securities	(2,530)	(9,464)	(2,112)	(7,901)
Proceeds from guarantee deposits	59,261	80,292	49,475	67,033
Payments for guarantee deposits	(73,546)	(76,362)	(61,401)	(63,752)
Disposal of property, plant and equipment	29,654	23,805	24,757	19,874
Acquisition of property, plant and equipment	(29,542)	(15,341)	(24,664)	(12,808)
Receipt of government subsidy	284	-	237	-
Disposal of intangible assets	5	490	4	409
Acquisition of intangible assets	(722)	(2,534)	(603)	(2,116)
Acquisition of natural resources exploration investment	(910)	(1,125)	(760)	(939)
Net cash provided by investing activities	₩ 88,016	₩ 22,665	\$ 73,481	\$ 18,922

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

STATEMENT OF CASH FLOWS

December 31, 2003 and 2002

	In Thousands of U.S. Dollars (Note 3)		In Thousands of U.S. Dollars (Note 3)	
	2003	2002	2003	2002
Cash flows from investing activities				
Proceeds from short-term borrowings	₩ -	₩ 99,363	\$ -	\$ 82,955
Repayment of short-term borrowings	(12,024)	(115,613)	(10,038)	(96,521)
Increase in long-term other accounts payable	-	1,762	-	1,471
Proceeds from long-term guarantee deposits received	224	1,403	187	1,171
Repayments of long-term guarantee deposits received	(533)	(1,148)	(445)	(958)
Proceeds from disposal of treasury stock	148	-	124	-
Repayment of long-term debts	(75,775)	(141,976)	(63,262)	(118,531)
Repayment of corporate bonds	-	(588)	-	(491)
Repayment of current portion of long-term debts	(25,380)	(25,140)	(21,189)	(20,988)
Repayment of long-term accrued expenses	(376)	(381)	(314)	(318)
Bond issuing expenses	-	(909)	-	(759)
Discount on stock issuance	(66)	(137)	(55)	(114)
Redemption of debt-to-equity swap liabilities	-	(28)	-	(23)
Net cash provided by financing activities	(113,782)	(183,392)	(94,992)	(153,106)
Net decrease in cash and cash equivalents	(46,438)	(3,628)	(38,768)	(3,030)
Cash and cash equivalents				
Beginning of year	136,625	140,253	114,063	117,091
End of year (Note 29)	₩ 90,187	₩ 136,625	\$ 75,294	\$ 114,063

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

1. The Company

Daewoo International Corporation (the "Company") had been operating as part of Daewoo Corporation and was engaged in trading activities. The Company was incorporated on December 27, 2000 after it was split off from Daewoo Corporation. On March 23, 2001, the Company listed its shares on the Korean Stock Exchange. The par value of the Company's common stock outstanding as of December 31, 2003 amounted to ₩472,924 million.

As of December 31, 2003, the Company's major shareholder is Korea Asset Management Corporation (KAMCO), which owns 37.12% of the total outstanding shares.

The Company is engaged in various business activities, such as export service, export agent service, intermediary trade, manufacturing, distribution, and resource development. The primary products sold by the Company include transportation equipment, metals, electronics, machine, ships, chemicals, textiles, and special goods.

2. Summary of Significant Accounting Policies

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

Basis of Financial Statement Presentation

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

Accounting Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. SKFAS No. 2 through No. 9 became effective for the Company on January 1, 2003, and the Company has adopted these statements in its financial statements for the year ended December 31, 2003. The most significant of these statements for the Company is SKFAS No. 4, Revenue Recognition, which may have a material impact on the Company's results of operations. According to SKFAS No. 6, retained earnings in the balance sheets are presented before appropriations.

According to SKFAS No. 8, securities and investment securities in the financial statements as of and for the year ended December 31, 2002 are reclassified.

Cash and Cash Equivalents

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Revenue Recognition

Sales of merchandise and manufactured products are recognized when significant risks and rewards of ownership of the goods are transferred to the buyers.

The Company has adopted Statement of Korean Financial Accounting Standards No. 4, Revenue Recognition, and therefore revenue from agency business is recognized using the net method. As a result, sales revenue and cost of goods sold have decreased by ₩2,890,630 million for the years ended December 31, 2002. This accounting change did not affect gross margin, net income or net asset.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the aggregate estimated collectibility of individual accounts and historical experience. The Company increases the allowance for doubtful accounts when the written-off receivables are collected. The Company also recognizes the difference between the present value of future cash flows and book value of receivables as bad debt expenses when the receivables are restructured by the Company through a work-out agreement, reorganization, and agreement between relevant parties.

Inventories

Inventories are stated at the lower of cost or market value, with cost being determined on a first-in, first-out basis for merchandise, finished goods, semi-finished goods, work in-process, raw materials, and supplies except for materials in-transit, which is stated at actual cost as determined by the specific identification basis.

Investments in Affiliates and Other Investments

The Company accounts for equity and debt securities under the provision of Statement of Korean Financial Accounting Standards No. 8, Investments. This statement requires investments in equity and debt securities to be classified into one of three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the moving average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings provided by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the income statement when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities for the amortization of discounts or premiums.

Investments in equity securities of companies, over which the Company exercises a significant control or influence (controlled investees), are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses of the investees equals the costs of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over twenty years using the straight-line method.

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity-method investees to the Company or sales between equity-method investees is also eliminated.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Depreciation is computed using the straight-line method and declining balance method, over the estimated useful lives of the assets, as follows:

	Depreciation method	Estimated useful lives
Buildings and Structures	The Straight-line method	15 - 54 years
Machinery and equipment	The Declining balance method	8 years
Vehicles	"	4 years
Others	"	2 - 8 years

Routine maintenance and repairs are charged to current operations as incurred. Betterments and renewals, that enhance the value of the assets over the recently appraised value of the assets, are capitalized.

When acquiring fixed assets without consideration or at lower than the fair market value, the Company recognizes as acquisition cost the fair market value at the time of acquisition. In case the Company receives government subsidies, it is presented in the financial statements as a deduction of the related assets and it is offset with depreciation expense during the estimated useful life of the asset.

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Leases

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment, acquired under capital lease agreements, are recorded at cost as property, plant and equipment, and depreciated using the declining-balance method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Rather, the related lease rentals are charged to expense when incurred.

Intangible Assets

Intangible assets, comprising development costs, mining rights and other intangible assets, are stated at cost, net of accumulated amortization. The amortization method and estimated useful lives are as follows:

	Amortization method	Estimated useful lives
Development costs	Straight-line	5 years
Mining rights	Straight-line	20 years
Other intangible assets	Straight-line	5~20 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

translated at the rate prevailing at the balance sheet date. Resulting translation gains and losses are offset against each other and the net amount is recorded as overseas business translation debits (credits), presented as capital adjustment in shareholders' equity. Overseas business translation debits (credits) are offset against subsequent overseas business translation debits (credits) until they are recognized as gains or losses at the time when the foreign business branches or offices are liquidated.

Debt to be Converted to Equity

Debt to be converted to equity, which are scheduled to be converted into the Company's common stock, are recorded as a capital adjustment.

Derivatives

Derivative financial instruments for trading or hedging purposes are valued at estimated market price and resulting unrealized gains or losses are recognized in current operations, except for the effective portion of derivative transactions entered into for the purpose of cash-flow hedges, which is recorded as an adjustment to shareholders' equity.

Income Taxes

The Company recognizes deferred income tax assets and liabilities, which represent temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are computed on such temporary differences, including available net operating loss ("NOL") carry-forwards and tax credits, by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is almost certain that such deferred income tax assets will be realized. The total income tax provision includes the current income tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the period.

3. United States Dollar Amounts

The Company operates primarily in Korean Won and its accounting records are maintained in Korean Won. The U.S. Dollar amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All Won amounts are expressed in U.S. Dollars at the rate of ₩1,197.8 : US\$1, the basic rate in effect on December 31, 2003. Such presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized, or settled in U.S. Dollars at this or any other rate.

The 2002 U.S. Dollar amounts, which were previously expressed at ₩1,200.41 : US\$1, the rate in effect on December 31, 2002, have been restated to reflect the exchange rate in effect on December 31, 2003.

4. Restricted Financial Instruments

Restricted financial instruments as of December 31, 2003 and 2002 comprise the following (in millions of Korean Won) :

	Annual Interest Rates (%) as of		
	Dec 31, 2003	2003	2002
Short-term financial instruments			
Deposits in savings accounts	-	₩ -	₩ 223
Time deposits and others	3.5 ~ 4.4	6,449	8,297
		6,449	8,520
Long-term financial instruments			
Key money deposit for checking accounts	-	18	17
Severance insurance deposit	-	-	457
		18	474
Severance insurance deposits	4.0~4.5	37,164	34,372
		₩ 43,631	₩ 43,366

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Research and development costs are charged to current operations when incurred, and are included in operating expenses. Development costs directly relating to a new technology or a new products of which the estimated future benefits are probable are capitalized as intangible assets. Amortization of development costs is computed using the straight-line method over five years from the commencement of commercial production of related products or use of the related technology.

The Company assesses the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Discounts on Debentures

Discounts on debentures are amortized using the effective interest rate method over the repayment term of the corporate bonds. Amortization of these discounts is included in interest expense.

Accrued Severance Benefits

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company has made deposits to the National Pension Fund in accordance with the National Pension Funds Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Accrued severance benefits are funded approximately 95% and 100% as of December 31, 2003 and 2002, respectively, through a severance insurance deposit for the payment of severance benefits and are presented as a deduction from accrued severance benefits.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the basic rates in effect at the balance sheet date (₩1,197.8 : US\$1 as of December 31, 2003 : ₩1,200.4 : US\$1 as of December 31, 2002), and the resulting translation gains and losses are recognized in current operations.

Present Value Discount

Receivables and payables arising from long-term installment transactions, long-term cash loans or borrowings and other similar transactions are stated at present value if the difference between the nominal value and present value is material. Such differences are presented present value discounts and directly deducted from the nominal value of the related receivables or payables. The present value discount account is amortized using the effective interest rate method and the resulting amortization is recorded as interest expense or interest income.

When contract terms such as the principal amount, interest rate, and repayment terms are changed unfavorably against the creditor due to the commencement of a reorganization plan, procedures of composition, mutual agreements between debtors and creditors or other similar reasons, the related receivables and payables are stated at present value if the difference between the nominal value and present value is material. The difference between the nominal value and present value is recognized as bad debt expenses or gain from debts waived in current operations.

Translation of Foreign Currency Financial Statements

Accounts of overseas business branches and offices are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean Won, income and expenses are translated at the average exchange rate during the year and assets and liabilities are

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

6. Inventories

Inventories as of December 31, 2003 and 2002 comprise the following (in millions of Korean Won) :

	2003	2002
Merchandise	₩ 69,352	₩ 68,776
Finished goods	3,867	4,104
Work in-process	9,679	11,621
Raw materials	8,560	7,109
Supplies	263	409
Materials in-transit	3,864	933
	₩ 95,585	₩ 92,952

7. Investment Securities

Investment securities and equity-method investments as of December 31, 2003 and 2002 comprise the following (in millions of Korean Won) :

	2003	2002
Investment securities		
Held-to-maturity	₩ 842	₩ 1,338
Available-for-sale (Capital investments)	8,426	6,845
Available-for-sale (Marketable equity securities)	3,178	7,431
Available-for-sale (Non-Marketable equity securities)	13,376	20,439
	₩ 25,822	₩ 36,053
Equity-method investments	₩ 493,159	₩ 479,503

Investments in Held-to-maturity which the Company has the intent to dispose within one year, are reclassified as Short-term investment securities from January 1, 2003 according to SKFAS No.8.

Held-to-maturity

Held-to-maturity as of December 31, 2003 and 2002 comprise the following (in millions of Korean Won) :

	2003		2002
	Acquisition Cost	Carrying Value	Carrying Value
Public bonds	₩ 842	₩ 842	₩ 1,338

The maturities of the held-to-maturity as of December 31, 2003 are as following (in millions of Korean Won) :

	Carrying value
1 year	₩ 161
1 year ~ 5 years	681
	₩ 842

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

As of December 31, 2003, ₩1,400 million of time deposits is restricted from withdrawal in relation to the business of Masan department store, and ₩2,995 million and ₩2,054 million of time deposits are restricted from withdrawal as collateral for forward exchange transactions and the issuance of performance bonds, respectively.

Key money deposit for checking accounts in long-term financial instruments is restricted for the maintenance of checking accounts, and severance insurance deposits can only be used for benefit payments to retirees (Note 2).

5. Receivables

The Company's receivables, including trade accounts and notes receivable, as of December 31, 2003 and 2002, comprise following (in millions of Korean Won):

	2003			
	Gross Amount	Allowance for Doubtful Accounts	Discounts on Present Value	Carrying Value
Trade accounts receivable	₩ 369,509	₩ (27,177)	₩ -	₩ 342,332
Short-term loans	412	(16)	-	396
Other accounts receivable	49,983	(12,470)	-	37,513
Advance payments	58,489	(16,608)	-	41,881
Accrued income	779	(474)	-	305
Prepaid expenses	6,695	(1,862)	-	4,833
Long-term accounts receivable	78,403	(24,706)	(2,602)	51,095
Long-term other accounts receivable	28,658	(12,142)	(4,588)	11,928
	₩ 592,928	₩ (95,455)	₩ (7,190)	₩ 490,283

	2002			
	Gross Amount	Allowance for Doubtful Accounts	Discounts on Present Value	Carrying Value
Trade accounts receivable	₩ 388,219	₩ (26,327)	₩ -	₩ 361,892
Short-term loans	407	(15)	-	392
Other accounts receivable	26,299	(11,566)	-	14,733
Advance payments	49,167	(25,027)	-	24,140
Accrued income	1,900	(474)	-	1,426
Prepaid expenses	9,624	(1,863)	-	7,761
Long-term accounts receivable	53,231	(4,111)	(2,575)	46,545
Long-term other accounts receivable	18,977	(4,679)	(5,004)	9,294
	₩ 547,824	₩ (74,062)	₩ (7,579)	₩ 466,183

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Available-for-sale (Capital Investments)

Available-for-sale (Capital Investments) as of December 31, 2003 and 2002 comprise the following
(in millions of Korean Won) :

	2003			2002
	Before Valuatio	Differences	Carrying Value	Carrying Value
Stock Market Stabilization Fund	₩ 2,561	₩ 3,020	₩ 5,581	₩ 6,843
Nok-san Dyeing Association	2,845	-	2,845	2
	₩ 5,406	₩ 3,020	₩ 8,426	₩ 6,845

All equity-investments are accounted for at their acquisition costs, except for the Korea Stock Market Stabilization Fund which is stated at its carrying value. The difference between the market value and the acquisition cost of the investment in the Korea Stock Market Stabilization Fund is charged to capital adjustments.

Available-for-sale (Marketable equity securities) (Excluding equity-method investments)

Available-for-sale (Marketable equity securities) as of December 31, 2003 and 2002 comprise the following
(in millions of Korean Won) :

	2003						2002
	No. of Shares Owned by the Company	Owner ship Ratio (%) as of Dec 31, 2003	Acquisition Cost	Market or Net Asset Value	Valuation Gain(Loss)	Carrying Value	Carrying Value
Keangnam Enterprises							
- Preferred Stock	3,040,000	100	₩ 6,627	₩ 2,843	₩ (3,784)	₩ 2,843	₩ 6,627
Shinsung Tongsang Co., Ltd.							
- Common Stock	8,005	0.06	40	20	(20)	20	31
Husteel Co., Ltd.							
- Common Stock	67,053	0.97	182	315	133	315	361
Kumho Investment Bank							
- Common Stock	-	-	-	-	-	-	412
Beneficiary Securities (Daehan Investment Trust Securities Co., Ltd)	-	-	-	-	-	-	-
			₩ 6,849	₩ 3,178	₩ (3,671)	₩ 3,178	₩ 7,431

Of the investment securities presented above, the fair values of the preferred stock of Keangnam Enterprises, Ltd. declined substantially, which is anticipated to be permanent; thus, the differences between the acquisition costs of these investment securities and the fair values are recorded as loss on impairment of investment securities in current operations amounting to ₩31,373 million in 2002.

In addition, the Company disposed its investments in the common stock of Kumho Investment Bank, Beneficiary Securities (Daehan Investment Trust Securities Co., Ltd) in the current year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Available-for-sale (Non-Marketable equity securities) as of December 31, 2003 and 2002 comprise the following
(in millions of Korean Won) :

	No. of Shares Owned by the Company	Owner ship Ratio (%) as of Dec 31, 2003	2003		2002	
			Acquisition Cost	Market or Net Asset Value	Carrying Value	Carrying Value
Daewoo Logistics Co., Ltd.	19,000	19.00	₩ 95	₩ 278	₩ 95	₩ 95
3Eye System Co., Ltd.	38,400	16.00	800	-	-	-
The Korea Economic Daily Co., Ltd.	357,762	2.87	1,952	1,027	1,952	1,952
Korea Delphi Automotive Systems Corp.	1,835,520	7.70	9,178	12,051	9,178	9,178
Hanil Daewoo Cement Mfg. Co., Ltd.	300,000	15.00	135	919	135	135
DW Vietnam Pharma. Co., Ltd.	-	8.30	343	320	343	343
Chemcross Com.Inc.	200,000	1.27	226	174	226	226
CJ Philippines Incorporation	109,200	10.00	349	804	349	349
Xian Xiyu Express Co., Ltd.	-	50.00	2,121	-	-	2,121
General Medicines Co.	1,650	33.00	262	2,165	262	262
Daewoo Dacom Communication Ltd.	8,370	31.00	250	-	-	250
Quingdao Puyoung Plastic Co., Ltd.	-	24.50	553	-	-	553
Daewoo Commercial Vehicle Co., Ltd., Daewoo Motors	-	-	8	8	8	8
Pomatics Co., Ltd.	-	8.00	34	-	-	-
VSC-Posco	-	10.00	1	1,701	1	1
Shandong Transportation Jiyu Express Co., Ltd.	-	-	-	-	-	4,174
Daewoo Motors Beneficiary Certificate	-	-	705	705	705	792
Tianjin Daewoo Paper Manufacturing Co., Ltd	-	8.32	122	32	122	-
			₩ 17,134	₩ 20,184	₩ 13,376	₩ 20,139

Of the investment securities presented above, the declines in the Company's proportionate ownership of the net asset value of Xian Xiyu Express Co., Ltd., Daewoo Dacom Communication Ltd., and Quingdao Puyoung Plastic Co. Ltd are anticipated to be permanent; therefore, the Company recorded it as loss on impairment of investment securities in current operations amounting to ₩2,924 million during the year. In addition, although the Company's ownership in General Medicines Co. is more than 20%, the Company excludes these investments from the application of the equity method because total assets as of the previous year-end was less than ₩7,000 million and the changes of the investment securities are insignificant.

In addition, the Company disposed its non-marketable investment securities of Shandong Transportation Jiyu Express Co., Ltd. For the non-marketable investment securities of 3Eye System Co., Ltd. and Pomatics Co., Ltd. etc., the Company had recognized a loss on impairment of investment securities during the prior year. The Company's investees, Daewoo Metal Australia Pty., Ltd. and Daewoo Petroleum Australia Pty. were liquidated during the current year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Equity-method investments

Equity-method investments as of December 31, 2003 and 2002 consist of the following (in millions of Korean Won) :

	2003				
	No. of Shares Owned by the Company	Owner ship Ratio(%) as of Dec 31, 2003	Acquisition Cost	Market or Net Asset Value	Carrying Value
Kyobo Life Insurance Co., Ltd.	4,440,000	24.00	₩ 124,188	₩ 251,222	₩ 251,222
Daewoo Heavy Industries Yantai Co., Ltd.	-	20.00	-	2,084	2,084
Shanghai Jiaotong Dayu Express Co., Ltd.	-	50.00	4,160	7,872	7,872
Chengdu Chengyu Transportation Co., Ltd.	-	50.00	3,826	7,408	7,408
Myanmar Korea Timber International Ltd.	270	45.00	3,460	2,679	2,679
Kosvida Agrochemical Co., Ltd.	-	30.00	104	781	781
Shanghai Lansheng Daewoo Corporation	-	49.00	4,828	6,839	6,839
Hanjung Power Pty., Ltd.	16,455,224	49.00	-	7,125	7,125
Tainjin Jinwoo Transportation Co., Ltd.	-	50.00	3,587	3,548	3,548
Vogue Century Co., Ltd.	10,052,436	50.00	1,220	1,387	1,387
Daewoo International (America) Corporation	555,000	100.00	-	21,806	21,806
Daewoo International (Deutschland) GmbH.	-	100.00	2,496	2,930	2,930
Daewoo International Singapore Pte. Ltd.	3,500,000	100.00	2,371	2,173	2,173
Daewoo International (Japan) Corporation	-	100.00	4,809	4,874	4,874
Myanmar Daewoo International Ltd.	495	55.00	3,556	903	903
Daewoo El Salvador S.A. De C.V.	31,262	88.00	-	(2,221)	-
Daewoo Cement (Shandong) Co., Ltd.	-	100.00	37,422	82,240	82,240
Gezira Tannery Corporation	6,000	60.00	-	(2,788)	-
Daewoo (China) Co., Ltd.	-	100.00	15,099	26,378	26,378
Myanmar Daewoo Ltd.	2,826	100.00	976	4,794	4,794
Daewoo Textile Company	15,000	100.00	-	(61,814)	-
Suzhou Jinwoo Weaving Printing & Dyeing Co., Ltd.	-	84.06	5,204	2,402	2,402
Daewoo Paper Manufacturing Co., Ltd.	-	59.92	₩ 9,666	₩ 13,371	₩ 13,371
Daewoo Unitel Company	-	100.00	10,151	31,199	31,199
Daewoo Textile (H.K) Ltd.	780,000	100.00	-	(5,084)	-
Daewoo Pakistan Express Bus Service Co., Ltd.	7,516,764	100.00	2,175	3,351	3,351
Daewoo (Dalian) Bag & Tent Manufacturing Co., Ltd.	-	100.00	1,844	3,969	3,969
Daewoo Italia S.R.L.	2,040,000	100.00	2,119	1,065	1,065
PT Rismar Daewoo Apparel	35,260	88.15	-	712	712
Shanghai Waigaoqiao Free Trade Zone					
Lansheng Daewoo Int'l Trading Co., Ltd.	-	49.00	299	(110)	-
Myanmar Daewoo Construction Machinery Co., Ltd.	-	55.00	465	(345)	-
Shanghai Engineering Equipment Co., Ltd.	-	-	-	-	-
Korea LNG	2,400	20.00	-	47	47
			₩ 244,025	₩ 420,797	₩ 493,159

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

	2002				
	No. of Shares Owned by the Company	Owner ship Ratio(%) as of Dec 31, 2003	Acquisition Cost	Market or Net Asset Value	Carrying Value
Kyobo Life Insurance Co., Ltd.	4,440,000	24.00	₩ 124,188	₩ 252,527	₩ 252,527
Daewoo Heavy Industries Yantai Co., Ltd.	-	20.00	-	2,084	2,084
Shanghai Jiaotong Dayu Express Co., Ltd.	-	50.00	4,160	8,258	8,258
Chengdu Chengyu Transportation Co., Ltd.	45,000,000	50.00	3,826	8,398	8,398
Myanmar Korea Timber International Ltd.	270	45.00	3,460	2,212	2,212
Kosvida Agrochemical Co., Ltd.	-	30.00	104	781	781
Shanghai Lansheng Daewoo Corporation	-	49.00	4,828	7,132	7,132
Hanjung Power Pty., Ltd.	16,455,224	49.00	-	(1,565)	-
Tainjin Jinwoo Transportation Co., Ltd.	-	50.00	3,587	3,681	3,681
Vogue Century Co., Ltd.	10,052,436	50.00	₩ 1,220	₩ 1,326	₩ 1,326
Daewoo International (America) Corporation	555,000	100.00	-	21,789	21,789
Daewoo International (Deutschland) GmbH.	-	100.00	2,496	2,350	2,350
Daewoo International (Japan) Corporation	-	100.00	4,809	4,751	4,751
Myanmar Daewoo International Ltd.	495	55.00	3,556	1,244	1,244
Daewoo El Salvador S.A. De C.V.	31,262	88.00	-	(950)	-
Daewoo Cement (Shandong) Co., Ltd.	-	100.00	37,422	86,547	86,547
Gezira Tannery Corporation	6,000	60.00	-	(1,703)	-
Daewoo (China) Co., Ltd.	-	100.00	15,099	24,808	24,808
Myanmar Daewoo Ltd.	2,826	100.00	976	4,062	4,062
Daewoo Textile Company	15,000	100.00	-	(64,218)	-
Suzhou Jinwoo Weaving Printing & Dyeing Co., Ltd.	-	84.06	5,204	4,004	4,004
Daewoo Paper Manufacturing Co., Ltd.	-	59.92	9,666	7,901	7,901
Daewoo Unitel Company	-	100.00	10,151	25,234	25,234
Daewoo Textile (H.K) Ltd.	780,000	100.00	-	(5,111)	-
Daewoo Pakistan Express Bus Service Co., Ltd.	7,516,764	100.00	2,175	3,351	3,351
Daewoo (Dalian) Bag & Tent Manufacturing Co., Ltd.	-	100.00	1,844	2,874	2,874
Daewoo Italia S.R.L.	2,040,000	100.00	2,119	(2,193)	-
PT Rismar Daewoo Apparel	35,260	88.15	-	2,635	2,635
Shanghai Waigaogiao Free Trade Zone					
Lansheng DW Int'l Trading Co., Ltd.	-	49.00	299	518	518
Myanmar Daewoo Construction Machinery Co., Ltd.	-	55.00	465	(61)	-
Shanghai Engineering Equipment Co., Ltd.	-	70.00	2,069	976	976
Korea LNG	2,400	20.00	-	60	60
			₩ 243,723	₩ 403,702	₩ 479,503

The Company entered into a stock disposal agreement with a company from China for the disposal of its investments in Shandong Transportation Jiyu Express Co., Ltd., which were accounted for under the equity method.

Of the investment securities presented above, the securities of Kyobo Life Insurance Co., Ltd., Daewoo Cement (Shandong) Co., Ltd., and Hanjung Power Pty., Ltd., whose book values, in aggregate, amount to ₩340,587 million, are pledged as collateral in relation to various borrowings (Note 13).

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Details of equity-method investment valuations as of December 31, 2003 and 2002 are as follows (in millions of Korean Won) :

	2003						Balance as of Dec 31, 2003
	Balance as of Jan 1, 2003	Acquisitions During the Period	Dividend/ Capital Reduction	Gain (loss) on Valuation of Equity-Method Investment	Retained Earnings	Capital Adjustments	
Kyobo Life Insurance Co., Ltd.	₩ 252,527	₩ -	₩ (5,550)	₩ 43,244	₩ (6,490)	₩ (32,509)	₩ 251,222
Daewoo Heavy Industries							
Yantai Co., Ltd.	2,084	-	-	-	-	-	2,084
Shanghai Jiaotong Day Express Co., Ltd.	8,258	-	(642)	515	-	(259)	7,872
Chengdu Chengyu Transportation Co., Ltd.	8,398	-	(869)	820	-	(941)	7,408
Myanmar Korea Timber International Ltd.	2,212	-	-	153	-	314	2,679
Kosvida Agrochemical Co., Ltd.	781	-	-	16	-	(16)	781
Shanghai Lansheng Daewoo Corporation	7,132	-	-	(277)	-	(16)	6,839
Hanjung Power Pty., Ltd.	-	-	(1,916)	4,381	-	4,660	7,125
Tainjin Jinwoo Transportation Co., Ltd.	3,681	-	-	(125)	-	(8)	3,548
Vogue Century Co., Ltd.	1,326	-	-	64	-	(3)	1,387
Daewoo International (America) Corporation	21,789	-	-	(13)	-	30	21,806
Daewoo International (Deutschland) GmbH.	2,350	-	-	77	-	503	2,930
Daewoo International Singapore Pte. Ltd.	-	2,371	-	(280)	-	82	2,173
Daewoo International (Japan) Corporation	4,751	-	-	(377)	-	500	4,874
Myanmar Daewoo International Ltd.	1,244	-	(136)	(199)	-	(6)	903
Daewoo El Salvador S.A. De C.V.	-	-	-	-	-	-	-
Daewoo Cement (Shandong) Co., Ltd.	86,547	-	-	(12,993)	-	8,686	82,240
Gezira Tannery Corporation	-	-	-	-	-	-	-
Daewoo (China) Co., Ltd.	24,808	-	-	1,634	-	(64)	26,378
Myanmar Daewoo Ltd.	4,062	-	-	739	-	(7)	4,794
Daewoo Textile Company	-	-	-	-	-	-	-
Suzhou Jinwoo Weaving Printing & Dyeing Co., Ltd.	4,004	-	0	(1,582)	0	(20)	2,402
Daewoo Paper Manufacturing Co., Ltd.	7,901	-	(813)	3,591	-	2,692	13,371
Daewoo Unitel Company	25,234	-	-	5,989	-	(24)	31,199
Daewoo Textile (H.K) Ltd.	-	-	-	-	-	-	-
Daewoo Pakistan Express Bus Service Co., Ltd.	3,351	-	-	-	-	-	3,351
Daewoo (Dalian) Bag & Tent Manufacturing Co., Ltd.	2,874	-	(230)	(107)	-	1,432	3,969

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

	2003						Balance as of Dec 31, 2003
	Balance as of Jan 1, 2003	Acquisitions During the Period	Dividend/ Capital Reduction	Gain (loss) on Valuation of Equity-Method Investment	Retained Earnings	Capital Adjustments	
Daewoo Italia S.R.L.	-	-	-	645	-	420	1,065
PT Rismar Daewoo Apparel	2,635	-	(469)	(1,545)	-	91	712
Shanghai Waigaoqiao Free Trade Zone							
Lansheng DW Int'l Trading Co., Ltd.	518	-	-	(133)	-	(385)	-
Myanmar Daewoo Construction Machinery Co., Ltd.	-	-	-	-	-	-	-
Korea LNG	60	-	(9,555)	9,462	-	80	47
	₩ 478,527	₩ 2,371	₩ (20,180)	₩ 53,699	₩ (6,490)	₩ (14,768)	₩ 493,159

	2002						Balance as of Dec 31, 2002
	Balance as of Jan 1, 2002	Acquisitions During the Period	Dividend/ Capital Reduction	Gain (loss) on Valuation of Equity-Method Investment	Retained Earnings	Capital Adjustments	
Kyobo Life Insurance Co., Ltd.	₩ 157,222	₩ -	₩ (3,419)	₩ 85,223	₩ 69	₩ 13,432	₩ 252,527
Daewoo Heavy Industries							
Yantai Co., Ltd.	-	-	-	2,900	-	(816)	2,084
Shanghai Jiaotong Dayu							
Express Co., Ltd.	8,173	-	(250)	869	-	(534)	8,258
Chengdu Chengyu							
Transportation Co., Ltd.	7,975	-	(1,318)	1,256	-	485	8,398
Myanmar Korea Timber International Ltd.	2,038	-	-	481	-	(307)	2,212
Kosvida Agrochemical Co., Ltd.	364	-	-	553	-	(136)	781
Shanghai Lansheng							
Daewoo Corporation	5,243	-	(49)	2,636	-	(698)	7,132
Hanjung Power Pty., Ltd.	378	-	-	-	-	(378)	-
Tainjin Jinwoo							
Transportation Co., Ltd.	2,342	-	-	125	-	1,214	3,681
Vogue Century Co., Ltd.	1,705	-	-	133	-	(512)	1,326
Daewoo International (America) Corporation	-	-	-	23,001	-	(1,212)	21,789
Daewoo International (Deutschland) GmbH.	-	2,496	-	(302)	-	156	2,350

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

	2002						Balance as of Dec 31, 2002
	Balance as of Jan 1, 2002	Acquisitions During the Period	Dividend/ Capital Reduction	Gain (loss) on Valuation of Equity-Method Investment	Retained Earnings	Capital Adjustments	
Daewoo International							
(Japan) Corporation	-	4,809	-	(110)	-	52	4,751
Myanmar Daewoo International Ltd.	637	-	(67)	583	-	91	1,244
Daewoo Cement (Shandong) Co., Ltd.	72,042	-	-	(37,394)	-	51,899	86,547
Daewoo (China) Co., Ltd.	21,932	-	-	462	-	2,414	24,808
Myanmar Daewoo Ltd.	4,624	-	-	(42)	-	(520)	4,062
Suzhou Jinwoo Weaving Printing & Dyeing Co., Ltd.	4,721	-	-	(663)	-	(54)	4,004
Daewoo Paper Manufacturing Co., Ltd.	3,245	-	(160)	5,117	-	(301)	7,901
Daewoo Unitel Company	17,603	-	-	9,694	-	(2,063)	25,234
Daewoo Pakistan Express Bus Service Co., Ltd.	2,535	-	(775)	1,734	-	(143)	3,351
Daewoo (Dalian) Bag & Tent Manufacturing Co., Ltd.	2,777	-	(123)	385	-	(165)	2,874
Daewoo Italia S.R.L.	-	2,119	-	(2,119)	-	-	-
PT Rismar Daewoo Apparel	415	-	(444)	2,099	-	565	2,635
Shanghai Waigaoqiao Free Trade Zone Lansheng DW Int'l Trading Co., Ltd.	307	-	(356)	238	-	329	518
Myanmar Daewoo Con - Machinery Co., Ltd.	202	-	-	(135)	-	(67)	-
Shanghai Engineering Equipment Co., Ltd.	1,809	-	-	(668)	-	(165)	976
Korea LNG	-	-	(5,081)	5,109	-	32	60
	₩ 318,289	₩ 9,424	₩ (12,042)	₩ 101,165	₩ 69	₩ 62,598	₩ 479,503

Investments in equity securities of Shanghai Engineering Equipment Co., Ltd. were disposed during the current year. The book value of the securities was ₩976 million as of December 31, 2002.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

As of December 31, 2003 and 2002, the changes in gain on valuation of investments in equity securities recorded as capital adjustments are as follows (in millions of Korean Won):

	Balance as of Jan 1, 2003	Increase (Decrease)	Balance as of Dec 31, 2003
Kyobo Life Insurance Co., Ltd.	₩ 32,996	₩ (32,509)	₩ 487
Daewoo Heavy Industries Yantai Co., Ltd.	(816)	-	(816)
Shanghai Jiaotong Dayu Express Co., Ltd.	2,629	(259)	2,370
Chengdu Chengyu Transportation Co., Ltd.	3,572	(941)	2,631
Myanmar Korea Timber International Ltd.	(1,463)	314	(1,149)
Kosvida Agrochemical Co., Ltd.	443	(16)	427
Shanghai Lansheng Daewoo Corporation	1,832	(16)	1,816
Hanjung Power Pty., Ltd.	4,562	4,660	9,222
Tainjin Jinwoo Transportation Co., Ltd.	(305)	(8)	(313)
Vogue Century Co., Ltd.	(27)	(3)	(30)
Daewoo International (America) Corporation	(1,212)	30	(1,182)
Daewoo International (Deutschland) GmbH.	156	503	659
Daewoo International Singapore Pte. Ltd.	-	82	82
Daewoo International (Japan) Corporation	52	500	552
Myanmar Daewoo International Ltd.	(2,380)	(6)	(2,386)
Daewoo Cement (Shandong) Co., Ltd.	35,333	8,686	44,019
Daewoo (China) Co., Ltd.	10,289	(64)	10,225
Myanmar Daewoo Ltd.	2,878	(7)	2,871
Suzhou Jinwoo Weaving Printing & Dyeing Co., Ltd.	227	(20)	207
Daewoo Paper Manufacturing Co., Ltd.	(9,728)	2,692	(7,036)
Daewoo Unitel Company	1,722	(24)	1,698
Daewoo Pakistan Express Bus Service Co., Ltd.	(169)	-	(169)
Daewoo (Dalian) Bag & Tent Manufacturing Co., Ltd.	915	1,432	2,347
Daewoo Italia S.R.L.	-	420	420
PT Rismar Daewoo Apparel	1,268	91	1,359
Shanghai Waigaoqiao Free Trade Zone Lansheng DW Int'l Trading Co., Ltd.	385	(385)	-
Korea LNG	32	80	112
	₩ 83,191	₩ (14,768)	₩ 68,423

Investments in equity securities of Shanghai Engineering Equipment Co., Ltd. were disposed during the current year and the related capital adjustment recognized in the prior year's balance sheets arising from valuation gains or losses was ₩(387) million.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

8. Short-term Loans

The Company has short-term loans, which primarily consist of housing loans for employees.

9. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2003 and 2002 are as follows (in millions of Korean Won) :

	2003				
	Land	Buildings & Structures	Machinery & Equipment	Others	Total
Balance as of January 1, 2003	₩ 132,125	₩ 101,915	₩ 9,390	₩ 15,851	₩ 259,281
Acquisition during the year	80	840	724	27,898	29,542
Replacement	14	-	3,430	(1,262)	2,182
Disposal	(10,499)	(18,160)	(187)	(567)	(29,413)
Depreciation		(3,042)	(4,576)	(2,553)	(10,171)
Government subsidy		-	(16)	(4)	(20)
Balance as of December 31, 2003	₩ 121,720	₩ 81,553	₩ 8,765	₩ 39,363	₩ 251,401
Accumulated depreciation	₩ -	₩ (15,618)	₩ (48,905)	₩ (30,526)	₩ (95,049)

	2002				
	Land	Buildings & Structures	Machinery & Equipment	Others	Total
Balance as of January 1, 2002	₩ 162,708	₩ 127,530	₩ 10,895	₩ 9,150	₩ 310,283
Acquisition during the year	138	2,799	1,341	11,063	15,341
Replacement	495	-	1,361	(1,856)	-
Impairment	(5,837)	(24,157)	-	-	(29,994)
Disposal	(25,379)	(610)	(64)	(101)	(26,154)
Depreciation	-	(3,647)	(4,143)	(2,405)	(10,195)
Balance as of December 31, 2002	₩ 132,125	₩ 101,915	₩ 9,390	₩ 15,851	₩ 259,281
Accumulated depreciation	₩ -	₩ (14,256)	₩ (46,057)	₩ (39,453)	₩ (99,766)

At December 31, 2003, certain portions of the Company's property, plant and equipment are insured against fire and other casualty losses up to approximately ₩342,390 million.

At December 31, 2003 and 2002, the market price of land determined for tax purposes is ₩102,485 million and ₩107,500 million, respectively.

Due to the flooding caused by the typhoon "Maemi" on September 12, 2003, the Company's Busan factory and its Masan Department Store's fixed assets were damaged and therefore the Company spent ₩14,476 million as restoration expenses. However, since the Company computed ₩15,291 million as insurance benefits, the Company recognized the difference of ₩815 million as gain on insurance settlements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

10. Intangible Assets

Intangible assets as of December 31, 2003 and 2002 are as follows (in millions of Korean Won) :

	2003				
	Industrial Property Rights	Development Cost	Mining Rights	Others	Total
Balance as of January 1, 2003	₩ 666	₩ 376	₩ 30,576	₩ 4	₩ 31,622
Acquisition during the period	136	479	-	107	722
Replacement & disposal	-	-	(76)	-	(76)
Amortization	(250)	(334)	(2,250)	-	(2,834)
Government subsidy	-	(264)	-	-	(264)
Balance as of December 31, 2003	₩ 552	₩ 257	₩ 28,250	₩ 111	₩ 29,170
Accumulated amortization	₩ (845)	₩ (1,285)	₩ (6,646)	₩ (933)	₩ (9,709)
Accumulated impairment	-	(117)	-	-	(117)

	2002				
	Industrial Property Rights	Development Cost	Mining Rights	Others	Total
Balance as of January 1, 2002	₩ 537	₩ 829	₩ 34,117	₩ 467	₩ 35,950
Acquisition during the period	520	-	2,014	-	2,534
Replacement & disposal	(106)	-	(3,245)	-	(3,351)
Amortization	(285)	(453)	(2,310)	(463)	(3,511)
Balance as of December 31, 2002	₩ 666	₩ 376	₩ 30,576	₩ 4	₩ 31,622
Accumulated amortization	₩ (595)	₩ (951)	₩ (4,396)	₩ (933)	₩ (6,875)
Accumulated impairment	-	(117)	-	-	(117)

etails of research and development cost incurred for the year ended December 31, 2003 and 2002 are as follows
(in millions of Korean Won) :

	2003	2002
Expensed	₩ 57	₩ 79
Capitalized	479	-
	₩ 536	₩ 79

11. Short-Term Borrowings

Short-term borrowings as of December 31, 2003 and 2002 consist of the following (in millions of Korean Won) :

		Annual Interest Rates (%) as of		
	Creditor	Dec 31, 2003	2003	2002
Bank overdraft	Korea First Bank and others	3Y Gov't. bond rate + 1.5	₩ -	₩ 431
D/A Borrowings	Koram Bank and others	-	-	7,130
L/C Banker's Usance	Woori Bank and others	1.2 ~ 2.5	7,346	18,158
Others	Korea Resources Corp. and Others	0.0 ~ 5.0	750	14
			₩ 8,096	₩ 25,73

The Company's property, plant and equipment are pledged as collateral for the above borrowings (Note 13).

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Current maturities of long-term debt as of December 31, 2003 and 2002 consist of the following (in millions of Korean Won) :

Creditor	Annual Interest Rates (%) as of		
	Dec 31, 2003	2003	2002
Work-out debts from banks and others	3Y Gov't bond rate + 1.5		
KAMCO and others	3M Libor + 1.0	₩ 82,314	₩ -
Other foreign currency debts	The export-import Bank and others	4,325	1,621
Long-term accrued expenses	Nara investment Bank and others	251	24,488
Less : Discounts on debentures	-	(11,051)	(2,135)
		₩ 75,839	₩ 23,974

12. Long-Term Debt

Debentures

The following shows the details of the debentures of the Company as of December 31, 2003, and 2002

(in millions of Korean Won) :

	Annual Interest Rates (%) as of		
	Dec 31, 2003	2003	2002
Corporate bonds	9.0	₩ 24,285	₩ 24,285
Discount on bonds issued		(385)	(698)
		₩ 23,900	₩ 23,587

The corporate bonds presented above were issued as a replacement of the long-term debts in accordance with the agreement with the creditors. In connection with these corporate bonds, the Company entered into a payment guarantee insurance contract with Seoul Guarantee Insurance Corporation.

Long-term debts as of December 31, 2003 and 2002 comprise the following (in millions of Korean Won) :

	Annual Interest Rates (%) as of		
	Dec 31, 2003	2003	2002
Won currency debts			
Work-out debts from banks and others	3Y Gov't bond rate + 1.5	₩ 344,851	₩ 510,414
Other Won currency debts	-	2,887	2,887
		347,738	513,301
Foreign currency debts			
	3M Libor + 1.0		
Work-out debts from banks and others	6M EURibor+0.45	120,157	52,161
Other foreign currency debts	5.0 ~ 6.41	21,438	4,052
		141,595	56,213
		489,333	569,514
Less : Present value discount		(107,886)	(104,654)
		₩ 381,447	₩ 464,860

The Company's property, plant and equipment are pledged as collateral for the above borrowings (Note 13).

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

The aggregate annual maturities of long-term debt outstanding as of December 31, 2003, exclusive of adjustments relating to discounts, are as follows (in millions of Korean Won):

	Corporate Bonds	Long-term debts(*)	Total
2005	₩ 24,285	₩ 73,406	₩ 97,691
2006	-	74,836	74,836
2007	-	36,442	36,442
2008	-	78,304	78,304
After 2009.1.1	-	220,098	220,098
	₩ 24,285	₩ 483,086	₩ 507,371

(*) Repayment terms of work-out debts amounting to ₩6,247 million will be determined after a discussion between the Company and each creditor of the creditor banks committee. And this amount is not included in the repayment schedule of the current period.

13. Collateral and Surety Obligations

Collateral for Liabilities

The collaterals for short-term and long-term liabilities as of December 31, 2003 are as follows (in millions of Korean Won):

	Book value	Creditor
Shares of Stock		
Kyobo Life Insurance Co., Ltd	₩ 251,222	Korea Asset Management Corporatio
Hanjung Power Pty., Ltd.	7,125	Doosan Heavy Industry Corporation
	₩ 258,347	

In addition, the Company has pledged a Guaranty Insurance as collateral to Korea Resources Corp. and the mining right of the 8th mine in Peru as collateral for the debts used to finance the A-1 mine exploitation in Myanmar to Korea National Oil Corp.

At December 31, 2003, the Company has pledged its buildings and land with a book value of ₩183,979 million as collateral for certain domestic bank loans.

Guaranty Obligations

The obligations of the Company as payment guarantor as of December 31, 2003 are as follows
(in thousands of US\$, EUR, INR):

Creditor	Debtor	Amount	Expiration Year
Chungdo Bank	Daewoo Paper Manufacturing Co., Ltd.	US\$ 1,000	2004
Export-Import Bank of Korea	Daewoo Cement (Shandong) Co., Ltd.	US\$ 57,179	2017
CAI	Daewoo Cement (Shandong) Co., Ltd.	EUR 41,431	2017
Export-Import Bank of Korea	Hanjung Power Pty. Ltd.	US\$ 17,500	2010
Export-Import Bank of Korea	Hanjung Power Pty. Ltd.	US\$ 4,821	2008
Woori Bank	Suzhou Jinwoo Weaving Printing & Dyeing	US\$ 3,900	2006
AMEX SEL	Daewoo Motor India, Ltd.	INR 540,000	2006
KAMCO	Hainan Haiwoo Tin plate Industry Co., Ltd.	US\$ 8,300	2010
Citi Bank and others	Korea LNG Limited.	US\$ 2,945	2005
		US\$ 95,645	
		EUR 41,431	
		INR 540,000	

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

All the principal debtors above are the Company's related parties except for Daewoo Motor India, Ltd. and Hainan Haiwoo Tin Plate Industry Co. (HHCC), and the equity investment of ₩82,240 million in Daewoo (Shandong) Cement Co., Ltd. in China is pledged as collateral with regard to these guaranty obligations (Note 25).

14. Commitments and Contingencies

Contingent Liabilities Carried Over from Daewoo Corporation's Prior to the Split-off

On July 22, 2000, Daewoo Corporation received approval from its shareholders to divide into three companies; Daewoo Corporation, Daewoo Engineering & Construction Co., Ltd. (originally the construction division of Daewoo Corporation) and Daewoo International Corporation (originally the international trading division of Daewoo Corporation). Prior to the split-off, certain creditors who agreed to the split-off, entered into a work-out agreement dated March 15, 2000, while other creditors did not. Daewoo Corporation then transferred some of its liabilities to the Company and Daewoo Engineering & Construction Co., Ltd. As a result, the Company became either a primary debtor or a surety for the carried-over liabilities. However, some of the creditors who did not agree to the split-off filed a legal suit against the Company for the cancellation of the split-off. Currently, the Company and Daewoo Engineering & Construction Co., Ltd. are holding negotiations with these creditors. Accordingly, the creditors and guaranteed creditors of Daewoo Corporation had filed a lawsuit to nullify the division/restructuring of the company. During the progress of that lawsuit in January and February of 2004, through mutual agreement and the expiry of the guaranteed debt, the lawsuit was withdrawn. As of the audit report date, the lawsuits have been terminated.

With regard to the probable claims on the liabilities from both agreeing and disagreeing creditors, the Company projected ₩93,074 million as the amount of contingent liabilities on the basis of the agreement proposal and all of the other information. The Company reflected this amount on the reserve for contingencies in the non-consolidated financial statements as follows (in millions of Korean Won):

Creditors	Debt Amount	Reserve Amount (*)
Domestic creditors Doosan Inc. and others	₩ 13,862	₩ 3,208
Overseas creditors EXIM INDIA and others	717,655	89,866
	₩ 731,517	₩ 93,074

(*) The total amount of contingent liabilities was allocated to the Company and Daewoo Engineering & Construction, Co., Ltd. in an appropriate proportion.

In May 2002, IDBI, a creditor of Daewoo Motors India Ltd. (DMIL), to which Daewoo Corporation provided a suretyship obligation, filed a lawsuit in the court of Delhi/Mumbai against DMIL to exercise the right to dispose of its assets and to settle the related obligations. IDBI included the Company and Daewoo Engineering & Construction Co., Ltd in its lawsuit. Additionally, EXIM India and ICICI Bank, creditors of DMIL, were involved in a subsequent lawsuit to invalidate the split-off. However, due to the termination of the original lawsuit during January and February 2004 it is no longer outstanding as of the audit report date, and AMEX Bank filed a subsequent lawsuit for the reimbursement of guarantee deposits. Accordingly, the Company projected and reflected the amount in the contingent liabilities with regard to the probable loss from the obligations.

The Company transferred ₩47,488 million recognized in reserve for contingencies to long-term debt, after an agreement with AKA Ausfuhrkredit GmbH in June 2003, which specifies certain terms such as the repayment conditions. In relation to the reserve for contingencies related to other creditors including Nisho Iwai and Ericsson, ₩489 million was recognized as recovery of contingency expense, after court settlements and separate agreements entered with these companies.

In addition, Nara Investment Bank, Inc. and two other financial institutions, who participated in the work-out agreement, disagreed to the adjusted amount of the Company's debt. Nara Investment Bank, Inc. filed a lawsuit against the Company for the full return of its receivables.

NOTES TO FINANCIAL STATEMENTS

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Furthermore, Daewoo Corporation's unsettled tax liabilities, prior to the split-off, should be carried over to the newly established entity under the Korean Tax Law.

Pending litigations

The ultimate outcome of these uncertainties cannot presently be determined. However, management does not anticipate that the resolution of these matters will have a material impact on the financial position or results of operations of the Company.

The Company has 22 pending lawsuits as a defendant with an aggregate amount of claims of ₩1,315 million, USD8,572 thousand, EUR12,300 thousand and INR540,000 thousand as of December 31, 2003.

However, out of the nullity lawsuits against the split-off pending as December 31, 2003, those in which, the plaintiffs, include Hyundai Development Company, Bauer, Daewoo Heavy Industries & Machinery Ltd., Daewoo Shipbuilding & Marine Engineering Co., Ltd., Nissho Iwai, and Korea First Bank, have been dropped based on mutual consent and the termination of the relevant surety obligation in January and February 2004, subsequent to the end of this fiscal year. Therefore, the additional related lawsuit thereof was automatically nullified because of the nullification of the main lawsuit.

The Company has seven pending lawsuits in which it is involved as a plaintiff as of December 31, 2003.

Covenant for Checking Accounts

The Company has entered into covenants that limit the overdraft with ChoHung Bank and others up to ₩19,168 million in relation to its checking accounts, and there is no outstanding balance of overdraft as of December 31, 2003. In addition, the L/C Nego receivables and D/A Nego receivable that the Company obtained from overseas customers have been sold to financial institutions. The following table presents the L/C Nego and D/A Nego whose payments are not yet due (in thousands of foreign currency):

Currency	L/C NEGO	D/A NEGO
AUD	-	78
CAD	-	6,024
EUR	6	13,745
JPY	328,927	153,007
USD	115,481	116,124

Operating lease

The Company entered into an operating lease contract for copy machines with Daewoo Minolta Corporation, and the lease payments for the current year amount to ₩53 million.

Borrowings Secured by a Deferred Payment from Exports

When the Company exports machinery or equipment, some of the sales are on an installment basis. The Company obtains financing from financial institutions which are secured by the future payments from overseas customers. On the other hand, the customer's Exchequer guarantees the repayment of the loan.

The Company has borrowed ₩21,654 million (USD18,078 thousand) from the Export-Import Bank of Korea which are secured by the customers' deferred payment. The Company is liable solely for the interest payment, and the customers are liable for the principal of the loan. The Company also purchased insurance from Korea Export Insurance Corporation in case of the customer's default.

Covenants for Opening L/C

As of December 31, 2003, the Company has covenants with Korea First Bank and others regarding the opening of letters of credit (L/C) and other trading transactions as follows (in millions of Korean Won, in thousands of USD):

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	Bank	Credit Line Amount
LOCAL L/C	Korea First Bank and others	₩ 251,043
L/C AT SIGHT	Korea First Bank and others	USD 116,442
L/C USANCE	Woori Bank and others	USD 38,051
D/A	Korea First Bank and others	USD 188,214
P-BOND	Korea First Bank and others	USD 79,603

Collateral

The Company has pledged 38 blank promissory notes, as well as other notes with an aggregate amount of ₩8 million as collateral in case of the non-fulfillment of contracts.

Derivatives

The Company entered into currency forwards contracts and commodity futures contracts with Korea Development Bank and other financial institutions to hedge against foreign exchange risks and inventory price risks, as presented below.

Currency Forwards				
Currency	Purchase	Currency	Sales	Contractual Exchange rate
CAD	1,040,00	USD	780,927	1.3318
EUR	16,989,000	USD	19,871,825	1.1399 ~ 1.2566
JPY	1,039,000,000	USD	9,676,044	106.745 ~ 109.155
KRW	81,971,820,000	USD	68,800,000	1,179.1 ~ 1,206.2
USD	12,120,796	JPY	1,307,000,000	106.981 ~ 109.556
	18,618,292	EUR	15,720,000	1.1007 ~ 1.2443
	4,829,175	CAD	6,330,000	1.2979 ~ 1.3279

Commodity Futures				
			Sales Contractual Amount (USD/ton, MT, LB, Pound)	Quantity (ton, MT, LB, Pound)
ALUMINUM	Purchase	USD	1,450.00 ~ 1,582.25	14,900
	Sale	USD	1,425.29 ~ 1,600.00	48,925
COPPER	Purchase	USD	1,856.00 ~ 2,309.00	7,100
	Sale	USD	1,621.58 ~ 2,237.50	29,925
NICKEL	Purchase	USD	11,045.00 ~ 14,945.00	38,777
	Sale	USD	8,355.76 ~ 13,427.00	39,833
TTN	Purchase	USD	5,684.50 ~ 6,482.00	960
	Sale	USD	4,745.79 ~ 5,476.00	2,210
ZINC	Purchase	USD	906.50 ~ 994.00	1,200
	Sale	USD	891.00 ~ 987.50	2,911
LEAD	Purchase	USD	733.00 ~ 739.25	900
	Sale	USD	496.34 ~ 692.00	3,200
COTTON	Purchase	USD	353.00 ~ 429.35	21,100

During 2003, the Company recognized ₩1,907 million of gain on valuation of currency forwards contracts and ₩1,983 million of loss on valuation of currency forwards contracts. In addition, the Company recognized ₩2,422 million of gain on valuation of commodity future contracts and ₩31,217 million of loss on valuation of commodity future contracts in 2003.

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December 31, 2003 and 2002

Disclosures Related to Economic Uncertainties

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

15. Work-out agreement

The Company received an allocation of the restructured debt that Daewoo Corporation had obtained from the creditor banks prior to its split-off, and additionally, the creditor banks committee implemented the second debt restructuring plan for the Company on December 29, 2001. On December 30, 2003, the work-out agreement was terminated and the creditor banks committee implemented the third debt restructuring plan for the Company. The details of these debt restructuring agreements are as follows :

1st Debt Restructuring

The repayment of the restructured debt will be deferred until December 31, 2003, and the interest rates applicable to the debts incurred after August 26, 1999 are as follows :

	Secured debts	Unsecured debts
Won currency debts	Prime rate	Prime rate - 1%
Foreign currency debts	3 months LIBOR + 1%	3 months LIBOR

The Company recorded the amount as a debt-to-equity swap, which are anticipated to be converted into the Company's common stock under the work-out agreement.

2nd Debt Restructuring

The following are the changes in the payment conditions on the borrowings :

- Borrowings covered by the 2nd debt restructuring agreement : remaining borrowings after the 2nd debt-to-equity swap.
- Effective period : from the declaration date of the 2nd debt-to-equity swap to December 31, 2003.
- Effective interest rate :
 - Debts in Korean Won : Prime rate of each bank + 2%
 - Debts in Foreign Currency : 3M Libor + (3M Libor $\times$ 3 / P)
- The details of the debts converted to equity are as follows :
 - ₩254,835 million worth of convertible bonds (Par value of ₩5,000), which must only be converted into stocks, were issued and distributed to the creditors in proportion to the investment amounts of creditor banks.
 - On the other hand, the total amount transferred of ₩254,835 million was recorded as debt-to-equity swap liabilities, gain from liabilities waived as an extraordinary gain, and present value discounts amounting to ₩84,478 million, ₩163,231 million, and ₩7,126 million, respectively.

3rd Debt Restructuring

The Company was able enhance its credit rating and operate under its own management as a result of the improvement of its financial standing and operating and business results. The related creditors decided on the completion of the work-out stage of the Company on December 30, 2003 in order to reduce the loss to be allocated to creditors' by raising the Company's asset soundness and management control.

- Remaining liabilities and the terms and conditions of such liabilities

The repayment of the remaining liabilities shall be repaid in installment for 11 years according to the repayment schedule provided by the creditor banks committee. The debts to KEIC (Korea Export Insurance Corporation) and for certain other creditor shall follow the previous restructuring plans.

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— Effective interest rate :

Debts in Korean Won : 3 year Bond Rate of Government + 1.5%

Debts in Foreign Currency : 3M Libor + 1.0%

16. Accrued Severance Benefits

Accrued severance benefits as of December 31, 2003 and 2002 comprise the following (in millions of Korean Won) :

	2003	2002
Balance at the beginning of the year	₩ 36,263	₩ 37,808
Provision for severance benefits	11,252	7,045
Severance benefits of transferred employees	-	7
Payment of severance benefits	(8,406)	(8,597)
	39,109	36,263
Cumulative deposits to the National Pension Fund	(1,530)	(1,891)
Severance insurance fund	(37,164)	(34,372)
Balance at the end of the year	₩ 415	₩ -

17. Capital Stock and Capital Surplus

As of December 31, 2003, the Company's authorized common stock and outstanding common stock are 500,000,000 shares and 94,584,869 shares (with a par value per share of ₩5,000), respectively.

As of December 31, 2003 and December 31, 2002, capital stock and capital surplus consist of following (in millions of Korean Won) :

	2003	2002
Capital Stock:		
Common stock	₩ 472,924	₩ 213,932
Capital Surplus		
Additional paid-in capital	-	77,315
Other capital surplus	16	100
	₩ 16	₩ 77,415

In addition, details of equity which was swapped with liabilities during the year ended December 31, 2003 is as follows: (in millions of Korean Won except for number of shares) :

Date	Description	Number of shares	Amount
2003. 1. 1	Beginning Balance	42,786,519	₩ 213,932
2003. 8. 28	Swapping	10,660	53
2003. 9. 30	Swapping	918,000	4,590
2003. 11. 14	Swapping	49,861,150	249,306
2003. 12. 31	Swapping	1,008,600	5,043
		94,584,869	₩ 472,924

Other capital surplus

Other capital surplus is composed of gain on disposal of treasury stock.

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December 31, 2003 and 2002

18. Retained Earnings (Accumulated Deficit)

Retained earnings as of December 31, 2003 and 2002 are as follows (in millions of Korean Won) :

	2003	2002
Unappropriated retained earnings (accumulated deficit)	₩ 49,772	₩ (17,930)

The Company's accumulated deficit as of December 31, 2002 was offset against additional paid-in capital in accordance with the approval from shareholders during a meeting on March 13, 2003, and the details are as follows (in millions of Korean Won) :

	2003
Additional paid-in capital	₩ 17,830
Other capital surplus	100
	₩ 17,930

19. Capital Adjustments

Capital adjustments as of December 31, 2003 and 2002 are as follows (in millions of Korean Won) :

	2003	2002
Discount on stock issuance	₩ (70,410)	₩ -
Treasury stock	-	(132)
Losses on valuation of investment securities	(652)	(2,563)
Gains on valuation of equity method investments	68,424	84,148
Cumulative effect of foreign currency translation	276	(482)
Debt-to-be-converted-to-equity	1,836	88,577
	₩ (526)	₩ 169,548

Discount on Stock Issuance

As of December 31, 2003, discount on stock issuance, which is the balance after being offset with additional paid-in capital carried forward, will be amortized and charged against retained earnings.

Treasury stock

As of December 31, 2002, the Company has 38,848 shares of treasury stock, which are an odd lot from the re-issuance of stock in accordance with the split-off, and these shares were sold in 2003.

Debt-to-be-converted-to-equity

The changes of the debt to be converted to equity for the year ended December 31, 2003 are as follows (in millions of Korean Won) :

	2003
Beginning balance	₩ 88,577
Increase	1,525
Decrease	(88,266)
Ending balance	₩ 1,836

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December 31, 2003 and 2002

20. Assets and Liabilities Denominated in Foreign Currencies

As of December 31, 2003 and 2002, monetary assets and liabilities denominated in foreign currencies, excluding those disclosed elsewhere in the accompanying footnotes, are as follows (in millions of Korean Won) :

	2003	
	Korean Won Equivalent	Foreign Currency
Assets		
Cash and cash equivalents	₩ 1,657	US\$ 1,383,573.64
	8	JPY 708,485.00
Short-term financial instruments	21,511	US\$ 17,958,762.88
Trade accounts receivable	272	AUD 303,109.92
	298	CAD 322,168.00
	30,981	EUR 20,618,775.92
	5,591	JPY 499,351,856.00
	252,701	US\$ 210,971,088.61
Other accounts receivable	7,654	US\$ 6,390,162.71
Advance payments	189	EUR 126,000.00
	16,862	US\$ 14,077,094.65
Short-term loans	329	US\$ 274,614.22
Guarantee deposits	10	CHF 10,000.00
	15,334	US\$ 12,801,883.02
Long-term other accounts receivable	24,070	US\$ 20,095,099.25
Long-term accounts receivable	75,801	US\$ 63,283,278.00
	₩ 453,268	

	2003	
	Korean Won Equivalent	Foreign Currency
Liabilities		
Trade accounts payable	₩ 109	AUD 122,043.00
	12,293	EUR 8,181,557.50
	3,762	JPY 336,001,329.00
	222,985	US\$ 186,162,385.54
Other accounts payable	366	EUR 243,819.23
	78	JPY 6,934,629.00
	7,561	US\$ 6,312,347.58
Accrued expenses	324	US\$ 270,605.76
Reserve for contingencies	6,301	EUR 4,193,611.79
	4,360	GBP 2,047,600.42
	25,755	INR 981,534,996.60
	2,237	PLZ 7,032,820.75
	51,212	US\$ 42,755,172.40
Long-term debts	46,341	EUR 30,840,810.57
	52,016	US\$ 43,426,190.05
	₩ 435,700	

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

21. Valuation at Present Value

Valuation at Present Value of Payables

Valuation at present value of liabilities which is based on the debt restructuring plan under the work-out agreement is as follows (in millions of Korean Won) :

	Nominal gross Amounts	Present Value Discounts	Net Amounts
Long-term borrowings	₩ 489,333	₩ 107,886	₩ 381,447
Current portion of long-term debt	86,890	11,051	75,839
	₩ 576,223	₩ 118,937	₩ 457,286

The current portion of long-term accrued expenses is included in the current portion of long-term debt.

Valuation at Present Value of Receivables

The Company valued long-term accounts receivable and other receivables at present value, and recognized the difference from nominal gross amounts as present value premiums (or discounts) in 2003. The detailed information is as follows (in millions of Korean Won) :

Daewoo Cement (Shandong) Co., Ltd.		
Effective interest rate		6.09%
Nominal interest rate		6M Libor + 1%
Collection period	Installment collection for 11 year, with 4 year grace period from 2003	
Nominal value (Book value)		₩ 29,635
Present value discounts		(7,191)
Present value		₩ 22,444

22. Research and Development Cost

Details of the changes in capitalized research and development costs for the years ended December 31, 2003 and 2002, are as follow (in millions of Korean Won) :

	2003	2002
Balance as of January 1	₩ 376	₩ 829
Acquisition during the period	479	-
Amortization	(334)	(453)
Government subsidy	(264)	
Balance as of December 31	₩ 257	₩ 376
Accumulated amortization	₩ (1,285)	₩ (951)

23. Income Taxes

Income tax expense for the years ended December 31, 2003 and 2002 are as follows (in millions of Korean Won)

	2003	2002
Current income tax expenses	₩ -	₩ -
Deferred income taxes due to temporary differences	(25,404)	24,449
Deferred income tax expenses reconciled to capital	42,683	(16,403)
Income tax expenses	₩ 17,279	₩ 8,046

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

The reconciliations from income before income taxes to taxable income for years ended December 31, 2003 and 2002 are as follows (in millions of Korean Won) :

	2003	2002
Income before income taxes	₩ 71,756	₩ 86,457
Accrued interest	244	34
Amortization of present value discount	25,427	37,915
Depreciation	97	395
Allowance for bad debt	21,017	(32,146)
Losses from valuation of marketable securities	(25,052)	(6,958)
Others	(74,892)	(39,134)
Taxable income	₩ 18,597	₩ 46,563

The changes of temporary differences and the related income tax effect for the year ended December 31, 2003 are as follows (in millions of Korean Won) :

	Beginning Balance	Increase (Decrease)	Ending Balance	Deferred Income Taxes Asset (liability)
Losses on valuation of marketable securities	₩ 18,094	₩ (18,094)	₩ -	₩ -
Accrued severance benefit	27,967	(1,473)	26,494	7,286
Retirement insurance premiums	(27,967)	1,473	(26,494)	(7,286)
Accrued income	(898)	244	(654)	(180)
Amortization of present value discounts	(106,789)	156,451	49,662	13,657
Depreciation expense	1,886	11	1,897	522
Allowance for bad debt expense	68,464	21,070	89,534	24,622
Debt-equity swap (investment securities)	7,864	-	7,864	2,163
Others	238,470	(98,363)	140,107	38,529
	₩ 227,091	₩ 61,319	₩ 288,410	₩ 79,313

Due to the public announcement of the Korean Corporate Tax regarding the succession of temporary differences after split-off, the Company's temporary differences increased in 2003, consequently, deferred tax assets increased by ₩40,898 million, which was reflected in additional-paid-in-capital.

Tax Loss Carryforward

As of Dec. 31, 2003, the Company had corporate tax loss carryforward balances amounting to ₩185,082, but because the future profitability of the Company is in uncertainty, the deferred tax effects of such tax loss carryforward were not recognized.

Income tax expense apportioned to ordinary and extraordinary income is as follow (in millions of Korean Won) :

	Beginning Balance	Increase (Decrease)	Ending Balance	Deferred Income Taxes Asset (liability)
Ordinary income	₩ 50,459	₩ 12,837	₩ 72,654	₩ 8,276
Extraordinary income	21,297	4,442	13,803	(230)
	₩ 71,756	₩ 17,279	₩ 86,457	₩ 8,046

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Income tax rate

The statutory income tax rate applicable to the Company, including resident tax surcharges, approximates 29.7%. Since the Company has no taxable income because of tax loss carryforward, the Company did not recognize any income tax expense for the current period.

24. Earnings Per Share

Basic earning per share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares outstanding during the year.

Basic earnings per share for the years ended December 31, 2003 and 2002 is calculated as follows (the thousand of Korean Won ,except for per share amounts) :

	2003	2002
Net income as reported on the income statements	₩ 54,477,047	₩ 78,410,607
Extraordinary gain, net	21,297,269	13,803,269
Income tax expenses allocated extraordinary income	4,441,454	(230,495)
Gain before extraordinary gains/losses and income taxes	37,621,323	64,376,843
Weighted-average number of common shares outstanding	94,323,221	42,453,315
Basic ordinary income per share	₩ 399	₩ 1,516

	2003	2002
Net income as reported on the income statements	₩ 54,477,047	₩ 78,410,607
Weighted-average number of common shares outstanding	94,323,221	42,453,315
Basic earnings per share	₩ 578	₩ 1,847

The weighted average number of common shares outstanding for the year ended December 31, 2002, is calculated as follows (the thousand of Korean Won ,except for per share amounts) :

	Number of Shares Issued	Number of Days Outstanding	Weighted Number of Shares
January 1, 2003	42,747,671	365	15,602,899,915
Disposition of Treasury stock	38,848	217	8,430,016
Debt to equity	10,600	365	3,869,000
Debt to equity	334,895	97	32,484,815
Debt to equity	583,105	365	212,833,325
Debt to equity	49,861,150	365	18,199,319,750
Debt to equity	1,008,600	365	368,139,000
	94,584,869		34,427,975,821

Weighted average number of common share outstanding :

34,427,975,821 shares ÷ 365 = 94,323,221 shares

Diluted earning per share

Diluted earnings per share is computed by dividing net income, which is adjusted by adding back the after-tax amount of interest expense on any convertible debt and dividends on any convertible preferred stock by the weighted-average

NOTES TO FINANCIAL STATMENTS

December 31, 2003 and 2002

number of common shares and dilutive securities outstanding during the year. Diluted ordinary income per share is computed by dividing diluted ordinary income allocated to common stock, which is diluted net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares and dilutive securities outstanding during the year, assuming conversion into common shares at the beginning of the year.

Diluted earning per share for the years ended December 31, 2003 and 2002 is calculated as follow
(the thousand of Korean Won ,except for per share amounts) :

	2003	2002
Diluted net income	₩ 54,477,047	₩ 78,410,607
Adjusted weighted average diluted shares (*1)	94,725,021	93,722,647
Diluted Earnings per share	₩ 575	₩ 837
Diluted ordinary income	₩ 37,621,323	₩ 64,376,843
Diluted ordinary income per share	₩ 397	₩ 687

(*1) Details of dilutive potential share as of December 31, 2003 are as follows :

	Number of common shares to be issued by conversion or exercise	Conversion or exercise period	Number of Days Outstanding	Weighted Number of Shares
Beginning of the year	51,865,255	2003.1.1 ~ 2003.12.31	365	18,930,818,075
Debt to equity	(51,463,455)	2003.1.1 ~ 2003.12.31	365	(18,784,161,075)
Issued	334,895	2003.9.25 ~ 2003.12.31	97	32,484,815
Debt to equity	(334,895)	2003.9.25 ~ 2003.12.31	97	(32,484,815)
	401,800			146,657,000

Weighted average number of dilutive share outstanding :

146,657,000 shares ÷ 365 = 401,800 shares

25. Transactions with Related Parties

Significant transactions which occurred in the normal course of business with related companies for years ended December 31, 2003 and 2002, and the related account balances outstanding as of December 31, 2003 and 2002, are summarized as follows (in millions of Korean Won) :

	Beginning Balance	Increase (Decrease)	Ending Balance	Deferred Income Taxes Asset (liability)
KAMCO.	₩ -	₩ -	4,000	257,504
Daewoo Canada Ltd	16,944	-	562	-
Daewoo Cement (SHANDONG) Co., Ltd.	306	21,024	30,814	2,056
Daewoo El Salvador S.A. DE C.V.	407	7,195	3,549	645
Daewoo Handels GmbH.	13,446	-	1,802	-
Daewoo International (America) Corp.	248,881	4,138	31,228	69
Daewoo International (Deutschland) Corp.	60,079	1,074	13,829	-
Daewoo International (Japan) Corporation	112,109	2,848	8,462	13
Daewoo International Singapore Pte Ltd.	5,199	2,225	4,233	1,786

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

	Beginning Balance	Increase (Decrease)	Ending Balance	Deferred Income Taxes Asset (liability)
Daewoo Italia S.R.L.	22,206	94	9,998	2
Daewoo Pakistan Express Bus Service Co., Ltd.	1,329		29	-
Daewoo Paper Manufacturing Co., Ltd.	23,493	-	11,581	-
Daewoo Textile (H.K.) Ltd.	1,223	-	3,297	152
Daewoo Textile Company	3,672	32,250	228	2,206
Daewoo Unitel Company	-	-	13,932	-
Daewoo(Dalian) Bag & Tent Manufacturing Co., Ltd.	2,268	4,132	257	21
General Medicines Co., Ltd.	4,144	-	139	6
Gezira Tannery Corporation Ltd.	700	6,708	1,906	228
Kosvida Agrochemical Co., Ltd.	318	-	101	-
Myanmar Daewoo International Ltd.	15	260	1,591	30
Myanmar Korea Timber International Ltd.	7,555	3,441	593	22
P.T. Rismar Daewoo Apparel	17,799	25,335	9,917	2,670
Shanghai Lansheng Daewoo Corporation	104,314	8,234	50,925	2,105
Shanghai Waigaoqiao Free Trade Zone Lansheng				
Daewoo International Trading Co., Ltd.	9,550	-	-	-
Suzhou Jinwoo Weaving Printing & Dyeing Co., Ltd.	1,461	243	2,734	3
Tianjin Daewoo Paper MFG. Co., Ltd.	570	-	-	-
Myanmar Daewoo Ltd.	316	57	-	-
2003 Total	₩ 658,304	₩ 119,258	₩ 205,707	₩ 269,518
2002 Total	₩ 767,814	₩ 120,589	₩ 124,136	₩ 328,622

As of December 31, 2003, the Company has provided payment guarantees to affiliated companies including Daewoo Cement (Shandong) Co., Ltd. amounting to ₩166,877 million, and ₩82,240 million of assets are pledged as collateral for such guarantees (Note 13).

In addition, Daewoo Handels GmbH filed for bankruptcy to a court in Germany on May 31, 2001, and the liquidation procedure began on September 1, 2001. In addition, the creditors' committee approved the liquidation plan on January 29, 2002. With the remaining assets after the liquidation, Daewoo International Deutschland Corporation was incorporated and started its business on April 16, 2002. The Company acquired all the ownership interests of Daewoo International Deutschland Corporation on May 2, 2002.

Daewoo International Japan Corporation filed for court receivership to the court on June 28, 2002, and obtained an approval from the courts on July 4, 2002. During the process of the court receivership, Daewoo International Japan Corporation incorporated a new company with the same name in October 2002, and transferred a portion of its assets to the new company.

Daewoo Singapore Pte., Ltd. appointed a temporary liquidator and filed for liquidation in May 2003. The newly incorporated company Daewoo International Singapore Pte., Ltd. was incorporated in June 2003 and began operations on July 1, 2003.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

26. Value Added Information

Value added information for the years ended December 31, 2003 and 2002 comprise the following
(in millions of Korean Won) :

	2003			2002
	Manufacturing cost	Selling and administrative expenses	Total	Total
Personnel expenses	₩ 21,389	₩ 46,669	₩ 68,058	₩ 58,324
Severance benefits	2,288	8,964	11,252	7,045
Welfare expenses	3,573	9,119	12,692	12,033
Rental charges	48	7,699	7,747	8,161
Depreciation	4,605	5,566	10,171	10,195
Taxes and dues	458	5,574	6,032	4,96
	₩ 32,361	₩ 83,591	₩ 115,952	₩ 100,719

27. Segment Information

Financial information of the business segments as of and for the year ended December 31, 2003 and 2002 is as follows :

Industry Segments

The details of the information by industry segment in 2003 and 2002 are as follows (in millions of Korean Won) :

	Trading		Manufacturing		Retail(Department Store)		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Sales	₩ 3,901,184	₩ 3,275,616	₩ 177,203	₩ 171,159	₩ 52,311	₩ 70,014	₩ 4,130,698	₩ 3,516,789
Operating income	69,884	68,054	9,089	12,499	(963)	1,538	78,010	82,091
Fixed assets								
Property, plant and equipment	6,210	21,799	163,405	143,610	81,786	93,872	251,401	259,281
Intangible assets	28,838	31,610	328	5	4	7	29,170	31,622
	35,048	53,409	163,733	143,615	81,790	93,879	280,571	290,903
Depreciation(PP&E)	2,627	1,954	4,859	5,228	2,685	3,013	10,171	10,195
Amortization								
(Intangible asset)	2,832	3,500	-	8	2	3	2,834	3,511
	5,459	5,454	4,859	5,236	2,687	3,016	13,005	13,706

Geographical Segments

The information by geographical segment is as follows (in millions of Korean Won) :

	Asia/Africa/Oceania	North America	South America	Europe/Russia	Domestic	Total
Sales	₩ 2,846,971	₩ 510,245	₩ 98,008	₩ 537,870	₩ 137,604	₩ 4,130,698

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

28. Operating Results for the Final Interim Period

Significant operating results for the three-month period ended December 31, 2003 are as follows

(in million of Korean Won, except per share amount)

	Amount
Sales	₩ 1,136,688
Cost of sale	1,025,427
Operating income	25,949
Net income	(3,252)
Earnings per share	(34)

29. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2003 and 2002 are as follows

(in millions of Korean Won) :

	2003	2002
Transfer to long-term accounts receivable from trade accounts receivable	₩ 21,204	₩ 6,816
Transfer to machinery from inventory	1,744	-
Transfer to machinery from construction-in-progress	1,247	1,360
Transfer to current portion of long-term debts from long-term debts	83,901	1,621
Transfer to Common stock from debt to equity	88,265	33,672
Transfer to long-term debts from reserve for contingencies	62,178	-

30. Termination of the Workout Agreement

On December 30, 2003, the creditor banks committee decided to terminate the workout agreement which was entered into with the Company on March 15, 2002, due to the improved operations and financial performance of the Company. Nevertheless, even though the Company was able to restore its credit rating, the possibility that the creditor banks may simultaneously demand payment of liabilities could still adversely affect its management stability. Based on this, the committee restructured the related debts, details of which are as follows :

— Remaining liabilities and terms and conditions of the liabilities

The repayment of the remaining liabilities shall be repaid in installment for 11 years according to the repayment schedule provided by the creditor banks committee. The debts to KEIC (Korea Export Insurance Corporation) and for certain other creditors shall follow the previous restructuring plans.

— Effective interest rate :

Debts in Korean Won : 3 year Bond Rate of Government + 1.5%

Debts in Foreign Currency : 3M Libor + 1.0%

31. Subsequent events

On January 9, 2004, the Company entered into an agreement for the disposal of its investments in the shares (100% of the shares) of Daewoo Pakistan Express Bus Service Co., Ltd amounting to ₩9,762 million.

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