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안진회계법인

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## HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2005 AND 2004  
AND INDEPENDENT AUDITORS' REPORT

Audit • Tax • Consulting • Financial Advisory

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## 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 non-consolidated balance sheets of Hyundai Motor Company as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hyundai Motor Company as of December 31, 2005 and 2004, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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

*Deloitte Anjin LLC*

Notice to Readers

January 27, 2006

Notice to Readers

This report is effective as of January 27, 2006, 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

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2005 AND 2004

<u>ASSETS</u>	<u>Korean Won</u>		<u>Translation into</u> <u>U.S. Dollars (Note 2)</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
Current assets:				
Cash and cash equivalents (Note 15)	<del>₩</del> 1,803,282	<del>₩</del> 1,006,700	\$ 1,780,140	\$ 993,781
Short-term financial instruments (Note 15)	3,860,735	4,674,466	3,811,190	4,614,478
Short-term investment securities (Note 4)	342,292	205,029	337,899	202,398
Trade notes and accounts receivable, less allowance for doubtful accounts of <del>₩</del> 21,589 million in 2005 and <del>₩</del> 27,059 million in 2004	1,312,163	1,011,508	1,295,324	998,527
Deferred income tax assets (Note 21)	24,929	185,283	24,609	182,905
Inventories (Note 3)	1,008,086	1,267,099	995,149	1,250,838
Advances and other	<u>651,878</u>	<u>568,563</u>	<u>643,512</u>	<u>561,266</u>
Total current assets	<u>9,003,365</u>	<u>8,918,648</u>	<u>8,887,823</u>	<u>8,804,193</u>
Non-current assets:				
Long-term investment securities (Notes 5 and 15)	441,008	308,049	435,349	304,096
Investment securities accounted for using the equity method (Notes 6 and 15)	6,115,447	5,089,958	6,036,966	5,024,638
Property, plant and equipment, net of accumulated depreciation and accumulated impairment loss of <del>₩</del> 5,093,631 million in 2005 and <del>₩</del> 4,510,301 million in 2004 (Notes 7, 8, 9 and 15)	8,945,562	8,733,403	8,830,762	8,621,326
Intangibles (Note 10)	920,395	656,488	908,583	648,063
Deferred income tax assets (Note 21)	27,199	186,372	26,850	183,980
Other assets (Notes 11 and 15)	<u>1,108,244</u>	<u>527,604</u>	<u>1,094,022</u>	<u>520,833</u>
Total non-current assets	<u>17,557,855</u>	<u>15,501,874</u>	<u>17,332,532</u>	<u>15,302,936</u>
Total assets	<u><del>₩</del> 26,561,220</u>	<u><del>₩</del> 24,420,522</u>	<u>\$ 26,220,355</u>	<u>\$ 24,107,129</u>

(Continued)

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2005 AND 2004

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
<b>Current liabilities:</b>				
Short-term borrowings (Notes 12 and 15)	₩ 780,445	₩ 604,604	\$ 770,429	\$ 596,845
Current maturities of long-term debt (Notes 9, 13 and 15)	464,163	162,697	458,207	160,609
Trade notes and accounts payable	3,443,993	3,470,272	3,399,796	3,425,737
Accounts payable-other	1,613,236	866,754	1,592,533	855,631
Accrued warranties (Note 14)	734,750	800,331	725,321	790,060
Income tax payable	41,846	430,668	41,309	425,141
Withholdings and other	538,212	372,728	531,304	367,945
Total current liabilities	<u>7,616,645</u>	<u>6,708,054</u>	<u>7,518,899</u>	<u>6,621,968</u>
<b>Long-term liabilities:</b>				
Long-term debt, net of current maturities (Notes 13 and 15)	935,049	1,101,414	923,049	1,087,279
Accrued severance benefits, net of National Pension payments for employees of ₩29,550 million in 2005 and ₩37,351 million in 2004, and individual severance insurance deposits of ₩835,383 million in 2005 and ₩749,901 million in 2004 (Note 2)	367,052	374,537	362,342	369,731
Accrued warranties (Note 14)	2,433,533	3,051,141	2,402,303	3,011,985
Other liabilities	256,083	100,597	252,797	99,306
Total long-term liabilities	<u>3,991,717</u>	<u>4,627,689</u>	<u>3,940,491</u>	<u>4,568,301</u>
Total liabilities	<u>11,608,362</u>	<u>11,335,743</u>	<u>11,459,390</u>	<u>11,190,269</u>
Commitments and contingencies (Note 15)				
<b>Shareholders' equity:</b>				
Capital stock (Note 16)	1,482,905	1,480,752	1,463,875	1,461,749
Capital surplus (Note 17)	5,391,620	5,359,553	5,322,428	5,290,773
Retained earnings (Note 18) (Net income of ₩2,314,647 million in 2005 and ₩1,745,441 million in 2004)	8,888,352	6,383,208	8,774,286	6,301,291
Capital adjustments (Note 19)	(810,019)	(138,734)	(799,624)	(136,953)
Total shareholders' equity	<u>14,952,858</u>	<u>13,084,779</u>	<u>14,760,965</u>	<u>12,916,860</u>
Total liabilities and shareholders' equity	<u>₩ 26,561,220</u>	<u>₩ 24,420,522</u>	<u>\$ 26,220,355</u>	<u>\$ 24,107,129</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions, except per share amounts)		(In thousands, except per share amounts)	
Sales (Note 24)				
Domestic sales	₩ 11,019,243	₩ 10,182,000	\$ 10,877,831	\$ 10,051,333
Export sales	16,364,494	17,290,457	16,154,486	17,068,565
	<u>27,383,737</u>	<u>27,472,457</u>	<u>27,032,317</u>	<u>27,119,898</u>
Cost of sales	<u>22,185,743</u>	<u>20,798,006</u>	<u>21,901,030</u>	<u>20,531,102</u>
Gross profit	5,197,994	6,674,451	5,131,287	6,588,796
Selling and administrative expenses (Note 25)	<u>3,813,851</u>	<u>4,693,037</u>	<u>3,764,907</u>	<u>4,632,810</u>
Operating income	<u>1,384,143</u>	<u>1,981,414</u>	<u>1,366,380</u>	<u>1,955,986</u>
Other income (expenses), net:				
Interest income, net	91,646	94,320	90,470	93,110
Foreign exchange gain, net	152,087	154,079	150,135	152,102
Gain on valuation of investment securities accounted for using the equity method, net (Note 6)	722,907	137,832	713,630	136,063
Gain on valuation of derivatives, net	389,078	75,194	384,085	74,229
Royalty income	316,079	202,630	312,023	200,030
Reversal of accrued warranties (Note 2)	-	305,765	-	301,841
Impairment loss on intangibles (Note 10)	-	(461,107)	-	(455,190)
Other, net	<u>(316,882)</u>	<u>10,211</u>	<u>(312,816)</u>	<u>10,079</u>
	<u>1,354,915</u>	<u>518,924</u>	<u>1,337,527</u>	<u>512,264</u>
Ordinary income	2,739,058	2,500,338	2,703,907	2,468,250
Income tax expense (Note 21)	<u>424,411</u>	<u>754,897</u>	<u>418,964</u>	<u>745,209</u>
Net income	<u>₩ 2,314,647</u>	<u>₩ 1,745,441</u>	<u>\$ 2,284,943</u>	<u>\$ 1,723,041</u>
Earnings per common share (Note 2)	<u>₩ 10,652</u>	<u>₩ 7,668</u>	<u>\$ 10.52</u>	<u>\$ 7.57</u>
Earnings per common share – assuming dilution (Note 2)	<u>₩ 10,599</u>	<u>₩ 7,649</u>	<u>\$ 10.46</u>	<u>\$ 7.55</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Unappropriated retained earnings (Note 18)				
Beginning of year	(184,142) ₩	(153,425)	\$ (181,779)	\$ (151,456)
Cumulative effect from change of accounting policy of deferred income taxes	-	4,430	-	4,373
Beginning balance adjustment in accrued warranties (Note 2)	490,440	-	484,146	-
Change in investment securities using the equity method	26,890	(31,663)	26,545	(31,256)
Retirement of treasury stock	-	(65,092)	-	(64,257)
Net income	<u>2,314,647</u>	<u>1,745,441</u>	<u>2,285,943</u>	<u>1,723,041</u>
	<u>2,647,835</u>	<u>1,499,691</u>	<u>2,613,855</u>	<u>1,480,445</u>
Appropriations:				
Legal reserve	34,500	33,000	34,057	32,576
Reserve for technology development	2,270,000	1,324,000	2,240,869	1,307,009
Cash dividends (Note 20)	<u>342,310</u>	<u>326,833</u>	<u>337,917</u>	<u>322,639</u>
	<u>2,646,810</u>	<u>1,683,833</u>	<u>2,612,843</u>	<u>1,662,224</u>
Unappropriated retained earnings (accumulated deficit), end of year	<u>₩ 1,025</u>	<u>₩ (184,142)</u>	<u>\$ 1,012</u>	<u>\$ (181,779)</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Cash flows from operating activities:				
Net income	₩ 2,314,647	₩ 1,745,441	\$ 2,284,943	\$ 1,723,041
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	765,844	770,676	756,016	760,786
Gain on foreign currency translation, net	(22,227)	(88,236)	(21,942)	(87,104)
Amortization of discount on debentures	6,094	12,029	6,016	11,875
Loss on disposal of trade notes and accounts receivable	67,370	47,359	66,505	46,751
Gain on disposal of short-term investment securities, net	(134,374)	(103)	(132,650)	(102)
Gain on disposal of long-term investment securities, net	(2,595)	(1,860)	(2,562)	(1,836)
Impairment loss on long-term investment securities	-	42,175	-	41,634
Gain on disposal of investment securities accounted for using the equity method, net	-	(229,136)	-	(226,195)
Gain on valuation of investment securities accounted for using the equity method, net	(722,907)	(137,832)	(713,630)	(136,063)
Loss on disposal of property, plant and equipment, net	156,381	82,814	154,374	81,751
Impairment loss on property, plant and equipment	-	7,498	-	7,402
Amortization of intangibles	189,388	166,163	186,958	164,031
Impairment loss on intangibles	-	461,107	-	455,190
Loss on disposal of other assets	1	28,949	1	28,577
Gain on valuation of derivatives, net	(389,078)	(75,194)	(384,085)	(74,229)
Provision for severance benefits	277,468	257,577	273,907	254,271
Provision for accrued warranties	385,297	1,243,230	380,353	1,227,275
Reversal of accrued warranties	-	(305,765)	-	(301,841)
Other	125,897	53,466	124,281	52,781
Changes in operating assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(365,281)	405,469	(360,593)	400,266
Decrease (increase) in inventories	103,704	(62,832)	102,373	(62,026)
Decrease in deferred income tax assets	68,814	8,085	67,931	7,981
Increase in other current assets	(125,435)	(16,081)	(123,825)	(15,875)
Decrease in other assets	10,369	6,319	10,236	6,238
Increase (decrease) in trade notes and accounts payable	(25,388)	148,293	(25,062)	146,390
Increase (decrease) in accounts payable-other	725,570	(97,482)	716,259	(96,231)
Decrease in accrued warranties	(392,016)	(397,350)	(386,985)	(392,251)
Decrease in income tax payable	(384,106)	(71,058)	(379,177)	(70,146)
Increase (decrease) in other current liabilities	164,740	(105,232)	162,626	(103,882)
Payment of severance benefits	(218,579)	(349,396)	(215,774)	(344,912)
Decrease (increase) in individual severance insurance deposits and National Pension payments for employees	(77,682)	58,731	(76,685)	57,977
Increase (decrease) in other liabilities	10,742	(18,454)	10,604	(18,217)
	<u>2,512,658</u>	<u>3,589,370</u>	<u>2,480,413</u>	<u>3,543,307</u>

(Continued)



HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Cash flows from investing activities:				
Cash inflows from investing activities:				
Proceeds from disposal of short-term financial instruments	₩ 4,565,893	₩ -	\$ 4,507,298	\$ -
Proceeds from disposal of short-term investment securities	632,720	13,007	624,600	12,840
Reduction in other current assets	113,393	164,899	111,938	162,783
Proceeds from disposal of long-term investment securities	5,506	14,985	5,435	14,793
Proceeds from disposal of investment securities accounted for using the equity method	289,405	266,330	285,691	262,912
Dividends from investment securities accounted for using the equity method	168,349	144,443	166,189	142,589
Proceeds from disposal of property, plant and equipment	63,524	21,013	62,709	20,744
Proceeds from disposal of intangibles	-	2,701	-	2,667
Reduction in other assets	152,739	153,630	150,779	151,658
	<u>5,991,529</u>	<u>781,008</u>	<u>5,914,639</u>	<u>770,986</u>
Cash outflows from investing activities:				
Purchase of short-term financial instruments	(4,126,559)	(1,284,784)	(4,073,602)	(1,268,296)
Acquisition of short-term investment securities	(302,042)	(875)	(298,166)	(864)
Additions to other current assets	(112,493)	(163,499)	(111,049)	(161,401)
Acquisition of long-term investment securities	(17,985)	(11,345)	(17,754)	(11,199)
Acquisition of investment securities accounted for using the equity method	(782,649)	(850,634)	(772,605)	(839,718)
Acquisition of property, plant and equipment	(1,253,362)	(921,201)	(1,237,277)	(909,379)
Expenditures for development costs	(445,427)	(331,547)	(439,711)	(327,292)
Additions to other assets	(63,124)	(120,977)	(62,315)	(119,425)
	<u>(7,103,641)</u>	<u>(3,684,862)</u>	<u>(7,012,479)</u>	<u>(3,637,574)</u>
	<u>(1,112,112)</u>	<u>(2,903,854)</u>	<u>(1,097,840)</u>	<u>(2,866,588)</u>
Cash flows from financing activities:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	7,346,108	3,391,233	7,251,834	3,347,713
Proceeds from long-term debt	299,107	299,107	295,269	295,269
Proceeds from disposal of treasury stock	53,617	-	52,929	-
Proceeds from exercise of stock options	6,413	6,404	6,330	6,321
	<u>7,705,245</u>	<u>3,696,744</u>	<u>7,606,362</u>	<u>3,649,303</u>
Cash outflows from financing activities:				
Repayment of short-term borrowings	(7,158,877)	(3,511,794)	(7,067,006)	(3,466,727)
Repayment of current maturity of long-term debt	(162,928)	(955,661)	(160,836)	(943,396)
Payment of cash dividends	(326,833)	(285,674)	(322,639)	(282,008)
Purchase of treasury stock	(660,571)	(65,092)	(652,094)	(64,257)
	<u>(8,309,209)</u>	<u>(4,818,221)</u>	<u>(8,202,575)</u>	<u>(4,756,388)</u>
	<u>(603,964)</u>	<u>(1,121,477)</u>	<u>(596,213)</u>	<u>(1,107,085)</u>

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HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Cash inflows from the merger with a subsidiary	<u>₩ -</u>	<u>₩ 144</u>	<u>₩ -</u>	<u>₩ 142</u>
Net increase (decrease) in cash and cash equivalents	796,582	(435,817)	786,359	(430,224)
Cash and cash equivalents, beginning of year	<u>1,006,700</u>	<u>1,442,517</u>	<u>993,781</u>	<u>1,424,005</u>
Cash and cash equivalents, end of year	<u>₩ 1,803,282</u>	<u>₩ 1,006,700</u>	<u>₩ 1,780,140</u>	<u>\$ 993,781</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. THE COMPANY:

Hyundai Motor Company (the "Company") was incorporated in December 1967, under the laws of the Republic of Korea, to manufacture and distribute motor vehicles and parts. The shares of the Company have been listed on the Korea Stock Exchange since 1974. As of December 31, 2005, 54.90 percent of the Company's stock (excluding preferred stock) is owned by Korean investors, including Hyundai MOBIS (14.56 percent) and Hyundai Steel (Formerly INI Steel, 5.29 percent), and the remaining 45.10 percent is owned by foreign investors under foreign investment agreements.

The Company has three domestic production plants as follows:

Location	Commenced production	Types of major products
Ulsan	December 1967	Passenger cars & commercial vehicles (Small trucks)
Jeonbuk Jeonju	April 1995	Commercial vehicles (Bus and trucks)
Chungnam Asan	November 1996	Passenger cars

In connection with its foreign business, the Company operates major foreign affiliates as follows:

Affiliated company	Description
<b>Production:</b>	
Hyundai Assan Otomotive Sanayi Ve Ticaret A.S. (HAOSVT. Turkey)	Manufacturer of passenger cars since September 1997
Hyundai Motor India (HMI)	Manufacturer of passenger cars since October 1998
Beijing Hyundai Motor Company (BHMC)	Manufacturer of passenger cars since October 2002
Hyundai Motor Manufacturing Alabama, LLC (HMMA)	Manufacture passenger cars and SUV since May 2005
<b>Distribution:</b>	
Hyundai Motor America (HMA)	Exclusive importer and distributor of motor vehicles and parts
Hyundai Motor Japan Co. (HMJ)	"
Hyundai Motor Poland Sp. Zo.o (HMP)	"
Hyundai Motor Europe GmbH (HME)	"
Hyundai Motor Company Australia (HMCA)	"
Hyundai Motor (UK) Ltd (HMUK)	"
Hyundai Translead (HT)	Distributor of van trailers and equipment
<b>Research and Development:</b>	
Hyundai America Technical Center Inc. (HATCI)	Involve in research and development for motor vehicles
Hyundai Motor Japan R&D Center Inc. (HMJ R&D)	"
Hyundai Motor Europe Technical Center GmbH (HMETC)	"

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory non-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 accounting principles generally accepted in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations 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 ₩1,013.00 to US\$1.00 at December 31, 2005, 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 financial statements as of December 31, 2005 in accordance with Financial Accounting Standards and Statements of Korea Accounting Standards ("SKAS") in the Republic of Korea.

In 2005, the Company additionally adopted SKAS No. 15 - "Investments in Associates", No. 16 - "Income Taxes" and No. 17 - "Provisions, Contingent Liabilities and Contingent Assets", which are effective from January 1, 2005.

The accompanying balance sheet as of December 31, 2004 and the accompanying statements of income and cash flows for year ended December 31, 2004, which are presented for comparative purposes, have been restated to reflect the adjustments resulting from retroactive application of SKAS No.16, which include the adjustments of carrying amounts of the investment securities accounted for using the equity method. As a result of the restatement, total assets and net equity as of December 31, 2005 decreased by ₩280,332 million (US\$276,734 thousand), and net income for the year then ended decreased by ₩58,667 million (US\$ 57,914 thousand).

In relation with such change, the amounts of relevant accounts retroactively calculated in prior years' financial statements are as follows:

	Korean Won		
	2002	2003	2004
	(in millions, except per share amounts)		
Deferred income tax assets	291,051	384,108	371,655
Investment securities accounted for using the equity method	3,695,356	4,650,726	5,089,958
Retained earnings	3,587,102	5,015,766	6,383,208
Capital adjustments	(169,011)	29,913	(138,734)
Ordinary income	1,994,595	2,364,961	2,500,338
Net income	1,446,677	1,672,607	1,745,441
Ordinary income per common share	6,369	7,359	7,668
Earnings per common share	6,369	7,359	7,668

The Company did not retroactively apply SKAS No. 15 and 17 to the prior year financial statements, in accordance with the provisions in SKAS No.15 and 17. However, the Company recalculated the beginning balance of accrued warranties in accordance with SKAS No.17, which requires the recalculation of the beginning balance based on this revised standard in case the retroactive method is not applied. This recalculation decreased the beginning balance of accrued warranties and deferred tax assets by ₩676,469 million (US\$667,788 thousand) and ₩186,029 million (US\$183,642 thousand), respectively, and increased the beginning balance of retained earnings by ₩490,440 million (US\$484,146 thousand).

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

#### Revenue Recognition

Sales of goods is recognized at the time of shipment only if it meet 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.

#### 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*

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

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized gains or losses included in capital adjustments, until the securities are sold and if the securities are determined to be impaired, the lump-sum cumulative amount of capital adjustments are included in current operations. However, available-for-sales securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable debt securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

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

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

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

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 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, which does not exceed the fair value of non-monetary assets acquired, using the straight-line method. Negative goodwill that exceeds the fair value of non-monetary assets acquired is credited to operations in the year of purchase.

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. However, if the investee is a consolidated subsidiary, unrealized profits and losses resulting from sales of assets from the Company to investee are eliminated in full. Also, if the investee is a consolidated subsidiary, the differences between the cost of the investment and the investor's share of the net fair value of the investee's identifiable assets and liabilities, which occurred from additional purchases of investee's shares or changes in ratio of shareholding due to capital increase in investee, are reflected in capital adjustments. The differences between the sale amount and book value of the investment securities where the investee remains as a consolidated subsidiary after sales of some portion of investment securities in the consolidation subsidiary are reflected in capital adjustments.

If an investor's share of losses of an investee equals or exceeds its interest in the 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	15 – 50
Machinery and equipment	12 – 15
Vehicles	6
Dies, molds and tools	6
Other equipment	6

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 amortization computed using the straight-line method over the estimated economic useful lives of related assets. Development costs are amortized over 3 years from the usable date of the related productions. Ordinary development and research expenses are charged to current operations. Industrial property rights and other intangibles are amortized over the period between 2 and 40 years.

If the recoverable amount of 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.

### Financing Costs

The Company recognizes all financing costs including interest expense and similar expenses in current operations.

### 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.

### Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the 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 ₩1,231,985 million (US\$1,216,175 thousand) and 1,161,789 million (US\$1,146,880 thousand) as of December 31, 2005 and 2004, respectively.

Accrued severance benefits are funded partially through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by netting the receivable against the severance payment. Such receivables, totalling ₩29,550 million (US\$29,171 thousand) and ₩37,351 million (US\$36,872 thousand) as of December 31, 2005 and 2004, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

Actual payments of severance benefits amounted to ₩218,579 million (US\$215,774 thousand) and ₩349,396 million (US\$344,912 thousand) in 2005 and 2004, respectively.

#### Accrued Warranties

The Company generally provides 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 in order to settle the obligation.

Until 2003, the Company recognized accrued liabilities for the provision for the projected costs for dismantling and recycling vehicles sold by the Company in European Union region to comply with European Parliament directive regarding End-of-Life Vehicles (ELV). However, in 2004, the Company revised the contracts with most of its agents in the European Union by which the agents are responsible for all of the costs of dismantling and recycling the vehicles placed in service in the future. The Company reversed the accrued liabilities exceeding the estimated expense by ₩305,765 million (US\$301,841 thousand) in 2004.

#### 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.

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, 2005 and 2004, the Company deferred the net gain of ₩24,352 million (US\$24,039 thousand) and ₩30,581 million (US\$30,190 thousand), after deducting the deferred income tax of ₩9,238 million (US\$9,119 thousand) and ₩11,600 million (US\$11,451 thousand), respectively, on the 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 56 months from December 31, 2005. Of the net gain on valuation recorded as capital adjustments as of December 31, 2005, the gain of ₩11,110 million (US\$10,967 thousand) before deduction of the deferred income tax effect is expected to be realized and charged to current operations within one year from December 31, 2005.



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

<u>Contract parties</u>	<u>Derivatives</u>	<u>Period</u>	<u>Outstanding 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
Credit Suisse First Boston International	Call option (*)	"	12,145,598	US\$ 11.5300
Credit Suisse First Boston International	Equity swap	"	21,862,076	US\$ 8.2611
JP Morgan Chase Bank, London Branch	Equity swap	"	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. All premiums to be paid by the Company are recorded as accounts payable-other of ₩23,455 million (US\$ 23,154 thousand) and long-term other accounts payable in long-term liabilities of ₩46,793 million (US\$46,192 thousand) after deducting the present value discount of ₩6,584 million (US\$6,500 thousand) as of December 31, 2005 and accounts payable-other of ₩24,168 million (US\$23,858 thousand) and long-term other accounts payable of ₩72,383 million (US\$71,454 thousand) after deducting the present value discount of ₩11,891 million (US\$11,738 thousand) as of December 31, 2004. Also, all premiums to be received by the Company are recorded as accounts receivable-other of ₩3,845 million (US\$3,796 thousand) and long-term other accounts receivable of ₩7,690 million (US\$7,591 thousand) after deducting the present value discount of ₩1,154 million (US\$1,139 thousand) as of December 31, 2005 and accounts receivable-other of ₩3,962 million (US\$3,911 thousand) and long-term other accounts receivable of ₩11,886 million (US\$11,733 thousand) after deducting the present value discount of ₩2,115 million (US\$2,088 thousand) as of December 31, 2004.

The Company recorded total gain on valuation of outstanding derivatives and present value of premiums of ₩713,443 million (US\$704,287 thousand) and ₩198,355 million (US\$195,809 thousand) in current and non-current assets as of December 31, 2005 and 2004, respectively. Also, total loss on valuation of outstanding derivatives and present value of premiums of ₩202,044 million (US\$199,451 thousand) and ₩20,477 million (US\$20,214 thousand) is recorded in current and long-term liabilities as of December 31, 2005 and 2004, respectively.

#### Accounting for Foreign Currency Transactions and Translation

The Company maintains its accounts in Korea won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. 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 Service, Ltd, which was ₩1,013.00 and ₩1,043.80 to US\$1.00 at December 31, 2005 and 2004, respectively, and translation gains or losses are reflected in current operations.

Assets and liabilities of branches outside the Republic of Korea are translated at the rate of exchange in effect at the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the year.

#### 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 carryforwards. 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

Primary earnings per common share is computed by dividing net income, after deduction for expected dividends for preferred stock, by the weighted average number of common shares outstanding during the year. The number of shares used in computing earnings per common share is 209,529,206 and 217,655,607 in 2005 and 2004, respectively. Earnings per diluted common share is computed by dividing net income, after deduction for expected dividends for preferred stock and addition for the effect of expenses related to diluted securities on net income, by the weighted average number of common shares plus the diluted potential common shares. The number of shares used in computing earnings per diluted common share is 210,582,591 and 218,223,739 in 2005 and 2004, respectively.

### 3. INVENTORIES:

Inventories as of December 31, 2005 and 2004 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(in millions)		(in thousands)	
Finished goods and merchandise	₩ 224,273	₩ 487,441	\$ 221,395	\$ 481,186
Semi-finished goods and work in process	407,247	387,427	402,020	382,455
Raw materials and supplies	305,972	310,259	302,046	306,277
Materials in transit	70,594	81,972	69,688	80,920
	<u>₩ 1,008,086</u>	<u>₩ 1,267,099</u>	<u>\$ 995,149</u>	<u>\$ 1,250,838</u>

### 4. SHORT-TERM INVESTMENT SECURITIES:

Short-term investment securities as of December 31, 2005 and 2004, all of which are classified into available-for-sale securities, consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Local currency beneficiary certificates	₩ 342,282	₩ 205,009	\$ 337,889	\$ 202,378
Government bonds	10	20	10	20
	<u>₩ 342,292</u>	<u>₩ 205,029</u>	<u>\$ 337,899</u>	<u>\$ 202,398</u>

Available-for-sale securities in short-term investment securities are stated at fair value with the resulting gain on valuation of available-for-sale securities amounting to ₩12,036 million (US\$11,881 thousand) and ₩58,029 million (US\$57,284 thousand), before the deduction of the deferred income tax effect, in capital adjustments as of December 31, 2005 and 2004, respectively.

The unrealized gain increased by ₩12,036 million (US\$11,881 thousand) and ₩4,942 million (US\$4,879 thousand) in 2005 and 2004, respectively, and gain of ₩58,029 million (US\$57,284 thousand) and ₩37 million (US\$36 thousand) gross of deferred income tax effect, is realized mainly due to disposal of investments in 2005 and 2004, respectively.

5. LONG-TERM INVESTMENT SECURITIES:

(1) Long-term investment securities as of December 31, 2005 and 2004 consist of following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Available-for-sale securities	₩ 392,508	₩ 259,549	\$ 387,471	\$ 256,218
Held-to-maturity securities	48,500	48,500	47,878	47,878
	<u>₩ 441,008</u>	<u>₩ 308,049</u>	<u>\$ 435,349</u>	<u>\$ 304,096</u>

(2) Available-for-sale securities of long-term investment securities as of December 31, 2005 and 2004 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Equity securities stated at fair value	₩ 251,701	₩ 115,112	\$ 248,471	\$ 113,635
Equity securities stated at acquisition cost	140,807	139,287	139,000	137,499
Government bonds	-	65	-	64
Corporate bonds	-	5,085	-	5,020
	<u>₩ 392,508</u>	<u>₩ 259,549</u>	<u>\$ 387,471</u>	<u>\$ 256,218</u>

Debt securities of ₩5,150 million (US\$5,084 thousand), classified into available-for-sale securities, included in long-term investment securities will mature within 5 years from December 31, 2004.

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

Name of company	Korean Won		Translation into U.S. Dollars (Note 2)		Ownership percentage (%)
	Acquisition cost	Book value	Book value		
	(In millions)		(In thousands)		
Korea Environment Technology Co., Ltd.	₩ 1,500	₩ 4,455	\$ 4,398		6.00
Jin Heung Mutual Savings Bank	2,166	3,097	3,057		3.33
Hyundai Heavy Industries Co., Ltd.	56,924	168,411	166,250		2.88
Hyundai Information Technology Co., Ltd.	10,000	2,790	2,754		2.21
Hyundai Corporation	13,626	1,513	1,494		1.08
LG Telecom	9,795	12,483	12,323		0.68
Hyundai Development Company	9,025	20,610	20,345		0.60
Hyundai Merchant Marine Co., Ltd.	7,329	7,645	7,547		0.55
KT Freetel	10,800	8,229	8,123		0.18
Dong Yang Investment Bank	282	115	114		0.01
Treasury Stock Fund (*)		22,353	22,066		-
		<u>₩ 251,701</u>	<u>\$ 248,471</u>		

(\*) The acquisition costs of Treasury Stock Fund are ₩35,547 million (US\$35,091 thousand) and the lower of the fair value of treasury stock and investments in those fund, amounting to ₩38,023 million (US\$37,535 thousand), is recorded as treasury stock in capital adjustments.

The difference of ₩132,730 million (US\$131,027 thousand) as of December 31, 2005 between the book value and the acquisition cost of equity securities stated at fair value in long-term investment securities consists of gain on valuation of available-for-sale securities in capital adjustments of ₩153,895 million (US\$151,920 thousand) and impairment loss on long-term investment securities of ₩21,165 million (US\$20,893 thousand) reflected before 2005.

In 2005, the unrealized gain increased by ₩136,790 million (US\$ 135,035 thousand) and gain of ₩479 million (US\$473 thousand), gross of deferred income tax effect, is realized mainly due to disposal of investments.

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

Affiliated company	Korean Won		Translation into U.S. Dollars (Note 2)		Ownership percentage (%)
	Acquisition		Book value	Book value	
	cost	Book value			
	(In millions)	(In thousands)			
Hyundai Motor Hungary (*)	₩ 5,415	₩ 5,415	\$ 5,345	100.00	
Hyundai Motor Norway AS (*)	5,636	5,636	5,564	100.00	
NGVTEK.com (*)	571	571	564	53.66	
Carnes Co., Ltd. (*)	250	250	247	49.99	
Heesung PM Tech Corporation	1,194	1,194	1,179	19.90	
Jinil MVC Co., Ltd.	180	180	178	18.00	
Clean Air Technology Inc.	500	500	493	16.13	
Industry Otomotif Komersial	4,439	4,439	4,382	15.00	
Hyundai Technology Investment Co., Ltd.	4,490	4,490	4,432	14.97	
Hyundai Research Institute	1,359	1,271	1,255	14.90	
Hyundai Unicorns Co., Ltd.	5,795	137	135	14.90	
Mando Map & Soft Co., Ltd.	778	778	768	13.97	
Kyungnam Credit Information Service Co., Ltd.	2,500	2,500	2,468	13.66	
The Sign Corporation (Formerly Mobil.Com Co., Ltd.)	1,200	1,200	1,185	11.59	
Micro Infinity	607	607	599	10.51	
Kihyup Finance	3,000	3,000	2,961	10.34	
Yonhap Capital Co., Ltd.	10,000	10,000	9,872	9.99	
Hankyoreh Plus Inc.	4,800	284	280	7.41	
Hyundai Oil Refinery Co., Ltd.	88,857	88,857	87,717	7.24	
Hyundai Asan Corporation	22,500	5,405	5,336	4.61	
U.S Electrical Inc.	2,204	2,204	2,176	3.80	
ROTIS Inc.	1,000	8	8	1.33	
Novelis Korea Co., Ltd.	502	502	495	0.33	
Other	1,379	1,379	1,361	-	
	₩ 169,156	₩ 140,807	\$ 139,000		

(\*) In conformity with Financial Accounting Standards in the Republic of Korea, the equity securities of these affiliates were not accounted for 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.

Equity securities stated at fair value included in long-term investment securities as of December 31, 2004 consist of the following:

Name of company	Korean Won		Translation into U.S. Dollars (Note 2)		Ownership percentage (%)
	Acquisition		Book value	Book value	
	cost	Book value			
	(In millions)	(In thousands)			
Jin Heung Mutual Savings Bank	₩ 2,166	₩ 1,308	\$ 1,291	8.66	
Korea Mutual Savings Bank	2,846	3,325	3,283	8.13	
Korea Environment Technology Co., Ltd.	1,500	5,235	5,168	6.00	
Hyundai Heavy Industries Co., Ltd.	56,924	75,446	74,478	2.88	
Hyundai Information Technology Co., Ltd.	10,000	1,217	1,201	2.21	
Hyundai Corporation	13,626	850	839	1.08	
LG Telecom	9,795	7,520	7,424	0.68	
Hyundai Merchant Marine Co., Ltd.	7,329	8,432	8,324	0.55	

Name of company	Korean Won		Translation into	Ownership percentage
			U.S. Dollars	
	Acquisition cost	Book value	(Note 2) Book value	
	(In millions)		(In thousands)	(%)
KT Freetel	10,800	8,245	8,139	0.18
Dong Yang Investment Bank	282	36	35	0.01
Treasury Stock Fund (*)	3,425	3,498	3,453	-
	<u>₩ 118,693</u>	<u>₩ 115,112</u>	<u>\$ 113,635</u>	

(\*) The acquisition costs of Treasury Stock Fund are presented after the deduction of ₩45,560 million (US\$4,975 thousand) and the lower of the fair value of treasury stock and investments in those fund is recorded as treasury stock in capital adjustments.

The difference of ₩3,581 million (US\$3,535 thousand) as of December 31, 2004 between the book value and the acquisition cost consists of gain on valuation of available-for-sale securities in capital adjustments of ₩17,584 million (US\$17,358 thousand) and impairment loss on long-term investment securities of ₩21,165 million (US\$20,893 thousand). In 2004, the unrealized gain increased by ₩40,216 million (US\$ 39,700 thousand) and gain of ₩6,015 million (US\$5,938 thousand), gross of deferred income tax effect is realized mainly due to disposal of investments.

Equity securities stated at acquisition cost included in long-term investment securities as of December 31, 2004 consist of the following:

Affiliated company	Korean Won		Translation into	Ownership percentage
			U.S. Dollars	
	Acquisition cost	Book value	(Note 2) Book value	
	(In millions)		(In thousands)	(%)
Hyundai Motor Hungary (*)	₩ 721	₩ 721	\$ 712	100.00
Hyundai Motor Norway AS (*)	2,123	2,123	2,096	100.00
Hyundai Jingxian Motor Safeguard Service Co., Ltd. (*)	4,907	4,907	4,844	91.75
NGVTEK.com (*)	571	571	564	53.66
Hyundai-Motor Group Ltd. (*)	2,534	2,534	2,501	50.00
Heesung PM Tech Corporation	1,194	1,194	1,179	19.90
Jinil MVC Co., Ltd.	180	180	178	18.00
Clean Air Technology Inc.	500	500	494	16.13
Industry Otomotif Komersial	4,439	4,439	4,382	15.00
Hyundai Technology Investment Co., Ltd.	4,490	4,490	4,432	14.97
Hyundai Research Institute	1,359	1,271	1,255	14.90
Hyundai Unicorns Co., Ltd.	5,795	137	135	14.90
Mando Map & Soft Co., Ltd.	778	778	768	13.97
Kyungnam Credit Information Service Co., Ltd.	2,500	2,500	2,468	13.66
Mobil.Com Co., Ltd.	1,200	1,200	1,185	11.59
Micro Infinity	607	607	599	10.51
Kihyup Finance	3,000	3,000	2,961	10.34
Yonhap Capital Co., Ltd.	10,000	10,000	9,872	9.99
Hankyoreh Plus Inc.	4,800	284	280	7.41
Hyundai Oil Refinery Co., Ltd.	88,857	88,857	87,717	7.24
Hyundai Asan Corporation	22,500	5,405	5,335	4.61
U.S Electrical Inc.	2,204	2,204	2,176	3.80
ROTIS Inc.	1,000	8	8	1.33
Other	1,377	1,377	1,358	-
	<u>₩ 167,636</u>	<u>₩ 139,287</u>	<u>\$ 137,499</u>	

(\*) In conformity with Financial Accounting Standards in the Republic of Korea, the equity securities of these affiliates were not accounted for 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.

In 2004, impairment loss of ₩42,175 million (US\$41,634 thousand) between the carrying amount and the estimated recoverable amount of Hyundai Information Technology Co., Ltd, Hyundai Corporation, Chohung Bank, Hyundai Asan Corporation and other are recognized in current operations.

- (3) Debt securities included in held-to-maturity of long-term investment securities as of December 31, 2005 and 2004 are subordinate debt securities of ₩48,500 million (US\$47,878 thousand) with maturity on July 19, 2008, issued by Hyundai Capital Service Inc.

6. INVESTMENT SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD:

- (1) 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 (%)
	Acquisition cost	Book value	Acquisition cost	Book value	
	(In millions)		(In thousands)		
Hyundai Motor India	₩ 244,017	₩ 416,611	\$ 240,885	\$ 411,265	100.00
Hyundai Motor America	1,134,406	999,839	1,119,848	987,008	100.00
Hyundai Translead	74,977	96,769	74,015	95,527	100.00
Hyundai Motor Poland Sp.zo.o.	24,139	28,118	23,829	27,757	100.00
Hyundai Motor Japan Co. (*1)	42,292	-	41,749	-	100.00
Hyundai Motor Europe GmbH	17,529	22,002	17,304	21,720	100.00
Hyundai America Technical Center Inc.	9,635	16,375	9,511	16,165	100.00
HMJ R&D Center Inc.	1,510	1,941	1,491	1,916	100.00
Hyundai Motor Company Australia	12,382	26,305	12,223	25,967	100.00
Hyundai Motor Europe Technical Center GmbH	47,634	43,458	47,023	42,900	100.00
Hyundai Motor (UK) Ltd. (*1)	36,681	-	36,210	-	100.00
Beijing Jinxian Motor Safeguard Service Co., Ltd.	4,907	4,222	4,844	4,168	91.75
ROTEM	270,222	304,341	266,754	300,435	78.36
HAOSVT (Turkey)	91,315	122,906	90,143	121,329	70.00
China Millennium Corporations	53,466	53,039	52,780	52,358	59.60
Hyundai Capital Service Inc.	500,325	346,834	493,904	342,383	56.12
Partecs Co.	22,400	22,400	22,113	22,113	56.00
Beijing-Hyundai Motor Company	201,179	357,744	198,597	353,153	50.00
Hyundai Motor Group China Ltd.	15,371	14,068	15,174	13,887	50.00
Hyundai Powertech	120,000	139,089	118,460	137,304	50.00
KEFICO	20,911	109,487	20,643	108,082	50.00
Haevichi Leisure Co., Ltd.	9,000	9,097	8,885	8,980	50.00
Dymos Inc.	68,872	105,983	67,988	104,623	47.27
WIA Corporation	34,357	124,665	33,916	123,065	39.46
Kia Motors Corporation	923,957	2,053,260	912,100	2,026,910	38.67
Korea Aerospace Industries, Ltd.	129,800	82,075	128,134	81,022	33.33
Hyundai Card Co., Ltd.	293,031	104,858	289,270	103,512	31.04
Hyundai Motor Deutschland GmbH	6,761	11,045	6,674	10,903	30.00
Hyundai HYSKO	200,768	246,740	198,192	243,574	26.13
Autoever Systems Corp.	1,250	8,998	1,234	8,882	25.00
Hyundai Autonet Co., Ltd.	118,554	117,970	117,033	116,456	21.62
Beijing Mobis Transmission Co., Ltd.	13,518	16,696	13,345	16,482	21.04
Korea Economy Daily	29,973	24,378	29,588	24,065	20.55
Iljin Bearing Co., Ltd.	826	14,128	815	13,947	20.00
Daesung Automotive Co., Ltd.	400	6,017	395	5,940	20.00
Eukor Car Carriers Inc. (*2)	29,347	63,989	28,970	63,168	12.00
	<u>₩4,805,712</u>	<u>₩6,115,447</u>	<u>\$4,744,039</u>	<u>\$6,036,966</u>	

(\*1) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit.

(\*2) Accounted for using the equity method because the total ownership percentage on Eukor Car Carriers Inc. is 20% (Kia Motors Corp. 8% and the Company 12%); therefore, the Company is considered to be able to exercise significant influence over the operating and financial policies.

Investment securities accounted for using the equity method as of December 31, 2004 consist of the following:

Affiliated company	Korean Won		Translation into U.S. Dollars (Note 2)		Ownership percentage (%)
	Acquisition		Acquisition		
	cost	Book value	cost	Book value	
	(In millions)		(In thousands)		
Hyundai Motor India	₩ 244,017	₩ 359,233	\$ 240,885	\$ 354,623	100.00
Hyundai Motor America	824,800	711,431	814,215	702,301	100.00
Hyundai Translead	74,977	61,278	74,015	60,492	100.00
Hyundai Machine Tool Europe GmbH	25,397	9,288	25,071	9,169	100.00
Hyundai Motor Poland Sp.zo.o.	24,139	25,543	23,829	25,215	100.00
Hyundai Motor Japan Co. (*1)	32,479	-	32,062	-	100.00
Hyundai Motor Europe GmbH	17,529	35,044	17,304	34,594	100.00
Hyundai America Technical Center Inc.	9,635	15,148	9,511	14,954	100.00
HMJ R&D Center Inc.	1,510	2,244	1,491	2,215	100.00
Hyundai Motor Company Australia	12,382	30,932	12,223	30,535	100.00
ROTEM	270,222	288,532	266,754	284,829	78.36
Hyundai Capital Service Inc.	468,743	259,656	462,728	256,324	61.08
China Millennium Corporations	53,450	53,450	52,764	52,764	59.60
Hyundai Card Co., Ltd.	557,126	97,706	549,976	96,452	59.02
HAOSVT (Turkey)	48,013	24,765	47,397	24,447	50.00
Beijing-Hyundai Motor Company	133,691	304,040	131,975	300,138	50.00
Hyundai Powertech	120,000	134,475	118,460	132,749	50.00
KEFICO	20,911	93,566	20,643	92,365	50.00
Dymos Inc.	68,872	93,620	67,988	92,419	47.27
WIA Corporation	8,989	88,604	8,874	87,467	45.30
Kia Motors Corporation	923,957	1,960,439	912,100	1,935,280	38.67
Korea Aerospace Industries, Ltd.	129,800	81,827	128,134	80,777	33.33
Beijing Mobis Transmission Co., Ltd.	13,518	13,205	13,345	13,036	30.00
Hyundai Motor Deutschland GmbH	6,761	12,588	6,674	12,427	30.00
Korea Economy Daily	19,973	14,247	19,717	14,064	29.57
Hyundai HYSCO	200,768	243,925	198,192	240,795	26.13
Autoever Systems Corp.	1,250	5,968	1,234	5,891	25.00
Iljin Bearing Co., Ltd.	826	13,102	815	12,934	20.00
Daesung Automotive Co., Ltd.	400	6,094	395	6,016	20.00
Eukor Car Carriers Inc. (*2)	29,347	50,008	28,970	49,366	12.00
	<u>₩ 4,343,482</u>	<u>₩ 5,089,958</u>	<u>\$4,287,741</u>	<u>\$5,024,638</u>	

(\*1) Use of the equity method was discontinued since the value of investments is less than zero due to accumulated deficit.

(\*2) Accounted for using the equity method because the total ownership percentage on Eukor Car Carriers Inc. is 20% (Kia Motors Corp. 8% and the Company 12%); therefore, the Company is considered to be able to exercise significant influence over the operating and financial policies.

(2) The changes in equity securities accounted for using the equity method in 2005 are as follows:

Affiliated company	Korean Won				Translation into
	Beginning	Gain (loss)	Other changes (*1)	End of year	U.S. Dollars
	of year	on valuation	(In millions)	(In thousands)	(Note 2)
Hyundai Motor India	₩ 359,233	₩ 115,617	₩ (58,239)	₩ 416,611	\$ 411,265
Hyundai Motor America	711,431	23,230	265,178	999,839	987,008
Hyundai Translead	61,278	36,840	(1,349)	96,769	95,527
Hyundai Machine Tool Europe GmbH	9,288	-	(9,288)	-	-
Hyundai Motor Poland Sp.zo.o.	25,543	3,549	(974)	28,118	27,757
Hyundai Motor Japan Co.	-	-	-	-	-
Hyundai Motor Europe GmbH	35,044	(8,026)	(5,016)	22,002	21,720
Hyundai America Technical Center Inc.	15,148	1,692	(465)	16,375	16,165
HMJ R&D Center Inc.	2,244	37	(340)	1,941	1,916
Hyundai Motor Company Australia	30,932	(1,937)	(2,690)	26,305	25,967
Hyundai Motor Europe Technical Center GmbH	-	1,966	41,492	43,458	42,900
Hyundai Motor(UK) Ltd.	-	(36,143)	36,143	-	-
Beijing Jinxian Motor Safeguard Service Co., Ltd.	-	(1,233)	5,455	4,222	4,168
ROTEM	288,532	14,829	980	304,341	300,435
HAOSVT (Turkey)	24,765	58,013	40,128	122,906	121,329
China Millennium Corporations	53,450	(389)	(22)	53,039	52,358
Hyundai Capital Service Inc.	259,656	112,348	(25,170)	346,834	342,383
Partecs Co.	-	-	22,400	22,400	22,113
Beijing-Hyundai Motor Company	304,040	78,516	(24,812)	357,744	353,153
Hyundai Motor Group China Ltd.	-	(1,551)	15,619	14,068	13,887
Hyundai Powertech	134,475	3,661	953	139,089	137,304
KEFICO	93,566	19,523	(3,602)	109,487	108,082
Haevich Leisyre Co., Ltd.	-	97	9,000	9,097	8,980
Dymos Inc.	93,620	12,362	1	105,983	104,623
WIA Corporation	88,604	24,165	11,896	124,665	123,065
Kia Motors Corporation	1,960,439	202,988	(110,167)	2,053,260	2,026,910
Korea Space & Aircraft Co., Ltd.	81,827	231	17	82,075	81,022
Hyundai Card Co., Ltd.	97,706	32,850	(25,698)	104,858	103,512
Hyundai Motor Deutschland GmbH	12,588	947	(2,490)	11,045	10,903
Hyundai HYSCO	243,925	7,111	(4,296)	246,740	243,574
Autoever Systems Corp.	5,968	3,009	21	8,998	8,882
Hyundai Autonet Co., Ltd.	-	230	117,740	117,970	116,456
Beijing Mobis Transmission Co., Ltd.	13,205	3,698	(207)	16,696	16,482
Korea Economy Daily	14,247	(34)	10,165	24,378	24,065
Iljin Bearing Co., Ltd.	13,102	688	338	14,128	13,947
Daesung Automotive Co., Ltd.	6,094	42	(119)	6,017	5,940
Eukor Car Carriers Inc.	50,008	13,981	-	63,989	63,168
	<u>₩ 5,089,958</u>	<u>₩ 722,907</u>	<u>₩ 302,582</u>	<u>₩ 6,115,447</u>	<u>\$ 6,036,966</u>

(\*1) Other changes consist of the increase of acquisition cost by ₩782,649 million (US\$772,605 thousand) mainly due to the acquisition and participation in investees' additional paid-in capital, decrease by ₩105,784 million (US\$104,426 thousand) mainly due to disposal of investments and merger, decrease by ₩168,349 million (US\$166,189 thousand) due to receipt of the dividends, increase of retained earnings by ₩31,022 million (US\$30,624 thousand), decrease of capital adjustments by ₩244,396 million (US\$241,260 thousand) and increase by ₩7,440 million (US\$7,345 thousand) due to transfer from long-term investment securities.



The changes in equity securities accounted for using the equity method in 2004 are as follows:

Affiliated company	Korean Won				Translation into
	Beginning of year	Gain (loss) on valuation	Other changes (*1)	End of year	U.S. Dollars
					(Note 2)
	(In millions)				(In thousands)
Hyundai Motor India	₩ 340,475	₩ 86,692	₩ (67,934)	₩ 359,233	\$ 354,623
Hyundai Motor America	647,068	(56,061)	120,424	711,431	702,301
Hyundai Translead	45,220	20,053	(3,995)	61,278	60,492
Hyundai Machine Tool Europe GmbH	17,185	(7,224)	(673)	9,288	9,169
Hyundai Motor Poland Sp.zo.o.	17,505	7,129	909	25,543	25,215
Hyundai Motor Japan Co.	-	-	-	-	-
Hyundai Motor Europe GmbH	21,974	14,086	(1,016)	35,044	34,594
Hyundai America Technical Center Inc.	16,101	1,242	(2,195)	15,148	14,954
HMJ R&D Center Inc.	2,391	87	(234)	2,244	2,215
Hyundai Motor Company Australia	13,696	18,980	(1,744)	30,932	30,535
Hyundai Commercial Vehicle Engine Co., Ltd. (*2)	26,833	(56,751)	29,918	-	-
ROTEM	335,220	(46,193)	(495)	288,532	284,829
Hyundai Capital Service Inc.	350,127	(236,759)	146,288	259,656	256,324
China Millennium Corporations	-	-	53,450	53,450	52,764
Hyundai Card Co., Ltd.	65,564	(128,156)	160,298	97,706	96,452
HAOSVT (Turkey)	25,859	7,165	(8,259)	24,765	24,447
Beijing-Hyundai Motor Company	281,997	126,880	(104,837)	304,040	300,138
Hyundai Powertech	128,338	6,120	17	134,475	132,749
KEFICO	79,064	18,574	(4,072)	93,566	92,365
Dymos Inc.	81,668	11,922	30	93,620	92,419
WIA Corporation	58,115	27,013	3,476	88,604	87,467
e-HD.com	4,374	-	(4,374)	-	-
Kia Motors Corporation	1,704,157	268,887	(12,605)	1,960,439	1,935,280
Korea Space & Aircraft Co., Ltd.	79,312	2,516	(1)	81,827	80,777
Beijing Mobis Transmission Co., Ltd.	13,264	1,817	(1,876)	13,205	13,036
Hyundai Motor Deutschland GmbH	-	5,717	6,871	12,588	12,427
Korea Economy Daily	14,129	98	20	14,247	14,064
Hyundai HYSCO	226,720	22,211	(5,006)	243,925	240,795
Autoever Systems Corp.	4,106	1,986	(124)	5,968	5,891
Iljin Bearing Co., Ltd.	12,794	380	(72)	13,102	12,934
Daesung Automotive Co., Ltd.	5,619	555	(80)	6,094	6,016
Eukor Car Carriers Inc.	31,851	18,866	(709)	50,008	49,366
	<u>₩ 4,650,726</u>	<u>₩ 137,832</u>	<u>₩ 301,400</u>	<u>₩ 5,089,958</u>	<u>\$ 5,024,638</u>

(\*1) Other changes consist of the increase of acquisition cost by ₩851,498 million (US\$840,571 thousand) mainly due to the acquisition and participation in investees' additional paid-in capital, decrease by ₩122,308 million (US\$120,738 thousand) mainly due to disposal of investments and merger, decrease by ₩144,443 million (US\$142,589 thousand) due to receipt of the dividends, decrease of retained earnings by ₩27,596 million (US\$27,242 thousand) and decrease of capital adjustments by ₩255,751 million (US\$252,469 thousand).

(\*2) The Company had merged with Hyundai Commercial Vehicle Engine Co., Ltd (Formerly Daimler Hyundai Truck Co., Ltd.) on November 5, 2004.

(3) Condensed financial information of the affiliates as of and for the year ended December 31, 2005 is as follows:

Affiliated company	Korean Won				Translation into U.S. Dollars (Note 2)			
	Assets	Liabilities	Sales	Net income	Assets	Liabilities	Sales	Net income
	(In millions)				(In thousands)			
Hyundai Motor India	₩ 897,820	₩ 471,981	₩1,722,769	₩ 114,107	\$ 886,298	\$ 465,924	\$ 1,700,660	\$ 112,643
Hyundai Motor America	3,717,124	2,435,633	7,679,245	50,788	3,669,422	2,404,376	7,580,696	50,136
Hyundai Translead	230,467	161,696	402,030	37,471	227,509	159,621	396,871	36,990
Hyundai Motor Poland Sp.zo.o.	39,802	27,512	136,611	4,131	39,291	27,159	134,858	4,078
Hyundai Motor Japan Co.	29,110	68,132	34,068	(7,022)	28,736	67,258	33,631	(6,932)
Hyundai Motor Europe GmbH	446,787	424,785	1,035,314	7,305	441,053	419,334	1,022,028	7,211
Hyundai America Technical Center Inc.	45,962	29,587	71,367	1,749	45,372	29,207	70,451	1,727
HMJ R&D Center Inc.	8,240	6,299	19,719	93	8,134	6,218	19,466	92
Hyundai Motor Company Australia	210,258	172,380	702,769	15,416	207,560	170,168	693,750	15,218
Hyundai Motor Europe Technical Center GmbH	97,682	54,224	39,095	1,966	96,428	53,528	38,593	1,941
Hyundai Motor (UK) Ltd.	314,258	297,576	257,178	(19,461)	310,225	293,757	253,878	(19,211)
Beijing Jinxian Motor Safeguard Service Co., Ltd.	7,573	2,971	24,183	125	7,476	2,933	23,873	123
ROTEM	1,464,773	1,160,180	1,224,001	24,500	1,445,975	1,145,291	1,208,293	24,186
Hyundai Capital Service Inc.	10,827,781	9,962,996	1,788,108	404,107	10,688,826	9,835,139	1,765,161	398,921
China Millennium Corporations	86,316	67,504	16,020	3,068	85,208	66,638	15,814	3,029
Hyundai Card Co., Ltd.	2,978,690	2,667,309	733,255	70,149	2,940,464	2,633,079	723,845	69,249
HAOSVT (Turkey)	527,169	329,680	1,080,807	73,961	520,404	325,449	1,066,937	73,012
Beijing-Hyundai Motor Company	1,439,060	699,214	3,125,996	170,047	1,420,592	690,241	3,085,880	167,865
Hyundai Motor Group China Ltd.	28,196	60	563	(2,222)	27,834	59	556	(2,193)
Hyundai Powertech	874,140	577,440	913,622	26,977	862,922	570,030	901,897	26,631
KEFICO	341,803	117,796	490,908	36,373	337,417	116,284	484,608	35,906
Haevichi Leisure Co. Ltd.	18,227	32	-	195	17,993	32	-	192
Dymos Inc.	643,982	415,012	1,226,100	27,600	635,718	409,686	1,210,365	27,246
WIA Corporation	1,442,172	1,028,331	2,589,200	52,998	1,423,664	1,015,134	2,555,972	52,318
Kia Motors Corporation	11,366,097	6,055,191	15,999,356	680,904	11,220,234	5,977,484	15,794,034	672,166
Korea Aerospace Industries, Ltd.	1,512,900	1,193,200	644,600	1,100	1,493,485	1,177,887	636,328	1,086
Beijing Mobis Transmission Co., Ltd.	135,863	56,502	222,354	14,270	134,119	55,777	219,500	14,087
Hyundai Motor Deutschland GmbH	177,692	131,076	841,989	9,601	175,412	129,394	831,184	9,478
Hyundai HYSKO	2,443,946	1,444,103	2,682,782	58,086	2,412,582	1,425,571	2,648,353	57,341
Autoever Systems Corp.	118,837	82,843	346,171	11,965	117,312	81,780	341,729	11,811
Hyundai Autonet Co., Ltd.	421,986	101,950	474,034	32,433	416,571	100,642	467,951	32,017
Korea Economy Daily	205,402	103,594	109,443	3,551	202,766	102,265	108,038	3,505
Iljin Bearing Co., Ltd.	125,959	55,319	202,268	3,202	124,343	54,609	199,672	3,161
Daesung Automotive Co., Ltd.	68,508	37,441	71,750	1,810	67,629	36,961	70,829	1,787
Eukor Car Carriers Inc.	1,629,191	1,015,895	1,562,530	143,095	1,608,283	1,002,858	1,542,478	141,259

(4) The significant differences of accounting treatments between the Company and investees for similar transactions and accounting events are adjusted. Such adjustments of the difference of accounting treatments decreased the gain on equity method valuation included in current operations by ₩50,991 million (US\$50,337 thousand) and increased retained earnings by ₩15,814 million (US\$15,611 thousand) for the year ended and as of December 31, 2005, and increased the gain on equity method valuation included in current operations by ₩35,299 million (US\$34,846 thousand) in 2004.

(5) Significant unrealized profits (losses) that occurred in transactions with investees in 2005 are as follows:

Transaction type	Korean Won				Translation into U.S. Dollars (Note 2)	
	Beginning of year	Increase	Decrease	End of year	End of year	
	(In millions)				(In thousands)	
Inventories	₩ 300,989	₩ 202,968	₩ (300,989)	₩ 202,968	\$ 200,363	
Property	41,008	84,416	(24,516)	100,908	99,613	
Accrued warranties	(67,920)	(37,354)	67,920	(37,354)	(36,874)	
	<u>₩ 274,077</u>	<u>₩ 250,030</u>	<u>₩ (257,585)</u>	<u>₩ 266,522</u>	<u>\$ 263,102</u>	

- (6) The difference between the acquisition cost and the Company's portion of an investee's net equity at the date the Company was considered to be able to exercise significant influence over the operating and financial policy of an investee is amortized (or reversed) over 20 years, using the straight-line method. Also, the Company assesses any possible recognition of impairment loss on unamortized balance of the difference considered as goodwill. The unamortized (or reversed) balance of goodwill and negative goodwill as of December 31, 2005 are ₩301,333 million (US\$297,466 thousand) and ₩53,646 million (US\$52,958 thousand), respectively. In addition, the unamortized (or reversed) balance of goodwill and negative goodwill as of December 31, 2004 are ₩277,356 million (US\$273,797 thousand) and ₩63,931 million (US\$63,111 thousand), respectively.
- (7) The market price of listed equity securities as of December 31, 2005 is as follows:

Affiliated company	Korean Won			Translation into U.S. Dollars (Note 2)	
	Price per share	Number of shares	Market value (In millions)	Market value (In thousands)	
Kia Motors Corporation	₩ 26,550	134,285,491	₩ 3,565,280	\$ 3,519,526	
Hyundai HYSCO	12,350	20,954,188	258,784	255,463	

#### 7. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment as of December 31, 2005 and 2004 consist of the following:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
	(In millions)		(In thousands)	
Buildings and structures	₩ 3,254,559	₩ 3,103,254	\$ 3,212,793	\$ 3,063,429
Machinery and equipment	4,746,662	4,444,658	4,685,747	4,387,619
Vehicles	72,101	71,242	71,176	70,328
Dies, molds and tools	2,451,778	2,274,805	2,420,314	2,245,612
Other equipment	600,039	568,571	592,339	561,274
	11,125,139	10,462,530	10,982,368	10,328,263
Less: Accumulated depreciation	(5,093,631)	(4,502,803)	(5,028,264)	(4,445,018)
Accumulated impairment loss	-	(7,498)	(5,028,264)	(7,402)
	6,031,508	5,952,229	5,954,105	5,875,843
Land	1,899,548	1,895,016	1,875,171	1,870,697
Construction in progress	1,014,506	886,158	1,001,486	874,786
	<u>₩ 8,945,562</u>	<u>₩ 8,733,403</u>	<u>\$ 8,830,762</u>	<u>\$ 8,621,326</u>

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

	Korean Won							Translation into
	Beginning of year	Acquisition	Transfer	Disposal (In millions)	Depreciation	Other changes	End of year	U. S. Dollars (Note 2) End of year (In thousands)
Land	₩ 1,895,016	₩ -	₩ 9,942	₩ (5,410)	₩ -	₩ -	₩ 1,899,548	\$ 1,875,171
Buildings and structures	2,503,745	-	164,865	(11,531)	(102,031)	-	2,555,048	2,522,259
Machinery and equipment	2,548,218	-	505,659	(79,340)	(353,681)	-	2,620,856	2,587,222
Vehicles	39,981	-	6,485	(2,534)	(8,929)	-	35,003	34,554
Dies, molds and tools	596,485	-	213,146	(6,132)	(219,918)	-	583,581	576,092
Other equipment	263,800	-	66,066	(11,561)	(81,285)	-	237,020	233,978
Construction in progress	886,158	1,253,362	(966,163)	(306,291)	-	147,440	1,014,506	1,001,487
Total	₩ 8,733,403	₩ 1,253,362	₩ -	₩ (422,799)	₩ (765,844)	₩ 147,440	₩ 8,945,562	\$ 8,830,762

(\*) Other changes consist of decrease in transfer of ₩7,868 million (US\$ 7,767 thousand) from construction in progress to industrial property rights and increase in transfer of ₩155,308 million (US\$153,315 thousand) from inventories to construction in progress.

The changes in property, plant and equipment in 2004 are as follows:

	Korean Won							Translation into
	Beginning of year	Acquisition	Transfer	Disposal (In millions)	Depreciation	Other changes	End of year	U. S. Dollars (Note 2) End of year (In thousands)
Land	₩ 1,852,298	₩ -	₩ 43,993	₩ (1,518)	₩ -	₩ 243	₩ 1,895,016	\$ 1,870,697
Buildings and structures	2,416,432	-	169,223	(7,403)	(97,170)	22,663	2,503,745	2,471,614
Machinery and equipment	2,315,451	-	646,728	(63,751)	(343,253)	(6,956)	2,548,219	2,515,517
Vehicles	41,310	-	9,167	(2,076)	(8,440)	19	39,980	39,467
Dies, molds and tools	631,393	-	216,083	(8,962)	(241,792)	(237)	596,485	588,830
Other equipment	248,399	-	103,042	(7,824)	(80,021)	204	263,800	260,415
Construction in progress	970,544	921,201	(1,188,236)	(24,350)	-	206,999	886,158	874,786
Total	₩ 8,475,827	₩ 921,201	₩ -	₩ (115,884)	₩ (770,676)	₩ 222,935	₩ 8,733,403	\$ 8,621,326

As of December 31, 2005, a substantial portion of the Company's property, plant and equipment is pledged as collateral for various loans up to a maximum of ₩878,817 million (US\$867,539 thousand) (See Note 15).

As of December 31, 2005, the published value of the Company-owned land (12,557 thousand square meters) totals ₩2,031,361 million (US\$2,005,292 thousand) in terms of land prices officially announced by the Korean government.

## 8. INSURANCE:

As of December 31, 2005, property, plant and equipment are insured for ₩5,347,527 million (US\$ 5,278,901 thousand) with Hyundai Fire & Marine Insurance Co. In addition, the Company carries products and completed operations liability insurance with a maximum coverage of US\$155,000 thousand based on U.S. dollar and ₩1,000 million (US\$987 thousand), general insurance for vehicles and workers' compensation and casualty insurance for employees.

9. LEASED ASSETS:

The Company has entered into financing lease agreements for certain machinery and equipment with book value of ₩8,071 million (US\$7,967 thousand) as of December 31, 2005. The lease obligations are included in current maturity of long-term debt in the accompanying balance sheets. Annual payments on the lease agreements as of December 31, 2005 are as follows:

Year	Korean Won			Translation into
	Lease payments	Interest portion (In millions)	Lease obligations	U. S. Dollars (Note 2) Lease obligations (In thousands)
2006	₩ 101	₩ 2	₩ 99	\$ 98

10. INTANGIBLES:

Intangibles as of December 31, 2005 and 2004 consist of the following:

	Korean Won				Translation into U. S. Dollars (Note 2)	
	2005		2004		2005	2004
	Acquisition cost	Accumulated amortization	Book value	Book value	Book value	Book value
	(In millions)				(In thousands)	
Industrial property rights	39,256	23,683	15,573	14,485	15,373	14,299
Development costs	1,827,101	933,792	893,309	628,640	881,845	620,573
Other	37,532	26,019	11,513	13,363	11,365	13,191
	<u>₩1,903,889</u>	<u>₩ 983,494</u>	<u>₩ 920,395</u>	<u>₩ 656,488</u>	<u>\$ 908,583</u>	<u>\$ 648,063</u>

The changes in intangibles in 2005 are as follows:

Description	Korean Won				Translation into
	Industrial property rights	Development costs	Other	Total	U. S. Dollars (Note 2) Total
	(In millions)				(In thousands)
Beginning of year	₩ 14,485	₩ 628,640	₩ 13,363	₩ 656,488	\$ 648,063
Addition:					
Expenditures	7,868	1,002,280	-	1,010,148	997,185
Deduction:					
Amortization	(6,780)	(180,758)	(1,850)	(189,388)	(186,958)
Research	-	(448,627)	-	(448,627)	(442,870)
Ordinary development	-	(108,226)	-	(108,226)	(106,837)
End of year	<u>₩ 15,573</u>	<u>₩ 893,309</u>	<u>₩ 11,513</u>	<u>₩ 920,395</u>	<u>\$ 908,583</u>

The changes in intangibles in 2004 are as follows:

	Korean Won					Translation into
						U. S. Dollars
						(Note 2)
	Korean Won					Total
	Cost in excess of fair value of net identifiable assets acquired	Industrial property rights	Development costs	Other	Total	Total
	(In millions)					(In thousands)
Beginning of year	₩ 476,392	₩ 15,840	₩ 441,881	₩ 14,359	₩ 948,472	\$ 936,300
Addition:						
Expenditures	-	5,559	865,519	881	871,959	860,769
Deduction:						
Disposal	-	-	(2,701)	-	(2,701)	(2,666)
Amortization	(15,285)	(6,914)	(142,087)	(1,877)	(166,163)	(164,031)
Research	-	-	(400,995)	-	(400,995)	(395,849)
Ordinary development	-	-	(132,977)	-	(132,977)	(131,270)
Impairment loss	(461,107)	-	-	-	(461,107)	(455,190)
End of year	₩ -	₩ 14,485	₩ 628,640	₩ 13,363	₩ 656,488	\$ 648,063

In 2005, amortization of ₩ 189,388 million (US\$186,958 thousand) is recorded in selling and administrative expenses of ₩8,609 million (US\$8,499 thousand) and in manufacturing cost of ₩180,779 million (US\$178,459 thousand). In addition, the Company accounted for ordinary development expenses, research expenses and impairment loss as manufacturing cost, selling and administrative expenses and other expenses, respectively.

In 2004, due to the decline of the recoverable amount of cost in excess of fair value of net identifiable assets acquired, which the Company recognized at the time of merging the Automobile Division and Machine Tool Division of Hyundai MOBIS (Formerly Hyundai Precision and Industry Co., Ltd.), the carrying amount of cost in excess of fair value of net identifiable assets acquired, amounting to ₩461,107 million (US\$455,190 thousand), is accounted for as impairment loss and charged to current operation.

#### 11. OTHER ASSETS:

Other assets as of December 31, 2005 and 2004 consist of the following:

	Korean Won		Translation into	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Long-term financial instruments	₩ 40	₩ 540	\$ 39	\$ 533
Long-term notes and accounts receivable, less unamortized present value discount of ₩1,471 million in 2005 and ₩1,693 million in 2004	11,034	15,454	10,892	15,256
Long-term other accounts receivable, less unamortized present value discount of ₩1,154 million in 2005 and ₩2,115 million in 2004	86,260	9,771	85,153	9,646
Long-term loans	18,786	49,221	18,545	48,588
Lease and rental deposits	192,531	203,793	190,061	201,178
Long-term deposits	49,732	47,995	49,094	47,379
Deferred gain on valuation of derivatives	749,861	200,830	740,238	198,253
	₩ 1,108,244	₩ 527,604	\$ 1,094,022	\$ 520,833

Long-term notes and accounts receivable included in other assets are stated net of unamortized present value discount of ₩1,471 million (US\$1,452 thousand) and ₩1,693 million (US\$1,671 thousand) as of December 31, 2005 and 2004, respectively, using an interest rate of 8.25 percent.

12. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2005 and 2004 amount to ₩780,445 million (US\$ 770,429 thousand) and ₩604,604 million (US\$ 596,845 thousand), respectively, and consist primarily of bank overdrafts and export financing loans with annual interest rates ranging from Libor+0.16 percent to 6.01 percent.

13. LONG-TERM DEBT:

Long-term debt as of December 31, 2005 and 2004 consist of the following:

	2005 Annual interest rate (%)	Korean Won		Translation into U.S. Dollars (Note 2)	
		December 31, 2005	December 31 2004	December 31 2005	December 31 2004
		(In millions)		(In thousands)	
Debentures	3.75 ~ 7.80	₩ 1,381,196	₩ 1,239,734	\$ 1,363,471	\$ 1,223,824
Local currency loans					
General loans	3.00 ~ 4.50	17,917	22,399	17,687	22,111
Foreign currency loans					
Capital lease	Libor + 0.98	99	1,158	98	1,143
Other	Libor + 1.19	-	820	-	810
		99	1,978	98	1,953
		1,399,212	1,264,111	1,381,256	1,247,888
Less: Current maturities		(464,163)	(162,697)	(458,207)	(160,609)
		₩ 935,049	₩ 1,101,414	\$ 923,049	\$ 1,087,279

Debentures as of December 31, 2005 and 2004 consist of the following:

	Maturity	2005 Annual interest rate (%)	Korean Won		Translation into U.S. Dollars (Note 2)	
			December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
		(In millions)		(In thousands)		
Non-guaranteed debentures	May. 24, 2006 ~ Aug. 11, 2010	3.75 ~ 7.00	₩ 1,150,000	₩ 850,000	\$ 1,135,242	\$ 839,092
Overseas debentures	Jul. 18, 2006 ~ Jul. 15, 2007	7.33 ~ 7.80	235,801	399,541	232,775	394,414
			1,385,801	1,249,541	1,368,017	1,233,506
Discount on debentures			(4,605)	(9,807)	(4,546)	(9,682)
			₩ 1,381,196	₩ 1,239,734	\$ 1,363,471	\$ 1,223,824

The maturity of long-term debt as of December 31, 2005 is as follows:

Year	Debentures	Korean Won		Total	Translation into U.S. Dollars (Note 2)
		Local currency loans	Foreign currency loans		
		(In millions)		(In thousands)	
2006	₩ 461,430	₩ 2,634	₩ 99	₩ 464,163	\$ 458,207
2007	124,371	1,888	-	126,259	124,639
2008	200,000	1,441	-	201,441	198,856
2009 and thereafter	600,000	11,954	-	611,954	604,100
	1,385,801	17,917	99	1,403,817	1,385,802
Less: Discount on debentures	(4,605)	-	-	(4,605)	(4,546)
	₩ 1,381,196	₩ 17,917	₩ 99	₩ 1,399,212	\$ 1,381,256

14. ACCRUED WARRANTIES:

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

Description	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
Beginning of year	₩ 3,851,472	\$ 3,802,045
Accrual	385,297	380,353
Use	(392,017)	(386,986)
Other changes (*)	(676,469)	(667,788)
End of year	<u>₩ 3,168,283</u>	<u>\$ 3,127,624</u>

(\*) 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 (See Note 2).

15. COMMITMENTS AND CONTINGENT LIABILITIES:

(1) The Company is contingently liable for guarantees of indebtedness, primarily for the following affiliates (including foreign subsidiaries), as of December 31, 2005.

Description	Korean Won (In millions)	Translation into U.S. Dollars (Note 2) (In thousands)
Hyundai Merchant Marine Co., Ltd.	₩ 252,542	\$ 249,301
Hyundai Card Co., Ltd.	4,052	4,000
ROTEM	69,990	69,092
Hyundai Motor America	14,499	14,313
Hyundai Motor Manufacturing Alabama LLC	683,775	675,000
Hyundai Motor Finance Company	587,540	580,000
Hyundai Motor Europe GmbH	28,804	28,434
Hyundai Motor Europe Technical Center GmbH	48,006	47,390
Hyundai Motor Poland Sp.zo.o	6,001	5,924
Hyundai Motor Japan Co.	34,402	33,961
HMJ R&D	4,730	4,669
Hyundai America Technical Center Inc.	20,260	20,000
Hyundai Translead	120,547	119,000
Smart Alabama LLC	66,858	66,000
Beijing Jingxian Motor Safeguard Service Co., Ltd.	2,533	2,500
Beijing Hines Millennium Real Estate Development Co., Ltd.	15,195	15,000
Equus Cayman Finance Ltd.	405,200	400,000
	<u>₩ 2,364,934</u>	<u>\$ 2,334,584</u>

(2) As of December 31, 2005, investment securities of ₩88,392 million (US\$87,258 thousand) at book value in long-term investment securities and investment securities accounted for using the equity method, 11 blank promissory notes, 1 check amounting to ₩2,624 million (US\$2,590 thousand) and property, plant and equipment are pledged as collateral for short-term borrowings, long-term debt and other payables (See Note 7). Certain bank deposits of ₩13,675 million (US\$13,500 thousand) in short-term and long-term financial instruments are restricted for use due to guarantees for customer financing transactions, research and development and other obligations.



- (3) As of December 31, 2005, the outstanding balance of accounts receivable discounted with recourse amounts to ₩1,499,671 million (US\$ 1,480,425 thousand), including discounted overseas accounts receivable translated using the foreign exchange rate at December 31, 2005.
- (4) The Company uses a customer financing system related to a long-term instalment sales system and has provided guarantees of ₩112,575 million (US\$ 111,130 thousand) to the banks concerned as of December 31, 2005. These guarantees are all covered by insurance contracts, which regulate a customer and the Company as a contractor and a beneficiary, respectively.
- (5) The Company accrues estimated product liabilities expenses (See Note 14) 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, 2005 will not have any material effect on its financial position.

#### 16. CAPITAL STOCK:

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

	<u>Authorized</u>	<u>Issued</u>	<u>Par value</u>	<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars (Note 2)</u> (In thousands)
Common stock	450,000,000 shares	219,058,702 shares	₩ 5,000	₩ 1,151,894	\$ 1,137,112
Preferred stock	150,000,000 shares	65,202,146 shares	5,000	331,011	326,763
				<u>₩ 1,482,905</u>	<u>\$ 1,463,875</u>

Capital stock as of December 31, 2004 consists of the following:

	<u>Authorized</u>	<u>Issued</u>	<u>Par value</u>	<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars (Note 2)</u> (In thousands)
Common stock	450,000,000 shares	218,628,302 shares	₩ 5,000	₩ 1,149,741	\$ 1,134,986
Preferred stock	150,000,000 shares	65,202,146 shares	5,000	331,011	326,763
				<u>₩ 1,480,752</u>	<u>\$ 1,461,749</u>

In 2005 and 2004, a part of the stock options granted to the directors were exercised at an exercise price of ₩14,900 (US\$14,709) and new common stock of 430,400 shares and 429,800 shares, respectively, were issued. This issue of new common stock resulted in the increase in paid-in capital in excess of par value by ₩8,209 million (US\$8,104 thousand) and ₩8,197 million (US\$8,092 thousand) in 2005 and 2004, respectively.

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, 2005, 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 SURPLUS:

Capital surplus as of December 31, 2005 and 2004 consist of the following:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Paid-in capital in excess of par value	₩ 3,280,839	₩ 3,272,630	\$ 3,238,735	\$ 3,230,632
Asset revaluation surplus	1,852,871	1,852,871	1,829,093	1,829,093
Other	257,910	234,052	254,600	231,048
	<u>₩ 5,391,620</u>	<u>₩ 5,359,553</u>	<u>\$ 5,322,428</u>	<u>\$ 5,290,773</u>

On November 5, 2004, the Company merged with Hyundai Commercial Vehicle Engine Co., Ltd. (HCVE), a subsidiary of the Company. In accordance with the Accounting Standards for Business Combination in the Republic of Korea, the excess amount of ₩32,915 million (US\$32,493 thousand) of the investment securities in HCVE over the carrying amount of net assets of HCVE is accounted for as deduction in capital surplus.

On January 1, 1981, January 1, 1993 and July 1, 1998, the Company revalued its property, plant and equipment at their respective appraised values (which were appraised by the Korea Appraisal Board and approved by the relevant tax office). The resultant cumulative appraisal gains, amounting to ₩2,547,417 million (US\$2,514,726 thousand), were included in capital surplus, after offsetting accumulated deficit of ₩16,022 million (US\$15,816 thousand), a deferred foreign currency translation loss of ₩594,275 million (US\$586,649 thousand), reduction for an asset revaluation tax payment of ₩67,547 million (US\$66,680 thousand) and adjustment of ₩16,702 million (US\$16,488 thousand) due to the disposal of revalued assets within 1 year after revaluation.

18. RETAINED EARNINGS:

Retained earnings as of December 31, 2005 and 2004 consist of the following:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Appropriated:				
Legal reserve	₩ 188,870	₩ 155,870	\$ 186,446	\$ 153,869
Reserve for business rationalization	545,800	545,800	538,795	538,796
Reserve for improvement of financial structure	98,947	98,947	97,677	97,677
Reserve for overseas market development	48,800	48,800	48,174	48,174
Reserve for technology development	5,358,100	4,034,100	5,289,339	3,982,330
	6,240,517	4,883,517	6,160,431	4,820,846
Before appropriation	2,647,835	1,499,691	2,613,855	1,480,445
	<u>₩ 8,888,352</u>	<u>₩ 6,383,208</u>	<u>\$ 8,774,286</u>	<u>\$ 6,301,291</u>

The Korean Commercial Code requires the Company to appropriate, as a legal reserve, a minimum of 10 percent of annual cash dividends declared, until such reserve equals 50 percent of its capital stock issued. The Regulation on Issues and Disclosures of the Securities for listed companies requires the Company to appropriate, as a reserve for improvement of financial structure, an amount equal to at least 50 percent of the net gain on disposition of property, plant and equipment and 10 percent of net income for each year until the Company's net worth equals 30 percent of total assets. These reserves are not available for the payment of cash dividends, but may be transferred to capital stock or may be used to reduce any accumulated deficit.

The reserves for business rationalization, overseas market development and technological development are voluntary reserves, which are available for the payment of dividends.

19. CAPITAL ADJUSTMENTS:

Capital adjustments as of December 31, 2005 and 2004 consist of the following:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Treasury stock	₩ (736,113)	₩ (90,348)	\$ (726,666)	\$ (89,189)
Gain on valuation of available-for-sale securities	120,301	54,819	118,757	54,115
Gain on valuation of investments securities accounted for using the equity method	268,109	-	264,668	-
Loss on valuation of investment securities accounted for using the equity method	(500,899)	(147,703)	(494,471)	(145,808)
Stock option cost	14,231	18,178	14,049	17,945
Cumulative translation adjustments	-	(4,261)	-	(4,206)
Gain on valuation of derivatives	24,352	30,581	24,039	30,190
	<u>₩ (810,019)</u>	<u>₩ (138,734)</u>	<u>\$ (799,624)</u>	<u>\$ (136,953)</u>

(1) Treasury stock

For the stabilization of stock price, the Company has treasury stock consisting of 11,416,470 common shares and 2,950,960 preferred shares with a carrying value of ₩736,113 million (US\$726,666 thousand) as of December 31, 2005, 820,910 common shares and 3,138,600 preferred shares with a carrying value of ₩90,348 million (US\$89,189 thousand) as of December 31, 2004, which were acquired directly or indirectly through the Treasury Stock Fund and Trust Cash Fund.

(2) Gain on valuation of available-for-sale securities

Net gain on valuation of available-for-sale securities amounting to ₩120,301 million (US\$118,757 thousand) as of December 31, 2005 consists of gain on valuation of short-term investment securities of ₩12,036 million (US\$11,881 thousand), gain on valuation of long-term investment securities of ₩153,895 million (US\$151,920 thousand) and the deduction of the deferred income tax of ₩45,630 million (US\$45,044 thousand). Net gain on valuation of available-for-sale securities amounting to ₩54,819 million (US\$54,115 thousand) as of December 31, 2004 consists of gain on valuation of short-term investment securities of ₩58,029 million (US\$57,284 thousand), gain on valuation of long-term investment securities of ₩17,584 million (US\$17,358 thousand) and the deduction of the deferred income tax of ₩20,794 million (US\$20,527 thousand) (Notes 4 and 5).

(3) 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 of the stock options as of December 31, 2005 are exercised, 1,242,554 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.

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 ₩14,231 million (US\$14,048 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.

(4) Gain on valuation of derivatives

As of December 31, 2005 and December 31, 2004, net gain of ₩24,352 million (US\$24,039 thousand) and ₩30,581 million (US\$30,190 thousand), after deducting the deferred income tax of ₩9,238 million (US\$9,119 thousand) and ₩11,600 million (US\$11,451 thousand), respectively, on valuation of the effective portion of derivative instruments for cash flow hedging purposes from forecasted exports is included in capital adjustments on the basis set forth in Note 2.

20. DIVIDENDS:

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

	<u>Number of shares</u>	<u>Dividend rate</u>	<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars (Note 2)</u> (In thousands)
Common shares, net of treasury shares	207,642,232	25%	<del>₩</del> 259,553	\$ 256,222
Preferred shares, net of treasury shares:				
First and Third preferred shares	25,637,321	26%	33,328	32,900
Second preferred shares	36,613,865	27%	<u>49,429</u>	<u>48,795</u>
			<del>₩</del> <u>342,310</u>	<u>\$ 337,917</u>

The computation of the proposed dividends for 2004 is as follows:

	<u>Number of shares</u>	<u>Dividend rate</u>	<u>Korean Won</u> (In millions)	<u>Translation into U.S. Dollars (Note 2)</u> (In thousands)
Common shares, net of treasury shares	217,807,392	23%	<del>₩</del> 250,479	\$ 247,265
Preferred shares, net of treasury shares:				
First and Third preferred shares	24,492,541	24%	29,391	29,014
Second preferred shares	37,571,005	25%	<u>46,963</u>	<u>46,360</u>
			<del>₩</del> <u>326,833</u>	<u>\$ 322,639</u>

21. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS:

Income tax expense in 2005 and 2004 consists of the following:

<u>Description</u>	<u>Korean Won</u>		<u>Translation into U.S. Dollars (Note 2)</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(In millions)		(In thousands)	
Income tax currently payable	<del>₩</del> 265,052	<del>₩</del> 746,813	\$ 261,650	\$ 737,229
Changes in deferred income taxes due to temporary differences	406,693	12,453	401,474	12,293
Changes in deferred income taxes due to carryover tax deduction	(1,337)	-	(1,320)	-
Deferred income taxes directly reflected to equity	<u>(245,997)</u>	<u>(4,369)</u>	<u>(242,840)</u>	<u>(4,313)</u>
Income tax expense	<del>₩</del> <u>424,411</u>	<del>₩</del> <u>754,897</u>	<u>\$ 418,964</u>	<u>\$ 745,209</u>

In 2005 and 2004, the differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

<u>Description</u>	<u>Korean Won</u>		<u>Translation into U.S. Dollars (Note 2)</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(In millions)		(In thousands)	
Income before tax	<del>₩</del> 2,739,058	<del>₩</del> 2,500,338	\$ 2,703,907	\$ 2,468,250
Addition	3,116,063	2,783,845	3,076,074	2,748,120
Deduction	<u>(4,173,916)</u>	<u>(2,083,236)</u>	<u>(4,120,351)</u>	<u>(2,056,501)</u>
Taxable income	<del>₩</del> <u>1,681,205</u>	<del>₩</del> <u>3,200,947</u>	<u>\$ 1,659,630</u>	<u>\$ 3,159,869</u>

The net changes in accumulated temporary differences in 2005 and 2004 are as follows:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Beginning of year, net	₩ 1,930,809	₩ 1,513,799	\$ 1,906,031	\$ 1,494,372
Changes during the year, net	<u>(1,625,075)</u>	<u>417,010</u>	<u>(1,604,220)</u>	<u>411,659</u>
End of year, net	<u>₩ 305,734</u>	<u>₩ 1,930,809</u>	<u>\$ 301,811</u>	<u>\$ 1,906,031</u>

Deferred income taxes as of December 31, 2005 and 2004 are computed as follows:

Particulars	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Accumulated temporary differences, net	₩ 305,734	₩ 1,930,809	\$ 301,811	\$ 1,906,031
Adjustments (*)	<u>(121,040)</u>	<u>(579,336)</u>	<u>(119,487)</u>	<u>(571,901)</u>
	184,694	1,351,473	182,324	1,334,130
Statutory tax rate	x 27.5%	x 27.5%	x 27.5%	x 27.5%
Deferred income tax assets for accumulated temporary differences, net	₩ 50,791	₩ 371,655	\$ 50,139	\$ 366,885
Deferred income tax assets for carryover tax deduction	<u>1,337</u>	<u>-</u>	<u>1,320</u>	<u>-</u>
Deferred income tax assets, net	<u>₩ 52,128</u>	<u>₩ 371,655</u>	<u>\$ 51,459</u>	<u>\$ 366,885</u>
Current assets	<u>₩ 24,929</u>	<u>₩ 185,283</u>	<u>\$ 24,609</u>	<u>\$ 182,905</u>
Non-current assets	<u>₩ 27,199</u>	<u>₩ 186,372</u>	<u>\$ 26,850</u>	<u>\$ 183,980</u>

(\*) The Company did not recognize deferred income tax assets related to gain of revaluation of land and others since the probability of its realization in the near future is uncertain.

When each temporary difference reverses in the future, it will result in a decrease (increase) of taxable income and income tax payable. Deferred income tax assets are recognized only when it is probable the tax benefits from temporary differences will be realized in the future and calculated using the expected corporate tax rate in the period when the tax benefits will be realized. As of December 31, 2005, the Company believes the total current and non-current deferred income tax assets of ₩209,184 million (US\$206,499 thousand) and ₩896,617 million (US\$885,111 thousand), respectively, before deduction of the total current and non-current deferred income tax liabilities of ₩184,255 million (US\$ 181,890 thousand) and ₩869,418 million (US\$858,261 thousand), respectively, can be realized in the future. Additionally, the Company believes average ordinary income in the coming years will exceed the amount of deferred taxes to be realized every year based on its assessment. The effective tax rates are 15.49 percent and 30.19 percent in 2005 and 2004, respectively.

## 22. RELATED PARTY TRANSACTIONS:

Significant transactions with affiliated companies in 2005 and 2004 are summarized below.

Affiliated company	Sales / Proceeds (Expenses / Purchases)		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Hyundai Motor America	₩ 5,005,672	₩ 6,917,530	\$ 4,941,433	\$ 6,828,756
HAOSVT	635,334	767,844	627,181	757,990
Hyundai Motor India	439,797	440,147	434,153	434,499
Hyundai Motor Company Australia	462,829	385,499	456,889	380,552
Hyundai Motor Poland Sp.zo.o.	110,713	145,323	109,292	143,458
Hyundai Motor Manufacturing Alabama, LLC	89,292	51,608	88,146	50,946

Affiliated company	Sales / Proceeds (Expenses / Purchases)			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Hyundai Motor Europe GmbH	2,179,866	2,276,451	2,151,891	2,247,237
Beijing-Hyundai Motor Company	688,867	454,403	680,027	448,572
Hyundai Motor UK Ltd.	254,896	-	251,625	-
Kia Motors Corporation	654,236	1,008,791	645,840	995,845
	(447,228)	(356,281)	(441,489)	(351,709)
Hyundai MOBIS	577,796	482,053	570,381	475,867
	(2,348,197)	(1,579,099)	(2,318,062)	(1,558,834)
KEFICO	(293,907)	(318,769)	(290,135)	(314,678)
Autoever Systems Corp.	5,349	1,208	5,280	1,192
	(124,265)	(126,043)	(122,670)	(124,425)
Dymos Inc.	7,634	13,241	7,536	13,071
	(507,485)	(228,559)	(500,972)	(225,626)
Hyundai HYSCO	2,033	4,705	2,007	4,645
	(160,856)	(195,843)	(158,792)	(193,330)
Hyundai Powertech	27,025	17,604	26,678	17,378
	(238,863)	(169,445)	(235,798)	(167,270)
WIA Corporation	163,099	7,505	161,006	7,409
	(292,699)	(220,122)	(288,943)	(217,297)
ROTEM	185	5,474	183	5,404
	(43,767)	(8,695)	(43,205)	(8,583)
Hyundai Capital Service Inc.	336,903	123,878	332,579	122,288
	(35,260)	(33,535)	(34,808)	(33,105)
Amco Corp.	(347,440)	(195,199)	(342,981)	(192,694)
Glovis Co., Ltd.	(337,307)	(311,790)	(332,978)	(307,789)
Hyundai Autonet	(58,694)	-	(57,941)	-

Significant outstanding balances related to affiliated companies as of December 31, 2005 and 2004 are summarized below.

Affiliated company	Receivables (Payables)			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Hyundai Motor America	₩ 130,554	₩ 90,149	\$ 128,879	\$ 88,992
	(15,374)	(5,013)	(15,177)	(4,949)
HAOSVT	19,547	11,414	19,296	11,268
	(7,823)	-	(7,723)	-
Hyundai Motor India	31,132	15,513	30,732	15,314
Hyundai Motor Poland Sp.zo.o.	2,646	5,892	2,612	5,816
Hyundai Motor Manufacturing Alabama, LLC	60,997	9,924	60,214	9,797
Hyundai Motor Company Australia	30,539	30,178	30,147	29,791
Hyundai Motor Europe GmbH	57,589	95,563	56,850	94,337
Hyundai MOBIS	112,481	47,101	111,038	46,497
	(632,193)	(396,959)	(624,080)	(391,865)
KEFICO	1,059	1,797	1,045	1,774
	(51,346)	(50,995)	(50,687)	(50,341)
Kia Motors Corporation	165,081	119,639	162,962	118,104
	(201,858)	(119,122)	(199,268)	(117,593)
Dymos Inc.	10,408	579	10,274	572
	(127,408)	(84,412)	(125,773)	(83,329)
Hyundai HYSCO	1,478	2,764	1,459	2,729
	(29,244)	(25,322)	(28,869)	(24,997)
WIA Corporation	17,506	7,548	17,281	7,451
	(95,182)	(67,848)	(93,961)	(66,977)
Autoever Systems Corp.	(38,077)	(55,810)	(37,588)	(55,094)

Affiliated company	Receivables (Payables)			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Hyundai Capital Service Inc.	48,500	48,500	47,878	47,878
	(5,602)	(6,866)	(5,530)	(6,778)
Hyundai Card Co., Ltd.	44,292	24,650	43,724	24,334
	(52,501)	(85,429)	(51,827)	(84,333)
ROTEM	(26,127)	(7,495)	(25,792)	(7,399)
Hyundai Powertech	12,910	9,930	12,744	9,803
	(74,958)	(49,673)	(73,996)	(49,036)
Glovis Co., Ltd.	(49,599)	(51,833)	(48,962)	(51,168)
Amco Corp.	(188,196)	(91,485)	(185,781)	(90,311)
Hyundai Autonet	(47,894)	-	(47,279)	-

### 23. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

The assets and liabilities denominated in foreign currencies as of December 31, 2005 and 2004 are summarized below.

	Foreign currencies				Korean Won			
	2005		2004		2005		2004	
	(In thousands)				(In millions)			
Assets	US\$	459,846	US\$	449,158	₩	465,824	₩	468,832
	JP ¥	521,943	JP ¥	147,692		4,489		1,495
	GBP	5,842	GBP	8,813		10,197		17,704
	CAD	12,842	CAD	-		11,189		-
	EUR	173,260	EUR	116,307		207,938		165,500
	AUD	28,008	AUD	27,339		20,835		22,226
					₩	720,472	₩	675,757
Liabilities	US\$	620,674	US\$	788,889	₩	628,743	₩	823,443
	JP ¥	23,720,379	JP ¥	23,441,406		204,005		237,243
	GBP	10,390	GBP	13,066		18,134		26,250
	CAD	2,976	CAD	6,005		2,593		5,205
	EUR	250,170	EUR	176,035		300,241		19,721
	AUD	7,838	AUD	24,259		5,831		250,491
	SGD	124	SGD	-		76		-
	CHF	2,359	CHF	-		1,819		-
	SEK	442	SEK	-		56		-
					₩	1,161,498	₩	1,362,353

24. REGIONAL SALES INFORMATION:

Sales by region in 2005 and 2004 are as follows:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Domestic sales	₩ 11,019,243	₩ 10,182,000	\$ 10,877,831	\$ 10,051,333
Export sales - Vehicle products				
North America	5,005,536	6,917,583	4,941,299	6,828,808
Europe	4,144,818	4,072,501	4,091,627	4,020,238
South America	805,805	573,910	795,464	566,545
Asia & Pacific	1,268,957	981,212	1,252,672	968,620
Middle Asia & Africa	<u>1,860,708</u>	<u>1,440,274</u>	<u>1,836,829</u>	<u>1,421,791</u>
	13,085,824	13,985,480	12,917,891	13,806,002
Export sales - Other	<u>3,278,670</u>	<u>3,304,977</u>	<u>3,236,594</u>	<u>3,262,564</u>
Export sales	<u>16,364,494</u>	<u>17,290,457</u>	<u>16,154,486</u>	<u>17,068,565</u>
Total sales	<u>₩ 27,383,737</u>	<u>₩ 27,472,457</u>	<u>\$ 27,032,317</u>	<u>\$ 27,119,898</u>

25. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses in 2005 and 2004 are as follows:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions)		(In thousands)	
Salary-related costs	₩ 937,097	₩ 939,982	\$ 925,071	\$ 927,919
Export-related costs	716,826	718,371	707,627	709,152
Sales promotion and advertisements	393,040	425,199	387,996	419,742
Sales commissions	362,537	316,428	357,884	312,367
Sales warranties	433,029	1,334,979	427,472	1,317,847
Taxes and dues	51,110	31,628	50,454	31,222
Communications	20,420	22,177	20,158	21,892
Utilities	21,520	23,246	21,244	22,948
Freight and warehousing	72,141	71,343	71,215	70,428
Rent	19,429	17,363	19,180	17,140
Travel	60,060	46,340	59,289	45,745
Service charges	152,744	173,563	150,784	171,336
Maintenance	19,710	24,448	19,457	24,134
Supplies	18,559	19,999	18,321	19,742
Research	448,627	400,995	442,870	395,849
Depreciation	65,709	66,949	64,865	66,090
Amortization	8,609	24,073	8,499	23,764
Stock option cost	1	6,716	1	6,630
Other	<u>12,683</u>	<u>29,238</u>	<u>12,520</u>	<u>28,863</u>
	<u>₩ 3,813,851</u>	<u>₩ 4,693,037</u>	<u>\$ 3,764,907</u>	<u>\$ 4,632,810</u>



26. FINANCIAL PERFORMANCE IN FINAL INTERIM PERIOD:

The financial performance for the three months ended December 31, 2005 and 2004 (unaudited) are summarized as follows:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2005	2004	2005	2004
	(In millions, except per share amounts)		(In thousands, except per share amounts)	
Sales	₩ 8,117,285	₩ 7,541,735	\$ 8,013,115	\$ 7,444,951
Gross profit	1,487,046	1,633,054	1,467,962	1,612,097
Operating income	335,503	343,832	33,197	339,420
Ordinary income	626,037	521,214	618,003	514,525
Net income	656,787	384,630	648,358	379,694
Earnings per share	3,068	1,682	3,029	1,660

## **Internal Accounting Control System Review Report**

English translation of a Report Originally Issued in Korean

To the Chief Executive Officer of  
Hyundai Motor Company:

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Hyundai Motor Company (the "Company") as of December 31, 2005. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of December 31, 2005 has come to our attention.

This report applies to the Company's IACS in existence as of December 31, 2005. We did not review the Company's IACS subsequent to December 31, 2005. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

January 27, 2006

### Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2005 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.