

SSANGYONG MOTOR COMPANY

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
AND INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying balance sheets of Ssangyong Motor Company (the "Company") as of December 31, 2007 and 2006, the related statements of operations, appropriations of retained earnings and cash flows for the years then ended, and statement of changes in shareholders' equity for the year ended December 31, 2007, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, the results of its operations, changes in its retained earnings and its cash flows for the years then ended, and changes in its shareholders' equity for the year ended December 31, 2007 in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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

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

February 13, 2008

Notice to Readers

This report is effective as of February 13, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

SSANGYONG MOTOR COMPANY

BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 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 (Notes 15 and 25)	₩ 68,089,365	₩ 133,741,387	\$ 72,574	\$ 142,551
Short-term financial instruments (Notes 3 and 15)	104,248,613	4,577,074	111,116	4,879
Available-for-sale securities (Note 5)	7,991	1,048,505	9	1,118
Trade receivables, net of allowance for doubtful accounts of ₩2,962,070 thousand in 2007 and ₩2,569,481 thousand in 2006, and present value discount of ₩54,569 thousand in 2007 and ₩213,716 thousand in 2006 (Notes 12, 15 and 21)	268,186,806	176,181,101	285,852	187,786
Short-term loans, net of allowance for doubtful accounts of ₩30,173 thousand in 2007 and ₩22,983 thousand in 2006 (Note 6)	2,987,153	1,797,041	3,184	1,915
Other receivables, net of allowance for doubtful accounts of ₩3,575,379 thousand in 2007 and ₩3,173,866 thousand in 2006 (Notes 15 and 21)	48,287,417	25,298,111	51,468	26,965
Advanced payments, net of allowance for doubtful accounts of ₩235,579 thousand in 2007 and ₩22,526 thousand in 2006	24,974,433	9,003,444	26,620	9,597
Prepaid expenses	2,272,612	2,661,899	2,422	2,837
Inventories, net of allowance for valuation of ₩10,427,270 thousand in 2007 and ₩11,817,992 thousand in 2006 (Notes 2, 4 and 7)	294,721,750	334,715,482	314,135	356,763
Derivative assets (Note 23)	17,485,886	2,540,053	18,638	2,707
Other current assets, net of allowance for doubtful accounts of ₩25,464 thousand in 2007 and ₩81 thousand in 2006	<u>3,585,652</u>	<u>3,486,935</u>	<u>3,822</u>	<u>3,717</u>
	<u>834,847,678</u>	<u>695,051,032</u>	<u>889,840</u>	<u>740,835</u>
NON-CURRENT ASSETS:				
Long-term financial instruments (Note 3)	9,000	9,000	10	10
Available-for-sale securities (Note 5)	560,901	1,404,167	598	1,497
Equity securities using the equity method (Note 5)	2,215,777	2,241,605	2,362	2,389
Long-term loans, net of allowance for doubtful accounts of ₩286,014 thousand in 2007 and ₩292,784 thousand in 2006 (Note 6)	26,457,345	27,084,146	28,200	28,868
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 ₩26,756 thousand in 2007 and ₩96,423 thousand in 2006 (Note 12)	329,518	483,018	351	515
Guarantee deposits, net of allowance for doubtful accounts of ₩274,005 thousand in 2007 and ₩333,492 thousand in 2006	30,667,479	36,561,563	32,688	38,970
Advances for employee contribution	11,165,110	10,086,200	11,901	10,751
Other investments in properties (Note 9)	258,892	2,737,551	275	2,917
Property, plant and equipment, net (Notes 7, 8 and 9)	1,416,131,364	1,507,794,423	1,509,413	1,607,114
Intangible assets (Notes 10 and 16)	<u>94,586,749</u>	<u>67,842,110</u>	<u>100,817</u>	<u>72,311</u>
	<u>1,582,382,135</u>	<u>1,656,243,783</u>	<u>1,686,615</u>	<u>1,765,342</u>
Total Assets	<u>₩ 2,417,229,813</u>	<u>₩ 2,351,294,815</u>	<u>\$ 2,576,455</u>	<u>\$ 2,506,177</u>

(Continued)

SSANGYONG MOTOR COMPANY

BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2007 AND 2006

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
CURRENT LIABILITIES:				
Trade payables (Notes 15 and 21)	₩ 297,658,123	₩ 523,523,282	\$ 317,265	\$ 558,008
Short-term borrowings (Notes 11, 15 and 23)	81,866,665	70,924,116	87,259	75,596
Other payables (Notes 15, 21 and 24)	183,792,133	197,411,866	195,899	210,416
Advances from customers (Note 21)	9,893,709	7,800,240	10,545	8,314
Withholdings	10,580,192	18,328,153	11,277	19,535
Accrued expenses (Note 15)	24,834,592	25,188,676	26,470	26,848
Current portion of debentures, net of present value discount of ₩19,626 thousand in 2007 (Notes 8 and 11)	149,980,374	-	159,860	-
Accrued warranties and product liabilities (Notes 12 and 13)	51,556,414	47,071,684	54,952	50,172
Derivative liabilities (Note 23)	22,133,924	6,250,007	23,592	6,662
Other current liabilities	<u>3,200,007</u>	<u>3,820,827</u>	<u>3,412</u>	<u>4,073</u>
	<u>835,496,133</u>	<u>900,318,851</u>	<u>890,531</u>	<u>959,624</u>
LONG-TERM LIABILITIES:				
Debentures, net of present value discount of ₩341,714 thousand in 2007 and ₩651,688 thousand in 2006 (Note 11)	149,658,286	299,348,312	159,516	319,067
Convertible bonds, net of conversion right adjustment of ₩82,917,732 thousand in 2007, and discount on bonds of ₩3,543,524 thousand in 2007, and premium on bond redemption of ₩61,106,185 thousand in 2007 (Notes 2 and 11)	225,996,929	-	240,884	-
Accrued severance indemnities, net of National Pension Fund of ₩1,057,662 thousand in 2007 and ₩1,790,672 thousand in 2006, and severance insurance deposits of ₩4,959,174 thousand in 2007 and ₩5,635,518 thousand in 2006 (Note 2)	169,571,053	165,377,040	180,741	176,271
Accrued warranties and product liabilities (Notes 12 and 13)	66,718,330	55,495,518	71,113	59,151
Other long-term liabilities	<u>3,344,733</u>	<u>5,413,856</u>	<u>3,565</u>	<u>5,770</u>
	<u>615,289,331</u>	<u>525,634,726</u>	<u>655,819</u>	<u>560,259</u>
Total Liabilities	<u>₩ 1,450,785,464</u>	<u>₩ 1,425,953,577</u>	<u>\$ 1,546,350</u>	<u>\$ 1,519,883</u>

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

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
SHAREHOLDERS' EQUITY:				
Capital stock (Note 14)	₩ 604,023,100	₩ 604,023,100	\$ 643,811	\$ 643,811
Capital surplus (Note 14)	44,914,324	15,440,281	47,873	16,457
Accumulated other comprehensive income (loss):				
Gain on valuation of available-for-sale securities (Notes 5, 18 and 20)	780	90,434	1	96
Negative capital changes due to investment securities using the equity method (Notes 5 and 20)	(192,492)	(339,884)	(206)	(362)
Retained earnings (net income of ₩11,571,330 thousand for the year ended December 31, 2007 and net loss of ₩195,961,754 thousand for the year ended December 31, 2006) (Note 14)	317,698,637	306,127,307	338,626	326,292
Total Shareholders' Equity	966,444,349	925,341,238	1,030,105	986,294
Total Liabilities and Shareholders' Equity	₩ 2,417,229,813	₩ 2,351,294,815	\$ 2,576,455	\$ 2,506,177

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
SALES (Notes 2, 21 and 30)	₩ 3,119,335,284	₩ 2,951,836,878	\$ 3,324,808	\$ 3,146,277
COST OF SALES (Notes 2 and 21)	<u>2,532,148,199</u>	<u>2,386,681,403</u>	<u>2,698,943</u>	<u>2,543,894</u>
GROSS PROFIT	587,187,085	565,155,475	625,866	602,383
SELLING AND ADMINISTRATIVE EXPENSES (Notes 9, 10, 13, 16, 17 and 28)	<u>543,100,919</u>	<u>537,885,774</u>	<u>578,875</u>	<u>573,317</u>
OPERATING INCOME	<u>44,086,166</u>	<u>27,269,701</u>	<u>46,990</u>	<u>29,066</u>
OTHER INCOME (EXPENSES):				
Interest income	10,632,622	5,799,461	11,333	6,181
Interest expense	(31,700,792)	(38,592,680)	(33,789)	(41,135)
Bad debt expenses, net	(405,315)	(842,969)	(432)	(898)
Gain (loss) on disposal of available-for-sale securities, net	148,401	(93,891)	158	(100)
Gain (loss) using the equity method, net (Note 5)	(584,007)	211,676	(622)	226
Gain (loss) on disposal of investments, net (Note 9)	7,900,400	(26,371)	8,421	(28)
Gain (loss) on disposal of property, plant and equipment, net	13,719,399	(1,804,474)	14,623	(1,923)
Loss on impairment of property, plant and equipment, net (Notes 2 and 9)	(3,125,859)	(6,994,532)	(3,332)	(7,455)
Gain (loss) on foreign currency transactions, net	(10,292,598)	3,042,740	(10,971)	3,243
Gain (loss) on foreign currency translation, net (Note 15)	(2,067,790)	246,071	(2,204)	262
Reparation for product warranty expenses	7,759,789	8,292,753	8,271	8,839
Depreciation expense on assets not in use	(196,490)	(205,637)	(209)	(219)
Fees earned	32,600,791	27,374,051	34,748	29,177
Donations	(218,787)	(661,185)	(233)	(705)
Loss on derivative valuation, net (Notes 2 and 23)	(4,648,038)	(4,011,385)	(4,954)	(4,276)
Loss on derivative transactions, net (Notes 2 and 23)	(5,763,378)	(6,699,988)	(6,143)	(7,141)
Loss on disposal of trade receivables (Notes 2 and 22)	(46,308,461)	(14,785,092)	(49,359)	(15,759)
Others, net	<u>69,283</u>	<u>(55,246,106)</u>	<u>74</u>	<u>(58,885)</u>
	<u>(32,480,830)</u>	<u>(84,997,558)</u>	<u>(34,620)</u>	<u>(90,596)</u>
INCOME (LOSS) BEFORE INCOME TAX	11,605,336	(57,727,857)	12,370	(61,530)
INCOME TAX EXPENSE (Note 18)	<u>34,006</u>	<u>138,233,897</u>	<u>36</u>	<u>147,340</u>
NET INCOME (LOSS)	<u>₩ 11,571,330</u>	<u>₩ (195,961,754)</u>	<u>\$ 12,334</u>	<u>\$ (208,870)</u>
NET INCOME (LOSS) PER SHARE (Note 19)	<u>₩ 96</u>	<u>₩ (1,622)</u>	<u>\$ 0.10</u>	<u>\$ (1.73)</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
RETAINED EARNINGS BEFORE APPROPRIATIONS (ACCUMULATED DEFICIT BEFORE DISPOSITION):				
Unappropriated retained earnings carried over from prior year	₩ -	₩ -	\$ -	\$ -
Net income (loss)	<u>11,571,330</u>	<u>(195,961,754)</u>	<u>12,334</u>	<u>(208,870)</u>
	<u>11,571,330</u>	<u>(195,961,754)</u>	<u>12,334</u>	<u>(208,870)</u>
DISPOSITION:				
Transfer from reserve for technology development (Note 14)	<u>-</u>	<u>195,961,754</u>	<u>-</u>	<u>208,870</u>
APPROPRIATIONS:				
Reserve for technology development	<u>11,571,330</u>	<u>-</u>	<u>12,334</u>	<u>-</u>
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	<u>₩ -</u>	<u>₩ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007

	Korean Won (In thousands)				
	Capital stock	Capital surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2007	₩ 604,023,100	₩ 15,440,281	₩ (249,450)	₩ 306,127,307	₩ 925,341,238
Net income	-	-	-	11,571,330	11,571,330
Consideration for conversion rights (Note 14)	-	29,474,043	-	-	29,474,043
Gain on valuation of available-for- sale securities (Notes 4 and 20)	-	-	(89,653)	-	(89,653)
Negative capital changes due to investment securities using the equity method (Notes 4 and 20)	-	-	147,391	-	147,391
Balance at December 31, 2007	<u>₩ 604,023,100</u>	<u>₩ 44,914,324</u>	<u>₩ (191,712)</u>	<u>₩ 317,698,637</u>	<u>₩ 966,444,349</u>

	Translations into US Dollars (Note 2) (In thousands)				
	Capital stock	Capital surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2007	\$ 643,811	\$ 16,457	\$ (266)	\$ 326,292	\$ 986,294
Net income	-	-	-	12,334	12,334
Consideration for conversion rights	-	31,416	-	-	31,416
Gain on valuation of available -for- sale securities (Notes 4 and 20)	-	-	(96)	-	(96)
Negative capital changes due to investment securities using the equity method (Notes 4 and 20)	-	-	157	-	157
Balance at December, 2007	<u>\$ 643,811</u>	<u>\$ 47,873</u>	<u>\$ (205)</u>	<u>\$ 338,626</u>	<u>\$ 1,030,105</u>

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 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)	<u>₩ 11,571,330</u>	<u>₩ (195,961,754)</u>	<u>\$ 12,334</u>	<u>\$ (208,870)</u>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Provision for severance indemnities	30,620,361	30,825,727	32,637	32,856
Depreciation	160,861,360	173,128,114	171,457	184,532
Warranty expense	684,423	687,282	730	733
Bad debt expense, net	1,729,729	842,969	1,844	898
Amortization of intangible assets	26,394,824	37,321,381	28,133	39,780
Amortization of present value discount	8,280,303	6,051,449	8,826	6,450
Loss (gain) on disposal of available-for-sale securities, net	(148,401)	93,891	(158)	100
Loss (gain) using the equity method, net	584,007	(211,676)	622	(226)
Loss on valuation of inventories, net	1,134,737	3,690,936	1,209	3,934
Loss (gain) on foreign currency translation, net	2,067,790	(246,071)	2,204	(262)
Loss (gain) on disposal of investments, net	(7,900,400)	26,371	(8,421)	28
Loss (gain) on disposal of property, plant and equipment, net	(13,719,399)	1,804,474	(14,623)	1,923
Depreciation expense on assets not in use	196,490	205,637	209	219
Loss on impairment of property, plant and equipment, net	3,125,859	6,994,532	3,332	7,455
Loss on derivative valuation, net	4,648,038	4,011,385	4,954	4,276
Loss on derivative transactions, net	5,763,378	6,699,988	6,143	7,141
Loss on disposal of trade receivables	46,308,461	14,785,092	49,359	15,759
Others, net	<u>7,514,715</u>	<u>13,270,858</u>	<u>8,011</u>	<u>14,146</u>
	<u>278,146,275</u>	<u>299,982,339</u>	<u>296,468</u>	<u>319,742</u>
Changes in assets and liabilities resulting from operations:				
Decrease (increase) in trade receivables	(137,749,267)	24,207,534	(146,823)	25,802
Increase in other receivables	(23,207,212)	(8,112,133)	(24,736)	(8,646)
Decrease (increase) in accrued income	(2,538,285)	245,898	(2,705)	262
Increase in advanced payments	(16,744,626)	(2,465,629)	(17,848)	(2,628)
Decrease in prepaid expenses	389,287	601,521	415	641
Decrease (increase) in prepaid income tax	2,414,185	(2,590,691)	2,573	(2,761)
Decrease (increase) in inventories	35,588,264	(6,484,001)	37,932	(6,911)
Decrease (increase) in long-term trade receivables	155,754	(409,665)	166	(437)
Decrease in deferred tax assets	-	138,233,898	-	147,339
Increase (decrease) in trade payables	(226,787,504)	12,085,342	(241,726)	12,881
Decrease in other payables	(17,276,338)	(23,798,764)	(18,414)	(25,366)
Increase (decrease) in advances received	2,093,469	(2,061,144)	2,231	(2,197)

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SSANGYONG MOTOR COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Decrease in withholdings	₩ (7,747,961)	₩ (4,475,639)	\$ (8,258)	\$ (4,770)
Increase (decrease) in accrued expenses	(355,919)	693,021	(379)	739
Increase (decrease) in accrued warranties and product liabilities	15,707,543	(6,161,219)	16,742	(6,567)
Payments of severance indemnities	(32,774,745)	(42,343,503)	(34,934)	(45,133)
Decrease in severance insurance deposits	676,344	1,053,140	721	1,123
Decrease in National Pension Fund	733,009	998,155	781	1,064
Increase in other long-term liabilities	960,333	1,953,358	1,024	2,082
Other current liabilities and others, net	576,199	3,484,191	614	3,713
	<u>(405,887,470)</u>	<u>84,653,670</u>	<u>(432,624)</u>	<u>90,230</u>
Net cash provided by (used in) operating activities	<u>(116,169,865)</u>	<u>188,674,255</u>	<u>(123,822)</u>	<u>201,102</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:				
Withdrawal (acquisition) of short-term financial instruments, net	(99,671,539)	1,987,710	(106,237)	2,119
Acquisition of long-term financial instruments, net	-	(1,000)	-	(1)
Collection of short-term loans, net	5,604,758	1,674,433	5,974	1,785
Collection (extension) of long-term loans, net	(6,176,886)	1,335,164	1,180	(975)
Withdrawal of guarantee deposits, net	6,674,571	8,154,152	7,114	8,691
Disposal (acquisition) of available-for-sale securities, net	1,106,832	(914,301)	1,180	(975)
Acquisition of property, plant and equipment, Net	(71,929,388)	(141,444,163)	(76,667)	(150,761)
Acquisition of intangible assets	(48,869,381)	(28,030,254)	(52,088)	(29,877)
Settlement of derivative, net	(9,473,332)	(7,001,419)	(10,097)	(7,463)
Other investments in (disposal of) properties and others, net	17,110,964	(1,937,575)	18,237	(2,064)
Net cash used in investing activities	<u>(205,623,401)</u>	<u>(166,177,253)</u>	<u>(219,168)</u>	<u>(177,123)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term borrowings	340,456,313	441,508,298	362,882	470,591
Repayment of short-term borrowings	(331,796,085)	(469,962,272)	(353,652)	(500,919)
Issuance of bond	-	299,151,931	-	318,857
Issuance of convertible bond	247,481,016	-	263,783	-
Repayment of long-term debt	-	(420,000,000)	-	(447,666)
Net cash provided by (used in) financing activities	<u>256,141,244</u>	<u>(149,302,043)</u>	<u>273,013</u>	<u>(159,137)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS				
	(65,652,022)	(126,805,041)	(69,977)	(135,158)
 CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR (Note 25)				
	₩ 133,741,387	₩ 260,546,428	\$ 142,551	\$ 277,709
 CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR (Note 25)				
	₩ 68,089,365	₩ 133,741,387	\$ 72,574	\$ 142,551

See accompanying notes to the financial statements.

SSANGYONG MOTOR COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 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 December 31, 2007, the capital stock of the Company is ₩604,023 million and the major shareholders of the Company are as follows:

	Number of shares	Percentage of ownership (%)
SAIC Motor Corporation Limited	62,004,680	51.33
Other shareholders	58,799,940	48.67
	120,804,620	100.00

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 ₩938.20 to US\$1.00 at December 31, 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 2007 financial statements to be submitted to the shareholders’ meeting were approved by the board of directors on February 13, 2008.

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

The Korean Accounting Standards Board (“KASB”) has published a series of Statement 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 as of December 31, 2007 in accordance with the new Statements of Korea Accounting Standards (“SKAS”) No.21 “Preparation and Presentation of Financial Statements” and No.23 “Earnings per Share”, effective from January 1, 2007.

Major changes compared with the standard applied in preparing the 2006 financial statements are as follows:

<u>Statements of Korean Accounting Standards</u>	<u>Major changes</u>
No.21 Preparation and Presentation Financial Statements	-To prepare the statement of changes in shareholders’ equity as a complete set of financial statements -To use accounts-‘other non-current assets’ and ‘accumulated other comprehensive income’ in preparing the balance sheets
No.23 Earning per Share	-This statement is not required to be applied to companies that are not listed or in the process of being listed

The Company restated the balance sheet as of December 31, 2006, and statements of income and cash flows for the year ended December 31, 2006, which are presented for comparative purposes, in accordance with the new SKAS No.21 and No.23. Such restatement had no effect on net income of prior period. Also, the Company did not prepare the statement of changes in shareholders’ equity for the year ended December 31, 2006 for comparative purposes, in accordance with the transition provision of SKAS No.21.

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

Cash and Cash Equivalents

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

Revenue Recognition

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

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

Allowance for Doubtful Accounts

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

Inventories

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

The Company recognized loss on valuation of inventories amounting to ₩2,509,696 thousand and ₩4,539,398 thousand for the years ended December 31, 2007 and 2006, respectively, which is included in cost of sales. The Company maintains perpetual inventory records, which are adjusted through physical count at the end of the year.

The Company reversed loss on valuation of inventories amounting ₩1,374,959 thousand and ₩848,462 thousand for the years ended December 31, 2007 and 2006, which is deducted from cost of sales.

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

Classification of Securities

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

Valuation of Securities

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

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

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

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company estimates the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate.

For available-for-sale debt or equity security, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security.

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

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

Equity Securities Accounted for Using the Equity Method

Investments in equity securities in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method.

1) Accounting for changes in the Company's portion of an investee's net equity

Changes in the investor's share of equity interest in an associate are adjusted to the balance of investment in the associate and accounted for in accordance with the source of changes in the net assets of the associate. ① If changes in the net assets of an associate arise as a result of net income or net loss for the current period, changes in the Company's share of equity interest in the associate are accounted for as an item of current earnings. ② If an associate's beginning balance of retained earnings has been changed, changes in the Company's share of equity interest in the associate are included in beginning balance of retained earnings. ③ If changes in the net assets of an associate arise as a result of an increase or decrease in equity, excluding the associate's net income or net loss for the current period and changes in the associate's beginning balance of retained earnings, the resulting change in the Company's share of equity interest in the associate is included in the Company's accumulated other comprehensive income (loss).

If an associate's beginning balance of retained earnings has been changed because of a material error correction and if the effect of such change on the financial statements of the investor is immaterial, the resulting change in the Company's share of equity interest in the associate is included in the Company's current earnings in accordance with Korea Accounting Standards for accounting changes and corrections of errors. If an associate's beginning balance of retained earnings has been changed because of the investee's accounting changes, the resulting change in the Company's share of equity interest in the associate is reflected in the Company's beginning balance of retained earnings in accordance with Korea Accounting Standards for accounting changes and corrections of errors.

At the date of an associate's dividend declaration, the Company subtracts the amount of dividend receivable directly from the carrying amount of the investment in the associate. However, in the case of an associate's stock-dividend declaration, no accounting treatment is made since there is no change in the net assets of the associate.

2) Investment difference

Investment difference arises on the date of acquisition of an investment in an associate because of factors such as the associate's ability to earn future profits in excess of normal profits. Such difference is treated as goodwill and accounted for in accordance with Korea Accounting Standards on business combinations. When the Company is able to exercise significant influence through an in-stage acquisition of an associate's shares, investment difference is calculated as if the shares were acquired in a lump-sum purchase on the same date significant influence became exercisable. The Company calculates the investment difference if its share of equity interest in an associate increases as a result of an increase (or decrease) in contributed capital with (or without) consideration. Such difference is treated as goodwill and accounted for in accordance with Korea Accounting Standards on business combinations.

3) Accounting for the difference between the fair value and book value of the net assets of the associate

At the date of acquisition of an investment in an associate, among the difference between the fair value and book value of the identifiable assets and liabilities of an associate, the amount relating to the Company's share of equity interest in the associate is amortized or reinstated in accordance with the associate's methods of accounting for assets and liabilities.

4) Elimination of unrealized intercompany gains or losses

Among the amount calculated by multiplying the Company's share of an associate's equity to the total amount of gains or losses arising on transactions between the investor and the associate, the portion of the calculated amount that continues to be reflected in the carrying amount of the Company's investment held as of the balance sheet date is referred to as unrealized intercompany gain or loss. Unrealized gains are accounted for as a reduction of the carrying amount of the investment in the associate, while unrealized losses are added to the carrying amount of the investment in the associate.

5) Impairment losses

If the amount recoverable from an investment in an associate (hereinafter referred to as the recoverable amount) is less than its carrying amount, the Company considers recognition of an impairment loss. Pursuant to Korea Accounting Standards for investments in securities, the Company determines whether there is objective evidence that impairment loss has been incurred. The recoverable amount is determined as the higher of value in use or expected amount of net cash inflows from disposal of the investment in the associate. The amount of impairment loss is included in current earnings. If there is any amount of unamortized investment difference when the investor recognizes impairment loss on an investment in an associate, the remaining balance of the investment difference is reduced first. If the recoverable amount of an investment in an associate increases after recognizing an impairment loss, the amount of increase is recognized as current income to the extent of the impairment loss previously recognized. In such a case, the carrying amount of the investment shall not exceed the carrying amount that would have been determined, as of the date of the recovery, if no impairment loss were recognized in prior periods. However, since recovery of impairment loss recognized by reducing the balance of unamortized investment difference is not permitted, no accounting treatment is made for such recovery.

6) Translation of financial statements of associates operating overseas

When applying the equity method by translating the financial statements of an associate operating overseas, the Company applies the foreign exchange rate as of the Company's balance sheet date to the associate's assets and liabilities. After translating into Korean Won, out of the difference between the total equity and the amount obtained by deducting liabilities from assets, the amount relating to the Company's share of the associate's equity interest is accounted for as accumulated other comprehensive income (loss).

Property, Plant and Equipment and Related Depreciation

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

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

The Company recognized impairment loss on property, plant and equipment amounting to ₩6,973,306 thousand and ₩6,994,532 thousand for the years ended December 31, 2007 and 2006, respectively.

The Company reversed the impairment loss on property, plant and equipment amounting to ₩3,847,447 thousand for the year ended December 31, 2007.

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

Intangible Assets

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

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

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

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

Government Subsidies

If an item of property, plant, and equipment is acquired free of charge or for a price less than its fair value, such as by way of a government subsidy, the asset is accounted for at its fair value at the date of acquisition. The amounts of government subsidy and all other forms of similar non-reciprocal transfers are presented as contra-asset accounts of the asset's acquisition cost and are reversed over the useful life of the asset by matching it with the amount of depreciation. When the asset is disposed of, the remaining balances of government subsidy or non-reciprocal transfers are reflected in calculating the gain or loss on disposal.

Valuation of Receivables and Payables at Present Value

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

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

Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rates of exchange on the transaction date. Accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet date. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services, Ltd., which was ₩938.20 and ₩929.60 to US\$1.00 at December 31, 2007 and 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 accumulated other comprehensive income (loss). Overseas operations translation debit and credit are treated as extraordinary gain and loss upon closing the foreign branch or office.

Accrued Severance Indemnities

Under Korean labor regulations, all employees with more than one year service are entitled to receive severance indemnities, based on the length of service and the rate of pay, upon termination of their employment. The accrued severance liabilities that would be payable assuming all eligible employees were to resign are ₩175,587,889 thousand and ₩172,803,230 thousand as of December 31, 2007 and 2006, respectively.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by netting the receivables against the payment of the retirement and severance benefits. Such receivables with a balance of ₩1,057,662 thousand and ₩1,790,672 thousand as of December 31, 2007 and 2006, respectively, are presented as a deduction from accrued severance indemnities. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund. The Company entered into a severance insurance plan in accordance with the Labor Standard Law, which restricts severance payment directly to the eligible employees and directors, and meets the funding requirement for additional tax deduction purposes. The amount funded under this severance insurance plan of ₩4,959,174 thousand and ₩5,635,518 thousand as of December 31, 2007 and 2006, respectively, is presented as a deduction from accrued severance indemnities.

Actual severance payments were ₩32,774,745 thousand and ₩42,343,503 thousand for the years ended December 31, 2007 and 2006, respectively.

Derivatives

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

Convertible Bonds

When issuing convertible bonds, the values of the conversion rights are recognized separately. The proceeds from issuance are allocated between the liability feature and the equity feature which represents the conversion right. The amount allocated to the equity feature is recognized as consideration for the conversion right, which is measured by deducting the present value of ordinary or straight bonds from the gross proceeds of the convertible bonds received at the date of issue.

Interest expense on a convertible bond is measured by applying the effective interest rate of the straight bond to the book value of the bond, which is the amount measured by adjusting the items to the face value of the bond.

Accrued Warranties and Product Liabilities

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

Income Tax Expense

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

3. RESTRICTED DEPOSITS:

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

	<u>2007</u>	<u>2006</u>	<u>Description</u>
Short-term financial instruments	₩ 4,248,613	₩ 4,577,074	Government subsidies and others
Long-term financial instruments	9,000	9,000	Guarantee deposits for checking accounts
	<u>₩ 4,257,613</u>	<u>₩ 4,586,074</u>	

4. INVENTORIES:

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

	<u>2007</u>	<u>2006</u>
Merchandise	₩ 54,038,858	₩ 53,684,793
Finished goods	50,155,859	86,886,635
Work in process	29,752,215	35,653,702
Raw materials	82,712,009	85,232,499
Supplies	4,526,240	4,353,710
Materials in transit	83,963,839	80,722,135
Allowance for valuation	(10,427,270)	(11,817,992)
	<u>₩ 294,721,750</u>	<u>₩ 334,715,482</u>

5. INVESTMENTS IN SECURITIES:

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

	<u>2007</u>	<u>2006</u>
Current assets:		
Government bonds	₩ 7,991	₩ 1,048,505
Non-current assets:		
Non-listed equity securities	560,000	1,395,695
Government bonds	901	8,472
	<u>560,901</u>	<u>1,404,167</u>
	<u>₩ 568,892</u>	<u>₩ 2,452,672</u>

(2) Investments in non-listed equity securities as of December 31, 2007 and 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. (*)	-	-	-	<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 December 31, 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	₩ 6,985	₩ 7,991	₩ 1,006
1 year ~ 5 years	830	901	71
	<u>₩ 7,815</u>	<u>₩ 8,892</u>	<u>₩ 1,077</u>

The Company recorded gain on valuation of available-for-sale securities in accumulated other comprehensive income of ₩781 thousand (deducting tax effect of ₩296 thousand) as of December 31, 2007.

(4) 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 %	835,695	(1,510,250)	-
		<u>₩ 2,690,199</u>	<u>₩ 736,512</u>	<u>₩ 2,215,777</u>

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

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

(5) The changes in equity securities accounted for using the equity method for the year ended December 31, 2007 are 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	₩ 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. (*)	-	(772,227)	772,227	-
	<u>₩ 2,241,605</u>	<u>₩ (584,007)</u>	<u>₩ 558,179</u>	<u>₩2,215,777</u>

(*) Use of equity method was discontinued since the value of investments less than zero due to accumulated deficit. In addition, unrecognized loss due to suspension of use of the equity method amounts to ₩3,307,871 thousand for the year ended December 31, 2007.

Equity securities accounted for using the equity method as of December 31, 2007 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, 2006 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.	₩ 1,464,788	₩ 209,118	₩ (76,411)	₩ 1,597,495
Ssangyong Motor (Shanghai) Co., Ltd.	665,921	2,558	(24,369)	644,110
	₩ 2,130,709	₩ 211,676	₩ (100,780)	₩ 2,241,605

(6) The summary of financial information of affiliated companies as of and for the year ended December 31, 2007 is as follows (Won in thousands):

Affiliated company	Total assets	Total liabilities	Sales	Net income(loss)
Ssangyong (Yizheng) Auto Parts Manufacturing Co., Ltd.	₩ 2,440,662	₩ 570,413	₩ 2,688,021	₩ 100,980
Ssangyong Motor (Shanghai) Co., Ltd.	5,815,918	5,399,405	18,178,489	119,556
Ssangyong European Parts Center B.V.	11,104,762	12,615,013	10,720,850	(2,282,478)

6. LOANS TO EMPLOYEES:

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

Account	Description	2007	2006
Short-term loans	Housing loans	₩ 1,622,383	₩ 76,068
Long-term loans	Housing loans	18,648,297	15,307,262
"	Debt-to-equity swap loans and other	6,836,360	8,760,697
		₩ 27,107,040	₩ 24,144,027

For the year ended December 31, 2007, the Company loaned ₩8,100,000 thousand and redeemed ₩3,212,650 thousand for housing loans and ₩1,924,337 thousand for debt-to-equity swap loans and other.

7. INSURED ASSETS:

The Company carries insurance coverage for property, plant and equipment, and inventories as of December 31, 2007 as follows (Won in thousands):

Insured assets	Company	Coverage
Products	Daehan Fire & Marine Insurance	₩ 2,881,378,884 (US\$3,071,177,664)
PP&E and inventories	Dongbu Fire Insurance Co., Ltd.	2,379,859,698
		₩ 5,261,238,582

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

<u>Pledged assets</u>	<u>Net book value</u>
Land	₩ 141,735,294
Buildings	176,749,975
Structures	42,643,560
Machinery	67,880,160
	<u>₩ 429,008,989</u>

9. PROPERTY, PLANT AND EQUIPMENT:

(1) As of December 31, 2007, the published price of the Company's land which is announced by the Office of National Tax Administration is ₩486,647,120 thousand.

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

	<u>2007</u>	<u>2006</u>
Land	₩ 278,763,002	₩ 285,777,252
Buildings	578,885,537	572,054,932
Structures	117,640,247	114,673,851
Machinery	1,189,377,830	1,240,297,385
Vehicles	13,755,014	14,322,429
Tools and equipment	484,652,999	638,332,180
Office equipment	57,150,382	59,750,205
Construction in progress	132,844,719	76,896,750
Machinery in transit	1,063,638	-
Government subsidies	<u>(2,568,782)</u>	<u>(2,441,098)</u>
	2,851,564,586	2,999,663,886
Less: Accumulated impairment losses	(9,890,288)	(46,547,832)
Accumulated depreciation	<u>(1,425,542,934)</u>	<u>(1,445,321,631)</u>
	<u>₩ 1,416,131,364</u>	<u>₩ 1,507,794,423</u>

(3) The changes in acquisition costs of property, plant and equipment for the year ended December 31, 2007 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Acquisition	Other	Disposal	Other	
Land	₩ 285,777,252	₩ 785,690	₩ 1,167,150	₩ 8,967,090	₩ -	₩ 278,763,002
Buildings	572,054,932	1,822,787	9,166,661	3,463,201	695,642	578,885,537
Government subsidies	(685,848)	(99,280)	-	-	(14,553)	(770,575)
Structures	114,673,851	1,117,891	2,204,406	355,901	-	117,640,247
Government subsidies	(63,944)	(129,619)	-	-	(3,858)	(189,705)
Machinery	1,240,297,385	4,698,329	6,371,823	4,839,790	57,149,917	1,189,377,830
Government subsidies	(607,082)	(147,723)	-	-	(79,573)	(675,232)
Vehicles	14,322,429	571,187	-	1,089,586	49,016	13,755,014
Government subsidies	(61,954)	-	-	-	(15,816)	(46,138)
Tools & equipment	638,332,180	7,232,025	7,594,419	1,915,162	166,590,463	484,652,999
Government subsidies	(10,195)	(37,710)	-	-	(3,408)	(44,497)
Office equipment	59,750,205	2,069,214	1,053	1,756,245	2,913,845	57,150,382
Government subsidies	(1,012,075)	(71,084)	-	-	(240,524)	(842,635)
Construction in progress	76,896,750	76,131,446	2,267,630	-	22,451,107	132,844,719
Machinery in transit	-	5,118,043	-	-	4,054,405	1,063,638
	<u>₩ 2,999,663,886</u>	<u>₩ 99,061,196</u>	<u>₩ 28,773,142</u>	<u>₩ 22,386,975</u>	<u>₩ 253,546,663</u>	<u>₩ 2,851,564,586</u>

- (4) The changes in accumulated depreciation of property, plant and equipment for the year ended December 31, 2007 are as follows (Won in thousands):

Account	Beginning of year	Increase		Decrease		End of year
		Depreciation	Other	Disposal	Other	
Buildings	₩ 137,871,974	₩ 14,925,424	₩ -	₩ 722,322	₩ 270,739	₩ 151,804,337
Structures	49,470,696	5,107,583	-	259,874	-	54,318,405
Machinery	914,844,787	79,774,992	-	3,719,707	48,893,759	942,006,313
Vehicles	7,125,836	1,992,293	-	627,048	18,080	8,473,001
Tools & equipment	301,268,105	57,622,058	-	1,391,478	128,270,981	229,227,704
Office equipment	34,740,233	9,313,351	-	1,485,588	2,854,822	39,713,174
	<u>₩ 1,445,321,631</u>	<u>₩ 168,735,701</u>	<u>₩ -</u>	<u>₩ 8,206,017</u>	<u>₩ 180,308,381</u>	<u>₩ 1,425,542,934</u>

- (5) The changes in accumulated impairment losses of property, plant and equipment for the year ended December 31, 2007 are as follows (Won in thousands):

Account	Beginning of year	Increase	Decrease	End of year
Buildings	₩ -	₩ 2,352,689	₩ -	₩ 2,352,689
Structures	-	86,497	-	86,497
Machinery	8,956,196	834,055	7,996,682	1,793,569
Vehicles	83,287	27,691	27,846	83,132
Tools & equipment	37,508,349	2,957,545	34,905,485	5,560,409
Office equipment	-	64,829	50,837	13,992
Construction in progress	-	650,000	650,000	-
	<u>₩ 46,547,832</u>	<u>₩ 6,973,306</u>	<u>₩ 43,630,850</u>	<u>₩ 9,890,288</u>

- (6) 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 year ended December 31, 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	631,503	-	86,525	27	86,498
Machinery	3,704,125	1,634,343	2,099	2,067,683	1,233,628	834,055
Vehicles	48,285	17,518	-	30,767	3,077	27,690
Tools & equipment	15,776,023	10,040,389	137,542	5,598,092	2,640,547	2,957,545
Office equipment	663,609	592,015	-	71,594	6,765	64,829
Construction in Progress	650,000	-	-	650,000	-	650,000
	<u>₩ 26,080,996</u>	<u>₩ 14,977,629</u>	<u>₩ 139,641</u>	<u>₩ 10,963,726</u>	<u>₩ 3,990,420</u>	<u>₩ 6,973,306</u>

In addition, in 2006, the Company is planning to discontinue production of 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 year ended December 31, 2006, is as follows (Won in thousands):

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

- (7) In 2005, the Company recognized impairment loss of ₩42,528 million on plant related to discontinuing manufacturing for 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:

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 and 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 years ended December 31, 2007 and 2006, the Company incurred loss on disposal of investments of ₩23,781 thousand and ₩204,779 thousand, respectively. The Company also incurred gain on disposal of investments of ₩7,924,181 thousand and ₩ 9,935 thousand for the years ended December 31, 2007 and 2006, respectively.

10. INTANGIBLE ASSETS:

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

	Acquisition cost	Amortization	Accumulated impairment	End of year
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 grants	(85,000)	(85,000)	-	-
Other intangible assets	9,365,801	5,782,920	-	3,582,881
Government grants	(824,274)	(338,176)	-	(486,098)
	<u>₩ 184,832,623</u>	<u>₩ 90,245,874</u>	<u>₩ -</u>	<u>₩ 94,586,749</u>

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

	Acquisition cost	Amortization	Accumulated impairment	End of year
Industrial right	₩ 1,856,286	₩ 812,224	₩ -	₩ 1,044,062
Electricity and gas available right	550,375	480,062	-	70,313
Prepaid royalty expenses	17,078,152	17,078,152	-	-
Development costs	146,716,636	83,171,090	-	63,545,546
Government grants	(85,000)	(70,833)	-	(14,167)
Other intangible assets	7,147,678	3,542,684	-	3,604,994
Government grants	(537,579)	(128,941)	-	(408,638)
	<u>₩ 172,726,548</u>	<u>₩ 104,884,438</u>	<u>₩ -</u>	<u>₩ 67,842,110</u>

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

	Beginning of year	Increase (*)	Amortization	Accumulated impairment	End of year
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	50,635,689	23,820,805	-	90,360,430
Government grants	(14,167)	-	(14,167)	-	-
Other intangible assets	3,604,994	2,338,122	2,360,235	-	3,582,881
Government grants	(408,638)	(286,695)	(209,235)	-	(486,098)
	<u>₩ 67,842,110</u>	<u>₩ 53,139,463</u>	<u>₩ 26,394,824</u>	<u>₩ -</u>	<u>₩ 94,586,749</u>

(*) The Company transferred to intangible asset from depreciation amounting to ₩2,387,744 thousand, retirement allowance amounting to ₩1,391,031 thousand and inventories amounting to ₩778,002 thousand for the year ended December 31, 2007.

The changes in book value of intangible assets for the year ended 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 BONDS:

(1) Short-term borrowings as of December 31, 2007 and 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 %	₩ 81,866,665	₩ 42,394,116
Industrial & Commercial Bank of China	5.89 %	-	28,530,000
		<u>₩ 81,866,665</u>	<u>₩ 70,924,116</u>

(2) Debentures as of December 31, 2007 and 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
Discount on debentures				(361,340)	(651,688)
				<u>299,638,660</u>	<u>299,348,312</u>
Transfer to current portion of debentures				(149,980,374)	-
Current portion of debentures				150,000,000	-
Current portion of discount on debentures				(19,626)	-
Book value of debentures				<u>₩ 149,658,286</u>	<u>₩ 299,348,312</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 December 31, 2007 are as follows (Won in thousands):

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

(4) Convertible bonds as of December 31, 2007 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>
Convertible bonds	2007-07-03	2012-07-03	-	₩ 251,352,000
Conversion right adjustment				(82,917,732)
Discount on bonds				(3,543,524)
Premium on bond redemption				61,106,185
Book value of convertible bonds				<u>₩ 225,996,929</u>

Terms and conditions of the convertible bonds are as follows:

<u>Description</u>	<u>Summary</u>
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 124.31% of the face value
Maturity date	July 3, 2012
Conversion period	July 4, 2008 ~ June 26, 2012
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, capital dividend and consideration of stock or others.
Put Option	All or some of the bonds may be redeemed the relevant holder's by exercising the put option on 3 January, 2010 at 111.495% of the face value
Call Option	The bonds may be redeemed by the Company's exercising the call option and at any time after 3 January, 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 December 31, 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	₩ 595,819	₩ 541,250	₩ 54,569	8.90 %	2008.12.31
Long-term trade receivables	<u>359,873</u>	<u>333,117</u>	<u>26,756</u>	8.90 %	2010.10.30
	<u>₩ 955,692</u>	<u>₩ 874,367</u>	<u>₩ 81,325</u>		
Liabilities:					
Accrued warranties and product liabilities	₩ 53,037,147	₩ 51,556,414	₩ 1,480,733	6.66 %	2008.12.31
Long-term accrued warranties and product liabilities	<u>76,076,872</u>	<u>66,718,330</u>	<u>9,358,542</u>	6.66 %	2018.12.31
	<u>₩ 129,114,019</u>	<u>₩ 118,274,744</u>	<u>₩ 10,839,275</u>		

Discounts (premiums) on present value are amortized using the effective interest rate method and amortization of discount (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.

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

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

<u>Accounts</u>	<u>Beginning of year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of year</u>
Accrued warranties and product liabilities	₩ 108,728,420	₩ 9,276,310	₩ 15,437,528	₩ 102,567,202

14. SHAREHOLDERS' EQUITY:

- (1) The Company has 1,600,000,000 authorized shares of ₩5,000 par value common stock, of which 120,804,620 shares have been issued as of December 31, 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.

In addition, conversion rights amounting to ₩29,474,043 of the convertible bonds, which were issued on July 3, 2007, were 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 December 31, 2007, no stock option has been granted.
- (5) The Company transferred technological development reserve of ₩195,961,754 thousand to deficit recovery based on the resolution at the shareholders' meeting on March 23, 2007.
- (6) As of December 31, 2007 and 2006, appropriated retained earnings consist of the following (Won in thousands):

<u>Description</u>	<u>Korean Won</u>	
	<u>2007</u>	<u>2006</u>
Reserve for financial structure improvement	₩ 60,108,455	₩ 60,108,455
Reserve for technology development	246,018,851	441,980,607

15. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

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

Account	2007				2006			
	Foreign currencies		Won equivalent		Foreign currencies		Won equivalent	
Assets:								
Cash and cash equivalents	EUR	2,050,775	₩	2,832,653	11,680,391	₩	14,276,241	
"	JPY	6,200,000		51,667	404,377,021		3,161,541	
"	USD	4,006,595		3,758,988	207,083		192,505	
Short-term financial instruments								
Trade receivables	USD	-		-	160,000		148,736	
"	EUR	39,532,140		54,604,163	41,387,305		50,585,220	
"	AUD	486,664		400,451	-		-	
"	USD	95,851,063		89,927,467	10,345,496		9,617,173	
"	GBP	4,033,369		7,558,937	-		-	
"	JPY	18,750,900		156,257	2,678,700		20,943	
Other receivables	EUR	4,752		6,315	3,308		4,043	
"	JPY	-		-	30,487		238	
"	USD	18,452,171		17,311,827	600,409		558,140	
"	AUD	2,500,000		2,057,125	-		-	
			₩	178,665,850		₩	78,564,780	
Liabilities:								
Trade payables	EUR	8,974,559	₩	12,595,469	20,899,976	₩	25,544,787	
"	AUD	5,015,239		4,129,418	3,665,836		2,692,483	
"	JPY	257,323,193		2,130,543	318,266,140		2,488,300	
"	USD	4,888,116		4,586,477	5,040,971		4,686,087	
Other payables	AUD	116,652		95,987	36,652		26,920	
"	CHF	-		-	7,000		5,327	
"	CNY	13,800		1,773	-		-	
"	DEM	1,529,802		1,080,392	1,760,496		1,100,169	
"	EUR	6,560,727		9,062,069	9,267,969		11,327,682	
"	FRF	5,693		1,199	5,693		1,061	
"	GBP	256,351		480,428	205,497		374,849	
"	JPY	71,579,240		596,491	107,165,578		837,853	
"	SEK	724		106	724		97	
"	USD	8,435,883		7,914,545	8,301,908		7,717,453	
Accrued expenses	EUR	94,184		374,527	177,702		217,195	
"	JPY	876,198		15,391	1,442,874		11,281	
"	USD	2,073		2,080	-		-	
"	AUD	1,132		2,845	-		-	
Short-term borrowings								
"	AUD	490,479		400,962	-		-	
"	EUR	52,800,989		72,732,625	27,618,312		33,756,205	
"	JPY	1,032,275,114		8,616,066	1,104,832,417		8,637,911	
"	USD	125,196		117,012	-		-	
			₩	124,936,405		₩	99,425,660	

For the years ended December 31, 2007 and 2006, gain on foreign currency translation of ₩ 1,832,036 thousand and ₩1,025,229 thousand, respectively, and loss on foreign currency translation of ₩3,899,826thousand and ₩777,159 thousand, respectively, were recognized.

16. RESEARCH AND DEVELOPMENT:

Research and development costs occurred for the years ended December 31, 2007 and 2006 are as follows (Won in thousands):

<u>Description</u>	<u>2007</u>	<u>2006</u>
Development expenses	₩ 77,227,858	₩ 100,682,825
Development costs	50,635,689	28,271,941
	<u>₩ 127,863,547</u>	<u>₩ 128,954,766</u>

17. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Salaries	₩ 56,485,183	₩ 53,167,613
Provision for severance indemnities	5,645,061	7,295,239
Other employee benefits	7,406,887	7,800,374
Travel	951,017	904,900
Communications	831,577	827,926
Taxes and dues	5,396,903	6,303,730
Rent	8,201,108	8,011,225
Depreciation	14,313,618	20,034,705
Repairs	896,795	977,595
Advertisement	32,785,844	24,604,714
Sales warranties	88,298,881	61,123,840
Sales commissions	95,627,488	94,428,054
Sales promotion	15,286,412	14,981,409
Freight	6,392,737	6,030,816
Packing expenses	1,485,848	1,249,476
Export related expenses	73,431,664	64,386,457
Commissions	7,974,248	10,420,647
Electronic data processing expenses	5,114,563	4,656,753
Development expenses	77,227,858	100,682,825
Amortization	26,394,824	37,321,381
Others	12,952,403	12,676,095
	<u>₩ 543,100,919</u>	<u>₩ 537,885,774</u>

18. INCOME TAX EXPENSE AND DEFERRED ASSETS:

(1) Income tax expense for the years ended December 31, 2007 and 2006 consists 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	-	112,323,372
Changes in deferred income taxes due to tax loss to be carried forward	-	25,923,218
Changes in deferred income taxes assets, net	-	138,246,590
Tax expense allocated to capital adjustments	34,006	(12,692)
Income tax expense	<u>₩ 34,006</u>	<u>₩ 138,233,898</u>

- (2) For the years ended December 31, 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	₩ 11,605,336	₩ (57,727,857)
Adjustments:		
Permanent differences	34,457,582	7,498,046
Temporary differences	<u>1,395,207</u>	<u>(16,165,404)</u>
Taxable income (loss)	<u>47,458,125</u>	<u>(66,395,215)</u>
Tax loss to be carried forward (*)	<u>₩ (158,579,982)</u>	<u>₩ (215,150,729)</u>

(*) The amount of tax loss to be carried forward is adjusted based on 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 December 31, 2007 are as follows (Won in thousands):

<u>Year of occurrence</u>	<u>Amount</u>	<u>Year of expiration</u>
2005	₩ 70,199,710	2010
2006	<u>88,380,272</u>	2011
	<u>₩ 158,579,982</u>	

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

<u>Description</u>	<u>2007</u>	<u>2006</u>
Beginning of the year, net (*)	₩ 391,237,258	₩ 458,630,413
Decrease in the current year	(208,231,307)	(235,084,833)
Increase in the current year	<u>202,082,742</u>	<u>167,691,678</u>
End of the year, net	385,088,693	391,237,258
Tax loss to be carried forward	158,579,982	215,150,729
Exclusion from temporary differences due to uncertainty of realization	<u>(543,668,675)</u>	<u>(606,387,987)</u>
Statutory tax rate	<u>27.5%</u>	<u>27.5%</u>
Deferred income tax assets from temporary differences and tax loss	-	-
Tax credit to be carried forward	36,037,622	30,173,727
Exclusion due to uncertainty of realization	<u>36,037,622</u>	<u>30,173,727</u>
Deferred income tax assets from tax credit	<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, which were excluded due to uncertainty of its realization as of December 31, 2007 and 2006, are as follows (Won in thousands):

<u>Descriptions</u>	<u>2007</u>	<u>2006</u>	<u>Maturity</u>
(Deductible temporary differences):	₩ 385,088,693	₩ 391,237,258	
(Tax loss to be carried forward):			
Occurrence in 2004	-	37,509,314	2009
Occurrence in 2005	70,199,710	111,246,200	2010
Occurrence in 2006	<u>88,380,272</u>	<u>66,395,215</u>	2011
	<u>158,579,982</u>	<u>215,150,729</u>	
(Tax credit to be carried forward)	<u>36,037,622</u>	<u>30,173,727</u>	
	<u>₩ 579,706,297</u>	<u>₩ 636,561,714</u>	

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

- (5) Temporary differences, which were excluded due to uncertainty of its realization as of December 31, 2007 and 2006, are as follows (Won in thousands):

Descriptions	2007	2006
(Additional temporary differences):	₩ -	₩ 356,196

- (6) Details of deferred tax assets deducted from accumulated other comprehensive income as of December 31, 2007 and 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	1,077	296	781	124,737	34,303	90,434

19. EARNINGS (LOSS) PER SHARE:

- (1) Basic earnings (loss) per share

Net income (loss) per share for the years ended December 31, 2007 and 2006 is computed by dividing net income (loss) with the weighted average number of common shares outstanding during the year (Won in thousands except for per share amounts):

	2007	2006
Net income (loss)	₩ 11,571,330	₩ (195,961,754)
Income (loss) after deducting the income tax effect	11,571,330	(195,961,754)
Weighted average number of common shares outstanding	<u>120,804,620</u>	<u>120,804,620</u>
Net income (loss) per share	<u>₩ 96</u>	<u>₩ (1,622)</u>

- (2) Diluted earnings (loss) per share

The Company has instruments due to issuance of convertible bonds that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the year ended December 31, 2007.

20. OTHER COMPREHENSIVE INCOME (LOSS):

Other comprehensive income (loss), which is excluded from net income for the years ended December 31, 2007 and 2006, are as follows (Won in thousands):

	2007	2006
Net income (loss)	₩ 11,571,330	₩ (196,961,754)
Other comprehensive income (loss):		
Unrealized gain (loss) on valuation of available for sale securities	(123,659)	46,153
Tax effect	34,006	(12,692)
Capital changes due to investment securities using the equity method	<u>147,391</u>	<u>(131,686)</u>
Comprehensive income (loss)	<u>₩ 11,629,068</u>	<u>₩ (196,059,979)</u>

21. RELATED PARTY TRANSACTIONS:

(1) The related parties as of December 31, 2007 are as follows:

- a. The name of group: SAIC Motor Corporation Limited (total 141 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 years ended December 31, 2007 and 2006 are as follows (Won in thousands):

Company	Sales		Purchases		Others	
	2007	2006	2007	2006	2007	2006
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ 880,345	₩ 333,109	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	18,649,917	-	-	-	-	206,701
Shanghai Automotive Industry Sales Co.	106,401,515	33,649,558	-	-	(399,948)	(654,177)
SAIC Motor Manufacturing Co., Ltd.	-	-	-	10,792	-	26,691,667
Shanghai Automotive Import & Export Co	-	14,866,146	-	-	-	-
Ssangyong European Parts Center B.V	16,151,252	-	-	-	-	-
SAIC Motor Co., Ltd.	23,965	-	-	-	29,936,248	-
SAIC Motor Korea	-	-	10,075	-	(9,159)	-
	<u>₩ 141,226,649</u>	<u>₩ 48,515,704</u>	<u>₩ 890,420</u>	<u>₩ 343,901</u>	<u>₩ 29,527,141</u>	<u>₩ 26,244,191</u>

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

	Trade receivables		Other receivables		Trade payables		Advances from customers		Other payables	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Ssangyong Motor (Shanghai) Co., Ltd.	₩ -	₩ -	₩ -	₩ -	₩ 37,648	₩ -	₩ -	₩ -	₩ -	₩ -
Shanghai Huizhong Automobile Manufacturing Co., Ltd.	-	-	368,226	368,345	-	-	-	-	-	-
Shanghai Automotive Industry Sales Co.	696,189	5,633	-	-	-	-	10,185	-	631,867	257,404
Ssangyong European Parts Center B.V.	12,035,722	-	-	-	-	-	870,206	-	-	-
SAIC Motor Corporation Limited	-	-	13,789,967	-	-	-	-	-	-	-
	<u>₩ 12,731,911</u>	<u>₩ 5,633</u>	<u>₩ 14,158,193</u>	<u>₩ 368,345</u>	<u>₩ 37,648</u>	<u>₩ -</u>	<u>₩ 880,391</u>	<u>₩ -</u>	<u>₩ 631,867</u>	<u>₩ 257,404</u>

(4) For the year ended December 31, 2007, the compensation to the Company's key management mainly consists of salaries of ₩1,176,528 thousand and provision for severance indemnities of ₩222,069 thousand.

22. COMMITMENTS AND CONTINGENCIES:

(1) Long-term supply contract

On October 4, 2006, the Company concluded a long-term supply contract with Public Joint Stock Company Severstal-auto (“SSA”) for the supply of Kyron and Actyon 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	2006.10 ~ 2011.12	Maximum: 79,000	₩ 1,320,667
Company Severstal-auto		Minimum: 63,200	1,056,533

(2) Technology transfer agreement

As of December 31, 2007, the Company has a technology transfer agreements with Daimler Chrysler AG and incurred royalties of ₩1,277,464 thousand and ₩1,505,378 thousand for the years ended December 31, 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 December 31, 2007, the Company has import usance agreements with 7 banks (including Shinhan Bank) with the credit limit of ₩194,207,400 thousand (US\$207,000,000).

(5) As of December 31, 2007, the Company has been provided a maximum credit limit amounting to ₩213,820 million and US\$100,000 thousand by KDB and 7 other banks.

(6) As of December 31, 2007, the Company has ₩5,215,204 thousand acceptances and guarantees related to subcontract transaction under guarantee of Seoul Guarantee Insurance.

(7) The Company recognized loss on disposal of trade receivables amounting to ₩46,308,461 thousand and ₩14,785,092 thousand for the year ended December 31, 2007 and 2006.

23. DERIVATIVES:

The Company has entered into derivatives contracts regarding the foreign exchange forward and currency option with Merrill lynch and others for the purpose of trading. For the year ended December 31, 2007, the gain on valuation of derivatives is ₩17,485,886 thousand and the loss on valuation of derivatives is ₩22,133,924 thousand. In addition, for the years ended December 31, 2007, the gain on settlement of derivatives is ₩5,305,742 thousand and the loss on settlement of derivatives is ₩8,995,798 thousand. The Company had settled the CMS Spread interest rate swap contract for the purpose of trading with KDB in 2006 and the loss on transaction of ₩2,073,322 thousand accrued in relation to the above swap in 2007.

Outstanding foreign exchange forward and currency option contracts as of December 31, 2007 are as follows (Won in thousands):

<Foreign exchange forward>

Bank	Description	Contract date	Maturity date	Purchase currency	Purchase amounts	Contract rate	Sold currency	Sold amount
Woori Bank	Forward	2007.04.16	2008.03.17	KRW	7,573,080	1,262.18	EUR	6,000,000
"	"	2007.07.05	2008.09.02	KRW	45,922,359	1,253.26	EUR	36,650,000
KDB	"	2007.04.30	2008.03.03	KRW	7,615,620	1,269.27	EUR	6,000,000
"	"	2007.07.11	2008.09.02	KRW	46,737,221	1,261.86	EUR	37,038,357
Shinhan Bank	"	2007.07.12	2008.09.02	KRW	45,369,270	1,260.42	EUR	36,000,000
"	"	2007.07.18	2008.09.02	KRW	47,224,830	1,260.42	EUR	37,300,000
"	"	2007.11.13	2008.03.03	KRW	5,744,690	910.5	USD	6,309,379
Barclays Bank	"	2007.07.04	2008.09.02	EUR	146,988,357	1,253.12	KRW	184,194,093

<Currency option contracts>

Bank	Description	Contract date	Maturity date	Contract currency	Contract amount	Contract rate
Merrill lynch	Option	2007.10.31	2008.12.29	USD	12,000,000	905.00
"	"	2007.12.03	2008.11.27	USD	12,000,000	922.20
"	"	2007.12.10	2008.11.27	USD	12,000,000	920.00
KDB	"	2007.11.02	2008.12.11	USD	12,000,000	910.00
"	"	2007.11.12	2008.12.15	USD	12,000,000	912.50
"	"	2007.11.16	2008.12.15	USD	12,000,000	920.00
Barclays Bank	"	2007.11.05	2008.12.15	USD	12,000,000	909.60
"	"	2007.11.07	2008.12.15	USD	12,000,000	914.00
"	"	2007.11.08	2008.12.15	USD	12,000,000	919.10
"	"	2007.11.13	2008.12.26	USD	12,000,000	916.20
Shinhan Bank	"	2007.11.13	2008.01.21	USD	1,178,032	922.05
"	"	2007.11.13	2008.01.31	USD	1,992,055	923.40
"	"	2007.11.13	2008.01.31	USD	996,725	923.40
"	"	2007.11.13	2008.03.03	USD	6,309,379	910.50

24. PENDING LITIGATIONS:

As of December 31, 2007, the Company is a plaintiff in 6 domestic litigations involving claims of ₩3,016,738 thousand and is a defendant in 18 domestic litigations involving claims of ₩2,814,141 thousand. Also, the Company is involved in 2 overseas litigations.

The main pending litigations as of December 31, 2007 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	710,000	Unpredictable
"	The Company	Individuals DND Inc.	579,680	Unpredictable
"	The Company	and others.	836,000	Unpredictable
"	The Company	FTC	985,000	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 ₩1,887,250 thousand.

25. STATEMENTS OF CASH FLOWS:

Non-cash transactions for the years ended December 31, 2007 and 2006 are as follows (Won in thousands):

Name of account	2007	2006
Transfer to property, plant and equipment from inventories	2,492,729	3,913,329
Transfer to development costs from inventories	778,002	-
Transfer to current portion of long-term loans	6,803,803	1,846,269
Transfer to buildings from other investments	-	-
Transfer to other investments from lands	-	2,022,321
Transfer to other investments from buildings	-	1,774,190
Transfer to other investments from structures	-	695,955
Transfer to other investments from machinery	57,149,917	2,701,312
Transfer to other investments from vehicles	49,016	7,616
Transfer to other investments from tools and equipment	166,590,463	797,871
Transfer to other investments from office equipment	2,913,845	7,242
Transfer to property, plant and equipment from machinery in transit	4,054,405	14,215,374
Transfer to real accounts from construction in progress	22,451,107	25,885,981
Transfer to equity securities using the equity method from AFS securities	835,695	-
Transfer to current portion of long-term debt	149,964,474	-

26. CONDENSED FINANCIAL INFORMATION FOR THE FOURTH QUARTER YEAR:

Condensed financial information for the fourth quarters of 2007 and 2006 (unaudited) is as follows (Won in thousands except for the net income per share):

	2007	2006
Sales	740,724,986	827,205,158
Gross profit	123,508,766	164,355,380
Net income (loss)	(13,326,267)	20,266,110
Net loss	(5,150,287)	(130,622,934)
Net loss per share	(43)	(1,081)

27. TRAINING:

Training expenses incurred for the years ended December 31, 2007 and 2006 are as follows (Won in thousands):

	2007	2006
Training outsourced	₩ 272,040	₩ 352,177
Other	2,629,597	1,856,848
	₩ 2,901,637	₩ 2,209,025

28. EMPLOYEE WELFARE:

The Company operates and provides cafeteria, medical room, scholarship, health insurance, paid vacation and other benefits for the welfare of its employees. The Company incurred ₩42,366,461 thousand and ₩44,226,325 thousand for employee welfare for the years ended December 31, 2007 and 2006, respectively.

29. SUPPLEMENTARY INFORMATIONS FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for the calculation of value added for the years ended December 31, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Labor cost and salaries	₩ 362,242,925	₩ 341,206,107
Provision for severance indemnities	35,559,404	35,696,095
Employee welfare	42,366,461	44,070,734
Rent	9,415,930	9,140,606
Depreciation	168,432,181	166,905,487
Taxes and dues	20,362,834	20,895,909
	<u>₩ 638,379,735</u>	<u>₩ 617,914,938</u>

30. SEGMENT INFORMATION:

Sales by region for the years ended December 31, 2007 and 2006 are as follows (Won in thousands):

	<u>2007</u>	<u>2006</u>
Domestic sales	₩ 1,708,000,258	₩ 1,690,155,627
Export sales:		
Europe	818,596,325	880,871,386
Asia	161,449,084	110,131,966
Others	228,286,357	158,004,517
Sub total	<u>1,208,331,766</u>	<u>1,149,007,869</u>
Other export sales:	<u>203,003,260</u>	<u>112,673,382</u>
Total sales	<u>₩ 3,119,335,284</u>	<u>₩ 2,951,836,878</u>

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

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Ssangyong Motor Company:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Ssangyong Motor Company (the "Company") as of December 31, 2007. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2007, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2007, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2007, and we did not review its IACS subsequent to December 31, 2007. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

February 13, 2008