

HYUNDAI MOTOR COMPANY

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

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying non-consolidated balance sheets of Hyundai Motor Company as of December 31, 2006 and 2005, 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, 2006 and 2005, 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.

January 26, 2007

Notice to Readers

This report is effective as of January 26, 2007, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

<u>ASSETS</u>	<u>Korean Won</u>		<u>Translation into</u> <u>U.S. Dollars (Note 2)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
Current assets:				
Cash and cash equivalents	₩ 1,382,678	₩ 1,803,282	\$ 1,487,390	\$ 1,939,847
Short-term financial instruments (Note 13)	2,755,381	3,860,735	2,964,050	4,153,114
Short-term investment securities (Note 4)	310,295	342,292	333,794	368,214
Trade notes and accounts receivable, less allowance for doubtful accounts of ₩14,331 million in 2006 and ₩21,589 million in 2005 (Note 13)	1,558,631	1,312,163	1,676,668	1,411,535
Trade notes and accounts receivable-other	483,304	518,961	519,905	558,263
Inventories (Note 3)	1,219,586	1,008,086	1,311,947	1,084,430
Deferred tax assets (Note 20)	161,426	24,929	173,651	26,817
Derivative assets (Note 2)	14,318	2,134	15,402	2,296
Advances and other current assets (Note 2)	157,386	130,783	169,307	140,687
Total current assets	<u>8,043,005</u>	<u>9,003,365</u>	<u>8,652,114</u>	<u>9,685,203</u>
Non-current assets:				
Long-term investment securities (Notes 5 and 13)	518,009	441,008	557,239	474,406
Investment securities accounted for using the equity method (Notes 6 and 13)	6,616,813	6,115,447	7,117,914	6,578,579
Property, plant and equipment, net of accumulated depreciation of ₩5,680,264 million in 2006 and ₩5,093,631 million in 2005 (Notes 7, 8 and 13)	9,465,474	8,945,562	10,182,309	9,623,023
Intangibles (Note 9)	1,118,597	920,395	1,203,310	990,098
Deferred tax assets (Note 20)	-	127,305	-	136,946
Derivative assets (Note 2)	276,607	749,861	297,555	806,649
Other assets (Note 10)	391,453	358,383	421,097	385,524
Total non-current assets	<u>18,386,953</u>	<u>17,657,961</u>	<u>19,779,424</u>	<u>18,995,225</u>
Total assets	<u>₩ 26,429,958</u>	<u>₩ 26,661,326</u>	<u>\$ 28,431,538</u>	<u>\$ 28,680,428</u>

(Continued)

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2006 AND 2005

LIABILITIES AND SHAREHOLDERS' EQUITY	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Current liabilities:				
Short-term borrowings (Notes 11 and 13)	₩ 474,165	₩ 780,445	\$ 510,074	\$ 839,549
Current maturities of long-term debt and debentures (Notes 12 and 13)	116,233	464,163	125,035	499,315
Trade notes and accounts payable	2,118,143	3,443,993	2,278,553	3,704,812
Trade notes and accounts payable—other (Note 2)	1,926,625	1,613,236	2,072,531	1,735,409
Accrued warranties (Note 14)	800,479	734,750	861,101	790,394
Income tax payable	245,106	41,846	263,668	45,015
Accrued expenses	36,590	43,037	39,361	46,296
Derivative liabilities (Note 2)	184	2,114	198	2,274
Withholdings and other current liabilities	616,220	493,061	662,888	530,401
Total current liabilities	<u>6,333,745</u>	<u>7,616,645</u>	<u>6,813,409</u>	<u>8,193,465</u>
Long-term liabilities:				
Long-term debt and debentures, net of current maturities and discount on debentures issued of ₩2,321 million in 2006 and ₩4,605 million in 2005 (Notes 12 and 13)	1,111,569	935,049	1,195,750	1,005,862
Accrued severance benefits, net of National Pension payments for employees of ₩23,680 million in 2006 and ₩29,550 million in 2005, and individual severance insurance deposits of ₩836,930 million in 2006 and ₩835,383 million in 2005 (Note 2)	438,592	367,052	471,807	394,849
Long-term accrued warranties (Note 14)	2,284,428	2,433,533	2,457,431	2,617,828
Derivative liabilities (Note 2)	55,322	203,390	59,512	218,793
Deferred tax liabilities (Note 20)	119,219	-	128,248	-
Other long-term liabilities (Note 2)	36,255	52,693	39,000	56,684
Total long-term liabilities	<u>4,045,385</u>	<u>3,991,717</u>	<u>4,351,748</u>	<u>4,294,016</u>
Total liabilities	<u>10,379,130</u>	<u>11,608,362</u>	<u>11,165,157</u>	<u>12,487,481</u>
Commitments and contingencies (Note 13)				
Shareholders' equity:				
Capital stock (Note 15)	1,484,942	1,482,905	1,597,399	1,595,208
Capital surplus (Note 16)	5,409,005	5,391,620	5,818,637	5,799,935
Retained earnings (Note 17)				
(Net income of ₩1,526,063 million in 2006 and ₩2,348,721 million in 2005)	10,090,465	8,924,537	10,854,631	9,600,406
Capital adjustments (Note 18)	(933,584)	(746,098)	(1,004,286)	(802,602)
Total shareholders' equity	<u>16,050,828</u>	<u>15,052,964</u>	<u>17,266,381</u>	<u>16,192,947</u>
Total liabilities and shareholders' equity	<u>₩ 26,429,958</u>	<u>₩ 26,661,326</u>	<u>\$ 28,431,538</u>	<u>\$ 28,680,428</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions, except per share amounts)		(In thousands, except per share amounts)	
Sales (Note 23)				
Domestic sales	₩ 11,839,688	₩ 11,019,243	\$ 12,736,325	\$ 11,853,747
Export sales	<u>15,495,680</u>	<u>16,364,494</u>	<u>16,669,191</u>	<u>17,603,801</u>
	<u>27,335,368</u>	<u>27,383,737</u>	<u>29,405,516</u>	<u>29,457,548</u>
Cost of sales	<u>22,408,572</u>	<u>22,185,743</u>	<u>24,105,606</u>	<u>23,865,902</u>
Gross profit	4,926,796	5,197,994	5,299,910	5,591,646
Selling and administrative expenses (Note 24)	<u>3,692,348</u>	<u>3,813,851</u>	<u>3,971,975</u>	<u>4,102,680</u>
Operating income	<u>1,234,448</u>	<u>1,384,143</u>	<u>1,327,935</u>	<u>1,488,966</u>
Other income (expenses), net:				
Interest income, net	101,251	91,646	108,919	98,586
Gain on foreign exchange, net	36,931	129,860	39,728	139,694
Gain on foreign exchange translation, net	12,483	22,227	13,428	23,911
Gain on valuation of investment securities accounted for using the equity method, net (Note 6)	600,321	722,907	645,785	777,654
Gain (loss) on valuation of derivatives, net (Note 2)	(274,104)	389,078	(294,862)	418,543
Royalty income	267,579	316,079	287,843	340,016
Loss on disposal of trade notes and accounts receivable	(78,947)	(67,370)	(84,926)	(72,472)
Loss on disposal of property, plant and equipment, net	(39,253)	(156,381)	(42,226)	(168,224)
Impairment loss on intangibles	(20,793)	-	(22,368)	-
Gain on disposal of short-term investment securities, net	17,864	134,374	19,217	144,550
Gain on disposal of long-term investment securities, net	3,122	2,595	3,358	2,792
Other, net	<u>24,981</u>	<u>(230,100)</u>	<u>26,873</u>	<u>(247,525)</u>
	<u>651,435</u>	<u>1,354,915</u>	<u>700,769</u>	<u>1,457,525</u>
Ordinary income	1,885,883	2,739,058	2,028,704	2,946,491
Income tax expense (Note 20)	<u>359,820</u>	<u>390,337</u>	<u>387,070</u>	<u>419,898</u>
Net income	<u>₩ 1,526,063</u>	<u>₩ 2,348,721</u>	<u>\$ 1,641,634</u>	<u>\$ 2,526,593</u>
Earnings per common share (Note 2)	<u>₩ 7,021</u>	<u>₩ 10,815</u>	<u>\$ 7.55</u>	<u>\$ 11.63</u>
Earnings per common share – assuming dilution (Note 2)	<u>₩ 6,995</u>	<u>₩ 10,760</u>	<u>\$ 7.52</u>	<u>\$ 11.57</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, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Unappropriated retained earnings (Note 17)				
Beginning of year	₩ 37,210	₩ (184,142)	\$ 40,028	\$ (198,087)
Beginning balance adjustment in accrued warranties	-	490,440	-	527,582
Change in retained earnings using the equity method	(17,825)	29,001	(19,175)	31,197
Net income	<u>1,526,063</u>	<u>2,348,721</u>	<u>1,641,634</u>	<u>2,526,593</u>
	<u>1,545,448</u>	<u>2,684,020</u>	<u>1,662,487</u>	<u>2,887,285</u>
Appropriations:				
Legal reserve	27,600	34,500	29,690	37,113
Reserve for technology development	1,240,000	2,270,000	1,333,907	2,441,910
Cash dividends (Note 19)	<u>275,373</u>	<u>342,310</u>	<u>296,228</u>	<u>368,234</u>
	<u>1,542,973</u>	<u>2,646,810</u>	<u>1,659,825</u>	<u>2,847,257</u>
Unappropriated retained earnings, end of year	₩ 2,475	₩ 37,210	\$ 2,662	\$ 40,028

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Cash flows from operating activities:				
Net income	₩ 1,526,063	₩ 2,348,721	\$ 1,641,634	\$ 2,526,593
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	791,287	765,844	851,212	823,843
Amortization of intangibles	304,778	189,388	327,859	203,731
Gain on foreign currency translation, net	(12,483)	(22,227)	(13,428)	(23,911)
Amortization of discount on debentures	3,178	6,094	3,419	6,556
Loss on disposal of trade notes and accounts receivable	78,947	67,370	84,926	72,472
Gain on disposal of short-term investment securities, net	(17,864)	(134,374)	(19,217)	(144,550)
Gain on disposal of long-term investment securities, net	(3,122)	(2,595)	(3,358)	(2,792)
Gain on valuation of investment securities accounted for using the equity method, net	(600,322)	(722,907)	(645,785)	(777,654)
Loss on disposal of property, plant and equipment, net	39,253	156,381	42,226	168,224
Impairment loss on intangibles	20,793	-	22,368	-
Loss (gain) on valuation of derivatives, net	274,104	(389,078)	294,862	(418,543)
Provision for severance benefits	277,261	277,468	298,258	298,481
Provision for accrued warranties	261,436	385,297	281,235	414,476
Other	33,063	125,898	35,567	135,432
Changes in operating assets and liabilities:				
Increase in trade notes and accounts receivable	(316,680)	(365,280)	(340,663)	(392,943)
Decrease (increase) in trade notes and accounts receivable-other	39,234	(190,321)	42,205	(204,734)
Decrease (increase) in inventories	(381,819)	103,704	(410,735)	111,558
Decrease (increase) in deferred tax assets	(26,220)	34,740	(28,206)	37,371
Decrease (increase) in advances and other current assets	(26,978)	64,886	(29,021)	69,800
Decrease in trade notes and accounts payable	(1,325,576)	(25,388)	(1,425,964)	(27,311)
Increase in trade notes and accounts payable-other	285,309	725,570	306,916	780,519
Decrease in accrued warranties	(344,812)	(392,017)	(370,925)	(421,705)
Increase (decrease) in income tax payable	203,260	(384,106)	218,653	(413,195)
Decrease in accrued expenses	(6,446)	(343)	(6,934)	(369)
Increase in deferred tax liabilities	119,219	-	128,248	-
Increase withholdings and other current liabilities	123,268	165,083	132,603	177,585
Payment of severance benefits	(210,656)	(218,579)	(226,609)	(235,132)
Increase in individual severance insurance deposits	(1,547)	(85,482)	(1,664)	(91,956)
Other	7,327	28,911	7,881	31,099
	<u>1,113,255</u>	<u>2,512,658</u>	<u>1,197,563</u>	<u>2,702,945</u>

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HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Cash flows from investing activities:				
Cash inflows from investing activities:				
Proceeds from disposal of short-term financial instruments	₩ 4,542,810	₩ 4,565,893	\$ 4,886,844	\$ 4,911,675
Proceeds from disposal of short-term investment securities	319,196	632,720	343,369	680,637
Reduction in other current assets	12,360	113,393	13,296	121,980
Proceeds from disposal of long-term investment securities	49,280	5,506	53,012	5,923
Proceeds from disposal and dividends of investment securities accounted for using the equity method	255,210	457,754	274,537	492,420
Proceeds from disposal of property, plant and equipment	32,155	63,524	34,590	68,335
Reduction in other assets	116,872	152,739	125,724	164,306
	<u>5,327,883</u>	<u>5,991,529</u>	<u>5,731,372</u>	<u>6,445,276</u>
Cash outflows from investing activities:				
Purchase of short-term financial instruments	(3,437,456)	(4,126,559)	(3,697,780)	(4,439,069)
Acquisition of short-term investment securities	(271,085)	(302,042)	(291,615)	(324,916)
Additions to other current assets	(6,000)	(112,493)	(6,454)	(121,012)
Acquisition of long-term investment securities	(8,899)	(17,985)	(9,573)	(19,347)
Acquisition of investment securities accounted for using the equity method	(438,629)	(782,649)	(471,847)	(841,920)
Acquisition of property, plant and equipment	(1,221,680)	(1,253,362)	(1,314,200)	(1,348,281)
Expenditures for development costs	(514,521)	(445,427)	(553,486)	(479,160)
Additions to other assets	(160,829)	(63,124)	(173,009)	(67,905)
	<u>(6,059,099)</u>	<u>(7,103,641)</u>	<u>(6,517,964)</u>	<u>(7,641,610)</u>
	<u>(731,216)</u>	<u>(1,112,112)</u>	<u>(786,592)</u>	<u>(1,196,334)</u>
Cash flows from financing activities:				
Cash inflows from financing activities:				
Proceeds from short-term borrowings	12,402,161	7,346,108	13,341,395	7,902,440
Proceeds from the issuance of debentures	299,107	299,107	321,759	321,759
Proceeds from long-term borrowings	508	-	546	-
Proceeds from disposal of treasury stock	-	53,617	-	57,677
Proceeds from exercise of stock options	10,923	6,413	11,750	6,899
	<u>12,712,699</u>	<u>7,705,245</u>	<u>13,675,450</u>	<u>8,288,775</u>
Cash outflows from financing activities:				
Repayment of short-term borrowings	(12,709,079)	(7,158,877)	(13,671,556)	(7,701,029)
Repayment of current maturities of long-term debt	(463,963)	(162,928)	(499,099)	(175,267)
Payment of cash dividends	(342,300)	(326,833)	(368,223)	(351,585)
Purchase of treasury stock	-	(660,571)	-	(710,597)
	<u>(13,515,342)</u>	<u>(8,309,209)</u>	<u>(14,538,878)</u>	<u>(8,938,478)</u>
	<u>(802,643)</u>	<u>(603,964)</u>	<u>(863,428)</u>	<u>(649,703)</u>

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HYUNDAI MOTOR COMPANY

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Korean Won</u>		<u>Translation into</u> <u>U. S. Dollars (Note 2)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(In millions)</u>		<u>(In thousands)</u>	
Net increase (decrease) in cash and cash equivalents	₩ (420,604)	₩ 796,582	\$ (452,457)	\$ 856,908
Cash and cash equivalents, beginning of year	<u>1,803,282</u>	<u>1,006,700</u>	<u>1,939,847</u>	<u>1,082,939</u>
Cash and cash equivalents, end of year	₩ <u>1,382,678</u>	₩ <u>1,803,282</u>	\$ <u>1,487,390</u>	\$ <u>1,939,847</u>

See accompanying notes to non-consolidated financial statements.

HYUNDAI MOTOR COMPANY

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. THE COMPANY:

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

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

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

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

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 ₩929.60 to US\$1.00 at December 31, 2006, the Base Rate announced by Seoul Money Brokerage Service, Ltd. Such translations should not be construed as representations that the Korean Won amounts could be converted into U.S. dollars at that or any other rate.

The Company prepared its non-consolidated financial statements as of December 31, 2006 in accordance with the Korea Financial Accounting Standards and the Statements of Korea Accounting Standards (“SKAS”) No. 1 through No.20, except for No.11 and No.14.

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements as of December 31, 2006 are identical to those as of December 31, 2005, except for the adoption of additional SKAS No.18 - “Interests in Joint Ventures”, No.19 - “Lease” and No.20 - “Related Party Disclosures”, which were effective from January 1, 2006.

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

Effects on major accounts due to accounting change mentioned above are as follows:

Accounts	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Deferred tax assets (liabilities)	₩ 181,494	₩ 100,106	\$ 195,239	\$ 107,687
Retained earnings	76,986	36,185	82,816	89,088
Capital adjustment	4,401	63,921	4,734	68,762
Income tax expense	(81,616)	(34,074)	(87,797)	(36,654)
Net income	81,616	34,074	87,797	36,654

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

Allowance for Doubtful Accounts

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

Inventories

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

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

Classification of Securities

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

Valuation of Securities

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

After initial recognition, held-to-maturity securities are valued at amortized cost. The difference between their acquisition costs and face values is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sales securities are also valued at fair value, with unrealized holding gains or losses recognized in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of capital adjustments are reflected in current operations. However, available-for-sales securities that are not traded in an active market and whose fair value cannot be reliably measured are valued at cost.

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

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

Investment Securities Accounted for Using the Equity Method

Investment 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 investment 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, 15
Dies, molds and tools	6
Other equipment	6

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

Intangibles

Intangibles 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.

Valuation of Receivables and Payables at Present Value

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

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 ₩1,299,202 million (US\$1,397,593 thousand) and ₩1,231,985 million (US\$1,325,285 thousand) as of December 31, 2006 and 2005, respectively.

Accrued severance benefits are approximately 64 percent and 68 percent funded at December 31, 2006 and 2005, respectively, through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiaries are respective employees, are presented as deduction from accrued severance benefits.

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

Actual payments of severance benefits amounted to ~~₩~~210,656 million (US\$226,609 thousand) and ~~₩~~218,579 million (US\$235,132 thousand) in 2006 and 2005, 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 to settle the obligation.

Stock Options

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

Derivative Instruments

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecast transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustments is added to or deducted from the asset or the liability.

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

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

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

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

(*) The Company has the position of seller.

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

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

The Company recorded total gain on valuation of outstanding derivatives and present value of premiums of ₩290,925 million (US\$312,957 thousand) and ₩751,995 million (US\$808,945 thousand) in current and non-current derivative assets as of December 31, 2006 and 2005, respectively. Also, total loss on valuation of outstanding derivatives and present value of premiums of ₩55,506 million (US\$59,710 thousand) and ₩205,504 million (US\$221,067 thousand) is recorded in current and long-term derivative liabilities as of December 31, 2006 and 2005, 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 ₩929.60 and ₩1,013.00 to US\$1.00 at December 31, 2006 and 2005, respectively, and translation gains or losses are reflected in current operations.

Income Tax Expense

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

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

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting and according to the expected reversal date of the specific temporary difference if they are not related to an asset or liability for financial reporting, including deferred tax assets related to 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

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

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

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Ordinary and net income	₩ 1,526,063	₩ 2,348,721	\$ 1,641,634	\$ 2,526,593
Expected dividends on preferred stock	(67,194)	(82,757)	(72,283)	(89,024)
Ordinary and net income available to common share	1,458,869	2,265,964	1,569,351	2,437,569
Weighted average number of common shares outstanding (*)	207,776,640	209,529,206	207,776,640	209,529,206
Ordinary and net income per common share	₩ 7.021	₩ 10.815	\$ 7.55	\$ 11.63

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

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

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Ordinary and net income available to common share	₩ 1,458,869	₩ 2,265,964	\$ 1,569,351	\$ 2,437,569
Stock option compensation expense	-	1	-	1
Ordinary and net income available to diluted common share	1,458,869	2,265,965	1,569,351	2,437,570
Weighted average number of common shares and diluted securities outstanding	208,567,489	210,582,591	208,567,489	210,582,591
Diluted ordinary and net income per common share	₩ 6.995	₩ 10.760	\$ 7.52	\$ 11.57

3. INVENTORIES:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Finished goods and merchandise	₩ 305,338	₩ 224,273	\$ 328,462	\$ 241,258
Semi finished goods and work in process	458,189	407,247	492,888	438,088
Raw materials and supplies	361,621	305,972	389,007	329,144
Materials in transit	94,438	70,594	101,590	75,940
	<u>₩ 1,219,586</u>	<u>₩ 1,008,086</u>	<u>\$ 1,311,947</u>	<u>\$ 1,084,430</u>

4. SHORT-TERM INVESTMENT SECURITIES:

Short-term investment securities as of December 31, 2006 and 2005, all of which are classified into available-for-sale securities, consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Beneficiary certificates	₩ 310,285	₩ 342,282	\$ 333,783	\$ 368,203
Government bonds	10	10	11	11
	<u>₩ 310,295</u>	<u>₩ 342,292</u>	<u>\$ 333,794</u>	<u>\$ 368,214</u>

5. LONG-TERM INVESTMENT SECURITIES:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Available-for-sale securities	₩ 469,509	₩ 392,508	\$ 505,066	\$ 422,233
Held-to-maturity securities	48,500	48,500	52,173	52,173
	<u>₩ 518,009</u>	<u>₩ 441,008</u>	<u>\$ 557,239</u>	<u>\$ 474,406</u>

(2) Available-for-sale securities of long-term investment securities as of December 31, 2006 and 2005 consist of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Equity securities stated at fair value	₩ 369,511	₩ 251,701	\$ 397,495	\$ 270,763
Equity securities stated at acquisition cost	99,998	140,807	107,571	151,470
	<u>₩ 469,509</u>	<u>₩ 392,508</u>	<u>\$ 505,066</u>	<u>\$ 422,233</u>

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

Name of company	Korean Won		Translation into	Ownership percentage
	Acquisition		U.S. Dollars	
	cost	Book value	(Note 2)	
	(In millions)		Book value	(%)
			(In thousands)	
Hyundai Heavy Industries Co., Ltd.	₩ 56,924	₩ 275,940	\$ 296,837	2.88
Hyundai Corporation	13,626	1,743	1,875	0.37
KT Freetel	10,800	9,931	10,683	0.18
Hyundai Information Technology Co., Ltd.	10,000	1,400	1,506	2.21
LG Telecom	9,795	18,086	19,456	0.68
Hyundai Development Company	9,025	25,560	27,496	0.60
Hyundai Merchant Marine Co., Ltd.	9,161	14,068	15,133	0.45
Jin Heung Mutual Savings Bank	2,166	2,188	2,354	2.28
Korea Environment Technology Co., Ltd.	1,500	2,520	2,711	6.00
Dong Yang Investment Bank	282	127	137	0.01
Treasury Stock Fund (*)		17,948	19,307	-
		<u>₩ 369,511</u>	<u>\$ 397,495</u>	

(*) The acquisition cost of Treasury Stock Fund is ₩26,647 million (US\$28,665 thousand) and the lower of the fair value of treasury stock and investments in those fund amounting to ₩18,227 million (US\$19,607 thousand) is recorded as treasury stock in capital adjustments.

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	Ownership percentage
	Acquisition		U.S. Dollars	
	cost	Book value	(Note 2)	
	(In millions)		Book value	(%)
			(In thousands)	
Hyundai Heavy Industries Co., Ltd.	₩ 56,924	₩ 168,411	\$ 181,165	2.88
Hyundai Corporation	13,626	1,513	1,628	1.08
KT Freetel	10,800	8,229	8,852	0.18
Hyundai Information Technology Co., Ltd.	10,000	2,790	3,001	2.21
LG Telecom	9,795	12,483	13,428	0.68
Hyundai Development Company	9,025	20,610	22,171	0.60
Hyundai Merchant Marine Co., Ltd.	7,329	7,645	8,224	0.55
Jin Heung Mutual Savings Bank	2,166	3,097	3,332	3.33
Korea Environment Technology Co., Ltd.	1,500	4,455	4,792	6.00
Dong Yang Investment Bank	282	115	124	0.01
Treasury Stock Fund (*)		22,353	24,046	-
		<u>₩ 251,701</u>	<u>\$ 270,763</u>	

(*) The acquisition cost of Treasury Stock Fund is ₩35,547 million (US\$38,239 thousand) and the lower of the fair value of treasury stock and investments in those fund amounting to ₩38,023 million (US\$40,903 thousand) is recorded as treasury stock in capital adjustments.

As of December 31, 2006 and 2005, the difference 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 and impairment loss on long-term investment securities of ₩21,165 million (US\$22,768 thousand) reflected before 2005.

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

Affiliated company	Korean Won		Translation into	Ownership percentage (%)
	Acquisition		U.S. Dollars	
	cost	Book value	Book value	
	(In millions)		(In thousands)	
Hyundai Oil Refinery Co., Ltd.	₩ 53,314	₩ 53,314	\$ 57,352	4.35
Hyundai Asan Corporation	22,500	5,405	5,814	4.61
Yonhap Capital Co., Ltd.	10,000	10,000	10,757	9.99
Hyundai Unicorns Co., Ltd.	5,795	137	147	14.90
Hankyoreh Plus Inc.	4,800	284	306	5.43
Hyundai Technology Investment Co., Ltd.	4,490	4,490	4,830	14.97
Industry Otomotif Komersial	4,439	4,439	4,775	15.00
Kihyup Finance	3,000	3,000	3,227	10.34
Kyungnam Credit Information Service Co., Ltd.	2,500	2,500	2,689	13.66
ENOVA System	2,204	2,204	2,371	3.80
NESSCAP Inc.	1,997	1,997	2,148	12.05
Hyundai Research Institute	1,359	1,271	1,367	14.90
The Sign Corporation	1,200	1,200	1,291	11.59
Heesung PM Tech Corporation	1,194	1,194	1,284	19.90
ROTIS Inc.	1,000	8	9	1.33
Micro Infinity	607	607	653	9.76
NGVTEK.com (*)	571	571	614	53.66
Clean Air Technology Inc.	500	500	538	16.13
Carnes Co., Ltd. (*)	250	250	269	49.99
Jinil MVC Co., Ltd.	180	180	194	18.00
Veloxsoft Inc.	1,000	1,000	1,076	8.00
HMCIS (*)	3,959	3,959	4,259	80.00
Other	1,488	1,488	1,601	-
	<u>₩ 128,347</u>	<u>₩ 99,998</u>	<u>\$ 107,571</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\$7,530 thousand), are not material.

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 cost	Book value	Book value		
	(In millions)		(In thousands)		
Hyundai Oil Refinery Co., Ltd.	₩ 88,857	₩ 88,857	\$ 95,586		7.24
Hyundai Asan Corporation	22,500	5,405	5,814		4.61
Yonhap Capital Co., Ltd.	10,000	10,000	10,757		9.99
Hyundai Unicorns Co., Ltd.	5,795	137	147		14.90
Hankyoreh Plus Inc.	4,800	284	306		7.41
Hyundai Technology Investment Co., Ltd.	4,490	4,490	4,830		14.97
Industry Otomotif Komersial	4,439	4,439	4,775		15.00
Kihyup Finance	3,000	3,000	3,227		10.34
Kyungnam Credit Information Service Co., Ltd.	2,500	2,500	2,689		13.66
ENOVA System	2,204	2,204	2,371		3.80
Hyundai Research Institute	1,359	1,271	1,367		14.90
The Sign Corporation	1,200	1,200	1,291		11.59
Heesung PM Tech Corporation	1,194	1,194	1,284		19.90
ROTIS Inc.	1,000	8	9		1.33
Mando Map & Soft Co., Ltd.	778	778	837		13.97
Micro Infinity	607	607	653		10.51
NGVTEK.com (*)	571	571	614		53.66
Novelis Korea Co., Ltd.	502	502	540		0.03
Clean Air Technology Inc.	500	500	538		16.13
Carnes Co., Ltd. (*)	250	250	269		49.99
Jinil MVC Co., Ltd.	180	180	194		18.00
Hyundai Motor Hungary (*)	5,415	5,415	5,825		100.00
Hyundai Motor Norway AS (*)	5,636	5,636	6,063		100.00
Other	1,379	1,379	1,484		
	<u>₩ 169,156</u>	<u>₩ 140,807</u>	<u>\$ 151,470</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\$7,530 thousand), are not material.

As of December 31 2006 and 2005, the difference between the book value and the acquisition cost of equity securities consists of impairment loss on long-term investment securities of ₩28,349 million (US\$30,496 thousand) reflected before 2005.

- (3) Debt securities included in held-to-maturity of long-term investment securities as of December 31, 2006 and 2005 are subordinate debt securities of ₩48,500 million (US\$52,173 thousand) with the 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, 2006 consist of the following:

Affiliated company	Korean Won			Translation into U.S. Dollars (Note 2)			Ownership percentage (%)
	Acquisition cost	Net equity value (In millions)	Book value	Acquisition cost	Net equity value (In thousands)	Book value	
Hyundai Motor America	₩1,227,466	₩ 1,267,449	₩ 1,076,088	\$ 1,320,424	\$ 1,363,435	\$ 1,157,582	100.00
Hyundai Motor India	244,017	522,508	503,831	262,497	562,078	541,987	100.00
Beijing-Hyundai Motor Company	232,410	380,199	371,464	250,011	408,992	399,596	50.00
Hyundai Assan Otomotive							
Sannayi Ve Ticaret A.S. (*1)	91,315	7,825	-	98,230	8,418	-	70.00
Hyundai Translead	74,977	81,595	107,664	80,655	87,774	115,818	100.00
Hyundai Motor Europe Technical Center GmbH	53,496	51,514	51,514	57,547	55,415	55,415	100.00
China Millennium Corporations	53,466	13,868	53,494	57,515	14,918	57,545	59.60
Hyundai Motor Manufacturing Czech, Ltd.	48,034	50,098	50,098	51,672	53,892	53,892	100.00
Hyundai Motor Japan Co. (*1)	42,292	(42,334)	-	45,495	(45,540)	-	100.00
Hyundai Motor (UK) Ltd. (*1)	36,681	(3,661)	-	39,459	(3,938)	-	100.00
Hyundai Motor Poland Sp.zo.o.	24,139	15,047	29,815	25,967	16,187	32,073	100.00
Beijing Mobis Transmission Co., Ltd.	22,790	26,411	26,411	24,516	28,411	28,411	24.08
Hyundai Motor Europe GmbH	17,529	24,984	24,984	18,856	26,876	26,876	100.00
Hyundai Motor Group China Ltd.	15,371	14,552	14,266	16,535	15,654	15,346	50.00
Hyundai Motor Company Australia	12,382	41,049	42,183	13,320	44,158	45,378	100.00
Hyundai America Technical Center Inc.	9,635	17,338	17,338	10,365	18,651	18,651	100.00
Hyundai Motor Deutschland GmbH	6,761	19,741	19,217	7,273	21,236	20,672	30.00
Hyundai Motor Norway AS	5,636	6,309	5,754	6,063	6,787	6,190	100.00
Hyundai Motor Hungary	5,415	2,283	2,283	5,825	2,456	2,456	100.00
Beijing Jinxian Motor Safeguard Service Co., Ltd.	4,907	3,070	3,070	5,279	3,302	3,302	91.75
HMJ R&D Center Inc.	1,510	1,798	1,798	1,624	1,934	1,934	100.00
WIA Automotive Engine (ShanDong) Company	10,298	7,205	10,298	11,078	7,751	11,078	22.00
Kia Motors Corporation	923,957	1,972,554	2,024,647	993,930	2,121,938	2,177,977	38.67
Hyundai Capital Service Inc.	500,325	621,176	426,864	538,215	668,219	459,191	56.47
Hyundai Card Co., Ltd.	435,571	277,003	284,768	468,557	297,981	306,334	33.27
ROTEM	254,308	272,152	336,191	273,567	292,762	361,651	57.64
Hyundai HYSOCO	200,768	259,460	250,199	215,972	279,109	269,147	26.13
Korea Aerospace Industries, Ltd.	159,800	79,717	79,508	171,902	85,754	85,529	22.94
Hyundai Powertech	120,000	151,265	142,523	129,088	162,721	153,316	50.00
Hyundai Autonet Co., Ltd. (*2)	118,554	77,123	123,437	127,532	82,964	132,785	16.77
Dymos Inc.	68,872	116,098	113,929	74,088	124,890	122,557	47.27
WIA Corporation	34,357	173,803	149,012	36,959	186,965	160,297	39.46
Korea Economy Daily	29,973	22,072	25,341	32,243	23,744	27,260	20.55
Eukor Car Carriers Inc. (*2)	29,347	77,203	68,165	31,569	83,050	73,327	12.00
Partecs Co.	22,400	21,988	21,988	24,096	23,653	23,653	56.00
KEFICO Corporation	20,911	115,739	113,412	22,495	124,504	122,001	50.00
Autoever Systems Corp.	5,947	13,773	13,773	6,397	14,816	14,816	29.90
Iljin Bearing Co., Ltd.	826	14,823	14,823	889	15,946	15,946	20.00
Daesung Automotive Co., Ltd.	400	9,081	9,081	430	9,769	9,769	20.00
Mando Map & Soft Co., Ltd.	2,278	2,989	3,082	2,451	3,215	3,315	25.82
Chasan Co., Ltd.	4,500	(944)	4,500	4,841	(1,015)	4,841	30.00
	<u>₩5,173,621</u>	<u>₩ 6,785,923</u>	<u>₩ 6,616,813</u>	<u>\$ 5,565,427</u>	<u>\$ 7,299,832</u>	<u>\$ 7,117,914</u>	

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

(*2) The total ownership percentage combining the ownership which Kia Motors Corp. holds is more than 20% and 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, 2005 consist of the following:

Affiliated company	Korean Won			Translation into U.S. Dollars (Note 2)			Ownership percentage (%)
	Acquisition	Net equity	Book value	Acquisition	Net equity	Book value	
	cost	value		cost	value		
	(In millions)			(In thousands)			
Hyundai Motor America	₩ 1,134,406	₩ 1,281,492	₩ 999,839	\$ 1,220,316	\$ 1,378,541	\$ 1,075,558	100.00
Hyundai Motor India	244,017	425,840	416,611	262,497	458,090	448,162	100.00
Beijing-Hyundai Motor Company	201,179	370,079	357,744	216,415	398,106	384,837	50.00
Hyundai Assan Otomotive							
Sannayi Ve Ticaret A.S.	91,315	138,242	122,906	98,230	148,711	132,214	70.00
Hyundai Translead	74,977	68,771	96,769	80,655	73,979	104,098	100.00
China Millennium Corporations	53,466	11,212	53,039	57,515	12,061	57,056	59.60
Hyundai Motor Europe							
Technical Center GmbH	47,634	43,458	43,458	51,241	46,749	46,749	100.00
Hyundai Motor Japan Co. (*1)	42,292	(32,540)	-	45,495	(35,004)	-	100.00
Hyundai Motor (UK) Ltd. (*1)	36,681	16,682	-	39,459	17,945	-	100.00
Hyundai Motor Poland Sp.zo.o.	24,139	12,290	28,118	25,967	13,221	30,247	100.00
Hyundai Motor Europe GmbH	17,529	22,002	22,002	18,856	23,668	23,668	100.00
Hyundai Motor Group China Ltd.	15,371	14,068	14,068	16,535	15,133	15,133	50.00
Beijing Mobis Transmission Co., Ltd.	13,518	16,696	16,696	14,542	17,960	17,960	21.04
Hyundai Motor Company Australia	12,382	36,390	26,305	13,320	39,146	28,297	100.00
Hyundai America Technical Center Inc.	9,635	16,375	16,375	10,365	17,615	17,615	100.00
Hyundai Motor Deutschland GmbH	6,761	13,985	11,045	7,273	15,044	11,882	30.00
Beijing Jinxian Motor							
Safeguard Service Co., Ltd.	4,907	4,222	4,222	5,279	4,542	4,542	91.75
HMJ R&D Center Inc.	1,510	1,941	1,941	1,624	2,088	2,088	100.00
Kia Motors Corporation	923,957	1,987,757	2,053,260	993,930	2,138,293	2,208,757	38.67
Hyundai Capital Service Inc.	500,325	447,935	346,834	538,215	481,858	373,100	56.12
Hyundai Card Co., Ltd.	293,031	96,661	104,858	315,223	103,981	112,799	31.04
ROTEM	270,222	204,828	304,341	290,686	220,340	327,389	78.36
Hyundai HYSCO	200,768	261,233	246,740	215,972	281,017	265,426	26.13
Korea Aerospace Industries, Ltd.	129,800	80,830	82,075	139,630	86,951	88,291	33.33
Hyundai Powertech	120,000	147,505	139,089	129,088	158,676	149,622	50.00
Hyundai Autonet Co., Ltd.	118,554	69,187	117,970	127,532	74,427	126,904	21.62
Dymos Inc.	68,872	108,232	105,983	74,088	116,429	114,009	47.27
WIA Corporation	34,357	151,126	124,665	36,959	162,571	134,106	39.46
Korea Economy Daily	29,973	20,827	24,378	32,243	22,404	26,224	20.55
Eukor Car Carriers Inc. (*2)	29,347	76,239	63,989	31,569	82,013	68,835	12.00
Partecs Co.	22,400	22,400	22,400	24,096	24,096	24,096	56.00
KEFICO Corporation	20,911	112,004	109,487	22,495	120,486	117,779	50.00
Haevichi Leisure Co., Ltd.	9,000	9,097	9,097	9,682	9,786	9,786	50.00
Autoever Systems Corp.	1,250	7,931	8,998	1,345	8,532	9,679	25.00
Iljin Bearing Co., Ltd.	826	14,128	14,128	889	15,198	15,198	20.00
Daesung Automotive Co., Ltd.	400	5,958	6,017	430	6,409	6,473	20.00
	<u>₩ 4,805,712</u>	<u>₩ 6,285,083</u>	<u>₩ 6,115,447</u>	<u>\$ 5,169,656</u>	<u>\$ 6,761,062</u>	<u>\$ 6,578,579</u>	

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

(*2) The total ownership percentage combining the ownership which Kia Motors Corp. holds is more than 20% and the Company is considered to be able to exercise significant influence over the operating and financial policies.

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

Affiliated company	Korean Won					Translation into
	Beginning of year	Acquisition / Disposition	Gain (loss)		End of year	U.S. Dollars
			on valuation	Other changes (*)		(Note 2)
			(In millions)			(In thousands)
Hyundai Motor America	₩ 999,839	₩ 93,060	₩ 174,127	₩ (190,938)	₩ 1,076,088	\$ 1,157,582
Hyundai Motor India	416,611	-	118,136	(30,916)	503,831	541,987
Beijing-Hyundai Motor Company	357,744	31,231	64,254	(81,765)	371,464	399,596
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	122,906	-	(70,751)	(52,155)	-	-
Hyundai Translead	96,769	-	17,065	(6,170)	107,664	115,818
Hyundai Motor Europe Technical Center GmbH	43,458	5,863	1,124	1,069	51,514	55,415
China Millennium Corporations	53,039	-	1,062	(607)	53,494	57,454
Hyundai Motor Manufacturing Czech, Ltd	-	48,034	(1,217)	3,281	50,098	53,892
Hyundai Motor Japan Co.	-	-	-	-	-	-
Hyundai Motor (UK) Ltd.	-	-	106	(106)	-	-
Hyundai Motor Poland Sp.zo.o.	28,118	-	1,227	470	29,815	32,073
Beijing Mobis Transmission Co., Ltd.	16,696	9,272	847	(404)	26,411	28,411
Hyundai Motor Europe GmbH	22,002	-	2,529	453	24,984	26,876
Hyundai Motor Group China Ltd.	14,068	-	944	(746)	14,266	15,346
Hyundai Motor Company Australia	26,305	-	17,775	(1,897)	42,183	45,378
Hyundai America Technical Center Inc.	16,375	-	2,375	(1,412)	17,338	18,651
Hyundai Motor Deutschland GmbH	11,045	-	10,461	(2,289)	19,217	20,672
Hyundai Motor Norway AS	-	-	864	4,890	5,754	6,190
Hyundai Motor Hungary	-	-	(2,347)	4,630	2,283	2,456
Beijing Jinxian Motor Safeguard Service Co., Ltd.	4,222	-	(939)	(213)	3,070	3,302
HMJ R&D Center Inc.	1,941	-	36	(179)	1,798	1,934
WIA Automotive Engine(ShanDong) Company	-	10,298	-	-	10,298	11,078
Kia Motors Corporation	2,053,260	-	6,774	(35,387)	2,024,647	2,177,977
Hyundai Capital Service Inc.	346,834	-	77,443	2,587	426,864	459,191
Hyundai Card Co., Ltd.	104,858	142,539	91,550	(54,179)	284,768	306,334
ROTEM	304,341	(30,952)	45,884	16,918	336,191	361,651
Hyundai HYSCO	246,740	-	8,037	(4,578)	250,199	269,147
Korea Aerospace Industries, Ltd.	82,075	30,000	(32,567)	-	79,508	85,529
Hyundai Powertech	139,089	-	3,164	270	142,523	153,316
Hyundai Autonet Co., Ltd.	117,970	-	5,473	(6)	123,437	132,785
Dymos Inc.	105,983	-	7,998	(52)	113,929	122,557
WIA Corporation	124,665	-	26,212	(1,865)	149,012	160,297
Korea Economy Daily	24,378	-	1,148	(185)	25,341	27,260
Eukor Car Carriers Inc.	63,989	-	4,176	-	68,165	73,327
Partecs Co.	22,400	-	(412)	-	21,988	23,653
KEFICO Corporation	109,487	-	12,651	(8,726)	113,412	122,001
Autoever Systems Corp.	8,998	4,697	2,615	(2,537)	13,773	14,816
Iljin Bearing Co., Ltd.	14,128	-	921	(226)	14,823	15,946
Daesung Automotive Co., Ltd.	6,017	-	879	2,185	9,081	9,769
Mando Map & Soft Co., Ltd.	-	1,500	653	929	3,082	3,315
Chasan Co., Ltd.	-	4,500	-	-	4,500	4,841
Haevichi Leisure Co., Ltd.	9,097	(9,142)	44	1	-	-
	<u>₩ 6,115,447</u>	<u>₩ 340,900</u>	<u>₩ 600,321</u>	<u>₩ (439,855)</u>	<u>₩ 6,616,813</u>	<u>\$ 7,117,914</u>

(*) Other changes consist of the decrease by ₩146,164 million (US\$157,233 thousand) due to receipt of the dividends, decrease of retained earnings by ₩17,413 million (US\$18,732 thousand) and decrease of capital adjustments by ₩288,107 million (US\$309,926 thousand) and increase by ₩11,829 million (US\$12,725 thousand) due to transfer from long-term investment securities.

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

Affiliated company	Korean Won					Translation into U.S. Dollars (Note 2)	
	Beginning of year	Acquisition / Disposition	Gain (loss) on valuation	Other changes (*)	End of year	End of year	
	(In millions)					(In thousands)	
Hyundai Motor America	₩ 711,431	₩ 309,606	₩ 23,230	₩ (44,428)	₩ 999,839	\$ 1,075,558	
Hyundai Motor India	359,233	-	115,617	(58,239)	416,611	448,162	
Beijing-Hyundai Motor Company	304,040	67,488	78,516	(92,300)	357,744	384,837	
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	24,765	43,302	58,013	(3,174)	122,906	132,214	
Hyundai Translead	61,278	-	36,840	(1,349)	96,769	104,098	
China Millennium Corporations	53,450	16	(389)	(38)	53,039	57,056	
Hyundai Motor Europe Technical Center GmbH	-	47,634	1,966	(6,142)	43,458	46,749	
Hyundai Motor Japan Co.	-	9,813	-	(9,813)	-	-	
Hyundai Motor (UK) Ltd.	-	36,681	(36,143)	(538)	-	-	
Hyundai Motor Poland Sp.zo.o.	25,543	-	3,549	(974)	28,118	30,247	
Hyundai Motor Europe GmbH	35,044	-	(8,026)	(5,016)	22,002	23,668	
Hyundai Motor Group China Ltd.	-	15,371	(1,551)	248	14,068	15,133	
Beijing Mobis Transmission Co., Ltd.	13,205	-	3,698	(207)	16,696	17,960	
Hyundai Motor Company Australia	30,932	-	(1,937)	(2,690)	26,305	28,297	
Hyundai America Technical Center Inc.	15,148	-	1,692	(465)	16,375	17,615	
Hyundai Motor Deutschland GmbH	12,588	-	947	(2,490)	11,045	11,882	
Beijing Jinxian Motor Safeguard Service Co., Ltd.	-	4,907	(1,233)	548	4,222	4,542	
HMJ R&D Center Inc.	2,244	-	37	(340)	1,941	2,088	
Hyundai Machine Tool Europe GmbH	9,288	(9,288)	-	-	-	-	
Kia Motors Corporation	1,960,439	-	202,988	(110,167)	2,053,260	2,208,757	
Hyundai Capital Service Inc.	259,656	47,389	112,348	(72,559)	346,834	373,100	
Hyundai Card Co., Ltd.	97,706	(73,935)	32,850	48,237	104,858	112,799	
ROTEM	288,532	-	14,829	980	304,341	327,389	
Hyundai HYSCO	243,925	-	7,111	(4,296)	246,740	265,426	
Korea Aerospace Industries, Ltd.	81,827	-	231	17	82,075	88,291	
Hyundai Powertech	134,475	-	3,661	953	139,089	149,622	
Hyundai Autonet Co., Ltd.	-	111,113	230	6,627	117,970	126,904	
Dymos Inc.	93,620	-	12,362	1	105,983	114,009	
WIA Corporation	88,604	25,368	24,165	(13,472)	124,665	134,106	
Korea Economy Daily	14,247	10,000	(34)	165	24,378	26,224	
Eukor Car Carriers Inc.	50,008	-	13,981	-	63,989	68,835	
Partecs Co.	-	22,400	-	-	22,400	24,096	
KEFICO Corporation	93,566	-	19,523	(3,602)	109,487	117,779	
Haevichi Leisure Co., Ltd.	-	9,000	97	-	9,097	9,786	
Autoever Systems Corp.	5,968	-	3,009	21	8,998	9,679	
Iljin Bearing Co., Ltd.	13,102	-	688	338	14,128	15,198	
Daesung Automotive Co., Ltd.	6,094	-	42	(119)	6,017	6,473	
	<u>₩ 5,089,958</u>	<u>₩ 676,865</u>	<u>₩ 722,907</u>	<u>₩ (374,283)</u>	<u>₩ 6,115,447</u>	<u>\$ 6,578,579</u>	

(*) Other changes consist of the decrease by ₩168,349 million (US\$181,098 thousand) due to receipt of the dividends, increase of retained earnings by ₩31,022 million (US\$33,371 thousand), decrease of capital adjustments by ₩244,396 million (US\$262,904 thousand) and increase by ₩7,440 million (US\$8,003 thousand) due to transfer from long-term investment securities.

Investment securities accounted for using the equity method as of December 31, 2006 and 2005 are valued based on the financial statements of the investees as of the same balance sheet date, respectively, which were neither audited nor reviewed by an external auditor.

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

Affiliated company	Korean Won				Translation into U.S. Dollars (Note 2)			
	Assets	Liabilities	Sales	Net income	Assets	Liabilities	Sales	Net income
				(loss)				(loss)
(In millions)				(In thousands)				
Hyundai Motor America	₩ 3,839,994	₩ 2,572,545	₩ 6,709,237	₩ 71,708	\$ 4,130,802	\$ 2,767,368	\$ 7,217,338	\$ 77,139
Hyundai Motor India	1,375,817	853,310	1,846,014	124,753	1,480,010	917,932	1,985,815	134,201
Beijing-Hyundai Motor Company	1,484,166	723,768	3,509,461	121,146	1,596,564	778,580	3,775,238	130,321
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	458,911	447,732	947,931	(111,514)	493,665	481,639	1,019,719	(119,959)
Hyundai Translead	255,168	173,573	411,995	20,053	274,492	186,718	443,196	21,572
Hyundai Motor Europe Technical Center GmbH	120,335	68,820	50,817	1,207	129,448	74,032	54,665	1,298
China Millennium Corporations	82,024	58,756	16,643	5,224	88,236	63,206	17,903	5,620
Hyundai Motor Manufacturing Czech, Ltd	50,831	733	-	(1,217)	54,681	789	-	(1,309)
Hyundai Motor Japan Co.	16,249	58,583	20,916	(6,860)	17,480	63,020	22,500	(7,380)
Hyundai Motor (UK) Ltd.	303,123	306,784	651,716	(20,892)	326,079	330,017	701,071	(22,474)
Hyundai Motor Poland Sp.zo.o.	61,663	46,616	148,712	2,354	66,333	50,146	159,974	2,532
Beijing Mobis Transmission Co., Ltd.	195,345	85,662	223,675	3,766	210,139	92,149	240,614	4,051
Hyundai Motor Europe GmbH	390,034	365,050	2,664,524	768	419,572	392,696	2,866,312	826
Hyundai Motor Group China Ltd.	116,200	87,096	135,183	1,731	125,000	93,692	145,421	1,862
Hyundai Motor Company Australia	178,151	137,102	644,913	1,011	191,643	147,485	693,753	1,088
Hyundai America Technical Center Inc.	41,017	23,679	82,422	2,238	44,123	25,472	88,664	2,407
Hyundai Motor Deutschland GmbH	176,326	110,523	935,202	13,644	189,679	118,893	1,006,026	14,677
Hyundai Motor Norway AS	43,137	36,828	103,918	1,530	46,404	39,617	111,788	1,646
Hyundai Motor Hungary	16,914	14,631	26,244	(926)	18,195	15,739	28,231	(996)
Beijing Jinxian Motor Safeguard Service Co., Ltd.	11,404	8,058	23,370	(183)	12,268	8,668	25,140	(197)
HMJ R&D Center Inc.	5,657	3,860	12,260	88	6,085	4,152	13,188	95
WIA Automotive Engine (ShanDong) Company	47,744	14,994	-	-	51,360	16,130	-	-
Kia Motors Corporation	12,106,600	6,858,800	17,439,900	39,300	13,023,451	7,378,227	18,760,650	42,276
Hyundai Capital Service Inc.	12,215,925	10,964,653	2,209,442	414,173	13,141,055	11,795,023	2,376,766	445,539
Hyundai Card Co., Ltd.	3,403,768	2,571,270	918,765	282,813	3,661,540	2,765,996	988,344	304,231
ROTEM	1,484,409	1,012,218	1,563,700	68,348	1,596,826	1,088,875	1,682,121	73,524
Hyundai HYSCO	2,683,734	1,690,676	3,053,009	9,216	2,886,977	1,818,713	3,284,218	9,914
Korea Aerospace Industries, Ltd.	1,253,641	895,000	704,300	(110,600)	1,348,581	962,780	757,638	(118,976)
Hyundai Powertech	904,368	601,838	851,599	5,293	972,857	647,416	916,092	5,694
Hyundai Autonet Co., Ltd.	649,471	189,562	794,771	48,799	698,656	203,918	854,960	52,495
Dymos Inc.	695,076	449,465	1,004,079	17,941	747,715	483,504	1,080,119	19,300
WIA Corporation	1,788,656	1,348,230	3,143,316	52,222	1,924,114	1,450,333	3,381,364	56,177
Korea Economy Daily	196,903	89,512	112,591	6,852	211,815	96,291	121,118	7,371
Eukor Car Carriers Inc.	1,483,918	840,556	1,543,111	67,991	1,596,297	904,213	1,659,973	73,140
Partecs Co.	79,442	40,178	4,316	(679)	85,458	43,221	4,643	(730)
KEFICO Corporation	347,121	115,644	474,860	23,357	373,409	124,402	510,822	25,126
Autoever Systems Corp.	156,412	110,350	391,893	10,238	168,257	118,707	421,572	11,013
Iljin Bearing Co., Ltd.	127,271	53,156	196,544	4,200	136,909	57,182	211,429	4,518
Mando Map & Soft Co., Ltd.	73,190	27,784	71,873	2,800	78,733	29,888	77,316	3,012
Daesung Automotive Co., Ltd.	16,823	5,248	26,006	4,707	18,097	5,645	27,975	5,063
Chasan Co., Ltd.	101,811	104,956	-	(16,827)	109,521	112,904	-	(18,101)

- (4) Significant unrealized profits (losses) that occurred in transactions with investees in 2006 are as follows:

Transaction type	Korean Won				Translation into
	Beginning of year	Increase	Decrease	End of year	U.S. Dollars (Note 2)
	(In millions)				(In thousands)
Inventories	₩ 202,968	₩ 110,485	₩ (202,968)	₩ 110,485	\$ 118,852
Property	100,908	138,418	(36,507)	202,819	218,179
Accrued warranties	(37,354)	(52,035)	37,354	(52,035)	(55,976)
	<u>₩ 266,522</u>	<u>₩ 196,868</u>	<u>₩ (202,121)</u>	<u>₩ 261,269</u>	<u>\$ 281,055</u>

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

Transaction type	Korean Won				Translation into
	Beginning of year	Increase	Decrease	End of year	U.S. Dollars (Note 2)
	(In millions)				(In thousands)
Inventories	₩ 300,989	₩ 202,968	₩ (300,989)	₩ 202,968	\$ 218,339
Property	41,008	84,416	(24,516)	100,908	108,550
Accrued warranties	(67,920)	(37,354)	67,920	(37,354)	(40,183)
	<u>₩ 274,077</u>	<u>₩ 250,030</u>	<u>₩ (257,585)</u>	<u>₩ 266,522</u>	<u>\$ 286,706</u>

- (5) 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 increased the gain on equity method valuation included in current operations by ₩5,228 million (US\$5,624 thousand) in 2006, decreased the gain on equity method valuation included in current operations by ₩50,991 million (US\$54,853 thousand) in 2005 and increased in retained earnings by ₩15,814 million (US\$17,012 thousand) as of January 1, 2005.
- (6) The unamortized (or unreversed) balance of goodwill and negative goodwill as of December 31, 2006 is ₩287,583 million (US\$309,362 thousand) and ₩50,207 million (US\$54,009 thousand), respectively. In addition, the unamortized (or unreversed) balance of goodwill and negative goodwill as of December 31, 2005 is ₩301,333 million (US\$324,153 thousand) and ₩53,646 million (US\$57,709 thousand), respectively.
- (7) The market price of listed equity securities as of December 31, 2006 is as follows:

Affiliated company	Korean Won			Translation into
	Price per share	Number of shares	Market value	U.S. Dollars (Note 2)
	(In millions)			(In thousands)
Kia Motors Corporation	₩ 13,450	134,285,491	₩ 1,806,140	\$ 1,942,922
Hyundai HYSCO	9,510	20,954,188	199,274	214,365

- (8) The cumulative losses not recognized by the Company due to the suspension of the valuation of equity securities using the equity method as of December 31, 2006 and 2005 are ₩69,663 million (US\$74,939 thousand) and ₩51,600 million (US\$55,508 thousand), respectively.

7. PROPERTY, PLANT AND EQUIPMENT:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Buildings and structures	₩ 3,683,446	₩ 3,254,559	\$ 3,962,399	\$ 3,501,032
Machinery and equipment	5,355,368	4,746,662	5,760,938	5,106,134
Vehicles	76,282	72,101	82,059	77,561
Dies, molds and tools	2,628,159	2,451,778	2,827,193	2,637,455
Other equipment	<u>659,485</u>	<u>600,039</u>	<u>709,429</u>	<u>645,480</u>
	12,402,740	11,125,139	13,342,018	11,967,662
Less accumulated depreciation	<u>5,680,264</u>	<u>5,093,631</u>	<u>6,110,438</u>	<u>5,479,379</u>
	6,722,476	6,031,508	7,231,580	6,488,283
Land	1,948,203	1,899,548	2,095,743	2,043,404
Construction in progress	<u>794,795</u>	<u>1,014,506</u>	<u>854,986</u>	<u>1,091,336</u>
	<u>₩ 9,465,474</u>	<u>₩ 8,945,562</u>	<u>\$ 10,182,309</u>	<u>\$ 9,623,023</u>

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

	Korean Won						Translation into U. S. Dollars (Note 2)	
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	Other changes	End of year	End of year
	(In millions)						(In thousands)	
Land	₩ 1,899,548	₩ -	₩ 49,364	₩ (709)	₩ -	₩ -	₩ 1,948,203	\$ 2,095,743
Buildings and structures	2,555,048	-	437,903	(7,972)	(108,816)	-	2,876,163	3,093,979
Machinery and equipment	2,620,856	-	760,246	(51,991)	(380,069)	-	2,949,042	3,172,377
Vehicles	35,003	-	8,779	(1,585)	(9,082)	-	33,115	35,623
Dies, molds and tools	583,581	-	275,622	(5,225)	(209,936)	-	644,042	692,816
Other equipment	237,020	-	67,962	(1,484)	(83,384)	-	220,114	236,785
Construction in progress	<u>1,014,506</u>	<u>1,221,680</u>	<u>(1,599,876)</u>	<u>(2,583)</u>	<u>-</u>	<u>161,068</u>	<u>794,795</u>	<u>854,986</u>
Total	<u>₩ 8,945,562</u>	<u>₩ 1,221,680</u>	<u>₩ -</u>	<u>₩ (71,549)</u>	<u>₩ (791,287)</u>	<u>₩ 161,068</u>	<u>₩ 9,465,474</u>	<u>\$ 10,182,309</u>

(*) Other changes consist of decrease in transfer of ₩9,252 million (US\$ 9,953 thousand) from construction in progress to industrial property rights and increase in transfer of ₩170,320 million (US\$183,219 thousand) from inventories to construction in progress.

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

	Korean Won						Translation into U. S. Dollars (Note 2)	
	Beginning of year	Acquisition	Transfer	Disposal	Depreciation	Other changes	End of year	End of year
	(In millions)						(In thousands)	
Land	₩ 1,895,016	₩ -	₩ 9,942	₩ (5,410)	₩ -	₩ -	₩ 1,899,548	\$ 2,043,404
Buildings and structures	2,503,745	-	164,865	(11,531)	(102,031)	-	2,555,048	2,748,546
Machinery and equipment	2,548,218	-	505,659	(79,340)	(353,681)	-	2,620,856	2,819,337
Vehicles	39,981	-	6,485	(2,534)	(8,929)	-	35,003	37,654
Dies, molds and tools	596,485	-	213,146	(6,132)	(219,918)	-	583,581	627,776
Other equipment	263,800	-	66,066	(11,561)	(81,285)	-	237,020	254,970
Construction in progress	<u>886,158</u>	<u>1,253,362</u>	<u>(966,163)</u>	<u>(306,291)</u>	<u>-</u>	<u>147,440</u>	<u>1,014,506</u>	<u>1,091,336</u>
Total	<u>₩ 8,733,403</u>	<u>₩ 1,253,362</u>	<u>₩ -</u>	<u>₩ (422,799)</u>	<u>₩ (765,844)</u>	<u>₩ 147,440</u>	<u>₩ 8,945,562</u>	<u>\$ 9,623,023</u>

(*) Other changes consist of decrease in transfer of ₩7,868 million (US\$ 8,464 thousand) from construction in progress to industrial property rights and increase in transfer of ₩155,308 million (US\$167,070 thousand) from inventories to construction in progress.

As of December 31, 2006, a substantial portion of the Company's property, plant and equipment is pledged as collateral for various loans up to a maximum of ₩851,343 million (US\$915,816 thousand) (see Note 13).

As of December 31, 2006, the published value of the Company-owned land (12,957 thousand square meters) totals ₩2,266,287 million (US\$2,437,916 thousand) in terms of land prices officially announced by the Korean government.

8. INSURANCE:

As of December 31, 2006, property, plant and equipment are insured for ₩5,524,627 million (US\$5,943,015 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 and ₩1,000 million (US\$1,076 thousand), general insurance for vehicles and workers' compensation and casualty insurance for employees.

9. INTANGIBLES:

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

Description	Korean Won				Translation into U. S. Dollars (Note 2)	
	2006		2005		2006	2005
	Acquisition cost	Accumulated amortization	Book value	Book value	Book value	Book value
	(In millions)			(In thousands)		
Industrial property rights	₩ 48,508	₩ (30,928)	₩ 17,580	₩ 15,573	\$ 18,911	\$ 16,752
Development costs	2,233,298	(1,141,965)	1,091,333	893,309	1,173,981	960,961
Other	37,532	(27,848)	9,684	11,513	10,418	12,385
	<u>₩ 2,319,338</u>	<u>₩ (1,200,741)</u>	<u>₩ 1,118,597</u>	<u>₩ 920,395</u>	<u>\$ 1,203,310</u>	<u>\$ 990,098</u>

The changes in intangibles in 2006 are as follows:

Description	Korean Won				Translation into U. S. Dollars (Note 2)	
	Industrial property rights	Development costs	Other	Total	Total	
	(In millions)				(In thousands)	
Beginning of year	₩ 15,573	₩ 893,309	₩ 11,513	₩ 920,395	\$ 990,098	
Addition: Expenditures	9,252	514,521	-	523,773	563,439	
Deduction: Amortization	(7,245)	(295,704)	(1,829)	(304,778)	(327,859)	
Impairment loss	-	(20,793)	-	(20,793)	(22,368)	
End of year	<u>₩ 17,580</u>	<u>₩ 1,091,333</u>	<u>₩ 9,684</u>	<u>₩ 1,118,597</u>	<u>\$ 1,203,310</u>	

The changes in intangibles in 2005 are as follows:

Description	Korean Won				Translation into U. S. Dollars (Note 2)	
	Industrial property rights	Development costs	Other	Total	Total	
	(In millions)				(In thousands)	
Beginning of year	₩ 14,485	₩ 628,640	₩ 13,363	₩ 656,488	\$ 706,205	
Addition: Expenditures	7,868	445,427	-	453,295	487,624	
Deduction: Amortization	(6,780)	(180,758)	(1,850)	(189,388)	(203,731)	
End of year	<u>₩ 15,573</u>	<u>₩ 893,309</u>	<u>₩ 11,513</u>	<u>₩ 920,395</u>	<u>\$ 990,098</u>	

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

	Korean Won		Translation into U. S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Development costs(Capitalized)	₩ 514,521	₩ 445,427	\$ 553,486	\$ 479,160
Ordinary development (manufacturing cost)	119,103	108,226	128,123	116,422
Research costs (SG&A)	413,576	448,627	444,897	482,602
	<u>₩ 1,047,200</u>	<u>₩ 1,002,280</u>	<u>\$ 1,126,506</u>	<u>\$ 1,078,184</u>

10. OTHER ASSETS:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Long-term financial instruments	₩ 40	₩ 40	\$ 43	\$ 43
Long-term notes and accounts receivable, less unamortized present value discount of ₩1,307 million in 2006 and ₩1,471 million in 2005	9,210	11,034	9,907	11,869
Long-term other accounts receivable, less unamortized present value discount of ₩448 million in 2006 and ₩1,154 million in 2005 (Note 2)	82,804	86,260	89,075	92,793
Long-term loans	13,520	18,786	14,544	20,209
Lease and rental deposits	184,829	192,531	198,826	207,112
Long-term deposits	101,050	49,732	108,702	53,498
	<u>₩ 391,453</u>	<u>₩ 358,383</u>	<u>\$ 421,097</u>	<u>\$ 385,524</u>

As of December 31, 2006 and 2005, an interest rate of 8.25 percent is used in valuing accounts receivable at present value.

11. SHORT-TERM BORROWINGS:

Short-term borrowings as of December 31, 2006 and 2005 amount to ₩474,165 million (US\$ 510,074 thousand) and ₩780,445 million (US\$ 839,549 thousand), respectively, and consist primarily of overdrafts and banker's usance with annual interest rates ranging from Libor + 0.15 percent to 6.86 percent.

12. LONG-TERM DEBT AND DEBENTURES:

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

Description	Interest rate (%)	Korean Won		Translation into U.S. Dollars (Note 2)	
		2006	2005	2006	2005
		(In millions)		(In thousands)	
Debentures	3.75 ~ 7.60	₩ 1,211,811	₩ 1,381,196	\$ 1,303,583	\$ 1,485,796
Local currency loans:					
General loans	3.00 ~ 5.42	15,991	17,917	17,202	19,275
Foreign currency loans:					
Capital lease	Libor + 0.98	-	99	-	106
		1,227,802	1,399,212	1,320,785	1,505,177
Less current maturities		116,233	464,163	125,035	499,315
		₩ 1,111,569	₩ 935,049	\$ 1,195,750	\$ 1,005,862

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

Description	Maturity	Interest rate (%)	Korean Won		Translation into U.S. Dollars (Note 2)	
			2006	2005	2006	2005
			(In thousands)		(In thousands)	
Non-guaranteed debentures	Nov 10, 2008 ~ Aug 11, 2010	3.75 ~ 5.52	₩ 1,100,000	₩ 1,150,000	\$ 1,183,305	\$ 1,237,091
Overseas debentures	Jul 15, 2007	7.60	114,132	235,801	122,775	253,659
			1,214,132	1,385,801	1,306,080	1,409,750
Less discount on debentures			2,321	4,605	2,497	4,954
			₩ 1,211,811	₩ 1,381,196	\$ 1,303,583	\$ 1,485,796

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

Description	Debentures	Korean Won		Translation into U.S. Dollars (Note 2)
		Local currency loans	Total	Total
		(In millions)		(In thousands)
2008	₩ 200,000	₩ 1,457	₩ 201,457	\$ 216,714
2009	300,000	720	300,720	323,494
2010	300,000	728	300,728	323,503
2011 Thereafter	300,000	10,985	310,985	334,536
	1,100,000	13,890	1,113,890	1,198,247
Less: discount on debentures	2,321	-	2,321	2,497
	₩ 1,097,679	₩ 13,890	₩ 1,111,569	\$ 1,195,750

13. COMMITMENTS AND CONTINGENCIES:

- (1) The Company is contingently liable for guarantees of indebtedness, primarily for the following affiliates (including foreign subsidiaries), as of December 31, 2006.

Description	Korean Won (In millions)	Translation into U.S. Dollars (Note 2) (In thousands)
Hyundai Merchant Marine	₩ 199,559	\$ 214,671
Hyundai Card Co., Ltd.	3,718	4,000
Hyundai Capital Co., Ltd	314,994	338,849
Hyundai Motor Manufacturing Alabama LLC	627,480	675,000
Hyundai Motor Finance Company	669,312	720,000
Smart Alabama LLC	111,552	120,000
ROTEM	64,355	69,229
Hyundai Motor Europe GmbH	29,334	31,555
Hyundai Translead	92,030	99,000
Hyundai Auto Canada Captive Insurance Incorporation	13,444	14,462
Hyundai Motor Poland Sp.zo.o.	6,111	6,574
Hyundai Motor Japan Co.	39,092	42,052
HMJ R&D Center Inc.	4,300	4,626
Beijing Hines Millennium Real Estate Development Co., Ltd.	13,944	15,000
Beijing Jingxian Motor Safeguard Service Co., Ltd.	2,324	2,500
Hyundai America Technical Center Inc.	18,592	20,000
UTS	223,104	240,000
Hyundai Motor Europe Technical Center GmbH	73,334	78,888
Equus Cayman Finance Ltd.	371,840	400,000
HMI	92,960	100,000
	₩ 2,971,379	\$ 3,196,406

- (2) As of December 31, 2006, 7,538,466 shares of Kia Motors Corporation, 2,640,000 shares of Eukor Car Carriers Inc., 12,000 shares of Eukor Car Carriers Singapore Pte Ltd. and 150 investment certificates of Machinery Insurance Cooperative in long-term investment securities and investment securities accounted for using the equity method, 4 blank promissory notes, 1 check amounting to ₩2,624 million (US\$2,823 thousand) and property, plant and equipment (see Note 7) are pledged as collateral for short-term borrowings, long-term debt and other payables. Certain bank deposits of ₩28,822 million (US\$31,005 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) The Company uses a customer financing system related to a long-term installment sales system and has provided guarantees of ₩57,190 million (US\$61,521 thousand) to the banks concerned as of December 31, 2006. These guarantees are all covered by insurance contracts, which regulate a customer and the Company as a contractor and a beneficiary, respectively.
- (4) As of December 31, 2006, the outstanding balance of accounts receivable discounted with recourse amounts to ₩1,157,126 million (US\$1,244,757 thousand), including discounted overseas accounts receivable translated using the foreign exchange rate at December 31, 2006.
- (5) The Company accrues estimated product liabilities expenses and carries the products and completed operations liability insurance (see Note 8) in order to cover the potential loss, which may occur due to the lawsuits related to its operation such as product liabilities. The Company expects that the resolution of pending cases against the Company as of December 31, 2006 will not have any material effect on its financial position.
- (6) The Company made an agreement with its European sales subsidiaries and agents for them to be responsible for projected costs for dismantling and recycling vehicles sold in corresponding countries to comply with European Parliament directive regarding End-of-Life vehicles (ELV).
- (7) In 2006, the Company sold 10,658,367 shares of ROTEM to MSPE Metro Investment AB and entered into a shareholders' agreement. MSPE Metro Investment AB is entitled to put option to sell those shares back to the Company in certain events (as defined) in accordance with the agreement.

- (8) Some directors of the Company are sued in the Seoul District Court with respect to certain money transactions of the prior years. Currently, it is impossible to reasonably measure the probability and amount of an outflow of resources required to settle the consequence of this trial; however, the management estimates that the effect of this trial on the financial statements will not be material. Therefore, no adjustment is reflected in the accompanying financial statements.
- (9) The Company has been investigated by the Fair Trade Commission (FTC) in connection with business activities of the prior years. Currently, it is impossible reasonably measure the expenditure required to settle the consequence of this investigation: however, the management estimates that the effect of this investigation on the financial statements will not be material. Therefore, no adjustment is reflected in the accompanying financial statements.

14. ACCRUED WARRANTIES:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Beginning of year	₩ 3,168,283	₩ 3,851,472	\$ 3,408,222	\$ 4,143,150
Accrual	261,436	385,297	281,235	414,476
Use	(344,812)	(392,017)	(370,925)	(421,705)
Other changes (*)	-	(676,469)	-	(727,699)
End of year	<u>₩ 3,084,907</u>	<u>₩ 3,168,283</u>	<u>\$ 3,318,532</u>	<u>\$ 3,408,222</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.

15. CAPITAL STOCK:

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

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

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

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

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

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

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

16. CAPITAL SURPLUS:

Capital surplus as of December 31, 2006 and 2005 consists of the following:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Paid-in capital in excess of par value	₩ 3,294,391	₩ 3,280,839	\$ 3,543,880	\$ 3,529,302
Asset revaluation surplus	1,852,871	1,852,871	1,993,192	1,993,192
Other	261,743	257,910	281,565	277,441
	<u>₩ 5,409,005</u>	<u>₩ 5,391,620</u>	<u>\$ 5,818,637</u>	<u>\$ 5,799,935</u>

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\$2,740,337 thousand), were included in capital surplus, after offsetting accumulated deficit of ₩16,022 million (US\$17,235 thousand), a deferred foreign currency translation loss of ₩594,275 million (US\$639,280 thousand), reduction for an asset revaluation tax payment of ₩67,547 million (US\$72,662 thousand) and adjustment of ₩16,702 million (US\$17,967 thousand) due to the disposal of revalued assets within 1 year after revaluation.

17. RETAINED EARNINGS:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Appropriated:				
Legal reserve	₩ 223,370	₩ 188,870	\$ 240,286	\$ 203,173
Reserve for business rationalization	545,800	545,800	587,134	587,134
Reserve for improvement of financial structure	98,947	98,947	106,440	106,440
Reserve for overseas market development	48,800	48,800	52,496	52,496
Reserve for technology development	7,628,100	5,358,100	8,205,788	5,763,878
	8,545,017	6,240,517	9,192,144	6,713,121
Before appropriation	1,545,448	2,684,020	1,662,487	2,887,285
	<u>₩ 10,090,465</u>	<u>₩ 8,924,537</u>	<u>\$ 10,854,631</u>	<u>\$ 9,600,406</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 disposal 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.

Appropriations of retained earnings for the year ended December 31, 2005 were approved at the shareholders' meeting on March 10, 2006 and the appropriations including the cash dividends of ₩342,310 million (US\$368,234 thousand) are reflected in retained earnings on that date.

18. CAPITAL ADJUSTMENTS:

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Treasury stock	₩ (716,316)	₩ (736,113)	\$ (770,564)	\$ (791,860)
Gain on valuation of available-for-sale securities, net	195,214	120,301	209,998	129,412
Gain on valuation of investment securities accounted for using the equity method	263,748	285,710	283,722	307,347
Loss on valuation of investment securities accounted for using the equity method	(700,117)	(454,579)	(753,138)	(489,005)
Stock option cost	9,337	14,231	10,044	15,309
Gain on valuation of derivatives, net	14,550	24,352	15,652	26,195
	₩ (933,584)	₩ (746,098)	\$ (1,004,286)	\$ (802,602)

(1) Treasury stock

For the stabilization of stock price, the Company has treasury stock consisting of 11,287,470 common shares and 2,950,960 preferred shares with a carrying value of ₩716,316 million (US\$770,564 thousand) as of December 31, 2006, 11,416,470 common shares and 2,950,960 preferred shares with a carrying value of ₩736,113 million (US\$791,860 thousand) as of December 31, 2005, which were acquired directly or indirectly through the Treasury Stock Fund and Trust Cash Fund.

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

(2) Stock option cost

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

The Company calculates the total compensation expense using an option-pricing model, in which the risk-free rate of 4.94%, an expected exercise period of 5.5 years and an expected variation rate of stock price of 63.29 percent are used. Total compensation expenses amounting to ₩9,337 million (US\$10,044 thousand) have been accounted for as a charge to current operations and a credit to stock option cost in capital adjustments over the required period of service (two years) from the grant date using the straight-line method.

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

(3) Gain on valuation of derivatives

As of December 31, 2006 and 2005, net gain of ₩14,550 million (US\$15,652 thousand) and ₩24,352 million (US\$26,195 thousand), after deducting the deferred income tax effect, 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.

19. DIVIDENDS:

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

	Number of shares	Dividend rate	Korean Won (in millions)	Translation into U.S. dollars (Note 2) (in thousands)
Common shares, net of treasury shares	208,178,785	20%	₩ 208,179	\$ 223,945
Preferred shares, net of treasury shares:				
First and Third preferred shares	25,637,321	21%	26,919	28,957
Second preferred shares	36,613,865	22%	40,275	43,326
			<u>₩ 275,373</u>	<u>\$ 296,228</u>

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

	Number of shares	Dividend rate	Korean Won (in millions)	Translation into U.S. dollars (Note 2) (in thousands)
Common shares, net of treasury shares	207,642,232	25%	₩ 259,553	\$ 279,209
Preferred shares, net of treasury shares:				
First and Third preferred shares	25,637,321	26%	33,328	35,853
Second preferred shares	36,613,865	27%	49,429	53,172
			<u>₩ 342,310</u>	<u>\$ 368,234</u>

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

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Income tax currently payable	₩ 266,822	₩ 260,337	\$ 287,029	\$ 280,053
Changes in deferred taxes due to:				
Temporary differences	142,220	311,303	152,991	334,878
Carry forward of unused tax credits	(32,193)	(1,337)	(34,631)	(1,438)
Items directly charged to equity	(17,029)	(179,966)	(18,319)	(193,595)
Income tax expense	<u>₩ 359,820</u>	<u>₩ 390,337</u>	<u>\$ 387,070</u>	<u>\$ 419,898</u>

In 2006 and 2005, the differences between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea are as follows:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Income before tax	₩ 1,885,883	₩ 2,739,058	\$ 2,028,704	\$ 2,946,491
Addition	2,289,223	3,179,357	2,462,589	3,420,134
Deduction	(2,628,360)	(4,237,210)	(2,827,410)	(4,558,100)
Taxable income	₩ 1,546,746	₩ 1,681,205	\$ 1,663,883	\$ 1,808,525

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

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	Current	Non current	Current	Non current
	(In millions)		(In thousands)	
Investment securities accounted for using the equity method	₩ -	₩ (492,379)	\$ -	\$ (529,668)
Accrued warranties	206,943	641,407	222,615	689,982
Long-term investment securities	-	(60,427)	-	(65,003)
Reserve for research and manpower development	(52,250)	(96,250)	(56,207)	(103,539)
Depreciation	24	(88,890)	26	(95,622)
Development cost	(1,655)	-	(1,780)	-
Derivative assets (liabilities)	(6,805)	(37,084)	(7,320)	(39,892)
Accrued income	(19,035)	-	(20,477)	-
Carry over tax deduction	33,530	-	36,069	-
Other	674	14,404	725	15,494
	₩ 161,426	₩ (119,219)	\$ 173,651	\$ (128,248)

The components of deferred tax assets (liabilities) as of December 31, 2005 are as follows:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	Current	Non current	Current	Non current
	(In millions)		(In thousands)	
Allowance for doubtful accounts	₩ 729	₩ -	\$ 784	\$ -
Investment securities accounted for using the equity method	-	(362,475)	-	(389,926)
Accrued warranties	202,056	669,222	217,358	719,903
Long-term investment securities	-	(32,011)	-	(34,435)
Reserve for research and manpower development	(64,167)	(66,000)	(69,026)	(70,998)
Depreciation	24	(58,413)	26	(62,837)
Development cost	(7,368)	-	(7,926)	-
Derivative assets (liabilities)	(104,071)	(26,164)	(111,952)	(28,145)
Accrued income	(16,025)	-	(17,239)	-
Carry over tax deduction	1,337	-	1,438	-
Other	12,414	3,146	13,354	3,384
	₩ 24,929	₩ 127,305	\$ 26,817	\$ 136,946

The components of items charged to equity as of December 31, 2006 are as follows:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	Temporary differences	Tax effect	Temporary differences	Tax effect
	(In millions)		(In thousands)	
Income tax charged or credited to:				
Gain on Disposal of treasury stock	₩ (5,112)	₩ (1,406)	\$ (5,499)	\$ (1,513)
Capital adjustments	(8,559)	(2,354)	(9,207)	(2,532)
	<u>₩ (13,671)</u>	<u>₩ (3,760)</u>	<u>\$ (14,706)</u>	<u>\$ (4,045)</u>
Deferred tax charged or credited to:				
Retained earnings	₩ (1,495)	₩ (411)	\$ (1,608)	\$ (442)
Capital adjustments	(46,754)	(12,858)	(50,295)	(13,832)
	<u>₩ (48,249)</u>	<u>₩ (13,269)</u>	<u>\$ (51,903)</u>	<u>\$ (14,274)</u>

The components of items charged to equity as of December 31, 2005 are as follows:

Description	Korean Won		Translation into U.S. Dollars (Note 2)	
	Temporary differences	Tax effect	Temporary differences	Tax effect
	(In millions)		(In thousands)	
Income tax of gain on disposal of treasury stock	₩ (32,909)	₩ (9,050)	\$ (35,401)	\$ (9,735)
Deferred tax charged or credited to:				
Retained earnings	₩ (683,821)	₩ (188,051)	\$ (735,608)	\$ (202,292)
Capital adjustments	62,311	17,135	67,030	18,432
	<u>₩ (621,510)</u>	<u>₩ (170,916)</u>	<u>\$ (668,578)</u>	<u>\$ (183,860)</u>

The deferred tax assets related to the deductible temporary differences arising from investments in subsidiaries and associates of ₩424,198 million (US\$456,323 thousand), and other of ₩5,649 million (US\$6,077 thousand) as of December 31, 2006 were not recognized since it is not probable that the temporary difference will be reversed in the foreseeable future. Also, the deferred tax liabilities related to the gain on revaluation of land of ₩449,799 million (US\$483,863 thousand) as of December 31, 2006 were not recognized since the land may not be disposed of in the foreseeable future.

The deferred tax assets related to the deductible temporary differences arising from investments in subsidiaries and associates of ₩85,895 million (US\$92,400 thousand), constructive dividends of ₩101,133 million (US\$108,792 thousand) and other of ₩16,059 million (US\$17,275 thousand) as of December 31, 2005 were not recognized since it is not probable that the temporary difference will be reversed in the foreseeable future. Also, the deferred tax liabilities related to the gain on revaluation of land of ₩446,070 million (US\$479,852 thousand) as of December 31, 2005 were not recognized since the land may not be disposed of in the foreseeable future.

The Company believes average taxable income in the coming years will exceed the amount of deferred taxes to be realized every year based on its assessment. Effective tax rate used in calculating deferred tax assets or liabilities arising from temporary differences is 27.5% including resident tax. The effective tax rates are 19.1 percent and 14.3 percent for the years ended December 31, 2006 and 2005, respectively.

21. RELATED PARTY TRANSACTIONS:

(1) The consolidated subsidiaries as of December 31, 2006 are as follows:

<u>Description</u>	<u>Subsidiaries</u>
Domestic subsidiaries	Kia Motors Corporation, Hyundai HYSCO, Hyundai Capital Service Inc., Hyundai Card Co., Ltd., KEFICO Corporation, Hyundai Powertech, WIA Corporation, Dymos Inc., Automobile Industrial Ace Corporation, ROTEM, Haevichi Leisure Co., METIA Co., Ltd., Mseat Co., Ltd., Autoever Systems Corp., Hyundai Autonet Co., Ltd. Partecs Co., Ltd., Carnes Co., Ltd., Mando Map & Soft Co., Ltd. KIA Tigers Co., Ltd., NGVTEK.Com, Pontusmap and Chasan Co., Ltd.
Foreign subsidiaries	Hyundai Motor India (HMI), Hyundai Motor America (HMA), 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 Motor Norway AS (HMN), Hyundai Motor Hungary (HMH), Hyundai Translead, Inc. (HT), Hyundai America Technical Center Inc.(HATCI), Hyundai Motor Europe Technical Center GmbH (HMETC), Beijing Mobis Transmission Co., Ltd. (BMT), Hyundai Assan Otomotive Sannayi Ve Ticaret A.S. (HAOSVT), Hyundai Motor Group (China) Ltd. (HMGC), Hyundai Jingxian Motor Safeguard Service Co., Ltd. (HJMSS), Hyundai Motor Manufacturing Alabama, LLC (HMMA), Hyundai Motor Finance Company (HMFC), Hyundai Auto Canada Captive Insurance Incorporation (HACCII), Sevenwood Property Inc., World Marketing Group LLC (WMG), Hyundai de Mexico, S.A. de C.V. (HYMEX), Stampted Metal America Research Technology Inc. (SMARTI), Stampted Metal America Research Technology LLC ,China Millennium Corporations (CMEs),Beijing Hines Millennium Real Estate Development, KIA Motors America Inc. (KMA), KIA Japan Co., Ltd. (KJC), KIA Motors Deutschland GmbH (KMD), KIA Canada, Inc. (KCI), KIA Motors Polska Sp.z.o.o. (KMP), KIA Motors Europe GmbH (KME), Kia Motors Slovakia S.r.o. (KMS), KIA Motors Slovensko S.r.o.(KMSS), KIA Motors Belgium N.V.(KMB),KIA Motors Czech s.r.o. (KMCZ), KIA Motors (UK) Ltd. (KMUK), KIA Motors Austria GmbH (KMAS), KIA Motors Hungary Kft (KMH), Kia Motors Iberia (KMIB), Kia Motors Sweden AB (KMSW), Kia Automobiles France (KMF), KIA Motors Australia Pty Ltd.(KMAU), Dong Feng Yueda Kia Motors, Yanji Kia Motors A/S and Repair, Hyundai Pipe of America, Inc., Hysco America Co. Inc., Hysco Slovakia S.r.o., Beijing Hyundai Hysco Steel Process Co, Ltd., Hysco Slovakia S.r.o., Jiangsu Hyundai Hysco Steel Process Co, Ltd., Hysco Steel India, Ltd., Hyundai-Kia Machine America Corp.(HKMA), Hyundai-Kia Machine Europe GmbH(HKME), Wia Automotive Parts, WIA Automotive Engine(ShanDong) Company, Dymos Czech Republic S.r.o., Rotem Equipments(Beijing) Co., Ltd., EUROTEM, AutoeverSystems India Private Limited, AutoeverSystems China Co., Ltd., Hyundai Electronics (Tianjin) Co., Ltd., Hyundai Autonet Pontus America and Hyundai-Hitech Electronics.

(2) Significant transactions with subsidiaries and affiliates in 2006 are as follows:

The companies	Korean Won		Translation into U.S. Dollars (Note 2)	
	Sales/proceeds	Purchases/expense	Sales/proceeds	Purchases/expense
	(In millions)		(In thousands)	
Subsidiaries:				
Kia Motors Corporation	₩ 623,329	₩ 651,529	\$ 670,535	\$ 700,870
Dymos Inc.	3,873	453,224	4,166	487,547
Hyundai Capital Service Inc.	464,701	46,701	499,894	50,238
WIA Corporation	145,943	253,820	156,995	273,042
KEFICO Corporation	93	293,153	100	315,354
Hyundai Powertech	18,317	150,669	19,704	162,079
Hyundai Autonet Co., Ltd.	230	142,653	247	153,456
Hyundai HYSKO	1,846	166,512	1,986	179,122
Autoever Systems Corp.	172	154,965	185	166,701
Hyundai Card Co., Ltd.	227	70,844	244	76,209
METIA Co., Ltd.	1,892	30,323	2,035	32,619
ROTEM	570	43,549	613	46,847
Automobile industrial Ace Corp.	250	1,210	269	1,302
Haevichi Resort.	51	7,052	55	7,586
NGVTEK.Com	8	6,782	9	7,296
Carnes Co., Ltd.	-	6,568	-	7,065
Hyundai Motor America	3,484,589	-	3,748,482	-
Hyundai Motor Europe GmbH	2,645,950	-	2,846,332	-
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	634,628	-	682,689	-
Hyundai Motor Company Australia	460,393	-	495,259	-
Hyundai Motor India	505,138	3,781	543,393	4,067
Hyundai Motor Manufacturing Alabama, LLC	252,036	49	271,123	53
Hyundai Motor Poland Sp. Zo.O	135,275	-	145,520	-
Hyundai Motor Norway AS	66,037	-	71,038	-
Hyundai America Technical Center Inc.	27	60,602	29	65,191
Hyundai Motor Europe Technical Center GmbH	7,268	28,465	7,818	30,621
Hyundai Motor Hungary	13,541	-	14,566	-
Hyundai Motor Japan Co.	7,123	-	7,662	-
Hyundai Motor Finance Company	1,378	-	1,482	-
Others	580	409	624	440
Affiliates:				
Hyundai MOBIS	467,897	2,703,705	503,332	2,908,461
Hyundai Steel Company	1,683	12,039	1,810	12,951
EUKOR Car Carriers, Inc.	1,505	457,403	1,619	492,043
Iljin Bearing Co., Ltd.	12	33,898	13	36,465
Beijing-Hyundai Motor Company	566,300	53,998	609,187	58,087
HMJ R&D Center Inc.	7	8,065	8	8,676
Others	63	1,473	68	1,585
Others:				
Glovis Co., Ltd.	24,522	347,910	26,379	374,258
Amco Corp.	352	348,064	379	374,423
Innotion Corp.	130	31,361	140	33,736
IHL Corp.	1,868	86,680	2,009	93,244
Wisco Co., Ltd.	426	35,214	458	37,881
Korea Automotive Systems Co., Ltd.	4	52,670	4	56,659
BNG Steel Co., Ltd.	135	65,498	145	70,458
Ecoplastic Corp.	10,377	211,705	11,163	227,738
	<u>₩ 10,550,746</u>	<u>₩ 7,022,543</u>	<u>\$ 11,349,768</u>	<u>\$ 7,554,370</u>

Significant transactions with subsidiaries and affiliates in 2005 are as follows:

The companies	Korean Won		Translation into U.S. Dollars (Note 2)	
	Sales/proceeds	Purchases/expense	Sales/proceeds	Purchases/expense
	(In millions)		(In thousands)	
Kia Motors Corporation	₩ 654,236	₩ 447,228	\$ 703,782	\$ 481,097
Dymos Inc.	7,634	507,485	8,212	545,918
Hyundai Capital Service Inc.	336,903	35,260	362,417	37,930
WIA Corporation	163,099	292,699	175,451	314,866
KEFICO Corporation	-	293,907	-	316,165
Hyundai Powertech	27,025	238,863	29,072	256,952
Hyundai Autonet Co., Ltd.	-	58,694	-	63,139
Hyundai HYSKO	2,033	160,856	2,187	173,038
Autoever Systems Corp.	5,349	124,265	5,754	133,676
ROTEM	185	43,767	199	47,082
Hyundai Motor America	5,005,672	-	5,384,759	-
Hyundai Motor Europe GmbH	2,179,866	-	2,344,951	-
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	635,334	-	683,449	-
Hyundai Motor Company Australia	462,829	-	497,880	-
Hyundai Motor India	439,797	-	473,103	-
Hyundai Motor Manufacturing Alabama, LLC	89,292	-	96,054	-
Hyundai Motor Poland Sp.zo.o.	110,713	-	119,097	-
Hyundai Motor UK	254,896	-	274,200	-
Hyundai MOBIS	577,796	2,348,197	621,553	2,526,029
Beijing-Hyundai Motor Company	688,867	-	741,036	-
Glovis Co., Ltd.	-	337,307	-	362,852
Asset Management Co., Ltd.	-	347,440	-	373,752
	<u>₩ 11,641,526</u>	<u>₩ 5,235,968</u>	<u>\$ 12,523,156</u>	<u>\$ 5,632,496</u>

(3) Significant outstanding balances as of December 31, 2006 are as follows:

The companies	2006			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	Receivables	Payables	Receivables	Payables
	(In millions)		(In thousands)	
Subsidiaries:				
Kia Motors Corporation	₩ 165,720	₩ 133,366	\$ 178,270	\$ 143,466
Dymos Inc.	8,494	92,837	9,137	99,868
Hyundai Capital Service Inc.	82,555	6,582	88,807	7,080
WIA Corporation	32,700	80,258	35,176	86,336
Hyundai Card Co., Ltd.	57,909	48,678	62,295	52,364
Hyundai Autonet Co., Ltd.	261	27,389	281	29,463
KEFICO Corporation	902	43,211	970	46,483
Hyundai Powertech	2,950	33,996	3,173	36,571
Hyundai HYSKO	515	48,877	554	52,579
Autoever Systems Corp.	23	69,525	25	74,790
METIA Co., Ltd.	90	9,558	97	10,282
ROTEM	20	35,215	22	37,882
Haevichi Resort.	13,110	1,130	14,103	1,216
NGVTEK.Com	114	3,614	123	3,888
Hyundai Motor America	88,556	17,585	95,262	18,917
Hyundai Motor Europe GmbH	68,342	-	73,518	-
Hyundai Motor Manufacturing Alabama, LLC	68,607	111	73,803	119
Hyundai Assan Otomotive Sannayi Ve Ticaret A.S.	30,832	62	33,167	67

The companies	2006			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	Receivables	Payables	Receivables	Payables
	(In millions)		(In thousands)	
Hyundai Motor India	50,485	112	54,308	120
Hyundai Motor Company Australia	30,268	-	32,560	-
Hyundai Motor Poland Sp. Zo.O	9,005	1,465	9,687	1,576
Hyundai America				
Technical Center Inc.	17	7,131	18	7,671
Hyundai Motor Norway AS	977	4	1,051	4
Hyundai Motor Europe Technical Center GmbH	23	4,234	25	4,555
Others	2,407	2,713	2,589	2,918
Affiliates:				
Hyundai MOBIS	84,146	498,272	90,519	536,007
Hyundai Steel Company	558	22,625	600	24,338
Beijing-Hyundai Motor Company	50,804	2,008	54,651	2,160
EUKOR Car Carriers, Inc.	17	39,939	18	42,964
Iljin Bearing Co., Ltd.	66	3,300	71	3,550
Others	3	736	3	792
Others:				
Asset Management Co., Ltd.	527	144,466	567	155,407
Glovis Co., Ltd.	9,946	47,177	10,699	50,750
Innotion Corp.	113	45,478	122	48,922
Ecoplastic Corp.	8,938	34,268	9,615	36,863
IHL Corp.	141	14,904	152	16,033
BNG Steel Co., Ltd.	-	18,953	-	20,388
Korea Automotive Systems Co., Ltd.	15	8,633	16	9,287
Wisco Co., Ltd.	616	8,291	663	8,919
	<u>₩ 870,772</u>	<u>₩ 1,556,703</u>	<u>\$ 936,717</u>	<u>\$ 1,674,595</u>

Significant outstanding balances as of December 31, 2005 are as follows:

The companies	2005			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	Receivables	Payables	Receivables	Payables
	(In millions)		(In thousands)	
Hyundai HYSCO	₩ 1,478	₩ 29,244	\$ 1,590	\$ 31,459
KEFICO Corporation	1,059	51,346	1,139	55,235
Autoever Systems Corp.	-	38,077	-	40,961
Dymos Inc.	10,408	127,408	11,196	137,057
Kia Motors Corporation	165,081	201,858	177,583	217,145
Hyundai Capital Service Inc.	48,500	5,602	52,173	6,026
Hyundai Card Co., Ltd.	44,292	52,501	47,646	56,477
WIA Corporation	17,506	95,182	18,832	102,390
Hyundai Powertech	12,910	74,958	13,888	80,635
ROTEM	-	26,127	-	28,106
Hyundai Autonet Co., Ltd.	-	47,894	-	51,521
Hyundai Assan Otomotive Sannayi				
Ve Ticaret A.S.	19,547	7,823	21,027	8,415
Hyundai Motor America	130,554	15,374	140,441	16,538
Hyundai Motor Manufacturing Alabama, LLC	60,997	-	65,616	-
Hyundai Motor India	31,132	-	33,490	-
Hyundai Motor Poland Sp. Zo.O	2,646	-	2,846	-
Hyundai Motor Company Australia	30,539	-	32,852	-
Hyundai Motor Europe GmbH	55,701	1,888	59,919	2,031

The companies	2005			
	Korean Won		Translation into U.S. Dollars (Note 2)	
	Receivables	Payables	Receivables	Payables
	(In millions)		(In thousands)	
Hyundai MOBIS	112,481	632,193	120,999	680,070
Glovis Co., Ltd.	-	49,599	-	53,355
Asset Management Co., Ltd.	-	188,196	-	202,448
	<u>₩ 744,831</u>	<u>₩ 1,645,270</u>	<u>\$ 801,237</u>	<u>\$ 1,769,869</u>

(4) Compensations for registered directors and unregistered directors of the Company in 2006 are as follows:

Description	Korean Won	Translation into U.S. Dollars (Note 2)
	(In millions)	(In thousands)
Short-term salaries	₩ 51,855	\$ 55,782
Severance benefits	<u>7,852</u>	<u>8,447</u>
	<u>₩ 59,707</u>	<u>\$ 64,229</u>

Accrued severance benefits and stock option costs for the directors as of December 31, 2006 amount to ₩76,749 million (US\$82,561 thousand) and ₩5,711 million (US\$6,144 thousand), respectively.

22. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES:

The assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005 are summarized below.

	Foreign currencies				Korean Won			
		2006	2005		2006	2005		
		(In thousands)			(In millions)			
Assets	US\$	545,043	US\$ 459,846	₩	506,672	₩	427,473	
	JP¥	82,832	JP¥ 521,943		647		4,081	
	GBP	7,184	GBP 5,843		13,104		10,658	
	CAD	13,312	CAD 12,842		10,665		10,289	
	EUR	230,592	EUR 173,260		281,839		211,765	
	AUD	28,167	AUD 28,008		20,688		20,571	
					<u>₩ 833,615</u>		<u>₩ 684,837</u>	
Liabilities	US\$	436,001	US\$ 620,674	₩	405,307	₩	576,979	
	JP¥	23,677,692	JP¥ 23,720,379		185,119		185,453	
	GBP	7,600	GBP 10,391		13,863		18,954	
	CAD	2,760	CAD 2,976		2,211		2,384	
	AUD	3,284	AUD 7,838		2,412		5,757	
	EUR	198,311	EUR 250,170		242,384		305,768	
	SGD	347	SGD 124		210		75	
	CHF	1,088	CHF 2,359		828		1,795	
	DKK	92	DKK -		15		-	
	SEK	85	SEK 442		12		60	
				<u>₩ 852,361</u>		<u>₩ 1,097,225</u>		

23. REGIONAL SALES INFORMATION:

Sales by region in 2006 and 2005 are as follows:

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Domestic sales	<u>₩ 11,839,688</u>	<u>₩ 11,019,243</u>	<u>\$ 12,736,325</u>	<u>\$ 11,853,747</u>
Export sales - Vehicle products				
North America	3,484,596	5,005,536	3,748,490	5,384,613
Europe	4,415,840	4,144,818	4,750,258	4,458,711
South America	1,100,678	805,805	1,184,034	866,830
Asia & Pacific	1,042,990	1,268,957	1,121,977	1,365,057
Middle Asia & Africa	<u>2,110,483</u>	<u>1,860,708</u>	<u>2,270,313</u>	<u>2,001,622</u>
	12,154,587	13,085,824	13,075,072	14,076,833
Export sales - Other	<u>3,341,093</u>	<u>3,278,670</u>	<u>3,594,119</u>	<u>3,526,968</u>
Export sales	<u>15,495,680</u>	<u>16,364,494</u>	<u>16,669,191</u>	<u>17,603,801</u>
Total sales	<u>₩ 27,335,368</u>	<u>₩ 27,383,737</u>	<u>\$ 29,405,516</u>	<u>\$ 29,457,548</u>

24. SELLING AND ADMINISTRATIVE EXPENSES:

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

	Korean Won		Translation into U.S. Dollars (Note 2)	
	2006	2005	2006	2005
	(In millions)		(In thousands)	
Salary-related costs	<u>₩ 981,976</u>	<u>₩ 937,098</u>	<u>\$ 1,056,343</u>	<u>\$ 1,008,066</u>
Export-related costs	681,068	716,826	732,646	771,112
Sales promotion and advertisements	363,422	393,039	390,944	422,804
Sales commissions	408,020	362,537	438,920	389,992
Sales warranties	302,295	433,029	325,188	465,823
Taxes and dues	43,988	51,110	47,319	54,981
Communications	19,247	20,420	20,705	21,966
Utilities	21,116	21,520	22,715	23,150
Freight and warehousing	73,203	72,141	78,747	77,604
Rent	19,229	19,429	20,685	20,900
Travel	61,953	60,060	66,645	64,608
Service charges	174,290	152,744	187,489	164,312
Maintenance	14,158	19,710	15,230	21,203
Supplies	15,387	18,559	16,552	19,965
Research	413,576	448,627	444,897	482,602
Depreciation	70,410	65,709	75,742	70,685
Amortization	9,074	8,609	9,761	9,261
Stock option cost	-	1	-	1
Provision for other liabilities	9,298	-	10,002	-
Other	<u>10,638</u>	<u>12,683</u>	<u>11,445</u>	<u>13,645</u>
	<u>₩ 3,692,348</u>	<u>₩ 3,813,851</u>	<u>\$ 3,971,975</u>	<u>\$ 4,102,680</u>

25. SUMMARY OF RESULTS OF OPERATIONS FOR THE LAST QUARTER (UNAUDITED):

Results of operations for the last quarters of 2006 and 2005 are as follows.

	<u>Korean Won</u>		<u>Translation into U.S. Dollars (Note 2)</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(In millions, except per share amounts)</u>		<u>(In thousands, except per share amounts)</u>	
Sales	₩ 7,584,113	₩ 8,117,285	\$ 8,158,469	\$ 8,732,019
Gross profit	1,283,735	1,487,046	1,380,954	1,599,662
Operating income	306,668	335,503	329,892	360,911
Ordinary income	546,559	626,037	587,951	673,448
Net income	486,750	686,822	523,612	738,836
Earnings per common share	2,261	3,213	2.43	3.46

26. APPROVAL OF THE FINANCIAL STATEMENTS:

The 2006 financial statements of the Company to be submitted to the shareholders' meeting are subject to approval by the Board of Directors, which was tabled at their meeting on January 25, 2007.

27. STANDARD ON NATURAL ENVIRONMENT AND POLICY:

The Ministry of Environment appointed the Company to Green Company (May 25, 1996 ~ December 13, 1997) and the Company acquired ISO14001 authentication of environment system (December, 1995 ~ December, 1998). Disposal of industrial wastes is mostly deputed, and the Ulsan factory has constructed combined waste water facilities in 1997. In 2006 and 2005, expenditures of power and water supply in manufacturing cost are ₩194,900 million (US\$209,660 thousand) and ₩188,000 million (US\$202,238 thousand), respectively.

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

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Hyundai Motor Company

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Hyundai Motor Company (the "Company") as of December 31, 2006. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2006, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2006, and we did not review its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

January 26, 2007

Report on the Assessment of Internal Accounting Control System (“IACS”)

To the Board of Directors and Audit Committee of
Hyundai Motor Company

I, as the Internal Accounting Control Officer (“IACO”) of Hyundai Motor Company (“the Company”), assessed the status of the design and operation of the Company’s IACS for the year ended December 31, 2006.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS Framework.

January 25, 2007

Lee, Jung Dae, Internal Accounting Control Officer