

SSANGYONG MOTOR COMPANY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005  
AND INDEPENDENT AUDITORS' REPORT

# Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying balance sheets of Ssangyong Motor Company (the "Company") as of December 31, 2006 and 2005, and the related statements of operations, disposition of accumulated deficit and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations, changes in its retained earnings (accumulated deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

Our audits also comprehended the translation of Korean Won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of the reader outside of Korea.

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

January 26, 2007

## Notice to Readers

This report is effective as of January 26, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

SSANGYONG MOTOR COMPANY

BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

ASSETS	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents (Note 15)	₩ 133,741,387	₩ 260,546,428	\$143,870	\$280,278
Short-term financial instruments (Notes 3 and 15)	4,577,074	6,564,783	4,924	7,062
Available-for-sale securities (Note 5)	1,048,505	23,012	1,128	25
Trade receivables, net of allowance for doubtful accounts of ₩2,569,481 thousand in 2006 and ₩2,818,935 thousand in 2005, and present value discount of ₩ 213,715 thousand in 2006 and ₩ 338,795 thousand in 2005 (Notes 12, 15 and 21)	176,181,101	213,886,565	189,524	230,085
Short-term loans, net of allowance for doubtful accounts of ₩22,982 thousand in 2006 and ₩22,854 thousand in 2005 (Note 6)	1,797,041	1,551,744	1,933	1,669
Other receivables, net of allowance for doubtful accounts of ₩3,173,866 thousand in 2006 and ₩4,557,008 thousand in 2005 (Notes 15 and 21)	25,298,111	16,988,862	27,214	18,275
Advanced payments, net of allowance for doubtful accounts of ₩ 22,526 thousand in 2006 and ₩220,344 thousand in 2005	9,003,444	8,120,807	9,685	8,736
Prepaid expenses	2,661,899	3,263,420	2,863	3,511
Deferred tax assets (Note 19)	-	17,056,853	-	18,349
Inventories, net of allowance for valuation of ₩11,817,992 thousand in 2006 and ₩8,430,189 thousand in 2005 (Notes 2, 4 and 7)	334,715,482	336,247,561	360,064	361,712
Derivative assets (Note 23)	2,540,053	-	2,732	-
Other current assets, net of allowance for doubtful accounts of ₩81 thousand in 2006 and ₩2,407 thousand in 2005	3,486,934	1,126,510	3,751	1,211
	<u>695,051,031</u>	<u>865,376,545</u>	<u>747,688</u>	<u>930,913</u>
<b>NON-CURRENT ASSETS:</b>				
Long-term financial instruments (Note 3)	9,000	8,000	10	9
Available-for-sale securities (Note 5)	1,404,167	1,563,097	1,511	1,681
Equity securities using the equity method (Note 5)	2,241,605	2,130,709	2,411	2,292
Long-term loans, net of allowance for doubtful accounts of ₩292,784 thousand in 2006 and ₩359,446 thousand in 2005 (Note 6)	27,084,146	30,198,916	29,135	32,486
Long-term trade receivables, net of allowance for doubtful accounts of ₩5,853 thousand in 2006 and ₩1,015 thousand in 2005, and present value discount of ₩96,423 thousand in 2006 and ₩809 thousand in 2005 (Note 12)	483,018	78,191	520	84
Guarantee deposits, net of allowance for doubtful accounts of ₩333,492 thousand in 2006 and ₩410,560 thousand in 2005	36,561,563	44,451,593	39,330	47,818
Advances for employee contribution	10,086,200	9,037,390	10,850	9,722
Deferred tax assets (Note 19)	-	121,189,737	-	130,368
Other investments in properties (Note 9)	2,737,552	500,394	2,945	537
Property, plant and equipment, net (Notes 2, 7, 8 and 9)	1,507,794,423	1,557,891,190	1,621,982	1,675,873
Intangible assets (Notes 10 and 16)	67,842,110	76,415,512	72,980	82,203
	<u>1,656,243,784</u>	<u>1,843,464,729</u>	<u>1,781,674</u>	<u>1,983,073</u>
Total Assets	<u>₩ 2,351,294,815</u>	<u>₩2,708,841,274</u>	<u>\$2,529,362</u>	<u>\$2,913,986</u>

(Continued)

SSANGYONG MOTOR COMPANY  
BALANCE SHEETS (CONTINUED)  
AS OF DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>				
<b>CURRENT LIABILITIES:</b>				
Trade payables (Notes 15 and 21)	₩ 523,523,282	₩ 511,288,964	\$ 563,170	\$ 550,010
Short-term borrowings (Notes 11, 15 and 23)	70,924,116	99,400,920	76,295	106,929
Other payables (Notes 15, 21 and 24)	197,411,866	215,835,146	212,363	232,180
Advances from customers	7,800,240	9,861,385	8,391	10,608
Withholdings	18,328,153	22,803,792	19,716	24,531
Accrued expenses (Note 15)	25,188,676	24,499,248	27,096	26,355
Accrued warranties and product liabilities (Notes 12 and 13)	47,071,684	51,606,862	50,636	55,515
Derivative liabilities (Note 23)	6,250,007	-	6,723	-
Other current liabilities	3,820,827	1,997,598	4,111	2,148
	<u>900,318,851</u>	<u>937,293,915</u>	<u>968,501</u>	<u>1,008,276</u>
<b>LONG-TERM LIABILITIES:</b>				
Debentures, net of present value discount of ₩651,688 thousand in 2006 (Notes 8, 11 and 12)	299,348,312	-	322,018	-
Long-term debt, net of present value discount of ₩ 5,855,068 thousand in 2005 (Notes 8, 11 and 15)	-	414,144,932	-	445,509
Accrued severance indemnities, net of National Pension Fund of ₩1,790,672 thousand in 2006 and ₩2,788,827 thousand in 2005, and severance insurance deposits of ₩5,635,518 thousand in 2006 and ₩6,688,657 thousand in 2005 (Note 2)	165,377,040	169,973,155	177,901	182,845
Accrued warranties and product liabilities (Notes 12 and 13)	55,495,518	57,121,558	59,698	61,447
Other long-term liabilities	5,413,856	8,906,496	5,825	9,582
	<u>525,634,726</u>	<u>650,146,141</u>	<u>565,442</u>	<u>699,383</u>
<b>Total Liabilities</b>	<u>1,425,953,577</u>	<u>1,587,440,056</u>	<u>1,533,943</u>	<u>1,707,659</u>
<b>SHAREHOLDERS' EQUITY:</b>				
Capital stock (Note 14)	604,023,100	604,023,100	649,767	649,767
Capital surplus (Note 14)	15,440,281	15,440,281	16,610	16,610
Retained earnings (Net loss of ₩195,961,755 thousand for the year ended December 31 , 2006 and ₩103,360,186 thousand for the year ended December 31, 2005) (Note 14)	306,127,307	502,089,061	329,311	540,113
Capital adjustments:				
Gain on valuation of available-for-sale securities (Notes 5 and 19)	90,434	56,973	97	61
Exchange differences on translation of financial statements of operations outside Korea (Note 5)	(339,884)	(208,197)	(366)	(224)
<b>Total Shareholders' Equity</b>	<u>925,341,238</u>	<u>1,121,401,218</u>	<u>995,419</u>	<u>1,206,327</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>₩ 2,351,294,815</u>	<u>₩2,708,841,274</u>	<u>\$2,529,362</u>	<u>\$2,913,986</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
SALES (Notes 21,26 and 30)	₩ 2,951,836,878	₩ 3,403,697,398	\$ 3,175,384	\$ 3,661,464
COST OF SALES (Note 21)	<u>2,386,681,403</u>	<u>2,804,183,849</u>	<u>2,567,428</u>	<u>3,016,549</u>
GROSS PROFIT	565,155,475	599,513,549	607,956	644,915
SELLING AND ADMINISTRATIVE EXPENSES (Note 18)	<u>537,885,775</u>	<u>601,626,887</u>	<u>578,621</u>	<u>647,189</u>
OPERATING INCOME (LOSS)	<u>27,269,700</u>	<u>(2,113,338)</u>	<u>29,335</u>	<u>(2,274)</u>
OTHER INCOME (EXPENSES):				
Interest income	5,799,461	6,369,584	6,239	6,852
Interest expense	(38,592,680)	(31,803,487)	(41,515)	(34,212)
Reversal of allowance for doubtful accounts, net	(842,969)	5,816,194	(907)	6,257
Loss on disposal of available-for-sale securities, net	(93,891)	(71,635)	(101)	(77)
Gain using the equity method, net (Note 5)	211,676	201,154	228	216
Loss on disposal of investments, net (Note 9)	(26,371)	(191,648)	(28)	(206)
Loss on disposal of property, plant and equipment, net	(1,804,474)	(3,966,339)	(1,941)	(4,267)
Loss on impairment of property, plant and equipment (Notes 2 and 9), net	(6,994,532)	(43,868,888)	(7,524)	(47,191)
Gain on foreign currency transactions, net	3,042,740	15,169,072	3,273	16,318
Gain on foreign currency translation, net (Note 15)	246,071	3,505,109	265	3,771
Reparation for product warranty expenses	8,292,753	11,847,362	8,921	12,745
Depreciation expense on assets not in use	(205,637)	(222,562)	(221)	(239)
Fees earned	27,374,051	1,512,480	29,447	1,627
Donations	(661,185)	(191,178)	(711)	(206)
Others, net (Notes 17 and 23)	<u>(80,742,570)</u>	<u>(21,230,535)</u>	<u>(86,860)</u>	<u>(22,840)</u>
	<u>(84,997,557)</u>	<u>(57,125,317)</u>	<u>(91,435)</u>	<u>(61,452)</u>
ORDINARY LOSS	(57,727,857)	(59,238,655)	(62,100)	(63,726)
EXTRAORDINARY ITEM	-	-	-	-
LOSS BEFORE INCOME TAX	(57,727,857)	(59,238,655)	(62,100)	(63,726)
INCOME TAX EXPENSE (Note 19)	<u>(138,233,898)</u>	<u>(44,121,531)</u>	<u>(148,702)</u>	<u>(47,462)</u>
NET LOSS (Note 26)	<u>₩ (195,961,755)</u>	<u>₩ (103,360,186)</u>	<u>\$ (210,802)</u>	<u>\$ (111,188)</u>
ORDINARY LOSS PER SHARE (Note 20)	<u>₩ (1,622)</u>	<u>₩ (856)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>
NET LOSS PER SHARE (Note 20)	<u>₩ (1,622)</u>	<u>₩ (856)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF DISPOSITION OF ACCUMULATED DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
ACCUMULATED DEFICIT BEFORE DISPOSITION:				
Unappropriated retained earnings carried over from prior year	₩ -	₩ 10,970,534	\$ -	\$ 11,801
Cumulative effect from accounting changes	-	4,370,258	-	4,701
Net loss	<u>(195,961,755)</u>	<u>(103,360,186)</u>	<u>(210,802)</u>	<u>(111,188)</u>
	<u>(195,961,755)</u>	<u>(88,019,394)</u>	<u>(210,802)</u>	<u>(94,686)</u>
DISPOSITION:				
Transfer from reserve for technology development	<u>195,961,755</u>	<u>88,019,394</u>	<u>210,802</u>	<u>94,686</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ -</u>	<u>₩ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net loss	₩ (195,961,755)	₩ (103,360,186)	\$ (210,802)	\$ (111,188)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Provision for severance indemnities	30,825,727	32,561,893	33,160	35,028
Depreciation	173,128,114	157,966,889	186,239	169,930
Warranty expense	687,282	1,130,213	739	1,216
Provision (reversal) of allowance for doubtful accounts, net	842,969	(5,816,194)	907	(6,257)
Amortization of intangible assets	39,311,070	35,710,518	42,288	38,415
Amortization of present value discount	6,051,447	2,649,934	6,510	2,851
Loss on disposal of available-for-sale securities, net	93,891	71,635	101	77
Gain using the equity method	(211,676)	(201,154)	(228)	(216)
Loss (gain) on valuation of inventories	3,690,936	(1,632,816)	3,970	(1,756)
Gain on foreign currency translation, net	(246,071)	(3,505,109)	(265)	(3,771)
Loss on disposal of investments, net	26,371	191,648	28	206
Loss on disposal of property, plant and equipment, net	1,804,474	3,966,339	1,941	4,267
Depreciation expense on assets not in use	205,637	222,562	222	239
Loss on impairment of property, plant and equipment, net	6,994,532	43,868,888	7,524	47,191
Others, net	<u>21,992,544</u>	<u>18,438,323</u>	<u>23,660</u>	<u>19,834</u>
	<u>285,197,247</u>	<u>285,623,569</u>	<u>306,796</u>	<u>307,254</u>
Changes in assets and liabilities resulting from operations:				
Decrease in trade receivables	38,992,627	4,044,979	41,946	4,351
Decrease (increase) in other receivables	(8,112,133)	15,417,106	(8,726)	16,585
Decrease (increase) in advanced payments	(2,465,629)	30,402,804	(2,652)	32,705
Decrease in prepaid expenses	601,521	1,179,259	647	1,269
Decrease (increase) in prepaid income tax	(2,590,691)	259,129	(2,787)	279
Decrease (increase) in inventories	(6,484,001)	20,653,559	(6,975)	22,218
Increase in long-term trade receivables	(409,665)	(70,011)	(441)	(75)
Decrease in deferred tax assets	138,233,898	44,121,531	148,703	47,463
Increase in trade payables	12,085,342	47,332,192	13,001	50,917
Increase (decrease) in other payables	(23,798,764)	7,900,256	(25,601)	8,499
Increase (decrease) in advances received	(2,061,144)	3,392,652	(2,217)	3,650
Increase (decrease) in withholdings	(4,475,639)	8,552,182	(4,815)	9,200
Increase (decrease) in accrued expenses	693,021	(12,303,181)	746	(13,235)
Increase (decrease) in accrued warranties and product liabilities	(6,161,219)	9,181,045	(6,628)	9,876
Payments of severance indemnities	(42,343,503)	(26,507,696)	(45,551)	(28,516)
Decrease in National Pension Fund	998,155	750,080	1,073	806
Others, net	<u>6,736,587</u>	<u>927,425</u>	<u>7,246</u>	<u>997</u>
	<u>99,438,763</u>	<u>155,233,311</u>	<u>106,969</u>	<u>166,989</u>
Net cash provided by operating activities	<u>188,674,255</u>	<u>337,496,694</u>	<u>202,963</u>	<u>363,055</u>

(Continued)

SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Withdrawal of short-term financial instruments, net	₩ 1,987,710	₩ 51,093,972	\$ 2,138	\$ 54,963
Collection of short-term loans, net	1,674,433	3,245	1,801	3
Acquisition of available-for-sale securities, net	(914,301)	(70,410)	(984)	(76)
Acquisition of equity securities using the equity method	(30,905)	-	(33)	-
Collection of long-term loans	1,335,164	3,795,202	1,436	4,083
Collection (payment) of guarantee deposits	8,154,152	(5,770,298)	8,772	(6,207)
Acquisition of property, plant and equipment	(141,444,163)	(233,993,290)	(152,156)	(251,714)
Acquisition of intangible assets	(28,030,254)	(29,195,153)	(30,153)	(31,405)
Others, net	(8,909,088)	(1,910,014)	(9,583)	(2,054)
Net cash used in investing activities	<u>(166,177,252)</u>	<u>(216,046,746)</u>	<u>(178,762)</u>	<u>(232,407)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from short-term borrowings	441,508,297	408,080,124	474,944	438,985
Repayment of short-term borrowings	(469,962,272)	(365,670,856)	(505,553)	(393,364)
Repayment of current-portion of long-term debt	-	(85,288,069)	-	(91,747)
Proceeds from long-term debt	299,151,931	419,494,999	321,807	451,264
Repayment of long-term debt	<u>(420,000,000)</u>	<u>(248,598,212)</u>	<u>(451,807)</u>	<u>(267,425)</u>
Net cash provided by (used in) financing activities	<u>(149,302,044)</u>	<u>128,017,986</u>	<u>(160,609)</u>	<u>137,713</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(126,805,041)</b>	<b>249,467,934</b>	<b>(136,408)</b>	<b>268,361</b>
<b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR</b>	<b><u>260,546,428</u></b>	<b><u>11,078,494</u></b>	<b><u>280,278</u></b>	<b><u>11,917</u></b>
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>	<b><u>₩ 133,741,387</u></b>	<b><u>₩ 260,546,428</u></b>	<b><u>\$ 143,870</u></b>	<b><u>\$ 280,278</u></b>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. THE COMPANY:

SSANGYONG MOTOR COMPANY (the “Company”) was incorporated on December 6, 1962, under the Commercial Code of the Republic of Korea, to manufacture and distribute motor vehicles and parts. The main office of the Company is located in Pyungtaek and its factories are located in Pyungtaek and Changwon. The Company’s stock was listed on the Korea Stock Exchange since May 1975.

The Company entered into a workout agreement with the financial institutional creditors’ association in December 1999, of which the workout period had been extended. The termination of joint control process under the workout agreement was approved by the financial institutional creditors on December 27, 2005, and the joint control process was terminated after the completion of sale of the Company’s equity on January 27, 2006.

As of December 31, 2006, the major shareholders of the Company are as follows:

	<u>Number of shares</u>	<u>Percentage of ownership (%)</u>
Shanghai Automotive Co., Ltd.	59,094,098	48.92
Oppenheimer Developing Markets Funds	11,885,529	9.84
SAIC Motor Co., Ltd.	2,910,582	2.41
Other shareholders	46,914,411	38.83
	<u>120,804,620</u>	<u>100.00</u>

On December 1, 2006, the largest shareholder of the Company was changed to Shanghai Automotive Co., Ltd. from SAIC Motor Co., Ltd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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

The accompanying financial statements are stated in Korean Won, the currency of the country in which the Company is incorporated and operates. The translation of Korean Won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩ 929.60 to US\$ 1.00 at December 31, 2006, announced by Seoul Money Brokerage Services Ltd. Such translations should not be construed as representations that the Korean Won amounts could be converted into U.S. dollars at that or any other rate.

The Company prepared its financial statements for the year ended December 31, 2006 in accordance with the Korea Financial Accounting Standards and the Statements of Korea Accounting Standards (“SKAS”) No. 1 through No.20, except for No.11 and No.14.

The significant accounting policies followed by the Company in the preparation of its financial statements for the year ended December 31, 2006 are identical to those for the year ended December 31, 2005, except for the adoption of additional SKAS No.18 through No.20, which were effective from January 1, 2006.

The balance sheet as of December 31, 2005 and the related statements of operations and cash flows for the year ended December 31, 2005, which are presented for comparative purposes, are not restated in accordance with SKAS No.18~20.

The significant accounting policies followed by the Company in preparing its financial statements are summarized below.

#### Adoption of Statements of Korea Accounting Standards (“SKAS”)

The Company newly adopted SKAS No. 18 –“Interests in Joint Ventures”, No. 19 –“Lease” and No. 20 –“Related Party Disclosures” in 2006.

The adoption of this SKAS does not affect net assets and net income.

The Company recorded the accrued warranties and product liabilities at present value in accordance with SKAS No. 17 in 2005. This accounting change decreased accrued warranties and product liabilities by ₩6,027,941 thousand and increased retained earnings by ₩4,370,257 thousand, net of tax effect of ₩1,657,684 thousand in the beginning balances in 2005. Also, net loss for the year ended December 31, 2005 by ₩1,661,623 thousand decreased.

#### Adoption of Financial Supervisory Service (“FSS”) Opinion

As discussed in Note 2, the Company presents sales, at the net basis with deduction of sales commissions, according to “FSS Opinion 2006-4” newly pronounced during 2006, which amount to ₩28,334 million and ₩31,769 million in 2006 and 2005, respectively.

Also, as discussed in Note 9, the Company changed certain account from advanced payments to construction in progress, according to “FSS Opinion 2006-2” newly pronounced during 2006, which amount to ₩ 10,243 million and ₩20,722 million as of December 31,2006 and 2005, respectively.

The prior year financial statements were restated applying the above newly effective accounting standards for comparative purposes. This adoption of FSS Opinion does not affect net income and net assets of the prior period.

#### Changes in Accounting Estimates

- (1) As discussed in Note 19, the Company does not recognize deferred income tax assets, which amount to ₩ 154,663,174 thousand, caused by temporary differences of ₩ 347,260,813 thousand and tax loss to be carried forward of ₩215,150,729 thousand. This is deemed to be a reasonable change of accounting estimation according to the Statement of Korean Accounting Standards. This change increased net loss and accumulated deficit before disposition amounting to ₩154,663,174 thousand in 2006, respectively.
- (2) As discussed in Note 2, the Company has changed its estimate of the useful life of tools and equipment and others from 10 years to 6 years. This is deemed to be a reasonable change of accounting estimation according to the Statement of Korean Accounting Standards. This change increased depreciation and net loss amounting to ₩15,424,075 thousand and ₩ 15,238,195 thousand in 2006, respectively, as compared with the amount calculated using the previous useful life.

### Cash and Cash Equivalents

Highly liquid bank deposits and securities, with original maturities of three months or less and with no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

### Revenue Recognition

Revenue from sale of goods is recognized when all of the following conditions have been satisfied:

- (1) The Company has transferred significant risks and rewards of ownership of the goods to the buyer.
- (2) The Company retains neither continuing managerial involvement, to the degree usually associated with ownership, nor effective control over the goods sold.
- (3) It is probable that the economic benefits associated with the transaction will flow into the Company.
- (4) Costs incurred or to be incurred with respect to the transaction can be measured reliably.

The Company presents sales, at the net basis with deduction of sales commissions, according to "FSS Opinion 2006-4" newly pronounced during 2006, which amount to ₩28,334 million and ₩31,769 million in 2006 and 2005, respectively.

### Allowance for Doubtful Accounts

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

### Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the specific identification method of materials-in-transits and the weighted average method for finished goods and work-in-process and others. When applying the lower of cost or market method, the market value of merchandise and finished goods are referred to the net realizable values, whereas the raw materials and supplies held for use in production of inventories are referred to the current replacement costs. Valuation loss incurred when the market value of an inventory falls below its carrying amount is presented as allowance for valuation account and added to the cost of goods sold.

The Company recognized loss on valuation of inventories amounting to ₩4,539,389 thousand and ₩2,039,884 thousand for the years ended December 31, 2006 and 2005, respectively, which is included in cost of sales. The Company maintains perpetual inventory records, which are adjusted through physical count at the end of the year.

The Company reversed loss on valuation of inventories amounting to ₩848,462 thousand and ₩3,672,700 thousand for the years ended December 31, 2006 and 2005, which is deducted from cost of sales.

### Investments in Securities Other Than Those Accounted for Using the Equity Method

#### Classification of Securities

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

### Valuation of Securities

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

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are included in current operations.

However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

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

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

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

### Equity Securities Accounted for Using the Equity Method

Investments in equity securities in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The change in the Company's portion of an investee's net equity resulting from a change in an investee's net equity is

reflected in the Company's net income (loss), retained earnings and capital adjustments, in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings and changes in capital surplus and capital adjustments. Unrealized gain (loss) arising from the transactions of assets between the Company and equity method investees is eliminated according to the ownership percentage.

#### Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are recorded at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to property, plant and equipment.

When the book value of an asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a sharp decline in market value, and the amount is material, the impairment of assets is recognized and the asset is recognized at reduced value and the resulting impairment loss is charged to current operations.

The Company recognized impairment loss on property, plant and equipment amounting to ₩ 6,994,532 thousand and ₩49,902,536 thousand for the years ended December 31, 2006 and 2005, respectively.

The Company reversed the impairments loss on property, plant and equipment amounting to ₩ 6,033,648 thousand for the year ended December 31, 2005.

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

	<u>Years</u>
Buildings	24~50
Structures	13~30
Machinery	10
Vehicles	6~10
Tools and equipment	6~10
Office equipment	6~10

For the year ended December 31, 2006, the Company has changed its estimate of the useful life of tools and equipment and others from 10 years to 6 years. This is deemed to be a reasonable change of accounting estimation according to the Statement of Korean Accounting Standards. This change increased depreciation and net loss amounting to ₩15,424,075 thousand and ₩ 15,238,195 thousand, respectively, as compared with the amount calculated using the previous useful life.

The Company recorded as other current liabilities the government grants, which were received from the Ministry of Labor, regarding vocational training of small and medium-sized companies, and deducted from the acquisition cost of acquired assets at the time of acquisition. Also, if the grants were received to make up for special expenses, the Company offsets such grant with the expenses.

#### Intangible Assets

Intangible assets are stated at cost, net of amortization computed using the straight-line method over the estimated economic useful lives of related assets. Development costs are amortized over the estimated economic useful life from the usable date of the related productions. Ordinary development and research expenses are charged to current operations. If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of an intangible asset is adjusted to its recoverable amount and the reduced amount is recognized as impairment loss.

If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess is recorded as reversal of impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

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

	Years
Industrial rights	5~10
Utility facility usage rights	10~15
Prepaid royalty expenses	For the duration of agreements
Development costs	3
Others	3

#### Accrued Severance Indemnities

Under Korean labor regulations, all employees with more than one year service are entitled to receive severance indemnities, based on the length of service and the rate of pay, upon termination of their employment. The accrued severance liabilities that would be payable assuming all eligible employees were to resign are ₩172,803,230 thousand and ₩179,450,639 thousand as of December 31, 2006 and 2005, respectively. Actual severance payments were ₩42,343,503 thousand and ₩26,507,696 thousand for the years ended December 31, 2006 and 2005, respectively.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by netting the receivables against the payment of the retirement and severance benefits. Such receivables with a balance of ₩1,790,672 thousand and ₩2,788,827 thousand as of December 31, 2006 and 2005, respectively, are presented as a deduction from accrued severance indemnities. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

The Company entered into a severance insurance plan in accordance with the Labor Standard Law, which restricts severance payment directly to the eligible employees and directors, and meets the funding requirement for additional tax deduction purposes. The amount funded under this severance insurance plan of ₩5,635,518 thousand and ₩6,688,657 thousand as of December 31, 2006 and 2005, respectively, is presented as a deduction from accrued severance indemnities.

#### Accrued Warranties and Product Liabilities

The Company generally provides a warranty to the ultimate consumer with each product and accrues warranty expense and potential expenses, which may occur due to product liabilities suits and voluntary recall campaigns at the time of sale based on actual claims history. Actual costs incurred are charged against the accrual when paid. In accordance with the End of Life Vehicle (ELV) provision of the European Union (EU), the Company also accrues liabilities for the defrayment portion of scrap expense on the vehicles exported to Europe. The Company recognized the accrued warranties at present value, where the difference between nominal value and present value of accrued warranties and product liabilities is material.

#### Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet date. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services, Ltd., which was ₩929.60 and ₩ 1,013.00 to US\$1.00 at December 31, 2006 and 2005, respectively. Foreign currency assets and liabilities of overseas business branches or offices are translated at the exchange rate at the balance sheet date and income and expenses at the weighted average rate of the reporting period. Translation gains and losses arising from the translation procedures are offset against each other and the net amounts are recognized as an overseas operations translation debit and credit in capital adjustments. Overseas operations translation debit and credit are treated as extraordinary gain and loss upon closing the foreign branch or office.

### Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loans (borrowings) transactions are stated at present value, if the difference between nominal value and present value is material. The difference between nominal value and present value is presented as present value discount. The present value discount is amortized using the effective interest method, and the amortization is included in interest expense or interest income.

If principal, interest rate of repayment period of receivables and payables is changed unfavorably for the creditor by the court imposition, such as commencement of reorganization or by mutual agreements, and the difference between nominal value and present value is material, such difference is presented as a bad debt expense or gain on exemption of debt. The difference between nominal value and present value is presented as present value discount. The present value discount is amortized using the effective interest method and the amortization is included in interest expense or interest income.

### Derivatives

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

### Income Tax Expense

The Company recognizes income tax expenses determined by adding or deducting changes in deferred income tax assets (liabilities) to or from total income tax and surtaxes to be paid by tax law for the current period. The deferred income tax assets or liabilities will be charged or credited to income tax expense in the period each temporary difference reverses in the future. The Company recognizes deferred tax liabilities basically for all taxable temporary differences, but recognizes deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Also, the Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period. Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting.

3. RESTRICTED DEPOSITS:

Deposits with withdrawal restrictions as of December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>	<u>Description</u>
Short-term financial instruments	₩ 4,577,074	₩ 3,120,583	Government grants and others
Long-term financial instruments	9,000	8,000	Guarantee deposits for checking accounts
	<u>₩ 4,586,074</u>	<u>₩ 3,128,583</u>	

4. INVENTORIES:

Inventories as of December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Merchandise	₩ 53,684,793	₩ 40,402,693
Finished goods	86,886,635	71,758,916
Work in process	35,653,702	35,290,241
Raw materials	85,232,499	79,642,111
Supplies	4,353,710	4,145,919
Materials in transit	80,722,135	113,437,870
Allowance for valuation	(11,817,992)	(8,430,189)
	<u>₩ 334,715,482</u>	<u>₩ 336,247,561</u>

5. INVESTMENTS IN SECURITIES:

(1) Available-for-sale securities as of December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Current assets:		
Government bonds	₩ 1,048,505	₩ 23,012
Non-current assets:		
Non-listed equity securities	1,395,695	560,000
Government bonds	8,472	1,003,097
	<u>1,404,167</u>	<u>1,563,097</u>
	<u>₩ 2,452,672</u>	<u>₩ 1,586,109</u>

(2) Investments in non-listed equity securities as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Company</u>	<u>Ownership percentage</u>	<u>2006</u>		<u>2005</u>	
		<u>Acquisition cost</u>	<u>Net asset value</u>	<u>Acquisition cost</u>	<u>Net asset value</u>
Kihyup Technology Banking Corporation	1.72 %	₩ 500,000	₩ 622,152	₩ 500,000	₩ 588,681
Korea Management Consultants Association	1.50 %	60,000	132,558	60,000	108,709
Ssangyong European Parts Center B.V.(*)	100.00 %	835,695	835,695	-	-
Total		<u>₩1,395,695</u>	<u>₩1,590,405</u>	<u>₩ 560,000</u>	<u>₩ 697,390</u>

(\*) Ssangyong European Parts Center B.V. was incorporated on November 15, 2006. Ssangyong European Parts Center B.V. was not accounted for using the equity method because the changes in investees' net asset value were not significant.

(3) Investment in government bonds as of December 31, 2006 are as follows (Won in thousands):

<u>Maturities</u>	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Gain on valuation</u>
Within 1 year	₩ 924,425	₩ 1,048,505	₩ 124,080
1 year ~ 5 years	7,815	8,472	657
	<u>₩ 932,240</u>	<u>₩ 1,056,977</u>	<u>₩ 124,737</u>

Government bonds are stated at fair value and the difference between acquisition cost and fair value is reflected in capital adjustments. The Company recorded gain on valuation of available-for-sale securities in capital adjustment account of ₩90,434 thousand (net of tax effect of ₩34,303 thousand) as of December 31, 2006.

(4) Equity securities accounted for using the equity method as of December 31, 2006 are as follows (Won in thousands):

<u>Affiliated company</u>	<u>Ownership percentage (%)</u>	<u>Acquisition cost</u>	<u>Net assets value</u>	<u>Book value</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	100.0	₩ 1,618,804	₩ 1,628,516	₩ 1,597,495
Ssangyong Motor (Shanghai) Co., Ltd.	100.0	235,700	645,707	644,110
		<u>₩ 1,854,504</u>	<u>₩ 2,274,223</u>	<u>₩ 2,241,605</u>

The liquidation for Ssangyong Automobile Deutschland GmbH and Panther Car Co., Ltd. was completed in 2006.

Equity securities accounted for using the equity method as of December 31, 2005 are as follows (Won in thousands):

<u>Affiliated company</u>	<u>Ownership percentage (%)</u>	<u>Acquisition cost</u>	<u>Net assets value</u>	<u>Book value</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	100.0	₩ 1,618,804	₩ 1,503,258	₩ 1,464,788
Ssangyong Motor (Shanghai) Co., Ltd.	100.0	235,700	676,880	665,921
Ssangyong Automobile Deutschland GmbH	100.0	823,668	-	-
Panther Car Co., Ltd.	51.7	7,629,738	-	-
		<u>₩10,307,910</u>	<u>₩ 2,180,138</u>	<u>₩ 2,130,709</u>

The gain on using the equity method for the years ended December 31, 2006 and 2005 are ₩ 211,676 thousand and ₩ 201,154 thousand, respectively, and exchange differences on translation of financial statements of operations outside Korea and other increase or decrease on equity securities accounted for using the equity method as of December 31, 2006 and 2005 are ₩ (100,781) thousand and ₩ 5,061 thousand, respectively.

Investments were recorded using the equity method of accounting based on unaudited and unreviewed financial statements as of December 31, 2006 and 2005. In order to verify the reliability of such unaudited and unreviewed financial statements, the Company has performed the following procedures and found no significant errors:

- i) obtained the signature from the chief executive officer of the equity method investee asserting that the unaudited and unreviewed financial statements are accurate
- ii) checked whether the major transactions identified by the Company, including public disclosures, were appropriately reflected in the unaudited and unreviewed financial statements
- iii) performed an analytical review on the unaudited and unreviewed financial statements

The summary of financial information of affiliated companies as of December 31, 2006 is as follows (Won in thousands):

<u>Affiliated company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩3,037,734	₩ 1,409,218	₩3,359,100	₩ 205,027
Ssangyong Motor (Shanghai) Co., Ltd.	2,670,331	2,024,624	10,947,719	4,126

#### 6. LOANS TO EMPLOYEES:

Loans to employees as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Account</u>	<u>Description</u>	<u>2006</u>	<u>2005</u>
Short-term loans	Housing loans	₩ 76,068	₩ 1,574,598
Long-term loans	Housing loans	15,307,262	13,160,152
"	Debt-to-equity swap loans and other	8,760,697	11,323,077
		<u>₩ 24,144,027</u>	<u>₩ 26,057,827</u>

For the year ended December 31, 2006, the Company loaned ₩4,030,000 thousand and redeemed ₩3,381,421 thousand for housing loans and ₩2,562,380 thousand for debt-to-equity swap loans and other.

#### 7. INSURED ASSETS:

The Company carries insurance coverage for property, plant and equipment, and inventories as of December 31, 2006 as follows (Won in thousands):

<u>Insured assets</u>	<u>Company</u>	<u>Coverage</u>
Products	Green Fire & Marine Insurance	₩ 2,666,099,791 (US\$2,806,420,833)
PP&E and inventories	LIG Fire & Marin Insurance	<u>2,085,512,102</u> <u>₩ 4,751,611,893</u>

In addition, the Company has purchased insurance for its vehicles, comprehensive general liability insurance, industrial accident insurance and medical insurance for employees. Also, the Company has purchased executive compensation insurance covering losses up to ₩20,000 million, gas compensation insurance and cargo insurance.

#### 8. ASSETS PLEDGED AS COLLATERAL:

The assets pledged as collateral for the Company's borrowings of ₩150,000 million and others (guarantees: The Korea Development Bank, collateralized amount of ₩351,000 million) as of December 31, 2006 are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value</u>
Land	₩ 141,418,117
Buildings	182,360,079
Structures	46,139,381
Machinery	<u>119,649,571</u>
Total	<u>₩ 489,567,148</u>

9. PROPERTY, PLANT AND EQUIPMENT:

(1) As of December 31, 2006, the published price of the Company's land as announced by the Office of National Tax Administration is ₩440,457,307 thousand.

(2) Property, plant and equipment as of December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Land	₩ 285,777,252	₩ 282,944,776
Buildings	572,054,932	563,956,356
Structures	114,673,851	113,496,214
Machinery	1,240,297,385	1,218,468,693
Vehicles	14,322,429	14,106,698
Tools and equipment	638,332,180	570,781,940
Office equipment	59,750,205	58,674,604
Construction in progress	76,896,750	58,349,577
Machinery in transit	-	1,193,059
Government grants	<u>(2,441,098)</u>	<u>(1,540,492)</u>
	2,999,663,886	2,880,431,425
Less: Accumulated impairment losses	(46,547,832)	(47,098,715)
Accumulated depreciation	<u>(1,445,321,631)</u>	<u>(1,275,441,520)</u>
	<u>₩ 1,507,794,423</u>	<u>₩ 1,557,891,190</u>

(3) The changes in acquisition costs of property, plant and equipment for the year ended December 31, 2006 are as follows (Won in thousands):

<u>Account</u>	<u>Beginning of year</u>	<u>Increase</u>		<u>Decrease</u>		<u>End of year</u>
		<u>Acquisition</u>	<u>Other</u>	<u>Disposal</u>	<u>Other</u>	
Land	₩ 282,944,776	₩ 2,521,941	₩ 2,471,493	₩ 138,637	₩ 2,022,321	₩ 285,777,252
Buildings	563,956,356	8,427,617	2,854,631	-	3,183,672	572,054,932
Government grants	(215,413)	(480,400)	-	(9,965)	-	(685,848)
Structures	113,496,214	3,084,254	375,632	1,095,790	1,186,459	114,673,851
Government grants	-	(65,710)	-	(1,766)	-	(63,944)
Machinery	1,218,468,693	11,238,923	19,584,947	2,539,659	6,455,519	1,240,297,385
Government grants	(298,097)	(360,738)	-	(51,753)	-	(607,082)
Vehicles	14,106,698	1,050,818	-	783,005	52,082	14,322,429
Government grants	(77,772)	-	-	(15,818)	-	(61,954)
Tools and equipment	570,781,940	57,816,955	14,814,652	3,947,430	1,133,937	638,332,180
Government grants	-	(10,772)	-	(577)	-	(10,195)
Office equipment	58,674,604	4,589,113	-	3,444,766	68,746	59,750,205
Government grants	(949,210)	(269,977)	-	(207,112)	-	(1,012,075)
Construction in progress	58,349,577	40,519,825	3,913,329	-	25,885,981	76,896,750
Machinery in transit	1,193,059	13,214,965	-	-	14,408,024	-
Government grants	-	(192,650)	-	-	(192,650)	-
	<u>₩ 2,880,431,425</u>	<u>₩ 141,084,164</u>	<u>₩ 44,014,684</u>	<u>₩ 11,662,296</u>	<u>₩ 54,204,091</u>	<u>₩ 2,999,663,886</u>

The Company changed certain account from advanced payments to construction in progress, according to “FSS Opinion 2006-2” newly pronounced during 2006, which amount to ₩ 10,243 million and ₩20,722 million as of December 31,2006 and 2005, respectively.

- (4) The changes in accumulated depreciation of property, plant and equipment for the year ended December 31, 2006 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Depreciation	Other	Disposal	Other	
Buildings	₩ 123,950,038	₩ 15,331,418	₩ -	₩ -	₩ 1,409,482	₩ 137,871,974
Structures	44,940,390	5,091,884	-	161,744	399,834	49,470,696
Machinery	830,792,695	89,843,506	-	2,037,207	3,754,207	914,844,787
Vehicles	5,299,596	2,306,756	-	436,051	44,465	7,125,836
Tools and equipment	245,405,277	59,280,434	-	3,081,539	336,067	301,268,105
Office equipment	25,053,524	12,133,854	-	2,385,642	61,503	34,740,233
	<u>₩ 1,275,441,520</u>	<u>₩ 183,987,852</u>	<u>₩ -</u>	<u>₩ 8,102,183</u>	<u>₩ 6,005,558</u>	<u>₩ 1,445,321,631</u>

- (5) The changes in accumulated impairment losses of property, plant and equipment for the year ended December 31, 2006 are as follows (Won in thousands):

Account	Beginning of year	Increase	Decrease	End of year
Machinery	₩ 9,304,660	₩ -	₩ 348,464	₩ 8,956,196
Vehicles	93,916	-	10,629	83,287
Tools and equipment	37,700,139	-	191,790	37,508,349
Office equipment	-	667,518	667,518	-
	<u>₩ 47,098,715</u>	<u>₩ 667,518</u>	<u>₩ 1,218,401</u>	<u>₩ 46,547,832</u>

- (6) In 2006 and 2005, the Company is planning to dispose certain vehicles, manufacturing equipment and parts. The Company recognized impairment loss on the machinery and tools and equipment of which expected disposal amounts are less than carrying amounts as a result of disposal. The impairment loss, which the Company recognized for the years ended December 31, 2006 and 2005, is as follows (Won in thousands):

For the year ended December 31, 2006:

Account	Acquisition cost	Accumulated depreciation	Book value	Recoverable amounts	Impairment loss
Office equipment	1,846,898	1,092,380	754,518	87,000	667,518

For the year ended December 31, 2005:

Account	Acquisition cost	Accumulated depreciation	Book value	Recoverable amounts	Impairment loss
Machinery	₩ 61,135,915	₩ 49,087,812	₩ 12,048,103	₩ 2,736,957	₩ 9,311,146
Vehicles	358,593	173,228	185,365	91,082	94,283
Tools & equipment	158,933,849	113,641,367	45,292,482	7,588,625	37,703,857
	<u>₩ 220,428,357</u>	<u>₩ 162,902,407</u>	<u>₩ 57,525,950</u>	<u>₩ 10,416,664</u>	<u>₩ 47,109,286</u>

- (7) In 2006 and 2005, the Company recognized impairment loss on obsolete machinery and equipment of which recoverable amounts were less than carrying amount as a result of discontinuance on the development project for new product. The impaired assets, adjusted carrying amount by recoverable amount, were reclassified from tangible assets to other investments in properties.

The impairment loss, which the Company recognized for the year ended December 31, 2006, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value	Recoverable amounts	Impairment loss
Buildings	₩ 3,332,337	₩ 1,409,482	₩ -	₩ 1,922,855	₩ 300,000	₩ 1,622,854
Structures	1,236,981	399,834	-	837,147	10,000	827,147
Machinery	6,817,991	3,754,207	49,237	3,014,458	81,623	2,932,835
Vehicles	52,082	44,465	5,050	2,566	281	2,285
Tools & equipment	1,285,203	319,743	41,015	924,445	7,879	916,565
Office equipment	94,749	63,695	-	31,0533	5,727	25,327
	<u>₩ 12,819,343</u>	<u>₩ 5,991,426</u>	<u>₩ 95,392</u>	<u>₩ 6,732,524</u>	<u>₩ 405,510</u>	<u>₩ 6,327,013</u>

As a result of sales contract to dispose Chun-an factories, the Company recognized impairment loss amounting to ₩ 6,284,082 thousand and related assets were reclassified from tangible assets to other investments in properties.

The impairment loss, which the Company recognized for the year ended December 31, 2005, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Book value	Recoverable amounts	Impairment loss
Structures	₩ 212,804	₩ 73,574	₩ 139,230	₩ 13,923	₩ 125,307
Machinery	12,376,872	9,940,564	2,436,308	129,931	2,306,377
Vehicles	1,133	302	831	14	817
Tools & equipment	200,729	103,562	97,167	8,392	88,775
Office equipment	1,658,001	1,442,740	215,261	22,984	192,277
Construction in progress	79,698	-	79,698	-	79,698
	<u>₩ 14,529,237</u>	<u>₩ 11,560,742</u>	<u>₩ 2,968,495</u>	<u>₩ 175,244</u>	<u>₩ 2,793,251</u>

- (8) In 2000, the Company recognized impairment loss of ₩7,481 million on the plant for manufacturing large-sized vehicles. However, in 2005, since the plant was reopened, the Company reversed the previously recognized impairment loss on buildings, which were within the limit of the difference between the carrying value and the amount that would have been the current carrying value had the earlier impairment not been recognized, as the recoverable amount exceeds the carrying value (Won in thousands):

Account	Carrying amount after depreciation before impairment	Book value after impairment	Recoverable amount	Reversal of impairment loss
Buildings	₩ 17,746,881	₩ 11,713,233	₩ 20,547,544	₩ 6,033,648

As a result of disposal of other investment assets for the years ended December 31, 2006 and 2005, the Company incurred loss on disposal of investments of ₩204,779 thousand and ₩244,998 thousand, respectively, and gain on disposal of investments of ₩ 9,935 thousand and ₩ 53,350 thousand, respectively.

(9) Change of accounting estimation

For the year ended December 31, 2006, the Company has changed its estimate of the useful life of tools and equipment and others from 10 years to 6 years. This is deemed to be a reasonable change of accounting estimation according to the Statement of Korean Accounting Standards. This change increased depreciation and net loss amounting to ₩15,424,075 thousand and ₩15,238,195 thousand, respectively, as compared with the amount calculated using the previous useful life.

10. INTANGIBLE ASSETS:

Intangible assets as of December 31, 2006 are as follows (Won in thousands):

	<u>Beginning of year</u>	<u>Increase</u>	<u>Amortization</u>	<u>Accumulated impairment</u>	<u>End of year</u>
Industrial right	₩ 1,048,502	₩ 377,334	₩ 381,774	₩ -	₩ 1,044,062
Electricity and gas available right	112,043	-	41,730	-	70,313
Prepaid royalty expenses	1,989,688	-	1,989,688	-	-
Development costs	69,998,768	28,271,941	34,725,163	-	63,545,546
Government grants	(42,500)	-	(28,333)	-	(14,167)
Other intangible assets	3,548,307	2,369,107	2,312,420	-	3,604,994
Government grants	<u>(239,296)</u>	<u>(280,714)</u>	<u>(111,372)</u>	-	<u>(408,638)</u>
	<u>₩ 76,415,512</u>	<u>₩ 30,737,668</u>	<u>₩ 39,311,070</u>	<u>₩ -</u>	<u>₩ 67,842,110</u>

Intangible assets as of December 31, 2005 are as follows (Won in thousands):

	<u>Beginning of year</u>	<u>Increase</u>	<u>Amortization</u>	<u>Accumulated impairment</u>	<u>End of year</u>
Industrial right	₩ 814,539	₩ 569,887	₩ 335,924	₩ -	₩ 1,048,502
Electricity and gas available right	154,524	-	42,481	-	112,043
Prepaid royalty expenses	4,230,052	-	2,240,364	-	1,989,688
Development costs	78,912,450	29,462,620	31,326,244	7,050,058	69,998,768
Government grants	(70,833)	-	(28,333)	-	(42,500)
Other intangible assets	2,709,613	2,648,434	1,809,740	-	3,548,307
Government grants	<u>(10,333)</u>	<u>(244,865)</u>	<u>(15,902)</u>	-	<u>(239,296)</u>
	<u>₩ 86,740,012</u>	<u>₩ 32,436,076</u>	<u>₩ 35,710,518</u>	<u>₩ 7,050,058</u>	<u>₩ 76,415,512</u>

11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

(1) Short-term borrowings as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Financial institution</u>	<u>Annual interest rate (%)</u>	<u>2006</u>	<u>2005</u>
Shinhan Bank and others	3.2~4.5	₩ 42,394,116	₩ 99,400,920
Industrial & Commercial Bank of China	5.89	28,530,000	-
Total		<u>₩ 70,924,116</u>	<u>₩ 99,400,920</u>

(2) Long-term debt in local currency as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Financial institution</u>	<u>Annual interest rate (%)</u>	<u>2006</u>	<u>2005</u>
Shinhan Bank and others	7.46	₩ -	₩ 370,000,000

(3) Long-term debt in foreign currency as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Financial Institution</u>	<u>Annual interest rate (%)</u>	<u>2006</u>	<u>2005</u>
Woori Bank	7.46	₩ -	₩ 50,000,000

(4) Debentures as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Description</u>	<u>Issue date</u>	<u>Maturity</u>	<u>Annual interest rate (%)</u>	<u>2006</u>
115 <sup>th</sup> Debentures	2006-04-25	2009-04-25	6.75	₩ 150,000,000
116 <sup>th</sup> Debentures	2006-07-26	2008-07-26	6.16	150,000,000
Sub-Total				300,000,000
Less: Current portion				-
				<u>₩ 300,000,000</u>

The debentures are to be repaid in lump sum at the maturity date, and interests are paid for three months in arrear.

(5) The annual maturities of debentures as of December 31, 2006 are as follows (Won in thousands):

<u>Period</u>	<u>Debentures</u>
2007.1.1~2007.12.31	₩ -
2008.1.1~2008.12.31	150,000,000
2009.1.1~2009.12.31	150,000,000
	<u>₩ 300,000,000</u>

## 12. VALUATION OF ASSETS AND LIABILITIES AT PRESENT VALUE:

Valuation of assets and liabilities at present value as of December 31, 2006 are as follows (Won in thousands):

	<u>Nominal value</u>	<u>Present value</u>	<u>Present value discounts</u>	<u>Effective interest rate</u>	<u>Maturity</u>
<b>Assets:</b>					
Trade receivables	₩ 5,958,607	₩ 5,744,892	₩ 213,715	8.9 %	2007.12.31
Long-term trade receivables	585,294	488,870	96,423	8.9 %	2008.1.31
	<u>₩ 6,543,901</u>	<u>₩ 6,233,762</u>	<u>₩ 310,138</u>		
<b>Liabilities:</b>					
115 <sup>th</sup> Debentures	₩ 150,000,000	₩ 149,405,421	₩ 594,579	6.94 %	2009. 4. 25
116 <sup>th</sup> Debentures	150,000,000	149,942,891	57,109	6.19 %	2008. 7. 26
Accrued warranties and product liabilities	48,402,170	47,071,684	1,330,486	6.09 %	2007.12.31
Long-term accrued warranties and product liabilities	63,050,194	55,495,518	7,554,676	6.09 %	2017.12.31
	<u>₩ 411,452,364</u>	<u>₩ 401,915,514</u>	<u>₩ 9,536,850</u>		

Discounts (premiums) on present value are amortized using the effective interest rate method. Amortization of discount (premium) is recognized as interest expense (income).

## 13. ACCRUED WARRANTIES AND PRODUCT LIABILITIES:

The Company provides warranties for products up to 100,000 kilometers of operation within two to three years and per End of Life Vehicles (ELV) regulations, environmental liabilities to be occurred related with scrapping vehicles exported to the European Union (EU). Accordingly, the Company recorded ₩102,567,202 thousand and ₩108,728,420 thousand as provisions for product warranty liabilities as of December 31, 2006 and 2005, respectively.

The changes of accrued warranties and product liabilities for the year ended December 31, 2006 are as follows (Won in thousands):

<u>Accounts</u>	<u>December 31, 2005</u>	<u>Increase</u>	<u>Decrease</u>	<u>December 31, 2006</u>
Accrued warranties and product liabilities	₩ 108,728,420	₩ 9,276,310	₩ 15,437,528	₩ 102,567,202

  

<u>Accounts</u>	<u>December 31, 2004</u>	<u>Increase</u>	<u>Decrease(*)</u>	<u>December 31, 2005</u>
Accrued warranties and product liabilities	₩ 105,575,317	₩ 68,246,347	₩ 65,093,334	₩ 108,728,420

(\*) The Company recorded the accrued warranties and product liabilities at present value in accordance with SKAS No. 17 in 2005. This accounting change decreased accrued warranties and product liabilities by ₩6,027,941 thousand.

#### 14. SHAREHOLDERS' EQUITY:

- (1) The Company has 1,600,000,000 authorized shares of ₩5,000 par value common stock, of which 120,804,620 shares have been issued as of December 31, 2006.
- (2) The Company reduced its capital at a ratio of 10 to 1 on June 4, 2002 and recorded the gain on capital reduction of ₩5,149,844,305 thousand. On March 27, 2003, the Company used ₩5,134,404,024 thousand for deficit recovery and the residual amount of ₩15,440,281 thousand was recorded as other capital surplus.
- (3) The articles of incorporation of the Company states that non-cumulative participating preferred stock can be issued as registered non-voting stock up to 50,000,000 shares, and convertible bonds and bonds with subscription warranty, which can be converted into common or preferred stocks, can be issued to non-shareholders up to par value of ₩1,500,000 million and ₩100,000 million, respectively. In case of conversion, convertible bonds can be converted to ₩1,400,000 million of common stock and ₩100,000 million of preferred stock and bonds with subscription warranty can be converted to ₩50,000 million of common stock and ₩50,000 million of preferred stock.
- (4) According to the special resolution at the shareholders' meeting, the Company is allowed to grant stock options to executives and employees who significantly contribute to managerial and technological innovation within 15 percent of the total number of stock issued. Minimum exercise price is average closing price during the preceding three months when stock option was granted through special resolution at the shareholders' meeting. Executives and employees, who are provided with stock options and have worked for the Company for two years after grant date, may exercise stock options within two years after three years' grace period. As of December 31, 2006, no stock option has been granted.
- (5) Retained Earnings

As of December 31, 2006 and 2005, appropriated retained earnings consist of the following (Won in thousands):

<u>Description</u>	<u>Korean Won</u>	
	<u>2006</u>	<u>2005</u>
Reserve for financial structure improvement	₩ 60,108,455	₩ 60,108,455
Reserve for technology development	441,980,607	530,000,000
Accumulated deficit before disposition	(195,961,755)	(88,019,394)
	<u>₩ 306,127,307</u>	<u>₩ 502,089,061</u>

15. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Foreign currency denominated assets and liabilities as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Account</u>	<u>2006</u>		<u>2005</u>		
	<u>Foreign currencies</u>	<u>Won equivalent</u>	<u>Foreign currencies</u>	<u>Won equivalent</u>	
<b>Assets:</b>					
Cash and cash equivalents	EUR	11,680,391	₩ 14,276,241	50,056	₩ 60,034
"	JPY	404,377,021	3,161,541	-	-
"	USD	207,083	192,505	3,448,149	3,492,975
Short-term financial instruments	USD	160,000	148,736	-	-
Trade receivables	EUR	41,387,305	50,585,220	48,554,524	58,233,382
"	GBP	-	-	2,173,444	3,796,507
"	USD	10,345,496	9,617,173	15,102,802	15,299,139
"	JPY	2,678,700	20,943	-	-
Other receivables	EUR	3,308	4,043	12,814	15,369
"	JPY	30,487	238	5,327	46
"	USD	600,409	558,140	1,208,976	1,224,693
			<u>₩ 78,564,780</u>		<u>₩ 82,122,145</u>
<b>Liabilities:</b>					
Trade payables	EUR	20,899,976	₩ 25,544,787	32,941,053	₩ 39,507,523
"	AUD	3,665,836	2,692,483	3,919,928	2,908,469
"	JPY	318,266,140	2,488,300	443,320,249	3,812,111
"	USD	5,040,971	4,686,087	4,692,830	4,753,837
Other payables	AUD	36,652	26,920	32,652	24,226
"	CHF	7,000	5,327	142,350	109,662
"	DEM	1,760,496	1,100,169	2,446,081	1,499,961
"	EUR	9,267,969	11,327,682	5,173,585	6,204,887
"	FRF	5,693	1,061	5,693	1,041
"	GBP	205,497	374,849	184,742	322,702
"	JPY	107,165,578	837,853	46,277,411	397,939
"	SEK	724	97	724	92
"	USD	8,301,908	7,717,453	9,111,070	9,229,514
Accrued expenses	EUR	177,702	217,195	-	-
"	JPY	1,442,874	11,281	-	-
Short-term borrowings	AUD	-	-	3,761,940	2,791,246
"	EUR	27,618,312	33,756,205	54,624,177	65,512,961
"	JPY	1,104,832,417	8,637,911	1,275,726,447	10,969,972
"	USD	-	-	19,868,451	20,126,741
Long-term debt	USD	-	-	49,603,175	50,000,000
			<u>₩ 99,425,660</u>		<u>₩ 218,172,884</u>

For the years ended December 31, 2006 and 2005, gain on foreign currency translation of ₩1,025,229 thousand and ₩3,693,167 thousand, respectively, and loss on foreign currency translation of ₩779,158 thousand and ₩188,058 thousand, respectively, were recognized.

16. RESEARCH AND DEVELOPMENT:

Research and development costs occurred for the years ended December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Description</u>	<u>2006</u>	<u>2005</u>
Development expenses	₩ 100,682,825	₩ 114,700,744
Development costs	<u>28,271,941</u>	<u>29,462,620</u>
	<u>₩ 128,954,766</u>	<u>₩ 144,163,364</u>

17. MISCELLANEOUS LOSS:

Miscellaneous losses, which are included in others, net, for the year ended December 31, 2006 are as follows (Won in thousands):

<u>Description</u>	<u>Amount</u>
The compensation for voluntary retirement	₩ 33,564,755
The indirect cost of manufacturing relating to strike	<u>36,017,352</u>
Total	<u>₩ 69,582,107</u>

18. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Salaries	₩ 53,167,613	₩ 59,694,970
Provision for severance indemnities	7,295,239	4,836,995
Other employee benefits	7,800,374	8,965,042
Travel	904,900	1,068,332
Communications	827,926	984,277
Taxes and dues	6,303,730	5,833,263
Rent	8,011,225	7,196,675
Depreciation	20,034,705	14,472,437
Repairs	977,595	1,442,701
Advertisement	24,604,714	33,445,876
Sales warranties	61,123,840	78,953,497
Sales commissions	94,428,054	77,788,936
Sales promotion	14,981,409	39,465,955
Freight	6,030,816	7,283,934
Packing expenses	1,249,476	1,146,809
Export related expenses	64,386,457	65,346,144
Commissions	10,420,647	9,317,486
Electronic data processing expenses	4,656,753	7,737,550
Development expenses	100,682,825	114,700,744
Amortization	37,321,381	33,470,153
Others	<u>12,676,096</u>	<u>28,475,111</u>
	<u>₩ 537,885,775</u>	<u>₩ 601,626,887</u>

19. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

- (1) Income tax expense for the years ended December 31, 2006 and 2005 consist of the following (Won in thousands):

	<u>2006</u>	<u>2005</u>
Income tax currently payable	₩ -	₩ -
Changes in deferred income taxes due to temporary differences	112,323,372	2,858,287
Changes in deferred income taxes due to tax loss to be carried forward	25,923,218	42,942,539
Changes in deferred income taxes assets, net	<u>138,246,590</u>	<u>45,800,826</u>
Changes in deferred income taxes due to cumulative effect of accounting change	-	(1,657,683)
Tax expense allocated to capital adjustments	<u>(12,692)</u>	<u>(21,612)</u>
Income tax expense	<u>₩ 138,233,898</u>	<u>₩ 44,121,531</u>

- (2) For the years ended December 31, 2006 and 2005, the differences between loss before income tax in financial accounting and taxable loss pursuant to Corporate Income Tax Law of Korea are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Loss before income tax	₩ (57,727,857)	₩ (59,238,655)
Adjustments:		
Permanent differences	7,498,046	13,023,648
Temporary differences	<u>(16,165,404)</u>	<u>(10,643,927)</u>
Taxable loss	<u>(66,395,215)</u>	<u>(56,756,934)</u>
Tax loss to be carried forward (*)	<u>₩ (215,150,729)</u>	<u>₩ (291,853,338)</u>

- (\*)The amount and expiration date of available net losses carried-over from prior years as of December 31, 2006 are as follows (Won in thousands):

<u>Year of occurrence</u>	<u>Year of expiration</u>	<u>Amount</u>
2004	2009	₩ 37,509,314
2005	2010	111,246,200
2006	2011	<u>66,395,215</u>
		<u>₩ 215,150,729</u>

- (3) The changes in accumulated temporary differences for the years ended December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Description</u>	<u>2006</u>	<u>2005</u>
Beginning of the year, net (*)	₩ 458,630,413	₩ 472,476,865
Decrease in the current period	(235,084,833)	(285,644,684)
Increase in the current period	167,691,678	271,798,222
End of the year, net	<u>391,237,258</u>	<u>458,630,413</u>
Tax loss to be carried forward	215,150,729	291,853,338
Exclusion from temporary differences due to uncertainty of realization	<u>(606,387,987)</u>	<u>(247,768,879)</u>
	₩ -	₩ 502,714,872
Statutory tax rate (**)	27.5%	
Deferred income tax assets	<u>₩ -</u>	<u>₩ 138,246,590</u>

(\*)Temporary differences above reflected adjustments from revised tax return and reassessment, which the Company filed with the tax authorities in 2006.

(\*\*) Marginal tax rate expected to be applied for the period in which the related temporary difference will reverse is used for the calculation.

- (4) Temporary differences, excluded due to the uncertainty of its realization as of December 31, 2006 and 2005, are as follows (Won in thousands):

Descriptions	2006	2005
(Deductible temporary differences):		
Allowance for doubtful accounts	₩ 35,590,686	₩ 35,590,686
Impairment loss on property, plant and equipment	8,385,759	13,506,803
Amortization of goodwill	-	1,339,173
Others	<u>347,260,813</u>	<u>-</u>
Sub-total	391,237,258	50,436,662
(Tax loss to be carried forward):		
Occurrence in 2001	-	197,587,090
Occurrence in 2004	37,509,314	-
Occurrence in 2005	111,246,200	-
Occurrence in 2006	<u>66,395,215</u>	<u>-</u>
Sub-total	215,150,729	197,587,090
(Additional temporary differences):		
Equity securities using the equity method	<u>(356,196)</u>	<u>(254,873)</u>
Total	<u>₩ 606,031,791</u>	<u>₩ 247,768,879</u>

The Company does not recognize deferred income tax assets, amounting to ₩ 154,663,174 thousand, caused by temporary differences of ₩ 347,260,813 thousand and tax loss to be carried forward of ₩215,150,729 thousand. This is deemed to be a reasonable change of accounting estimation according to the Statement of Korean Accounting Standards. This change resulted in the increase of net loss and accumulated deficit before disposition amounting to ₩154,663,174 thousand, respectively.

- (5) Detail of deferred tax assets deducted from capital adjustments as of December 31, 2006 and 2005 are as follows (Won in thousands):

Description	2006			2005		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain on valuation of available-for-sale securities	₩ 124,737	₩ 34,303	₩ 90,434	₩ 78,584	₩ 21,611	₩ 56,973
Cumulative effect of accounting change	-	-	-	<u>6,027,941</u>	<u>1,657,684</u>	<u>4,370,257</u>
Total	<u>₩ 124,737</u>	<u>₩ 34,303</u>	<u>₩ 90,434</u>	<u>₩6,106,525</u>	<u>₩1,679,295</u>	<u>₩ 4,427,230</u>

## 20. LOSS PER SHARE:

Ordinary loss per share and net loss per share for the years ended December 31, 2006 and 2005 are computed by dividing ordinary loss (after deducting the income tax effect) and net loss, respectively, with the weighted average number of common shares outstanding during the year (Won in thousands except for per share amounts):

	<u>2006</u>	<u>2005</u>
Loss after deducting the income tax effect	₩ ( 195,961,755)	₩ ( 103,360,186)
Weighted average number of common shares outstanding	<u>120,804,620</u>	<u>120,804,620</u>
Loss per share	<u>₩ (1,622)</u>	<u>₩ (856)</u>

21. RELATED PARTY TRANSACTIONS:

(1) The name of related party as of December 31, 2006 is as follows:

- a. The name of group: Shanghai Automotive Co., Ltd. (total 141 companies)
- b. The name of holding company: Shanghai Automotive Co., Ltd.
- c. The name of top parent company: Shanghai Automotive Industry Corporation (Group)

(2) Related party transactions of the Company for the years ended December 31, 2006 and 2005 are as follows  
(Won in thousands):

<u>Company</u>	<u>Sales</u>		<u>Purchases</u>		<u>Others</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ 333,109	₩ 779,056	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	5,867,670	-	-	206,701	754,153
SAIC Motor Co., Ltd.	-	-	-	-	-	510,798
SAIC Motor Manufacturing Co., Ltd.	-	-	10,792	-	26,691,667	-
Shanghai Automotive Import & Export Co.	14,866,146	573,716	-	-	-	-
Shanghai Automotive Industry Sales Co.	<u>33,649,558</u>	<u>12,480,951</u>	<u>-</u>	<u>-</u>	<u>(654,177)</u>	<u>-</u>
Total	<u>₩ 48,515,704</u>	<u>₩ 18,922,337</u>	<u>₩ 343,901</u>	<u>₩ 779,056</u>	<u>₩ 26,244,191</u>	<u>₩ 1,264,951</u>

(3) Inter-company accounts receivable and payable as of December 31, 2006 and 2005 are as follows (Won in thousands):

<u>Company</u>	<u>Trade receivables</u>		<u>Other receivables</u>		<u>Trade payables</u>		<u>Other payables</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 56,620	₩ -	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	368,345	472,577	-	-	-	-	-
SAIC Motor Manufacturing Co., Ltd.	-	-	166,734	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	<u>5,633</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257,404</u>	<u>-</u>	<u>-</u>
Total	<u>₩ 5,633</u>	<u>₩ 368,345</u>	<u>₩ 639,311</u>	<u>₩ -</u>	<u>₩ 56,620</u>	<u>₩ 257,404</u>	<u>₩ -</u>	<u>₩ -</u>

(4) For the year ended December 31, 2006, the compensation to the Company's key management mainly consists of salaries of ₩880,831 thousand and provision for severance indemnities of ₩188,067 thousand.

22. COMMITMENTS AND CONTINGENCIES:

(1) Long-term supply contract

On October 4, 2006, the Company concluded a long-term supply contract with Public Joint Stock Company Severstal-auto (“SSA”) for the supply of Kyron and Actyon vehicle assembly kit. The details of long-term supply contract are as follows (Won in millions):

<u>Company</u>		<u>Period</u>	<u>Contracted quantities</u>	<u>Amount</u>	
Public Joint Stock Company Severstal-auto (“SSA”)		2006.10~2011.12	Maximum: 79,000	₩	1,320,667
			Minimum: 63,200	₩	1,056,533

(2) Technology transfer agreement

As of December 31, 2006 and 2005, the Company has three technology transfer agreements with Daimler Chrysler AG and incurred royalties of ₩1,505,378 thousand and ₩2,342,933 thousand for the years ended December 31, 2006 and 2005, respectively. According to the agreements, the Company must cease to manufacture all products related to the technology transfer agreements upon entering into a manufacturing related partnership with a third party.

(3) The Company is insured on domestic sales of all products against indemnity liabilities.

(4) As of December 31, 2006, the Company has import usance agreements with 6 banks (including Shinhan Bank) with the credit limit of ₩204,512 million (US\$220,000 thousand).

(5) As of December 31, 2006, the Company has been provided a maximum credit limit amounting to ₩216,000 million and US\$ 100,000 thousand by KDB and 2 other banks.

(6) As of December 31, 2006, the Company has been provided with guarantees amounting to ₩ 8,176,868 thousand related to subcontract transaction from Seoul Guarantee Insurance.

23. Derivatives

(1) The Company has entered into the derivatives contracts regarding the foreign exchange forward with Industrial & Commercial Bank of China for short-term borrowings in foreign currency amounting to US\$ 30,000 thousand to hedge exchange rate and interest rate risk. However, there is no valuation gain or loss recognized for the year ended December 31, 2006.

(2) The Company has entered into derivatives contracts regarding the currency option with Woori Bank and others for the purpose of trading. For the year ended December 31, 2006, the gain on valuation of derivatives is ₩ 2,238,621 thousand and the loss on valuation of derivatives is ₩3,309,191 thousand. In addition, for the year ended December 31, 2006, the gain on settlement of derivatives is ₩3,564,857 thousand and the loss on settlement of derivatives is ₩1,882,917 thousand. Outstanding currency option contracts as of December 31, 2006 are as follows (Won in thousands):

<Currency option>

<u>Bank</u>	<u>Description</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Contract currency</u>	<u>Contract amount</u>	<u>Contract rate</u>
Woori Bank	Option	2006.03.16	2007.03.13	USD	USD 3,000,000	981.50
	"	2006.03.23	2007.02.28	USD	USD 3,000,000	983.00
	"	2006.03.23	2007.03.22	EUR	EUR 3,000,000	1,207.00
	"	2006.03.24	2007.03.13	USD	USD 3,000,000	989.50
	"	2006.03.31	2007.04.02	EUR	EUR 8,000,000	1,211.10
	"	2006.04.20	2007.04.13	EUR	EUR 4,000,000	1,189.50
	"	2006.04.26	2007.04.26	EUR	EUR 4,000,000	1,197.00
	"	2006.04.28	2007.04.26	EUR	EUR 4,000,000	1,204.00
	"	2006.05.02	2007.05.02	EUR	EUR 5,000,000	1,206.70
	"	2006.05.24	2007.05.25	USD	USD 5,000,000	959.60
SC First Bank	Option	2006.03.16	2007.03.15	USD	USD 3,000,000	974.00
	"	2006.03.23	2007.02.28	USD	USD 3,000,000	973.50
	"	2006.03.23	2007.03.22	EUR	EUR 3,000,000	1,193.90
	"	2006.03.24	2007.03.13	USD	USD 3,000,000	983.50
	"	2006.03.31	2007.03.22	EUR	EUR 6,000,000	1,205.00
	"	2006.04.20	2007.04.13	EUR	EUR 4,000,000	1,190.00
	"	2006.04.26	2007.04.26	EUR	EUR 4,000,000	1,198.00
	"	2006.04.28	2007.04.30	EUR	EUR 10,000,000	1,203.10
	"	2006.04.28	2007.04.30	EUR	EUR 5,000,000	1,206.00
	"	2006.05.02	2007.04.30	EUR	EUR 10,000,000	1,207.50
	"	2006.05.11	2007.05.11	EUR	EUR 10,000,000	1,214.00
	"	2006.05.24	2007.05.25	USD	USD 5,000,000	JPY 112.70
	"	2006.06.08	2007.06.08	USD	USD 6,000,000	960.00
	"	2006.06.13	2007.06.13	USD	USD 6,000,000	967.60
KDB	Option	2006.05.15	2007.05.15	EUR	EUR 10,000,000	1,238.00
	"	2006.05.18	2007.05.22	USD	USD 5,000,000	955.70
	"	2006.05.22	2007.05.22	USD	USD 5,000,000	959.00
	"	2006.05.24	2007.05.25	USD	USD 5,000,000	960.00
	"	2006.05.30	2007.05.29	USD	USD 5,000,000	JPY 112.55
	"	2006.06.08	2007.06.08	USD	USD 6,000,000	960.00
	"	2006.06.13	2007.06.13	USD	USD 6,000,000	968.20
Barclays Bank	Option	2006.11.02	2007.04.13	EUR	EUR 4,000,000	1,190.00
	"	2006.11.02	2007.04.26	EUR	EUR 4,000,000	1,198.00
	"	2006.11.02	2007.04.30	EUR	EUR 10,000,000	1,203.10

(3) The Company has entered into derivatives contracts regarding CMS Spread interest rate swap with KDB and Deutsche Bank. For the year ended December, 31 2006, the loss on valuation of derivatives is ₩2,940,816 thousand, the loss on sales of trading derivatives transaction is ₩8,381,927. Outstanding derivatives contracts as of December 31, 2006 are as follows (Won in thousands):

<u>Bank</u>	<u>Description</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Contract amount</u>
KDB	CMS Spread	2006.07.25	2009.04.25	₩ 50,000,000

24. PENDING LITIGATIONS:

As of December 31, 2006, the Company is a plaintiff in 5 domestic litigations involving claims of ₩ 2,275,079 thousand and is a defendant in 8 domestic litigations involving claims of ₩ 1,176,412 thousand. Also, the Company is under 2 overseas litigations.

The main pending litigations as of December 31, 2006 are as follows (Won in thousands):

Description	Plaintiff	Defendant	Claimed amount	Probable outcome
(1) Domestic litigations:				
Claim for damages	Individuals	The Company	₩ 692,650	Unpredictable
"	The Company	Technology credit guarantee fund	309,051	Unpredictable (*)
"	"	Individuals	579,680	Unpredictable
(2) Overseas litigations:				
Claim for damages	Scaldia Volga and other	The Company	US\$ 6,000,000	Unpredictable (*)
Provisional seizure of vehicle	The Company	Yasar Bank and others	US\$ 550,000	Unpredictable

(\*) Since a decrease of net asset is certain and loss can be reasonably estimated in connection with the above litigations, the Company accrued other payables of ₩ 1,233,123 thousand.

## 25. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the years ended December 31, 2006 and 2005 are as follows (Won in thousands):

Name of account	2006	2005
Transfer to property, plant and equipment from inventories	₩ 3,913,329	₩ 8,403,784
Transfer to current portion of long-term loans	1,846,269	-
Transfer to buildings from other investments	-	33,405
Transfer to other investments from lands	2,022,321	-
Transfer to other investments from buildings	1,774,190	-
Transfer to other investments from structures	695,955	139,230
Transfer to other investments from machinery	2,701,312	2,436,307
Transfer to other investments from vehicles	7,616	831
Transfer to other investments from tools and equipment	797,871	97,767
Transfer to other investments from office equipment	7,242	248,665
Transfer to property, plant and equipment from machinery in transit	14,215,374	6,121,284
Transfer to real accounts from construction in progress	25,885,981	111,743,585
Transfer to current portion of long-term debt	-	5,959,573

## 26. CONDENSED FINANCIAL INFORMATION FOR THE FOURTH QUARTER PERIOD:

Condensed financial information for the fourth quarters of 2006 and 2005 is as follows (Won in thousands except for the net loss per share):

	2006	2005
Sales	₩ 827,205,158	₩ 997,216,140
Net loss	(130,622,934)	(53,244,411)
Net loss per share	(766)	(441)

27. TRAINING:

Training expenses incurred for the years ended December 31, 2006, 2005 and 2004 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Training outsourced	₩ 352,177	₩ 449,612	₩ 266,053
Other	<u>1,856,848</u>	<u>2,730,212</u>	<u>2,035,533</u>
	<u>₩ 2,209,025</u>	<u>₩ 3,179,824</u>	<u>₩ 2,301,586</u>

28. EMPLOYEE WELFARE:

The Company operates and provides cafeteria, medical room, scholarship, health insurance, paid vacation and other benefits for the welfare of its employees. The Company incurred ₩44,226,325 thousand and ₩49,237,967 thousand for employee welfare for the years ended December 31, 2006 and 2005, respectively.

29. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VAUE ADDED:

The accounts and amounts needed for the calculation of value added for the years ended December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Labor cost and salaries	₩ 341,206,107	₩ 366,701,858
Provision for severance indemnities	35,696,095	38,617,369
Employee welfare	44,070,734	49,237,967
Rent	9,140,606	8,905,052
Depreciation	166,905,487	167,547,830
Taxes and dues	<u>20,895,909</u>	<u>18,779,283</u>
	<u>₩ 617,914,938</u>	<u>₩ 649,789,359</u>

30. SEGMENT INFORMATION:

Sales by region for the years ended December 31, 2006 and 2005 are as follows (Won in thousands):

	<u>2006</u>	<u>2005</u>
Domestic sales	₩ 1,690,155,627	₩ 2,032,629,558
Export sales:		
Europe	880,871,386	962,086,895
Asia	110,131,966	154,895,758
Others	<u>158,004,517</u>	<u>195,581,148</u>
Sub total	1,149,007,869	1,312,563,801
Other export sales:	<u>112,673,382</u>	<u>58,504,039</u>
Total sales	<u>₩ 2,951,836,878</u>	<u>₩ 3,403,697,398</u>

## Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of  
Ssangyong Motor Company:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Ssangyong Motor Company (the "Company") as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on our assessment of the IACS as of December 31, 2006, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

January 26, 2007

