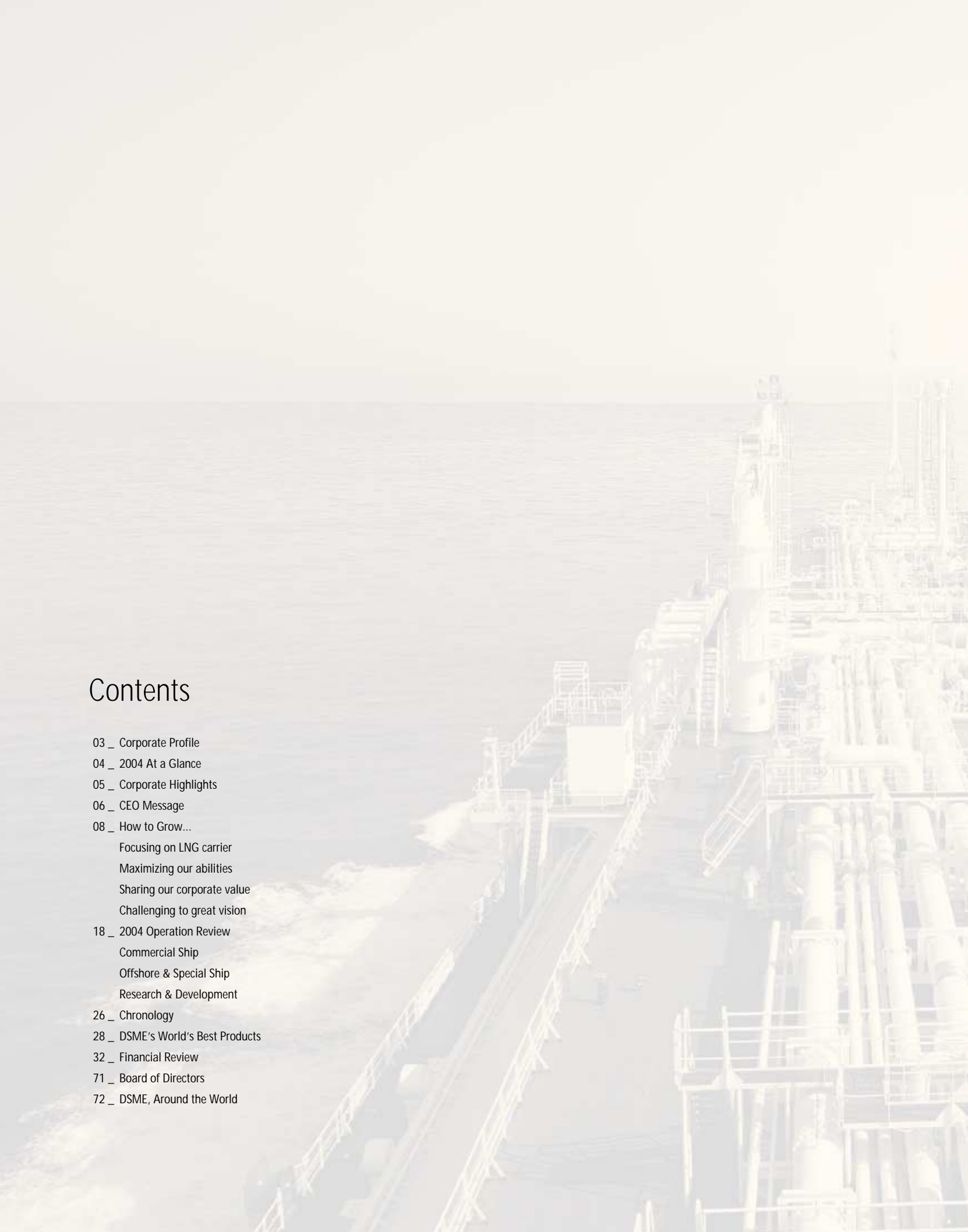


2004 Annual Report

Hauling the Best Reputation | Daewoo Shipbuilding and Marine Engineering is recognized as the world premier shipbuilding company and now moving towards its step for competing with great enterprises of the world.





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In the world's shipbuilding market including European market and American market that sustaining the world's largest economy, the vessels built by DSME are appreciated as "ships of the finest quality" in the world. Major oil producers in the world, who have ordered large-scale projects from DSME, have expressed their unequivocal satisfaction with DSME's technological superiority, on-time delivery and the dedication of its people who spare no effort in satisfying customer requirements, as evidenced by the number of follow-up orders.

DSME, established in 1978 at Okpo Bay, Geoje Island, on the southeastern tip of the Korean Peninsula, has developed into the world's premium specialized shipbuilding and offshore contractor that builds various vessels, offshore platforms, drilling rigs, floating oil production units, submarines, and destroyers. All vessels and offshore products produced by DSME are of unparalleled quality backed by its cutting-edge IT and systemized shipbuilding technologies based on advanced IT, sophisticated offshore platform construction experience building as well as large plant project management skill, the state-of-the-art technological prowess to build submarines and 5,500-ton class destroyers.

DSME employ approximately 1,500 design and R&D personnel with prolific experience, and more than 10,000 skilled workers. These superb workforce work as a team is building environmentally safe vessels with 40-year life span and outfitting that allows easy maintenance and repairs, while fully complying with international standards including IMO.

DSME, reborn as an independent company in October 2000, is fluttering for a bright future, shaping Korea's marine sector. DSME continuously strives to maintain its position as a model company that is committed to the well being of the society as a whole, by producing its products with its earnest dedication to quality in an autonomous, accountable and vigorous working environment. DSME is also devoted to satisfy the needs of both employees and customers as a value-creating company that always protects the interests of its investors through transparent and solid business management.



DSME Okpo shipyard, recognized around the world for its surpassed quality and technology.



2004 At a Glance



The first cash dividend payout _ March

The first cash dividend payout after the corporate spin-off in 2000 carried significance as an occasion to put the Company's emphasis on shareholder value into practice.

Decided to buy back shares _ May

On May 14, 2004, the Company decided to purchase 30 billion won worth of treasury stocks in the market at a meeting of the Board of Directors. And it was completed on October 27.



DSME selected as a good corporate governance company _ June

On June 15, DSME was selected as a good standard company with proper governance structure from the Corporate Governance Service (CGS).

Opened the company's Future Leadership Center _ June

In the opening ceremony at the DSME's Future Leadership Center in Yongin on June 16, President & CEO Sung-Leep Jung announced his plan to make the corporate training center a world-class one comparable to GE's Crantoville or Boeing's Leadership Center.



President & CEO Sung-Leep Jung selected as the best CEO in Asia _ July

In its 2004 Asia Equity Market Report published on July 26, Institutional Investor Research Group, a world-famous securities-related research firm, reported that the Company's President & CEO Sung-Leep Jung was selected as the top CEO among the listed firms in Asia engaged in the transportation business.



Opened an overseas office in Doha, Qatar _ October

In October 2004, DSME opened an overseas office in Doha, Qatar where production and export of LNG were drastically increasing.

Recognized as the Best Shipbuilding Company in 2004 _ November

'Lloyd's List Maritime Asia', one of Hong Kong's leading monthly maritime magazines, has selected DSME as 'This year's best shipbuilder in Asia'.

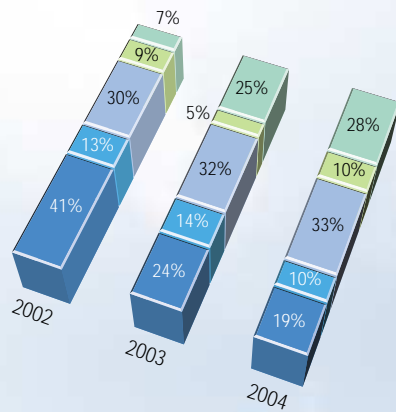
Occupied the No.1 in LNGC _ November

DSME has contracts for 20 LNGC's, which represents 39% of the world LNGC construction market in 2004.

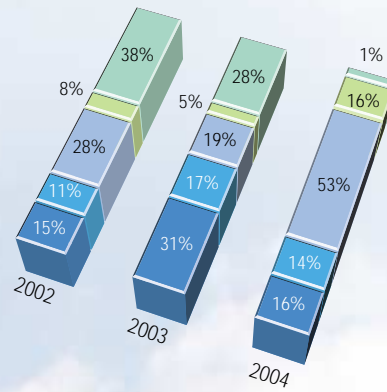


Corporate Highlights

Sales Breakdown

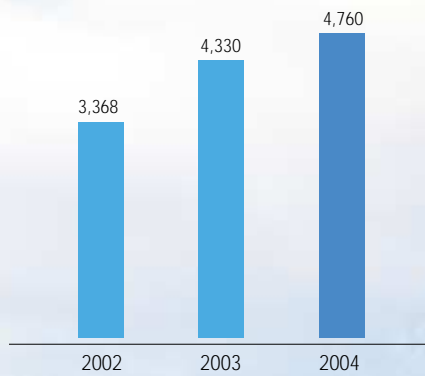


New Order Breakdown

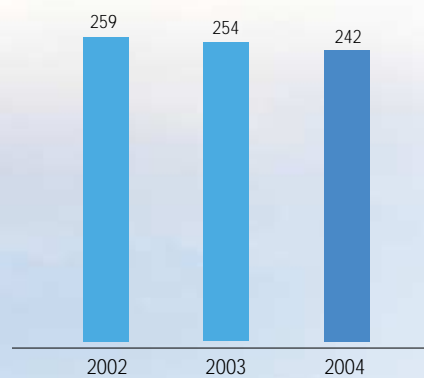


Offshore Plant
Others
Gas Carrier
Containership
Tanker

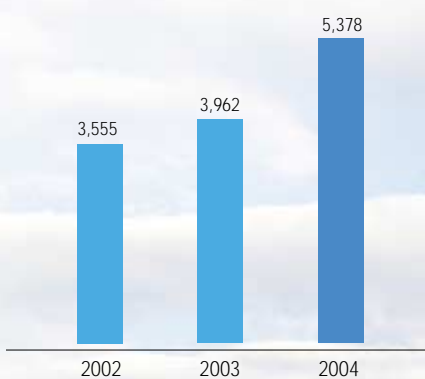
Sales (KRW in billion)



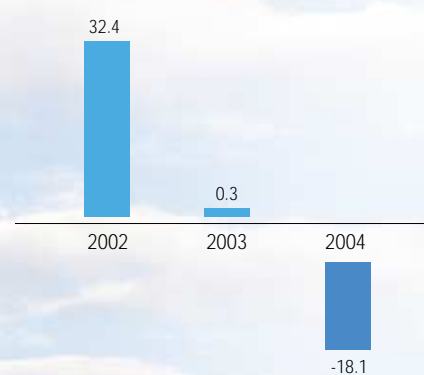
Net income (KRW in billion)



Total Assets (KRW in billion)



Net Debt-to-Equity (percentage)



Forward Looking Statement :

In 2005, the company estimates this year's sales to be KRW4.46 trillion. These forecasts are based on the schedule of confirmed orders, which have contracted payment agreements. However, performance results may differ if there are unexpected events or if the won significantly depreciates.

CEO Message



“We, DSME, consolidated our status as the leading company of shipbuilding industry and are now moving towards our new step for competing with great enterprises of the world. We will concentrate all our efforts in advancing to 'great and credible company' and 'respectable company' over the good company based on the trust and passion of all our employees.”

<<
President & CEO Sung-Leep Jung



Daewoo Shipbuilding & Marine Engineering is constantly growing into a world premier enterprise thanks to your unfailing support and encouragement.

The Company proved that it is the world's leading shipbuilder acknowledged worldwide. We have proved our expertise in receiving 20 LNG carriers for new building order, high value-added product, which outnumbered those of other competitors. Also, we led the industry by developing PI (Process Innovation) based on ERP system as the first and undergoing innovation in personnel management among many others.

Last year, we were exposed to external challenges such as the escalation in the price of raw materials which began from the early 2004 and the rapidly appreciating of Korean currency. In addition, the order for ships we built in 2004 was subject to the low prices which followed the 9th September 2001 USA terror disaster. However, we efficiently handled the difficulties by reducing the construction cost through the voluntary participation of employees and avoiding foreign exchange fluctuation risk by means of currency forward contracts.

With our efforts in handling the difficulties, we accomplished outstanding results with total sales surpassing ₩4.76 trillion, ₩241.8 billion in net income, and increased by 57% in receiving new orders worth of US\$6.67 billion compared to the previous year. This proves that we are able to provide our business with a stable three-year operation plan. However, we have to regrettably advise that our target for operating income fell short last year because of the external factors as described above.

When forecasting this year, we will be making the most difficult judgment in the shipbuilding industry because of the continuously rising raw material costs and the strength Korean Won. However, we are confident in overcoming any unexpected difficulties by our number one position in the industry. The market situation is also more favorable because of the booming trend in the shipping market and the increase in the new building vessel price market.

We have announced our 2005 business plan. The plan is mostly about dealing with an emergency business situation, maintenance of the world's best shipbuilding capabilities, stabilization of the leading management system, and cost reduction, which are all happening in

2005. For the maintenance of capabilities, the plan suggests that DSME employees put emphasis on productivity improvement, optimization of resource allotment, quality advancement, and so on. It also emphasizes the establishment of the PI (Process Innovation) system, continuous practice of clear and transparent management techniques and knowledge management. Furthermore, we will do our best to establish global networks as our long term developing strategy. With these efforts altogether, we target ₩4.46 trillion in total sales and US\$ 6 billion in new orders in 2005.

The company has reached a milestone as the leading company in the shipbuilding industry, and made a new step to compete with other leading companies around the world. The company will continue to maintain its position as the first-class entity, with the first trust and passion that we have established.

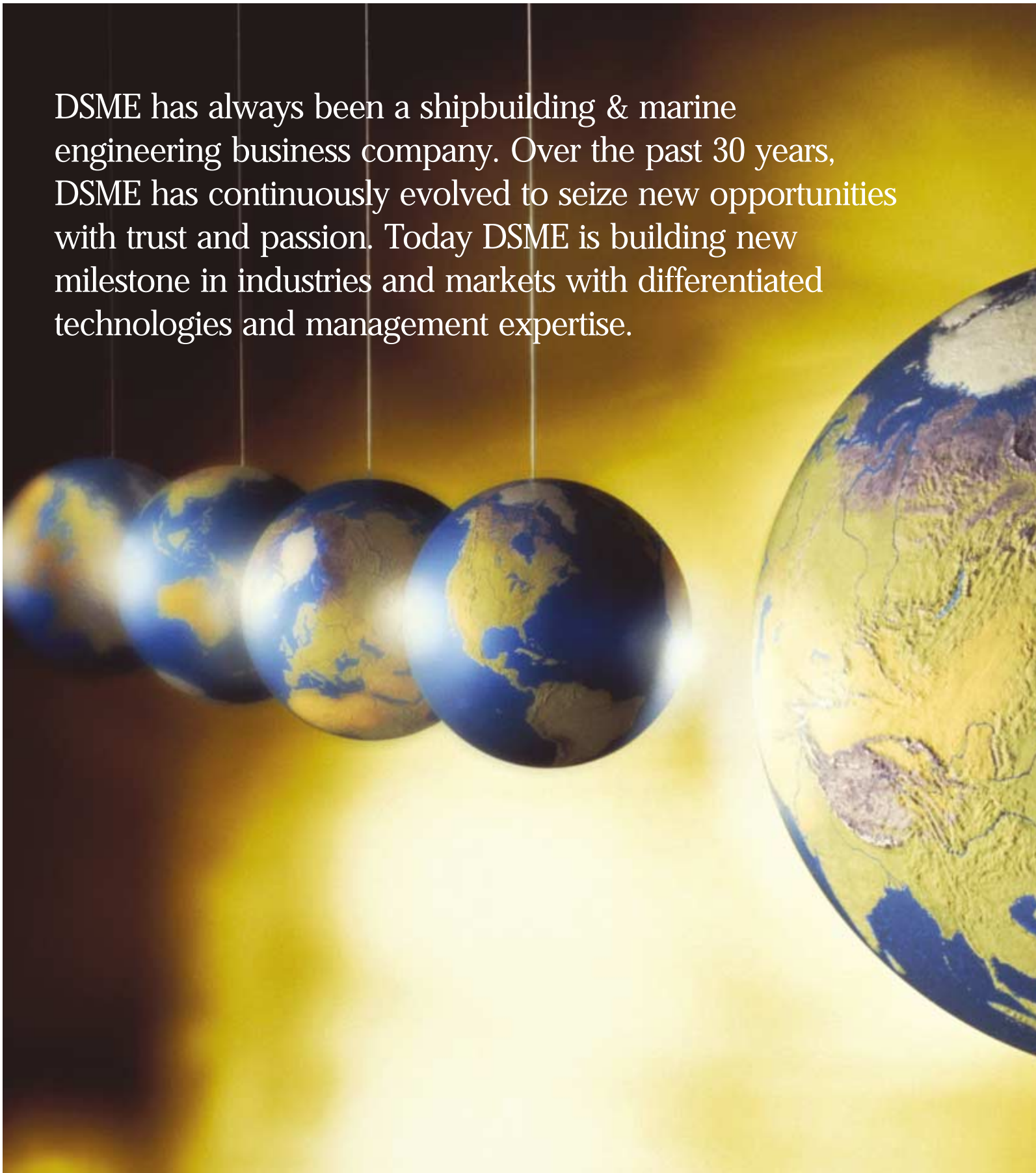
We believe that our achievement would not exist without your support. We want to thank you for your support, and also seek your continued interest and encouragement.

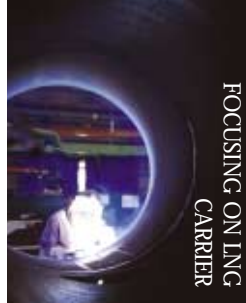


President & CEO **Sung-Leep Jung**

How to Grow...

DSME has always been a shipbuilding & marine engineering business company. Over the past 30 years, DSME has continuously evolved to seize new opportunities with trust and passion. Today DSME is building new milestone in industries and markets with differentiated technologies and management expertise.





Our vision is to become the world's premier company in the shipbuilding and marine industry.

Daewoo Shipbuilding & Marine Engineering targets ₩20 trillion in sales by the year 2015. With this vision, we will solidify the global number one position in shipbuilding industry, as well as grow to be the world's leading floater supplier in marine industry. In addition, DSME plans to complete the vertical integration among the new promising businesses relevant to our existing business lines. Ultimately, we aim to be the world's best shipbuilding & marine engineering company.

_ Vision & Strategic objectives

The world's leading shipbuilding & marine engineering company with sales of 20 trillion Won by the year 2015

Shipbuilding

Global No.1 Shipbuilder
Sales of 12 trillion Won

- Maximization of Okpo shipyard's competitiveness
- Securing a leading position in China

Marine

Global No.1 Floater Supplier
Sales of 3 to 4 trillion Won

- Standardization of FPSO
- Vertical integration of engineering field
- Advance into local market
- Enter into new business

New business

Establishing new business relevant to existing areas
Sales of 4 to 5 trillion Won

- M & A
- Constant growth with our core competitiveness

Capability to operate global network

DSME's unique and constant innovation system

Innovative leadership with "Trust and Passion"



The outstanding performance in LNG carrier, the most value-added ships, allowed us to take pride in our top global competitiveness. And we are now focusing on building the strong and unshakable position in LNG carrier through super sized and high-tech ships.

GLOBAL NO. 1 IN LNG CARRIER

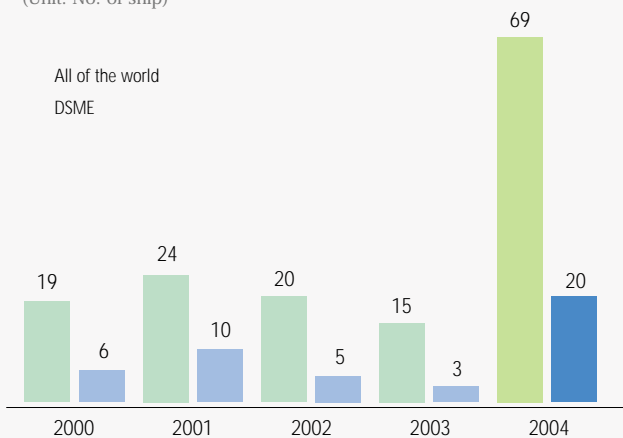
Daewoo Shipbuilding & Marine Engineering received new orders for 20 LNG carriers worth of US\$3.5 billion, the highest value added product, in 2004. This result took up 53% out of the company's new orders in value of the year, which demonstrates our excellent product mix and profitability compared to competitors.

We made an unprecedented record of receiving new building orders for 11 LNG carriers out of total 16 placed jointly by ExxonMobil and Qatar Petroleum in 2004.

DSME has already secured the order backlogs of LNG carrier until early 2008 in delivery base. And the Company is convinced of its leading the coming large-scale, up to 250,000CBM class, LNG carrier demands as well as conventional ones. Furthermore, DSME already disclosed its plan to increase annual LNGC shipbuilding capacity from 8 vessels at present to 14 ones beginning with 2008 to meet the growing situation of LNGC market and increasing demand of LNGCs.

These are the reasons why DSME has been the No. 1 shipbuilder in the world.

LNGC Contracted
(Unit: No. of ship)



FOCUSING ON LNG CARRIER

<<
Daewoo Shipbuilding &
Marine Engineering is the
No.1 LNGC builder in the
world. Order backlogs in
LNGC reach 29 ships at the
end of 2004.

OUR BRIGHT FUTURE

The building of large-sized LNG carrier is a growing trend in the worldwide shipbuilding industry. Daewoo Shipbuilding & Marine Engineering has already recognized its competitiveness in this sector from the top class clients of the world.

The capacity of large-sized LNG carriers ordered from ExxonMobil and Qatar Petroleum last year was over 200,000CBM, which have never been built to date. We expect that the future trends of the LNGC market will depend on these new designs and concepts.

In preparation for this demand, DSME has completed the replacement of the current steam-turbine engine with gas turbine, diesel engine or electric-propelled engine for LNG carriers and also developed the LNG-FSRU, along with the continuous investment in R&D.

It is expected that Qatar Gas Operating Company Ltd. additionally orders 40 to 44 large LNG carriers within next two or three years. Furthermore, the worldwide LNG consumption trend is expected to be doubled up to 240 million tons by the year 2010, which will guarantee the continuous demand on 40 to 50 LNG carriers on a yearly-basis until year 2008. Therefore, we assure that our global No.1 position in LNG carriers will be solidified through the cutting-edge technologies and advanced competitiveness in this sector.

The pride that comes from building the best ship.
It's our corporate value which will guide us for another 100-year future history.



DSME's membrane type LNG ship shows excellent features in terms of low building cost, less fuel consumption, higher speed, superior maneuverability, handier repair accessibility, and easier maintenance compared to other vessels in the same class.

MAXIMIZING OUR ABILITIES

>>

Productivity improvement together with cost saving is an ensuing indication from the effort of maximizing our company's abilities.

THE WORLD'S FIRST PROCESS INNOVATION SYSTEM IN SHIPBUILDING INDUSTRY

March, 2002
Established the PI Administration

August, 2002
Briefed on the task regarding design and construction

January, 2003
Completed design and construction of the new process system

March, 2003
Entered into the construction of the PI Project in earnest

January, 2004
Launched the assessment for the system and entered into test

August, 2004
The new system was able to serve the entire company

In the ongoing effort to become the world's best leader with greater competitiveness in response to the rapid change of market environment, Daewoo Shipbuilding & Marine Engineering implemented PI project as the first in its industry, and launched it last year. The completion of the PI project will provide us with the strong foundation to maximize the company's full-scale capacity.

PI (Process innovation) is a sweeping strategic tool for the pursuit of company's continuing growth under any market circumstances. This is achieved by integrating the functions of previously divided company's strategies, processes, organizations and IT infra structures.

PI was started with introducing PI promotion team with a strong determination for innovation in the company's entire divisions in March 2002, complemented by ERP system, first introduced in its industry, and put 260 full time employees into charge. And the project was successfully completed in August 2004 favored by the efforts.

As a result, PI made it possible for the company to make a fast and precise decision, equip it with overall enhanced operating proficiency, and ultimately gave the company stronger global competitiveness.

Productivity improvement together with cost saving is an ensuing indication from the effort of maximizing our company's abilities.



Successful completion of the PI Project puts in place coordinated work environments that correlate efficiently with the entire corporation. And it will provide us with new opportunities to develop into a knowledge-oriented company.

ADVANCE WITH 'KNOWLEDGE MANAGEMENT' FOR THE BEST COMPANY

With the successful implementation of the ERP system in the company's divisions, Daewoo Shipbuilding & Marine Engineering also commenced a portal site for 'Knowledge Management' to share all the information in the company's divisions through the web as the first in the domestic shipbuilding industry. It first opened in May 2004 to the staffs in Technology, Production, HSE, Quality Control departments, shortly followed by a company-wide application in August in the same year.

This portal site enabled the company to do two-way work processes, ultimately provided us with an essential tool to grow into a total engineering company with stronger competitiveness. It indicates that our company stepped up to a knowledge-based company transforming from previously labor-intensive one.

In particular, our company announced the opening of the Future leadership Center on May 2004. We plans to use this center for various types of education such as the E-MBA course, and for specialized training of leaders and colleagues of our company who have been, or are soon to be promoted.

To become the world's best company using the superior strategy of 'Knowledge Management' is our realistic pursuit for the future.



International quality management certificates including ISO 9001 for both shipbuilding and offshore construction sectors, and API and ASME have been awarded to DSME.



DSME is leading the efforts to share corporate values through transparent management, social responsibility and HSE First management strategy. And we believe that the shared corporate value with all employees, investors, customers and citizens makes the Company create superior and sustainable growth.

QUALITY GROWTH

Daewoo Shipbuilding & Marine Engineering takes the initiative in sharing the corporate value as a Global Standard Company with shareholders, investors, employees and community, to become the world's best in quality as well as in quantity. To this end, the efforts we are making can be summarized in four main activities as follows:

First, we are making an intensified effort to return the benefits to our shareholders, employees as well as to the company itself. This goal is realized through achieving higher profitability along with active investment in high value added ships and establishing a mid-/long-term vision, which altogether will turn into the increased share value.

Second, we are practicing transparent management by implementing a professional manager system and a company-wide resource management system.

Third, we are taking part in social contribution activities, launching "DSME Public Service Group" in May 9, 2003, for the purpose of fostering a better community milieu.

Last, we are realizing an HSE First Management Strategy, by equipping ourselves with the best health, safety and environment systems run by a large organization of 190 employees.



For the employees' health, welfare, and safety, DSME has arranged a specific HSE program. This dedication to creation of an employee and environmentally-friendly enterprise pays dividends in quality control, employee morale and production rate.

SHARING OUR CORPORATE VALUE

>>

We are taking part in social contribution activities, launching "DSME Public Service Group" in May 9, 2003, for the purpose of fostering a better community milieu.

ENJOYED THE REPUTATION

Daewoo Shipbuilding & Marine Engineering gained a globally recognized credibility as a result of the constant effort on the careful Quality Management in 2004.

Sung-Leep Jung, CEO of the company, was selected as the best leader among the listed Asian companies in the transportation sector in '2004 Asia Equity Market Report' issued by 'Institutional Investor Research Group', a global securities research institute. Also, DSME was awarded as the 2004 Asia's best corporate governance company by CLSA and ACGA.

In domestically, the company received the highest credit ratings in the shipbuilding industry, A+, from credit rating agencies, and ranked first and third in the area of transparent management among domestic shipyards and Korea's top 100 companies, respectively.

Furthermore, the company's LNG carrier was designated as the world's best product by Ministry of Commerce, Industry and Energy of Korea, and honored with '2004 Korea's Best Green Management Company'.

The company's internally and externally proved reputation is the indisputable outcome of our efforts to share the corporate value with our entire relevant group.



Sung-Leep Jung, CEO, received Golden Tower Award from Korean Government.

CHALLENGING TO GREAT VISION

>>
We expect to maintain an annual average of 14.5% of growth rate, and ultimately reach ₩20 trillion in sales in 2015.

STRATEGIC GLOBAL NETWORKS

Daewoo Shipbuilding & Marine Engineering has a mid-/long-term vision of reaching ₩20 trillion in sales by the year 2015 through establishing a global-network linking East Europe, Middle East, Africa, East Asia and other regions, while maintaining the current strong competitiveness.

The Head Office in Korea will continue to manufacture the high value added ships as the company's main product, and to function as a center in marketing, R&D, and financing. On the other hand, overseas shipyards will produce competitive ships that they can take advantage of the regional benefits with supports of the Head Office. The blueprint for our vision is that this close collaboration between the Head Office and overseas shipyards will create synergy effects which will lead the company's capacities to be optimized.

As an initial success of implementing global networks, we received orders for six 4,500TEU containerships jointly with Daewoo Mangalia Heavy Industry in Rumania last March. Upon this initiative achievement with Daewoo Mangalia Heavy Industry, we plan to develop this shipyard into the Europe's largest one, taking full advantage of the location of Black Sea and Caspian Sea, where have high potentials for a large-scale offshore oil development.

With these concerted efforts, we expect to maintain an annual average of 14.5% of growth rate, a figure which includes that of overseas shipyards, and ultimately reach ₩20 trillion in sales in 2015.

DSME plans to operate global networks through establishing several major overseas shipyards in the future.

In order to make the great vision a reality, our mission is to be the most competitive shipbuilding & marine engineering company. And we start a challenge through strategic global networks and new business.

STAYING PROFITABLE AND INVESTING WISELY

Daewoo Shipbuilding & Marine Engineering has continued on the business diversification in the areas of robot, ship investment, energy, logistics and others in shipbuilding related business with developing the company's core business as in shipbuilding and offshore.

For the past few years, the company has completed in restructuring its organization, and strengthening the facilities and equipments for the offshore business. As a result, we achieved the order of US\$1.2 billion and US\$1.03 billion in 2002 and 2003, respectively. In detail, we acquired the orders for building offshore plants from the world's top five oil companies such as ExxonMobil, Shell, BP, Total, and Chevron Texaco.

As far as the robot business is concerned, starting with a joint establishment of Robot Research Institute with Korea Polytechnic University in last February, the company is launching into the RT (Robot Technology) industry, which is receiving a growing attention as a next generation industry in line with IT, BT, and NT ones. We plan to invest in this Robot Research Institute ₩3 billion per year for the next ten years, altogether ₩30 billion. To achieve the plan for RT business, the three steps will be applied as follows: First, develop industrial robots applicable to our company; second, devise technologies to commercialize our products which already passed tests for validation in the previous step; last, expand the business to the development of robots coexisting with humans.

Also, we are taking the leadership in other activities through establishing an investment company for ships in early 2002, together with Korea's leading shipbuilding and shipping companies. The company will focus solely on the relevant businesses such as robot, energy, logistics and in those areas we target ₩4 to 5 trillion in sale in 2015.



DSME has independently developed and acquired all the processes such as manufacturing and operation of the robots.

2004 Operation Review

The owners of ships built by DSME have given testimonial of their satisfaction of outstanding performance and quality that cannot be matched by any other shipbuilder. Even in the markets in the West, where many ship owners are located, "owning a DSME-built vessel" is on top of every ship owners' wish list.





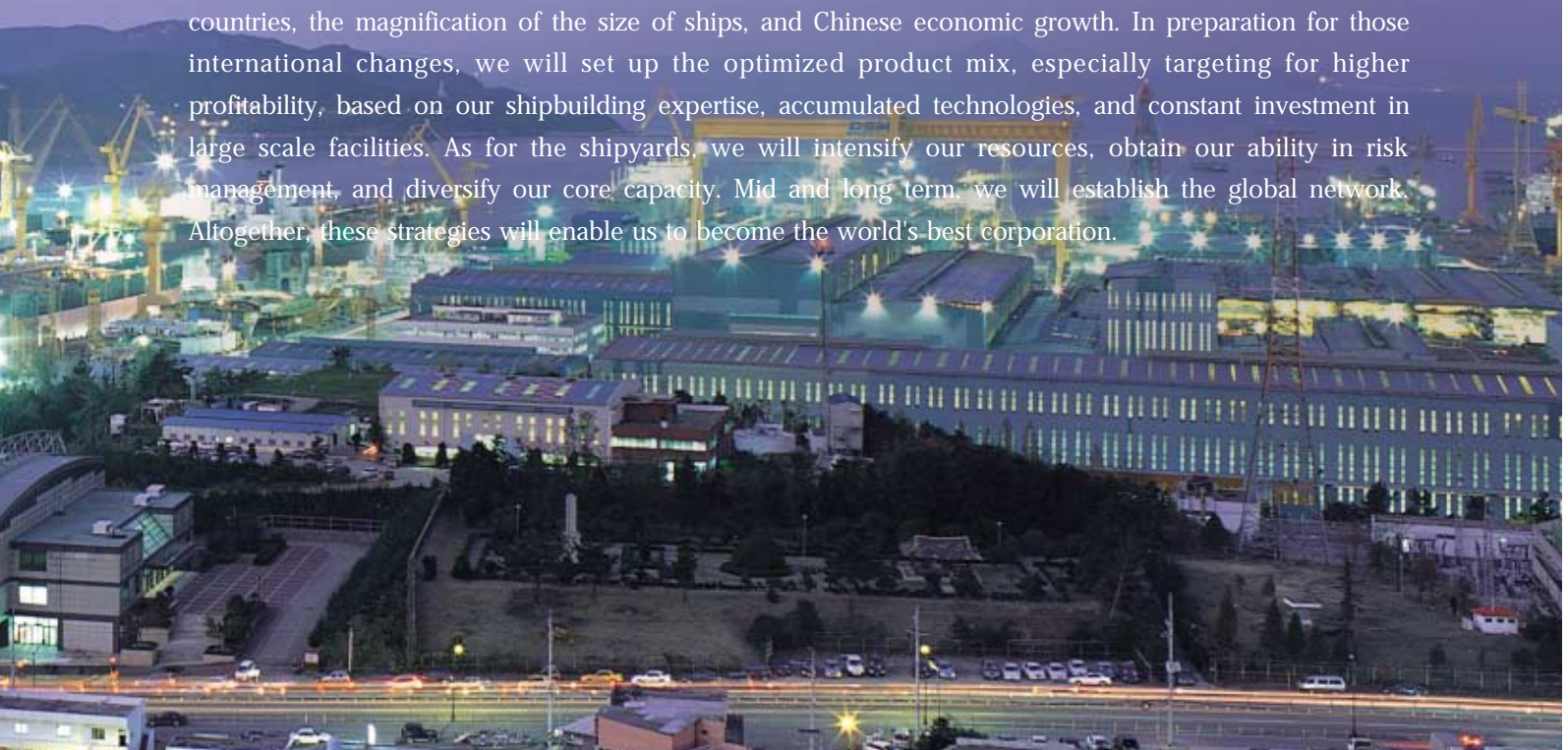
Since its foundation in 1973, Daewoo Shipbuilding & Marine Engineering has been advancing its business from LNG carrier, tanker, containership, bulk carrier, to making offshore plant, oil drilling rig, floating crude oil production facilities, ferry, submarine, destroyer, and others.

Despite facing many challenges such as deep increase of price of raw materials and a weaker US dollar, we achieved remarkable operating results in 2004, surpassing ₩4.76 trillion in sales, ₩241.8 billion in net income, and US\$6.67 billion in new orders, up 57% from the previous year, as a result of a booming in LNG carrier market and a rising ship price in general.

Also, we introduced PI (Process Innovation) system across all our business units as the first in the industry as a preliminary step to be the world's best company. Meanwhile, our unremitting efforts for the transparent management, to ethically run the business, the company was awarded as a superior enterprise for corporate governance and also was honored with top third company in Korea for transparent management.

In 2005, we set ₩4.46 trillion for our sales target and US\$6 billion for receiving orders. We create those targets somewhat conservatively. To carry out this goal, we will concentrate on maintaining the company's competitiveness and stabilizing our advanced management system. In addition, we will continue to make efforts on cost reductions and selectively receiving orders for high value added products.

Looking ahead, we anticipate that the increasing demands will be placed in LNG carriers from advanced countries, the magnification of the size of ships, and Chinese economic growth. In preparation for those international changes, we will set up the optimized product mix, especially targeting for higher profitability, based on our shipbuilding expertise, accumulated technologies, and constant investment in large scale facilities. As for the shipyards, we will intensify our resources, obtain our ability in risk management, and diversify our core capacity. Mid and long term, we will establish the global network. Altogether, these strategies will enable us to become the world's best corporation.



COMMERCIAL SHIP



DSME

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We possess the world's
most competitive capacity
of making LNG carriers
and other high value
added products.

Daewoo Shipbuilding & Marine Engineering builds 40 commercial vessels annually, as a result of the most efficient equipment such as the world's largest 1 million ton class dock and 900 ton goliath crane, advanced IT technology and JIT (Just in Time) production system. We also possess the world's most competitive capacity of making LNG carriers and other high value added products, and 300,000 ton class tanker and other large scale commercial ships. On top of it, we are capable of building any sizes or types of ships, where customers' needs are, which include over 8,400 TEU class containership, medium size containership & tanker, and car carrier, without compromising functional versatility or quality.

The achievements of commercial shipbuilding business in 2004 were remarkable. The company achieved 2.2 million CGT, up 5.2% from the previous year in production volume, exceeding the target of the year. Also we proved our strong competitiveness by receiving the prestigious awards of 'the best ships of the year' by globally recognized magazines specialized in the shipbuilding and marine industry. The awarded ships were altogether up to 7 different kinds: LNG carrier, 300,000 ton class crude oil tanker, 115,000 ton class medium size tanker, car carrier, bulk carrier, and two other ships. The receiving new orders in this business also was very encouraging, 64 ships worth of US\$6.5 billion, by a 115% increase from the previous year.

We target US\$4.3 billion in receiving orders of commercial ships for 2005. To fulfill this goal, we will concentrate on receiving orders for high value added ships such as LNG carriers selectively. Based on our company's accumulated expertise and advanced technologies in LNG carrier, proved by a number of orders from ExxonMobil and Qatar Petroleum, we will firmly remain world's best shipbuilder and try to be best in the area of large scale containerships.



OFFSHORE & SPECIAL SHIP

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We will make every effort to enhance our competitiveness in FPSO as our next generation growth engine including Floater Projects.



Offshore & Special Ship

Daewoo Shipbuilding & Marine Engineering boasts of unique technologies developed and owned by company for the marine business, which includes whole process of designing, building, and the delivery of finished products to customers. The superb technology of our company has always been our key element to success, granting us best reputation from world's major oil companies such as ChevronTexaco, ExxonMobil, BP, Total, Royal Dutch Shell, and many others.

Our company has also gained recognition for successful execution of EPCI (Engineering, Procurement, Construction, and Installation) and setting up the Global Resource Network. Based on the operational efficiency that we have achieved over the year, we presently have established our position as a world class offshore contractor.

Last year, our main achievements in marine business were the successful construction of "BP Thunder Horse," the worlds' largest semi-submersible crude oil production and drilling facilities, and the astounding performance of the "Sanha Project" of Chevron Texaco. Based on these impressive results, we posted a record of US\$1 billion in total sales, 25% of enhanced productivity from the previous year.

We have pursued the improvement of productivity and profitability in the special ship which is including submarines, destroyers, rescue ships and ferries. Receiving the order of submarine construction from Indonesia was the result of our efforts, demonstrating our excellence in technology.

Offshore and special ship business targets at US\$1.7 billion of receiving orders for 2005. To realize this goal and the vision to become the world's best special ship builder, we will make every effort to enhance our competitiveness in FPSO as our next generation growth engine including Floater Projects.



RESEARCH & DEVELOPMENT

>>
DSME is operating 4
research centers for R&D,
and the institutes consist of
140 researchers.



Research & Development

Daewoo Shipbuilding & Marine Engineering is running 4 research centers for R&D. They are first, Ship & Ocean R&D Institute with the focus of exploring fundamental technologies for ship and marine products; second, Industrial Application R&D Institute which concentrates on developing technologies for operational purposes like welding and for keeping ships from abrasion; third, Ship Basic Performance Research Institute that specializes in doing research on the hydraulic structures and functions of ship and marine products; and last, Robot & A.I R&D Institute for the automation of welding and painting.

The company's four research institutes consist of 140 researchers in Ship & Ocean R&D Institute; 90 in Industrial Application R&D Institute; 50 in Ship Basic Performance Research Institute; and 40 in Robot & A.I R&D Institute. They are company's brightest researchers, who are leading the next generation technology in the vessel and marine area. Among the four institutes, the Robot & A.I R&D Institute started developing the robots for the production automation and the artificial intelligence robots from April 2004.

The main achievements of the research institutes are: the developments of concept design of LNG RV Regasification Process, and FPSO & FSRU Collision Analysis Procedure by the Ship & Ocean R&D Institute; the developments of Production Planning & Manufacturing Execution system, Welding Technologies for Commercial Ships and Offshore Structure, and the ERP system by the Industrial Application R&D Institute; the developments of 200K CBM large LNG carrier, and 2.16m. bbls FPSO by the Ship Basic Performance Research Institute; and the developments of Automatic Painting Robot System for the external plate of side shell, and robots to apply to dangerous works instead of human by the Robot & A.I R&D Institute.

Daewoo Shipbuilding & Marine Engineering will continue to maintain our world's best competitiveness; stabilize advanced management system; and, establish 'Knowledge Management' by strengthening our company's profitability and cost reductions.



Chronology



1970s The Background for the Growth of the Korean Marine Industry

- 1973. 10 Groundbreaking for Okpo Shipyard
- 1978. 10 Established Daewoo Shipbuilding & Heavy Machinery Co., Ltd.
- 1979. 09 Received the first order (WESTFAL LARSEN, four 22,500DWT chemical tanker)
12 DSHM's first overseas office established in Oslo, Norway

1970~



1980s Growth and Struggle

- 1980 05 Established the London Branch Office
- 1981 02 Established the Houston and the Tokyo Branch Offices
Completed the 900 ton-class Goliath Crane
- 1982 11 Received with the '100 Million Dollar Export Award'
12 Established the Ship & Offshore R&D Center
- 1983 11 Received with the '500 Million Dollar Export Award'
- 1984 03 Imported the nation's largest floating dock
05 Obtained the shipbuilding industry's record for launching the most number of ships simultaneously at No. 1 Dock(7 ships)
- 1987 08 Established the DSHM Worker's Union
- 1989 03 Finalized the reorganization plans for DSHM
08 Promoted 'Vision 90s' business innovation movement



1980~

1990s Overcoming the Obstacles and Moving Forward

- 1991 06 Obtained the quality certificate regarding LNGC production
- 1992 10 Launched the nation's first attack submarine, 'Lee Chun'
- 1992 12 Obtained ISO 9001 certification in the Shipbuilding & Offshore plant category
- 1993 01 Launched 2 VLCCs simultaneously for the first time in the world shipbuilding history
- 1994 10 DSHM was merged into Daewoo Heavy Industries Ltd.
- 1995 06 Established the Greece Branch Office
- 1995 10 Launched the nation's first submarine rescue ship "Chung Hae Jin"
- 1996 05 Produced the nation's first Autonomous Underwater Vehicle
- 1997 01 Acquired ISO 14001 Environment Management Certification
- 1998 11 Awarded with the Golden Tower Industry Medal
- 1999 07 Received the Y2K Certification for the first time in the shipbuilding industry
- 1999 08 Announced DHI under 'Workout'

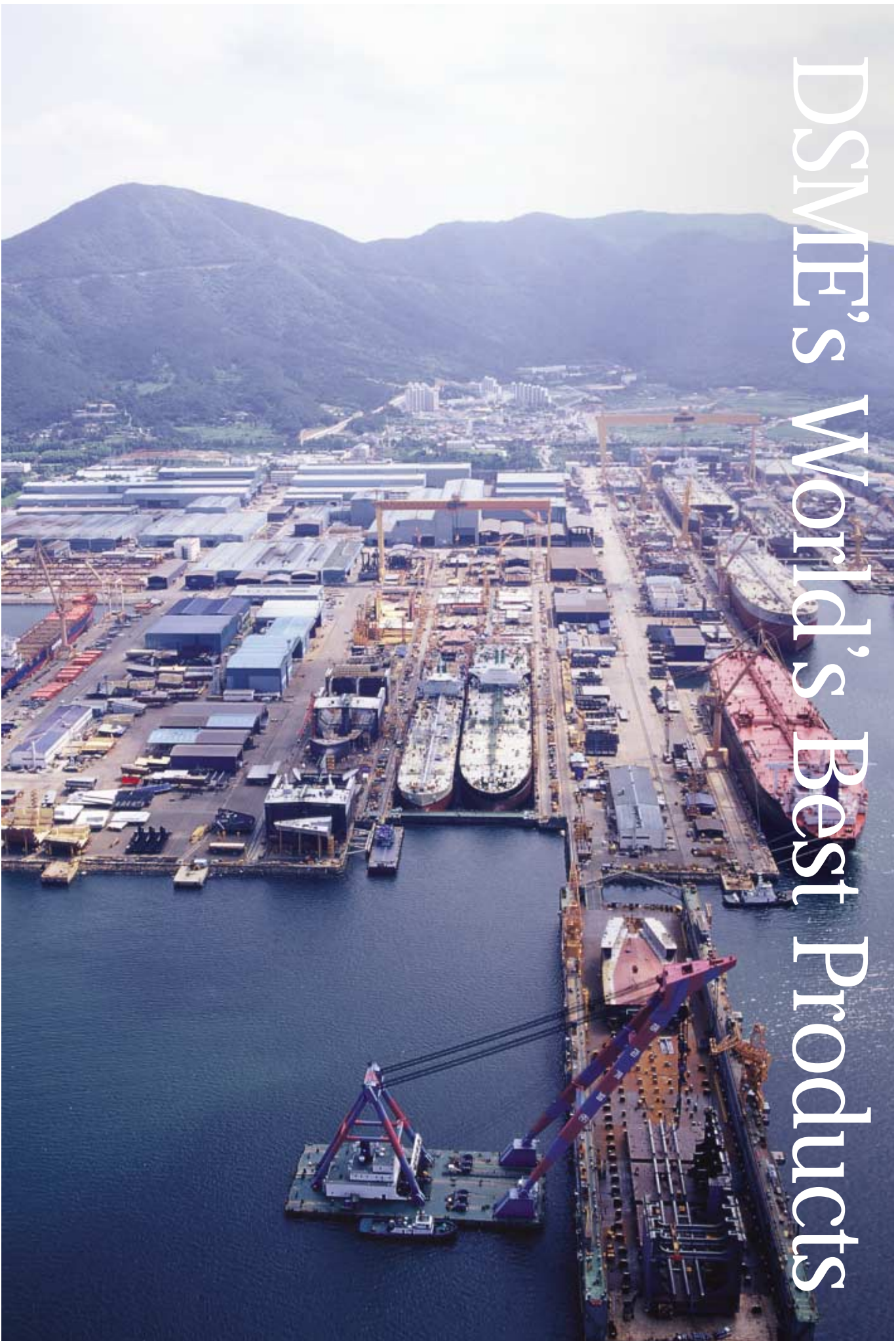


2000s Another Challenging Era

- 2000 10 DHI's Shipbuilding and Heavy Machinery Division became independence from DHI
- 2000 10 Declared DSME's independence
- 2000 12 Obtained the Certificates ISO 17025 regarding the International Test, Analysis, Inspection, and Correction
- 2001 02 Listed on the Korean Stock Exchange
- 2001 05 Delivered the nation's first export destroyer to the Bangladesh Navy
- 2001 07 President & CEO Sung-Leep Jung inaugurated
- 2001 08 Graduated from the workout program
- 2002 03 Adopted the new Korean corporate title
- 2002 06 Included in 'KOSPI 200', a set of leading stocks on the Korea Stock Exchange
- 2003 01 Declared the corporate culture 'Trust and Passion'
- 2003 02 Invested in the Korea Marine Fund Corporation
- 2003 04 Established the Robot R&D Institute
- 2003 06 Offered GDRs (16% of total shares)
- 2003 11 Received the Export Tower Award for US\$2 billion exports, and the Golden Tower Award
- 2003 12 Delivered the first 4,500dspt class destroyer, "Chungmugong Leesoonshin"
- 2004 06 The Company's Future Leadership Center opens
- 2004 08 Operated the world's first 'PI (Process Innovation) System' in shipbuilding industry
- 2004 10 Established overseas office in Doha, the State of Qatar



DSME's World's Best Products



DISHA



1. LNGC(138K cbm)

Ship Name : DISHA

Owner : MOL Consortium

277.0 x 43.4 x 26.0 x 12.0 (L x B x D x Ts)m

WORLD LION



2. VLCC(300K dwt)

Ship Name : WORLD LION

Owner : World Wide Shipping Agency Pte. Ltd.

332.0 x 58.0 x 31.2 x 22.0 (L x B x D x Ts)m

MONTE CERVANTES



3. Containership(4,000 teu)

Ship Name : Monte Cervantes

Owner : Hamburg Süd

274.0 x 40.0 x 24.2 x 11.5 (L x B x D x Ts)m

ANANGEL INNOVATION



4. Bulk Carrier(170,000 dwt)

Ship Name : ANANGEL INNOVATION

Owner : ANANGEL MARITIME SERVICE INC.

289.0 x 45.0 x 24.2 x 16.5 (L x B x D x Ts)m

>> Shipbuilding Process



1. Design



2. Steel Cutting



3. Assembly



4. Pre-Outfitting



5. Painting



6. Erection



7. Launching

Products	Total		Delivered		On Order	
	No.	G/T	No.	G/T	No.	G/T
Tankers	258	24,759,709	220	21,392,269	38	3,367,440
LNGC	47	4,704,900	18	1,730,500	29	2,974,400
Bulk	145	7,693,884	136	6,923,484	9	770,400
Container	118	6,222,098	95	4,345,598	23	1,876,500
Car Carriers	48	2,660,534	33	1,777,034	15	883,500
Ferries	7	106,831	7	106,831	0	–
Others	13	316,400	2	63,600	11	252,800
Sub-Total	636	46,464,356	511	36,339,316	125	10,125,040
Fixed Platform	26	–	23	–	3	–
FPU/FPSO	11	–	8	–	3	–
Drilling Rig	14	378,635	14	378,635	0	–
Others	365	–	362	–	3	–
Sub-Total	416	378,635	407	378,635	9	–
Naval & Special Ships	67	268,774	63	257,574	4	11,200
Total	1,119	47,111,765	981	36,975,525	138	10,136,240

ANNE-LAURE



5. LPGC(78.5K cbm)

Ship Name : ANNE-LAURE

Owner : Geogas Shipping SA.

224.5 x 36.0 x 22.3 x 11.7 (L x B x D x Ts)m

SUBMARINE



5. Submarine

Type : Class 209

Owner : ROK Navy

1,200 tonnage

>> Offshore Plant Process



8. Outfitting



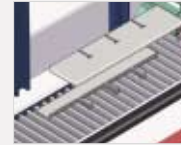
9. Sea Trial



10. Naming & Delivery



1. Engineering & Design



2. Steel Cutting



3. Assembly

Thunder Horse



1. Semi-Submersible Production & Drilling Platform

Client : BP

Project : Thunder Horse

160 x 125 x 58 (Overall L x Overall W x Deck H)

FIXED PLATFORMS



2. Fixed Platforms (3 units)

Client : CHEVRONTXACO

Project : Sanha Condensate

DESTROYER



4. Destroyer

Owner : ROK Navy

5,500 tonnage

TERRA NOVA

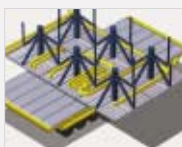


3. FPSO(Floating, Production, Storage, Offloading)

Ship Name : TERRA NOVA

Owner : Halliburton Canada Inc.

291.0 x 45.5 x 28.2 x 20.0 (L x B x D x Ts)m



4. Pre-Outfitting



5. Painting



6. Hinge Turnover



7. Installation of Equipment



8. Launching & Transfer



9. Topside Installation



10. Test/Commissioning & Delivery

Financial Review



MD & A



FINANCIAL STATEMENTS



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Management's Discussion and Analysis

The financial information and related discussion is presented on a non-consolidated basis and has been classified in accordance with accounting principles generally accepted in Korea (Korean GAAP). Amounts are presented in billions of Korean Won, except where stated otherwise. The section also contains forward-looking statements with respect to the financial condition, results of operations, and business of Daewoo Shipbuilding & Marine Engineering Co., Ltd., and plans and objectives of the management of DSME. Statements that are not historical facts, including statements involving known and unknown risks, uncertainties, and other factors which may affect the actual results or performance of DSME may be materially different from any future results or performance expressed or implied by such forward-looking statements. DSME does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this section, and nothing contained herein is, or shall be relied upon as, a promise, whether as to the past or the future. Such forward-looking statements were based on current plans, estimates, and projections of DSME and the political and economic environment in which DSME will operate in the future, and therefore you should not place undue reliance on them. Forward-looking statements speak only to conditions as of the date they are made, and DSME undertakes no obligation to update publicly any of them in light of new information of future events.

PERFORMANCE OVERVIEW

In 2004, Daewoo Shipbuilding & Marine Engineering achieved ₩4.76 trillion in sales and ₩60.8 billion in operating income, up 10% and down 82% year on year, respectively. The company has achieved an average of 17% in annual sales growth since 2001. We are expecting that the annual sales growth of our company will be continued in the future due to the constantly high sales growth rate in LNG carrier and other high value add products. For example, the business in LNG carrier received new building orders for 20 ships worth US\$3.5 billion in 2004, which the record tells our outstanding performance in the world.

Despite the stable growth in sales, the striking decrease in operating income is attributable to the appreciation of Korean won and the higher prices of raw materials like steel plate, which have affected overall domestic shipbuilding companies alike last year.

While major competing companies in the industry recorded net loss in operating income for fiscal year 2004, Daewoo Shipbuilding & Marine Engineering posted net gain. This is the result of focusing on high value add products such as LNG carrier, as well as proper risk management against the fluctuation of exchange rate through the FX hedging.

In other words, we could overcome the difficult market environment through our distinctive superiority in product mix and the high management efficiency in 2004.

The company's main products are Tanker, Containership, LNG carrier, Offshore Plant and others. The respective shares of total sales by unit were 19% for the construction of Tanker, 10% for the Containership, 33% for the LNG carrier, 28% for the Offshore Plant, and 10% for the other products in 2004.

Sales
(KRW in billion)

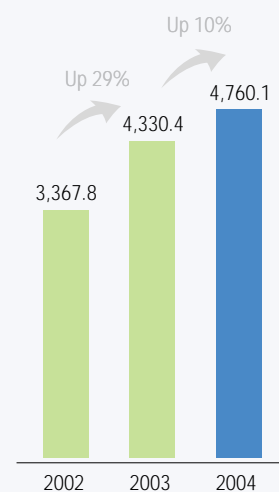
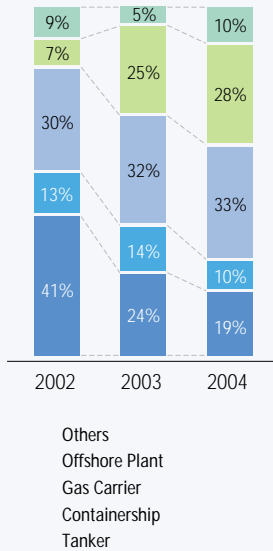


Table 1. Operating results:

(Unit: KRW in billion)	2002	2003	2004
Sales	3,367.8	4,330.4	4,760.1
Gross income	480.0	610.4	266.0
Operating income	271.0	345.4	60.8
Ordinary income	355.1	367.9	340.8
Net income	259.2	254.2	241.8

Management's Discussion and Analysis (Continued)

Sales Breakdown



PERFORMANCE RESULTS

Sales | Total sales in 2004 reached ₩4.76 trillion, a figure that breaks down as follows:

First, sales in Gas carrier, which is our leading product, amounted to ₩1.57 trillion, up 15% from the ₩1.36 trillion recorded during the previous year, with an improvement of 2% points in sales contribution.

Offshore plant achieved ₩1.33 trillion in sales, 22% more than in 2003, which was up 3% points in sales contribution from the previous year.

Sales in Tanker and Containership business fell somewhat: sales in Tanker recorded ₩915.2 billion, down 13%; sales in Containership ₩452.9 billion, down 27% from the previous year. The lower figures reflect a rapid shift to the high value added LNG carrier business from conventional ones in product mix.

Daewoo Shipbuilding & Marine Engineering represents 28% of LNGC market share of the world as of December 31, 2004. Our competitiveness marked by the enhancing capabilities and accumulated expertise in shipbuilding will continuously be the key enabler to maintain and expand our market dominance.

New Orders and Order Backlogs | Daewoo Shipbuilding & Marine Engineering received total new orders of 67 commercial/special ships and offshore plants, amount of 5.5 million GT and worth of US\$6.7 billion. These orders break down as follows: 20 LNG carriers, 16 Tankers, 10 Containerships, 6 Bulk carriers and 15 other products.

Accordingly, our total order backlogs as at the end of 2004 are 138 ships & units, the figure which is specified as 29 LNG carriers, 38 Tankers, 23 Containerships, 9 Bulk carriers, 26 other types of ships; 9 Offshore plants; and 4 Special/other types of ships, which altogether reaches the worth of US\$13 billion.

We have already secured shipbuilding orders for LNG carrier until early 2008 in delivery base, and we are confident in maintaining leading position in the industry through assured our capabilities of building the world's largest LNG carriers.

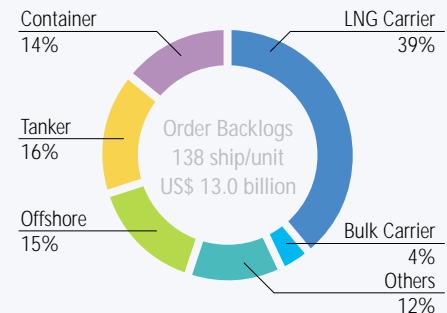
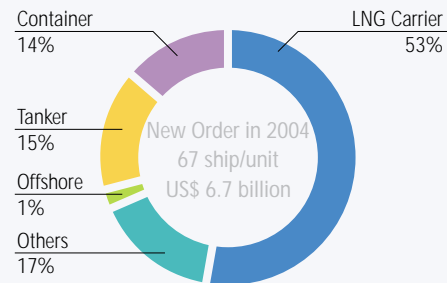


Table 2. Status of Orders

	2002	2003	2004
New orders (ship/unit)	36	56	67
New orders in value (US\$ in billion)	3.3	4.2	6.7
Order backlogs (ship/unit)	101	112	138
Order backlogs in value (US\$ in billion)	8.1	9.6	13.0

Management's Discussion and Analysis (Continued)

Profitability | In 2004, the cost of sales was ₩4.49 trillion, which was 21% higher than the ₩3.72 trillion recorded during the previous year, due to higher prices of raw materials like steel plate. Accordingly, gross margin amounted to ₩266.0 billion, down 56% from 2003. While gross margin rate posted 5.6%, selling and administrative expenses was ₩205.2 billion, 23% lower than that of the previous year, owing to the decrease in other commission fees and amortization on intangible assets. In the mean time, operating income that subtracted SG&A recorded ₩60.8 billion, along with a lower operating income to sales revenue ratio.

Non-operating income/expense improved significantly from a net gain of ₩22.5 billion in 2003 to net gain of ₩280 billion in 2004. Major gains were achieved from foreign currency transactions, valuation of currency forward, and derivatives traded for both cash flow and dealing purposes to avoid exchange fluctuation risk.

Taken together, ordinary income in 2004 was ₩340.8 billion, a decrease of 7% from 2003 and net income recorded ₩241.8 billion; income tax amounted to ₩99.0 billion; the rate of return on net sales was 5%; and net earnings per share was ₩1,264.

Earnings Per Share (KRW)



FINANCIAL STATUS

Total assets increased up 36% to ₩5.38 trillion from ₩3.96 trillion in 2003. Short-term investment for financial instruments was ₩659 billion, boosted by ₩276 billion from the previous year. Current assets surged considerably by the increased cash and cash equivalents, and accounts receivable, attributed to accelerating the operational activities. Investment assets from financing activities such as hedging relevant to foreign currency fluctuations also increased.

Total liabilities recorded ₩3.62 trillion, up 42% from the previous year. It is mainly affected by the rising advances from customers. As the company's current assets in cash and cash equivalents exceeded its borrowings in 2004, the net debt ratio was substantially -18%.

Total stockholders' equity was ₩1.76 trillion, up 25% year on year, due to the increased retained earnings that is attributed to the accumulated net gain since 2000, and the generating of gain on valuation of currency forward contracts from the previous year. Upon the decision made by Board of directors in August 23, 2004, common stocks worth of ₩15.4 billion was retired by the company. As a result, the number of issued stocks decreased, whereas paid in capital remained the same as in the previous year.

Foreign assets recorded US\$272.4 billion, which is reflected that the ₩29.7 billion loss in foreign currency transactions was included in non-operating expense. Foreign debt posted ₩858.9 billion, with considering the ₩75.3 billion gain from foreign currency transactions as non-operating income.

Net Debt-to-Equity (%)

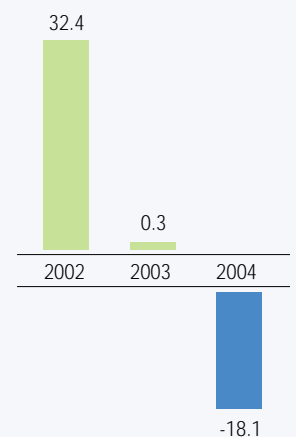


Table 3. Summarized balance Sheets

(Unit: KRW in billion)	2002	2003	2004
Current assets	1,281.7	1,712.0	2,725.9
Fixed assets	2,273.7	2,249.5	2,652.5
Total assets	3,555.4	3,961.5	5,378.4
Current liabilities	1,978.8	2,217.1	3,221.5
Fixed liabilities	320.0	336.1	400.2
Total liabilities	2,298.8	2,553.2	3,621.7
Total shareholders' equity	1,256.6	1,408.3	1,756.7

Management's Discussion and Analysis (Continued)

FINANCIAL RATIOS

ROE and ROA were 15.3% and 5.2% respectively, which were both down 3.8% points and 1.6% points from the previous year. The main factor of these lower figures was the strength of Korean won and the escalating costs for raw materials, which resulted in the overall lower profitability in the domestic shipbuilding industry. Despite the backdrop which negatively affected to the industry, our performance excelled by far the average of other competitors. Dependency on debt has continuously decreased from 15.9% in 2003 to 10.8% in 2004. Net worth to capital ratio represented about 35.3%.

Table 4. Financial Ratios

	2002	2003	2004
Return on equity	25.5%	19.1%	15.3%
Return on assets	7.6%	6.8%	5.2%
Reliance on debts	15.6%	15.9%	10.8%
Sales growth rate	11.7%	28.6%	9.9%
Shareholders' equity growth rate	61.7%	12.1%	24.7%
Net debt-to-equity	32.4%	0.3%	-18.1%
Net income margin	7.7%	5.9%	5.1%

2005 OUTLOOK

Despite the ascent outcome in receiving orders and steady growth in sales in the shipbuilding industry, the overall profitability was somewhat weakened in 2004, by rising cost for raw materials like steel plate and the appreciation of Korean Won.

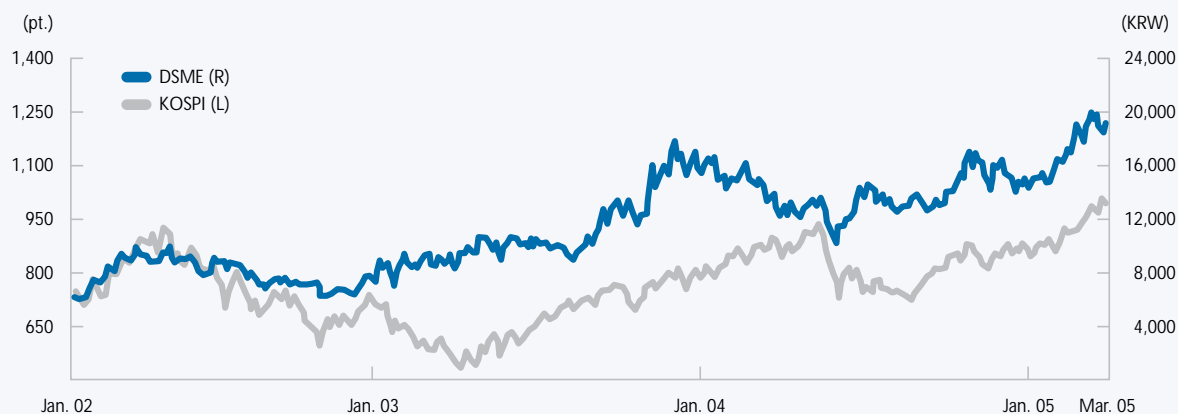
The industry outlook of 2005 is more favorable because of the booming trend in the shipping market and the increase in the new building vessel price market even though we will meet the most difficult moment because of the continuously rising raw material costs and the strong Korean Won.

For example, based on the official resources, the actual orders for LNG carriers in 2005 are globally anticipated to be even higher than 40 vessels. It will be awarded from Qatar, Yemen and other projects all over the world.

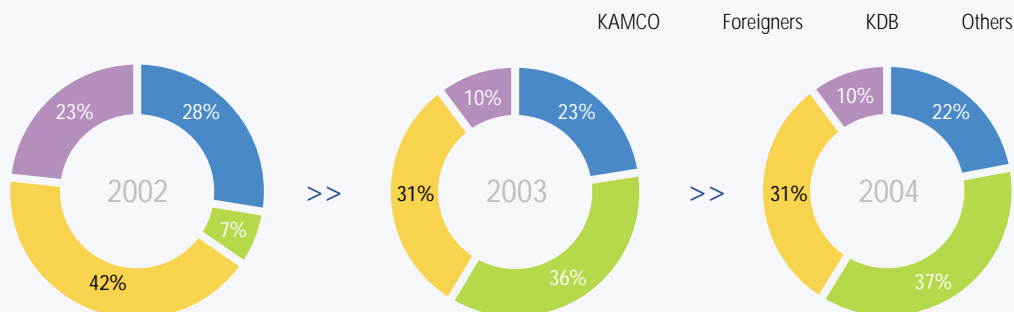
Our specialty in building large scale vessels and excellent technologies in design make it possible for our company to be better positioned in receiving additional shipbuilding orders over other shipbuilders.

Taken together, we target US\$6 billion in receiving new orders and ₩4.46 trillion in sales for 2005.

3-YEAR STOCK PRICE CHART



SHAREHOLDER STRUCTURE



IR ACTIVITIES

Daewoo Shipbuilding & Marine Engineering is endeavoring to attract and maintain our investors, and to be assessed as our actual corporate value through voluntary and consistent IR activities, in the pursuit of achieving corporate reliability and management transparency. We are opening the dependable information of the company's vision, achievements, and future prospects to our investors. In addition, we are reflecting the opinions from investors to the business, which cultivates the communication between investors and management.

During 2004, Daewoo Shipbuilding & Marine Engineering has posted its financial data in public for the individual and institutional investors monthly as well as quarterly, by using various channels like fair disclosure, our website and emails. Also, we have provided the information of our financial data and business status with our investors by hosting company explanatory sessions domestically and internationally, and attending conferences and meetings among others. Furthermore, we have kept our on-time update of our financial information to offer our investors a faster access to it.

Our apt IR activities benefited us to be selected as the most promising stock in its industry and to maintain a high foreign-held equity as in 2004.

Independent Auditors' Report



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The Board of Directors and Stockholders
Daewoo Shipbuilding & Marine Engineering Co., Ltd.:

We have audited the accompanying balance sheet of Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company") as of December 31, 2004, and the related statement of income, appropriation of retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Company as of December 31, 2003, were audited by other auditors whose report thereon dated February 6, 2004, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daewoo Shipbuilding & Marine Engineering Co., Ltd. as of December 31, 2004, and the results of its operations, the changes in its retained earnings, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying financial statements as of and for the years ended December 31, 2004 and 2003 have been translated into United States dollars solely for the convenience of the reader and have been translated on the basis set forth in note 2 to the financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1(b) to the financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position,

Independent Auditors' Report (continued)

results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As discussed in note 8 to the financial statements, the Company recorded sales of ₩123,200 million (\$118,030 thousand) to and purchase of ₩23,389 million (\$22,408 thousand) from related parties for the year ended December 31, 2004. Also, ₩482,488 million (\$462,242 thousand) and ₩334,780 million (\$320,731 thousand) were due from and due to related parties, respectively, as of December 31, 2004.

As discussed in note 1(b) to the financial statements, effective January 1, 2004, the Company adopted Statements of Korea Accounting Standards No. 10, No. 12 and No. 13. Certain accounts of prior year's financial statements were reclassified to conform to the current year's presentation. These reclassifications did not result in any change to reported income or stockholders' equity.

As discussed in note 19 to the financial statements, the Company retired 1,000,000 shares of treasury stock in the year ended December 31, 2004, which the Company had reacquired for ₩15,416 million (\$14,769 thousand), pursuant to a resolution of the board of directors meeting on August 23, 2004. As a result, the number of issued shares of the Company's common stock decreased, whereas paid-in capital remains intact.

As discussed in note 32 to the financial statements, the Company established a subsidiary corporation, Welvis Co., Ltd., for the purpose of prompting programs and other activities for the employees' welfare on February 1, 2005. Additionally, on January 31, 2005, the Company took over a 29.9 percent equity interest in DSEC Co., Ltd., for the amount of ₩4,428 million (\$4,242 thousand), which equity interest had previously been owned by Okpo Welfare Service Management & Consulting Co., Ltd. With this additional acquisition, the Company holds the 100 per cent ownership of DSEC Co., Ltd.

KPMG Samjong Accounting Corp.

Seoul, Korea
January 31, 2005

This report is effective as of January 31, 2005, 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 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

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
ASSETS				
Current assets:				
Cash and cash equivalents (note 16)	₩ 242,088	₩ 243,152	\$ 231,930	\$ 232,949
Less government subsidies	(762)	(422)	(730)	(404)
Short-term financial instruments (notes 3 and 12)	659,044	382,656	631,390	366,599
Short-term investment securities (note 6)	65,341	9,036	62,599	8,657
Accounts receivable (notes 8, 12 and 16)				
Trade	945,909	642,415	906,217	615,458
Other	84,319	84,319	80,781	80,781
Less allowance for doubtful accounts	(15,535)	(17,668)	(14,883)	(16,927)
	1,014,693	709,066	972,115	679,312
Inventories (notes 4 and 11)	486,712	223,970	466,289	214,572
Prepaid construction costs	151,981	—	145,604	—
Other current assets (notes 5 and 16)	106,820	144,525	102,336	138,460
Total current assets	2,725,917	1,711,983	2,611,533	1,640,145
Investments				
Long-term investment securities (notes 6, 12 and 16)	70,122	48,824	67,179	46,775
Equity method investments (note 6)	35,067	36,170	33,595	34,652
Long-term loans (note 16)	91,602	99,160	87,758	94,999
Less allowance for doubtful accounts	—	(2,396)	—	(2,295)
	91,602	96,764	87,758	92,704
Long-term accounts receivable - trade (notes 12 and 16)	19,402	67,362	18,588	64,536
Currency forwards (note 18)	497,383	127,510	476,512	122,159
Deferred income tax assets (note 23)	31,893	32,680	30,555	31,308
Other investments (notes 7)	55,939	34,741	53,592	33,282
	801,408	444,051	767,779	425,416
Property, plant and equipment, (notes 9, 11 and 12)	2,370,241	2,299,352	2,270,780	2,202,867
Less accumulated depreciation	(564,816)	(546,841)	(541,116)	(523,895)
Net property, plant and equipment	1,805,425	1,752,511	1,729,664	1,678,972
Intangible assets (note 10)	45,630	52,998	43,715	50,774
TOTAL ASSETS	₩ 5,378,380	₩ 3,961,543	\$ 5,152,691	\$ 3,795,307

Balance Sheets (continued)

>>
December 31, 2004 and 2003

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts and notes payable - trade (note 16)	₩ 392,911	₩ 214,372	\$ 376,423	\$ 205,377
Short-term borrowings (notes 8 and 16)	455,160	474,698	436,061	454,778
Accounts payable - other (note 16)	256,901	183,142	246,121	175,457
Advances from customers	1,829,269	1,125,245	1,752,509	1,078,027
Income taxes payable	38,439	100,297	36,826	96,088
Current portion of long-term debt (notes 14 and 16)	57,383	49,710	54,975	47,624
Provision for estimated loss on construction contracts	114,804	21,110	109,986	20,224
Other current liabilities (notes 13 and 16)	76,595	48,586	73,381	46,549
TOTAL CURRENT LIABILITIES	3,221,462	2,217,160	3,086,282	2,124,124
Long-term debt, less current portion (notes 14 and 16)	70,486	105,890	67,528	101,446
Long-term accounts payable - other (note 16)	90,218	5,656	86,432	5,419
Long-term accrued expenses	2,069	2,090	1,982	2,002
Retirement and severance benefits (note 15)	45,998	58,637	44,068	56,176
Interest rate swap contracts (note 18)	172	2,258	165	2,163
Accrued warranty costs	40,737	30,553	39,028	29,271
Allowance for contingent losses (notes 12 and 17)	150,547	111,998	144,230	107,298
Currency forwards (note 18)	–	18,992	–	18,195
TOTAL LIABILITIES	3,621,689	2,553,234	3,469,715	2,446,094
Stockholders' equity (note 19):				
Common stock, ₩5,000 par value:				
Authorized - 400,000,000 shares				
Issued and outstanding - 191,390,758 shares	961,954	961,954	921,588	921,588
Retained earnings (note 20)	543,674	384,590	520,861	368,452
Capital adjustments (notes 6, 18 and 21)	251,063	61,765	240,527	59,173
TOTAL STOCKHOLDERS' EQUITY	1,756,691	1,408,309	1,682,976	1,349,213
Commitments and contingencies (note 17):				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₩ 5,378,380	₩ 3,961,543	\$ 5,152,691	\$ 3,795,307

See accompanying Notes to Financial Statements.

Statements of Income

	Won (millions, except earnings per share)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Sales (notes 8, 30 and 31)	₩ 4,760,138	₩ 4,330,421	\$ 4,560,393	\$ 4,148,707
Cost of sales (note 8)	4,494,161	3,720,069	4,305,576	3,563,968
Gross profit	265,977	610,352	254,817	584,739
Selling and administrative expenses (notes 22, 27 and 29)	205,202	264,993	196,592	253,874
Operating income	60,775	345,359	58,225	330,865
Other income (expense) (note 8):				
Interest income	49,954	45,035	47,858	43,145
Interest expense	(15,505)	(15,848)	(14,854)	(15,183)
Gain (loss) on foreign currency transactions, net	36,635	(1,863)	35,098	(1,785)
Gain (loss) on foreign currency translation, net	45,221	(2,133)	43,323	(2,044)
Loss on sale of property, plant and equipment, net	(13,071)	(8,573)	(12,523)	(8,213)
Equity in losses of affiliates (note 6)	(272)	(4,685)	(260)	(4,488)
Gain on valuation of currency forward contracts, net (note 18)	97,094	313	93,020	300
Gain on currency forward transactions, net (note 18)	44,062	1,477	42,213	1,414
Impairment losses on development (note 10)	(29,130)	(863)	(27,908)	(827)
Accrued estimated contingent loss (note 17)	(22,888)	(69,656)	(21,927)	(66,733)
Reversal of reserve for contingencies	2,848	–	2,729	–
Other bad debt expense	–	(7,732)	–	(7,407)
Refund of prior year's income taxes	19,899	–	19,064	–
Miscellaneous income, net	57,598	73,972	55,181	70,869
Other, net	7,581	13,085	7,261	12,538
Ordinary income	340,801	367,888	326,500	352,451
Income taxes (note 23)	98,964	113,654	94,811	108,885
Net income	₩ 241,837	₩ 254,234	\$ 231,689	\$ 243,566
Earnings per share of common stock in				
Won and U.S. dollars (note 24)	₩ 1,267	₩ 1,321	\$ 1.21	\$ 1.27

See accompanying Notes to Financial Statements.

Statements of Appropriation of Retained Earnings

Date of Appropriation for 2004: March 04, 2005 Date of Appropriation for 2003: March 12, 2004

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For the years ended December 31,
2004 and 2003

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Unappropriated retained earnings:				
Balance at beginning of year	₩ 15,253	₩ 75,356	\$ 14,613	\$ 72,194
Retirement of treasury stock	(15,416)	–	(14,769)	–
Net income	241,837	254,234	231,689	243,566
Balance at end of year before appropriation	241,674	329,590	231,533	315,760
Transfer from voluntary reserves:				
Reserve for research and manpower development	13,333	–	12,774	–
Unappropriated retained earnings available for appropriation	255,007	329,590	244,307	315,760
Appropriations of retained earnings:				
Legal reserve	7,000	7,000	6,706	6,706
Reserve for research and manpower development	30,000	40,000	28,741	38,322
Reserve for loss on reissuance of treasury stock	9,000	–	8,622	–
Dividends - 7% on par value at 350 Won per share (note 25)	66,166	67,337	63,390	64,511
Reserve for facility construction	120,000	150,000	114,965	143,706
Reserve for dividend equalization	20,000	50,000	19,161	47,902
	252,166	314,337	241,585	301,147
Unappropriated retained earnings to be carried over to subsequent year	₩ 2,841	₩ 15,253	\$ 2,722	\$ 14,613

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net Income	₩ 241,837	₩ 254,234	\$ 231,689	\$ 243,566
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	107,790	101,148	103,267	96,904
Amortization	7,832	18,593	7,504	17,813
Other bad debt expense	—	7,732	—	7,407
Foreign currency translation loss (gain), net	(55,484)	2,127	(53,156)	2,038
Loss on sale of property, plant and equipment, net	13,071	8,573	12,523	8,213
Equity in losses of affiliates	272	4,685	260	4,488
Provision for retirement and severance benefits	62,096	70,479	59,490	67,521
Gain on valuation of currency forward contracts, net	(97,094)	—	(93,020)	—
Provision for estimated loss on construction contracts	291,885	—	279,637	—
Impairment losses on development	29,130	863	27,908	827
Accrued estimated contingent loss	45,667	111,998	43,751	107,298
Decrease (increase) in accounts receivable - trade	(302,882)	106,956	(290,172)	102,468
Decrease in accounts receivable - other	(1,596)	—	(1,529)	—
Decrease (increase) in accrued income	2,595	(6,682)	2,486	(6,402)
Increase in prepaid construction costs	(45,210)	—	(43,313)	—
Decrease (increase) in advance payments	(23,466)	22,889	(22,481)	21,928
Decrease (increase) in prepaid expenses	(12,083)	1,993	(11,576)	1,909
Increase in inventories	(255,527)	(7,105)	(244,805)	(6,807)
Decrease (increase) in long - term accounts receivable - trade	18,096	(203)	17,336	(194)
Increase (decrease) in accounts payable - trade	182,918	(25,652)	175,243	(24,576)
Increase in accounts payable - other	68,222	—	65,359	—
Increase (decrease) in income taxes payable	(60,013)	59,606	(57,494)	57,105
Increase in accrued expenses	19,136	3,002	18,333	2,876
Increase in advances from customers	704,024	91,060	674,482	87,239
Increase in withholdings	8,295	1,803	7,947	1,728
Increase (decrease) in provision for estimated loss on construction contracts	(198,191)	12,774	(189,875)	12,238
Increase (decrease) in currency forward contracts	(73,687)	695	(70,595)	666
Payment of retirement and severance benefits	(107,863)	(231,358)	(103,337)	(221,650)
Other, net	24,720	28,841	23,682	27,632
Total adjustments	352,653	384,817	337,855	368,669
Net cash provided by operating activities	594,490	639,051	569,544	612,235

Statements of Cash Flows (continued)

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For the years ended December 31,
2004 and 2003

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Cash flows from investing activities:				
Decrease in short-term loans receivable	₩ 55,240	₩ 44,253	\$ 52,922	\$ 42,396
Decrease in short-term financial instruments	1,135,750	–	1,088,092	–
Decrease in accounts receivable - other	–	531,788	–	509,473
Decrease in long-term loans receivable	18,968	3,601	18,172	3,450
Proceeds from sale of property, plant and equipment	13,329	3,903	12,770	3,739
Proceeds from sale of long-term investment securities	20,684	86	19,816	82
Increase in short-term financial instruments	(1,412,138)	(330,043)	(1,352,882)	(316,193)
Increase in short-term investment securities	(65,212)	(8,000)	(62,476)	(7,664)
Increase in accounts receivable - other	–	(571,753)	–	(547,761)
Increase in long-term financial instruments	(18,002)	(2)	(17,247)	(2)
Acquisition of long-term investment securities	(38,053)	(587)	(36,456)	(562)
Acquisition of equity method securities	–	(2,000)	–	(1,916)
Acquisition of membership	(1,022)	(1,331)	(979)	(1,275)
Acquisition of property, plant and equipment	(192,934)	(194,602)	(184,838)	(186,436)
Acquisition of intangible assets	(29,341)	(38,221)	(28,110)	(36,617)
Other, net	27,688	(22,218)	26,527	(21,287)
Net cash used in investing activities	(485,043)	(585,126)	(464,689)	(560,573)
Cash flows from financing activities:				
Proceeds from short-term borrowings	1,055,526	709,009	1,011,234	679,257
Proceeds from accounts payable - other	–	1,808,768	–	1,732,868
Proceeds from long-term borrowings	36,648	53,569	35,110	51,321
Repayment of short-term borrowings	(1,034,714)	(649,575)	(991,295)	(622,317)
Repayment of accounts payable - other	–	(1,787,827)	–	(1,712,806)
Repayment of current portion of long-term debt	(48,768)	(34,990)	(46,721)	(33,522)
Payment of dividends	(67,337)	–	(64,511)	–
Reacquisition of treasury stock	(45,416)	–	(43,510)	–
Other, net	(6,450)	(4,745)	(6,181)	(4,545)
Net cash provided by (used in) financing activities	(110,511)	94,209	(105,874)	90,256
Net increase (decrease) in cash and cash equivalents	(1,064)	148,134	(1,019)	141,918
Cash and cash equivalents at beginning of year	243,152	95,018	232,949	91,031
Cash and cash equivalents at end of year	₩ 242,088	₩ 243,152	\$ 231,930	\$ 232,949

See accompanying Notes to Financial Statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTING FINANCIAL STATEMENTS

(a) Description of Business

Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the "Company") was established on October 1, 2000 as a result of the spin-off of the shipbuilding and marine engineering division of Daewoo Heavy Industry, Ltd.

Major businesses of the Company include building and sales of various ships, including specialpurpose ships, repair of ships, and construction of plants. The Company's shares have been listed on the Korea Stock Exchange since February 2, 2001, and the Company had its global depositary receipts (GDR) listed on the Luxembourg Stock Exchange on June 10, 2003. As of December 31, 2004, the Company's major stockholders consist of Korea Development Bank ("KDB") (31.3%) and Korea Asset Management Corporation ("KAMCO") (20.8%).

(b) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use only by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

Certain information attached to [or included in] the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

Effective January 1, 2004, the Company adopted Statements of Korea Accounting Standards No. 10 ("Inventories"), No. 12 ("Construction-Type Contracts") and No. 13 ("Troubled Debt Restructuring"). The adoption of these standards did not have a significant impact on the Company's financial statements. Certain accounts of prior year's financial statements were reclassified to conform to the current year's presentation.

(c) Revenue Recognition

Revenue from construction contracts is recognized using the percentage-of-completion method, under which revenue is recognized as work progresses at the ratio that costs incurred bear to estimated total costs. The estimation of total construction cost is made in a systematic, reasonable and consistent method and the Company reflects in such cost information newly arising during construction activities.

(d) Cash Equivalents

The Company considers short-term financial instruments with maturities of three months or less at the acquisition date to be cash equivalents.

(e) Financial Instruments

Short-term financial instruments are instruments handled by financial institutions which are held for short-term cash management purposes or will mature within one year, including time deposits, installment savings deposits and restricted bank deposits.

(f) Allowance for Doubtful Accounts

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling cost. The cost of inventories is determined on the specific identification method for materials in transit and on the moving-average method for all other inventories. Effective January 1, 2004, the Company adopted SKAS No. 10, "Inventories." Through 2003, a valuation loss which was incurred when the market value of inventory fell below its carrying amount was reported as a non-operating expense. In 2004, in accordance with SKAS No. 10, the Company included inventory valuation losses in cost of goods sold.

(h) Investments in Securities

Upon acquisition, the Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity securities that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Trading securities are classified as current assets, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments. However, available-for-sale securities whose maturity dates are due within one year from the balance sheet date or whose likelihood of being disposed of within one year from the balance sheet date is probable are classified as current assets. Likewise, held-to-maturity securities whose maturity dates are due within one year from the balance sheet date are classified as current assets.

(i) Investment Securities under the Equity Method of Accounting

Investments in affiliated companies owned 20% or more or over which the Company has significant management control are stated at an amount as determined using the equity method.

Under the equity method of accounting, the Company's initial investment is recorded at cost and is subsequently increased to reflect the Company's share of the investee income and reduced to reflect the Company's share of the investee losses or dividends received. Any excess in the Company's acquisition cost over the Company's share of the investee's identifiable net assets is considered as goodwill and amortized by the straight-line method over the estimated useful life. The amortization of goodwill is recorded against the equity income of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews the goodwill amount for any impairment.

Under the equity method of accounting, the Company does not record its share of loss of an affiliate company when such loss would make the Company's investment in such entity less than zero.

Notes to Financial Statements (continued)

(j) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Plant and equipment under capital leases are stated at an amount equal to the lower of their fair value or the present value of minimum lease payments at inception of lease. Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

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

Description	Estimated useful lives (years)
Buildings	25 ~ 50
Structures	12 ~ 50
Machinery and equipment	12
Ships and aircraft	15
Vehicles	6
Tools	6
Furniture and fixtures	6

(k) Intangible assets

Intangible assets are stated at cost less accumulated amortization as described below:

(l) Research and Development Costs

Expenditure on research activities, undertaken with the prospects of gaining new scientific or technical knowledge and understanding, is recognized in the statement of income as an expense as incurred.

Expenditure on development incurred in conjunction with new products or technologies, in which the elements of costs can be identified and future economic benefits are clearly expected, is capitalized and amortized on a straight-line basis over the expected periods to be benefited, generally five years. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads.

(m) Other Intangible Assets

Other intangible assets, which are acquired by the Company, are stated at cost less accumulated amortization and impairment losses. Such intangible assets are amortized using the straight-line method over a reasonable period based on the nature of the asset as follows:

Description	Estimated useful lives (years)
Industrial rights	5 ~ 10
Computer software	5
Exclusive right to use facilities	20 ~ 40

The Company reviews for the impairment of intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(n) Government Subsidies

Government subsidies, which were used for acquisition of certain assets, were recorded as a reduction from the acquisition cost of the related asset and

such subsidies are offset against the amortization or depreciation expense on the acquired assets during useful lives of the assets. The Company records the other type of government subsidies as a non-operating income or as an offset against certain matching expenses, if any.

(o) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current rates of pay and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying balance sheets. A portion of the liability is covered by an employees' severance benefits trust where the employees have a vested interest in the deposit with the insurance company in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying balance sheets as a deduction from the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying financial statements as a reduction from the retirement and severance benefit liability. Since April 1999, however, a new regulation applies and such transfers to the National Pension Fund are no longer required.

(p) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains and losses recognized in current results of operations. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,043.80 to US\$1, the rate of exchange on December 31, 2004 that is permitted by the Financial Accounting Standards. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate ruling at the date of the transaction.

Foreign currency assets and liabilities of foreign-based operations and companies accounted for using the equity method are translated at current rate of exchange at the balance sheet date while profit and loss items in the statement of income are translated at average rate and capital account at historical rate. The translation gains and losses arising from collective translation of the foreign currency financial statements of foreign-based operations are offset and the balance is accumulated as capital adjustment.

(q) Derivatives

Derivative instruments are presented as assets or liabilities valued principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations.

However, for derivative instruments with the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The deferred gain or loss will be adjusted to the related asset or liability resulted from the forecasted transaction, or adjusted to income when the forecasted transaction affects income statement. The ineffective portion of the gain or loss is charged or credited to current results of operations.

Forward foreign exchange contracts, which have been made to hedge foreign exchange receivables and payables in the future, are classified as forward foreign exchange contracts for hedging purposes. Unrealized gain or loss on forward foreign exchange contracts for hedging purposes is deferred as capital adjustment. The deferred gain or loss will be credited or charged to income when related foreign exchange receivables and payables are settled.

(r) Stock Options

The stock option program allows the Company's employees to acquire a specified number of shares of the Company for a specified piece at specified times. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Company values stock options based

upon an option pricing model under the fair value and recognizes this value as an expense over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received, and the difference between the exercise price and market price is included in compensation cost and credited to the capital adjustment account.

(s) Provision for Estimated Loss on Construction Contracts

The Company records provisions for losses on construction contracts at an amount equal to total estimated losses in building ships and others.

(t) Provision for Construction Warranty Costs

The Company provides a reserve for estimated warranty costs relating to construction defects during the warranty period based on past experience.

(u) Expenditure before Construction Contracts

Expenditure on obtainment of contracts is recognized as prepaid construction costs only when it is directly related to specific construction contracts, separately identifiable and reliably measurable. The prepaid construction costs are expensed as part of construction costs upon commencement of the construction work.

(v) Contingent Liabilities

Contingent losses are generally recognized as a liability when probable and reasonably estimable.

(w) Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(x) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

(y) Changes in Accounting Policy

The cumulative effect on prior years of changes in accounting principles is charged or credited to the beginning balance of retained earnings and the effect of a change in accounting estimates is handled prospectively.

Prior period adjustments resulting from other than fundamental errors are charged or credited to net income for the current period. The fundamental errors are defined as errors with such a significant effect on the financial statements for one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. The prior period adjustments resulting from the fundamental errors are charged or credited to the beginning balance of retained earnings, and the financial statements of the prior year are restated.

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(2) BASIS OF TRANSLATING FINANCIAL STATEMENTS

The financial statements are expressed in Korean Won and, solely for the convenience of the reader, the financial statements have been translated into U.S. dollars at the rate of ₩1,043.80 to US\$ 1, the basic exchange rate on December 31, 2004. This translation should not be construed as a representation that any or all of the amounts shown could be converted into United States dollars at this or any other rate.

(3) RESTRICTED DEPOSITS

Restricted deposits as of December 31, 2004 and 2003 are as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Short-term financial instruments	₩ 10,056	₩ 10,044	\$ 9,634	\$ 9,622
Long-term financial instruments	37	35	35	34
	₩ 10,093	₩ 10,079	\$ 9,669	\$ 9,656

Restricted deposits were provided as collateral or guarantees on the Company's debts, among other things.

(4) INVENTORIES

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

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Raw materials	₩ 225,652	₩ 111,463	\$ 216,183	\$ 106,786
Goods-in-transit	246,177	101,189	235,847	96,943
Other	14,883	11,318	14,259	10,843
	₩ 486,712	₩ 223,970	\$ 466,289	\$ 214,572

(5) OTHER CURRENT ASSETS

Other current assets as of December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Short-term loans	₩ —	₩ 55,240	\$ —	\$ 52,922
Accrued income	17,342	35,035	16,614	33,565
Advance payments	66,657	43,191	63,859	41,379
Prepaid expenses	22,821	10,738	21,863	10,287
Other	—	321	—	307
	₩ 106,820	₩ 144,525	\$ 102,336	\$ 138,460

Notes to Financial Statements (continued)

(6) INVESTMENTS IN SECURITIES

Investments in securities as of December 31, 2004 and 2003 are summarized as follows:

(a) Available-for-sale securities

(i) Equity securities

Securities	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Long-term investment securities:				
KTB Network Corp.	₩ 165	₩ 245	\$ 158	\$ 235
Korea Line Corp.	26,759	—	25,635	—
Kyungnam Daily Newspaper	3	3	3	3
Namyang Metal Co.	3,689	3,689	3,534	3,534
Korea Delphi Automotive Systems Co.	7,288	7,288	6,982	6,982
Daewoo Information System Co.	694	694	665	665
Kyungnam Trading Inc.	183	183	176	175
Kihyup Technology Banking Corp.	2,000	2,000	1,916	1,916
Cheju International Convention Center Co.	4,497	4,497	4,308	4,308
HSD Engine Co., Ltd.	5,100	5,100	4,886	4,886
Korea Housing Guarantee Corp.	87	71	83	68
DSEC	6,224	3,000	5,963	2,874
Daewoo Commercial Vehicle	—	314	—	301
GM Daewoo	—	—	—	—
Machinery Insurance Association	100	100	96	96
Korea Construction Insurance Association	639	639	612	612
MIC 2001-15 KDBC	1,000	1,000	958	958
KoreaShipFinance Co., Ltd.	300	—	287	—
Beneficiary certificates	62	59	60	57
	₩ 58,790	₩ 28,882	\$ 56,322	\$ 27,670

(ii) Debt securities

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Long-term investment securities:				
JP MORGAN	₩ —	₩ 18,831	\$ —	\$ 18,041

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(b) Held-to-maturity securities

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Short-term investment securities:				
Government and public bonds	₩ 129	₩ 1,036	\$ 124	\$ 993
Specified money trust	33,000	—	31,615	—
Other bonds	32,212	8,000	30,860	7,664
	65,341	9,036	62,599	8,657
Long-term investment securities:				
Government and public bonds	1,332	1,111	1,276	1,064
Specified money trust	10,000	—	9,581	—
	11,332	1,111	10,857	1,064
	₩ 76,673	₩ 10,147	\$ 73,456	\$ 9,721

(c) Investments in Affiliates

Investments in affiliated companies accounted for using the equity method as of December 31, 2004 are as follows:

Affiliate	Percentage of ownership	Won (millions)					
		Cost	Adjustment to			Balance at Dec. 31, 2004	
			Retained earnings	Income (loss)	Other (*1)		
DW Mangalia Heavy Industries S.A.	51.00%	₩ 44,805	₩ 17,827	₩ (625)	₩ (29,117)	₩ 32,890	
Korea Marine Fund Corp.	23.50%	2,000	(225)	353	49	2,177	
		₩ 46,805	₩ 17,602	₩ (272)	₩ (29,068)	₩ 35,067	

(*1) Capital adjustment (₩28,957) and dividends (₩160).

Affiliate	Percentage of ownership	U.S. dollars (thousands) (note 2)				
		Cost	Adjustment to			Balance at Dec. 31, 2004
			Retained earnings	Income (loss)	Other (*1)	
DW Mangalia Heavy Industries S.A.	51.00%	\$ 42,925	\$ 17,079	\$ (599)	\$ (27,895)	\$ 31,510
Korea Marine Fund Corp.	23.50%	1,916	(216)	339	46	2,085
		\$ 44,841	\$ 16,863	\$ (260)	\$ (27,848)	\$ 33,595

(*1) Capital adjustment (\$27,742) and dividends (\$153).

Investments in affiliated companies accounted for using the equity method as of December 31, 2003 are as follows:

Affiliate	Percentage of ownership	Won (millions)					
		Cost	Adjustment to			Balance at Dec. 31, 2003	
			Capital adjustment	Retained earnings	Income (loss)		
DW Mangalia Heavy Industries S.A.	51.00%	₩ 44,805	₩ (28,237)	₩ 22,287	₩ (4,460)	₩ 34,395	
Korea Marine Fund Corp.	27.40%	2,000		–	(225)	1,775	
		₩ 46,805	₩ (28,237)	₩ 22,287	₩ (4,685)	₩ 36,170	

Notes to Financial Statements (continued)

Affiliate	Percentage of ownership	U.S. dollars (thousands) (note 2)				
		Cost	Adjustment to			Balance at Dec. 31, 2003
			Capital adjustment	Retained earnings	Income (loss)	
DW Mangalia Heavy Industries S.A.	51.00%	\$ 42,925	\$ (27,052)	\$ 21,351	\$ (4,272)	\$ 32,952
Korea Marine Fund Corp.	27.40%	1,916	—	—	(216)	1,700
		\$ 44,841	\$ (27,052)	\$ 21,351	\$ (4,488)	\$ 34,652

(7) OTHER INVESTMENTS

Other investments as of December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Long-term financial instruments	₩ 37	₩ 35	\$ 35	\$ 34
Guarantee deposits	17,547	17,431	16,811	16,699
Membership	9,136	8,537	8,753	8,178
Long-term accrued income	21,774	—	20,860	—
Long-term prepaid expenses	7,445	8,738	7,133	8,371
	₩ 55,939	₩ 34,741	\$ 53,592	\$ 33,282

(8) TRANSACTIONS AND BALANCES WITH RELATED COMPANIES

(a) Significant account balances which occurred in the normal course of business with related companies as of December 31, 2004 are summarized as follows:

	Won (millions)			
	KDB (*1)	KDB Capital	DMHI (*2)	DSEC
Due from				
Financial instruments	₩ 355,573	₩ —	₩ —	₩ —
Accounts receivable - trade	—	—	3,653	275
Accounts receivable - other	—	—	11,258	40
Guarantee deposits, etc.	94,739	16,950	—	—
	₩ 450,312	₩ 16,950	₩ 14,911	₩ 315
Due to				
Short- and long-term borrowings	₩ 326,381	₩ —	₩ —	₩ —
Accrued expenses, etc.	2,238	—	—	6,161
	₩ 328,619	₩ —	₩ —	₩ 6,161

(*1) The Korea Development Bank

(*2) Daewoo Mangalia Heavy Industries

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

	U.S. dollars (thousands) (note 2)			
	KDB	KDB Capital	DMHI	DSEC
Due from				
Financial instruments	\$ 340,652	\$ —	\$ —	\$ —
Accounts receivable - trade	—	—	3,500	263
Accounts receivable - other	—	—	10,786	38
Guarantee deposits, etc.	90,764	16,239	—	—
	<u>\$ 431,416</u>	<u>\$ 16,239</u>	<u>\$ 14,286</u>	<u>\$ 301</u>
Due to				
Short- and long-term borrowings	\$ 312,685	\$ —	\$ —	\$ —
Accrued expenses, etc.	2,144	—	—	5,902
	<u>\$ 314,829</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,902</u>

Significant account balances which occurred in the normal course of business with related companies as of December 31, 2003 are summarized as follows:

	Won (millions)			
	KDB	KDB Capital	DMHI	DSEC
Due from				
Financial instruments	₩ 205,355	₩ —	₩ —	₩ —
Accounts receivable - trade	—	—	4,691	—
Accounts receivable - other	—	—	15,637	10
Guarantee deposits, etc.	27,249	16,950	2,597	—
	<u>₩ 232,604</u>	<u>₩ 16,950</u>	<u>₩ 22,925</u>	<u>₩ 10</u>
Due to				
Short- and long-term borrowings	₩ 394,180	₩ —	₩ —	₩ —
Accrued expenses, etc.	8,768	59	—	776
	<u>₩ 402,948</u>	<u>₩ 59</u>	<u>₩ —</u>	<u>₩ 776</u>

	U.S. dollars (thousands) (note 2)			
	KDB	KDB Capital	DMHI	DSEC
Due from				
Financial instruments	\$ 196,738	\$ —	\$ —	\$ —
Accounts receivable - trade	—	—	4,494	—
Accounts receivable - other	—	—	14,981	10
Guarantee deposits, etc.	26,106	16,239	2,488	—
	<u>\$ 222,844</u>	<u>\$ 16,239</u>	<u>\$ 21,963</u>	<u>\$ 10</u>
Due to				
Short- and long-term borrowings	\$ 377,639	\$ —	\$ —	\$ —
Accrued expenses, etc.	8,400	57	—	743
	<u>\$ 386,039</u>	<u>\$ 57</u>	<u>\$ —</u>	<u>\$ 743</u>

Notes to Financial Statements (continued)

(b) Significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2004 are summarized as follows:

	Won (millions)			
	KDB	KDB Capital	DMHI	DSEC
Sales	₩ 59,540	₩ –	₩ –	₩ 1,242
Interest revenue	13,570	218	927	–
Purchases	–	–	–	10,510
Interest expense	12,707	–	–	–
Other	38,167	–	6,128	3,580

	U.S. dollars (thousands) (note 2)			
	KDB	KDB Capital	DMHI	DSEC
Sales	\$ 57,041	\$ –	\$ –	\$ 1,190
Interest revenue	13,000	209	888	–
Purchases	–	–	–	10,069
Interest expense	12,173	–	–	–
Other	36,567	–	5,871	3,430

Significant transactions which occurred in the normal course of business with related companies for the year ended December 31, 2003 are summarized as follows:

	Won (millions)		
	KDB	DMHI	DSEC
Sales	₩ 72,105	₩ 665	₩ –
Interest revenue	6,062	1,738	–
Purchases	–	–	7,702
Interest expense	11,633	–	–
Other	6,156	13,550	17

	U.S. dollars (thousands) (note 2)		
	KDB	DMHI	DSEC
Sales	\$ 69,080	\$ 637	\$ –
Interest revenue	5,807	1,665	–
Purchases	–	–	7,379
Interest expense	11,145	–	–
Other	5,898	12,981	16

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(c) The guarantees provided by related parties as of December 31, 2004 and 2003 are as follows:

Related party	Type of borrowings	U.S. dollars (thousands)	
		2004	2003
KDB	Usance bills	\$ 250,000	\$ 250,000
KDB	Advance payment bonds	1,820,678	1,232,015
		\$ 2,070,678	\$ 1,482,015

(9) PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant and equipment and related accumulated depreciation as of December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Land	₩ 527,034	₩ 521,513	\$ 504,918	\$ 499,630
Buildings	508,353	443,812	487,021	425,189
Structures	424,577	410,130	406,761	392,920
Machinery and equipment	398,940	382,124	382,199	366,089
Vehicles	89,512	82,885	85,756	79,407
Ships and aircraft	43,538	34,161	41,711	32,728
Tools	104,531	144,365	100,145	138,307
Furniture and fixtures	119,813	116,609	114,786	111,716
Construction-in-progress	153,943	163,753	147,483	156,881
Less accumulated depreciation	(564,816)	(546,841)	(541,116)	(523,895)
	₩ 1,805,425	₩ 1,752,511	\$ 1,729,664	\$ 1,678,972

(b) Officially Declared Value of Land

The officially declared value of land as of December 31, 2004, as announced by the Minister of Construction and Transportation, is as follows:

Location	Won (millions)		U.S. dollars (thousands) (note 2)	
	Book value	Declared value	Book value	Declared value
Geoje, Kyungnam	₩ 506,809	₩ 384,861	\$ 485,542	\$ 368,711
Yong-in, Kyung-gi	20,225	17,167	19,376	16,447
	₩ 527,034	₩ 402,028	\$ 504,918	\$ 385,158

The officially declared value, which is used for government purposes, is not intended to, and may not, represent fair value.

Notes to Financial Statements (continued)

(10) INTANGIBLE ASSETS

(a) Details of changes in intangible assets of the Company for the year ended December 31, 2004 are as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	Development costs	Other	Development costs	Other
January 1, 2004	₩ 45,147	₩ 8,105	\$ 43,252	\$ 7,765
Increase	26,284	3,056	25,181	2,928
Amortization	(6,424)	(1,408)	(6,154)	(1,349)
Impairment loss, etc.	(29,130)	—	(27,908)	—
December 31, 2004	₩ 35,877	₩ 9,753	\$ 34,371	\$ 9,344

Details of changes in intangible assets of the Company for the year ended December 31, 2003 are as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	Development costs	Other	Development costs	Other
January 1, 2003	₩ 31,066	₩ 3,421	\$ 29,762	\$ 3,277
Increase	38,140	81	36,540	78
Amortization	(18,178)	(415)	(17,415)	(398)
Impairment loss, etc.	(5,881)	5,018	(5,634)	4,807
	45,147	8,105	43,253	7,764
Less government subsidies	(254)	—	(243)	—
December 31, 2003	₩ 44,893	₩ 8,105	\$ 43,010	\$ 7,764

(b) Research and development costs charged to current operations for the years ended December 31, 2004 and 2003 are as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Research	₩ 274	₩ 448	\$ 262	\$ 429
Development	30,983	17,728	29,683	16,984
	₩ 31,257	₩ 18,176	\$ 29,945	\$ 17,413

(11) INSURANCE

(a) The Company's insurance coverage (in million Won, thousand U.S. dollars) as of December 31, 2004 is as follows:

Type	Property	Coverage	Insurance company
Fire insurance	Buildings, structures, machines and inventory	₩ 94,102	Tongyang Fire and Marine Insurance and others
Comprehensive coverage insurance	Inventory, property, plant and equipment	₩ 663,051	Fire Insurance Association
Ship insurance	Vessels	₩ 5,681	Cheil Fire and Marine Insurance and others
		\$ 7,838	Samsung Fire and Marine Insurance
Aircraft insurance	Helicopters	\$ 11,750	Tongyang Fire and Marine Insurance
Shipbuilding insurance	Vessels in progress	\$ 1,718,199	Hyundai Marine and Fire Insurance
Crew insurance	Pilots and other crew	\$ 6,100	Tongyang Fire and Marine Insurance
		₩ 762,834	
		\$ 1,743,887	

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(b) In addition, the Company has a comprehensive coverage for vehicles, business interruption, employee indemnification, industrial disaster and gas casualties as of December 31, 2004.

(12) PLEDGED ASSETS AND GUARANTEES PROVIDED

(a) Collateral pledged for the Company's borrowings as of December 31, 2004 is as follows:

Asset	Lender	Won (millions), U.S. dollars (thousands)	
Short-term financial instruments	Gyeongsangnam-do	₩	10,056
Accounts receivable - trade	Export-Import Bank of Korea	\$	6,059
Long-term accounts receivable - trade	Export-Import Bank of Korea	\$	18,588
Long-term investment securities	Korea Midland Power Co., Ltd.	₩	191
	Korea Housing Guarantee Co., Ltd.	₩	87
Property, plant and equipment	KDB and others	₩	486,820
		\$	1,030,000
		₩	497,154
		\$	1,054,647

(b) Guarantees provided by the Company for others as of December 31, 2004 are as follows:

Provided for	Lender	Won (millions)	
Daewoo Corp.	AIG and others	₩	27,906
Daewoo Construction Machinery Corp. (*1)	KAMCO and others		2,316
Daewoo Heavy Industries Yantai Co., Ltd.	KAMCO		1,964
DW HONGKONG (*1)	Woori Bank and others		1,130
DW UK Ltd. (*1)	KAMCO		6,779
DELMEX (*1)	Export-Import Bank of Korea		1,567
Korea Line Corp.	KDB and others		265,240
		₩	306,902

(*1) The Company has provided ₩11,792 million (\$11,297 thousand) in an allowance for contingent losses relative to possible default by companies for which the Company has provided payment guarantees.

(c) As of December 31, 2004, the Korea Export and Import Bank has provided performance guarantees amounting to \$3,469 million for the Company in relation to exports of ships and other equipment. In return, the Company has provided shipbuilding materials, ships under construction and receivables as collateral to the bank.

Notes to Financial Statements (continued)

(13) OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Withholdings	₩ 24,528	₩ 16,297	\$ 23,499	\$ 15,614
Accrued expenses	39,291	20,004	37,642	19,165
Guarantee deposits payable	12,776	12,285	12,240	11,770
	₩ 76,595	₩ 48,586	\$ 73,381	\$ 46,549

(14) LONG-TERM DEBT

(a) Long-term debt as of December 31, 2004 and 2003 is summarized as follows:

(i) Long-term debt in local currency

Lender	Annual interest rate(%)	Won (millions)		U.S. dollars (thousands) (note 2)	
		2004	2003	2004	2003
Korea Housing Guarantee Corp.	2%	₩ 572	₩ 624	\$ 548	\$ 598
KDB	Pr(*) + 1.2%, 1%	29,730	26,900	28,483	25,771
		30,302	27,524	29,031	26,369
Less current portion		(6,485)	(5,032)	(6,213)	(4,821)
		₩ 23,817	₩ 22,492	\$ 22,818	\$ 21,548

(*) Pr : Prime rate

(ii) Long-term debt in foreign currency

Lender	Annual interest rate(%)	U.S. dollars (thousands)		Won equivalent (millions)	
		2004	2003	2004	2003
KDB	3ML (*) + 2.06 ~2.70%	\$ 93,472	₩ 106,139	₩ 97,567	₩ 127,134
Less current portion		(48,762)	(36,513)	(50,898)	(43,736)
		\$ 44,710	₩ 69,626	₩ 46,669	₩ 83,398

(*) 3ML : Three month London inter-bank offered rates

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(b) Payment Schedule

Aggregate maturities of the Company's long-term debt as of December 31, 2004 are as follows:

December 31	Won (millions)		U.S. dollars (thousands) (note 2)	
	local currency	foreign currency	local currency	foreign currency
2005	₩ 6,485	₩ 50,898	\$ 6,213	\$ 48,762
2006	6,485	9,962	6,213	9,544
2007	6,484	13,909	6,212	13,325
2008	6,484	12,922	6,212	12,380
Thereafter	4,364	9,876	4,181	9,461
	₩ 30,302	₩ 97,567	\$ 29,031	\$ 93,472

(15) RETIREMENT AND SEVERANCE BENEFITS

Details of changes in the retirement and severance benefits account for the years ended December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Estimated severance liability at beginning of year	₩ 244,690	₩ 405,569	\$ 234,422	\$ 388,550
Provision	62,096	70,479	59,490	67,521
Payments	(107,863)	(231,358)	(103,336)	(221,649)
Estimated severance benefit liability at end of period	198,923	244,690	190,576	234,422
Transfer to the National Pension Fund	(5,796)	(10,407)	(5,553)	(9,970)
Deposit for severance benefit trust	(147,129)	(175,646)	(140,955)	(168,276)
Net balance at end of year	₩ 45,998	₩ 58,637	\$ 44,068	\$ 56,176

The Company has deposits in The Korea Development Bank, etc, which cover 74.0 percent and 71.8 percent of the Company's retirement and severance benefit liabilities as of December 31, 2004 and 2003, respectively.

(16) FOREIGN CURRENCY ASSETS AND LIABILITIES

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

	2004		2003	
	Foreign currency (thousands)	Won equivalent (millions)	Foreign currency (thousands)	Won equivalent (millions)
Assets:				
Cash and cash equivalents	USD 104,338	₩ 108,908	USD 20,461	₩ 24,508
Accounts receivable - trade	USD 9,559	9,978	USD 10,431	12,494
Short-term loans	USD -	-	USD 46,118	55,240
Long-term loans	USD 87,758	91,602	USD 82,785	99,160
Long-term accounts receivable - trade	USD 18,588	19,402	USD 44,300	53,062
Long-term investment securities	USD -	-	USD 15,721	18,831
Accounts receivable - other, etc.	USD 40,754	42,539	USD 40,419	48,415
TOTAL	USD 260,997	₩ 272,429	USD 260,235	₩ 311,710

Notes to Financial Statements (continued)

	2004				2003			
	Foreign currency (thousands)		Won equivalent (millions)		Foreign currency (thousands)		Won equivalent (millions)	
Liabilities:								
Accounts payable - trade	AUD	25	₩	20	—	—	₩	—
	EUR	3,558		5,062	—	—		—
	GBP	435		874	—	—		—
	JPY	2,380,683		24,094	—	—		—
	NOK	2,306		398	—	—		—
	USD	57,578		60,100	USD	3,304		3,958
Accounts payable - other	CAD	30		26	—	—		—
	EUR	1,217		1,732	—	—		—
	GBP	470		944	GBP	7		15
	JPY	36,527		370	—	—		—
	USD	91,535		103,272	USD	2,563		3,070
Accrued expenses	EUR	11,874		16,897	—	—		—
	USD	3,953		4,126	USD	2,916		3,493
Short-term borrowings	USD	436,061		455,160	USD	396,305		474,694
Withholdings	EUR	132		187	—	—		—
	JPY	4,000		40	—	—		—
	USD	1,613		1,684	USD	1,580		1,893
Long-term accounts payable - other	USD	90,107		86,326	USD	4,722		5,656
Current portion of long-term liabilities	USD	48,762		50,898	USD	37,300		44,678
Long-term debt	USD	44,710		46,668	USD	69,626		83,398
TOTAL	AUD	25			—	—		
	CAD	30			—	—		
	EUR	16,781			—	—		
	GBP	905	₩	858,878	GBP	7	₩	620,855
	JPY	2,421,210			—	—		
	NOK	2,306			—	—		
	USD	774,319			USD	518,316		

(17) CONTINGENCIES

- (a) The Company pledged 3 blank notes, 1 blank check and 8 notes with aggregate face amount of ₩3,150 million (\$3,018 thousand) to financial institutions as guarantee for performance of warranty as of December 31, 2004.
- (b) The Company sold notes from NITC (National Iranian Tanker Company) to financial institutions in relation to 10 ships for which installment payments are to be made. The Company is contingently liable for the notes aggregating \$172,529 thousand for the 10 ships.
- (c) In relation to the contingencies described in (b) above, the Company obtained payment guarantees from NIOC (an Iranian government-owned petroleum company) for the entire principal and interest amount. As a safeguard measure, the Company bought insurance policies from the Korea Export Insurance Corp. to cover 70% of the total installment payment obligations upon default. Additionally, the Company placed mortgages on the 10 ships.
- (d) As of December 31, 2004, the Company is involved as a defendant and plaintiff in various lawsuits seeking damages in the aggregate amounts of ₩66,445 million (\$63,657 thousand) and ₩6,870 million (\$6,582 thousand), respectively. These lawsuits arose in the ordinary course of business and their ultimate disposition is not predictable as of December 31, 2004.

The Company is a defendant in a lawsuit brought by some former and current employees claiming ₩48,451 million (\$46,418 thousand) for miscalculation of average salaries used in computation of their final or interim severance payments. In connection with this legal action, the Company has provided ₩138,755 million (\$132,933 thousand) in reserve for contingent losses.

(18) DERIVATIVES

(a) Currency forward contracts

The Company has outstanding currency forward contracts with Korea Development Bank and others to hedge risks such as fluctuation of foreign exchange rates in association with receipt of payments for future shipbuilding contracts.

Details of the outstanding forward contracts as of December 31, 2004 are as follows:

Description	Outstanding contract balance	Won (millions), U.S. dollars (thousands) and EUR (thousands)			
		Adjustment to sales	Other income (expense)	Capital adjustments	Currency forwards - asset (liabilities)
For cash flow hedging	USD 2,279,989	₩ 277,181	1,174	308,919	
For trading	USD 1,034,422	–	139,982	–	₩ 497,383
	USD 3,314,411	₩ 277,181	141,156	308,919	

Details of the outstanding forward contracts as of December 31, 2003 are as follows:

Description	Outstanding contract balance	Won (millions), U.S. dollars (thousands) and EUR (thousands)			
		Adjustment to sales	Other income (expense)	Capital adjustments	Currency forwards - asset (liabilities)
For cash flow hedging	USD 2,273,785	₩ 156,192	–	90,835	₩ 127,510
For trading	USD 425,899	–	1,790	–	(18,992)
	USD 2,699,684	₩ 156,192	1,790	90,835	

Notes to Financial Statements (continued)

(b) Interest rate swaps

The Company entered into interest rate swap contracts with Korea Exchange Bank to hedge the interest rate risk arising from floating-rate interest payment obligations to financial institutions. As of December 31, 2004, the total notional amount of the interest swap contracts is \$8,301 thousand, certain terms of which are to receive payments based on interest rate of six-month LIBOR and to make payments based on interest rate of 6.31% ~ 6.32% with maturity date of May 22, 2005.

Based on the present value of expected cash outflows from interest rate swap contracts, the Company recorded ₩172 million (\$165 thousand) in valuation loss as a long-term liability as of December 31, 2004 and, as a result, credited ₩15 million (\$14 thousand) to current revenues for the years ended December 31, 2004.

(19) COMMON STOCK

The changes in common stock and capital surplus for the year ended December 31, 2003 are as follows:

	Number of shares	Won (millions)		U.S. dollars (thousands) (note 2)	
		2004	2003	2004	2003
Balance of January 1, 2004	192,390,758	₩ 961,954	₩ 961,954	\$ 921,588	\$ 921,588
Retirement of treasury stock	(1,000,000)	—	—	—	—
Balance of December 31, 2004	191,390,758	₩ 961,954	₩ 961,954	\$ 921,588	\$ 921,588

(*) The Company retired 1,000,000 shares of treasury stock in the year ended December 31, 2004, which the Company had reacquired for ₩15,416 million (\$14,769 thousand), pursuant to a resolution of the board of directors meeting on August 23, 2004. As a result, the number of issued shares of the Company's common stock decreased, whereas paid-in capital remains intact.

(20) RETAINED EARNINGS

(a) Retained earnings as of December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Legal reserve	₩ 7,000	₩ —	\$ 6,706	\$ —
Reserve for research and manpower development	95,000	55,000	91,014	52,692
Reserve for property	150,000	—	143,706	—
Reserve for dividend equalization	50,000	—	47,902	—
Unappropriated retained earnings	241,674	329,590	231,533	315,760
	₩ 543,674	₩ 384,590	\$ 520,861	\$ 368,452

(b) Legal Reserve

The Korean Commercial Code requires the Company to appropriate, as legal reserve, an amount equal to at least 10 percent of the cash dividends for each accounting period until the reserve equals 50 percent of the capital stock. The legal reserve may be used to reduce a deficit or it may be transferred to stated capital.

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(c) Other reserve for special purpose

Under the Special Tax Treatment Control Law, investment tax credit is allowed intermittently for certain investments. The Company was, however, required to appropriate from retained earnings the amount of tax benefits obtained and transfer such amount into a reserve for research and manpower development.

Effective December 11, 2002, the Company is no longer required to establish a reserve for business rationalization despite tax benefits received for certain investments and, consequently, the existing balance is now regarded as a voluntary reserve.

(21) CAPITAL ADJUSTMENTS

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

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Loss on valuation of equity method investments	₩ (28,908)	₩ (28,237)	\$ (27,695)	\$ (27,052)
Gain on valuation of long-term investment securities	1,052	(833)	1,008	(798)
Gain on valuation of currency forwards	308,919	90,835	295,956	87,023
Treasury stock	(30,000)	—	(28,742)	—
	₩ 251,063	₩ 61,765	\$ 240,527	\$ 59,173

(22) SELLING AND ADMINISTRATIVE EXPENSES

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

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Salaries	₩ 42,099	₩ 35,068	\$ 40,333	\$ 33,597
Provision for retirement and severance benefits	3,552	4,780	3,402	4,579
Other employee benefits	17,286	16,397	16,561	15,709
Rent	3,465	2,103	3,319	2,015
Entertainment	1,132	1,460	1,084	1,399
Depreciation	7,159	5,971	6,859	5,720
Amortization	5,935	18,271	5,686	17,504
Taxes and public dues	3,451	3,207	3,306	3,073
Advertising	3,267	2,123	3,130	2,034
Research and development	29,154	15,980	27,931	15,310
Supplies	2,804	1,014	2,686	972
Printing	2,535	2,856	2,429	2,736
Communications	2,144	1,679	2,054	1,608
Water, light and heating	1,376	1,678	1,318	1,608
Repairs and maintenance	11,489	10,750	11,007	10,299
Insurance	6,460	8,195	6,189	7,851
Travel	5,064	4,868	4,851	4,663
Consulting fees	27,268	91,208	26,124	87,381
Training	4,570	4,012	4,378	3,843
Maintenance service fees	19,624	26,964	18,801	25,832
Contingent loss	2,028	3,678	1,943	3,523
Other	3,340	2,731	3,201	2,618
	₩ 205,202	₩ 264,993	\$ 196,592	\$ 253,874

Notes to Financial Statements (continued)

(23) INCOME TAXES

(a) The Company is subject to a number of income taxes based on taxable income which results in the following normal tax rates:

Taxable income	Prior to 2005	Thereafter
Up to ₩100 million	16.5%	14.3%
Over ₩100 million	29.7%	27.5%

In 2003, the Korean government reduced the corporate income tax rate beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate will be reduced from 29.7% to 27.5%.

The components of income tax expense for the years ended December 31, 2004 and 2003 are summarized as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Current	₩ 98,178	₩ 129,160	\$ 94,058	\$ 123,740
Deferred	(786)	15,506	(753)	14,855
	₩ 98,964	₩ 113,654	\$ 94,811	\$ 108,885

(b) The tax effects of temporary differences that result in significant portions of the deferred income tax assets and liabilities at December 31, 2004 and 2003 are presented below:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Deferred tax assets:				
Retirement and severance benefits	₩ 31,637	₩ 49,228	\$ 30,309	\$ 47,162
Accrued warranty costs	11,203	9,074	10,733	8,693
Provision for estimated loss on construction contracts	31,571	6,270	30,246	6,007
Allowance for contingent losses	41,400	30,799	39,663	29,507
Other	13,273	11,977	12,716	11,473
Total deferred tax assets	129,084	107,348	123,667	102,842
Deferred tax liabilities:				
Deposit for severance benefit trust	31,637	48,659	30,309	46,617
Reserve for research and manpower development	28,875	24,585	27,663	23,553
Loss on valuation of currency forward contracts	26,223	357	25,123	342
Other	10,456	1,067	10,017	1,022
Total deferred tax liabilities	97,191	74,668	93,112	71,534
Net deferred tax asset	₩ 31,893	₩ 32,680	\$ 30,555	\$ 31,308

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

(24) EARNINGS PER COMMON SHARE

Earnings per common share for the years ended December 31, 2004 and 2003 are calculated by dividing net earnings by the weighted-average number of shares of common stock outstanding.

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Net income	₩ 241,837	₩ 254,234	\$ 231,689	\$ 243,566
Weighted-average number of shares of common stock outstanding	190,847,286	192,390,758	190,847,286	192,390,758
Earnings per share in Won and U. S. dollars	₩ 1,267	₩ 1,321	\$ 1.21	\$ 1.27

(25) DIVIDENDS

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Cash dividends	₩ 66,166	₩ 67,337	\$ 63,390	\$ 64,511
Net earnings	241,837	254,234	231,689	243,566
Dividends as a percentage of net earnings	27.36%	26.49%	27.36%	26.49%

(26) STOCK OPTIONS

(a) As of December 31, 2004, details of stock options are as follows:

- (i) Number of shares to be issued : 530,595
- (ii) Grant date : June 21, 2002
- (iii) Type of compensation : The difference between the exercise price and the market price at exercise date is paid in cash or by treasury stock, at the option of the option holders.
- (iv) Precondition : The following conditions both should be met to exercise the option.
The ratio of net income to equity should be 26.5% or more on average for two consecutive years.
The mean average of closing stock prices over the previous month is ₩12,000 or higher on the second anniversary of the grant date.
- (v) Exercise price : the greater of the following -
Price calculated according to Paragraph 2 of Article 9 in Section 84 of the Korean Securities Exchange Act.
₩11,500
- (vi) Exercise period : June 22, 2004 ~ June 21, 2009
- (vii) Adjustments of the number of shares in the year ended December 31, 2004:

	Number of shares
Balance of January 1, 2004	550,000
Capital Reduction of 6 million shares in 2002	(16,633)
Capital Reduction of 1 million shares in 2004	(2,772)
Balance as of December 31, 2004	530,595

Notes to Financial Statements (continued)

(b) The Company records compensation expenses based on the difference between the quoted market price of the Company stock and the exercise price at the balance sheet date. The Company recognized ₩21 million (\$20 thousand) of the amount reversed of compensation expenses as miscellaneous income for the year ended December 31, 2004 out of long-term accrued expenses in 2003 and long-term accrued expenses as of December 31, 2004 amount to ₩2,069 million (\$1,982 thousand).

(27) ADDED VALUE

The components of manufacturing costs and selling and general administrative expenses which are necessary in calculating added value at December 31, 2004 and 2003 are as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Salaries	₩ 549,708	₩ 480,027	\$ 526,641	\$ 459,884
Retirement allowance and severance benefits	61,709	70,191	59,120	67,246
Other employee benefits	127,723	105,395	122,363	100,972
Rent	24,806	16,924	23,765	16,214
Depreciation	107,741	101,148	103,220	96,904
Taxes and dues	6,637	6,384	6,358	6,116
	₩ 878,324	₩ 780,069	\$ 841,467	\$ 747,336

(28) ENVIRONMENT-RELATED STANDARDS AND POLICY

The Company established a department to deal exclusively with environmental issues in 1993. It also declared its motto "Green Shipyard" as part of its environmental awareness campaign in May 1996. Since then, it has made strenuous efforts to enhance environmental preservation, equipping itself with excellent environmental management facilities and system. "The Environment First" policy has been implemented throughout all the relevant stages, including contract, design, production, and delivery, based on the three objectives of minimizing discharge of environment pollutants, minimizing energy expenditure, and continuous development of "green" technology.

(29) EMPLOYEE WELFARE AND CONTRIBUTIONS TO SOCIETY

For employee welfare, the Company maintains a cafeteria, scholarship fund, medical insurance, casualty insurance, paid vacation and athletic facilities. Welfare spending for the years ended December 31, 2004 and 2003 is estimated at ₩127,723 million (\$122,363 thousand) and ₩105,395 million (\$100,972 thousand), respectively.

The Company donated ₩1,525 million (\$1,461 thousand) and ₩717 million (\$687 thousand) for various recipients in the years ended December 31, 2004 and 2003, respectively.

(30) OUTSTANDING CONTRACTS

The changes in outstanding contracts for the year ended December 31, 2004 are summarized as follows:

	Won (millions)			
	January 1, 2004	New contracts	Revenue recognized (*)	December 31, 2004
Shipbuilding	₩ 5,965,544	₩ 6,345,484	₩ 3,106,809	₩ 9,204,219
Offshore plants	1,930,588	40,678	1,291,130	680,136
Special ships	176,202	66,969	55,147	188,024
Other	—	59,004	11,386	47,618
	₩ 8,072,334	₩ 6,512,135	₩ 4,464,472	₩ 10,119,997

Notes to Financial Statements (continued)

>>
December 31, 2004 and 2003

	U.S. dollars (thousands) (note 2)			
	January 1, 2004	New contracts	Revenue recognized (*)	December 31, 2004
Shipbuilding	\$ 5,715,217	\$ 6,079,214	\$ 2,976,441	\$ 8,817,990
Offshore plants	1,849,577	38,971	1,236,952	651,596
Special ships	168,808	64,159	52,833	180,134
Other	—	56,528	10,908	45,620
	\$ 7,733,602	\$ 6,238,872	\$ 4,277,134	\$ 9,695,340

(*) Valuation gains on forward currency contracts and merchandise sales are excluded.

(31) SEGMENT INFORMATION

(a) General information on segments of the Company as of December 31, 2004 is as follows:

Segment	Item	Major customer	Percentage of sales
Shipbuilding	Liquefied natural gas ("LNG") container and other	Naviera F LNG and others	70.3%
Offshore plants	Platform and other	BP and others	28.0%
Special ships	Defense products	The Department of Defense of Korea	1.2%
Other	Apartments, hotels and other	Various	0.5%
			100.0%

(b) Financial information on segments of the Company for the year ended December 31, 2004 is as follows:

	Won (millions)				
	Shipbuilding	Offshore plant	Special ships	Other	Total
Sales	₩ 3,347,331	₩ 1,334,079	₩ 55,130	₩ 23,598	₩ 4,760,138
Operating income	221,254	25,693	16,046	2,984	265,977
Plant and intangible assets	1,736,519	(*)	61,323	53,212	1,851,054
Depreciation and other expenses	105,459	(*)	7,988	2,127	115,574

	U.S. dollars (thousands) (note 2)				
	Shipbuilding	Offshore plant	Special ships	Other	Total
Sales	\$ 3,206,870	\$ 1,278,098	\$ 52,817	\$ 22,608	\$ 4,560,393
Operating income	211,970	24,615	15,373	2,858	254,816
Plant and intangible assets	1,663,651	(*)	58,750	50,979	1,773,380
Depreciation and other expenses	101,034	(*)	7,653	2,037	110,724

(*) Tangible and intangible assets and depreciation and other expenses of the shipbuilding segment cannot be segregated from those of the offshore plant segment. Accordingly, these are included solely in the shipbuilding segment.

Notes to Financial Statements (continued)

Financial information on segments of the Company for the year ended December 31, 2003 is as follows:

	Won (millions)				
	Shipbuilding	Offshore plant	Special ships	Other	Total
Sales	₩ 3,056,240	₩ 1,114,954	₩ 106,367	₩ 52,860	₩ 4,330,421
Operating income	418,263	102,161	12,329	6,114	538,867
Plant and intangible assets	1,704,242	(*)	72,133	29,387	1,805,762
Depreciation and other expenses	108,361	(*)	9,823	1,557	119,741

	U.S. dollars (thousands) (note 2)				
	Shipbuilding	Offshore plant	Special ships	Other	Total
Sales	\$ 2,927,994	\$ 1,068,168	\$ 101,904	\$ 50,642	\$ 4,148,708
Operating income	400,712	97,874	11,812	5,857	516,255
Plant and intangible assets	1,632,728	(*)	69,106	28,154	1,729,989
Depreciation and other expenses	103,814	(*)	9,411	1,492	114,716

(*) Plant and intangible assets and depreciation and other expenses of the shipbuilding segment cannot be segregated from the offshore plant segment. Accordingly, these are included solely in the shipbuilding segment.

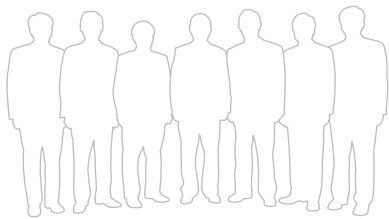
(c) Adjustments of operating income for the years ended December 31, 2004 and 2003 are as follows:

	Won (millions)		U.S. dollars (thousands) (note 2)	
	2004	2003	2004	2003
Aggregate operating income of segments	₩ 265,977	₩ 538,867	\$ 254,816	\$ 516,255
Unallocated selling and administrative expenses	(205,202)	(193,509)	(196,591)	(185,389)
	₩ 60,775	₩ 345,358	\$ 58,225	\$ 330,866

(32) SUBSEQUENT EVENTS

- (a) The Company established a subsidiary corporation, Welvis Co., Ltd, for the purpose of prompting programs and other activities for the employees' welfare on February 1, 2005. The subsidiary corporation was the result of integrating the former affiliates of Okpo Welfare Service Management & Consulting Co., Ltd., Admiral Hotel and Yong In Future Leadership Center. The subsidiary corporation's initial paid-in capital amounts to ₩10,000 million (\$9,580 thousand).
- (b) On January 31, 2005 the Company acquired a 29.9 percent equity interest in DSEC Co., Ltd., for the price of ₩4,428 million (\$4,242 thousand), which had previously been owned by Okpo Welfare Service Management & Consulting Co., Ltd. With this acquisition, the Company holds the 100 per cent ownership of DSEC Co., Ltd.

Board of Directors



Sung-Leep Jung (Representative Director)

- DSME, President & CEO

Sang-Tae Nam (Director)

- DSME, Senior Executive Vice President & CFO / COO

Kang-Soo Kim (Director)

- DSME, Senior Executive Vice President & CPO

Shi-Hyung Kim (Director)

- Korea Development Bank, Former Governor
- Ministry of Commerce, Industry and Energy, Former Vice Minister

Ok-Hwan Song (Director)

- Ministry of Science and Technology, Former Vice Minister
- Sejong University, Professor

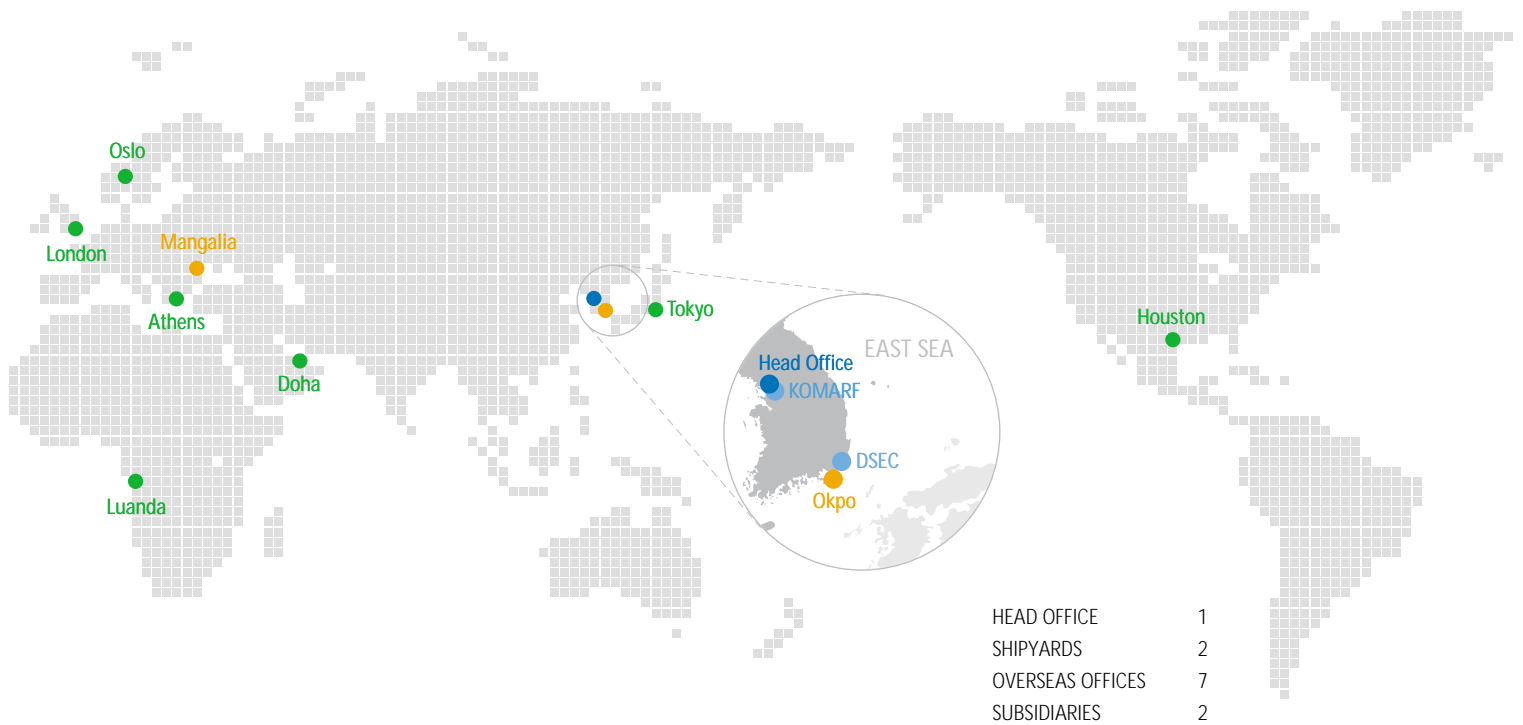
Byong-Hun Ahn (Director)

- KAIST Graduate School of Management, Professor

Dong-Soo Chung (Director)

- Ministry of Environment, Former Vice Minister
- Sangmyung University, Professor

DSME, Around the World



Head Office



OKPO Shipyard



MANGALIA Shipyard



DSEC Co., Ltd.



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