

SSANGYONG MOTOR COMPANY

FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND
SIX MONTHS ENDED

JUNE 30, 2007 AND 2006

AND INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Independent Accountants' Review Report

English Translation of a Report Originally Issued in Korean

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

We have reviewed the accompanying balance sheet of Ssangyong Motor Company (the "Company") as of June 30, 2007 and the related statements of operations and cash flows for the three months and six months ended June 30, 2007 and 2006 and statement of changes in equity for the six months ended June 30, 2007, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with the standards for review of interim financial statements in the Republic of Korea. Those standards require that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that cause us to believe that the financial statements referred to above are not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea (See Note 2).

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the balance sheet of the Company as of December 31, 2006, which is presented in this report, and the related statements of income, disposition of accumulated deficit and cash flows for the year then ended (not presented herein); and in our report dated January 26, 2007, we expressed an unqualified opinion on those financial statements. The accompanying balance sheet as of December 31, 2006, which is comparatively presented, does not differ in material respects from such audited balance sheet.

Our reviews also comprehended the translation of Korean Won amounts into U.S. dollar amounts and nothing has come to our attention that cause us to believe that such translation has not 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 review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in equity 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 review 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 review standards and their application in practice.

July 18, 2007

Notice to Readers

This report is effective as of July 18, 2007, the accountants' review report date. Certain subsequent events or circumstances may have occurred between the accountants' review report date and the time the accountants' review report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the accountants' review report.

SSANGYONG MOTOR COMPANY
BALANCE SHEETS
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006

ASSETS	Korean won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
CURRENT ASSETS:				
Cash and cash equivalents (Note 15)	₩ 73,921,447	₩ 133,741,387	\$ 79,760	\$ 144,304
Short-term financial instruments (Note 3)	4,848,167	4,577,074	5,231	4,939
Available-for-sale securities (Note 5)	12,084	1,048,505	13	1,131
Trade receivables, net of allowance for doubtful accounts of ₩2,736,186 thousand in 2007 and ₩2,569,481 thousand in 2006, and present value discount of ₩107,499 thousand in 2007 and ₩213,716 thousand in 2006 (Notes 12 and 15)	194,038,653	176,181,101	209,364	190,096
Short-term loans, net of allowance for doubtful accounts of ₩35,612 thousand in 2007 and ₩22,983 thousand in 2006 (Note 6)	3,078,729	1,797,041	3,322	1,939
Other receivables, net of allowance for doubtful accounts of ₩3,335,512 thousand in 2007 and ₩3,173,866 thousand in 2006 (Notes 15 and 20)	12,084,865	25,298,111	13,039	27,296
Advanced payments, net of allowance for doubtful accounts of ₩234,158 thousand in 2007 and ₩22,526 thousand in 2006	25,182,739	9,003,444	27,172	9,715
Prepaid expenses	8,090,278	2,661,899	8,729	2,872
Inventories, net of allowance for valuation of ₩9,181,385 thousand in 2007 and ₩11,817,991 thousand in 2006 (Notes 2, 4 and 7)	272,500,288	334,715,482	294,023	361,152
Derivative assets (Note 22)	1,734,529	2,540,053	1,872	2,741
Other current assets, net of allowance for doubtful accounts of ₩679 thousand in 2007 and ₩81 thousand in 2006	397,868	3,486,934	427	3,762
	<u>595,889,647</u>	<u>695,051,031</u>	<u>642,952</u>	<u>749,947</u>
NON-CURRENT ASSETS:				
Long-term financial instruments (Note 3)	9,000	9,000	10	10
Available-for-sale securities (Note 5)	563,217	1,404,167	608	1,515
Equity securities using the equity method (Note 5)	2,126,690	2,241,605	2,295	2,419
Long-term loans, net of allowance for doubtful accounts of ₩270,970 thousand in 2007 and ₩292,784 thousand in 2006 (Note 6)	25,375,132	27,084,146	27,379	29,223
Long-term trade receivables, net of allowance for doubtful accounts of ₩3,599 thousand in 2007 and ₩5,853 thousand in 2006, and present value discount of ₩34,091 thousand in 2007 and ₩96,423 thousand in 2006 (Note 12)	322,183	483,018	348	521
Guarantee deposits, net of allowance for doubtful accounts of ₩294,106 thousand in 2007 and ₩333,492 thousand in 2006	32,658,558	36,561,563	35,238	39,449
Advances for employee contribution	10,640,420	10,086,200	11,481	10,883
Other investments in properties (Note 9)	272,316	2,737,552	294	2,954
Property, plant and equipment, net (Notes 7, 8 and 9)	1,459,015,942	1,507,794,423	1,574,251	1,626,882
Intangible assets (Notes 10 and 16)	76,503,430	67,842,110	82,546	73,200
	<u>1,607,486,888</u>	<u>1,656,243,784</u>	<u>1,734,450</u>	<u>1,787,056</u>
Total Assets	<u>₩ 2,203,376,536</u>	<u>₩ 2,351,294,815</u>	<u>\$ 2,377,402</u>	<u>\$ 2,537,003</u>

(Continued)

SSANGYONG MOTOR COMPANY
BALANCE SHEETS (CONTINUED)
AS OF JUNE 30, 2007 AND DECEMBER 31, 2006

	Korean won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
CURRENT LIABILITIES:				
Trade payables (Notes 15 and 20)	₩ 365,297,401	₩ 523,523,282	\$ 394,149	\$ 564,872
Short-term borrowings (Notes 11 and 15)	76,952,434	70,924,116	83,030	76,526
Other payables (Notes 15 and 23)	161,656,237	197,411,866	174,424	213,004
Advances from customers	17,007,057	7,800,240	18,350	8,416
Withholdings	12,114,939	18,328,153	13,072	19,776
Accrued expenses (Note 15)	38,474,156	25,188,676	41,513	27,178
Accrued warranties and product liabilities (Notes 12 and 13)	51,529,535	47,071,684	55,599	50,789
Derivative liabilities (Note 22)	2,602,525	6,250,007	2,808	6,744
Other current liabilities	3,975,602	3,820,827	4,291	4,122
	<u>729,609,886</u>	<u>900,318,851</u>	<u>787,236</u>	<u>971,427</u>
LONG-TERM LIABILITIES:				
Bond, net of present value discount of ₩508,990 thousand in 2007 and ₩651,688 thousand in 2006 (Notes 11 and 12)	299,491,009	299,348,312	323,145	322,991
Accrued severance indemnities, net of National Pension Fund of ₩1,385,156 thousand in 2007 and ₩1,790,672 thousand in 2006, and severance insurance deposits of ₩5,175,188 thousand in 2007 and ₩5,635,518 thousand in 2006 (Note 2)	169,489,570	165,377,040	182,876	178,439
Accrued warranties and product liabilities (Notes 12 and 13)	60,603,841	55,495,518	65,390	59,879
Other long-term liabilities	3,283,264	5,413,856	3,543	5,841
	<u>532,867,684</u>	<u>525,634,726</u>	<u>574,954</u>	<u>567,150</u>
Total Liabilities	<u>1,262,477,570</u>	<u>1,425,953,577</u>	<u>1,362,190</u>	<u>1,538,577</u>
SHAREHOLDERS' EQUITY:				
Capital stock (Note 14)	604,023,100	604,023,100	651,730	651,730
Capital surplus (Note 14)	15,440,281	15,440,281	16,660	16,660
Accumulated other comprehensive income:				
Gain on valuation of available-for-sale securities (Note 5, 18 and 20)	1,284	90,434	-	-
Exchange differences on translation (credit) of financial statements of operations outside Korea (Notes 5 and 20)	32,093	-	-	-
Exchange differences on translation (debit) of financial statements of operations outside Korea (Notes 5 and 20)	(248,304)	(339,884)	-	-
Retained earnings (Net income of ₩15,523,205 thousand for the six months ended June 30, 2007 and ₩103,360,186 thousand for the year ended December 31, 2006) (Note 14)	321,650,512	306,127,307	347,055	330,306
Total Shareholders' Equity	<u>940,898,966</u>	<u>925,341,238</u>	<u>1,015,212</u>	<u>998,426</u>
Total Liabilities and Shareholders' Equity	<u>₩ 2,203,376,536</u>	<u>₩ 2,351,294,815</u>	<u>\$ 2,377,402</u>	<u>\$ 2,537,003</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won				Translation into U.S. Dollars (Note 2)			
	2007		2006		2007		2006	
	Three months	Six months	Three months	Six months	Three months	Six months	Three months	Six months
	(In thousands, except per share amounts)				(In thousands, except per share amounts)			
SALES (Notes 20 and 27)	₩ 799,293,875	₩ 1,633,159,338	₩ 777,308,245	₩ 1,502,961,486	\$ 862,423	\$ 1,762,149	\$ 838,701	\$ 1,621,668
COST OF SALES (Notes 2 and 20)	<u>651,417,316</u>	<u>1,316,564,343</u>	<u>619,551,582</u>	<u>1,234,883,634</u>	<u>702,867</u>	<u>1,420,548</u>	<u>668,485</u>	<u>1,332,417</u>
GROSS PROFIT	147,876,559	316,594,995	157,756,663	268,077,852	159,556	341,600	170,217	289,251
SELLING AND ADMINISTRATIVE EXPENSES (Note 17)	<u>135,200,664</u>	<u>275,972,241</u>	<u>142,476,146</u>	<u>278,054,777</u>	<u>145,879</u>	<u>297,770</u>	<u>153,729</u>	<u>300,016</u>
OPERATING INCOME (LOSS)	<u>12,675,895</u>	<u>40,622,754</u>	<u>15,280,517</u>	<u>(9,976,925)</u>	<u>13,677</u>	<u>43,831</u>	<u>16,487</u>	<u>(10,765)</u>
OTHER INCOME (EXPENSES):								
Interest income	1,469,886	2,506,965	1,583,321	3,859,997	1,586	2,705	1,708	4,165
Interest expense	(6,183,994)	(11,831,671)	(10,675,608)	(19,923,906)	(6,672)	(12,766)	(11,519)	(21,498)
Reversal of allowance for doubtful accounts, net	214,275	(75,071)	339,052	1,048,590	231	(81)	366	1,131
Gain on disposal of available-for-sale securities, net	142,964	147,351	1,695	2,010	154	159	2	2
Gain (loss) using the equity method, net (Note 5)	(226,730)	(649,376)	61,923	18,347	(245)	(701)	67	20
Gain (loss) on disposal of investments, net (Note 9)	2,445,673	7,923,302	(5,734)	(203,306)	2,639	8,549	(6)	(219)
Loss on disposal of property, plant and equipment, net	(79,456)	(513,824)	(190,367)	(1,657,851)	(86)	(554)	(205)	(1,789)

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SSANGYONG MOTOR COMPANY
STATEMENTS OF OPERATIONS (CONTINUED)
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Korean won				Translation into U.S. Dollars (Note 2)			
	2007		2006		2007		2006	
	Three months	Six months	Three months	Six months	Three months	Six months	Three months	Six months
	(In thousands, except per share amounts)				(In thousands, except per share amounts)			
Reversal (loss) on impairment of property, plant and equipment, net (Notes 2 and 9)	₩ (9,499)	₩ 1,396,954	₩ (667,759)	₩ (705,885)	\$ (10)	\$ 1,507	\$ (720)	\$ (762)
Gain (loss) on foreign currency transactions, net	(2,640,102)	(1,935,279)	(929,910)	3,408,515	(2,849)	(2,088)	(1,003)	3,678
Gain (loss) on foreign currency translation, net (Note 15)	1,700,329	273,549	(250,269)	(1,012,278)	1,835	295	(270)	(1,092)
Reparation for product warranty expenses	2,117,825	3,929,852	1,587,809	3,619,965	2,285	4,240	1,713	3,906
Depreciation expense on assets not in use	(50,963)	(101,926)	(51,498)	(103,500)	(55)	(110)	(56)	(112)
Fees earned	4,168,087	4,202,017	26,848,987	27,015,720	4,497	4,534	28,970	29,149
Donations	(91,000)	(117,297)	(92,000)	(604,095)	(98)	(127)	(99)	(652)
Gain (loss) on derivative valuation, net (Note 22)	2,799,355	806,423	(6,702,097)	(7,908,384)	3,020	870	(7,231)	(8,533)
Gain (loss) on derivative transactions, net (Note 22)	(946,304)	(1,214,003)	609,780	609,780	(1,021)	(1,310)	658	658
Loss on disposal of trade receivables	(10,644,090)	(24,365,673)	(4,057,705)	(8,055,849)	(11,485)	(26,290)	(4,378)	(8,692)
Others, net (Note 2)	(555,757)	(5,448,026)	(19,930,365)	(16,887,577)	(599)	(5,877)	(21,506)	(18,220)
	<u>(6,369,501)</u>	<u>(25,065,733)</u>	<u>(12,520,745)</u>	<u>(17,479,707)</u>	<u>(6,873)</u>	<u>(27,045)</u>	<u>(13,510)</u>	<u>(18,860)</u>
INCOME (LOSS) BEFORE INCOME TAX	<u>6,306,394</u>	<u>15,557,021</u>	<u>2,759,772</u>	<u>(27,456,632)</u>	<u>6,804</u>	<u>16,786</u>	<u>2,978</u>	<u>(29,625)</u>
INCOME TAX EXPENSE (BENEFITS) (Note 18)	<u>35,940</u>	<u>33,816</u>	<u>(2,989,079)</u>	<u>(9,865,611)</u>	<u>38</u>	<u>37</u>	<u>(3,225)</u>	<u>(10,645)</u>
NET INCOME (LOSS)	<u>₩ 6,270,454</u>	<u>₩ 15,523,205</u>	<u>₩ 5,748,851</u>	<u>₩ (17,591,021)</u>	<u>\$ 6,766</u>	<u>\$ 16,749</u>	<u>\$ 6,203</u>	<u>\$ (18,980)</u>
NET INCOME (LOSS) PER SHARE (Note 19)	<u>₩ 52</u>	<u>₩ 128</u>	<u>₩ 48</u>	<u>₩ (146)</u>	<u>\$ 0.06</u>	<u>\$ 0.14</u>	<u>\$ 0.05</u>	<u>\$ (0.16)</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income (loss)	₩ 15,523,205	₩ (17,591,021)	\$ 16,749	\$ (18,980)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for severance indemnities	16,868,213	12,565,258	18,200	13,558
Depreciation	82,924,503	88,453,083	89,474	95,439
Warranty expense	389,003	519,124	420	560
Provision (reversal) of allowance for doubtful accounts, net	75,071	(1,048,590)	81	
Amortization of intangible assets	14,079,645	19,011,225	15,192	20,513
Amortization of present value discount	142,697	2,873,440	154	3,100
Gain on disposal of available-for-sale securities, net	(147,351)	(2,010)	(159)	(2)
Loss (gain) using the equity method, net	649,376	(18,347)	701	(20)
Reversal of loss on valuation of inventories, net	(2,461,811)	(908,435)		(980)
Loss (gain) on foreign currency translation, net	(273,549)	1,012,278		1,092
Loss (reversal) on disposal of investments, net	(7,923,302)	203,306	(8,549)	219
Loss on disposal of property, plant and equipment, net	513,824			
Depreciation expense on assets not in use	101,926	103,500	110	112
Loss (gain) on impairment of property, plant and equipment, net	(1,396,954)		(1,507)	762
Loss (gain) on derivative valuation, net	(806,423)	7,908,384	(870)	8,533
Loss (gain) on derivative transactions, net	1,214,003	(609,780)	1,310	(658)
Loss on disposal of trade receivables	24,365,673	8,055,849	26,290	8,692
Others, net	4,602,913	6,925,927	4,981	7,472
	<u>132,917,457</u>	<u>147,407,948</u>	<u>143,431</u>	<u>159,050</u>
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trade receivables	(42,014,179)	53,521,982	(45,333)	57,749
Decrease in other receivables	13,037,827	1,366,426	14,068	1,474
Decrease (increase) in accrued income	(59,786)	61,425	(65)	66
Increase in advanced payments	(16,951,537)	(22,165,332)	(18,290)	(23,916)
Increase in prepaid expenses	(5,428,378)	(4,919,060)	(5,857)	(5,308)
Decrease (increase) in prepaid income tax	3,148,255	(2,318,789)	3,397	(2,502)
Decrease in inventories	63,169,825	390,384	68,159	421
Decrease in long-term trade receivables	177,041	27,009	176	29
Increase in deferred tax assets	-	(9,865,611)	-	(10,645)
Decrease in trade payables	(158,162,756)	(87,652,072)	(170,655)	(94,575)
Decrease in other payables	(35,803,007)	(65,169,585)	(38,631)	(70,317)
Increase (decrease) in advances received	9,206,817	(2,678,164)	9,934	(2,890)

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SSANGYONG MOTOR COMPANY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Korean won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Decrease in withholdings	₩ (6,213,214)	₩ (7,300,951)	₩ (6,704)	₩ (7,878)
Increase in accrued expenses	13,292,180	29,300,305	14,342	31,614
Increase (decrease) in warranties and product liabilities	4,457,851	(2,002,778)	4,810	(2,161)
Payments of severance indemnities	(16,834,442)	(16,674,602)	(18,164)	(17,992)
Decrease in National Pension Fund	405,516	429,155	438	463
Decrease in severance insurance deposits	460,329	385,739	497	416
Increase (decrease) in other long-term liabilities	(2,130,591)	201,600	(2,299)	218
Others, net	5,806,232	764,073	6,264	828
	<u>(170,436,017)</u>	<u>(134,298,846)</u>	<u>(183,913)</u>	<u>(144,906)</u>
Net cash used in operating activities	<u>(21,995,355)</u>	<u>(4481,919)</u>	<u>(23,733)</u>	<u>(4,836)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Withdrawal (acquisition) of short-term financial instruments, net	(271,094)	3,841,880	(293)	4,145
Collection of short-term loans, net	82,193	851,338	89	919
Disposal of available-for-sale securities, net	(3,892)	(7,970)	(4)	(2)
Collection (extension) of long-term loans, net	345,922	(6,157)	373	(7)
Withdrawal of guarantee deposits, net	4,663,391	588,889	5,032	635
Acquisition of property, plant and equipment, net	(43,649,999)	(46,593,406)	(47,098)	(50,273)
Acquisition of intangible assets	(20,860,692)	(10,691,507)	(22,508)	(11,536)
Settlement of derivative, net	(3,249,539)	609,780	(3,506)	658
Others, net	18,739,471	(770,308)	20,219	(820)
Net cash used in investing activities	<u>(44,204,239)</u>	<u>(52,161,521)</u>	<u>(47,696)</u>	<u>(56,281)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	162,188,981	150,468,366	175,000	162,352
Repayment of short-term borrowings	(155,809,327)	(189,909,417)	(168,115)	(204,909)
Repayment of long-term debt	-	(150,000,000)	-	(161,847)
Proceeds from bonds	-	149,226,931	-	161,013
Net cash provided by (used in) by financing activities	<u>6,379,654</u>	<u>(40,214,120)</u>	<u>6,885</u>	<u>(43,391)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(59,819,940)	(96,857,560)	(64,544)	(104,508)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD	<u>133,741,387</u>	<u>260,546,428</u>	<u>144,304</u>	<u>281,125</u>
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	<u>₩ 73,921,447</u>	<u>₩ 163,688,868</u>	<u>\$ 79,760</u>	<u>\$ 176,617</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY
STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2007

	Korean won (In thousands)				
	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2007	₩ 604,023,100	₩ 15,440,281	₩ (249,449)	₩ 306,127,307	₩ 925,341,239
Net income	-	-	-	15,523,205	15,523,205
Gain on valuation of available - for-sale securities (Notes 5, 18 and 20)	-	-	(89,150)	-	(89,150)
Exchange differences on translation (debit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	32,092	-	32,092
Exchange differences on translation (credit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	91,580	-	91,580
Balance at March 31, 2007	<u>₩ 604,023,100</u>	<u>₩ 15,440,281</u>	<u>₩ (214,927)</u>	<u>₩ 321,650,512</u>	<u>₩ 940,898,966</u>

	Translations into US Dollars (Note 2) (In thousands)				
	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2007	\$ 651,730	\$ 16,660	\$ (270)	\$ 330,306	\$ 998,426
Net income	-	-	-	16,749	16,749
Gain on valuation of available - for-sale securities (Notes 5, 18 and 20)	-	-	(96)	-	(96)
Exchange differences on translation (debit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	35	-	35
Exchange differences on translation (credit) of financial statements of operations outside Korea (Notes 5 and 20)	-	-	99	-	99
Balance at March 31, 2007	<u>\$ 651,730</u>	<u>\$ 16,660</u>	<u>\$ (232)</u>	<u>\$ 347,055</u>	<u>\$ 1,015,213</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY
 NOTES TO FINANCIAL STATEMENTS
 FOR THR THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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.

As of June 30, 2006, the capital stock of the Company is ₩604,023 million and the major shareholders of the Company are as follows:

	<u>Number of shares</u>	<u>Percentage of ownership (%)</u>
SAIC Motor Co., Ltd.	62,004,680	51.30
Oppenheimer Developing Markets Fund	7,732,480	6.40
Other shareholders	51,067,460	42.30
	<u>120,804,620</u>	<u>100.00</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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 ₩926.8 to US\$1.00 at June 30, 2007, 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 Korean Accounting Standards Board (“KASB”) has published a series of Statements of Korea Accounting Standards (“SKAS”), which replace the existing financial accounting standards, established by the Korean Financial and Supervisory Board. The Company prepared its financial statements for the six months ended June 30, 2007 in accordance with the Korea Financial Accounting Standards and the “SKAS” No. 1 through No. 24, except for No. 11, No. 14. and No. 24. The significant accounting policies followed by the Company in the preparation of its financial statements for the six months ended June 30, 2007 are identical to those for the year ended December 31, 2006, except for the adoption of additional SKAS No11(revised), No.21 through No.23 , which were effective from January 1, 2007.

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

The Company newly adopted SKAS No. 11 – “Discontinued Operation”, No. 21 – “Presentation of Financial Statements I”, No. 22 – “Stock based compensation” and No. 23 – “Earnings per share” in 2007.

The balance sheet as of December 31, 2006 and the related statements of operations and cash flows for the three months ended and six months ended June 30, 2007 presented for comparative purposes are restated in accordance with SKAS No. 11, No. 21 and No. 23. The newly adopted SKAS does not affect the net assets and net income of the current period of the company. Also, the Company did not prepare the statements of cash flows for the three months ended June 30, 2007 and 2006 in accordance with the revised SKAS No 2 and the company only prepared the statement of changes in equity for the six months ended June 30, 2007 in accordance with the transitional provisions of SKAS No. 21.

Reclassification of prior interim financial statements

The 2006 interim financial statements which are presented for comparative purposes, are reclassified to enhance the comparativeness of financial statements. The reclassification of 2006 interim financial statements does not affect net assets and net income.

The reclassifications of its financial statements are as follows (Won in thousands):

Item	Before	After	Amounts
Sales commissions (*)	S&A Expense	Deduction of sales	₩ 10,088,192
Other expense	Others	Loss on disposal of account receivables	8,055,849

(*)

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. The Company maintains perpetual inventory records, which are adjusted through physical count at year end. When applying the lower of cost or market method, the market value of merchandise and finished goods are referred to as the net realizable values, whereas for the raw materials and supplies held for use in production of inventories are referred to as 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 ₩354,760 thousand and ₩1,754,194 thousand for the six months ended June 30, 2007 and 2006, respectively, which is included in cost of sales.

The Company reversed loss on valuation of inventories amounting ₩2,816,571 thousand and ₩2,662,628 thousand for the six months ended June 30, 2007 and 2006, which is deducted from cost of sales.

3. RESTRICTED DEPOSITS:

Deposits with withdrawal restrictions as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

	2007	2006	Description
Short-term financial instruments	₩ 4,848,168	₩ 4,577,074	Government grants and other
Long-term financial instruments	9,000	9,000	Guarantee deposits for checking accounts
	₩ 4,857,168	₩ 4,586,074	

4. INVENTORIES:

Inventories as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Merchandise	₩ 48,886,075	₩ 53,684,793
Finished goods	45,491,512	86,886,635
Work in process	27,049,011	35,653,702
Raw materials	81,316,833	78,038,978
Other materials	7,834,412	7,193,520
Supplies	4,529,053	4,353,710
Materials in transit	66,574,777	80,722,135
Allowance for valuation	<u>(9,181,385)</u>	<u>(11,817,991)</u>
	<u>₩ 272,500,288</u>	<u>₩ 336,715,482</u>

5. INVESTMENTS IN SECURITIES:

(1) Available-for-sale securities as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Current assets:		
Government bonds	₩ 12,084	₩ 1,048,505
Non-current assets:		
Non-listed equity securities	560,000	1,395,695
Government bonds	<u>3,217</u>	<u>8,472</u>
	<u>563,217</u>	<u>1,404,167</u>
	<u>₩ 575,301</u>	<u>₩ 2,452,672</u>

(2) Investments in non-listed equity securities as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Company</u>	<u>Ownership percentage</u>	<u>2007</u>		<u>2006</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	₩ 635,678	₩ 500,000	₩ 622,152
Korea Management Consultants Association	1.50 %	60,000	162,050	60,000	132,558
Ssangyong European Parts Center B.V. (*)	100.00%	-	-	<u>835,695</u>	<u>835,695</u>
		<u>₩ 560,000</u>	<u>₩ 797,728</u>	<u>₩ 1,395,695</u>	<u>₩ 1,590,405</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 as of December 31, 2006. However, as the changes in investees' net asset value are significant in this period, Ssangyong European Parts Center B.V. is accounted for using the equity method.

(3) Investment in government bonds as of June 30, 2007 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	₩ 10,540	₩ 12,084	₩ 1,544
1 year ~ 5 years	<u>2,990</u>	<u>3,217</u>	<u>227</u>
	<u>₩ 13,530</u>	<u>₩ 15,301</u>	<u>₩ 1,771</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 accumulated other comprehensive income account of ₩1,284 thousand (net of tax effect of ₩487 thousand) as of June 30,

2007.

(4) Equity securities accounted for using the equity method as of June 30, 2007 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	₩ 1,778,434	₩ 1,753,123
Ssangyong Motor (Shanghai) Co., Ltd.	100.0	235,700	338,649	373,567
Ssangyong European Parts Center B.V.	100.0	835,695	(323,677)	-
		<u>₩ 2,690,199</u>	<u>₩ 1,793,406</u>	<u>₩ 2,126,690</u>

(5) The gain or loss on valuation using the equity method for the six months ended June 30, 2007 is as follows (Won in thousands):

<u>Affiliated company</u>	<u>Beginning Balance</u>	<u>Gain (Loss) from valuation with equity method</u>	<u>Others (*)</u>	<u>Ending Balance</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 1,597,495	₩ 153,862	₩ 1,766	₩ 1,753,123
Ssangyong Motor (Shanghai) Co., Ltd.	644,110	64,550	(335,093)	373,567
Ssangyong European Parts Center B.V. (**)	-	(867,788)	867,788	-
	<u>₩ 2,241,605</u>	<u>₩ (649,376)</u>	<u>₩ 534,461</u>	<u>₩ 2,126,690</u>

(*) The others were composed of 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.

Investments were recorded using the equity method of accounting based on unaudited and unreviewed financial statements as of June 30, 2007 and December 31, 2006. In order to verify ~

(6) The summary of financial information of affiliated companies as of June 30, 2007 is as follows (Won in thousands):

<u>Affiliated company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 3,454,475	₩ 1,676,041	₩ 2,146,065	₩ 151,470
Ssangyong Motor (Shanghai) Co., Ltd.	6,627,256	6,288,607	9,228,923	63,492
Ssangyong European Parts Center B.V.	7,213,156	7,536,834	2,674,457	(1,191,465)

6. LOANS TO EMPLOYEES:

Loans to employees as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Account</u>	<u>Description</u>	<u>2007</u>	<u>2006</u>
Short-term loans	Housing loans	₩ 1,646,226	₩ 76,068
Long-term loans	Housing loans	16,021,051	15,307,262
"	Debt-to-equity swap loans and other	<u>7,675,444</u>	<u>8,760,697</u>
		<u>₩ 25,342,721</u>	<u>₩ 24,144,027</u>

For the six months ended June 30, 2007, the Company loaned ₩4,050,000 thousand and redeemed ₩1,766,053 thousand for housing loans and ₩1,085,253 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 June 30, 2007 as follows (Won in thousands):

<u>Insured assets</u>	<u>Company</u>	<u>Coverage</u>
Products	Green Fire & Marine Insurance	₩ 2,600,990,828 (US\$2,806,420,833)
PP&E and inventories	LIG Fire & Marin Insurance	<u>2,085,512,102</u>
		<u>₩ 4,686,502,930</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 ₩10,000 million, gas compensation insurance and cargo insurance.

8. ASSETS PLEDGED AS COLLATERAL:

The assets pledged as collateral for the Company's borrowings of ₩150,000million (guarantees: The Korea Development Bank, collateralized amount of ₩351,000million) as of June 30, 2007, are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value</u>
Land	₩ 141,720,937
Buildings	179,099,825
Structures	44,249,301
Machinery	<u>92,333,221</u>
	<u>₩ 457,403,284</u>

9. PROPERTY, PLANT AND EQUIPMENT:

- (1) 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

- (2) As of June 30, 2007, the published price of the Company's land as announced by the Office of National Tax Administration is ₩501,674,101 thousand.

(3) Property, plant and equipment as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Land	₩ 287,586,072	₩ 285,777,252
Buildings	571,676,946	572,054,932
Structures	114,731,366	114,673,851
Machinery	1,187,455,369	1,240,297,385
Vehicles	13,966,327	14,322,429
Tools and equipment	478,099,718	638,332,180
Office equipment	59,494,789	59,750,205
Construction in progress	107,949,761	76,896,750
Machinery in transit	230,710	-
Government grants	<u>(2,351,583)</u>	<u>(2,441,098)</u>
	2,818,839,475	2,999,663,886
Less: Accumulated impairment losses	(6,342,180)	(46,547,832)
Less: Accumulated depreciation	<u>(1,353,481,352)</u>	<u>(1,445,321,631)</u>
	<u>₩ 1,459,015,942</u>	<u>₩ 1,507,794,423</u>

(4) The changes in acquisition costs of property, plant and equipment for the six months ended June 30, 2007 are as follows (Won in thousands):

Account	Beginning of period	Increase		Decrease		End of period
		Acquisition	Other	Disposal	Other	
Land	₩ 285,777,252	₩ 641,670	₩ 1,167,150	₩ -	₩ -	₩ 287,586,072
Buildings	572,054,932	307,716	33,000	293,800	424,902	571,676,946
Government grants	(685,848)	-	-	(6,983)	-	(678,865)
Structures	114,673,851	95,732	2,050	40,267	-	114,731,366
Government grants	(63,944)	-	-	(1,513)	-	(62,431)
Machinery	1,240,297,385	2,270,291	1,975,172	545,597	56,541,882	1,187,455,369
Government grants	(607,082)	(71,604)	-	(36,781)	-	(641,905)
Vehicles	14,322,429	376,096	-	731,467	731	13,966,327
Government grants	(61,954)	-	-	(7,908)	-	(54,046)
Tools and equipment	638,332,180	2,907,907	3,972,505	525,034	166,587,840	478,099,718
Government grants	(10,195)	(2,860)	-	(1,053)	-	(12,002)
Office equipment	59,750,205	718,213	-	536,631	436,998	59,494,789
Government grants	(1,012,075)	(9,992)	-	(119,733)	-	(902,334)
Construction in progress	76,896,750	35,962,740	1,918,493	-	6,828,222	107,949,761
Machinery in transit	-	552,364	-	-	321,654	230,710
	<u>₩ 2,999,663,886</u>	<u>₩ 43,748,273</u>	<u>₩ 9,068,370</u>	<u>₩ 2,498,825</u>	<u>₩ 231,142,229</u>	<u>₩ 2,818,839,475</u>

(5) The changes in accumulated depreciation of property, plant and equipment for the six months ended June 30, 2007 are as follows (Won in thousands):

Account	Beginning of period	Increase		Decrease		End of period
		Depreciation	Other	Disposal	Other	
Buildings	₩ 137,871,974	₩ 7,453,048	₩ -	₩ 273,814	₩ -	₩ 145,051,208
Structures	49,470,696	2,540,419	-	39,175	-	51,971,940
Machinery	914,844,787	41,870,279	-	349,738	48,286,838	908,078,490
Vehicles	7,125,836	1,055,685	-	336,014	563	7,844,944
Tools and equipment	301,268,105	29,210,202	-	502,409	128,268,364	201,707,534
Office equipment	34,740,233	4,963,700	-	452,102	424,595	38,827,236
	<u>₩ 1,445,321,631</u>	<u>₩ 87,093,333</u>	<u>₩ -</u>	<u>₩ 1,953,252</u>	<u>₩ 176,980,360</u>	<u>₩ 1,353,481,352</u>

- (6) The changes in accumulated impairment losses of property, plant and equipment for the six months ended June 30, 2007 are as follows (Won in thousands):

Account	Beginning of period	Increase	Decrease	End of period
Buildings	₩ -	₩ 2,352,689	₩ -	₩ 2,352,689
Structures	-	86,498	-	86,498
Machinery	8,956,196	515	7,981,023	975,688
Vehicles	83,287	-	155	83,132
Tools and equipment	37,508,349	-	34,664,176	2,844,173
Office equipment	-	10,792	10,792	-
	₩ 46,547,832	₩ 2,450,494	₩ 42,656,146	₩ 6,342,180

- (7) In 2007 and 2006, 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 six months ended June 30, 2007, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value	Recoverable amounts	Impairment loss
		₩				₩
Buildings	₩ 4,520,926	2,061,861	₩ -	₩ 2,459,065	₩ 106,376	2,352,689
Structures	718,028	631,502	-	86,526	28	86,498
Machinery	321,969	321,360	-	609	94	515
Tools & equipment	2,650	2,649	-	1	1	-
Office equipment	436,998	424,595	-	12,403	1,611	10,792
	₩ 6,000,571	₩ 3,441,967	₩ -	₩ 2,558,604	₩ 108,110	₩ 2,450,494

The impairment loss, which the Company recognized for the six months ended June 30, 2006, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value	Recoverable amounts	Impairment loss
Machinery	₩ 75,510	₩ 64,363	₩ 55	₩ 11,092	₩ 1,286	₩ 9,806
Vehicles	52,082	44,465	5,051	2,566	281	2,285
Tools & equipment	104,918	38,778	39,168	26,972	2,879	24,093
Office equipment	41,896	39,329	-	2,567	384	2,183
	₩ 274,406	₩ 186,935	₩ 44,274	₩ 43,197	₩ 4,830	₩ 38,367

In addition, in 2006, the Company is planning to discontinue certain motor vehicle and the disposal process is under way on the vehicle's 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. In addition, the impairment loss, which the Company recognized for the six-month period ended June 30, 2006, is as follows (Won in thousands):

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

- (8) In 2005, the Company recognized impairment loss of ₩42,528 million on plant for discontinued manufacturing Musso and Korando vehicles. However, in 2007, since the Company made to dispose of the plant, the Company reversed the previously recognized impairment loss on machinery, vehicles and equipments, 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 amounts	Reversal of impairment loss
Machinery	₩ 8,253,023	₩ 273,934	₩ 710,369	₩ 436,435
Tools & equipment	166	12	30	18
Office equipment	36,681,785	2,132,931	5,543,926	3,410,995
	₩ 44,934,974	₩ 2,406,877	₩ 6,254,325	₩ 3,847,448

As a result of disposal of other investment assets for the six months ended June 30, 2007 and 2006, the Company incurred loss on disposal of investments of ₩879 thousand and ₩203,306 thousand, respectively. The company incurred gain on disposal of investments of ₩7,924,181 thousand for the six months ended June 30, 2007.

10. INTANGIBLE ASSETS:

Intangible assets as of June 30, 2007 are as follows (Won in thousands):

	<u>Beginning of period</u>	<u>Increase</u>	<u>Amortization</u>	<u>Accumulated impairment</u>	<u>End of period</u>
Industrial right	₩ 1,044,062	₩ 239,957	₩ 182,527	₩ -	₩ 1,101,492
Electricity and gas available right	70,313	-	59,885	-	10,428
Development costs	63,545,546	21,388,682	12,728,702	-	72,205,526
Government grants	(14,167)	-	(14,167)	-	-
Other intangible assets	3,604,994	1,146,097	1,213,797	-	3,537,294
Government grants	(408,638)	(33,771)	(91,099)	-	(351,310)
	<u>₩ 67,842,110</u>	<u>₩ 22,740,965</u>	<u>₩ 14,079,645</u>	<u>₩ -</u>	<u>₩ 76,503,430</u>

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	(239,296)	(280,714)	(111,372)	-	(408,638)
	<u>₩ 76,415,512</u>	<u>₩ 30,737,668</u>	<u>₩ 39,311,070</u>	<u>₩ -</u>	<u>₩ 67,842,110</u>

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

(1) Short-term borrowings as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Financial institution</u>	<u>Annual interest rate (%)</u>	<u>2007</u>	<u>2006</u>
Shinhan Bank and others	3.2~4.5	₩ 76,952,434	₩ 42,394,116
Industrial & Commercial Bank of China	5.89	-	28,530,000
		<u>₩ 76,952,434</u>	<u>₩ 70,924,116</u>

(2) Debentures as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

<u>Description</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Annual interest rate (%)</u>	<u>2007</u>	<u>2006</u>
115 th Debentures	2006-04-25	2009-04-25	6.75	₩ 150,000,000	₩ 150,000,000
116 th Debentures	2006-07-26	2008-07-26	6.16	150,000,000	150,000,000
				<u>₩ 300,000,000</u>	<u>₩ 300,000,000</u>

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

(3) The annual maturities of debentures as of June 30, 2007 are as follows (Won in thousands):

	<u>Amount of repayment</u>	
	<u>2007.7.1~2008.6.30</u>	<u>2008.7.1~2009.6.30</u>
Debentures	₩ -	₩ 300,000,000

12. VALUATION OF ASSETS AND LIABILITIES AT PRESENT VALUE:

Valuation of assets and liabilities at present value as of June 30, 2007 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>
Assets:					
Trade receivables	₩ 2,283,663	₩ 2,176,164	₩ 107,499	8.90	2008.6.30
Long-term trade receivables	359,873	325,782	34,091	8.90	2010.10.30
	<u>₩ 2,643,536</u>	<u>₩ 2,501,946</u>	<u>₩ 141,590</u>		
Liabilities:					
115 th Debentures	₩ 150,000,000	₩ 149,529,666	₩ 470,334	6.94	2009.4.25
116 th Debentures	150,000,000	149,961,344	38,656	6.19	2008.7.26
Accrued warranties and product liabilities	53,104,632	51,529,535	1,575,097	6.46	2008.6.30
Long-term accrued warranties and product liabilities	69,706,660	60,603,841	9,102,820	6.46	2018.6.30
	<u>₩ 422,811,292</u>	<u>₩ 411,624,386</u>	<u>₩ 11,186,907</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 environmental liabilities to be occurred related with scrapping vehicles exported to the European Union (EU) per End of Life Vehicles (ELV) regulations.

The changes of accrued warranties and product liabilities for the six months ended June 30, 2007 are as follows (Won in thousands):

<u>Accounts</u>	<u>Beginning of period</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of period</u>
Accrued warranties and product liabilities	₩ 102,567,202	₩ 45,012,036	₩35,445,862	₩ 112,133,376

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 June 30, 2007.
- (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 June 30, 2007, no stock option has been granted.
- (5) The Company transferred technological development reserves of ₩195,961,754 thousand to deficit recovery based on the resolution at the shareholders' meeting on March 23, 2007.

15. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

The Company maintains its accounts in Korea 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 ₩926.8 and ₩929.6 to US\$1.00 AT June 30, 2007 and December 31, 2006, 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 offices.

Foreign currency denominated assets and liabilities as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

Account	2007		2006		
	Foreign currencies	Won equivalent	Foreign currencies	Won equivalent	
Assets:					
Cash and cash equivalents	EUR	2,005,397	₩ 2,498,705	11,680,391	₩ 14,276,241
"	JPY	270,863,809	2,038,061	404,377,021	3,161,541
"	USD	10,641,655	9,862,686	207,083	192,505
Short-term financial instruments	USD	-	-	160,000	148,736
Trade receivables	EUR	35,002,590	43,612,877	41,387,305	50,585,220
"	AUD	2,436,147	1,911,474	-	-
"	USD	29,217,642	27,078,910	10,345,496	9,617,173
"	JPY	2,678,700	20,155	2,678,700	20,943
Other receivables	EUR	35,955	44,799	3,308	4,043
"	JPY	30,487	229	30,487	238
"	USD	560,196	519,190	600,409	558,140
			₩ 87,587,086		₩ 78,564,780
Liabilities:					
Trade payables	EUR	20,989,430	₩ 26,152,620	20,899,976	₩ 25,544,787
"	AUD	5,982,331	4,693,916	3,665,836	2,692,483
"	JPY	178,308,058	1,341,643	318,266,140	2,488,300
"	USD	6,001,373	5,562,073	5,040,971	4,686,087
Other payables	AUD	124,959	98,047	36,652	26,920
"	CHF	-	-	7,000	5,327
"	DEM	1,672,941	1,065,764	1,760,496	1,100,169
"	EUR	9,694,240	12,078,926	9,267,969	11,327,682
"	FRF	5,693	1,081	5,693	1,061
"	GBP	208,077	386,047	205,497	374,849
"	JPY	57,516,950	432,775	107,165,578	837,853
"	SEK	724	97	724	97
"	USD	7,144,534	6,621,554	8,301,908	7,717,453
Accrued expenses	AUD	87,790	68,883	-	-
"	EUR	279,271	347,969	177,702	217,195
"	JPY	1,448,758	10,901	1,442,874	11,281
"	USD	101,548	94,114	-	-
Short-term borrowings	AUD	9,017,280	7,075,228	-	-
"	EUR	42,627,645	53,113,620	27,618,312	33,756,205
"	JPY	877,636,697	6,603,602	1,104,832,417	8,637,911
"	USD	10,962,435	10,159,984	-	-
			₩ 135,908,844		₩ 99,425,660

For the six months ended June 30, 2007 and 2006, gain on foreign currency translation of ₩692,976 thousand and ₩494,086 thousand, respectively, and loss on foreign currency translation of ₩419,428 thousand and ₩1,506,364 thousand, respectively, were recognized.

16. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the six months ended June 30, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Salaries	₩ 28,208,859	₩ 28,111,494
Provision for severance indemnities	3,374,602	3,195,090
Other employee benefits	3,489,820	4,023,902
Travel	449,616	469,331
Communications	400,948	429,029
Taxes and dues	1,558,178	1,937,890
Rent expenses	4,100,095	3,891,703
Depreciation	7,685,382	11,424,085
Repairs	341,732	375,936
Advertisement	13,560,731	15,386,313
Sales warranties	45,012,036	30,778,447
Sales commissions	49,156,749	48,955,938
Sales promotion	8,143,942	9,834,940
Freight	3,196,987	3,150,649
Packing expenses	653,534	697,083
Export related expenses	36,280,793	31,165,081
Commissions	4,210,051	4,549,879
Electronic data processing expenses	2,547,432	2,241,183
Development expenses	42,322,172	52,045,978
Amortization	14,079,645	19,011,225
Others	7,198,937	6,379,601
	<u>₩ 275,972,241</u>	<u>₩ 278,054,777</u>

17. INCOME TAX EXPENSE AND DEFERRED ASSETS:

(1) Income tax expense (benefits) for the six months ended June 30, 2007 and 2006 consist of the following (Won in thousands):

	<u>2007</u>	<u>2006</u>
Income tax currently payable	₩ -	₩ -
Changes in deferred income taxes due to temporary differences	-	6,717,993
Changes in deferred income taxes due to tax loss to be carried forward	-	(16,577,146)
Changes in deferred income taxes assets, net	-	(9,859,153)
Tax expense allocated to capital adjustments	33,816	(6,458)
Income tax expense (benefits)	<u>₩ 33,816</u>	<u>₩ (9,865,611)</u>

- (2) For the six months ended June 30, 2007 and 2006, the differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Income (loss) before income tax	₩ 15,557,021	₩ (27,456,632)
Adjustments:		
Permanent differences	2,381,517	(396,428)
Temporary differences	<u>12,698,922</u>	<u>22,061,795</u>
Taxable income (loss)	<u>30,637,460</u>	<u>(5,791,265)</u>
Tax loss to be carried forward (*)	<u>₩ (175,400,646)</u>	<u>₩ (352,133,870)</u>

(*) The amount of tax loss to be carried forward is adjusted by the result of tax authorities (National Tax Service of Korea) investigation in 2006 and the amount and expiration date of available net losses carried-over from prior years as of June 30, 2007 are as follows (Won in thousands):

<u>Year of occurrence</u>	<u>Amount</u>	<u>Year of expiration</u>
2005	87,020,375	2010
2006	<u>88,380,271</u>	2011
	<u>₩ 175,400,646</u>	

- (3) The changes in accumulated temporary differences for the six months ended June 30, 2007 and for the year ended December 31, 2006 are as follows (Won in thousands):

<u>Description</u>	<u>2007</u>	<u>2006</u>
Beginning of the period, net (*)	₩ 391,237,258	₩ 458,630,413
Decrease in the current period	(194,282,026)	(235,084,833)
Increase in the current period	<u>199,437,176</u>	<u>167,691,678</u>
End of the period, net	396,392,408	391,237,258
Tax loss to be carried forward	175,400,646	215,150,729
Exclusion from temporary differences due to uncertainty of realization	<u>(571,793,054)</u>	<u>(606,387,987)</u>
Statutory tax rate	27.5%	27.5%
Deferred income tax assets	<u>₩ -</u>	<u>₩ -</u>

(*) Temporary differences above reflected adjustments from revised tax return and reassessment, which the Company filed with the tax authorities in 2007.

- (4) Temporary differences, excluded due to the uncertainty of its realization as of June 30, 2007 and December 31, 2006, are as follows (Won in thousands):

<u>Descriptions</u>	<u>2007</u>	<u>2006</u>	<u>Maturity</u>
(Deductible temporary differences):	₩ 396,392,408	₩ 391,237,258	
(Tax loss to be carried forward):			
Occurrence in 2004	-	37,509,314	2009
Occurrence in 2005	87,020,375	111,246,200	2010
Occurrence in 2006	<u>88,380,271</u>	<u>66,395,215</u>	2011
	<u>175,400,646</u>	<u>215,150,729</u>	
	<u>₩ 571,793,054</u>	<u>₩ 606,387,987</u>	

The company does not recognize deferred income tax assets of June 30, 2007 and December 31, 2006 because of uncertainty of its realization which were a change in circumstances that causes a change in judgment on the realizability of the related deferred tax asset in future years.

- (5) Details of deferred tax assets deducted from capital adjustments as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

Descriptions	2007			2006		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain on valuation of available-for-sale securities	1,771	487	1,284	124,737	34,303	90,434

18. EARNINGS (LOSS) PER SHARE:

Ordinary income (loss) per share and net income (loss) per share for the six months ended June 30, 2007 and 2006 are computed by dividing ordinary income (loss) (after deducting the income tax effect) and net income (loss), respectively, with the weighted average number of common shares outstanding during the period (Won in thousands except for per share amounts):

	2007		2006	
	Three months	Six months	Three months	Six months
Income (loss) after deducting the income tax effect	₩ 6,270,454	₩ 15,523,205	₩ 5,748,851	₩ (17,591,021)
Weighted average number of common shares outstanding	120,804,620	120,804,620	120,804,620	120,804,620
Income (loss) per share	₩ 52	₩ 128	₩ 48	₩ (146)

19. OTHER COMPREHENSIVE INCOME:

Other comprehensive income (loss), excluded from net income as of June 30, 2007 and 2006 are as follows (Won in thousands):

	2007	2006
Net income (loss)	₩ 15,523,205	₩ (17,591,021)
Other comprehensive income	34,522	(128,657)
Unrealized gain on valuation of available for sale securities net of tax effect of ₩ 2,125 in 2007, and ₩ 25,981 in 2006.	(89,150)	(17,025)
Exchange differences on translation (credit) of financial statements of operations outside Korea	32,092	-
Exchange differences on translation (debit) of financial statements of operations outside Korea	91,580	(111,632)
Comprehensive income	₩ 15,557,727	₩ (17,719,678)

20. RELATED PARTY TRANSACTIONS:

(1) The name of related party as of June 30, 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 six months ended June 30, 2007 and 2006 are as follows (Won in thousands):

Company	Sales		Purchases		Others	
	2007	2006	2007	2006	2007	2006
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ 440,016	₩ 140,900	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	-	-	-	-	206,701
Shanghai Automotive Industry Sales Co.	63,106,075	19,726,263	-	-	-	-
SAIC Motor Manufacturing Co., Ltd.	21,995	-	-	-	14,693,629	26,691,667
Shanghai Automotive Import & Export Co	8,190,689	2,804,519	-	-	-	-
Ssangyong European Parts Center B.V.	7,079,611	-	-	-	-	-
	<u>₩ 78,398,370</u>	<u>₩ 22,530,782</u>	<u>₩ 440,016</u>	<u>₩ 140,900</u>	<u>₩ 14,693,629</u>	<u>₩ 26,898,368</u>

(3) Inter-company accounts receivable and payable as of June 30, 2007 and December 31, 2006 are as follows (Won in thousands):

	Trade receivable		Other receivable		Trade payable		Advances from customers		Other payable	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 163,630	₩ -	₩ -	₩ -	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	-	-	368,345	-	-	-	-	-	-
Shanghai Automotive Import & Export Co.	-	-	-	-	-	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	152,019	5,633	-	-	-	-	6,051	-	400,653	257,404
SAIC Motor Manufacturing Co., Ltd.	-	-	-	-	-	-	10,525,654	-	-	-
Ssangyong European Parts Center B.V.	7,047,220	-	-	-	-	-	-	-	-	-
	<u>₩ 7,199,239</u>	<u>₩ 5,633</u>	<u>₩ -</u>	<u>₩ 368,345</u>	<u>₩ 163,630</u>	<u>₩ -</u>	<u>₩ 10,531,705</u>	<u>₩ -</u>	<u>₩ 400,653</u>	<u>₩ 257,404</u>

(4) For the six months ended June 30, 2007, the compensation to the Company's key management mainly consists of salaries of ₩445,775 thousand and provision for severance indemnities of ₩76,300 thousand.

21. COMMITMENTS AND CONTINGENCIES:

(1) Long-term supply contract

As of 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 vehicles 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>Amounts</u>
Public Joint Stock Company Severstal-auto	2006.10 ~ 2011.12	Maximum: 79,000 Minimum: 63,200	₩ 1,320,667 1,056,533

(2) Technology transfer agreement

As of June 30, 2007, the Company has a technology transfer agreements with Daimler Chrysler AG and incurred royalties of ₩661,378 thousand and ₩808,982 thousand for the six months ended June 30, 2007 and 2006, 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 June 30, 2007, the Company has import usance agreements with 7 banks (including Shinhan Bank) with the credit limit of ₩191,847,600 thousand (US\$207,000,000).

(5) As of June 30, 2007, 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 June 30, 2007, the Company has ₩7,177,476 thousand acceptances and guarantees related to subcontract transaction under guarantee of Seoul Guarantee Insurance.

22. DERIVATIVES

(1) The Company has entered into derivatives contracts regarding the foreign exchange forward and currency option with Woori Bank and 4 others banks for the purpose of trading. For the six months ended June, 30 2007, the gain on valuation of derivatives is ₩1,734,529 thousand and the loss on valuation of derivatives is ₩100,876 thousand. In addition, the gain on transaction of derivatives is ₩1,916,641 thousand and the loss on transaction of derivatives is ₩2,881,207 thousand. Outstanding foreign exchange forward and currency option contracts as of June 30, 2007 are as follows (Won in thousands):

<Foreign exchange forward>

<u>Bank</u>	<u>Description</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Purchase currency</u>	<u>Purchase amount</u>	<u>Contract rate</u>	<u>Sold currency</u>	<u>Sold amount</u>
Woori								
Bank	Forward	2007.03.05	2007.12.03	KRW	11,335,080	944.59	USD	12,000,000
"	"	2007.02.26	2007.12.31	KRW	7,436,100	1,239.35	EUR	6,000,000
"	"	2007.03.22	2007.12.14	KRW	15,066,960	1,255.58	EUR	12,000,000
"	"	2007.04.16	2008.03.17	KRW	22,719,240	1,262.18	EUR	18,000,000
Barclays								
Bank	Forward	2007.03.05	2007.12.03	KRW	5,685,600	947.60	USD	6,000,000
"	"	2007.03.08	2007.12.17	KRW	5,661,300	943.55	USD	6,000,000
"	"	2007.02.28	2007.12.31	KRW	14,982,480	1,248.54	EUR	12,000,000
"	"	2007.03.08	2007.12.17	KRW	7,508,100	1,251.35	EUR	6,000,000
KDB	Forward	2007.01.12	2007.12.28	KRW	5,613,000	935.50	USD	6,000,000
"	"	2007.03.16	2007.12.17	KRW	15,074,640	1,256.22	EUR	12,000,000
"	"	2007.04.30	2008.03.03	KRW	22,846,860	1,269.27	EUR	18,000,000
SC First								
Bank	Forward	2007.03.05	2007.12.03	KRW	7,528,320	1,254.72	EUR	6,000,000

<Currency option contracts>

<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>
Merrill Lynch	Option	2007.01.23	2007.12.31	USD	USD 6,000,000	943.20
"	"	2007.2.16	2007.12.31	EUR	EUR 6,000,000	1,239.60

(2) The Company has entered into derivatives contracts regarding CMS Spread interest rate swap with KDB. For the six months ended June 30, 2007, the loss on transaction of derivatives is ₩249,438 thousand and the loss on valuation of derivatives is ₩827,231 thousand. Outstanding derivatives contracts as of June 30, 2007 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

23. PENDING LITIGATIONS:

As of June 30, 2007, the company is a plaintiff in 6 domestic litigations involving claims of ₩3,798,103 thousand and is a defendant in 14 domestic litigations involving claims of ₩3,409,908 thousand. Also, the company is under 2 overseas litigations.

The main pending litigations as of June 30, 2007 are as follows (Won in thousands):

<u>Description</u>	<u>Plaintiff</u>	<u>Defendant</u>	<u>Claimed amount</u>	<u>Probable outcome</u>
(1) Domestic litigations:				
Claim for damages	Individuals	The Company	₩ 692,650	Unpredictable
"	Director (retired)	The Company	1,015,700	Unpredictable
"	Deawoo-suwon service Inc.	The Company	398,116	Unpredictable
"	Individuals	The Company	710,000	Unpredictable
"	The Company	Individuals	579,680	Unpredictable
"	The Company	Korea engine Tech and 2.	1,292,533	Unpredictable
"	The Company	Technology credit guarantee fund	309,051	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	Decision in favor of the plaintiff

(*) Since a decrease of net asset is certain and loss can be reasonably estimated in connection with the above litigations, the Company recorded other payables of ₩871,050 thousand.

24. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the six months ended June 30, 2007 and 2006 are as follows (Won in thousands):

Name of account	2007	2006
Transfer to property, plant and equipment from inventories	₩ 1,493,591	₩ 1,223,558
Transfer to development costs from inventories	13,589	339,822
Transfer to other investments from machinery	56,541,882	11,092
Transfer to other investments from vehicles	731	-
Transfer to other investments from tools & equipment	166,587,840	26,973
Transfer to other investments from office equipment	436,998	-
Transfer to property, plant and equipment from machinery in transit	321,654	3,939,761
Transfer to property, plant and equipment from construction in progress	6,828,222	12,088,312
Transfer to development costs from depreciation	1,099,544	-
Transfer to development costs from severance indemnities	800,911	-
Transfer to equity securities using the equity method from AFS securities	835,695	-
Transfer to current portion of deferred tax assets	-	9,375,211
Transfer to development costs from depreciation	1,099,544	-
Transfer to development costs from provision for severance indemnities	800,911	-

25. SEGMENT INFORMATION:

Sales by region for the six months ended June 30, 2007 and 2006 are as follows (Won in thousands):

	2007	2006
Domestic sales	₩ 889,445,203	₩ 883,769,306
Export sales:		
Europe	479,595,077	417,282,559
Asia	102,032,215	54,803,765
Others	76,506,773	107,847,747
	658,134,065	579,934,071
Other export sales	85,580,070	39,258,110
	₩ 1,633,159,338	₩ 1,502,961,487

26. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE:

The Company issued zero coupon convertible bonds of € 200,000,000 on July 3, 2007 based on the resolution at the directors' meeting on June 20, 2007 which will be used to fund capital expenditures. The net proceeds from the issue of the Bonds is ₩249,072 million (€ 200,000,000) and its maturity date is July 3, 2012.

Each Bond will, at the option of the holder, be convertible into fully paid common shares with a par value of ₩5,000 at an initial conversion price amounting to ₩9,035 per share.