

SSANGYONG MOTOR COMPANY

FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS
ENDED JUNE 30, 2008 AND 2007
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, 2008, the related statements of operations for the three months and six months ended June 30, 2008 and 2007, and statements of changes in shareholders' equity and cash flows for the six months ended June 30, 2008 and 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, 2007, which is presented in this report, and the related statements of operations, disposition of accumulated deficit and cash flows for the year then ended (not presented herein); and in our report dated February 13, 2008, we expressed an unqualified opinion on those financial statements. The accompanying balance sheet as of December 31, 2007, which is comparatively presented, does not differ in material respects from such audited balance sheet, except for what is explained in Note 2.

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 shareholders' 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 16, 2008

Notice to Readers

This report is effective as of July 16, 2008, 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, 2008 AND DECEMBER 31, 2007

ASSETS	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
CURRENT ASSETS:				
Cash and cash equivalents (Note 15)	₩ 66,669,417	₩ 68,089,365	\$ 63,896	\$ 65,257
Short-term financial instruments (Note 3)	4,144,882	104,248,613	3,972	99,912
Available-for-sale securities (Note 5)	3,330	7,991	3	8
Trade receivables, net of allowance for doubtful accounts of ₩2,825,516 thousand in 2008 and ₩2,962,070 thousand in 2007, and present value discount of ₩45,686 thousand in 2008 and ₩54,569 thousand in 2007 (Notes 12, 15 and 20)	250,798,084	268,186,806	240,366	257,032
Short-term loans, net of allowance for doubtful accounts of ₩40,469 thousand in 2008 and ₩30,173 thousand in 2007 (Note 6)	3,269,103	2,987,153	3,133	2,863
Other receivables, net of allowance for doubtful accounts of ₩3,815,691 thousand in 2008 and ₩3,575,379 thousand in 2007 (Notes 15 and 20)	67,815,540	48,287,417	64,995	46,279
Advanced payments, net of allowance for doubtful accounts of ₩127,159 thousand in 2008 and ₩235,579 thousand in 2007	16,412,042	24,974,433	15,729	23,936
Prepaid expenses	8,573,827	2,272,612	8,217	2,178
Inventories, net of allowance for valuation of ₩11,563,962 thousand in 2008 and ₩10,427,270 thousand in 2007 (Notes 2, 4 and 7)	379,428,546	294,721,750	363,646	282,463
Derivative assets (Note 22)	26,262,542	17,485,886	25,170	16,759
Other current assets, net of allowance for doubtful accounts of ₩26 thousand in 2008 and ₩25,464 thousand in 2007	940,464	3,585,652	901	3,437
	<u>824,317,777</u>	<u>834,847,678</u>	<u>790,028</u>	<u>800,124</u>
NON-CURRENT ASSETS:				
Long-term financial instruments (Note 3)	9,000	9,000	9	9
Available-for-sale securities (Note 5)	560,062	560,901	537	538
Equity securities using the equity method (Note 5)	2,915,202	2,215,777	2,794	2,123
Long-term loans, net of allowance for doubtful accounts of ₩282,380 thousand in 2008 and ₩286,014 thousand in 2007 (Note 6)	26,750,212	26,457,345	25,638	25,357
Long-term trade receivables, net of allowance for doubtful accounts of ₩1,799 thousand in 2008 and ₩3,599 thousand in 2007, and present value discount of ₩13,439 thousand in 2008 and ₩26,756 thousand in 2007 (Note 12)	164,698	329,518	158	316
Guarantee deposits, net of allowance for doubtful accounts of ₩274,820 thousand in 2008 and ₩274,005 thousand in 2007	30,748,207	30,667,479	29,469	29,392
Advances for employee contribution	11,668,850	11,165,110	11,183	10,700
Other investments in properties (Note 9)	260,457	258,892	251	248
Property, plant and equipment, net (Notes 7, 8 and 9)	1,391,238,834	1,416,131,364	1,333,371	1,357,227
Intangible assets (Notes 9 and 10)	116,565,065	94,586,749	111,717	90,652
	<u>1,580,880,587</u>	<u>1,582,382,135</u>	<u>1,515,127</u>	<u>1,516,562</u>
Total Assets	<u>₩ 2,405,198,364</u>	<u>₩ 2,417,229,813</u>	<u>\$ 2,305,155</u>	<u>\$ 2,316,686</u>

(Continued)

SSANGYONG MOTOR COMPANY

BALANCE SHEETS (CONTINUED)

AS OF JUNE 30, 2008 AND DECEMBER 31, 2007

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
CURRENT LIABILITIES:				
Trade payables (Notes 15 and 20)	₩ 334,139,370	₩ 297,658,123	\$ 320,241	\$ 285,277
Short-term borrowings (Notes 11 and 15)	93,221,958	81,866,665	89,344	78,461
Other payables (Notes 15, 20 and 23)	159,725,597	183,792,133	153,082	176,147
Advances from customers (Note 20)	8,253,415	9,893,709	7,910	9,482
Withholdings	10,999,683	10,580,192	10,542	10,140
Accrued expenses (Note 15)	37,109,061	24,834,592	35,566	23,802
Current portion of debentures, net of present value discount of ₩208,565 thousand in 2008 and ₩19,626 thousand in 2007 (Notes 8 and 11)	299,791,435	149,980,374	287,322	143,742
Accrued warranties and product liabilities (Notes 12 and 13)	48,426,955	51,556,414	46,413	49,412
Derivative liabilities (Note 22)	37,697,095	22,133,924	36,129	21,213
Other current liabilities	2,710,747	3,200,007	2,598	3,068
	<u>1,032,075,316</u>	<u>835,496,133</u>	<u>989,147</u>	<u>800,744</u>
LONG-TERM LIABILITIES:				
Debentures, net of present value discount of ₩341,714 thousand in 2007 (Note 11)	-	149,658,286	-	143,433
Convertible bonds, net of conversion right adjustment of ₩74,974,406 thousand in 2008 and ₩82,917,732 thousand in 2007, and discount on bonds of ₩3,204,063 thousand in 2008 and ₩3,543,524 thousand in 2007, and premium on bond redemption of ₩61,106,185 thousand in 2008 and 2007 (Note 11)	234,279,716	225,996,929	224,535	216,596
Accrued severance indemnities, net of National Pension Fund of ₩753,587 thousand in 2008 and ₩1,057,662 thousand in 2007, and severance insurance deposits of ₩4,550,220 thousand in 2008 and ₩4,959,174 thousand in 2007	179,670,957	169,571,053	172,197	162,518
Accrued warranties and product liabilities (Notes 12 and 13)	58,128,455	66,718,330	55,711	63,943
Other long-term liabilities	3,980,073	3,344,733	3,814	3,206
	<u>476,059,201</u>	<u>615,289,331</u>	<u>456,257</u>	<u>589,696</u>
Total Liabilities	<u>1,508,134,517</u>	<u>1,450,785,464</u>	<u>1,445,404</u>	<u>1,390,440</u>

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SSANGYONG MOTOR COMPANY

BALANCE SHEETS (CONTINUED)

AS OF JUNE 30, 2008 AND DECEMBER 31, 2007

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Korean Won</u>		<u>Translation into</u> <u>U.S. Dollars (Note 2)</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(In thousands)		(In thousands)	
SHAREHOLDERS' EQUITY:				
Capital stock (Note 14)	₩ 604,023,100	₩ 604,023,100	\$ 578,899	\$ 578,899
Capital surplus (Note 14)	44,914,324	44,914,324	43,046	43,046
Accumulated other comprehensive income (loss):				
Gain on valuation of available-for-sale securities (Notes 5, 17 and 19)	292	781	-	1
Negative capital changes due to investment securities using the equity method (Notes 5 and 19)	-	(192,492)	-	(184)
Capital changes due to investment securities using the equity method (Notes 5 and 19)	307,037	-	295	-
Retained earnings (net loss of ₩69,879,543 thousand for the six months ended June 30,2008 and net income of ₩11,571,330 thousand for the year ended December 31, 2007) (Note 14)	<u>247,819,094</u>	<u>317,698,636</u>	<u>237,511</u>	<u>304,484</u>
Total Shareholders' Equity	<u>897,063,847</u>	<u>966,444,349</u>	<u>859,751</u>	<u>926,246</u>
Total Liabilities and Shareholders' Equity	<u>₩ 2,405,198,364</u>	<u>₩ 2,417,229,813</u>	<u>\$ 2,305,155</u>	<u>\$ 2,316,686</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

	Korean Won				Translation into U.S. Dollars (Note 2)			
	2008		2007		2008		2007	
	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 25)	₩ 651,143,891	₩ 1,328,788,799	₩ 799,293,875	₩ 1,633,159,338	\$ 624,060	\$ 1,273,518	\$ 766,047	\$ 1,565,228
COST OF SALES (Note 20)	<u>548,522,824</u>	<u>1,115,303,339</u>	<u>651,417,316</u>	<u>1,316,564,343</u>	<u>525,707</u>	<u>1,068,913</u>	<u>624,322</u>	<u>1,261,802</u>
GROSS PROFIT	102,621,067	213,485,460	147,876,559	316,594,995	98,353	204,605	141,725	303,426
SELLING AND ADMINISTRATIVE EXPENSES (Note 16)	<u>135,003,502</u>	<u>273,433,268</u>	<u>135,200,664</u>	<u>275,972,241</u>	<u>129,388</u>	<u>262,059</u>	<u>129,577</u>	<u>264,493</u>
OPERATING INCOME (LOSS)	<u>(32,382,435)</u>	<u>(59,947,808)</u>	<u>12,675,895</u>	<u>40,622,754</u>	<u>(31,035)</u>	<u>(57,454)</u>	<u>12,148</u>	<u>38,933</u>
OTHER INCOME (EXPENSES):								
Interest income	2,004,534	4,523,756	1,469,886	2,506,965	1,921	4,336	1,409	2,403
Interest expense	(10,159,982)	(20,196,877)	(6,183,994)	(11,831,671)	(9,737)	(19,357)	(5,927)	(11,340)
Reversal of allowance for doubtful accounts (bad debt expenses), net	579,567	341,585	214,275	(75,071)	555	327	205	(72)
Gain on disposal of available-for-sale securities, net	455	779	142,964	147,351	-	1	137	141
Gain (loss) using the equity method, net (Note 5)	294,938	199,896	(226,730)	(649,376)	283	192	(217)	(622)
Gain (loss) on disposal of investments, net (Note 9)	(438)	(438)	2,445,673	7,923,302	-	-	2,344	7,594
Gain (loss) on disposal of property, plant and equipment, net	7,598	(177,228)	(79,456)	(513,824)	7	(170)	(76)	(492)

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SSANGYONG MOTOR COMPANY

STATEMENTS OF OPERATIONS (CONTINUED)

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

	Korean Won				Translation into U.S. Dollars (Note 2)			
	2008		2007		2008		2007	
	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 of loss on impairment (impairment loss) of property, plant and equipment, net (Note 9)	₩ (12,842)	₩ (14,529)	₩ (9,499)	₩ 1,396,954	\$ (12)	\$ (14)	\$ (9)	\$ 1,339
Loss on foreign currency transactions, net	(6,473,795)	(10,485,900)	(2,640,102)	(1,935,279)	(6,205)	(10,050)	(2,530)	(1,855)
Gain on foreign currency translation, net (Note 15)	8,600,347	4,760,235	1,700,329	273,549	8,243	4,562	1,630	262
Reparation for product warranty expenses	1,973,362	3,727,836	2,117,825	3,929,852	1,891	3,573	2,030	3,766
Depreciation expense on assets not in use (Note 9)	(141,481)	(300,351)	(50,963)	(101,926)	(136)	(288)	(49)	(98)
Fees earned	2,631,574	21,202,708	4,168,087	4,202,017	2,522	20,321	3,995	4,027
Donations	(103,000)	(103,000)	(91,000)	(117,297)	(99)	(99)	(87)	(112)
Gain (loss) on derivative valuation, net (Note 22)	(1,992,787)	(9,694,896)	2,799,355	806,423	(1,910)	(9,292)	2,683	(5,524)
Loss on derivative transactions, net (Note 22)	(5,818,269)	(7,339,059)	(946,304)	(1,214,003)	(5,576)	(7,034)	(907)	616
Loss on disposal of trade receivables	(5,733,960)	(14,003,794)	(10,644,090)	(24,365,673)	(5,495)	(13,421)	(10,201)	(10,525)
Others, net	11,056,496	17,627,727	(555,757)	(5,448,026)	10,597	16,894	(534)	(5,221)
	<u>(3,287,683)</u>	<u>(9,931,550)</u>	<u>(6,369,501)</u>	<u>(25,065,733)</u>	<u>(3,151)</u>	<u>(9,519)</u>	<u>(6,105)</u>	<u>(24,023)</u>
INCOME (LOSS) BEFORE INCOME TAX	(35,670,118)	(69,879,358)	6,306,394	15,557,021	(34,186)	(66,973)	6,043	14,910
INCOME TAX EXPENSE (Note 17)	95	185	35,940	33,816	-	-	34	32
NET INCOME (LOSS)	<u>₩ (35,670,213)</u>	<u>₩ (69,879,543)</u>	<u>₩ 6,270,454</u>	<u>₩ 15,523,205</u>	<u>\$ (34,186)</u>	<u>\$ (66,973)</u>	<u>\$ 6,009</u>	<u>\$ 14,878</u>
NET INCOME (LOSS) PER SHARE (Note 18)	<u>₩ (295)</u>	<u>₩ (578)</u>	<u>₩ 52</u>	<u>₩ 128</u>	<u>\$ (0.28)</u>	<u>\$ (0.55)</u>	<u>\$ 0.05</u>	<u>\$ 0.12</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

	Korean Won (In thousands)				
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
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	-	-	(89,150)	-	(89,150)
Capital changes due to investment securities using the equity method	-	-	32,092	-	32,092
Negative capital changes due to investment securities using the equity method	-	-	91,580	-	91,580
Balance at June 30, 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>
Balance at January 1, 2008	604,023,100	44,914,324	(191,711)	317,698,636	966,444,349
Net loss	-	-	-	(69,879,543)	(69,879,543)
Gain on valuation of available-for-sale securities	-	-	(489)	-	(489)
Capital changes due to investment securities using the equity method	-	-	307,037	-	307,037
Negative capital changes due to investment securities using the equity method	-	-	192,492	-	192,492
Balance at June 30, 2008	<u>₩ 604,023,100</u>	<u>₩ 44,914,324</u>	<u>₩ 307,329</u>	<u>₩ 247,819,093</u>	<u>₩ 897,063,846</u>

	Translations into U.S. Dollars (Note 2) (In thousands)				
	Capital stock	Capital surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2007	\$ 578,899	\$ 14,798	\$ (239)	\$ 293,394	\$ 886,852
Net income	-	-	-	14,878	14,878
Gain on valuation of available-for-sale securities	-	-	(85)	-	(85)
Capital changes due to investment securities using the equity method	-	-	31	-	31
Negative capital changes due to investment securities using the equity method	-	-	88	-	88
Balance at June 30, 2007	<u>578,899</u>	<u>14,798</u>	<u>(205)</u>	<u>308,272</u>	<u>901,764</u>
Balance at January 1, 2008	578,899	43,046	(183)	304,484	926,246
Net loss	-	-	-	(66,973)	(66,973)
Gain on valuation of available-for-sale securities	-	-	-	-	-
Capital changes due to investment securities using the equity method	-	-	294	-	294
Negative capital changes due to investment securities using the equity method	-	-	184	-	184
Balance at June 30, 2008	<u>\$ 578,899</u>	<u>\$ 43,046</u>	<u>\$ 295</u>	<u>\$ 237,511</u>	<u>\$ 859,751</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	₩ (69,879,543)	₩ 15,523,205	\$ (66,973)	\$ 14,878
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Provision for severance indemnities	22,082,768	16,868,213	21,164	16,167
Depreciation	78,887,373	82,924,503	75,606	79,475
Warranty expense	450,417	389,003	432	373
Bad debt expenses (reversal of allowance for doubtful accounts), net	(180,423)	1,296,062	(173)	1,242
Amortization of intangible assets	21,879,209	14,079,645	20,969	13,494
Amortization of present value discount	8,435,563	142,697	8,085	137
Gain on disposal of available-for-sale securities, net	(779)	(147,351)	(1)	(141)
Loss (gain) using the equity method, net	(199,895)	649,376	(192)	622
Loss on valuation of inventories (reversal of loss on valuation of inventories), net	1,542,409	(2,461,811)	1,478	(2,359)
Gain on foreign currency translation, net	(4,760,235)	(273,549)	(4,562)	(262)
Loss (gain) on disposal of investments, net	438	(7,923,302)	-	(7,594)
Loss on disposal of property, plant and equipment, net	177,228	513,824	170	492
Depreciation expense on assets not in use	300,351	101,926	288	98
Loss (reversal of loss) on impairment of property, plant and equipment, net	14,530	(1,396,954)	14	(1,339)
Loss (gain) on derivative valuation, net	9,694,896	(806,423)	9,292	(773)
Loss on derivative transactions, net	7,339,059	1,214,003	7,034	1,164
Loss on disposal of trade receivables	14,003,794	24,365,673	13,421	23,352
Others, net	4,023,990	4,602,912	3,857	4,411
	<u>163,690,693</u>	<u>134,138,447</u>	<u>156,882</u>	<u>128,559</u>
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trade receivables	10,640,012	(43,235,169)	10,197	(41,437)
Decrease (increase) in other receivables	(16,338,229)	13,037,827	(15,659)	12,496
Decrease (increase) in accrued income	2,543,835	(59,786)	2,438	(57)
Decrease (increase) in advanced payments	8,670,811	(16,951,537)	8,310	(16,246)
Increase in prepaid expenses	(6,301,215)	(5,428,378)	(6,039)	(5,203)
Decrease in income tax refund receivables	126,791	3,148,255	122	3,017
Decrease (increase) in inventories	(87,808,589)	63,169,825	(84,156)	60,542
Decrease in long-term trade receivables	166,619	177,041	160	170
Increase (decrease) in trade payables	35,381,310	(158,162,756)	33,910	(151,584)
Decrease in other payables	(25,039,521)	(35,803,007)	(23,998)	(34,314)
Increase (decrease) in advances received	(1,640,295)	9,206,817	(1,572)	8,824

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SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Increase (decrease) in withholdings	₩ 419,491	₩ (6,213,214)	\$ 402	\$ (5,955)
Increase in accrued expenses	11,673,232	13,292,180	11,188	12,739
Increase (decrease) in warranties and product liabilities	(3,129,459)	4,457,851	(11,232)	9,168
Payments of severance indemnities	(16,005,462)	(16,834,442)	(15,340)	(16,134)
Decrease in severance insurance deposits	408,954	460,329	392	441
Decrease in National Pension Fund	304,076	405,516	291	389
Increase (decrease) in other long-term liabilities	635,340	(2,130,591)	609	(2,042)
Other current liabilities and others, net	<u>(7,498,428)</u>	<u>5,806,231</u>	<u>1,046</u>	<u>669</u>
	<u>(92,790,727)</u>	<u>(171,657,008)</u>	<u>(88,931)</u>	<u>(164,517)</u>
Net cash provided by (used in) operating activities	<u>1,020,423</u>	<u>(21,995,356)</u>	<u>978</u>	<u>(21,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Withdrawal (acquisition) of short-term financial instruments, net	100,103,731	(271,094)	95,940	(260)
Collection of short-term loans, net	2,698,247	3,394,085	2,586	3,253
Disposal of available-for-sale securities, net	5,789	1,099,876	6	1,054
Extension of long-term loans	(3,279,726)	(2,965,970)	(3,143)	(2,843)
Withdrawal (payment) of guarantee deposits	(81,543)	4,663,391	(78)	4,469
Acquisition of property, plant and equipment, net	(58,217,455)	(43,649,999)	(55,796)	(41,834)
Acquisition of intangible assets	(40,799,883)	(20,860,692)	(39,103)	(19,993)
Settlement of derivative, net	(10,247,440)	(3,249,539)	(9,821)	(3,114)
Others	<u>(503,738)</u>	<u>17,635,703</u>	<u>(483)</u>	<u>16,902</u>
Net cash used in investing activities	<u>(10,322,018)</u>	<u>(44,204,239)</u>	<u>(9,892)</u>	<u>(42,366)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	157,559,985	162,188,982	151,006	155,442
Repayment of short-term borrowings	<u>(149,678,338)</u>	<u>(155,809,327)</u>	<u>(143,453)</u>	<u>(149,328)</u>
Net cash provided by financing activities	<u>7,881,647</u>	<u>6,379,655</u>	<u>7,553</u>	<u>6,114</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,419,948)	(59,819,940)	(1,361)	(57,332)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD	<u>68,089,365</u>	<u>133,741,387</u>	<u>65,257</u>	<u>128,178</u>
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	<u>₩ 66,669,417</u>	<u>₩ 73,921,447</u>	<u>\$ 63,896</u>	<u>\$ 70,846</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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, 2008, 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 Corporation Limited	62,004,680	51.33
Other shareholders	58,799,940	48.67
	<u>120,804,620</u>	<u>100.00</u>

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, changes in shareholders’ equity 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 ₩1043.4 to US\$1.00 at June 30, 2008, 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 six months ended June 30, 2008 in accordance with the Korea Financial Accounting Standards and the Statements of Korea Accounting Standards (“SKAS”). The significant accounting policies followed by the Company in the preparation of its financial statements for the six months ended June 30, 2008 are identical to those for the year ended December 31, 2007 except for the adoption of the revised SKAS No.15. Also, the Company disclosed only significant accounting events and transaction after the year ended December 31, 2007 in the notes of the financial statement for the six months ended June 30, 2008.

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

The Company newly adopted the revised SKAS No.15 “Investments in Associates” and FSS guidance 2006-02 in 2008. The newly adopted SKAS and FSS guidance does not affect the Company’s net assets and net income of the current and prior period financial statements.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the specific identification method of materials-in-transit and the weighted average method for finished goods, work-in-process and others. The Company maintains perpetual inventory records, which are adjusted through physical count at the end of the year.

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 ₩1,637,783 thousand and ₩354,760 thousand for the six months ended June 30, 2008 and 2007, respectively, which is included in cost of sales.

The Company reversed loss on valuation of inventories amounting ₩95,374 thousand and ₩2,816,571 thousand for the six months ended June 30, 2008 and 2007, which is deducted from cost of sales.

3. RESTRICTED DEPOSITS:

Deposits with withdrawal restrictions as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>	<u>Description</u>
Short-term financial instruments	₩ 4,144,882	₩ 4,248,613	Government subsidies and others
Long-term financial instruments	9,000	9,000	Guarantee deposits for checking accounts
	<u>₩ 4,153,882</u>	<u>₩ 4,257,613</u>	

4. INVENTORIES:

Inventories as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Merchandise	₩ 55,411,892	₩ 54,038,858
Finished goods	102,054,168	50,155,859
Work in process	32,473,286	29,752,215
Raw materials	99,962,492	82,712,009
Supplies	4,683,316	4,526,240
Materials in transit	96,407,354	83,963,839
Allowance for valuation	<u>(11,563,962)</u>	<u>(10,427,270)</u>
	<u>₩ 379,428,546</u>	<u>₩ 294,721,750</u>

5. INVESTMENTS IN SECURITIES:

(1) Available-for-sale securities as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

	<u>2008</u>	<u>2007</u>
Current assets:		
Government bonds	₩ 3,330	₩ 7,991
Non-current assets:		
Non-listed equity securities	560,000	560,000
Government bonds	<u>62</u>	<u>901</u>
	<u>560,062</u>	<u>560,901</u>
	<u>₩ 563,392</u>	<u>₩ 568,892</u>

(2) Investments in non-listed equity securities as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Company</u>	<u>Ownership percentage</u>	<u>2008</u>		<u>2007</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	₩ 651,253	₩ 500,000	₩ 635,678
Korea Management Consultants Association	1.50%	<u>60,000</u>	<u>194,623</u>	<u>60,000</u>	<u>162,050</u>
		<u>₩ 560,000</u>	<u>₩ 845,876</u>	<u>₩ 560,000</u>	<u>₩ 797,728</u>

(3) Investment in government bonds as of June 30, 2008 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	₩ 2,930	₩ 3,330	₩ 400
1 year ~ 5 years	<u>60</u>	<u>62</u>	<u>2</u>
	<u>₩ 2,990</u>	<u>₩ 3,392</u>	<u>₩ 402</u>

The Company recorded gain on valuation of available-for-sale securities in accumulated other comprehensive income of ₩292 thousand (deducting tax effect of ₩110 thousand) as of June 30, 2008.

(4) Equity securities accounted for using the equity method as of June 30, 2008 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	₩ 2,438,388	₩ 2,413,502
Ssangyong Motor (Shanghai) Co., Ltd.	100.0%	235,700	506,593	501,700
Ssangyong European Parts Center B.V.	100.0%	<u>835,695</u>	<u>(1,580,056)</u>	<u>-</u>
		<u>₩ 2,690,199</u>	<u>₩ 1,364,925</u>	<u>₩ 2,915,202</u>

Equity securities accounted for using the equity method as of December 31, 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	₩ 1,830,249	₩ 1,803,319
Ssangyong Motor (Shanghai) Co., Ltd.	100.0%	235,700	416,513	412,458
Ssangyong European Parts Center B.V.	100.0%	<u>835,695</u>	<u>(1,510,250)</u>	<u>-</u>
		<u>₩ 2,690,199</u>	<u>₩ 736,512</u>	<u>₩ 2,215,777</u>

- (5) The changes in equity securities accounted for using the equity method for six months ended June 30, 2008 are as follows (Won in thousands):

Affiliated company	Beginning balance	Gain (loss) from valuation with equity method	Others	Ending balance
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 1,803,319	₩ 251,774	₩ 358,409	₩2,413,502
Ssangyong Motor (Shanghai) Co., Ltd.	412,458	11,589	77,653	501,700
Ssangyong European Parts Center B.V.(*)	-	(63,467)	63,467	-
	₩ 2,215,777	₩ 199,896	₩ 499,529	₩2,915,202

(*) Use of equity method was discontinued since the value of investments less than zero due to accumulated deficit. In addition, unrecognized loss using the equity method amounts to ₩4,216,258 thousand and unrecognized negative capital changes due to investment securities using the equity method amount to ₩223,565 thousand due to suspension of use of the equity method as of June 30, 2008.

Equity securities accounted for using the equity method as of June 30, 2008 are valued based on the financial statements of investees as of the same balance sheet date, which were neither audited nor reviewed by an external auditor. 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; and
- iii. performed an analytical review on the unaudited and unreviewed financial statements.

The changes in equity securities accounted for using the equity method for the year ended December 31, 2007 are as follows (Won in thousands):

Affiliated company	Beginning balance	Gain (loss) from valuation with equity method	Others	Ending balance
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 1,597,495	₩ 108,880	₩ 96,944	₩1,803,319
Ssangyong Motor (Shanghai) Co., Ltd.	644,110	79,340	(310,992)	412,458
Ssangyong European Parts Center B.V.	-	(772,228)	772,228	-
	₩ 2,241,605	₩ (584,008)	₩ 558,180	₩2,215,777

- (6) The detail of elimination of the unrealized gain or loss arising from intercompany transactions with affiliated companies is as follows (Won in thousands):

Affiliated company	Inventories	Tangible & intangible assets	Total
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ -	₩ 2,046	₩ 2,046
Ssangyong Motor (Shanghai) Co., Ltd.	838	-	838
Ssangyong European Parts Center B.V.	1,062,146	-	1,062,146
	₩ 1,062,984	₩ 2,046	₩ 1,065,030

- (7) The summary of financial information of affiliated companies as of June 30, 2008 is as follows (Won in thousands):

Affiliated company	Total assets	Total liabilities	Sales	Net income
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 2,477,290	₩ 38,902	₩ 358,990	₩ 249,728
Ssangyong Motor (Shanghai) Co., Ltd.	4,284,929	3,778,336	5,253,725	12,427
Ssangyong European Parts Center B.V.	11,949,370	13,529,426	12,803,333	153,758

6. LOANS TO EMPLOYEES:

Loans to employees as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Account</u>	<u>Description</u>	<u>2008</u>	<u>2007</u>
Short-term loans	Housing loans	₩ 2,077,838	₩ 1,622,383
Long-term loans	Housing loans	20,475,174	18,648,297
"	Debt-to-equity swap loans and other	<u>6,066,086</u>	<u>6,836,360</u>
		<u>₩ 28,619,098</u>	<u>₩ 27,107,040</u>

For the six months ended June 30, 2008, the Company loaned ₩4,050,000 thousand, and redeemed ₩1,767,668 thousand for housing loans and ₩770,274 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, 2008 as follows (Won in thousands):

<u>Insured assets</u>	<u>Company</u>	<u>Coverage</u>
Products	Lotte Insurance Co., Ltd.	₩ 3,204,466,775 (US\$3,071,177,664)
PP&E and inventories	Dongbu Fire Insurance Co., Ltd.	<u>2,379,859,698</u> <u>₩ 5,584,326,473</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 ₩150,000 million (guarantees: The Korea Development Bank, collateralized amount of ₩351,000 million) as of June 30, 2008 are as follows (Won in thousands):

<u>Pledged assets</u>	<u>Net book value</u>
Land	₩ 142,952,114
Buildings	176,739,234
Structures	40,955,786
Machinery	<u>53,075,672</u>
	<u>₩ 413,722,806</u>

9. PROPERTY, PLANT AND EQUIPMENT:

(1) As of June 30, 2008, the published price of the Company's land which is announced by the Office of National Tax Administration is ₩621,590,284 thousand.

(2) Property, plant and equipment as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

	2008	2007
Land	₩ 311,997,733	₩ 278,763,002
Buildings	584,470,970	578,885,537
Structures	119,372,663	117,640,247
Machinery	1,203,067,594	1,189,377,830
Vehicles	14,500,075	13,755,014
Tools and equipment	593,615,339	484,652,999
Office equipment	58,080,886	57,150,382
Construction in progress	8,852,773	132,844,719
Machinery in transit	3,979,700	1,063,638
Government subsidies	<u>(3,921,943)</u>	<u>(2,568,782)</u>
	2,894,015,790	2,851,564,586
Less: Accumulated impairment losses	(8,694,606)	(9,890,288)
Accumulated depreciation	<u>(1,494,082,350)</u>	<u>(1,425,542,934)</u>
	<u>₩ 1,391,238,834</u>	<u>₩ 1,416,131,364</u>

(3) The changes in acquisition costs of property, plant and equipment for the six months ended June 30, 2008 are as follows (Won in thousands):

Account	Beginning of period	Increase		Decrease		End of period
		Acquisition	Other	Disposal	Other	
Land	₩ 278,763,002	₩ 788,523	₩ 32,446,208	₩ -	₩ -	₩ 311,997,733
Buildings	578,885,537	2,152,817	3,432,616	-	-	584,470,970
Government subsidies	(770,575)	(1,114,300)	-	-	(12,361)	(1,872,514)
Structures	117,640,247	684,836	1,047,580	-	-	119,372,663
Government subsidies	(189,705)	-	-	-	(6,498)	(183,207)
Machinery	1,189,377,830	4,261,394	23,640,446	14,189,825	22,251	1,203,067,594
Government subsidies	(675,232)	(435,733)	-	-	(54,217)	(1,056,748)
Vehicles	13,755,014	1,207,673	100,200	562,812	-	14,500,075
Government subsidies	(46,138)	-	-	-	(7,908)	(38,230)
Tools & equipment	484,652,999	23,764,323	86,649,318	1,451,301	-	593,615,339
Government subsidies	(44,497)	(13,597)	-	-	(4,452)	(53,642)
Office equipment	57,150,382	1,393,515	25,105	476,157	11,959	58,080,886
Government subsidies	(842,635)	-	-	-	(125,033)	(717,602)
Construction in progress	132,844,719	20,155,622	1,030,284	-	145,177,852	8,852,773
Machinery in transit	1,063,638	5,079,682	-	-	2,163,620	3,979,700
	<u>₩ 2,851,564,586</u>	<u>₩ 57,924,755</u>	<u>₩ 148,371,757</u>	<u>₩ 16,680,095</u>	<u>₩ 147,165,213</u>	<u>₩ 2,894,015,790</u>

(4) The changes in accumulated depreciation of property, plant and equipment for the six months ended June 30, 2008 are as follows (Won in thousands):

Account	Beginning of period	Depreciation (*)	Disposal	Other	End of period
Buildings	₩ 151,804,337	₩ 7,573,370	₩ -	₩ -	₩ 159,377,707
Structures	54,318,405	2,594,342	-	-	56,912,747
Machinery	942,006,313	32,765,283	(12,142,367)	(9,053)	962,620,176
Vehicles	8,473,001	930,238	(460,898)	-	8,942,341
Tools & equipment	229,227,704	35,036,570	(1,020,726)	-	263,243,548
Office equipment	39,713,174	3,693,545	(412,265)	(8,623)	42,985,831
	<u>₩ 1,425,542,934</u>	<u>₩ 82,593,348</u>	<u>₩ (14,036,256)</u>	<u>₩ (17,676)</u>	<u>₩ 1,494,082,350</u>

(*) The depreciation was transferred to development costs amounting to ₩1,031,553 thousand, ordinary development and research expenses amounting to ₩2,163,600 thousand and depreciation expense on assets not in use amounting to ₩300,351 thousand. Also, the Company's depreciation included offsetting government subsidies amounting to ₩210,472 thousand.

- (5) The changes in accumulated impairment losses of property, plant and equipment for the six months ended June 30, 2008 are as follows (Won in thousands):

Account	Beginning of period	Increase	Decrease	End of period
Buildings	₩ 2,352,689	₩ -	₩ -	₩ 2,352,689
Structures	86,497	-	-	86,497
Machinery	1,793,569	-	812,761	980,808
Vehicles	83,132	-	-	83,132
Tools & equipment	5,560,409	-	369,500	5,190,909
Office equipment	13,992	14,529	27,950	571
	<u>₩ 9,890,288</u>	<u>₩ 14,529</u>	<u>₩ 1,210,211</u>	<u>₩ 8,694,606</u>

- (6) The Company recognized impairment loss on the machinery, tools & equipment and office equipment related with discontinued line if expected disposal amounts were less than carrying amounts as a result of disposal. The impairment loss, which the Company recognized for the six months ended June 30, 2008, is as follows (Won in thousands):

Account	Acquisition cost	Accumulated depreciation	Book value	Recoverable amounts	Impairment loss
Office equipment	₩ 32,134	₩ 15,990	₩ 16,114	₩ 1,613	₩ 14,529

- (7) In 2005, the Company recognized impairment loss of ₩42,528 million on plant related to discontinued manufacturing Musso and Korando vehicles. However, in 2007, since the Company disposed of the plant, the Company reversed the previously recognized impairment loss on machinery, vehicles and equipments, which were within the limit of what the carrying amount would be as of the recovery date if there had been no impairment loss. The reversal of impairment loss, which the Company recognized for the six months ended June 30, 2007, is as follows (Won in thousands):

Account	Carrying amount after depreciation without impairment	Book value after impairment	Recoverable amounts	Reversal of impairment loss
Machinery	₩ 8,253,023	₩ 273,934	₩ 710,369	₩ 436,435
Vehicles	166	12	30	18
Tools & equipment	36,681,785	2,132,931	5,543,926	3,410,995
	<u>₩ 44,934,974</u>	<u>₩ 2,406,877</u>	<u>₩ 6,254,325</u>	<u>₩ 3,847,448</u>

As a result of disposal of other investment assets for the six months ended June 30, 2008 and 2007, the Company incurred loss on disposal of investments of ₩438 thousand and ₩879 thousand, respectively. The Company also incurred gain on disposal of investments of ₩7,914,181 thousand for the six months ended June 30, 2007.

10. INTANGIBLE ASSETS:

Intangible assets as of June 30, 2008 are as follows (Won in thousands):

	Acquisition cost	Amortization	Book value
Industrial right	₩ 2,193,971	₩ 1,126,841	₩ 1,067,130
Electricity and gas available right	80,380	77,556	2,824
Development costs	185,517,480	75,030,769	110,486,711
Other intangible assets	10,466,900	5,090,330	5,376,570
Government subsidies	(841,350)	(473,180)	(368,170)
	<u>₩ 197,417,381</u>	<u>₩ 80,852,316</u>	<u>₩ 116,565,065</u>

Intangible assets as of December 31, 2007 are as follows (Won in thousands):

	<u>Acquisition Cost</u>	<u>Amortization</u>	<u>Book value</u>
Industrial right	₩ 2,308,632	₩ 1,185,722	₩ 1,122,910
Electricity and gas available right	550,375	543,749	6,626
Development costs	173,517,089	83,156,659	90,360,430
Government subsidies	(85,000)	(85,000)	-
Other intangible assets	9,365,801	5,782,920	3,582,881
Government subsidies	(824,274)	(338,176)	(486,098)
	<u>₩ 184,832,623</u>	<u>₩ 90,245,874</u>	<u>₩ 94,586,749</u>

The changes in book value of intangible assets for the six months ended June 30, 2008 are as follows (Won in thousands):

	<u>Beginning of period</u>	<u>Increase</u>	<u>Others (*)</u>	<u>Amortization</u>	<u>End of period</u>
Industrial right	₩ 1,122,910	₩ 132,163	₩ -	₩ (187,943)	₩ 1,067,130
Electricity and gas available right	6,626	-	-	(3,802)	2,824
Development costs	90,360,430	37,439,582	3,074,719	(20,388,020)	110,486,711
Other intangible assets	3,582,881	3,228,136	-	(1,434,447)	5,376,570
Government subsidies	(486,098)	(17,075)	-	135,003	(368,170)
	<u>₩ 94,586,749</u>	<u>₩ 40,782,806</u>	<u>₩ 3,074,719</u>	<u>₩ (21,879,209)</u>	<u>₩ 116,565,065</u>

(*) The Company transferred to intangible asset from depreciation amounting to ₩1,031,553 thousand, retirement allowance amounting to ₩953,649 thousand, accrued expense amounting to ₩595,817 and inventories amounting to ₩493,700 thousand for the six months ended June 30, 2008.

The changes in book value of intangible assets for the year ended December 31, 2007 are as follows (Won in thousands):

	<u>Beginning of year</u>	<u>Increase</u>	<u>Others</u>	<u>Amortization</u>	<u>End of year</u>
Industrial right	₩ 1,044,062	₩ 452,347	₩ -	₩ (373,499)	₩ 1,122,910
Electricity and gas available right	70,313	-	-	(63,687)	6,626
Development costs	63,545,546	46,078,912	4,556,777	(23,820,805)	90,360,430
Government subsidies	(14,167)	-	-	14,167	-
Other intangible assets	3,604,994	2,338,123	-	(2,360,236)	3,582,881
Government subsidies	(408,638)	(286,695)	-	209,235	(486,098)
	<u>₩ 67,842,110</u>	<u>₩ 48,582,687</u>	<u>₩ 4,556,777</u>	<u>₩ (26,394,825)</u>	<u>₩ 94,586,749</u>

Research and development costs occurred for the six months ended June 30, 2008 and 2007 are as follows (Won in thousands):

<u>Description</u>	<u>2008</u>	<u>2007</u>
Development expenses	₩ 42,196,167	₩ 42,322,172
Development costs	<u>40,514,301</u>	<u>21,388,682</u>
	<u>₩ 82,710,468</u>	<u>₩ 63,710,854</u>

11. BORROWINGS AND BONDS:

(1) Short-term borrowings as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

<u>Financial institution</u>	<u>Annual interest rate</u>	<u>2008</u>	<u>2007</u>
Shinhan Bank and others	3.2~4.5 %	₩ 93,221,958	₩ 81,866,665

(2) Debentures as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

Description	Issue date	Maturity date	Annual interest rate	2008	2007
115 th debentures	2007.4.25	2009.4.25	6.75%	₩ 150,000,000	₩ 150,000,000
116 th debentures	2007.7.26	2008.7.26	6.16%	150,000,000	150,000,000
Discount on debentures				(208,565)	(361,340)
				299,791,435	299,638,660
Transfer to current portion of debentures				(299,791,435)	(149,980,374)
Current portion of debentures				300,000,000	150,000,000
Current portion of discount on debentures				(208,565)	(19,626)
Book value of debentures				₩ -	₩ 149,658,286

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, 2008 are as follows (Won in thousands):

Period	Debentures
2008.7.1 ~ 2009.6.30	300,000,000

(4) Convertible bonds as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

Description	Issue date	Maturity date	Annual interest rate	2008	2007
Convertible bonds	2007.7.3	2012.7.3	-	₩ 251,352,000	₩ 251,352,000
Conversion right adjustment				(74,974,406)	(82,917,732)
Discount on bonds				(3,204,063)	(3,543,524)
Premium on bond redemption				61,106,185	61,106,185
Book value of convertible bonds				₩ 234,279,716	₩ 225,996,929

Terms and conditions of the convertible bonds are as follows:

Description	Summary
Issue date	July 3, 2007
Issue amounts	EUR 200,000,000,000
Coupon rate	0% (Zero-coupon rate)
Redemption method	Redemption in a lump sum at maturity including redemption premium of 124.311% of the face value
Maturity date	July 3, 2012
Conversion Period	July 4, 2008 ~ June 26, 2012
The number of shares to be issued on conversion	27,567,415 shares of common stock with a par value of ₩5,000
Conversion price	₩9,035 per share (The exercise currency exchange rate is ₩1,245.358 to € 1.00 and exercise price is fixed as ₩9,035. However, the exercise price could be adjusted with increase of capital stock without consideration, stock dividend and consideration of stock or others.)
Put Option	All or some of the bonds may be redeemed by the holder's exercise of the put option on January 3, 2010 at 111.495% of the face value
Call Option	The bonds may be redeemed by the Company's exercise the call option and at any time after January 3, 2010 but not less than seven business days

12. VALUATION OF ASSETS AND LIABILITIES AT PRESENT VALUE:

Valuation of assets and liabilities at present value as of June 30, 2008 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	₩ 786,233	₩ 740,547	₩ 45,686	8.90%	2009.6.30
Long-term trade receivables	<u>179,936</u>	<u>166,497</u>	<u>13,439</u>	8.90%	2010.3.31
	<u>₩ 966,169</u>	<u>₩ 907,044</u>	<u>₩ 59,125</u>		
Liabilities:					
Accrued warranties and product liabilities	₩ 49,664,775	₩ 48,426,955	₩ 1,237,820	6.91%	2009.6.30
Long-term accrued warranties and product liabilities	<u>64,966,468</u>	<u>58,128,455</u>	<u>6,838,013</u>	6.91%	2019.6.30
	<u>₩ 114,631,243</u>	<u>₩ 106,555,410</u>	<u>₩ 8,075,833</u>		

Discounts (premiums) on present value are amortized using the effective interest rate method and amortization of discounts (premiums) 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. However, the Company altered a contractual responsibility for environmental liabilities related with scrapping vehicles according to ELV (End of Life Vehicle) in the European Union(EU) from the Company to the 4 selling companies in Europe (See note 26).

The changes of accrued warranties and product liabilities for the six months ended June 30, 2008 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	₩ 118,274,744	₩ 25,298,164	₩ 37,017,498	₩ 106,555,410

The changes of accrued warranties and product liabilities for the year ended December 31, 2007 are as follows (Won in thousands):

<u>Accounts</u>	<u>Beginning of year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of year</u>
Accrued warranties and product liabilities	₩ 102,567,202	₩ 87,860,088	₩ 72,152,546	₩ 118,274,744

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, 2008.
- (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. Also, consideration for conversion rights amounting to ₩29,474,043 thousand, related with the convertible bonds issued on July 3, 2007, was recognized 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. Accordingly, 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, 2008, no stock option has been granted.
- (5) As of June 30, 2008 and December 31, 2007, appropriated retained earnings consist of the following (Won in thousands):

Description	Korean Won	
	2008	2007
Reserve for financial structure improvement	₩ 60,108,456	₩ 60,108,456
Reserve for technology development	257,590,181	246,018,851
	<u>₩ 317,698,637</u>	<u>₩ 306,127,307</u>

15. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

Foreign currency denominated assets and liabilities as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

Account		2008		2007	
		Foreign currencies	Won equivalent	Foreign currencies	Won equivalent
Assets:					
Cash and cash equivalents	AUD	531,609	₩ 533,464	-	₩ -
"	EUR	2,575,258	4,241,604	2,050,775	2,832,653
"	JPY	8,036,100	78,898	6,200,000	51,667
"	USD	33,392,547	34,841,784	4,006,595	3,758,988
Trade receivables	EUR	11,611,871	19,125,448	39,532,140	54,604,163
"	AUD	6,846,549	6,870,443	486,664	400,451
"	USD	142,314,267	148,490,706	95,851,063	89,927,467
"	GBP	2,895,199	6,020,566	4,033,369	7,558,937
"	JPY	21,429,600	210,394	18,750,900	156,257
Other receivables	EUR	189,330	311,838	4,752	6,315
"	USD	36,029,191	37,592,858	18,452,171	17,311,827
"	AUD	250,000	250,873	2,500,000	2,057,125
"	JPY	5,870,922	57,640	-	-
			₩ 258,626,516		₩ 178,665,850
Liabilities:					
Trade payables	EUR	15,054,263	₩ 24,795,275	8,974,559	₩ 12,595,469
"	AUD	1,679,233	1,685,094	5,015,239	4,129,418
"	JPY	418,193,660	4,105,784	257,323,193	2,130,543
"	USD	6,361,704	6,637,802	4,888,116	4,586,477
Other payables	AUD	86,652	86,954	116,652	95,987
"	CNY	-	-	13,800	1,773
"	DEM	1,032,679	869,650	1,529,802	1,080,392
"	EUR	4,666,002	7,685,185	6,560,727	9,062,069
"	FRF	5,693	1,429	5,693	1,199
"	GBP	256,692	533,791	256,351	480,428
"	JPY	88,050,670	864,473	71,579,240	596,491
"	SEK	724	126	724	106
"	USD	7,564,673	7,892,980	8,435,883	7,914,545
Accrued expenses	EUR	295,355	486,467	94,184	374,527
"	JPY	1,071,885	10,524	876,198	15,391
"	USD	59,957	62,559	2,073	2,080
"	AUD	23,259	23,340	1,132	2,845
Short-term borrowings	AUD	5,231,074	5,249,331	490,479	400,962
"	EUR	41,661,574	68,619,112	52,800,989	72,732,625
"	JPY	565,933,354	5,556,277	1,032,275,114	8,616,066
"	USD	13,223,345	13,797,238	125,196	117,012
			₩ 148,963,391		₩ 124,936,405

For the six months ended June 30, 2008 and 2007, gain on foreign currency translation of ₩ 10,385,995 thousand and ₩692,976 thousand, respectively, and loss on foreign currency translation of ₩5,625,760 thousand and ₩419,428 thousand, respectively, were recognized.

16. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the six months ended June 30, 2008 and 2007 are as follows (Won in thousands):

	<u>2008</u>		<u>2007</u>
Salaries	₩ 29,186,565	₩	28,208,859
Provision for severance indemnities	4,097,683		3,374,602
Other employee benefits	5,352,676		3,489,820
Travel	539,944		449,616
Communications	383,474		400,948
Taxes and dues	1,723,853		1,558,178
Rent	4,067,700		4,100,095
Depreciation	5,666,301		7,685,382
Repairs	503,662		341,732
Advertisement	21,386,427		13,560,731
Sales warranties	36,033,139		45,012,036
Sales commissions	39,084,738		49,156,749
Sales promotion	11,685,454		8,143,942
Freight	2,598,621		3,196,987
Packing expenses	1,182,646		653,534
Export related expenses	34,672,428		36,280,793
Commissions	3,315,194		4,210,051
Electronic data processing expenses	2,524,315		2,547,432
Development expenses	42,196,167		42,322,172
Amortization	21,879,210		14,079,645
Others	5,353,071		7,198,937
	<u>₩ 273,433,268</u>	₩	<u>275,972,241</u>

17. INCOME TAX EXPENSE AND DEFERRED TAX ASSETS AND LIABILITIES:

(1) Income tax expense for the six months ended June 30, 2008 and 2007 consists of the following (Won in thousands):

	<u>2008</u>		<u>2007</u>
Income tax currently payable	₩ -	₩	-
Tax expense allocated to capital adjustments	185		33,816
Income tax expense	<u>₩ 185</u>	₩	<u>33,816</u>

- (2) The changes in accumulated temporary differences for the six months ended June 30, 2008 and for the year ended December 31, 2007 are as follows (Won in thousands):

Description	2008	2007
Beginning of the period, net	₩ 385,088,693	₩ 391,237,258
Decrease during the period/year	(163,032,516)	(208,231,307)
Increase during the period/year	<u>154,344,991</u>	<u>202,082,742</u>
End of the period, net	376,401,168	385,088,693
Tax loss to be carried forward	182,943,459	158,579,982
Exclusion from temporary differences due to uncertainty of realization	<u>(559,344,627)</u>	<u>(543,668,675)</u>
Statutory tax rate	<u>27.5%</u>	<u>27.5%</u>
Deferred income tax assets from temporary differences and tax loss	<u>-</u>	<u>-</u>
Tax credit to be carried forward	33,333,368	36,037,622
Exclusion due to uncertainty of realization	<u>(33,333,368)</u>	<u>(36,037,622)</u>
Deferred income tax assets from tax credit	<u>₩ -</u>	<u>₩ -</u>

- (3) Temporary differences, which were excluded due to uncertainty of its realization as of June 30, 2008 and December 31, 2007, are as follows (Won in thousands):

Descriptions	2008	2007
Deductible temporary differences	₩ 376,401,168	₩ 385,088,693
Tax loss to be carried forward	182,943,459	158,579,982
Tax credit to be carried forward	33,333,368	36,037,622

The Company does not recognize deferred income tax assets related with temporary differences as of June 30, 2008 and December 31, 2007 because of uncertainty of its realization which can change in circumstances that causes a change in judgment on the realization of the related deferred tax asset in future years.

- (4) Details of deferred tax assets deducted from accumulated other comprehensive income as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

Descriptions	2008			2007		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain on valuation of available-for-sale securities	₩ 402	₩ 110	₩ 292	₩ 1,077	₩ 296	₩ 781

- (5) The expiration year of tax losses to be carried forward as of June 30, 2008 is as follows (Won in thousands):

Year of occurrence	Amount	Year of expiration
2005	₩ 53,654,059	2010
2007	88,380,272	2011
2008	<u>40,909,128</u>	2013
	<u>₩ 182,943,459</u>	

The Company does not recognize deferred tax assets related with tax losses as of June 30, 2008 because of uncertainty of its realization.

18. NET INCOME (LOSS) PER SHARE:

(1) Basic net income (loss) per share

Net income (loss) per share for the six months ended June 30, 2008 and 2007 are computed by dividing net income (loss) with the weighted average number of common shares outstanding during the period (Won in thousands except for per share amounts):

	2008		2007	
	<u>Three months (1st Q)</u>	<u>Six months</u>	<u>Three months (1st Q)</u>	<u>Six months</u>
Net income (loss)	₩ (34,209,330)	₩ (69,879,543)	₩ 9,252,751	₩ 15,523,205
Income (loss) after deducting the income tax effect	(34,209,330)	(69,879,543)	9,252,751	15,523,205
Weighted average number of common shares outstanding	<u>120,804,620</u>	<u>120,804,620</u>	<u>120,804,620</u>	<u>120,804,620</u>
Net income (loss) per share	<u>₩ (283)</u>	<u>₩ (578)</u>	<u>₩ 76</u>	<u>₩ 128</u>

(2) Diluted net income (loss) per share

The Company has convertible bonds that could potentially dilute basic net income per share in the future, but did not calculate diluted net income per share because convertible bonds' effect is anti-dilutive for the six months ended June 30, 2008.

19. OTHER COMPREHENSIVE INCOME (LOSS):

Comprehensive income (loss) for the six months ended June 30, 2008 and 2007, is as follows (Won in thousands):

	2008		2007	
	<u>Three months</u>	<u>Six months</u>	<u>Three months</u>	<u>Nine months</u>
Net income (loss)	₩ (35,670,213)	₩ (69,879,543)	₩ 6,270,454	₩ 15,523,205
Other comprehensive income:				
Unrealized loss on valuation of available for sale securities	(349)	(675)	(96,389)	(122,966)
Tax effect	97	186	1,637	33,816
Capital changes due to investment securities using the equity method	211,002	307,037	(1,570)	32,092
Negative capital changes due to investment securities using the equity method	-	<u>192,492</u>	<u>1,280</u>	<u>91,580</u>
Comprehensive income (loss)	<u>₩ (35,459,463)</u>	<u>₩ (69,380,503)</u>	<u>₩ 6,175,412</u>	<u>₩ 15,557,727</u>

20. RELATED PARTY TRANSACTIONS:

(1) The related parties as of June 30, 2008 are as follows:

- a. The name of group: SAIC Motor Corporation Limited (total 161 companies)
- b. The name of holding company: SAIC Motor Corporation Limited
- c. The name of ultimate parent company: Shanghai Automotive Industry Corporation (Group)

(2) Related party transactions of the Company for the six months ended June 30, 2008 and 2007 are as follows (Won in thousands):

Company	Sales		Purchases		Others	
	2008	2007	2008	2007	2008	2007
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ 628,369	₩ 400,016	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	5,010,411	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	31,772,679	63,106,075	-	-	(318,489)	-
SAIC Motor Manufacturing Co., Ltd.	-	21,995	-	-	-	14,693,629
Shanghai Automotive Import & Export Co.	-	8,190,689	-	-	-	-
Ssangyong European Parts Center B.V	7,223,885	7,079,611	-	-	-	-
SAIC Motor Passenger Vehicles Technology Center	3,549,102	-	-	-	1,747,378	-
SAIC Motor Corporation Limited (*)	<u>311,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,018,752</u>	<u>-</u>
	<u>₩ 47,867,811</u>	<u>₩ 78,398,370</u>	<u>₩ 628,369</u>	<u>₩ 400,016</u>	<u>₩ 20,447,641</u>	<u>₩ 14,693,629</u>

(*) The name of 'Shanghai Automotive Corporation' was changed into 'SAIC Motor Corporation Limited' on July 27, 2007.

(3) Inter-company accounts receivable and payable as of June 30, 2008 and December 31, 2007 are as follows (Won in thousands):

	Trade receivables		Other receivables		Trade payables		Advances from customers		Other payables	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 41,743	₩ 37,648	₩ -	₩ -	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	619,335	-	413,303	368,226	-	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	-	696,189	-	-	-	-	28,338	10,185	166,327	631,867
Ssangyong European Parts Center B.V.	13,101,625	12,035,722	-	-	-	-	-	870,206	-	-
SAIC Motor Passenger Vehicle Technology Center	-	-	4,479,457	-	-	-	-	-	-	-
SAIC Motor Corporation Limited	-	-	<u>32,330,626</u>	<u>13,789,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩13,720,980</u>	<u>₩12,731,911</u>	<u>₩37,223,386</u>	<u>₩14,158,193</u>	<u>₩ 41,743</u>	<u>₩ 37,648</u>	<u>₩ 28,338</u>	<u>₩ 880,391</u>	<u>₩ 166,327</u>	<u>₩ 631,867</u>

(4) For the six months ended June 30, 2008, the compensation to the Company's key management mainly consists of salaries of ₩598,119 thousand and provision for severance indemnities of ₩308,733 thousand.

21. 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 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, 2008, the Company has a technology transfer agreements with Daimler Chrysler AG and incurred royalties of ₩321,671 thousand and ₩661,378 thousand for the six months ended June 30, 2008 and 2007, 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, 2008, the Company has import usance agreements with 7 banks (including Shinhan Bank) with the credit limit of ₩215,983,800 thousand (US\$207,000,000).

(5) As of June 30, 2008, the Company has been provided a maximum credit limit amounting to ₩224,340 million and US\$100,000 thousand by KDB and other banks.

(6) As of June 30, 2008, the Company has been provided with guarantees amounting to ₩1,612,957 thousand related to subcontract transaction from Seoul Guarantee Insurance.

(7) The Company recognized loss on disposal of trade receivables amounting to ₩14,003,794 thousand and ₩24,365,673 thousand for the six months ended June 30, 2008 and 2007.

22. DERIVATIVES:

The Company has entered into derivatives contracts regarding the foreign exchange forward and currency option with Merrill lynch and 4 other banks for the purpose of trading.

Outstanding foreign exchange forward and currency option contracts as of June 30, 2008 are as follows (Won in thousands):

<u>Description</u>	<u>Unsettled contract Amount</u>	<u>Gain on derivative valuation</u>	<u>Loss on derivative valuation</u>	<u>Derivative assets</u>	<u>Derivative liabilities</u>
Forward (Call)	EUR 66,988,357	₩ 18,581,630	₩ -	₩26,262,542	₩ -
Forward (Put)	EUR 66,988,357	-	18,581,630	-	25,853,555
Option (Put)	USD 60,000,000	-	9,694,896	-	11,843,540
		<u>₩ 18,581,630</u>	<u>₩ 28,276,526</u>	<u>₩26,262,542</u>	<u>₩ 37,697,095</u>

For the six months ended June 30, 2008, the gain on derivative transactions is ₩9,987,446 thousand and the loss on derivative transactions is ₩17,326,505 thousand.

23. PENDING LITIGATIONS:

As of June 30, 2008, the Company is a plaintiff in 4 domestic litigations involving claims of ₩2,317,118 thousand and is a defendant in 16 domestic litigations involving claims of ₩2,584,819 thousand. Also, the Company is involved in an overseas litigation. The main pending litigations as of June 30, 2008 are as follows (Won in thousands):

Description	Plaintiff	Defendant	Claimed amount	Probable outcome
(1) Domestic litigations:				
Claim for damages	Director (retired) Daewoo-Suwon	The Company	1,015,700	Unpredictable
"	Service Inc.	The Company	398,116	Unpredictable
"	Individuals	The Company National	710,000	Unpredictable
"	The Company	Tax Services	1,036,000	Unpredictable
"	The Company	FTC	985,000	Unpredictable
(2) Overseas litigation:				
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 ₩676,881 thousand.

24. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the six months ended June 30, 2008 and 2007 are as follows (Won in thousands):

Name of account	2008	2007
Transfer to property, plant and equipment from inventories	₩ 1,065,684	₩ 1,493,591
Transfer to development costs from inventories	493,700	13,589
Transfer to current portion of long-term loans	2,990,493	1,378,251
Transfer to other investments from machinery	22,251	56,541,882
Transfer to other investments from vehicles	-	731
Transfer to other investments from tools and equipment	-	166,587,840
Transfer to other investments from office equipment	11,959	-
Transfer to property, plant and equipment from machinery in transit	2,163,620	321,654
Transfer to real accounts from construction in progress	145,177,852	6,828,222
Transfer to development costs from depreciation	1,031,553	1,099,544
Transfer to development costs from severance indemnities	953,649	800,911
Transfer to equity securities using the equity method from AFS securities	-	835,695
Transfer to development costs from accrued expenses	595,817	-

25. SEGMENT INFORMATION:

Sales by region for the six months ended June 30, 2008 and 2007 are as follows (Won in thousands):

	2008	2007
Domestic sales	₩ 747,960,172	₩ 889,445,203
Export sales:		
Europe	189,490,362	479,595,077
Asia	87,192,710	102,032,215
Others	142,342,782	76,506,773
Sub total	419,025,854	658,134,065
Other export sales:	161,802,773	85,580,070
Total sales	₩ 1,328,788,799	₩ 1,633,159,338

26. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

In July 2008 the Company altered a contractual responsibility for environmental liabilities related with scrapping vehicles which have been sold previously from the Company to 4 selling companies in United Kingdom, Italy, Austria and France. Accordingly, the Company reversed accrued warranties and product liabilities amounting to ₩10,343,004 thousand which was expected to exceed future expected warranties liabilities due to the changed terms stated above for the six months ended June 30, 2008.