

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
AND INDEPENDENT AUDITORS' REPORT**

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated balance sheets of Hyundai Motor Company (the "Company") and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries including Hyundai Motor America, which statements reflect total assets of ₩42,407,392 million (US\$45,618,967 thousand) and ₩22,393,490 million (US\$24,089,383 thousand) as of December 31, 2006 and 2005, respectively, and total revenues of ₩58,537,221 million (US\$62,970,332 thousand) and ₩33,279,134 million (US\$35,799,413 thousand) in 2006 and 2005, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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 standards 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, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Motor Company and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and changes in its shareholders' equity and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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

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

March 30, 2007

Notice to Readers

This report is effective as of March 30, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

<u>ASSETS</u>	<u>Korean Won</u>		<u>Translation into</u> <u>U. S. Dollars (Note 2)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
Current assets:				
Cash and cash equivalents (Notes 8 and 18)	₩ 3,730,007	₩ 4,397,808	\$ 4,012,486	\$ 4,730,861
Short-term financial instruments (Note 18)	3,144,765	4,399,626	3,382,923	4,732,816
Short-term investment securities (Note 4)	475,429	859,774	511,434	924,886
Trade notes and accounts receivable, less allowance for doubtful accounts of ₩201,154 million in 2006 and ₩219,056 million in 2005 (Notes 18 and 23)	4,981,565	4,327,963	5,358,826	4,655,726
Trade notes and accounts receivable - other (Notes 18 and 23)	422,800	730,771	454,819	786,113
Inventories (Notes 3, 8 and 18)	9,892,245	8,568,112	10,641,400	9,216,988
Deferred tax assets (Note 20)	716,700	549,520	770,977	591,136
Derivative assets (Note 26)	16,654	2,802	17,915	3,014
Advances and other current assets	<u>1,200,280</u>	<u>1,177,799</u>	<u>1,291,179</u>	<u>1,266,996</u>
Total current assets	<u>24,580,445</u>	<u>25,014,175</u>	<u>26,441,959</u>	<u>26,908,536</u>
Non-current assets:				
Long-term financial instruments	15,293	71,653	16,451	77,079
Long-term investment securities (Note 5)	2,002,651	2,346,863	2,154,315	2,524,594
Investment securities accounted for using the equity method (Notes 6 and 18)	1,578,401	1,620,167	1,697,936	1,742,865
Property, plant and equipment, net of accumulated depreciation of ₩8,348,614 million in 2006 and ₩9,891,942 million in 2005 (Notes 7, 8, 9 and 18)	23,491,593	21,448,039	25,270,647	23,072,331
Intangibles (Note 10)	2,612,350	2,330,122	2,810,187	2,506,586
Derivative assets (Note 26)	277,800	754,224	298,838	811,343
Deferred tax assets (Note 20)	440,525	553,021	473,887	594,902
Other assets (Note 11)	<u>881,232</u>	<u>884,074</u>	<u>947,968</u>	<u>951,026</u>
Total non-current assets	<u>31,299,845</u>	<u>30,008,163</u>	<u>33,670,229</u>	<u>32,280,726</u>
Other financial business assets (Notes 12 and 18)	<u>14,829,195</u>	<u>11,056,431</u>	<u>15,952,232</u>	<u>11,893,751</u>
Total assets	<u>₩ 70,709,485</u>	<u>₩ 66,078,769</u>	<u>\$ 76,064,420</u>	<u>\$ 71,083,013</u>

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HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2006 AND 2005

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Current liabilities:				
Short-term borrowings (Note 13)	₩ 11,639,322	₩ 11,855,332	\$ 12,520,785	\$ 12,753,154
Current maturities of long-term debt and debentures (Notes 7 and 14)	4,595,588	3,470,787	4,943,619	3,733,635
Trade notes and accounts payable (Note 23)	8,136,654	6,336,976	8,752,855	6,816,885
Trade notes and accounts payable-other	1,933,558	4,355,801	2,079,989	4,685,672
Accrued warranties (Note 15)	1,261,360	1,296,628	1,356,885	1,394,824
Income tax payable (Note 20)	391,564	141,868	421,218	152,612
Accrued expenses	1,666,514	1,309,111	1,792,722	1,408,252
Derivative liabilities (Note 26)	1,025	2,671	1,103	2,873
Deferred tax liabilities (Note 20)	3,744	6,451	4,028	6,940
Withholdings and other current liabilities	1,323,847	1,265,652	1,424,102	1,361,501
Total current liabilities	30,953,176	30,041,277	33,297,306	32,316,348
Long-term liabilities:				
Long-term debt and debentures, net of current maturities and discount on debentures issued (Notes 7 and 14)	12,782,922	10,576,104	13,750,992	11,377,048
Accrued severance benefits, net of National Pension payments for employees of ₩50,534 million in 2006 and ₩67,300 million in 2005, and individual severance insurance deposits of ₩1,851,478 million in 2006 and ₩1,893,603 in 2005 (Note 2)	1,118,365	1,054,688	1,203,060	1,134,561
Long-term account payable	655,892	600,827	705,564	646,329
Derivative liabilities (Note 26)	59,935	206,448	64,474	222,083
Long term accrued warranties (Note 15)	2,904,494	2,783,969	3,124,456	2,994,803
Provision for other liabilities	167,662	63,474	180,359	68,281
Deferred tax liabilities (Note 20)	255,825	173,677	275,199	186,830
Other long-term liabilities	750,779	464,144	807,636	499,294
Total long-term liabilities	18,695,874	15,923,331	20,111,740	17,129,229
Other financial business liabilities (Note 12)	94,462	286,329	101,616	308,013
Total liabilities	49,743,512	46,250,937	53,510,662	49,753,590

Commitments and contingencies (Note 25)

(Continued)

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2006 AND 2005

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Korean Won</u>		<u>Translation into</u> <u>U. S. Dollars (Note 2)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
Shareholders' equity:				
Capital stock (Note 16)	₩ 1,484,942	₩ 1,482,905	\$ 1,597,399	\$ 1,595,208
Capital surplus	5,679,998	5,591,882	6,110,153	6,015,364
Retained earnings				
(Net income of ₩1,259,247 million in 2006 and				
₩2,445,207 million in 2005)	9,809,765	8,937,256	10,552,673	9,614,088
Capital adjustments (Note 17)	(1,004,586)	(902,197)	(1,080,665)	(970,522)
Minority interests	4,995,854	4,717,986	5,374,198	5,075,285
Total shareholders' equity	<u>20,965,973</u>	<u>19,827,832</u>	<u>22,553,758</u>	<u>21,329,423</u>
 Total liabilities and shareholders' equity	<u>₩ 70,709,485</u>	<u>₩ 66,078,769</u>	<u>\$ 76,064,420</u>	<u>\$ 71,083,013</u>

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions, except per share amounts)		(In thousands, except per share amounts)	
Sales (Notes 22, 23 and 24)				
Domestic sales	₩ 35,206,252	₩ 32,700,858	\$ 37,872,474	\$ 35,177,343
Export sales	<u>28,441,773</u>	<u>26,129,774</u>	<u>30,595,711</u>	<u>28,108,621</u>
	<u>63,648,025</u>	<u>58,830,632</u>	<u>68,468,185</u>	<u>63,285,964</u>
Cost of sales (Notes 23 and 24)	<u>50,238,257</u>	<u>45,952,958</u>	<u>54,042,875</u>	<u>49,433,044</u>
Gross profit	13,409,768	12,877,674	14,425,310	13,852,920
Selling and administrative expenses (Note 19)	<u>11,613,078</u>	<u>10,583,368</u>	<u>12,492,554</u>	<u>11,384,863</u>
Operating income	<u>1,796,690</u>	<u>2,294,306</u>	<u>1,932,756</u>	<u>2,468,057</u>
Other income (expenses), net:				
Interest expense, net	(253,155)	(104,457)	(272,327)	(112,368)
Gain on foreign exchange translation, net	213,561	122,422	229,734	131,693
Gain on foreign exchange, net	81,596	170,461	87,775	183,370
Gain on valuation of investment securities accounted for using the equity method, net	292,089	538,773	314,209	579,575
Gain on valuation of investment securities	250	182,059	269	195,847
Gain on disposal of investment accounted for using the equity method	38,606	73	41,530	79
Gain on disposal of short-term investment securities, net	17,624	123,461	18,959	132,811
Gain on disposal of long-term investment securities, net	195,922	34,569	210,759	37,187
Gain (loss) on valuation of derivatives, net	(467,578)	390,901	(502,988)	420,505
Loss on disposal of trade note and account receivables	(222,528)	(173,744)	(239,380)	(186,902)
Loss on disposal of property, plant and equipment, net	(48,537)	(261,612)	(52,213)	(281,424)
Rental and royalty income	297,589	346,598	320,126	372,846
Reversal of loss (loss) on impairment of investments	(72,114)	57,835	(77,575)	62,215
Impairment loss on property, plant and equipment	(56,379)	(25)	(60,649)	(27)
Impairment loss on intangibles	(25,026)	(7,859)	(26,921)	(8,454)
Other, net	<u>238,527</u>	<u>(323,703)</u>	<u>256,591</u>	<u>(348,218)</u>
	<u>230,447</u>	<u>1,095,752</u>	<u>247,899</u>	<u>1,178,735</u>

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HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions, except per share amounts)		(In thousands, except per share amounts)	
Ordinary income	₩ 2,027,137	₩ 3,390,058	\$ 2,180,655	\$ 3,646,792
Income tax expense (Note 20)	<u>715,902</u>	<u>449,066</u>	<u>770,118</u>	<u>483,074</u>
Income before minority interests	1,311,235	2,940,992	1,410,537	3,163,718
Minority interests	<u>51,988</u>	<u>495,785</u>	<u>55,925</u>	<u>533,332</u>
Net income	<u>₩ 1,259,247</u>	<u>₩ 2,445,207</u>	<u>\$ 1,354,612</u>	<u>\$ 2,630,386</u>
Earnings per common share (Note 2)	<u>₩ 5,737</u>	<u>₩ 11,275</u>	<u>\$ 6.17</u>	<u>\$ 12.13</u>
Earnings per common share-assuming dilution (Note 2)	<u>₩ 5,715</u>	<u>₩ 11,219</u>	<u>\$ 6.15</u>	<u>\$ 12.07</u>

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won					Total amount	Translation into
	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interests		U.S. Dollars (Note 2)
	(In millions)						Total amount (In thousands)
January 1, 2005	₩1,480,752	₩5,162,184	₩6,328,355	₩ (216,453)	₩4,000,714	₩ 16,755,552	\$ 18,024,475
Stock option exercised	2,153	8,209	-	-	-	10,362	11,147
Disposal of subsidiaries' stock	-	225,459	-	-	286,361	511,820	550,581
Increase in subsidiaries' capital-stock	-	(417)	-	-	89,285	88,868	95,598
Effect of changes in consolidation scope	-	-	-	-	314,220	314,220	338,016
Payment of cash dividends (Note 21)	-	-	(326,833)	-	(78,051)	(404,884)	(435,546)
Net income	-	-	2,445,207	-	-	2,445,207	2,630,386
Effect of beginning balance adjustment in accrued warranties	-	-	505,626	-	-	505,626	543,918
Treasury stock	-	-	-	(645,351)	-	(645,351)	(694,224)
Discount on stock issuance	-	-	-	1,556	-	1,556	1,674
Gain on valuation of available-for-sale securities	-	-	-	(84,821)	-	(84,821)	(91,245)
Loss on valuation of investment equity securities	-	-	-	88,928	-	88,928	95,663
Stock options	-	-	-	(4,602)	-	(4,602)	(4,951)
Cumulative translation debits	-	-	-	(78,917)	-	(78,917)	(84,894)
Loss on transaction of derivatives	-	-	-	37,463	-	37,463	40,300
Minority interests	-	-	-	-	495,785	495,785	533,332
Others	-	196,447	(15,099)	-	(390,328)	(208,980)	(224,807)
December 31, 2005	<u>₩1,482,905</u>	<u>₩5,591,882</u>	<u>₩8,937,256</u>	<u>₩ (902,197)</u>	<u>₩4,717,986</u>	<u>₩ 19,827,832</u>	<u>\$ 21,329,423</u>

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HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won					Translation into U.S. Dollars (Note 2)	
	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interests	Total amount	Total amount
	(In millions)					(In thousands)	
January 1, 2006	₩1,482,905	₩5,591,882	₩8,937,256	₩ (902,197)	₩4,717,986	₩ 19,827,832	\$ 21,329,423
Stock option exercised	2,037	13,552	-	-	-	15,589	16,770
Disposal of subsidiaries' stock	-	8,559	-	-	50,775	59,334	63,827
Increase in subsidiaries' capital-stock	-	-	-	-	306,509	306,509	329,721
Effect of changes in consolidation scope	-	-	-	-	(3,100)	(3,100)	(3,335)
Payment of cash dividends (Note 21)	-	-	(342,310)	-	(70,007)	(412,317)	(443,542)
Net income	-	-	1,259,247	-	-	1,259,247	1,354,612
Effect of beginning balance adjustment in accrued warranties	-	-	-	-	-	-	-
Effect of changes in retained earnings of subsidiaries	-	-	(57,180)	-	-	(57,180)	(61,510)
Treasury stock	-	3,832	-	27,376	-	31,208	33,571
Discount on stock issuance	-	-	-	2,026	-	2,026	2,179
Loss on valuation of available-for-sale securities	-	-	-	(158,623)	-	(158,623)	(170,636)
Loss on valuation of investment equity securities	-	-	-	206,951	-	206,951	222,624
Stock options	-	-	-	(5,257)	-	(5,257)	(5,655)
Cumulative translation debits	-	-	-	(162,557)	-	(162,557)	(174,868)
Loss on transaction of derivatives	-	-	-	(12,305)	-	(12,305)	(13,237)
Minority interests	-	-	-	-	51,988	51,988	55,925
Others	-	62,173	12,752	-	(58,297)	16,628	17,889
December 31, 2006	<u>₩1,484,942</u>	<u>₩5,679,998</u>	<u>₩9,809,765</u>	<u>₩(1,004,586)</u>	<u>₩4,995,854</u>	<u>₩ 20,965,973</u>	<u>\$ 22,553,758</u>

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Cash flows from operating activities:				
Net income	₩ 1,259,247	₩ 2,445,207	\$ 1,354,612	\$ 2,630,386
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	2,317,028	2,085,629	2,492,500	2,243,577
Amortization of intangibles	661,183	413,240	711,255	444,535
Bad debt expenses	324,855	633,394	349,457	681,362
Gain on foreign exchange translation, net	(208,230)	(122,674)	(224,000)	(131,964)
Gain on valuation of investment securities accounted for using the equity method, net	(191,567)	(450,720)	(206,075)	(484,854)
Gain on disposal of investment securities accounted for using the equity method	(38,606)	(73)	(41,530)	(79)
Loss (gain) on valuation of derivatives, net	467,578	(390,901)	502,988	(420,505)
Loss on disposal of trade notes and accounts receivable	222,528	173,744	239,380	186,902
Loss on disposal of property, plant and equipment, net	48,537	261,612	52,213	281,424
Gain on disposal of short-term investment securities, net	(17,624)	(123,461)	(18,959)	(132,811)
Gain on disposal of long-term investment securities, net	(195,922)	(34,569)	(210,759)	(37,187)
Gain on valuation of investment securities	(250)	(182,059)	(269)	(195,847)
Provision for severance benefits	734,090	616,320	789,684	662,995
Amortization of discount on debentures	24,528	26,815	26,386	28,846
Impairment loss on intangibles	25,026	7,859	26,921	8,454
Provision for accrued warranties	583,778	634,214	627,988	682,244
Loss (reversal of loss) on impairment of investment securities	72,114	(57,835)	77,575	(62,215)
Impairment loss on property, plant and equipment	56,379	25	60,649	27
Minority interests, gain	51,988	495,785	55,925	533,332
Other	44,016	52,595	47,350	56,579

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HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Cash flows from operating activities:				
Changes in operating assets and liabilities:				
Increase in trade notes and accounts receivable	₩ (1,291,836)	₩ (1,424,044)	\$ (1,389,669)	\$ (1,531,889)
Decrease (increase) in trade notes and accounts receivable - other	336,090	(37,293)	361,543	(40,117)
Increase in inventories	(1,336,088)	(1,217,301)	(1,437,272)	(1,309,489)
Increase in advances and other current assets	(6,922)	(280,761)	(7,447)	(302,024)
Increase in deferred tax assets	(60,406)	(68,456)	(64,981)	(73,640)
Increase (decrease) in trade notes and accounts payable	1,790,118	(37,992)	1,925,686	(40,869)
Increase (decrease) in accounts payable-other	(2,034,784)	1,961,992	(2,188,881)	2,110,577
Increase (decrease) in income tax payable	244,671	(377,042)	263,200	(405,596)
Increase in accrued expenses	371,649	291,014	399,795	313,053
Increase (decrease) in deferred tax liabilities	88,602	(56,777)	95,312	(61,077)
Increase in withholding and other current liabilities	53,974	491,193	58,062	528,392
Decrease in accrued warranties	(498,521)	(813,406)	(536,275)	(875,006)
Payment of severance benefits	(728,662)	(423,551)	(783,845)	(455,627)
Decrease (increase) in individual severance insurance deposits	41,951	(168,724)	45,128	(181,502)
Other	15,757	115,102	16,952	123,818
	<u>3,226,269</u>	<u>4,438,101</u>	<u>3,470,599</u>	<u>4,774,205</u>
Cash flows from investing activities:				
Cash inflows from investing activities:				
Proceeds from withdrawal of short-term financial instruments	4,911,028	1,796,383	5,282,948	1,932,426
Proceeds from disposal of short-term investment securities	791,134	4,503,359	851,048	4,844,405
Proceeds from disposal of long-term investment securities	1,366,787	995,006	1,470,296	1,070,359
Proceeds from disposal of investment securities accounted for using the equity method	145,641	-	156,671	-
Proceeds from disposal of property, plant and equipment	238,122	211,995	256,155	228,050
Reduction in other current assets	20,004	130,255	21,519	140,119
Reduction in other assets	410,602	302,506	441,696	325,416
	<u>7,883,318</u>	<u>7,939,504</u>	<u>8,480,333</u>	<u>8,540,775</u>

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HYUNDAI MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Cash flows from investing activities:				
Cash outflows from investing activities:				
Purchase of short-term financial instruments	₩ (3,603,095)	₩ (4,837,001)	\$ (3,875,963)	\$ (5,203,314)
Acquisition of short-term investment securities	(384,036)	(337,822)	(413,120)	(363,406)
Acquisition of long-term investment securities	(1,493,177)	(672,992)	(1,606,258)	(723,959)
Acquisition of investment securities using the equity method	(284,663)	(100,009)	(306,221)	(107,583)
Acquisition of property, plant and equipment	(3,869,386)	(3,892,069)	(4,162,420)	(4,186,821)
Expenditures for development costs	(824,966)	(858,864)	(887,442)	(923,907)
Additions to other current assets	(33,832)	(129,517)	(36,394)	(139,326)
Increase in other financial business assets	(3,984,502)	(4,185,242)	(4,286,254)	(4,502,197)
Decrease in other financial business liabilities	(191,867)	(8,743)	(206,397)	(9,405)
Additions to other assets	(552,012)	(231,735)	(593,816)	(249,284)
	<u>(15,221,536)</u>	<u>(15,253,994)</u>	<u>(16,374,285)</u>	<u>(16,409,202)</u>
	<u>(7,338,218)</u>	<u>(7,314,490)</u>	<u>(7,893,952)</u>	<u>(7,868,427)</u>
Cash flows from financing activities:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	24,621,505	23,583,562	26,486,128	25,369,580
Proceeds from disposal of treasury stocks	-	53,617	-	57,677
Paid in capital increase	271,825	6,413	292,411	6,899
Increase in debenture	4,703,246	5,738,594	5,059,430	6,173,186
Proceeds from long-term borrowings	3,162,505	1,095,623	3,402,006	1,178,596
Others	544,003	853,372	585,201	917,999
	<u>33,303,084</u>	<u>31,331,181</u>	<u>35,825,176</u>	<u>33,703,937</u>
Cash outflows from financing activities:				
Repayment of short-term borrowings	(24,837,515)	(21,720,920)	(26,718,497)	(23,365,878)
Repayment of debenture	(201,303)	(446,570)	(216,548)	(480,389)
Payment of cash dividends	(381,613)	(404,080)	(410,513)	(434,682)
Purchase of treasury stock	-	(660,654)	-	(710,686)
Repayment of long-term debt	(4,358,241)	(4,100,478)	(4,688,297)	(4,411,013)
Others	(91,670)	(115,479)	(98,612)	(124,224)
	<u>(29,870,342)</u>	<u>(27,448,181)</u>	<u>(32,132,467)</u>	<u>(29,526,872)</u>
	<u>3,432,742</u>	<u>3,883,000</u>	<u>3,692,709</u>	<u>4,177,065</u>
Effect of exchange rate on cash and cash equivalents, beginning of year	<u>(42,514)</u>	<u>(53,272)</u>	<u>(45,734)</u>	<u>(57,306)</u>
Effect of change in consolidated subsidiaries	<u>53,920</u>	<u>256,515</u>	<u>58,003</u>	<u>275,941</u>
Net increase (decrease) in cash and cash equivalents	(667,801)	1,209,854	(718,375)	1,301,478
Cash and cash equivalents, beginning of year	<u>4,397,808</u>	<u>3,187,954</u>	<u>4,730,861</u>	<u>3,429,383</u>
Cash and cash equivalents, end of year	<u>₩ 3,730,007</u>	<u>₩ 4,397,808</u>	<u>\$ 4,012,486</u>	<u>\$ 4,730,861</u>

See accompanying notes to consolidated financial statements.

HYUNDAI MOTOR COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. GENERAL INFORMATION:

The Company

Hyundai Motor Company (the "Company") was incorporated in 1967, under the laws of the Republic of Korea, to manufacture and distribute motor vehicles and parts.

The Company owns and operates three principal automobile production bases in Korea: the Ulsan factory, the Asan factory and the Jeonju factory. In addition, the Company has invested in three overseas manufacturing plants including Hyundai Motor Manufacturing Alabama, LLC (HMMA) as well as nine overseas sales and R&D subsidiaries including Hyundai Motor America (HMA).

The shares of the Company have been listed on the Korea Stock Exchange since 1974 and the Global Depositary Receipts issued by the Company have been listed on the London Stock Exchange and Luxemburg Stock Exchange.

As of December 31, 2006, the major shareholders of the Company are Hyundai MOBIS (15.00%), Hyundai Steel (5.86%) and Chung, Mong Koo (5.19%).

Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Company and its consolidated domestic and foreign subsidiaries over which the Company has substantial control and whose individual beginning balance of total assets or paid-in capital at the date of its establishment is more than ₩7,000 million (US\$7,530 thousand). The consolidated subsidiaries as of December 31, 2006 are as follows:

Subsidiaries	Nature of business	Shareholders' equity as of December 31, 2006		Shares (*2)	Percentage ownership (*2)	Indirect ownership (*2)
		Korean Won (*1) (In millions)	Translation into U.S. Dollars (Note 2) (In thousands)			
DOMESTIC SUBSIDIARIES:						
Kia Motors Corporation (KIA)	Manufacturing	5,247,756	5,645,176	138,654,181	39.93%	HCS - 1.26%
Hyundai Capital Service Inc. (HCS)	Financing	1,178,068	1,267,285	56,083,743	56.48%	
Hyundai HYSKO	Manufacturing	993,058	1,068,264	32,108,868	40.04%	KIA - 13.91%
Hyundai Card Co., Ltd.	Credit card	830,694	893,604	68,994,329	45.39%	KIA - 12.12%
ROTEM	Manufacturing	470,297	505,913	36,852,432	57.64%	
Hyundai Autonet Co., Ltd. (Autonet)	~	454,339	488,747	59,522,178	25.68%	KIA - 8.91%
WIA Corporation (WIA)	~	442,492	476,003	17,120,611	78.79%	KIA - 39.33%
Hyundai Powertech	~	302,464	325,370	48,000,000	100.00%	KIA - 50.00%
Dymos Inc. (DYMOS)	~	245,783	264,397	29,335,805	97.76%	KIA - 45.37% & WIA - 5.12%
KEFICO Corporation	~	232,273	249,863	1,670,000	50.00%	
Autoever Systems Corp.	Information technology	46,206	49,705	499,000	49.90%	KIA - 20.00%
Partecs Co.	Manufacturing	39,761	42,772	6,960,000	87.00%	KIA - 31.00%
Mseat Co., Ltd.	~	38,160	41,050	998,140	99.81%	DYMOS - 99.81%
METIA Co., Ltd.	~	21,377	22,996	2,983,880	99.47%	WIA - 50.94% & DYMOS - 48.53%
Mando Map & Soft Co., Ltd.	Software consultancy and supply	11,848	12,745	2,127,815	51.64%	Autonet - 25.82%
Haevichi Resort	Hotel operation	10,399	11,187	2,015,000	65.00%	KIA - 40.00% & WIA - 25.00%

Subsidiaries	Nature of business	Shareholders' equity as of December 31, 2006		Shares (*2)	Percentage ownership (*2)	Indirect ownership (*2)
		Translation into				
		Korean Won (*1) (In millions)	U.S. Dollars (Note 2) (In thousands)			
Chasan Co., Ltd. (Chasan)	Golf course operation	(4,719)	(5,076)	1,350,000	45.00%	KIA - 15.00%
Automobile Industrial Ace Corporation	Manufacturing	(5,653)	(6,081)	3,116,662	100.00%	WIA - 100%
Haevichi Country Club Co., Ltd.	Golf course operation	(24,263)	(26,100)	1,000,000	100.00%	Chasan - 100%
FOREIGN SUBSIDIARIES:						
Hyundai Motor America (HMA)	Sales	1,300,277	1,398,749	1,150	100.00%	
Hyundai Motor Manufacturing Alabama, LLC (HMMA)	Manufacturing	531,382	571,624	-	100.00%	HMA - 100%
Hyundai Motor India (HMI)	Manufacturing	521,227	560,700	8,125,411	100.00%	
Hyundai Motor Finance Company (HMFC)	Financing service	459,374	494,163	750	100.00%	HMA - 100%
Beijing Mobis Transmission Co., Ltd. (BMT)	Manufacturing	109,684	117,991	-	68.04%	KIA - 24.48% & HMGC - 19.88%
Hyundai Translead (HT)	Sales	55,031	59,199	1,160,000	100.00%	
Hyundai Motor Europe Technical Center GmbH (HMETC)	R & D	51,469	55,367	-	100.00%	
Hyundai Motor Manufacturing Czech,s.r.o. (HMMC)	Manufacturing	48,589	52,269	-	100.00%	
Hyundai Motor Company Australia (HMCA)	Sales	42,114	45,303	14,309,000	100.00%	
Hyundai Motor Group (China) Ltd. (HMGC)	Investment	29,104	31,308	-	80.00%	KIA - 30.00%
Hyundai Motor Europe GmbH (HME)	Sales	25,030	26,926	-	100.00%	
China Millennium Corporations (CMEs)	Real estate development	23,268	25,030	-	89.90%	KIA - 30.30%
Beijing Hines Millennium Real Estate Development		23,268	25,030	-	99.00%	CMEs - 99.00%
Hyundai America Technical Center Inc. (HATCI)	R & D	17,837	19,188	1,000	100.00%	
Hyundai Motor Poland Sp. Zo.O (HMP)	Sales	14,677	15,789	172,862	100.00%	
World Marketing Group LLC (WMG)	Marketing	14,090	15,157	-	100.00%	HMA - 50.00% & KMA - 50.00%
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S. (HAOSVT)	Manufacturing	9,965	10,720	144,354,180,656	70.00%	
Hyundai Motor Norway (HMN)	Sales	6,744	7,255	-	100.00%	
Hyundai Information Service North America (HISNA)	Information technology	5,902	6,349	-	100.00%	HMA - 50.00% & KMA - 50.00%
Hyundai Jingxian Motor Safeguard Service Co. Ltd. (HJMSS)	Investment	4,407	4,741	-	91.75%	
Hyundai Auto Canada Captive Insurance Incorporation (HACCII)	Insurance	2,847	3,063	100	100.00%	HMA - 100%
Hyundai Motor Hungary (HMH)	Sales	2,410	2,593	-	100.00%	
Sevenwood Property Inc.	Real estate rent	955	1,027	4,088,071	100.00%	HMA - 100%
Hyundai Motor (UK) Ltd. (HMUK)	Sales	(3,924)	(4,221)	20,000,000	100.00%	
Stampsted Metal America Research Technology Inc. (SMARTI)	Managing subsidiaries	(16,050)	(17,265)	18,542,284	72.45%	HMA - 72.45%
Stampsted Metal America Research Technology LLC	Manufacturing	(16,050)	(17,265)	-	100.00%	SMARTI - 100%
Hyundai Motor Japan Co. (HMJ)	Sales	(42,355)	(45,563)	80,000	100.00%	
Kia Motors Slovakia S.r.o. (KMS)	Manufacturing	388,179	417,576	100	100.00%	KME - 100%
Dong Feng Yueda Kia Motor Co., Ltd.	Manufacturing	272,269	292,888	-	50.00%	KIA - 50.00%
Kia Motors Europe GmbH (KME)	Managing subsidiaries	103,326	111,151	-	100.00%	KIA - 100%
Kia Motors America Inc. (KMA)	Sales	32,066	34,494	1,000,000	100.00%	KIA - 100%
Kia Japan Co., Ltd. (KJC)	Sales	17,985	19,347	267,800	100.00%	KIA - 100%

Subsidiaries	Nature of business	Shareholders' equity as of December 31, 2006		Shares (*2)	Percentage ownership (*2)	Indirect ownership (*2)
		Translation into				
		Korean Won (*1)	U.S. Dollars (Note 2)			
		(In millions)	(In thousands)			
Kia Motors Sales Slovensko s.r.o. (KMSS)	~	2,854	3,070	-	100.00%	KME - 100%
Kia Motors Czech s.r.o. (KMCZ)	~	2,696	2,900	106,870,000	100.00%	KME - 100%
Kia Motors Australia Pty. Ltd. (KMAU)	~	1,569	1,688	-	100.00%	KIA - 100%
Kia Motors New Zealand Ltd. (KMNZ)	~	(1,958)	(2,106)	-	100.00%	KMAU - 100%
Kia Motors Hungary Kft (KMH)	~	(4,258)	(4,580)	30,000,000	100.00%	KME - 100%
Kia Motors Sweden AB (KMSW)	~	(6,445)	(6,933)	4,400,000	100.00%	KME - 100%
Kia Motors Austria GmbH (KMAS)	~	(9,585)	(10,311)	2,107,512	100.00%	KME - 100%
Kia Motors Polska Sp.z.o.o. (KMP)	~	(9,930)	(10,682)	15,637	99.60%	KMD - 99.60%
Kia Motors Belgium (KMB)	~	(19,661)	(21,150)	1,000,000	100.00%	KME - 100%
Kia Motors Iberia (KMIB)	~	(55,714)	(59,933)	31,600,000	100.00%	KME - 100%
Kia Canada, Inc. (KCI)	~	(67,386)	(72,489)	6,298	100.00%	KIA - 82.50% & KMA - 17.50%
Kia Automobiles France (KMF)	~	(70,594)	(75,940)	5,000,000	100.00%	KME - 100%
Kia Motors Deutschland GmbH (KMD)	~	(98,714)	(106,190)	-	100.00%	KIA - 100%
Kia Motors (UK) Ltd. (KMUK)	~	(141,720)	(152,453)	17,000,000	100.00%	KME - 100%
Wia Automotive Engine (Shandong) Company	Manufacturing	32,749	35,229	-	70.00%	KIA - 18.00% & WIA - 30.00%
Wia Automotive Parts (WAP)	~	22,829	24,558	-	100.00%	WIA - 100%
Beijing Hyundai Hysco Steel Process Co., Ltd.	~	22,800	24,527	-	100.00%	HYSCO - 100%
Hyundai-Kia Machine Europe GmbH (HKME)	~	12,726	13,690	-	100.00%	WIA - 100%
Jiangsu Hysco Steel Process. Co. Ltd	~	9,494	10,213	-	90.00%	HYSCO - 90.00%
Hysco Slovakia, s.r.o.	~	8,682	9,340	-	100.00%	HYSCO - 100%
Hyundai de Mexico, S.A. de C.V. (HYMEX)	~	8,124	8,739	9,996	99.96%	HT - 99.96%
Hyundai-Hitech Electronics	~	8,097	8,710	-	100.00%	Autonet - 100%
Hyundai Hysco USA, Inc. (formerly Hyundai Pipe of America, Inc.)	~	7,137	7,677	250,000	100.00%	HYSCO - 100%
Hysco America Co. Inc	~	6,713	7,221	1,000	100.00%	HYSCO - 100%
Hyundai-Kia Machine America Corp. (HKMA)	~	4,420	4,755	1,000	100.00%	WIA - 100%

(*1) Local currency in foreign subsidiaries is translated into Korean won using the Base Rate announced by Seoul Money Brokerage Services, Ltd. at December 31, 2006.

(*2) Shares and ownership are calculated by combining the shares and ownership, which the Company and its subsidiaries hold as of December 31, 2006. Indirect ownership represents subsidiaries' holding ownership.

In 2006, the Company added three domestic companies; Mando Map & Soft Co., Ltd., Chasan Co., Ltd. and Haevichi Country Club Co., Ltd., and eleven overseas companies: Hyundai Motor Manufacturing Czech, s.r.o. (HMMC), Wia Automotive Engine (Shandong) Company, Jiangsu Hysco Steel Process. Co. Ltd., Hysco Slovakia, s.r.o., Hyundai-Hitech Electronics, Hyundai Motor Norway (HMN), Hyundai Information Service North America (HISNA), Kia Motors Sales Slovensko s.r.o. (KMSS), Hyundai Motor Hungary (HMH), Kia Motors Australia Pty. Ltd (KMAU) and Kia Motors New Zealand Ltd. (KMNZ), to its consolidated subsidiaries due to the acquisition of ownership enabling the Company and its subsidiaries to exercise substantial control or the increase in individual assets at the end of the preceding year exceeding the required level of ₩7,000 million (US\$7,530 thousand) for consolidation with substantial control. In addition, as Bontec Co., Ltd. was merged to Hyundai Autonet Co., Ltd. in 2006 and Haevichi Leisure Co., Ltd. was under the liquidation procedure as of December 31, 2006, both companies were excluded from consolidated subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidated Financial Statement Presentation

The Company maintains its official accounting records in Korean Won and prepares statutory consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English 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 and its subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

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

The Company prepared its consolidated financial statements as of December 31, 2006 in accordance with accounting principles generally accepted in the Republic of Korea. The significant accounting policies followed by the Company in the preparation of its consolidated financial statements as of December 31, 2006 are identical to those as of December 31, 2005, except for the adoption of the additional Statements of Korea Accounting Standards ("SKAS") No.18 - "Interests in Joint Ventures", No.19 - "Lease" and No.20 - "Related Party Disclosures", which were effective from January 1, 2006.

The Company early applied the written opinion for applying Accounting Standards No. 06-2 - "Recognition of deferred tax related to investments in subsidiaries, associates, and interests in joint ventures", issued on December 29, 2006, effective January 1, 2007 and early application is permitted, and restated the comparative financial statement as of December 31, 2005 to conform to the opinion No.06-2.

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

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its subsidiaries. Under financial accounting standards for consolidated financial statements in the Republic of Korea, a company is regarded as a subsidiary of another company if more than 50% of its issued share capital is held by the other company, or more than 30% of its issued share capital is held by the other company and that company is the largest shareholder, or substantially controlled by the other company. Investments of 20% to 50% in affiliated companies or investments in affiliated companies over which the Company exerts a significant influence are accounted for using the equity method. Under the equity method, the original investment is recorded at cost and adjusted by the Company's share on the undistributed earnings or losses of these companies.

The fiscal year of the consolidated subsidiaries is the same as that of the Company. Differences in accounting policy between the Company and consolidated subsidiaries are adjusted in the consolidation.

Investments and equity accounts of subsidiaries were eliminated at the dates the Company obtained control of the subsidiaries. The difference between the cost of acquisition and the book value of the subsidiary is amortized using the straight-line method within twenty years (five years for goodwill recognized before 1998) from the year the acquisition occurred or reversed over the remaining weighted average useful life of the identifiable acquired depreciable assets for negative goodwill using the straight-line method.

When the Company acquires additional interests in a subsidiary after obtaining control over the subsidiary, the difference between incremental price paid by the Company and the amount of incremental interest in the shareholders' equity of the subsidiary is reflected in the consolidated capital surplus. In case a subsidiary still belongs to a consolidated economic entity after the Company disposes a portion of the stocks of subsidiaries to non-subsidiary parties, gain or loss on disposal of the subsidiary's stock is accounted for as consolidated capital surplus.

Profits and losses on inter-company sales of products, property or other assets are eliminated in the consolidated financial statements based on the gross profit or loss recognized. Unrealized gains and losses arising from sales by a controlling company to its subsidiary (downstream sales) are eliminated entirely and charged (credited) to controlling interest, and unrealized gains and losses arising from sales by a subsidiary to its controlling company or from transactions among subsidiaries (upstream sales) are eliminated entirely and allocated to controlling interest and minority interest.

Minority interest is the part of net operation results and net assets of a subsidiary other than controlling interest. When net loss attributable to minority shareholders exceeds the minority interest, the excess is charged to the equity of the controlling company. When the subsidiary subsequently generates income, such income is added to the equity of the controlling company until the minority interest net loss charged to the controlling company has been fully recovered.

Revenue Recognition

Sales of goods is recognized at the time of shipment only if it meets the conditions that significant risks and rewards of ownership of the goods have been transferred to the customer, and neither continuing managerial involvement nor effective control over the goods sold is retained. Revenue arising from rendering of services is generally recognized by the percentage-of-completion method at the balance sheet date. In addition, revenue arising from interest, dividends or royalties is recognized when it is probable that future economic benefits will flow into the Company and those benefits can be measured reliably.

In the case of subsidiaries in financial business, interest revenues earned on financial assets are recognized as time passes using the level yield method, and fees and commissions in return for services rendered are recognized as services are provided.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of receivables.

Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the moving average method, except for materials in transit for which cost is determined using the specific identification method. Valuation loss incurred when the market value of an inventory falls below its carrying amount is added to the cost of goods sold.

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 short-term investment securities, whereas available-for-sale and held-to-maturity securities are classified as long-term investment securities, 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 short-term investment securities.

Valuation of Securities

Investments in securities are initially measured at cost, which consists of the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis for measurement. If neither the market price 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 valued at amortized cost. The difference between their acquisition costs and face values 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 holding gains or losses recognized in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sales securities that are not traded in an active market and whose fair value cannot be reliably measured are valued at cost.

If the estimated recoverable amount of securities is less than the acquisition cost of equity securities or amortized cost of debt securities and any objective evidence for such impairment loss exists, impairment loss is recognized in current operations in the period when it arises.

The lower of the fair value of treasury stock included in treasury stock fund and the fair value of investments in treasury stock funds is accounted for as treasury stock in capital adjustment.

Investment Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The Company's share in the net income or net loss of investees is reflected in current operations. The changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings, to capital surplus or to capital adjustments.

The difference between the cost of the investment and the investor's share of the net fair value of the investee's identifiable assets and liabilities at the date of acquisition is amortized over 20 years for goodwill or reversed over the remaining weighted average useful life of the identifiable acquired depreciable assets for negative goodwill, using the straight-line method.

The Company's portion of profits and losses resulting from inter-company transactions that are recognized in assets, such as inventories and fixed assets, are eliminated and charged to equity securities accounted for using the equity method.

If an investor's share of losses of an investee equals or exceeds its interest in investee, the investor discontinues recognizing its share of further losses. If the investee subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized. Also, if the recoverable amount of investments in investee becomes less than its carrying amount, the Company recognizes impairment loss.

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are stated 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 increase of future economic benefits such as the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment.

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

	<u>Useful lives (years)</u>
Buildings and structures	2 – 60
Machinery and equipment	2 – 15
Vehicles	3 – 15
Dies, molds and tools	2 – 14
Other equipment	3 – 15

The Company charges all financing cost to current operations in accordance with SKAS No. 7 – “Capitalization of Financing Costs”. In addition, the Company assesses any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount, as a result of technological obsolescence, rapid declines in market value or other causes of impairment. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

Intangibles

Intangible assets are stated at cost, net of accumulated amortization. Subsequent expenditures on intangible assets after their purchases or completions, which will probably enable the assets to generate future economic benefits and can be measured and attributed to the assets reliably, are treated as additions to intangible assets.

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

	<u>Useful lives (years)</u>
Goodwill (negative goodwill)	5 – 20
Industrial property rights	2 – 40
Development costs	3 – 10
Other	2 – 50

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.

Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions are stated at present value, if the difference between nominal value and present value is material. The present value discount is amortized using the effective interest rate method, and the amortization is included in interest expense or interest income. As of December 31, 2006 and 2005, an interest rate of 8.25 percent is used in valuing the receivables and payables at present value.

Accounting for Lease Contracts

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The situations that individually or in combination normally lead to a lease being classified as a finance lease are: (1) the lease transfers ownership of the asset to the lessee by the end of the lease term; (2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; (3) the lease term is for the major part of the economic life of the asset even if title is not transferred; (4) at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and (5) the leased assets are of such a specialized nature that only the lessee can use them without major modifications; otherwise, it is classified as an operating lease.

At the commencement of the lease term, finance leases are recognized as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate is used. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Accrued Severance Benefits

Employees and directors of the Company and its domestic subsidiaries with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with each company, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ~~¥~~3,020,377 million (US\$3,249,115 thousand) and ~~¥~~3,015,591 million (US\$3,243,966 thousand) as of December 31, 2006 and 2005, respectively.

In accordance with the National Pension Act, certain portions of the accrued severance benefits are deposited with the National Pension Fund and deducted from the accrued severance benefits.

Actual payments of severance benefits by the Company and its subsidiaries amounted to ~~¥~~728,662 million (US\$783,845 thousand) and ~~¥~~423,551 million (US\$455,627 thousand) in 2006 and 2005, respectively.

Also, overseas subsidiaries accrued severance benefits in accordance with each subsidiary's policies and their countries' regulations.

Accrued Warranties and Product Liabilities

The Company and its subsidiaries generally provide a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. Also, the Company accrues potential expenses, which may occur due to product liability suit, voluntary recall campaign and other obligations as of the balance sheet date.

If the difference between nominal value and present value is material, the provision is valued at present value of the expenditures estimated to settle the obligation.

Stock Options

The Company granted stock options to employees and directors and computes total compensation expense for stock options by the fair value method using the option-pricing model. The compensation expense has been accounted for as a charge to current operations and a credit to capital adjustment from the grant date using the straight-line method.

Derivative Instruments

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 a 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 a liability or a forecast transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustments is added to or deducted from the asset or the liability.

Accounting for Foreign Currency Transactions and Translation

The Company and its domestic subsidiaries maintain their accounts in Korean Won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction dates. Monetary 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 dates. The balances have been translated using the Base Rate announced by Seoul Money Brokerage Services, Ltd., which was ₩929.60 and ₩1,013.00 to US\$1.00 at December 31, 2006 and 2005, respectively, and translation gains or losses are reflected in current operations.

Income Tax Expense

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. 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 is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

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 and according to the expected reversal date of the specific temporary difference if they are not related to an asset or liability for financial reporting, including deferred tax assets related to carry for wards. Deferred tax assets and liabilities in the same current or non-current classification are offset if these relate to income tax levied by the same tax jurisdictions.

Earnings per Common Share

Basic ordinary income per common share and net income per common share are computed by dividing ordinary and net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted ordinary income per common share and net income per common share are computed by dividing diluted ordinary and net income, which is adjusted by adding back the after-tax amount of expenses related to diluted securities, by weighted average number of common shares and diluted securities outstanding during the period.

Basic ordinary income per common share and net income per common share in 2006 and 2005 are computed as follows:

	<u>Korean Won</u>		<u>Translation into</u>	
	<u>2006</u>	<u>2005</u>	<u>U.S. Dollars (Note 2)</u>	<u>2005</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
Ordinary and net income	₩ 1,259,247	₩ 2,445,207	\$ 1,354,612	\$ 2,630,386
Expected dividends on preferred stock	(67,194)	(82,757)	(72,283)	(89,024)
Ordinary and net income available to common share	1,192,053	2,362,450	1,282,329	2,541,362
Weighted average number of common shares outstanding (*)	<u>207,776,640</u>	<u>209,529,206</u>	<u>207,776,640</u>	<u>209,529,206</u>
Ordinary and net income per common share	<u>₩ 5,737</u>	<u>₩ 11,275</u>	<u>\$ 6.17</u>	<u>\$ 12.13</u>

(*) Weighted average number of common shares outstanding includes transactions pertaining to disposal of treasury shares and exercise of stock option.

Diluted ordinary income per common share and net income per common share in 2006 and 2005 are computed as follows:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Ordinary and net income available to common share	₩ 1,192,053	₩ 2,362,450	\$ 1,282,329	\$ 2,541,362
Stock option compensation expense	-	1	-	1
Ordinary and net income available to diluted common share	1,192,053	2,362,451	1,282,329	2,541,363
Weighted average number of common shares and diluted securities outstanding	208,567,489	210,582,591	208,567,489	210,582,591
Diluted ordinary and net income per common share	₩ 5,715	₩ 11,219	\$ 6.15	\$ 12.07

3. INVENTORIES:

Inventories as of December 31, 2006 and 2005 consist of the following:

Accounts	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Finished goods and merchandise	₩ 5,092,981	₩ 4,653,727	\$ 5,478,680	\$ 5,006,161
Semi finished goods and work in process	1,160,442	980,670	1,248,324	1,054,938
Raw materials and supplies	1,384,479	1,189,029	1,489,328	1,279,076
Materials in transit	1,312,404	1,121,303	1,411,794	1,206,221
Other	941,939	623,383	1,013,274	670,592
	₩ 9,892,245	₩ 8,568,112	\$ 10,641,400	\$ 9,216,988

4. SHORT-TERM INVESTMENT SECURITIES:

(1) Short-term investment securities as of December 31, 2006 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)
	Acquisition cost	Book value	Book value
	(In millions)		(In thousands)
Trading securities:			
Government bonds	₩ 2,015	₩ 2,015	\$ 2,168
Beneficiary certificates	140,406	140,483	151,122
Corporate bonds	1,000	1,000	1,076
Available-for-sale securities:			
Government bonds	586	586	630
Beneficiary certificates	306,340	315,556	339,454
Held-to-maturity securities:			
Government bonds	5,134	5,134	5,523
Corporate bonds	600	600	645
Asset backed securities	10,055	10,055	10,816
	₩ 466,136	₩ 475,429	\$ 511,434

- (2) Short-term investment securities as of December 31, 2005 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	Acquisition		Book value	
	cost	Book value	Book value	
	(In millions)		(In thousands)	
Trading securities:				
Beneficiary certificates	₩ 153,509	₩ 154,831	\$	166,557
Available-for-sale securities:				
Government bonds	2,087	2,090		2,248
Corporate bonds	341,942	341,942		367,838
Asset backed securities	5,790	5,804		6,244
Beneficiary certificates	337,022	348,877		375,298
Held-to-maturity securities:				
Corporate bonds	6,249	6,230		6,701
	<u>₩ 846,599</u>	<u>₩ 859,774</u>	<u>\$</u>	<u>924,886</u>

5. LONG-TERM INVESTMENT SECURITIES:

- (1) Long-term investment securities as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Available-for-sale securities:				
Equity securities stated at fair value	₩ 499,788	₩ 528,747	\$ 537,638	\$ 568,790
Equity securities stated at acquisition cost	191,211	249,204	205,692	268,076
Debt securities	<u>1,298,468</u>	<u>1,507,167</u>	<u>1,396,803</u>	<u>1,621,307</u>
	<u>1,989,467</u>	<u>2,285,118</u>	<u>2,140,133</u>	<u>2,458,173</u>
Held-to-maturity securities:				
Debt securities	<u>13,184</u>	<u>61,745</u>	<u>14,182</u>	<u>66,421</u>
	<u>₩ 2,002,651</u>	<u>₩ 2,346,863</u>	<u>\$ 2,154,315</u>	<u>\$ 2,524,594</u>

- (2) Equity securities stated at fair value included in long-term investment securities as of December 31, 2006 consist of the following:

Companies	Korean Won		Translation into U.S. Dollars (Note 2)		Ownership percentage (*2) (%)
	Acquisition		Book value		
	cost	Book value	Book value		
	(In millions)		(In thousands)		
Hyundai Finance Corporation	₩ 9,888	₩ 11,395	\$	12,258	9.29
KOENTEC	1,550	2,604		2,801	6.20
Korea Information Service, Inc.	5,252	4,907		5,279	4.41
Hyundai Heavy Industries Co., Ltd.	56,924	275,940		296,837	2.88
Daewoo International Corporation	9,822	92,549		99,558	2.50
Jin Heung Mutual Savings Bank	2,166	2,188		2,354	2.28
Hyundai Information Technology Co., Ltd.	10,000	1,400		1,506	2.21
Hyundai Development Company	12,786	36,210		38,952	0.85
LG Telecom, Ltd.	9,795	18,086		19,456	0.68
Hyundai Merchant Marine Co., Ltd.	9,568	15,319		16,479	0.49
Kanglim Co., Ltd.	347	50		54	0.38
Hyundai Corporation	13,626	1,743		1,875	0.37
KT Freetel	18,000	16,552		17,806	0.30
SeAH Besteel Co., Ltd.	854	1,422		1,530	0.17

Companies	Korean Won		Translation into U.S. Dollars (Note 2)	Ownership percentage (*2)
	Acquisition		Book value	
	cost	Book value	Book value	
Tong Yang Investment Bank	282	127	137	0.01
Treasury Stock Fund	26,647	17,948	19,307	-
SK Networks Co., Ltd. (*1)	363	1,346	1,447	-
Other	90	2	2	-
	<u>₩ 187,960</u>	<u>₩ 499,788</u>	<u>\$ 537,638</u>	

(*1) Disposal of stocks is restricted.

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

Equity securities stated at fair value included in long-term investment securities as of December 31, 2005 consist of the following:

Companies	Korean Won		Translation into U.S. Dollars (Note 2)	Ownership percentage (*2)
	Acquisition		Book value	
	cost	Book value	Book value	
	(In millions)		(In thousands)	(%)
KOENTEC	₩ 1,550	₩ 4,604	\$ 4,953	6.20
Saehan Media (*1)	4,933	4,450	4,787	4.90
Korea Information Service, Inc.	5,252	4,119	4,431	4.41
Jin Heung Mutual Savings Bank	2,166	3,097	3,332	3.33
Daewoo Engineering & Construction Co., Ltd.	42,483	136,996	147,371	3.01
Hyundai Heavy Industries Co., Ltd.	56,924	168,411	181,165	2.88
Daewoo International Corporation	9,822	90,652	97,517	2.50
Hyundai Information Technology Co., Ltd.	10,000	2,790	3,001	2.21
LG Telecom, Ltd.	9,795	12,483	13,428	0.68
Hyundai Development Company	12,786	29,198	31,409	0.85
Hyundai Corporation	13,626	1,513	1,628	1.08
Doosan Industrial Development Co., Ltd.	2,186	5,723	6,156	0.58
Hyundai Merchant Marine Co., Ltd.	7,329	7,645	8,224	0.55
SsangYong Cement Industrial Co., Ltd.	6,394	5,405	5,814	0.50
Kanglim Co., Ltd.	347	55	59	0.38
KT Freetel	18,000	13,715	14,754	0.30
Hyundai Engineering & Construction Co., Ltd.	13,332	13,302	14,309	0.27
SeAH Besteel Co., Ltd.	854	1,269	1,365	0.17
Wigoglobal Co., Ltd.	904	4	4	0.12
Tong Yang Investment Bank	282	115	124	0.01
Treasury Stock Fund	22,353	22,353	24,046	-
SK Networks Co., Ltd. (*1)	363	846	911	-
Other	98	2	2	-
	<u>₩ 241,779</u>	<u>₩ 528,747</u>	<u>\$ 568,790</u>	

(*1) Disposal of stocks is restricted.

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

The differences between the acquisition cost and the book value stated at fair value in short-term investment securities and long-term investment securities are recorded in capital adjustments (See Note 17).

- (3) Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2006 consist of the following:

Companies	Korean Won		Translation into U.S. Dollars (Note 2)	Ownership percentage (*3) (%)
	Acquisition cost (In millions)	Book value	Book value (In thousands)	
Wia Trade Corporation (*1)	₩ 590	₩ 590	\$ 635	100.00
HMCIS(*1)	3,959	3,959	4,259	80.00
NGVTEK.com (*1)	821	821	883	53.66
Carnes Co., Ltd. (*1)	250	250	269	49.99
Seoul Metro 9th line (*2)	41,779	41,779	44,944	49.02
Muan Environment System Corporation (*2)	1,394	1,394	1,500	29.90
The Sign Corporation (*1)	2,025	2,025	2,178	22.02
Heesung PM Tech Corporation	1,194	1,194	1,284	19.90
Clean Air Technology Inc.	500	500	538	16.13
Industri Otomotif Komersial	4,439	4,439	4,775	15.00
Hyundai Technology Investment Co., Ltd.	4,490	4,490	4,830	14.97
Hyundai Research Institute	1,359	1,271	1,367	14.90
Hyundai Unicorns Co., Ltd.	5,795	137	147	14.90
Gyeongnam Credit Guarantee Foundation	2,500	2,500	2,689	13.66
Kihyup Finance, Inc.	3,700	3,700	3,980	12.75
NESSCAP Inc.	1,997	1,997	2,148	12.05
Yonhap Capital Co., Ltd.	10,500	10,500	11,295	10.49
Micro Infinity	607	607	653	9.76
Daejoo Heavy Industry Co. Ltd.	650	650	699	9.29
Veloxsoft Inc.	1,000	1,000	1,076	8.00
Korea Credit Bureau Co., Ltd.	3,000	3,000	3,227	6.26
Hankyoreh Plus Inc.	4,800	284	306	5.43
Korea Smart Card Co., Ltd.	1,628	22	24	5.31
ENOVA System	4,074	2,462	2,648	4.67
Hyundai Asan Corporation	22,500	5,405	5,814	4.61
Hyundai Oil Refinery Co., Ltd.	53,314	53,314	57,353	4.35
Space Imaging LLC	5,319	-	-	2.16
ROTIS Inc.	1,000	8	9	1.33
Koryo Co., Ltd.	6,625	728	783	1.02
Korea Investment Mutual Savings & Finance Co., Ltd.	3,000	3,000	3,227	0.41
International Convention Center Jeju Co., Ltd.	500	500	538	0.30
GM Daewoo Auto and Technology Co., Ltd.	2,187	-	-	0.02
Pilot beneficiary certificates	8,252	9,269	9,971	-
Equity investments	19,587	19,587	21,070	-
Other	10,589	9,829	10,573	-
	<u>₩ 235,924</u>	<u>₩ 191,211</u>	<u>\$ 205,692</u>	

(*1) The equity securities of these affiliates were excluded from using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million (US\$7,530 thousand), are not material.

(*2) This investment security was excluded from using the equity method despite its ownership percentage exceeding twenty percentages, since there is no significant influence on the investee.

(*3) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2005 consist of the following:

Companies	Korean Won		Translation into U.S. Dollars (Note 2)	Ownership percentage (*3) (%)
	Acquisition cost (In millions)	Book value (In millions)	Book value (In thousands)	
Hyundai Motor Hungary (*1)	₩ 5,415	₩ 5,415	\$ 5,825	100.00
Hyundai Motor Norway AS (*1)	5,636	5,636	6,063	100.00
BONTEC America Inc. (*1)	313	44	47	100.00
Carnes Co., Ltd. (*1)	250	250	269	49.99
Seoul Metro 9th line (*2)	37,195	37,195	40,012	49.02
Mando Map & Soft Co., Ltd. (*1)	2,634	2,634	2,834	33.96
Heesung PM Tech Corporation	1,194	1,194	1,285	19.90
The Sign Corporation	1,800	1,800	1,936	17.39
Clean Air Technology Inc.	500	500	538	16.13
Industri Otomotif Komersial	4,439	4,439	4,775	15.00
Hyundai Technology Investment Co., Ltd.	4,490	4,490	4,830	14.97
Hyundai Research Institute	1,359	1,271	1,367	14.90
Hyundai Unicorns Co., Ltd.	5,795	137	147	14.90
Gyeongnam Credit Guarantee Foundation	2,500	2,500	2,689	13.66
Kihyup Finance, Inc.	3,700	3,700	3,980	12.75
Micro Infinity	607	607	653	10.51
Yonhap Capital Co., Ltd.	10,500	10,500	11,295	10.49
Wisco Co., Ltd.	348	348	374	9.68
Hyundai Finance Corporation	9,888	9,888	10,637	9.29
Daejoo Heavy Industry Co. Ltd.	650	650	699	9.29
Hankyoreh Plus Inc.	4,800	284	306	7.41
Hyundai Oil Refinery Co., Ltd.	88,857	88,857	95,586	7.24
Korea Credit Bureau Co., Ltd.	3,000	3,000	3,227	6.26
Korea Smart Card Co., Ltd.	1,628	1,628	1,751	5.31
ENOVA System	4,075	2,461	2,648	4.67
Hyundai Asan Corporation	22,500	5,405	5,814	4.61
Space Imaging LLC	5,319	432	465	4.32
ROTIS Inc.	1,000	8	9	1.33
Koryo Co., Ltd.	6,625	728	783	1.02
Korea Investment Mutual Savings & Finance Co., Ltd.	3,000	3,000	3,227	0.41
International Convention Center Jeju Co., Ltd.	500	500	538	0.31
GM Daewoo Auto and Technology Co., Ltd.	2,187	-	-	0.02
Pilot beneficiary certificates	10,786	22,361	24,055	-
Equity investments	31,360	18,838	20,265	-
Other	22,851	8,504	9,147	-
	<u>₩ 307,701</u>	<u>₩ 249,204</u>	<u>\$ 268,076</u>	

(*1) The equity securities of these affiliates were excluded from using the equity method since the Company believes the changes in the investment value due to the changes in the net assets of the investee, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than ₩7,000 million (US\$6,910 thousand), are not material.

(*2) This investment security was excluded from using the equity method despite its ownership percentage exceeding twenty percentages, since there is no significant influence on the investee.

(*3) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

- (4) Debt securities, classified into available-for-sale securities, included in long-term investment securities as of December 31, 2006 consist of the following:

Description	Korean Won		Translation into
	Acquisition		U.S. Dollars
	cost	Book value	(Note 2)
	(In millions)		Book value
			(In thousands)
Government bonds	₩ 9,319	₩ 9,794	\$ 10,536
Corporate bonds	9,701	9,701	10,436
Asset backed securities	1,309,059	1,277,680	1,374,441
Other	1,445	1,293	1,390
	<u>₩1,329,524</u>	<u>₩1,298,468</u>	<u>\$ 1,396,803</u>

- Debt securities, classified into available-for-sale securities, included in long-term investment securities as of December 31, 2005 consist of the following:

Description	Korean Won		Translation into
	Acquisition		U.S. Dollars
	cost	Book value	(Note 2)
	(In millions)		Book value
			(In thousands)
Government bonds	₩ 24,797	₩ 28,548	\$ 30,710
Corporate bonds	9,951	10,167	10,937
Asset backed securities	1,469,359	1,468,359	1,579,560
Other	86	93	100
	<u>₩1,504,193</u>	<u>₩1,507,167</u>	<u>\$ 1,621,307</u>

- (5) Debt securities included in held-to-maturity of long-term investment securities as of December 31, 2006 consist of the following:

Description	Korean Won		Translation into
	Acquisition		U.S. Dollars
	cost	Book value	(Note 2)
	(In millions)		Book value
			(In thousands)
Government bonds	₩ 12,884	₩ 12,884	\$ 13,860
Corporate bonds	300	300	322
	<u>₩ 13,184</u>	<u>₩ 13,184</u>	<u>\$ 14,182</u>

- Debt securities included in held-to-maturity of long-term investment securities as of December 31, 2005 consist of the following:

Description	Korean Won		Translation into
	Acquisition		U.S. Dollars
	cost	Book value	(Note 2)
	(In millions)		Book value
			(In thousands)
Government bonds	₩ 12,545	₩ 12,545	\$ 13,495
Corporate bonds	49,200	49,200	52,926
	<u>₩ 61,745</u>	<u>₩ 61,745</u>	<u>\$ 66,421</u>

(6) Maturity of debt securities as of December 31, 2006 and 2005 consist of the following:

Maturity	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	Book value	Book value	Book value	Book value
	(In millions)		(In thousands)	
1 year ~ 5 years	₩ 1,093,456	₩ 1,426,206	\$ 1,176,265	\$ 1,534,215
6 years ~ 10 years	218,196	142,206	234,720	152,975
Over 10 years	-	500	-	538
	<u>₩ 1,311,652</u>	<u>₩ 1,568,912</u>	<u>\$ 1,410,985</u>	<u>\$ 1,687,728</u>

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

(1) Investment securities accounted for using the equity method as of December 31, 2006 consist of the following:

Affiliated company	Korean Won			Translation into U.S. Dollars (Note 2)			Ownership percentage (*2) (%)
	Acquisition cost	Net equity value	Book value	Acquisition cost	Net equity value	Book value	
	(In millions)			(In thousands)			
Hyundai Steel Company	₩ 245,153	₩ 752,156	₩ 429,513	\$ 263,720	\$ 809,119	\$ 462,040	21.39
Hyundai MOBIS	175,159	694,626	408,764	188,425	747,231	439,719	19.13
Eukor Car Carriers, Inc.	48,912	126,789	111,692	52,616	136,391	120,151	20.00
Korea Space & Aircraft Co., Ltd.	159,800	95,895	79,503	171,902	103,157	85,524	22.23
Asset Management Co., Ltd.	10,067	44,421	41,194	10,829	47,785	44,314	19.99
HK Mutual Savings Bank	38,087	28,176	29,549	40,971	30,310	31,787	19.31
Korea Economy Daily	29,973	22,133	26,052	32,243	23,809	28,025	20.55
Iljin Bearing Co., Ltd.	826	14,853	14,853	889	15,978	15,978	20.00
Daesung Automotive Co., Ltd.	400	10,295	10,295	430	11,075	11,075	20.00
Donghui Auto Co., Ltd.	10,530	8,572	8,592	11,327	9,221	9,243	35.10
TRW Steering Co., Ltd.	8,952	6,329	6,327	9,630	6,808	6,806	29.00
Wisco Co., Ltd.	1,736	6,573	4,986	1,867	7,071	5,364	38.63
Kia Tigers Co., Ltd. (*1)	20,300	(189)	-	21,837	(203)	-	100.00
Beijing-Hyundai Motor Company	232,410	380,199	371,464	250,011	408,992	399,596	50.00
Hyundai Motor Deutschland GmbH	6,761	19,113	18,589	7,273	20,560	19,997	30.00
Beijing Lear Dymos Automotive Systems Co., Ltd.	2,662	3,719	3,891	2,864	4,001	4,186	40.00
Hyundai Electronics (Tianjin) Co., Ltd. (*1)	3,972	3,452	3,452	4,273	3,713	3,713	100.00
Hysco Steel India, Ltd. (*1)	2,517	2,517	2,517	2,708	2,708	2,708	100.00
Rotem USA Corporation (*1)	3,357	2,500	2,500	3,611	2,689	2,689	100.00
Yan Ji Kia Motors A/S (*1)	1,792	1,792	1,792	1,928	1,928	1,928	100.00
Hyundai Motor Japan R&D Center Inc. (*1)	1,510	1,749	1,749	1,624	1,881	1,881	100.00
Autoever Systems India Pvt. Ltd. (*1)	50	572	572	54	615	615	100.00
Eurotem DEMIRYOLU ARACLARI SAN. VE TIC A.S. (*1)	478	355	355	514	382	382	50.50
Rotem Equipments (Beijing) Co., Ltd. (*1)	190	153	153	204	165	165	100.00
Autoever Systems China Co., Ltd. (*1)	80	42	42	86	45	45	90.00
Eukor Car Carriers Singapore Pte. (*1)	5	5	5	5	5	5	20.00
	<u>₩ 1,005,679</u>	<u>₩ 2,226,797</u>	<u>₩ 1,578,401</u>	<u>\$ 1,081,841</u>	<u>\$ 2,395,436</u>	<u>\$ 1,697,936</u>	

(*1) These companies are excluded in the consolidation since individual beginning balance of total assets is less than ₩7,000 million (US\$7,530 thousand).

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

Investment securities accounted for using the equity method as of December 31, 2005 consist of the following:

Affiliated company	Korean Won			Translation into U.S. Dollars (Note 2)			Ownership percentage (*2)
	Acquisition cost	Net equity value (In millions)	Book value	Acquisition cost	Net equity value (In thousands)	Book value	
Hyundai Steel Company	₩ 317,911	₩ 493,351	₩ 362,218	\$ 341,986	\$ 530,712	\$ 389,649	27.80
Hyundai MOBIS	244,753	1,614,978	564,195	263,289	1,737,283	606,922	20.40
Eukor Car Carriers, Inc.	48,912	115,074	99,032	52,616	123,789	106,532	20.00
Korea Space & Aircraft Co., Ltd.	129,800	106,546	89,548	139,630	114,615	96,330	33.33
Asset Management Co., Ltd.	10,067	30,746	26,440	10,829	33,074	28,442	19.99
Korea Economy Daily	29,973	20,844	25,095	32,243	22,423	26,995	20.55
Iljin Bearing Co., Ltd.	826	14,009	13,983	889	15,070	15,042	20.00
Daesung Automotive Co., Ltd.	400	8,641	6,113	430	9,295	6,576	20.00
Donghui Auto Co., Ltd.	10,530	8,197	8,237	11,327	8,818	8,861	35.10
TRW Steering Co., Ltd.	8,952	6,644	7,273	9,630	7,147	7,824	29.00
Kia Tigers Co., Ltd. (*1)	20,300	(116)	1,857	21,837	(125)	1,998	100.00
NGVTEK.com (*1)	821	821	821	883	883	883	78.05
Beijing-Hyundai Motor Company	201,179	369,710	373,911	216,415	397,709	402,228	50.00
Hyundai Motor Deutschland GmbH	6,761	18,240	17,412	7,273	19,621	18,731	30.00
Beijing Lear Dymos Automotive Systems Co., Ltd.	2,662	2,544	2,773	2,864	2,737	2,983	40.00
Hyundai Electronics (Tianjin) Co., Ltd. (*1)	3,972	3,712	3,724	4,273	3,993	4,006	100.00
Yan Ji Kia Motors A/S (*1)	1,792	837	1,792	1,928	900	1,928	100.00
Hyundai Motor Japan R&D Center Inc. (*1)	1,510	1,885	1,886	1,624	2,028	2,029	100.00
Hyundai Information System North America, LLC (*1)	5,332	5,521	5,521	5,736	5,939	5,939	100.00
Hysco Slovakia S.R.O (*1)	5,196	4,385	4,385	5,590	4,717	4,717	100.00
Global Engine Alliance, LLC	1,484	1,642	1,484	1,596	1,766	1,596	33.33
Kia Motors Australia Pty Ltd. (*1)	825	215	825	887	231	887	100.00
Hyundai Electronics(Tianjin) Co., Ltd.	712	462	712	766	497	766	50.00
Hyundai Autonet Pontus America (*1)	450	405	450	484	436	484	100.00
Hyundai Hi-Tech Electronics (Tianjin) Co., Ltd. (*1)	4,149	3,350	186	4,463	3,604	200	100.00
Pontus Map Co., Ltd. (*1)	180	180	180	194	194	194	90.00
Global Engine Manufacturing, LLC	101	(5,143)	101	109	(5,532)	109	33.33
Eukor Car Carriers Singapore Pte. (*1)	13	13	13	14	14	14	20.00
PT. Kia Timor Motors	10,908	-	-	11,734	-	-	30.00
	<u>₩1,070,471</u>	<u>₩ 2,827,693</u>	<u>₩ 1,620,167</u>	<u>\$ 1,151,539</u>	<u>\$ 3,041,838</u>	<u>\$ 1,742,865</u>	

(*1) These companies are excluded in the consolidation since individual beginning balance of total assets is less than ₩7,000 million (US\$7,530 thousand).

(*2) Ownership percentage is calculated by combining the ownership of the Company and its subsidiaries.

(2) The changes in investment securities accounted for using the equity method in 2006 are as follows:

Affiliated company	Korean Won				Translation into U.S. Dollars (Note 2)	
	Beginning of year	Acquisition (disposal)	Gain (loss) on valuation	Other changes (*)	End of year	End of year
	(In millions)				(In thousands)	
Hyundai Steel Company	₩ 362,218	₩ (108,353)	₩ 165,266	₩ 10,382	₩ 429,513	\$ 462,040
Hyundai MOBIS	564,195	(75,894)	81,841	(161,378)	408,764	439,719
Eukor Car Carriers, Inc.	99,032	-	9,059	3,601	111,692	120,151
Korea Space & Aircraft Co., Ltd.	89,548	30,000	(38,994)	(1,051)	79,503	85,524
Asset Management Co., Ltd.	26,440	-	15,458	(704)	41,194	44,314
HK Mutual Savings Bank	-	-	(8,458)	38,007	29,549	31,787
Korea Economy Daily	25,095	-	1,403	(446)	26,052	28,025
Iljin Bearing Co., Ltd.	13,983	-	869	1	14,853	15,978
Daesung Automotive Co., Ltd.	6,113	-	674	3,508	10,295	11,075
Donghui Auto Co., Ltd.	8,237	-	367	(12)	8,592	9,243
TRW Steering Co., Ltd.	7,273	-	(1,132)	186	6,327	6,806
Wisco Co., Ltd.	-	-	3,250	1,736	4,986	5,364
Kia Tigers Co., Ltd.	1,857	-	(1,907)	50	-	-
NGVTEK.com	821	-	-	(821)	-	-
Beijing-Hyundai Motor Company	373,911	31,231	60,573	(94,251)	371,464	399,596
Hyundai Motor Deutschland GmbH	17,412	-	3,477	(2,300)	18,589	19,997
Beijing Lear Dymos Auto-Motive Systems Co., Ltd.	2,773	-	1,260	(142)	3,891	4,186
Hyundai Electronics (Tianjin) Co., Ltd.	3,724	-	(80)	(192)	3,452	3,713
Hysco Steel India, Ltd.	-	2,517	-	-	2,517	2,708
Rotem USA Corporation	-	3,357	(775)	(82)	2,500	2,689
Yan Ji Kia Motors A/S	1,792	-	-	-	1,792	1,928
Hyundai Motor Japan R&D Center Inc.	1,886	-	37	(174)	1,749	1,881
Autoever Systems India Pvt. Ltd.	-	520	45	7	572	615
Eurotem DEMIRYOLU	-	-	-	-	-	-
ARACLARI SAN. VE TIC A.S.	-	478	(69)	(54)	355	382
Rotem Equipments (Beijing) Co., Ltd.	-	190	(37)	-	153	165
Autoever Systems China Co., Ltd.	-	80	(38)	-	42	45
Eukor Car Carriers Singapore Pte.	13	-	-	(8)	5	5
Hyundai Information System North America, LLC	5,521	-	-	(5,521)	-	-
Hysco Slovakia S.R.O	4,385	-	-	(4,385)	-	-
Global Engine Alliance, LLC	1,484	-	-	(1,484)	-	-
Kia Motors Australia Pty Ltd.	825	-	-	(825)	-	-
Hyundai Electronics (Tianjin) Co., Ltd.	712	-	-	(712)	-	-
Hyundai Autonet Pontus America	450	-	-	(450)	-	-
Hyundai Hi-Tech Electronics (Tianjin) Co., Ltd.	186	-	-	(186)	-	-
Pontus Map Co., Ltd.	180	-	-	(180)	-	-
Global Engine Manufacturing, LLC	101	-	-	(101)	-	-
	<u>₩ 1,620,167</u>	<u>₩ (115,874)</u>	<u>₩ 292,089</u>	<u>₩ (217,981)</u>	<u>₩ 1,578,401</u>	<u>\$ 1,697,936</u>

(*) Other changes consist of the decrease of ₩100,522 million (US\$108,135 thousand) and ₩142,617 million (US\$153,418 thousand) due to receipt of dividends from investees and changes of investees' capital adjustment, respectively, and the increase of ₩25,158 million (US\$27,063 thousand) due to changes of consolidated subsidiaries.

The changes in investment securities accounted for using the equity method in 2005 are as follows:

Affiliated company	Korean Won					Translation into
	Beginning of year	Acquisition (disposal)	Gain (loss) on valuation	Other changes (*)	End of year	U.S. Dollars (Note 2)
	(In millions)					(In thousands)
Hyundai Steel Company	₩ -	₩ -	₩ 277,599	₩ 84,619	₩ 362,218	\$ 389,649
Hyundai MOBIS	546,923	-	102,143	(84,871)	564,195	606,922
Eukor Car Carriers, Inc.	80,810	-	21,979	(3,757)	99,032	106,532
Korea Space & Aircraft Co., Ltd.	81,827	-	329	7,392	89,548	96,330
Asset Management Co., Ltd.	-	9,044	16,417	979	26,440	28,442
Korea Economy Daily	14,247	10,000	113	735	25,095	26,995
Iljin Bearing Co., Ltd.	13,102	-	721	160	13,983	15,042
Daesung Automotive Co., Ltd.	6,094	-	465	(446)	6,113	6,576
Donghui Auto Co., Ltd.	7,695	-	542	-	8,237	8,861
TRW Steering Co., Ltd.	7,598	-	(325)	-	7,273	7,824
Kia Tigers Co., Ltd.	6,024	-	(4,167)	-	1,857	1,998
NGVTEK.com	250	-	-	571	821	883
Beijing-Hyundai Motor Company	292,896	67,488	88,899	(75,372)	373,911	402,228
Hyundai Motor Deutschland GmbH	12,588	-	7,113	(2,289)	17,412	18,731
Beijing Lear Dymos Automotive Systems Co., Ltd.	572	2,091	16	94	2,773	2,983
Hyundai Electronics (Tianjin) Co., Ltd.	-	-	-	3,724	3,724	4,006
Yan Ji Kia Motors A/S	1,792	-	-	-	1,792	1,928
Hyundai Motor Japan R&D Center Inc.	2,244	-	34	(392)	1,886	2,029
Hyundai Information System North America, LLC	-	2,533	150	2,838	5,521	5,939
Hysco Slovakia S.R.O	-	5,196	(699)	(112)	4,385	4,717
Global Engine Alliance, LLC	-	-	-	1,484	1,484	1,596
Kia Motors Australia Pty Ltd.	825	-	-	-	825	887
Hyundai Electronics (Tianjin) Co., Ltd.	-	-	-	712	712	766
Hyundai Autonet Pontus America	-	209	-	241	450	484
Hyundai Hi-Tech Electronics (Tianjin) Co., Ltd.	-	3,448	-	(3,262)	186	200
Pontus Map Co., Ltd.	-	-	-	180	180	194
Global Engine Manufacturing, LLC	-	-	-	101	101	109
Eukor Car Carriers Singapore Pte.	13	-	-	-	13	14
PT. Kia Timor Motors	10,337	-	-	(10,337)	-	-
Hyundai Assan Otomotive Sanayi Ve Ticaret A.S.	24,765	-	27,444	(52,209)	-	-
Hyundai Motor Group China. Ltd.	1,508	-	-	(1,508)	-	-
WIA Automotive Parts	6,975	-	-	(6,975)	-	-
	<u>₩ 1,119,085</u>	<u>₩ 100,009</u>	<u>₩ 538,773</u>	<u>₩ (137,700)</u>	<u>₩ 1,620,167</u>	<u>\$ 1,742,865</u>

(*) Other changes consist of the increase by ₩25,905 million (US\$27,867 thousand) due to changes of investees' capital adjustment, and the decrease of ₩88,053 million (US\$94,721 thousand), ₩65,215 million (US\$70,154 thousand) and 10,337 million (US\$11,120 thousand) due to receipt of dividends from investees, changes of consolidated subsidiaries and impairment loss on investment securities accounted for using the equity method, respectively.

(3) Condensed financial information of the affiliates as of and for the year ended December 31, 2006 is as follows:

Affiliated company	Korean Won				Translation into U.S. Dollars (Note 2)			
	Assets	Liabilities	Sales	Net income (loss)	Assets	Liabilities	Sales	Net income (loss)
	(In millions)				(In thousands)			
Hyundai Steel Company	₩ 7,023,617	₩ 3,523,716	₩ 5,481,241	₩ 473,543	\$ 7,555,526	\$ 3,790,572	\$ 5,896,344	\$ 509,405
Hyundai MOBIS	6,211,000	2,671,925	8,168,036	686,750	6,681,368	2,874,274	8,786,614	738,759
Eukor Car Carriers, Inc.	1,483,918	840,556	1,543,111	67,991	1,596,297	904,213	1,659,973	73,140
Korea Space & Aircraft Co., Ltd.	1,252,020	820,591	704,620	(110,572)	1,346,837	882,736	757,982	(118,946)
Asset Management Co., Ltd.	448,852	221,923	976,976	73,166	482,844	238,730	1,050,964	78,707
HK Mutual Savings Bank	1,826,983	1,745,243	198,077	(40,830)	1,965,343	1,877,413	213,078	(43,922)
Korea Economy Daily	198,734	91,048	113,127	6,828	213,784	97,943	121,694	7,345
Iljin Bearing Co., Ltd.	126,942	52,678	197,428	4,349	136,556	56,667	212,380	4,678
Daesung Automotive Co., Ltd.	66,007	14,530	72,041	3,370	71,006	15,630	77,497	3,625
Donghui Auto Co., Ltd.	89,783	65,355	85,562	1,073	96,582	70,304	92,042	1,154
TRW Steering Co., Ltd.	72,527	50,704	132,054	(1,086)	78,020	54,544	142,055	(1,168)
Wisco Co., Ltd.	150,802	133,785	273,520	6,456	162,222	143,917	294,234	6,945
Kia Tigers Co., Ltd.	2,067	2,256	19,222	(73)	2,224	2,427	20,678	(79)
Beijing-Hyundai Motor Company	1,484,166	723,768	3,509,461	121,146	1,596,564	778,580	3,775,238	130,321
Hyundai Motor								
Deutschland GmbH	176,326	110,523	935,202	13,644	189,679	118,893	1,006,026	14,677
Beijing Lear Dymos								
Automotive Systems Co., Ltd.	23,476	14,178	43,246	4,287	25,254	15,252	46,521	4,612
Hyundai Electronics								
(Tianjin) Co., Ltd.	3,503	51	-	(68)	3,768	55	-	(73)
Hysco Steel India, Ltd.	2,517	-	-	-	2,708	-	-	-
Rotem USA Corporation	7,042	4,542	-	(775)	7,575	4,886	-	(834)
Hyundai Motor Japan								
R&D Center Inc.	5,657	3,860	12,260	88	6,085	4,152	13,188	95
Autoever Systems India Pvt. Ltd.	3,548	2,977	1,872	45	3,817	3,202	2,014	48
Eurotem DEMIRYOLU								
ARACLARI SAN. VE TIC A.S.	720	18	-	(137)	775	19	-	(147)
Rotem Equipments								
(Beijing) Co., Ltd.	8,424	8,271	-	(37)	9,062	8,897	-	(40)
Autoever Systems China Co., Ltd.	63	16	-	(43)	68	17	-	(46)

- (4) Significant unrealized profits (losses) that occurred in transactions with investees in 2006 and 2005 are ₩8,766 million (\$9,430 thousand) and ₩15,533 million (\$16,709 thousand), respectively.
- (5) Unamortized (or unreversed) balances of goodwill and negative goodwill as of December 31, 2006 are ₩54,700 million (US\$58,843 thousand) and ₩341,671 million (US\$367,546 thousand), respectively. In addition, unamortized (or unreversed) balances of goodwill and negative goodwill as of December 31, 2005 are ₩89,614 million (US\$96,401 thousand) and ₩418,487 million (US\$450,180 thousand), respectively.

(6) The market price of listed equity securities as of December 31, 2006 is as follows:

Affiliated company	Korean Won			Translation into U.S. Dollars (Note 2)	
	Price per share	Number of shares (In millions)	Market value	Market value (In thousands)	
Hyundai Steel Company	₩ 28,950	18,159,517	₩ 525,718	\$	565,531
Hyundai MOBIS	85,900	16,415,620	1,410,102		1,516,891
HK Mutual Savings Bank	2,805	10,045,060	28,176		30,310

7. LEASED ASSETS:

The Company and its subsidiaries have entered into lease agreements for certain machinery. The capital lease obligations are included in long-term debt in the accompanying balance sheets. Annual payments on these lease agreements as of December 31, 2006 are as follows (Won in millions):

	Finance leases			Operating leases
	Lease payments	Interest portion	Lease obligation	Lease payments
2008	₩ 2,969	₩ 165	₩ 2,804	₩ 21,735
2009	1,677	25	1,652	17,511
2010	-	-	-	15,840
Thereafter	-	-	-	56,411
	₩ 4,646	₩ 190	₩ 4,456	₩ 111,497

8. INSURANCE:

As of December 31, 2006, certain property, plant and equipment, inventories, cash and cash equivalent and securities are insured for ₩15,495,233 million (US\$16,668,710 thousand) with Hyundai Fire & Marine Insurance Co. and others. In addition, the Company carries products and completed operations liability insurance with a maximum coverage of ₩229,752 million (US\$247,151 thousand) and general insurance for vehicles and workers' compensation and casualty insurance for employees.

9. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipments as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Buildings and structures	₩ 7,531,889	₩ 7,078,546	\$ 8,102,290	\$ 7,614,615
Machinery and equipment	12,353,513	11,508,182	13,289,063	12,379,714
Vehicles	189,863	212,382	204,242	228,466
Tools, dies and molds	3,570,875	4,392,993	3,841,303	4,725,681
Other equipment	1,424,757	1,310,013	1,532,656	1,409,222
	25,070,897	24,502,116	26,969,554	26,357,698
Less: accumulated depreciation	8,348,614	9,891,942	8,980,867	10,641,073
	16,722,283	14,610,174	17,988,687	15,716,625
Land	4,262,913	4,165,180	4,585,750	4,480,615
Construction in progress	2,506,397	2,672,685	2,696,210	2,875,091
	₩ 23,491,593	₩ 21,448,039	\$ 25,270,647	\$ 23,072,331

The changes in property, plant and equipment in 2006 are as follows:

	Korean Won						Translation into U. S. Dollars (Note 2)	
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	Other(*)	End of year	End of year
	(In millions)						(In thousands)	
Land	₩ 4,165,180	₩ 67,260	₩ 58,234	₩ (42,110)	₩ (2,042)	₩ 16,391	₩ 4,262,913	\$ 4,585,750
Buildings and structures	5,725,824	106,537	895,640	(17,244)	(300,362)	(29,440)	6,380,955	6,864,194
Machinery and equipment	6,959,868	234,597	2,003,084	(104,670)	(1,247,461)	350,964	8,196,382	8,817,106
Vehicles	130,471	13,971	36,420	(22,882)	(41,636)	5,694	122,038	131,280
Tools, dies and molds	1,245,453	30,499	581,508	(4,995)	(502,780)	19,989	1,369,674	1,473,401
Other equipment	548,558	38,042	127,397	(72,248)	(222,747)	234,232	653,234	702,704
Construction in progress	2,672,685	3,378,480	(3,702,283)	(22,510)	-	180,025	2,506,397	2,696,212
	<u>₩21,448,039</u>	<u>₩3,869,386</u>	<u>₩ -</u>	<u>₩(286,659)</u>	<u>₩(2,317,028)</u>	<u>₩ 777,855</u>	<u>₩23,491,593</u>	<u>\$ 25,270,647</u>

(*) Other includes foreign currency adjustment, changes in the scope of consolidation, impairment loss and transfer to other assets.

The changes in property, plant and equipment in 2005 are as follows:

	Korean Won						Translation into U. S. Dollars (Note 2)	
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	Other(*)	End of year	End of year
	(In millions)						(In thousands)	
Land	₩ 4,084,137	₩ 101,932	₩ (8,989)	₩ (25,117)	₩ (1,864)	₩ 15,081	₩ 4,165,180	\$ 4,480,615
Buildings and structures	5,394,729	95,706	402,743	(77,281)	(247,781)	157,708	5,725,824	6,159,449
Machinery and equipment	6,414,214	333,148	1,353,217	(47,002)	(1,042,179)	(51,530)	6,959,868	7,486,949
Vehicles	117,640	31,323	22,919	(16,740)	(35,796)	11,127	130,473	140,352
Tools, dies and molds	1,173,557	54,570	394,470	(13,846)	(459,094)	95,794	1,245,451	1,339,773
Other equipment	666,730	182,944	3,367	(10,317)	(298,915)	4,749	548,558	590,101
Construction in progress	1,951,279	3,092,446	(2,167,727)	(21,692)	-	(181,621)	2,672,685	2,875,092
	<u>₩19,802,286</u>	<u>₩3,892,069</u>	<u>₩ -</u>	<u>₩(211,995)</u>	<u>₩(2,085,629)</u>	<u>₩ 51,308</u>	<u>₩21,448,039</u>	<u>\$ 23,072,331</u>

(*) Other includes foreign currency adjustment, changes in the scope of consolidation, impairment loss and transfer to other assets.

As of December 31, 2006 and 2005, the value of the land, which the Company and its subsidiaries own domestically, totals ₩4,822,186 million (US\$5,187,377 thousand) and ₩4,189,062 million (US\$4,506,306 thousand), respectively, in terms of land prices officially announced by the Korean government.

10. INTANGIBLES:

Intangibles as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won					Translation into U. S. Dollars (Note 2)		
	2006		2005		2006	2005		
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Government subsidy	Book value	Book value	Book value	Book value
	(In millions)					(In thousands)		
Goodwill	₩ 625,133	₩ (105,239)	₩ -	₩ -	₩ 519,894	₩ 476,343	\$ 559,266	\$ 512,417
Negative goodwill	(98,671)	10,690	-	-	(87,981)	(86,421)	(94,644)	(92,966)
Industrial property rights	73,847	(44,467)	-	-	29,380	24,912	31,605	26,799
Development costs	4,098,499	(2,006,898)	(33,089)	(12,066)	2,046,446	1,830,297	2,201,426	1,968,908
Other	187,134	(80,222)	(2,301)	-	104,611	84,991	112,534	91,428
	<u>₩ 4,885,942</u>	<u>₩ (2,226,136)</u>	<u>₩ (35,390)</u>	<u>₩ (12,066)</u>	<u>₩ 2,612,350</u>	<u>₩2,330,122</u>	<u>\$ 2,810,187</u>	<u>\$ 2,506,586</u>

The changes in intangibles in 2006 are as follows:

Description	Korean Won						Translation into
	Goodwill	Negative goodwill	Industrial property rights	Development costs	Other	Total	U. S. Dollars (Note 2)
	(In millions)						Total
Beginning of the year	₩ 476,343	₩ (86,421)	₩ 24,912	₩ 1,830,297	₩ 84,991	₩ 2,330,122	\$ 2,506,586
Addition:							
Expenditures	107,398	(8,015)	12,569	824,966	36,896	973,814	1,047,562
Deduction:							
Amortization	(64,520)	6,455	(9,830)	(567,537)	(19,296)	(654,728)	(704,312)
Impairment loss	-	-	-	(25,026)	-	(25,026)	(26,921)
Government subsidy	-	-	-	(12,066)	-	(12,066)	(12,980)
Other	673	-	1,729	(4,188)	2,020	234	252
End of the year	₩ 519,894	₩ (87,981)	₩ 29,380	₩ 2,046,446	₩ 104,611	₩ 2,612,350	\$ 2,810,187

The changes in intangibles in 2005 are as follows:

Description	Korean Won						Translation into
	Goodwill	Negative goodwill	Industrial property rights	Development costs	Other	Total	U. S. Dollars (Note 2)
	(In millions)						Total
Beginning of the year	₩ 459,982	₩ (72,313)	₩ 20,779	₩ 1,326,312	₩ 77,735	₩ 1,812,495	\$ 1,949,758
Addition:							
Expenditures	33,828	(23,016)	3,407	858,864	42,812	915,895	985,257
Deduction:							
Amortization	(10,950)	8,709	(8,133)	(380,679)	(13,478)	(404,531)	(435,167)
Impairment loss	-	-	-	(7,772)	(87)	(7,859)	(8,454)
Government subsidy	-	-	-	(12,068)	-	(12,068)	(12,982)
Other	(6,517)	199	8,859	45,640	(21,991)	26,190	28,174
End of the year	₩ 476,343	₩ (86,421)	₩ 24,912	₩ 1,830,297	₩ 84,991	₩ 2,330,122	\$ 2,506,586

Research and development expenditures in 2006 and 2005 are as follows:

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Development cost (capitalized)	₩ 824,966	₩ 858,864	\$ 887,442	\$ 923,907
Ordinary development (manufacturing cost)	353,396	282,147	380,159	303,514
Research costs (SG&A)	636,611	620,621	684,823	667,622
	₩ 1,814,973	₩ 1,761,632	\$ 1,952,424	\$ 1,895,043

11. OTHER ASSETS:

Other assets as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Long-term notes and accounts receivable, net of allowance for doubtful accounts of ₩19 million in 2006 and ₩90 million in 2005, and unamortized present value discount of ₩1,627 million in 2006 and ₩3,095 million in 2005	₩ 20,747	₩ 21,239	\$ 22,318	\$ 22,847
Long-term notes and accounts receivable - other, net of allowance for doubtful accounts of ₩24,989 million in 2006 and ₩3,349 million in 2005, and unamortized present value discount of ₩846 million in 2006 and ₩1,154 million in 2005	115,498	113,007	124,245	121,565
Long-term loans	41,610	56,023	44,761	60,266
Long-term deposits	607,189	430,838	653,172	463,466
Other	96,188	262,967	103,472	282,882
	<u>₩ 881,232</u>	<u>₩ 884,074</u>	<u>\$ 947,968</u>	<u>\$ 951,026</u>

12. OTHER FINANCIAL BUSINESS ASSETS AND LIABILITIES:

Other financial business assets as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Finance receivables	₩ 9,866,707	₩ 7,277,317	\$ 10,613,927	\$ 7,828,439
Lease receivables	2,115,699	1,601,497	2,275,924	1,722,781
Card receivables	2,845,616	2,173,722	3,061,119	2,338,341
Other	1,173	3,895	1,262	4,190
	<u>₩ 14,829,195</u>	<u>₩ 11,056,431</u>	<u>\$ 15,952,232</u>	<u>\$ 11,893,751</u>

Other financial business liabilities of ₩94,462 million (US\$101,616 thousand) in 2006 and ₩286,329 million (US\$308,013 thousand) in 2005 consist of other operating accounts payable.

13. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2006 and 2005 consist of the following:

Description	Annual interest rate	Korean Won		Translation into U. S. Dollars (Note 2)	
		2006	2005	2006	2005
	(%)	(In millions)		(In thousands)	
Trade financing	6.00 ~ 7.00	₩ 5,103,337	₩ 4,883,681	\$ 5,489,820	\$ 5,253,529
General loans	4.00 ~ 7.00	2,879,230	2,030,634	3,097,278	2,184,417
Discount of trade bills	4.61 ~ 5.29	2,674,219	3,632,053	2,876,742	3,907,114
Overdrafts	5.50 ~ 6.86	97,549	274,519	104,937	295,309
Banker's Usance	0.33 ~ 5.93	741,643	914,445	797,809	983,697
Other	4.63 ~ 4.65	143,344	120,000	154,199	129,088
		<u>₩ 11,639,322</u>	<u>₩ 11,855,332</u>	<u>\$ 12,520,785</u>	<u>\$ 12,753,154</u>

14. LONG-TERM DEBT AND DEBENTURES:

Long-term debt and debentures as of December 31, 2006 and 2005 consist of the following:

Description	Annual Interest rate 2006 (%)	Korean Won		Translation into U. S. Dollars (Note 2)	
		2006	2005	2006	2005
		(In millions)		(In thousands)	
Debentures	3.75 ~ 9.20	₩ 13,306,584	₩ 11,950,259	\$ 14,314,312	\$ 12,855,270
Won currency loans:					
Facility loans	1.00 ~ 7.38	205,705	202,796	221,283	218,154
General loans	5.49 ~ 6.89	109,537	358,431	117,832	385,576
Reorganization claims	(*)	46,044	136,721	49,531	147,075
Capital lease	7.77	6,711	55,214	7,219	59,395
Other	1.00 ~ 6.90	28,758	106,712	30,937	114,794
		<u>396,755</u>	<u>859,874</u>	<u>426,802</u>	<u>924,994</u>
Foreign currency loans:					
General loans	4.02 ~ 7.24	3,581,798	1,099,747	3,853,053	1,183,032
Reorganization claims	(*)	22,296	55,292	23,985	59,479
Facility loans	7.31 ~ 7.43	3,644	48,006	3,920	51,642
Capital lease	-	-	33,713	-	36,266
Other	3ML+1.20	67,433	-	72,539	-
		<u>3,675,171</u>	<u>1,236,758</u>	<u>3,953,497</u>	<u>1,330,419</u>
		17,378,510	14,046,891	18,694,611	15,110,683
Less: current maturities		<u>4,595,588</u>	<u>3,470,787</u>	<u>4,943,619</u>	<u>3,733,635</u>
		<u>₩ 12,782,922</u>	<u>₩ 10,576,104</u>	<u>\$ 13,750,992</u>	<u>\$ 11,377,048</u>

(*) 3 year non-guaranteed bond circulating earning rate at the end of every quarter; 5.04% as of December 31, 2006

Debentures as of December 31, 2006 and 2005 consist of the following:

Description	Maturity	Annual interest rate (%)	Korean Won		Translation into U.S. Dollars (Note 2)	
			2006	2005	2006	2005
			(In millions)		(In thousands)	
Domestic debentures:						
Guaranteed debentures	Apr. 9, 2007 ~ Aug. 7, 2011	3.95 ~ 6.17	₩ 563,000	₩ 315,000	\$ 605,637	\$ 338,855
Non-guaranteed Debentures	Oct. 29, 2006 ~ Nov. 8, 2011	3.75 ~ 9.20	11,860,962	10,377,934	12,759,210	11,163,870
Convertible bonds	Jan. 31, 2009	4.00	135,045	133,072	145,272	143,150
Bonds with warranty	Oct. 31, 2010	7.99	200,000	200,000	215,146	215,146
Overseas debentures						
	Jul. 15, 2007 ~ Mar. 25, 2015	5.30 ~ 7.60	555,694	949,915	597,778	1,021,854
			13,314,701	11,975,921	14,323,043	12,882,875
Less; discount on debentures			8,117	25,662	8,731	27,605
			<u>₩ 13,306,584</u>	<u>₩ 11,950,259</u>	<u>\$ 14,314,312</u>	<u>\$ 12,855,270</u>

The maturity of long-term debt and debentures as of December 31, 2006 is as follows:

Description	Korean Won				Translation into
	Debentures	Local	Foreign	Total	U.S Dollars (Note 2)
		currency	currency		Total
		loans	loans		Total
		(In millions)			(In thousands)
2008	₩ 3,554,165	₩ 183,685	₩ 1,762,319	₩ 5,500,169	\$ 5,916,705
2009	3,260,998	50,724	621,686	3,933,408	4,231,291
2010	1,722,617	34,268	459,541	2,216,426	2,384,279
Thereafter	783,055	30,266	326,988	1,140,309	1,226,666
	9,320,835	298,943	3,170,534	12,790,312	13,758,941
Less discount on debentures	7,390	-	-	7,390	7,949
	₩ 9,313,445	₩ 298,943	₩ 3,170,534	₩ 12,782,922	\$ 13,750,992

15. ACCRUED WARRANTIES:

The changes in accrued warranties in current and long-term liabilities in 2006 and 2005 are as follows:

Description	Korean Won		Translation into	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Beginning of year	₩ 4,080,597	₩ 4,989,797	\$ 4,389,627	\$ 5,367,682
Accrual	583,778	634,214	627,988	682,244
Use	(498,521)	(813,406)	(536,274)	(875,006)
Other changes (*)	-	(730,008)	-	(785,293)
End of year	₩ 4,165,854	₩ 4,080,597	\$ 4,481,341	\$ 4,389,627

(*) Other changes are the adjustments of the beginning balance of accrued warranties accounted for in the beginning retained earnings due to application of SKAS No.17.

16. CAPITAL STOCK:

Capital stock as of December 31, 2006 consists of the following:

	Authorized	Issued	Par value	Korean Won	Translation into
				(In millions)	U.S Dollars (Note 2)
				(In thousands)	(In thousands)
Common stock	450,000,000 shares	219,466,255 shares	₩ 5,000	₩ 1,153,931	\$ 1,241,320
Preferred stock	150,000,000 shares	65,202,146 shares	5,000	331,011	356,079
				₩ 1,484,942	\$ 1,597,399

Capital stock as of December 31, 2005 consists of the following:

	Authorized	Issued	Par value	Korean Won (In millions)	Translation into U.S. Dollars (Note 2) (In thousands)
Common stock	450,000,000 shares	219,058,702 shares	₩ 5,000	₩ 1,151,894	\$ 1,239,129
Preferred stock	150,000,000 shares	65,202,146 shares	5,000	331,011	356,079
				<u>₩ 1,482,905</u>	<u>\$ 1,595,208</u>

In 2006, a part of the stock options granted to the directors were exercised at an exercise price of ₩26,800 (US\$28.83) and new common stock of 407,553 shares were issued. This issue of new common stock resulted in the increase in capital stock by ₩2,037 million (US\$2,191 thousand) and paid-in capital in excess of par value by ₩13,552 million (US\$14,578 thousand).

The Company completed stock retirement of 1,320,000 common shares of treasury stock on May 4, 2004, which had been acquired for the purpose of such retirement based on the decision of the Board of Directors on March 12, 2004. Also, the Company acquired treasury stock after cancellation of Trust Cash Fund on March 2, 2001, and in accordance with the decision of the Board of Directors, on March 5, 2001, the Company retired 10,000,000 common shares in treasury and 1,000,000 second preferred shares in treasury, which had additional dividend rate of 2 percent to the rate of common stock, using the retained earnings. Due to these stock retirements, the total face value of outstanding stock differs from the capital stock amount.

The preferred shares are non-cumulative, participating and non-voting. Of the total preferred stock issued of 65,202,146 shares as of December 31, 2006, a total of 27,588,281 preferred shares (First and Third preferred shares) are eligible to receive cash dividends, if declared, equal to that declared for common shares plus an additional 1 percent minimum increase while the dividend rate for the remaining 37,613,865 preferred shares (Second preferred shares) is 2 percent higher than that declared for common shares.

17. CAPITAL ADJUSTMENTS:

Capital adjustments as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Treasury stock	₩ (716,316)	₩ (743,692)	\$ (770,564)	\$ (800,013)
Discounts on stock issuance	338	(1,688)	364	(1,816)
Gain on valuation of available-for-sale securities	199,777	358,400	214,906	385,542
Loss on valuation of investment securities accounted for using the equity method	(39,270)	(246,220)	(42,244)	(264,867)
Stock option cost	9,271	14,528	9,973	15,628
Cumulative translation adjustments	(455,081)	(292,525)	(489,545)	(314,678)
Gain (loss) on valuation of derivatives, net	(3,305)	9,000	(3,555)	9,682
	<u>₩ (1,004,586)</u>	<u>₩ (902,197)</u>	<u>\$ (1,080,665)</u>	<u>\$ (970,522)</u>

(1) Treasury stock

For the stabilization of stock price, the Company has treasury stock consisting of 11,287,470 common shares and 2,950,960 preferred shares with a carrying value of ₩716,316 million (US\$770,564 thousand) as of December 31, 2006, and 11,416,470 common shares and 2,950,960 preferred shares with a carrying value of ₩743,692 million (US\$800,013 thousand) as of December 31, 2005, which were acquired directly or indirectly through the Treasury Stock Fund and Trust Cash Fund.

In 2006, gain on disposal of treasury stock amounting to ₩3,707 million (US\$3,988 thousand), after deducting the deferred income tax effect of ₩1,406 million (US\$1,512 thousand), is reflected to capital surplus.

(2) Stock option cost

The Company granted directors stock options at an exercise price of ₩26,800 (grant date: February 14, 2003, beginning date for exercise: February 14, 2006, expiry date for exercise: February 13, 2011). These stock options all require at least two-year continued service starting from the grant date. If all stock options as of December 31, 2006 are exercised, 815,224 shares will be issued as new shares or treasury stock or will be compensated by cash, according to the decision of the Board of Directors. As of December 5, 2006, 407,553 shares of stock options were exercised and issued as new shares.

The Company calculates the total compensation expense using an option-pricing model, in which the risk-free rate of 4.94%, an expected exercise period of 5.5 years and an expected variation rate of stock price of 63.29 percent are used. Total compensation expenses amounting to ₩9,271 million (US\$9,973 thousand) have been accounted for as a charge to current operations and a credit to stock option cost in capital adjustments over the required period of service (two years) from the grant date using the straight-line method.

Compensation expenses of ₩227 million (US\$244 thousand), which were expensed before 2006, have been reversed due to cancellation of 19,777 shares of stock options and there is no compensation cost for the Company to recognize as expense after December 31, 2006.

(3) Cumulative translation adjustments

Cumulative translation debits of ₩455,081 million (US\$489,545 thousand) and ₩292,525 million (US\$314,678 thousand) as of December 31, 2006 and 2005, respectively, which result from the translation of financial statements of overseas subsidiaries and a branch located in Canada, are included in capital adjustments on the basis set forth in Note 2.

18. PLEGDED ASSETS, CHECKS AND NOTES:

As of December 31, 2006, the following assets, checks and notes are pledged as collateral:

- (1) The Company's and its domestic subsidiaries' property, plant and equipment are pledged as collateral for various loans to a maximum of ₩3,032,148 million (US\$3,261,777 thousand).
- (2) The Company's and its domestic subsidiaries' certain bank deposits and investment securities, including 7,538,466 shares of Kia Motors Corporation, 4,400,000 shares of Eukor Car Carriers Inc., 20,000 shares of Eukor Car Carriers Singapore Pte Ltd., 8,355,767 shares of Seoul Metro 9th Line and some government bonds are pledged as collateral to financial institutions and others.
- (3) Certain overseas subsidiaries' receivables, inventories and other financial business assets are pledged as collateral for their borrowings.
- (4) 47 blank checks, 1 check amounting to ₩2,624 million (US\$2,823 thousand), 122 blank promissory notes and 9 promissory notes amounting to ₩31,070 million (US\$33,423 thousand) are pledged as collateral for short-term borrowings, long-term debt and other payables.

19. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses in 2006 and 2005 are as follows:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Salaries	₩ 2,196,904	₩ 1,984,507	\$ 2,363,279	\$ 2,134,797
Export related expenses	1,313,587	1,356,056	1,413,067	1,458,752
Sales promotion	3,329,762	2,811,283	3,581,930	3,024,186
Sales commission	572,865	574,628	616,249	618,145
Sales warranties	908,657	1,119,949	977,471	1,204,764
Taxes and dues	128,984	84,947	138,752	91,380
Communications	64,668	47,753	69,565	51,369
Utilities	54,661	47,150	58,801	50,721
Freight and warehousing	214,971	223,047	231,251	239,939
Rent	128,296	105,959	138,012	113,983
Travel	136,406	132,563	146,736	142,602
Service charges	657,115	255,692	706,879	275,056
Maintenance	75,047	58,656	80,730	63,098
Supplies	56,200	37,748	60,456	40,607
Research	636,611	620,621	684,823	667,622
Depreciation	434,600	222,823	467,513	239,698
Amortization	94,238	70,546	101,375	75,889
Stock option cost	-	1	-	1
Provision for bad debt	324,764	612,588	349,359	658,980
Other	284,742	216,851	306,306	233,274
	<u>₩ 11,613,078</u>	<u>₩ 10,583,368</u>	<u>\$ 12,492,554</u>	<u>\$ 11,384,863</u>

20. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS (LIABILITIES):

Income tax expense in 2006 and 2005 consists of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Income tax currently payable	₩ 504,699	₩ 482,488	\$ 542,921	\$ 519,028
Changes in deferred taxes due to:				
Temporary differences	(44,093)	239,479	(47,432)	257,615
Carry forward of unused tax loss	193,652	42,376	208,318	45,585
Carry forward of unused tax credits	(124,802)	(69,765)	(134,254)	(75,048)
Items directly charged to equity	186,446	(245,512)	200,565	(264,106)
Income tax expense	<u>₩ 715,902</u>	<u>₩ 449,066</u>	<u>\$ 770,118</u>	<u>\$ 483,074</u>

The components of accumulated temporary differences and deferred tax assets (liabilities) as of December 31, 2006 are as follows:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	Accumulated temporary differences	Deferred tax assets (liabilities)	Accumulated temporary differences	Deferred tax assets (liabilities)
	(In millions)		(In thousands)	
Accrued warranties	₩ 4,186,016	₩ 1,151,154	\$ 4,503,029	\$ 1,238,333
Long-term investment securities	253,414	(16,770)	272,605	(18,040)
Allowance for doubtful accounts	254,688	70,039	273,976	75,343
Other non-current assets	(1,805,122)	(628,300)	(1,941,827)	(675,882)
Reserve for research and manpower				
Development	(685,799)	(188,595)	(737,736)	(202,878)
Derivative assets (liabilities)	(158,598)	(43,614)	(170,609)	(46,917)
Development cost	(16,574)	(4,558)	(17,829)	(4,903)
Depreciation	(322,151)	(106,456)	(346,548)	(114,518)
Accrued income	(272,258)	(74,871)	(292,877)	(80,540)
Dividends	7,745	2,130	8,332	2,291
Advanced depreciation provisions	(509,786)	(8,352)	(548,393)	(8,985)
Other	781,439	329,119	840,620	354,043
Accumulated temporary differences	1,713,014	480,926	1,842,743	517,347
Carry over tax deduction	396,445	416,730	426,468	448,290
	<u>₩ 2,109,459</u>	<u>₩ 897,656</u>	<u>\$ 2,269,211</u>	<u>\$ 965,637</u>

The temporary differences of ₩35,809 million (US\$38,521 thousand) and ₩523,704 million (US\$563,365 thousand) as of December 31, 2006 and 2005, respectively, were not recognized since it is not probable that the temporary difference will be reversed in the foreseeable future.

Effective tax rate used in calculating deferred tax assets or liabilities arising from temporary differences is 27.5% including resident tax.

21. DIVIDENDS:

The computation of the proposed dividends for 2006 is as follows:

	Number of shares	Dividend rate (%)	Translation into U.S. Dollars (Note 2)	
			Korean Won (In millions)	(In thousands)
Common shares, net of treasury shares	208,178,785	20%	₩ 208,179	\$ 223,944
Preferred shares, net of treasury shares:				
First and Third preferred shares	25,637,321	21%	26,919	28,958
Second preferred shares	36,613,865	22%	40,275	43,325
			<u>₩ 275,373</u>	<u>\$ 296,227</u>

The computation of the proposed dividends for 2005 is as follows:

	Number of shares	Dividend rate (%)	Translation into U.S. Dollars (Note 2)	
			Korean Won (In millions)	(In thousands)
Common shares, net of treasury shares	207,642,232	25	₩ 259,553	\$ 279,210
Preferred shares, net of treasury shares:				
First and Third preferred shares	25,637,321	26	33,328	35,852
Second preferred shares	36,613,865	27	49,429	53,172
			<u>₩ 342,310</u>	<u>\$ 368,234</u>

22. ELIMINATION OF UNREALIZED PROFITS AND LOSSES:

Unrealized profits and losses resulting from sales among consolidated subsidiaries are calculated based on the average gross margin rate of selling companies and are eliminated in the consolidated financial statements.

Unrealized profits and losses related to sales of inventories and property, plant and equipment in 2006 are as follows:

	Korean Won			Translation into U.S. Dollars (Note 2)		
	Inventories	Property, plant and equipment	Others	Inventories	Property, plant and equipment	Others
		(In millions)			(In thousands)	
Upstream sales	₩ 3,440	₩ -	₩ 93	\$ 3,701	\$ -	\$ 100
Downstream sales	119,876	204,164	(51,598)	128,954	219,626	(55,506)
Sales between consolidated subsidiaries	220,585	17,691	(26,655)	237,290	19,031	(28,674)

Unrealized profits and losses related to sales of inventories and property, plant and equipment in 2005 are as follows:

	Korean Won			Translation into U.S. Dollars (Note 2)		
	Inventories	Property, plant and equipment	Others	Inventories	Property, plant and equipment	Others
		(In millions)			(In thousands)	
Upstream sales	₩ 10,010	₩ -	₩ -	\$ 10,768	\$ -	\$ -
Downstream sales	217,366	92,644	(67,113)	233,827	99,660	(72,196)
Sales between consolidated subsidiaries	391,567	1,686	(15,478)	421,221	1,814	(16,650)

23. INTER-COMPANY TRANSACTIONS:

Significant transactions in 2006 and 2005 between the Company and consolidated subsidiaries are as follows:

	Korean Won				Translation into U.S. Dollars (Note 2)			
	2006		2005		2006		2005	
	Company's income	Company's expenses	Company's income	Company's expenses	Company's income	Company's expenses	Company's income	Company's expenses
	(In millions)				(In thousands)			
Kia Motors Corporation	₩ 623,330	₩ 651,530	₩ 654,236	₩ 447,228	\$ 670,536	\$ 700,871	\$ 703,782	\$ 481,097
Dymos Inc.	3,888	453,225	7,634	507,485	4,182	487,548	8,212	545,918
Hyundai Capital Service Inc.	475,404	46,701	340,174	37,915	511,407	50,238	365,936	40,786
WIA Corporation	145,944	253,820	163,099	292,699	156,997	273,042	175,451	314,866
KEFICO Corporation	93	293,153	245	293,907	100	315,354	264	316,165
Hyundai Powertech	18,317	150,671	27,025	238,863	19,704	162,082	29,072	256,952
Hyundai Autonet Co., Ltd.	230	142,653	-	-	247	153,456	-	-
Hyundai HYSO	1,846	171,530	2,033	160,856	1,986	184,520	2,187	173,038
Autoever Systems Corp.	172	154,967	5,349	124,265	185	166,703	5,754	133,676
Hyundai Card Co., Ltd.	286	70,844	1,707	54,632	308	76,209	1,836	58,769
METIA Co., Ltd.	1,892	30,323	4,640	25,086	2,035	32,619	4,991	26,986
ROTEM	569	43,548	185	43,767	612	46,846	199	47,082
Automobile Industrial Ace Corporation	42	1,002	-	-	45	1,078	-	-
Haevichi Resort	53	5,565	-	-	57	5,986	-	-
Mseat Co., Ltd.	-	-	-	7,737	-	-	-	8,323
Partecs Co.	1,425	739	-	-	1,533	795	-	-
Mando Map & Soft Co., Ltd.	1	885	-	-	1	952	-	-
Hyundai Motor America	2,918,600	-	5,008,656	-	3,139,630	-	5,387,969	-
Hyundai Motor Europe GmbH	2,650,542	-	2,595,567	-	2,851,272	-	2,792,133	-

	Korean Won				Translation into U.S. Dollars (Note 2)			
	2006		2005		2006		2005	
	Company's income	Company's expenses	Company's income	Company's expenses	Company's income	Company's expenses	Company's income	Company's expenses
	(In millions)				(In thousands)			
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	₩635,142	₩ -	₩636,653	₩ -	\$ 683,242	\$ -	\$ 684,868	\$ -
Hyundai Auto Canada	567,818	-	732,668	-	610,820	-	788,154	-
Hyundai Motor Company Australia	460,393	-	464,399	-	495,259	-	499,569	-
Hyundai Motor India	516,389	3,781	446,790	13,963	555,496	4,067	480,626	15,020
Hyundai Motor Manufacturing Alabama, LLC	265,596	-	88,354	88	285,710	-	95,045	95
Hyundai Motor Poland Sp.Zo. O	135,275	-	110,950	-	145,520	-	119,352	-
Hyundai Motor Norway	66,037	-	-	-	71,038	-	-	-
Hyundai America Technical Center Inc.	27	60,602	-	49,811	29	65,191	-	53,583
Hyundai Motor Europe Technical Center GmbH	7,268	28,465	-	22,769	7,818	30,621	-	24,493
Hyundai Motor Hungary	13,541	-	-	-	14,566	-	-	-
Hyundai Motor Japan Co.	7,123	-	30,708	-	7,662	-	33,034	-
Hyundai Motor Finance Company	1,378	-	-	-	1,482	-	-	-

As of December 31, 2006 and 2005, significant balances related to the transactions between the Company and consolidated subsidiaries are as follows:

	Korean Won				Translation into U.S. Dollars (Note 2)			
	2006		2005		2006		2005	
	Company's receivable	Company's payable	Company's receivable	Company's payable	Company's receivable	Company's payable	Company's receivable	Company's payable
	(In millions)				(In thousands)			
Kia Motors Corporation	₩ 221,427	₩ 133,366	₩ 228,440	₩ 176,820	\$ 238,196	\$ 143,466	\$ 245,740	\$ 190,211
Dymos Inc.	8,545	93,343	10,408	129,819	9,192	100,412	11,196	139,650
Hyundai Capital Service Inc.	34,188	10,043	27,143	17,202	36,777	10,804	29,199	18,505
WIA Corporation	33,564	80,492	17,979	202,159	36,106	86,588	19,341	217,469
KEFICO Corporation	902	43,211	1,089	-	970	46,483	1,171	-
Hyundai Powertech	2,964	33,995	13,342	75,088	3,188	36,569	14,352	80,775
Hyundai Autonet Co., Ltd	261	27,389	11	48,941	281	29,463	12	52,647
Hyundai HYSCO	3,210	51,669	1,568	32,414	3,453	55,582	1,687	34,869
Autoveer Systems Corp.	30	69,512	30	42,520	32	74,776	32	45,740
Hyundai Card	53,780	48,678	44,573	51,634	57,853	52,364	47,949	55,544
METIA Co., Ltd.	89	12,969	9,073	8,901	96	13,951	9,760	9,575
ROTEM	187	53,262	444	42,536	201	57,296	478	45,757
Haevichi Resort	13,110	1,163	-	-	14,103	1,251	-	-
Hyundai Motor America	926,886	19,973	1,026,664	20,077	997,080	21,486	1,104,415	21,597
Hyundai Motor Europe GmbH	355,901	-	443,402	-	382,854	-	476,981	-
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	215,215	62	156,741	-	231,514	67	168,611	-
Hyundai Motor Company Australia	101,238	103	127,678	297	108,905	111	137,347	319
Hyundai Motor India	50,196	281	16,428	1,417	53,997	302	17,672	1,524
Hyundai Motor Manufacturing Alabama, LLC	68,674	1,516	57,985	56	73,875	1,631	62,376	60
Hyundai Motor Poland Sp. Zo. O	43,342	1,465	24,038	493	46,624	1,576	25,858	530
Hyundai Motor Norway	34,170	4	-	-	36,758	4	-	-
Hyundai America Technical Center Inc.	17	7,131	-	8,507	18	7,671	-	9,151
Hyundai Motor Europe Technical Center GmbH	49	4,234	-	4,307	53	4,555	-	4,633
Hyundai Motor Japan Co.	16,532	104	30,905	211	17,784	112	33,245	227

Significant transactions in 2006 and 2005 between the consolidated subsidiaries are as follows:

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's income	Subsidiary's income	Subsidiary's income	Subsidiary's income
		(In millions)		(In thousands)	
Kia Motors Corporation	Hyundai Capital Service Inc.	₩ 122,219	₩ -	\$ 131,475	\$ -
	WIA Corporation	8,281	3,886	8,908	4,180
	Autoever Systems Corp.	4,062	3,135	4,370	3,372
	METIA Co., Ltd.	5,411	3,189	5,821	3,431
	Hyundai Powertech	1,472	2,100	1,583	2,259
	Dymos Inc.	1,718	-	1,848	-
	Hyundai HYSCO	145	7,228	156	7,775
	Hyundai Card	111	1,161	119	1,249
	KEFICO Corporation	181	3,193	195	3,435
	Mseat Co., Ltd.	44	736	47	792
	ROTEM	433	172	466	185
	Kia Motors America Inc.	4,124,897	3,929,627	4,437,282	4,227,224
	Kia Motors Europe GmbH	3,258,681	2,572,566	3,505,466	2,767,390
	Kia Canada, Inc.	424,924	367,698	457,104	395,544
	Dong Feng Yueda Kia Motor Co., Ltd.	235,748	232,285	253,602	249,876
	Kia Motors Polska Sp.z.o.o.	57,565	63,134	61,924	67,915
	Kia Motors Slovakia. s.r.o	42,225	23,647	45,423	25,438
	Hyundai Motor America	531,123	-	571,346	-
	Kia Motors Australia Pty. Ltd.	217,046	-	233,483	-
	Hyundai Auto Canada	63,286	-	68,079	-
	Hyundai Motor Group (China) Ltd.	36,778	-	39,563	-
Autoever Systems Corp.	Kia Motors Corporation	46,666	47,924	50,200	51,553
	Hyundai Capital Service Inc.	30,393	31,932	32,695	34,350
	Hyundai Card	24,600	26,791	26,463	28,820
	Hyundai HYSCO	11,756	22,751	12,646	24,474
	WIA Corporation	5,617	15,041	6,042	16,180
	Dymos Inc.	3,168	3,272	3,408	3,520
	ROTEM	7,786	6,874	8,376	7,395
	Hyundai Autonet Co., Ltd.	7,580	-	8,154	-
	KEFICO Corporation	1,684	1,087	1,812	1,169
	Hyundai Powertech	2,645	2,847	2,845	3,063
	Kia Motors Slovakia. s.r.o	7,475	-	8,041	-
	Hyundai Motor India	2,541	-	2,733	-
	Hyundai Information Service				
	North America	1,024	-	1,102	-
	Dong Feng Yueda Kia Motor Co., Ltd.	2,975	-	3,200	-
Hyundai Capital Service Inc.	Kia Motors Corporation	20,968	19,475	22,556	20,950
	Hyundai Card	14,209	11,814	15,285	12,709
	Hyundai Powertech	-	1,008	-	1,084
Hyundai Card	Hyundai Capital Service Inc.	38,344	5,258	41,248	5,656
	Kia Motors Corporation	21,405	18,228	23,026	19,608
	Autoever Systems Corp.	3,919	3,575	4,216	3,846
	Hyundai HYSCO	407	4,829	438	5,195
KEFICO Corporation	Kia Motors Corporation	86,426	87,411	92,971	94,031
	Hyundai Powertech	-	49,829	-	53,603
Dymos Inc.	Kia Motors Corporation	141,951	134,124	152,701	144,281
	ROTEM	32,339	34,517	34,788	37,131
	Mseat Co., Ltd.	22,803	5,183	24,530	5,576
	WIA Corporation	1,575	16,834	1,694	18,109
	Hyundai Powertech	4,305	-	4,631	-

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's income	Subsidiary's income	Subsidiary's income	Subsidiary's income
		(In millions)		(In thousands)	
WIA Corporation	Kia Motors Corporation	₩1,149,524	₩974,813	\$1,236,579	\$1,048,637
	ROTEM	16,102	34,475	17,321	37,086
	Dymos Inc.	10,140	6,874	10,908	7,395
	METIA Co., Ltd.	5,762	5,392	6,198	5,800
	Hyundai Powertech	3,118	375	3,354	403
	Partecs Co.	2,172	-	2,336	-
	Hyundai HYSKO	318	1,365	342	1,468
	Hyundai-Kia Machine America Corp	58,910	40,329	63,371	43,383
	Hyundai-Kia Machine Europe GmbH	61,521	33,276	66,180	35,796
	Wia Automotive Parts	13,761	7,857	14,803	8,452
	Hyundai Motor India	2,048	-	2,203	-
Hyundai Powertech	Kia Motors Corporation	356,269	300,304	383,250	323,046
ROTEM	Kia Motors Corporation	14,712	103,219	15,826	111,036
	WIA Corporation	7,795	-	8,385	-
	Autoever Systems Corp	1,463	-	1,574	-
	Dymos Inc.	-	7	-	8
Hyundai HYSKO	Kia Motors Corporation	42,453	53,886	45,668	57,967
	WIA Corporation	4,610	-	4,959	-
	Hyundai Hysco USA, Inc.	137,339	-	147,740	-
	Beijing Hyundai Hysco Steel Process Co., Ltd.	95,723	-	102,972	-
	Hysco America Company, Inc.	53,013	-	57,028	-
	Hysco Slovakia, s.r.o.	7,809	-	8,400	-
	Hyundai Motor Manufacturing Alabama, LLC	-	21,686	-	23,328
	Dong Feng Yueda Kia Motor Co., Ltd.	11,473	-	12,342	-
	Hyundai Motor India	2,285	-	2,458	-
METIA Co., Ltd.	WIA Corporation	52,061	113,617	56,004	122,221
	Kia Motors Corporation	12,038	3,096	12,950	3,330
	Dymos Inc.	2,655	2,488	2,856	2,676
Automobile Industrial Ace Corporation	WIA Corporation	57,822	170,994	62,201	183,944
	Kia Motors Corporation	49,727	-	53,493	-
	Dymos Inc.	135	-	145	-
Mseat Co., Ltd.	Dymos Inc.	223,549	286,158	240,479	307,829
	Kia Motors Corporation	-	3,550	-	3,819
Hyundai Autonet Co., Ltd.	Kia Motors Corporation	31,384	-	33,761	-
Haevichi Resort	Kia Motors Corporation	1,422	-	1,530	-
	Hyundai Card	226	-	243	-
	Hyundai HYSKO	228	-	245	-
Mando Map & Soft Co., Ltd.	Kia Motors Corporation	16	-	17	-
	Autoever Systems Corp	37	-	40	-
Hyundai America Technical Center Inc.	Kia Motors Corporation	40,162	21,762	43,204	23,410
Hyundai Motor America	Hyundai America Technical Center Inc.	29,582	10,126	31,822	10,893
	Hyundai Motor Finance Company	3,848	-	4,139	-
	Hyundai Motor Manufacturing Alabama, LLC	1,210	-	1,302	-
	World Marketing Group LLC	3,708	-	3,989	-
	Kia Motors America Inc.	2,550	2,648	2,743	2,849
World Marketing Group LLC	Hyundai Motor America	8,229	7,141	8,852	7,682
	Kia Motors America Inc.	-	11,967	-	12,873
Hyundai Motor Europe Technical Center GmbH	Kia Motors Corporation	22,703	16,266	24,422	17,498
	Hyundai Motor Europe GmbH	1,154	-	1,241	-

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's income	Subsidiary's income	Subsidiary's income	Subsidiary's income
		(In millions)		(In thousands)	
Kia Motors America Inc.	Kia Motors Corporation	₩ 477,983	₩ -	\$ 514,181	\$ -
	Hyundai Motor America	2,932	2,701	3,154	2,906
Hyundai Motor Europe GmbH	Hyundai Motor (UK) Ltd.	403,106	178,375	433,634	191,884
	Hyundai Motor Europe Technical Center GmbH	1,471	1,386	1,582	1,491
	Kia Motors Europe GmbH	1,756	-	1,889	-
Hyundai Motor Finance Company	Hyundai Motor America	3,066	-	3,298	-
Hyundai Translead, Inc.	Hyundai Motor America	8,221	10,494	8,844	11,289
	Kia Motors America Inc.	-	8,254	-	8,879
Hyundai Motor India	WIA Corporation	36,972	34,886	39,772	37,528
	Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	-	9,595	-	10,322
Kia Motors Europe GmbH	Kia Motors Corporation	103,773	-	111,632	-
	Kia Motors (UK) Ltd.	527,092	650,864	567,009	700,155
	Kia Motors Belgium	126,685	87,123	136,279	93,721
	Kia Motors Austria GmbH	81,448	127,045	87,616	136,666
	Kia Motors Polska Sp.z.o.o.	50,664	-	54,501	-
	Kia Motors Hungary Kft	30,492	23,665	32,801	25,457
	Kia Motors Deutschland GmbH	538,269	649,741	579,033	698,947
	Kia Motors Iberia	629,793	621,302	677,488	668,354
	Kia Automobiles France	228,881	312,017	246,215	335,647
	Kia Motors Czech s.r.o.	48,005	41,387	51,640	44,521
	Kia Motors Sweden AB	41,896	46,177	45,069	49,674
	KIA Motors Slovensko S.r.o.	22,045	-	23,715	-
Kia Canada, Inc.	Kia Motors Corporation	18,078	-	19,447	-
Hyundai Motor Manufacturing Alabama, LLC	Hyundai Motor America	3,292,806	-	3,542,175	-

As of December 31, 2006 and 2005, significant balances related to the transactions between the consolidated subsidiaries are as follows:

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable
		(In millions)		(In thousands)	
Kia Motors Corporation	Hyundai Capital Service Inc.	₩ 24,154	₩ -	\$ 25,983	\$ -
	WIA Corporation	54,640	-	58,778	-
	Autoever Systems Corp.	320	285	344	307
	Hyundai Powertech	115	188	124	202
	Dymos Inc.	250	804	269	865
	Hyundai HYSCO	1,098	-	1,181	-
	Hyundai Card	15,149	6,506	16,296	6,999
	KEFICO Corporation	1	225	1	242
	ROTEM	19	172	20	185
	Kia Motors America Inc.	1,125,670	1,237,206	1,210,919	1,330,901
	Kia Motors Europe GmbH	1,969,044	1,028,576	2,118,163	1,106,472
	Kia Canada, Inc.	161,253	163,504	173,465	175,886
	Dong Feng Yueda Kia Motor Co., Ltd.	52,891	38,617	56,897	41,542
	Kia Motors Polska Sp.z.o.o.	11,475	1,170	12,344	1,259

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable
		(In millions)		(In thousands)	
	Kia Motors Slovakia. s.r.o	₩ 8,454	₩ 5,356	\$ 9,094	\$ 5,762
	Hyundai Motor America	47,098	-	50,665	-
	Kia Motors Australia Pty. Ltd.	85,466	-	91,938	-
	Hyundai Auto Canada	498	-	536	-
	Hyundai Motor Group (China) Ltd.	30,080	-	32,358	-
Autoever Systems Corp.	Kia Motors Corporation	12,224	11,883	13,150	12,783
	Hyundai Capital Service Inc.	148	-	159	-
	Hyundai Card	9,655	8,162	10,386	8,780
	Hyundai HYSCO	3,314	7,868	3,565	8,464
	WIA Corporation	960	1,708	1,033	1,837
	Dymos Inc.	1,350	1,470	1,452	1,581
	ROTEM	4,159	1,337	4,474	1,438
	Hyundai Autonet Co., Ltd.	4,084	236	4,393	254
	KEFICO Corporation	432	270	465	290
	Hyundai Powertech	1,790	1,768	1,926	1,902
	Kia Motors Slovakia. s.r.o	1,568	-	1,687	-
	Hyundai Motor India	2,143	-	2,305	-
	Hyundai Information Service				
	North America	373	-	401	-
	Dong Feng Yueda Kia Motor Co., Ltd.	1,995	-	2,146	-
Hyundai Capital Service Inc.	Kia Motors Corporation	32,253	-	34,696	-
	Hyundai Card	894	-	962	-
	Hyundai Powertech	3,307	7,322	3,557	7,877
Hyundai Card	Hyundai Capital Service Inc.	64,389	59,874	69,265	64,408
	Kia Motors Corporation	11,530	14,834	12,403	15,957
	Autoever Systems Corp	24,029	10,280	25,849	11,059
	Hyundai HYSCO	263	5,651	283	6,079
	WIA Corporation	2,107	30,579	2,267	32,895
KEFICO Corporation	Kia Motors Corporation	13,222	11,192	14,223	12,040
	Hyundai Powertech	7,479	11,640	8,045	12,522
Dymos Inc.	Kia Motors Corporation	26,359	12,170	28,355	13,092
	ROTEM	15,964	6,971	17,173	7,499
	M.Seat Co., Ltd.	660	-	710	-
	WIA Corporation	817	-	879	-
	Hyundai Powertech	4,070	-	4,378	-
WIA Corporation	Kia Motors Corporation	250,898	196,883	269,899	211,793
	ROTEM	7,455	31,292	8,020	33,662
	Dymos Inc.	4,597	-	4,945	-
	METIA Co., Ltd.	5,382	2,682	5,790	2,885
	Hyundai Powertech	2,464	412	2,651	443
	Partecs Co.	2,389	-	2,570	-
	Hyundai HYSCO	-	1,502	-	1,616
	Hyundai-Kia Machine America Corp	14,316	14,825	15,400	15,948
	Hyundai-Kia Machine Europe GmbH	10,110	22,674	10,876	24,391
	Wia Automotive Parts	14,913	-	16,042	-
	Hyundai Motor India	170	-	183	-
Hyundai Powertech	Kia Motors Corporation	66,322	58,874	71,345	63,333
ROTEM	Kia Motors Corporation	18,336	36,735	19,725	39,517
	Autoever Systems Corp	132	-	142	-
	Dymos Inc.	4,597	-	4,945	-
Hyundai HYSCO	Kia Motors Corporation	11,274	10,300	12,128	11,080
	Hyundai Card	12,434	12,992	13,376	13,976
	WIA Corporation	2,215	-	2,383	-

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable
		(In millions)		(In thousands)	
	Hyundai Hysco USA, Inc.	₩ 4,652	₩ -	\$ 5,004	\$ -
	Beijing Hyundai Hysco Steel Process Co., Ltd.	3,588	-	3,860	-
	Hysco America Company, Inc.	444	-	478	-
	Hysco Slovakia, s.r.o.	1,274	-	1,370	-
	Hyundai Motor Manufacturing Alabama, LLC	-	11,440	-	12,306
	Dong Feng Yueda Kia Motor Co., Ltd.	461	-	496	-
	Hyundai Motor India	411	-	442	-
METIA Co., Ltd.	WIA Corporation	29,568	14,476	31,807	15,572
	Kia Motors Corporation	9,416	719	10,129	773
	Dymos Inc.	1,269	1,258	1,365	1,353
Automobile Industrial Ace Corporation	WIA Corporation	1,703	20,178	1,832	21,706
	Kia Motors Corporation	15,922	-	17,128	-
	Dymos Inc.	133	-	143	-
Mseat Co., Ltd.	Dymos Inc.	63,518	41,571	68,328	44,719
Hyundai Autonet Co., Ltd.	Kia Motors Corporation	11,931	2,775	12,835	2,985
	Hyundai-Hitech Electronics	10,244	-	11,020	-
Haevichi Resort	Kia Motors Corporation	3,048	-	3,279	-
	Hyundai Card	111	-	119	-
	Hyundai HYSCO	33	-	35	-
Hyundai America Technical Center Inc.	Kia Motors Corporation	5,018	3,828	5,398	4,118
Hyundai Motor America	Hyundai America Technical Center Inc.	1,564	2,666	1,682	2,868
	Hyundai Motor Manufacturing Alabama, LLC	4,805	-	5,169	-
	World Marketing Group LLC	4	-	4	-
	Kia Motors America Inc.	410	-	441	-
World Marketing Group LLC	Hyundai Motor America	15,175	9,962	16,324	10,716
	Kia Motors America Inc.	6,367	10,308	6,849	11,089
Hyundai Motor Europe Technical Center GmbH	Kia Motors Corporation	5,696	-	6,127	-
Hyundai-Kia Machine America Corp	WIA Corporation	288	69	310	74
Kia Motors America Inc.	Kia Motors Corporation	151,524	-	162,999	-
Hyundai Motor Europe GmbH	Hyundai Motor (UK) Ltd.	178,045	145,121	191,529	156,111
	Hyundai Motor Europe Technical Center GmbH	-	1,182	-	1,272
Hyundai Motor Finance Company	Kia Motors Corporation	-	8,389	-	9,024
	Hyundai Motor America	308,972	-	332,371	-
Hyundai Translead, Inc.	Hyundai Motor America	791	-	851	-
	Hyundai Motor Finance Company	10,656	10,826	11,463	11,646
	Kia Motors America Inc.	1,040	-	1,119	-
Hyundai Motor India	WIA Corporation	2,492	1,472	2,681	1,583
	Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	1,049	1,141	1,128	1,227
	Hyundai Motor (UK) Ltd.	19,894	-	21,401	-
Kia Motors Europe GmbH	Kia Motors (UK) Ltd.	509,475	382,638	548,058	411,616
	Kia Motors Belgium	91,036	44,392	97,930	47,754
	Kia Motors Austria GmbH	85,763	70,968	92,258	76,343
	Kia Motors Polska Sp.z.o.o.	51,386	-	55,278	-

Subsidiaries	Counterpart subsidiaries	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable	Subsidiary's receivable
		(In millions)		(In thousands)	
	Kia Motors Hungary Kft	₩ 32,573	₩ 12,728	\$ 35,040	\$ 13,692
	Kia Motors Deutschland GmbH	460,572	348,825	495,452	375,242
	Kia Motors Iberia	403,044	84,731	433,567	91,148
	Kia Automobiles France	252,817	169,094	271,963	181,900
	Kia Motors Czech s.r.o.	17,479	14,913	18,803	16,042
	Kia Motors Sweden AB	36,800	25,609	39,587	27,548
	KIA Motors Slovensko S.r.o.	13,056	-	14,045	-
Kia Canada, Inc.	Kia Motors Corporation	3,268	-	3,515	-
Hyundai Motor Manufacturing Alabama, LLC	Hyundai Motor America	255,501	-	274,850	-
	Hyundai Auto Canada	37,460	-	40,297	-
	Hyundai Motor Finance Company	219,505	-	236,128	-

24. RELATED PARTY TRANSACTIONS:

(1) In 2006, significant transactions with related parties other than the consolidated subsidiaries are as follows:

Companies	Related party	Korean Won		Translation into U.S. Dollars (Note 2)	
		Sales/ revenues	Purchases/ expenses	Sales/ revenues	Purchases/ expenses
		(In millions)		(In thousands)	
Hyundai Motor Company	Hyundai Mobis	₩ 467,897	₩ 2,703,705	\$ 503,332	\$ 2,908,461
	Asset Management Co., Ltd.	352	348,064	379	374,423
	Glovis Co., Ltd.	24,522	347,910	26,379	374,258
	Beijing-Hyundai Motor Company	566,300	53,998	609,187	58,087
	Hyundai Steel Company	1,683	12,039	1,810	12,951
	Iljin Bearing Co., Ltd.	12	33,898	13	36,465
	Eukor Car Carriers Inc.	1,505	457,403	1,619	492,043
Kia Motors Corporation	Hyundai Mobis	41,357	1,850,066	44,489	1,990,174
	Asset Management Co., Ltd.	843	74,896	907	80,568
	Glovis Co., Ltd.	11,606	190,593	12,485	205,027
	Donghui Auto Co., Ltd.	571	85,567	614	92,047
	Eukor Car Carriers Inc.	-	435,692	-	468,688

In 2005, significant transactions with related parties other than the consolidated subsidiaries are as follows:

Companies	Related party	Korean Won		Translation into U.S. Dollars (Note 2)	
		Sales/ revenues	Purchases/ expenses	Sales/ revenues	Purchases/ expenses
		(In millions)		(In thousands)	
Hyundai Motor Company	Hyundai Mobis	₩ 577,796	₩ 2,348,197	\$ 621,553	\$ 2,526,029
	Asset Management Co., Ltd.	-	347,440	-	373,752
	Glovis Co., Ltd.	-	337,307	-	362,852
	Beijing-Hyundai Motor Company	688,867	-	741,036	-
	Hyundai Steel Company	3,106	41,715	3,341	44,874
	Iljin Bearing Co., Ltd.	124	39,214	133	42,184
	Eukor Car Carriers Inc.	1,512	553,446	1,627	595,359
Kia Motors Corporation	Hyundai Mobis	46,598	1,914,575	50,127	2,059,569
	Asset Management Co., Ltd.	600	173,919	645	187,090
	Glovis Co., Ltd.	54,969	176,325	59,132	189,678
	Donghui Auto Co., Ltd.	19	85,297	20	91,757
	Eukor Car Carriers Inc.	33	437,366	35	470,488

- (2) As of December 31, 2006, significant balances related to the transactions other than the consolidated subsidiaries are as follows:

Companies	Related party	Korean Won		Translation into U.S. Dollars (Note 2)	
		Receivables	Payables	Receivables	Payables
		(In millions)		(In thousands)	
Hyundai Motor Company	Hyundai Mobis	₩ 84,416	₩ 498,272	\$ 90,809	\$ 536,007
	Asset Management Co., Ltd.	527	144,466	567	155,407
	Glovis Co., Ltd.	9,946	47,177	10,699	50,750
	Hyundai Steel Company	558	22,625	600	24,338
	Iljin Bearing Co., Ltd.	66	3,300	71	3,550
	EUKOR Car Carriers Inc.	17	39,939	18	42,964
Kia Motors Corporation	Hyundai Mobis	15,739	217,980	16,931	234,488
	Asset Management Co., Ltd.	-	31,209	-	33,573
	Glovis Co., Ltd.	823	27,525	885	29,610
	EUKOR Car Carriers Inc.	-	45,417	-	48,856

As of December 31, 2005, significant balances related to the transactions other than the consolidated subsidiaries are as follows:

Companies	Related party	Korean Won		Translation into U.S. Dollars (Note 2)	
		Receivables	Payables	Receivables	Payables
		(In millions)		(In thousands)	
Hyundai Motor Company	Hyundai Mobis	₩ 112,481	₩ 632,193	\$ 120,999	\$ 680,070
	Amco Corp.	-	188,196	-	202,448
	Glovis Co., Ltd.	-	49,599	-	53,355
	Hyundai Steel Company	713	3,152	767	3,391
	Iljin Bearing Co., Ltd.	19	4,000	20	4,303
	EUKOR Car Carriers Inc.	38	15,352	41	16,515
Kia Motors Corporation	Hyundai Mobis	13	239,132	14	257,242
	Amco Corp.	-	92,103	-	99,078
	Glovis Co., Ltd.	357	25,707	384	27,654
	EUKOR Car Carriers Inc.	-	39,583	-	42,581

25. COMMITMENTS AND CONTINGENCIES:

- (1) The Company and its consolidated subsidiaries are contingently liable for guarantees of indebtedness of related parties including subsidiaries as of December 31, 2006 as follows:

Company providing guarantee of indebtedness	Beneficiary companies	Korean Won	Translation into U.S. Dollars (Note 2)
		(In millions)	(In thousands)
Hyundai Motor Company	Hyundai Capital Co., Ltd	₩ 314,994	\$ 338,849
	Hyundai Merchant Marine	199,559	214,672
	ROTEM	64,355	69,229
	Hyundai Card Co., Ltd.	3,718	4,000
	Hyundai Motor Manufacturing Alabama LLC	627,480	675,000
	Hyundai Auto Canada Captive Insurance Incorporation	13,444	14,462
	Hyundai Motor Finance Company	669,312	720,000
	Hyundai Motor Europe GmbH	29,334	31,556
	HMI	92,960	100,000
	Hyundai Motor Europe Technical Center GmbH	73,334	78,888
	Hyundai Motor Poland Sp.zo.o.	6,111	6,574

Company providing guarantee of indebtedness	Beneficiary companies	Korean Won (In millions)	Translation into U.S. Dollars (Note 2) (In thousands)
	Hyundai Motor Japan Co.	39,092	42,052
	HMJ R&D Center Inc.	4,300	4,626
	Hyundai Translead	92,030	99,000
	Smart Alabama LLC	111,552	120,000
	Beijing Jingxian Motor Safeguard Service Co., Ltd.	2,324	2,500
	Beijing Hines Millennium Real Estate Development Co., Ltd.	13,944	15,000
	Equus Cayman Finance Ltd.	371,840	400,000
	Hyundai America Technical Center Inc.	18,592	20,000
	UTS	223,104	240,000
HMUK	HM Revenue and Customs	10,945	11,774
ROTEM	The Export-Import Bank of Korea	41,514	44,658
Hyundai HYSCO	Hyundai Hysco USA, Inc.	18,592	20,000
	Bejing Hyundai Hysco Steel Process Co., Ltd.	29,988	32,259
	Hysco America Company, Inc	27,888	30,000
	Hysco Slovakia S.R.O	15,278	16,435
	Jiangsu Hyundai Hysco Steel Process Co., Ltd.	10,314	11,095
Dymos Inc.	Beijing Lear Dymos Automotive Systems Co.	2,975	3,200
	Amco town Contractors	48,971	52,680
MSEAT Corp.	Dymos Inc.	19,643	21,131
WIA Corp.	WIA Automotive Parts	9,296	10,000
	Hyundai-Kia Machine America Corp.	24,170	26,000
	Hyundai-Kia Machine Europe GmbH	5,500	5,917
Kia Motors Corporation	Kia Motors Slovakia	424,202	456,327
	Kia Motors (UK) Ltd.	31,632	34,028
	Kia Motors Europe GmbH	55,000	59,165
Hyundai Autonet	Hyundai Hi-Tech Electronics (Tianjin) Co. Ltd.	11,155	12,000
Total		<u>3,758,442</u>	<u>4,043,077</u>

- (2) As of December 31, 2006, the outstanding balance of accounts receivable discounted with recourse amounts to ₩3,724,587 million (US\$4,006,656 thousand), including discounted overseas accounts receivable translated using the foreign exchange rate at December 31, 2006.
- (3) The Company offered financial institutions 48 checks including one check amounting to ₩2,624 million (US\$2,823 thousand) and 131 promissory notes including 9 checks amounting to ₩31,070 million (US\$33,423 thousand) that were issued by the Company as collateral to guarantee the payment of borrowings.
- (4) The Company uses a customer financing system related to a long-term instalment sales system and has provided guarantees of ₩71,411 million (US\$76,819 thousand) to the banks concerned as of December 31, 2006. These guarantees are all covered by insurance contracts, which regulate a customer and the Company as a contractor and a beneficiary, respectively.
- (5) Ongoing lawsuits
- 1) The Company accrues estimated product liabilities expenses and carries the products and completed operations liability insurance (see Note 8) in order to cover the potential loss, which may occur due to the lawsuits related to its operation such as product liabilities. The Company expects that the resolution of pending cases against the Company as of December 31, 2006 will not have any material effect on its financial position.

- 2) Nine significant lawsuits that Kia Motors Corporation, one of domestic subsidiaries, is facing are in progress and the potential payment for damages according to the result of the lawsuits is up to ₩7,884 million (US\$8,481 thousand). Kia Motors Corporation is involved in lawsuits, in Brazilian court, pertaining to the disputes with the Brazilian shareholders of Asia Motors Do Brazil S.A. (AMB) and AMB, which was established as a joint venture by Asia Motors with a Brazilian investor. In December 2001, Kia Motors Corporation brought the case to the International Court of Arbitration in International Chamber of Commerce (ICC) to settle the disputes pursuant to the terms of contract signed at the time of the inception of the joint venture, which stipulate that in case the business has been adversely affected by a party's failure to comply with contract terms and other reasons, the matter should be taken before the International Court of Arbitration for settlement and parties shall be held accountable according to the results. The case was decided in favour of Kia Motors Corporation in the International Court of Arbitration on July 22, 2004. In addition, Kia Motors Corporation, a shareholder of AMB, has already written off this investment of ₩14,057 million (US\$15,122 thousand). Although the outcome of this matter is not currently predictable, management believes that the resolution of these matters will not have material adverse effect on the operation or financial position of the company.
- 3) There exist other ongoing lawsuits related to subsidiaries that were not presented above; however, the Company expects there would not be significant effects on its consolidated financial statements.
- (6) As of December 31, 2006, the Company's consolidated subsidiaries have been provided for payment guarantee by other companies as follows:

<u>Consolidated Subsidiaries</u>	<u>Company providing guarantee of indebtedness</u>	<u>Amounts of guarantee</u> (In thousands)	<u>Translation into U.S. Dollars (Note 2)</u> (In thousands)
Dymos Inc.	Seoul Guarantee Insurance Company	KRW 5,510,000	\$ 5,927
	Korea Housing Guarantee Co., Ltd	KRW 166,847,000	179,483
KEFICO Corporation	Korea Exchange Bank	USD 2,537	2,537
	Korea Exchange Bank	JPY 113,707	956
	Korea Exchange Bank	EUR 774	1,018
ROTEM	Seoul Guarantee Insurance Company	KRW 105,000	113
	Machinery Insurance Cooperative	KRW 1,177,819,000	1,267,017
	and other	USD 214,838	214,838
		EUR 153,916	202,370
		NTD 6,870	206
		CAD 8,033	6,922
		HKD 45,138	5,807
	SGD 11,409	7,434	
	TND 1,500	1,163	
	TTD 5,000	800	
Autoever Systems Corp.	Korea Software Financial Cooperative	KRW 42,460,000	45,676
Hyundai Card Co., Ltd.	Seoul Guarantee Insurance Company	KRW 23,888,000	25,697
WIA Corp.	The Export-Import Bank of Korea	KRW 26,107,000	28,084
	Machinery Insurance Cooperative	KRW 134,180,000	144,342
Hyundai Autonet	Financial Institutions	KRW 6,286,000	6,762

- (7) The Company and Kia Motors Corporation made an agreement with its European sales subsidiaries and agents for them to be responsible for projected costs for dismantling and recycling vehicles sold in corresponding countries to comply with European Parliament directive regarding End-of-Life vehicles (ELV).
- (8) In 2006, the Company sold 10,658,367 shares of ROTEM to MSPE Metro Investment AB and entered into a shareholders' agreement. MSPE Metro Investment AB is entitled to put option to sell those shares back to the Company in certain events (as defined) in accordance with the agreement.

- (9) Some directors of the Company and certain subsidiaries are sued in the Seoul District Court with respect to certain money transactions of the prior years. Currently, it is impossible to reasonably measure the probability and amount of an outflow of resources required to settle the consequence of this trial; however, the management estimates that the effect of this trial on the financial statements will not be material. Therefore, no adjustment is reflected in the accompanying financial statements.
- (10) The Company has been investigated by the Fair Trade Commission (FTC) in connection with business activities of the prior years. Currently, it is impossible to reasonably measure the expenditure required to settle the consequence of this investigation; however, the management estimates that the effect of this investigation on the financial statements will not be material. Therefore, no adjustment is reflected in the accompanying financial statements.
- (11) Hyundai Capital Co., Ltd., one of domestic subsidiaries of the Company, made a credit facility agreement on a US\$ 600 million renewable one-year revolving credit facility up to 3 years to be provided by General Electric Capital Corporation (the "GECC") to Hyundai Capital Co., Ltd. on January 13, 2006. Under the terms of such agreement, Hyundai Capital Co., Ltd. shall pay commitment fee of Libor+90bp for the usage of facility and 20bp for the remaining. Also, the maturity of individual draw-down is within 1 year from the time of withdrawal and in case of termination, the maturity for previous withdrawals can be extended to 1 year from the time of termination. In addition, Hyundai Capital Co., Ltd, GECC and the Company made a support agreement on credit facility agreement on the same date of the credit facility agreement. According to the support agreement, when Hyundai Capital Co., Ltd cannot redeem in a year after the withdrawal, GECC has the right of debt-to-equity swap for the relevant draw-down and has the put option that GECC can sell converted stocks to the Company within the ownership of the Company. In this case, the amount which the Company pays to GECC is the amount of withdrawal for debt-to-equity swap multiplied by the ownership of the Company. Also, the Company has the call option that it can buy converted stocks from GECC on the same condition of put option when the GECC does not exercise the put option. According to the support agreement, Hyundai Capital Co., Ltd is supposed to pay 15bp commission to the Company based on the amount on which the credit facility agreement was established multiplied by the ownership percentage of the company.
- (12) On May 12, 2006, Hyundai Capital Co., Ltd., one of domestic subsidiaries of the Company, made an agreement on the Global Medium Term Note Programme (the "Programme"). The notes issued under the Programme is listed on Singapore Exchange Securities Trading Limited (the "SGX-ST") and then traded on the SGX-ST. The maximum aggregate nominal amount of notes outstanding will not exceed USD 2 billion and the notes may be issued at any time up to the limit.
- (13) Hyundai Capital Co., Ltd made a Revolving Credit Facility Agreement with following financial institutions for Credit Line.

<u>Financial institution</u>	<u>Credit Line</u>	<u>Commission</u>	<u>Contract term</u>
ING Bank N.V., Seoul Branch	US\$ 100,000,000	- committed : Libor+45bp - uncommitted :8bp	2006.11.25 ~ 2007.11.25
Mizuho Corporate Bank, Seoul Branch	US\$ 100,000,000	- committed : Libor+75bp - uncommitted : 10bp	2006. 4.12 ~ 2007. 4.12
JP Morgan Seoul Branch	US\$ 50,000,000	- committed : Libor+45bp - uncommitted : 8bp	2006. 8. 4 ~ 2007. 8. 4
ABN Amro, Seoul Branch	US\$ 50,000,000	- committed : Libor+45bp - uncommitted : 8bp	2006. 9.11 ~ 2007. 9.11
Citibank, Seoul	KRW 47,000million	- committed : 91day CD+0.6% - uncommitted : 8bp	2006. 9.15 ~ 2007. 9.15
MUFJ, Seoul Branch	JPY 5,000,000,000	- committed : ¥ Libor+48bp - uncommitted : 8bp	2006.11.15 ~ 2007.11.15

- (14) Hyundai Card Co., Ltd., one of domestic subsidiaries of the Company, made an agreement regarding asset backed securitization. According to the agreement, in order for the credibility of the asset-backed securities, several required provisions are made as a trigger clauses to be used for early redemption calls, thereby limiting the risk that investors will have resulting from a change in quality of the assets in the future. In the event the asset-backed securitization of the Hyundai Card Co., Ltd. is in violation of the applicable trigger clause, Hyundai Card Co., Ltd. is obliged to make early redemption for asset-backed securities.

- (15) WIA Corp., one of domestic subsidiaries of the Company, made a general instalment financing contract with Yonhap Capital Corp. in order to promote the sales of its machine tools. According to the contract, if a user of the instalment financing service is in default, WIA Corp. has to accept responsibility for the default receivable. The amount of principal that has not matured is ₩98,321 million (US\$105,767 thousand) and ceiling amount is ₩150,000 million (US\$161,360 thousand) as of December 31, 2006.

26. DERIVATIVE INSTRUMENTS:

- (1) The Company entered into derivative instrument contracts including forwards, options and swaps to hedge the exposure to changes in foreign exchange rate. As of December 31, 2006 and 2005 the Company deferred the net gain of ₩20,068 million (US\$21,588 thousand) and ₩33,590 million (US\$36,134 thousand), respectively, on valuation of the effective portion of derivative instruments for cash flow hedging purposes from forecasted exports as capital adjustments. The longest period in which the forecasted transactions are expected to occur is within 44 months from December 31, 2006. Of the net loss on valuation recorded as capital adjustments as of December 31, 2006 amounting to ₩36 million (US\$39 thousand) is expected to be realized and charged to current operations within one year from December 31, 2006.

For the year ended December 31, 2006 and 2005, the Company recognized the net loss of ₩274,104 million (US\$294,862 thousand) and the net gain of ₩389,078 million (US\$418,543 thousand), respectively, on valuation of the ineffective portion of such instruments and the other derivative instruments in current operations.

The Company entered into derivative instrument contracts with the settlement for the difference between the fair value and the contracted initial price of the shares of Kia Motors Corporation as follows:

<u>Contract Parties</u>	<u>Derivatives</u>	<u>Period</u>	<u>Number of Kia shares</u>	<u>Initial price</u>
Credit Suisse First Boston International	Equity swap	September 17, 2003 ~ September 8, 2008	12,145,598	US\$ 8.2611
"	Call option (*)	"	12,145,598	US\$ 11.5300
"	Equity swap	"	21,862,076	US\$ 8.2611
JP Morgan Chase Bank, London Branch	"	"	1,839,367	US\$ 7.8811

(*) The Company has the position of seller.

The gain or loss on valuation of these derivatives related to the fair value of Kia shares is recognized in current operations.

As of December 31, 2006 and 2005, all premiums to be paid by the Company are recorded as accounts payable-other of ₩21,524 million (US\$23,154 thousand) and ₩23,455 million (US\$25,231 thousand), respectively, and other long-term liabilities of ₩21,417 million (US\$23,039 thousand) and ₩46,793 million (US\$50,337 thousand), respectively, after deducting the present value discount of ₩2,703 million (US\$2,908 thousand) and ₩6,584 million (US\$7,083 thousand), respectively. Also, as of December 31, 2006 and 2005, all premiums to be received by the Company are recorded as other current assets of ₩3,529 million (US\$3,796 thousand) and ₩3,845 million (US\$4,136 thousand), respectively, and long-term other accounts receivable of ₩3,529 million (US\$3,796 thousand) and ₩7,690 million (US\$8,272 thousand), respectively, after deducting the present value discount of ₩448 million (US\$482 thousand) and ₩1,154 million (US\$1,241 thousand), respectively.

The Company recorded total gain on valuation of outstanding derivatives and present value of premiums of ₩290,925 million (US\$312,957 thousand) and ₩751,995 million (US\$808,945 thousand) in current and non-current assets as of December 31, 2006 and 2005, respectively. Also, total loss on valuation of outstanding derivatives and present value of premiums of ₩55,506 million (US\$59,710 thousand) and ₩205,504 million (US\$221,067 thousand) is recorded in current and long-term liabilities as of December 31, 2006 and 2005, respectively.

- (2) The transactions of currency options and forwards belonging to subsidiaries as of December 31, 2006 consist of following:

<u>Derivatives</u>	<u>Contract parties</u>	<u>Contract amount</u>	<u>Period</u>
Currency option	CALYON Financial	EUR 20,000,000	2007.02.07~2007.03.07
		USD 120,000,000	2009.12.30
	USD 30,000,000	(*1)	
	USD 30,000,000	(*1)	
	USD 120,000,000	(*2)	
Currency forward	BNP PARIBAS	JPY 1,800,000,000	2007.04.18
		USD 10,000,000	2007.03.30
		USD 10,000,000	2007.06.29
		USD 15,000,000	2007.09.28
		USD 15,000,000	2007.12.28

(*1) The maturity of monthly contract amounting to US\$ 5,000 thousand is from July 27, 2007 to December 27, 2007.

(*2) The maturity of monthly contract amounting to US\$ 10,000 thousand is from January 29, 2008 to December 29, 2008.

Gains and losses on valuation of currency options and forwards for the year ended December 31, 2006 are as follows:

<u>Description</u>	<u>Gains and losses for the term</u>		<u>Capital adjustments</u>
	<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars</u> (In thousands)	
Gains on valuation of derivatives	1,975	2,125	-
Losses on valuation of derivatives	(2,973)	(3,198)	-
Total	(998)	(1,074)	-

- (3) Some subsidiaries entered into currency swap contract and cross-currency swap contract to hedge the exposure to changes in foreign exchange rates and interest rates on variable-rate debentures. Gains and losses on valuation of derivatives as of December 31, 2006 are as follows:

<u>Description</u>	<u>Contract amount</u>	<u>Gains and losses for the term</u>		<u>Capital adjustments</u>	
		<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars</u> (In thousands)	<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars</u> (In thousands)
Valuation of derivatives	2,993,592	(575)	(619)	(40,781)	(43,869)
Valuation of derivatives	59,522	-	-	(257)	(276)
Total	3,053,114	(575)	(619)	(41,038)	(44,146)

Of the net losses on valuation of currency swap and cross-currency swap recorded as capital adjustments that are expected to be realized and charged to current operations within one year from December 31, 2006 are ₩19,458 million (US\$20,932 thousand) and ₩257 million (US\$276 thousand), respectively. In addition, due to the currency swap and cross-currency swap transactions, the maximum period exposed to changes in expected future cash flows is till November 2011.

- (4) Some subsidiaries entered into seven forward exchange contracts with Shinhan Bank and others to hedge the exposure to changes in foreign exchange rates on debts and credits in foreign currency as follows:

<u>Derivatives</u>	<u>Contract parties</u>	<u>Contract amount</u>	<u>Settlement date</u>
Forward exchange	Hana Bank	USD 754,000	2007.02.28
		USD 913,562	2007.07.30
	Shinhan Bank	USD 1,755,000	2007.11.30
		USD 1,322,711	2007.02.06
		USD 11,763,500	2007.04.30
	Citibank Korea Inc.	USD 4,446,000	2007.03.05
		EUR 7,111,000	2007.05.21

Gains and losses on valuation of forward exchange contracts for the year ended December 31, 2006 are as follows:

Description	Gains and losses for the term		Capital adjustments
	Korean Won (In millions)	Translation into U.S. Dollars (In thousands)	
Gains on valuation of derivatives	342	368	-
Losses on valuation of derivatives	(267)	(287)	-
Total	75	81	-

27. SEGMENT INFORMATION:

(1) Consolidated financial statements by industry

The consolidated balance sheets as of December 31, 2006 and 2005, and consolidated statements of income for the years then ended, by industry under which the Company and its subsidiaries' business are classified, are as follows:

Consolidated Balance Sheets as of December 31, 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	Non-financial industry	Financial industry	Non-financial industry	Financial industry
	(In millions)		(In thousands)	
ASSETS				
Current assets:	₩ 23,854,680	₩ 1,446,622	\$ 25,661,231	\$ 1,556,177
Non-current assets:				
Investments, net of unamortized present value discount	4,873,774	1,646,205	5,242,872	1,770,875
Property, plant and equipment, net of accumulated depreciation	23,309,614	181,781	25,074,886	195,548
Intangibles, net of amortization	2,548,243	60,222	2,741,225	64,783
Other financial business assets	-	15,144,269	-	16,291,166
Total non-current assets	<u>30,731,631</u>	<u>17,032,477</u>	<u>33,058,983</u>	<u>18,322,372</u>
Total assets	<u>₩ 54,586,311</u>	<u>₩ 18,479,099</u>	<u>\$ 58,720,214</u>	<u>\$ 19,878,549</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	₩ 23,883,705	₩ 7,736,308	\$ 25,692,454	\$ 8,322,190
Non-current liabilities	10,642,770	8,201,734	11,448,763	8,822,864
Other financial business liabilities	-	148,224	-	159,449
Total liabilities	<u>34,526,475</u>	<u>16,086,266</u>	<u>37,141,217</u>	<u>17,304,503</u>
Shareholders' equity:				
Capital stock	1,484,942	1,649,640	1,597,399	1,774,570
Capital surplus	5,405,773	428,463	5,815,160	460,911
Retained earnings	9,812,872	323,248	10,556,015	347,728
Capital adjustments	(794,410)	(8,518)	(854,572)	(9,163)
Minority interests	4,150,659	-	4,464,995	-
Total shareholders' equity	<u>20,059,836</u>	<u>2,392,833</u>	<u>21,578,997</u>	<u>2,574,046</u>
Total liabilities and shareholders' equity	<u>₩ 54,586,311</u>	<u>₩ 18,479,099</u>	<u>\$ 58,720,214</u>	<u>\$ 19,878,549</u>

Consolidated Balance Sheets as of December 31, 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	Non-financial industry	Financial industry	Non-financial industry	Financial industry
	(In millions)		(In thousands)	
ASSETS				
Current assets:	₩ 23,410,682	₩ 1,552,756	\$ 25,183,608	\$ 1,670,349
Non-current assets:				
Investments, net of unamortized present value discount	4,735,303	2,608,660	5,093,914	2,806,218
Property, plant and equipment, net of accumulated depreciation	21,211,029	130,657	22,817,372	140,552
Intangibles, net of amortization	2,254,645	74,735	2,425,393	80,395
Other financial business assets	-	11,295,391	-	12,150,807
Total non-current assets	<u>28,200,977</u>	<u>14,109,443</u>	<u>30,336,679</u>	<u>15,177,972</u>
Total assets	<u>₩ 51,611,659</u>	<u>₩ 15,662,199</u>	<u>\$ 55,520,287</u>	<u>\$ 16,848,321</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	₩ 22,709,571	₩ 7,572,708	\$ 24,429,401	\$ 8,146,201
Non-current liabilities	9,746,884	6,245,002	10,485,030	6,717,945
Other financial business liabilities	-	286,329	-	308,013
Total liabilities	<u>32,456,455</u>	<u>14,104,039</u>	<u>34,914,431</u>	<u>15,172,159</u>
Shareholders' equity:				
Capital stock	1,482,905	1,283,800	1,595,208	1,381,024
Capital surplus	5,038,670	866,340	5,420,256	931,949
Retained earnings	9,280,764	(666,721)	9,983,610	(717,213)
Capital adjustments	(791,672)	74,741	(851,627)	80,402
Minority interests	4,144,537	-	4,458,409	-
Total shareholders' equity	<u>19,155,204</u>	<u>1,558,160</u>	<u>20,605,856</u>	<u>1,676,162</u>
Total liabilities and shareholders' equity	<u>₩ 51,611,659</u>	<u>₩ 15,662,199</u>	<u>\$ 55,520,287</u>	<u>\$ 16,848,321</u>

Consolidated Statements of Income for the year ended December 31, 2006

	Korean Won		Translation into U.S. Dollars (Note 2)	
	Non-financial industry	Financial industry	Non-financial industry	Financial industry
	(In millions)		(In thousands)	
Sales	₩ 61,081,347	₩ 3,389,565	\$ 65,707,129	\$ 3,646,262
Cost of sales	49,275,977	1,785,167	53,007,721	1,920,360
Selling and administrative expenses	<u>10,420,927</u>	<u>1,089,208</u>	<u>11,210,119</u>	<u>1,171,696</u>
Operating income	1,384,443	515,190	1,489,289	554,206
Other income (expenses), net	<u>235,052</u>	<u>197,675</u>	<u>252,853</u>	<u>212,645</u>
Ordinary income	1,619,495	712,865	1,742,142	766,851
Extraordinary item	-	-	-	-
Income before income tax	1,619,495	712,865	1,742,142	766,851
Income tax expense	<u>605,540</u>	<u>110,362</u>	<u>651,399</u>	<u>118,720</u>
Income before minority interests	1,013,955	602,503	1,090,743	648,131
Minority interests	<u>(236,829)</u>	<u>-</u>	<u>(254,765)</u>	<u>-</u>
Net income	<u>₩ 1,250,784</u>	<u>₩ 602,503</u>	<u>\$ 1,345,508</u>	<u>\$ 648,131</u>

Consolidated Statements of Income for the year ended December 31, 2005

	Korean Won		Translation into U.S. Dollars (Note 2)	
	Non-financial industry	Financial industry	Non-financial industry	Financial industry
	(In millions)		(In thousands)	
Sales	₩ 56,691,394	₩ 2,734,437	\$ 60,984,718	\$ 2,941,520
Cost of sales	45,205,279	1,247,642	48,628,742	1,342,128
Selling and administrative expenses	9,278,617	1,379,111	9,981,301	1,483,553
Operating income (loss)	2,207,498	107,684	2,374,675	115,839
Other income (expenses), net	913,376	350,818	982,547	377,386
Ordinary income (loss)	3,120,874	458,502	3,357,222	493,225
Extraordinary item	-	-	-	-
Income (loss) before income tax	3,120,874	458,502	3,357,222	493,225
Income tax expense	570,457	(27,617)	613,658	(29,709)
Income (loss) before minority interests	2,550,417	486,119	2,743,564	522,934
Minority interests	359,908	-	387,164	-
Net income (loss)	₩ 2,190,509	₩ 486,119	\$ 2,356,400	\$ 522,934

The above consolidated financial statements by industry type are prepared independently between non-financial industry and financial industry. Therefore, the total amounts, such as assets and net income for each industry, do not tally with the corresponding amounts in the consolidated balance sheets and statements of income.

(2) Regional Results of Operations and Total Assets

Results of operations and total assets, by region where the Company and its subsidiaries for the year ended and as of December 31, 2006 are located, are as follows:

	Korean Won				Consolidation adjustments	Consolidated amounts
	Domestic	North America	Asia	Europe		
	(In millions)					
Total sales	₩ 59,453,876	₩ 19,363,992	₩ 4,537,222	₩ 11,418,514	₩ (31,125,579)	₩ 63,648,025
Inter-company sales	(24,247,624)	(3,950,211)	(40,754)	(2,886,990)	31,125,579	-
Net sales	35,206,252	15,413,781	4,496,468	8,531,524	-	63,648,025
Operating income	1,984,375	227,411	165,833	(419,745)	(161,184)	1,796,690
Total assets	63,552,839	12,317,483	2,903,920	6,810,376	(14,875,133)	70,709,485

Results of operations and total assets, by region where the Company and its subsidiaries for the year ended and as of December 31, 2005 are located, are as follows:

	Korean Won				Consolidation adjustments	Consolidated amounts
	Domestic	North America	Asia	Europe		
	(In millions)					
Total sales	₩ 56,370,908	₩ 14,161,711	₩ 3,910,992	₩ 8,594,056	₩ (24,207,035)	₩ 58,830,632
Inter-company sales	(23,670,050)	(147,223)	(168,514)	(221,248)	24,207,035	-
Net sales	32,700,858	14,014,488	3,742,478	8,372,808	-	58,830,632
Operating income	2,096,940	(4,133)	122,172	(160,681)	240,008	2,294,306
Total assets	59,518,392	8,746,236	1,950,654	4,247,009	(8,383,522)	66,078,769

28. MERGER BETWEEN CONSOLIDATED SUBSIDIARIES:

Effective on February 2, 2006, the Company merged with Bontec Co., Ltd. (Manufacturer of automotive electronics goods) with a merger ratio of 1:25.9965494. As a result, 51,993,098 new shares of Autonet were issued.

29. CHANGE IN FIRM NAME OF CONSOLIDATED SUBSIDIARIES:

Haevichi Country Club and Login Co., Ltd., domestic subsidiaries of the Company, changed their firm's names to Chasan Co., Ltd. and Haevichi Country Club, respectively, on July 1, 2006.