

**SSANGYONG MOTOR COMPANY AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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## **Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
Ssangyong Motor Company

We have audited the accompanying consolidated financial statements of Ssangyong Motor Company and its subsidiaries (the "Company"), expressed in Korea won, which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' audits responsibility**

Our responsibility is to issue a report on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Audits Standards for Financial Statements established by the Securities and Futures Commission of the Republic of Korea. We conducted our audit in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Conclusion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

**Other matters**

The consolidated financial statements of the Company as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended were audited by other auditors, whose report thereon dated March 16, 2017, expressed an unqualified opinion.

The procedures and practices utilized in the Republic of Korea to audits such consolidated financial statements may differ from those generally accepted and applied in other countries.

The accompanying consolidated financial statements as of and for the years ended December 31, 2017 and 2016 have been translated into Indian Rupee solely for the convenience of the reader and such translation does not comply with K-IFRS. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean won have been translated into Indian Rupee on the basis set forth in note 2.(1) to the consolidated financial statements.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
March 16, 2018

<p>This report is effective as of March 16, 2018, the audits report date. Certain subsequent events or circumstances, which may occur between the audits report date and the time of reading this report, could have a material impact on the consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Consolidated Statements of Financial Position

**As of December 31, 2017 and 2016**

(In thousands of won and in thousands of rupee)

	<i>Note</i>	<b>Korean won</b>		<b>Indian rupee</b>	
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>					
Cash and cash equivalents	4,5,33 ₩	215,443,730	238,401,707	Rs 12,885,391	14,258,475
Trade and other receivables, net	7,32,33	203,824,819	230,321,041	12,190,480	13,775,182
Derivative assets		-	756,035	-	45,217
Inventories, net	8,24	228,374,429	204,979,632	13,658,758	12,259,547
Other current assets	10	7,548,242	7,337,940	451,450	438,873
<b>Total current assets</b>		<u>655,191,220</u>	<u>681,796,355</u>	<u>39,186,079</u>	<u>40,777,294</u>
Non-current financial instruments	5,33	4,000	6,000	239	359
Non-current other receivables, net	7,32,33	33,953,847	33,754,663	2,030,732	2,018,820
Available-for-sale financial assets	6,33	560,000	560,000	33,493	33,493
Property, plant and equipment, net	11,13	1,239,703,951	1,199,006,450	74,144,973	71,710,912
Intangible assets, net	11,12	303,268,722	234,344,498	18,138,081	14,015,819
Investments in joint venture	9	15,063,851	13,681,894	900,948	818,295
Other non-current assets	10	273,283	273,319	16,345	16,347
<b>Total non-current assets</b>		<u>1,592,827,654</u>	<u>1,481,626,824</u>	<u>95,264,811</u>	<u>88,614,045</u>
<b>Total assets</b>		<u>₩ 2,248,018,874</u>	<u>2,163,423,179</u>	<u>Rs 134,450,890</u>	<u>129,391,339</u>

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued

As of December 31, 2017 and 2016

(In thousands of won and in thousands of rupee)

	Note	Korean won		Indian rupee	
		2017	2016	2017	2016
<b>Liabilities</b>					
Trade and other payables	14,18, 32,33	₩ 752,931,607	669,483,000	Rs 45,031,795	40,040,849
Short-term borrowings	13,18,33	163,840,987	181,967,721	9,799,102	10,883,237
Derivative liabilities	25,33	409,259	5,798,806	24,477	346,819
Provision of warranty for sale - current	15	53,046,748	53,153,294	3,172,652	3,179,025
Other long-term employee benefits liabilities- current		1,190,438	1,330,939	71,198	79,602
Other current liabilities	16	35,176,481	33,325,870	2,103,857	1,993,173
<b>Total current liabilities</b>		<u>1,006,595,520</u>	<u>945,059,630</u>	<u>60,203,081</u>	<u>56,522,705</u>
Long-term borrowings	13,18,33	70,000,000	12,500,000	4,186,603	747,608
Non-current other payables	33	3,374,008	5,507,071	201,794	329,370
Defined benefit liabilities	17	284,563,123	279,609,200	17,019,326	16,723,038
Other long-term employee benefits liabilities		15,138,490	15,357,662	905,412	918,520
Non-current provision of warranty for sale	15	93,192,809	92,695,690	5,573,733	5,544,001
<b>Total non-current liabilities</b>		<u>466,268,430</u>	<u>405,669,623</u>	<u>27,886,868</u>	<u>24,262,537</u>
<b>Total liabilities</b>		₩ <u>1,472,863,950</u>	<u>1,350,729,253</u>	<u>88,089,949</u>	<u>80,785,242</u>
<b>Equity</b>					
Capital stock	19	689,746,980	686,100,480	41,252,810	41,034,718
Other capital surplus	20	133,141,920	131,678,360	7,963,034	7,875,500
Other equity	21	1,153,581	(1,285,813)	68,994	(76,903)
Accumulated deficit	22	(48,887,557)	(3,799,101)	(2,923,897)	(227,218)
<b>Equity attributable to owners of the Company</b>		<u>775,154,924</u>	<u>812,693,926</u>	<u>46,360,941</u>	<u>48,606,097</u>
<b>Non-controlling interests</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total equity</b>		₩ <u>775,154,924</u>	<u>812,693,926</u>	<u>46,360,941</u>	<u>48,606,097</u>
<b>Total liabilities and equity</b>		₩ <u>2,248,018,874</u>	<u>2,163,423,179</u>	Rs <u>134,450,890</u>	<u>129,391,339</u>

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

(In thousands of won and in thousands of rupee, except earnings per share information)

	Note	Korean won		Indian rupee	
		2017	2016	2017	2016
Sales	31,32 ₩	3,494,637,644	3,628,536,546	Rs 209,009,425	217,017,735
Cost of sales	24,32	2,978,559,796	3,036,758,967	178,143,528	181,624,341
<b>Gross profit</b>		<u>516,077,848</u>	<u>591,777,579</u>	<u>30,865,897</u>	<u>35,393,394</u>
Selling, general and administrative expenses	24,26	581,353,654	563,783,510	34,769,955	33,719,110
<b>Operating income (loss)</b>		<u>(65,275,806)</u>	<u>27,994,069</u>	<u>(3,904,058)</u>	<u>1,674,284</u>
Other income	27,32	29,156,178	57,808,123	1,743,791	3,457,426
Other expenses	27,32	35,014,445	38,569,435	2,094,165	2,306,784
Finance income	28	25,979,517	28,326,882	1,553,799	1,694,191
Finance costs	25,28	22,025,222	21,240,117	1,317,298	1,270,342
Share of profits of joint venture	9	1,395,754	3,813,717	83,478	228,093
<b>Profit (Loss) before income taxes</b>		<u>(65,784,024)</u>	<u>58,133,239</u>	<u>(3,934,453)</u>	<u>3,476,868</u>
Income tax expenses	23	37,174	30,738	2,223	1,838
<b>Profit (Loss) for the year</b>		<u>(65,821,198)</u>	<u>58,102,501</u>	<u>(3,936,676)</u>	<u>3,475,030</u>
<b>Profit (Loss) attributable to:</b>					
Owners of the Company		(65,821,198)	58,102,501	(3,936,676)	3,475,030
Non-controlling interests		-	-	-	-
<b>Other comprehensive income (loss) for the year</b>	21,22	23,172,136	37,536,247	1,385,894	2,244,992
<b>Items that will never be reclassified to profit or loss:</b>					
Defined benefit plan re-measurements		20,746,539	40,392,990	1,240,822	2,415,849
Defined benefit plan re-measurements of joint ventures		(13,797)	-	(825)	-
<b>Items that are or may be reclassified subsequently to profit or loss:</b>					
Changes in fair value of cash flow hedge		2,574,700	(2,802,040)	153,989	(167,586)
Foreign currency translation difference for foreign operation		(135,306)	(54,703)	(8,092)	(3,271)
<b>Total comprehensive income(loss) for the year</b>	₩	<u>(42,649,062)</u>	<u>95,638,748</u>	<u>(2,550,782)</u>	<u>5,720,022</u>
<b>Total comprehensive income (loss) attributable to:</b>					
Owners of the Company		(42,649,062)	95,638,748	(2,550,782)	5,720,022
Non-controlling interests		-	-	-	-
<b>Earnings (Losses) per share</b>					
Basic and diluted earnings (losses) per share	29 ₩	(478)	423	Rs (29)	25

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In thousands of won)

		Other capital surplus					Accumulated deficit	Non-controlling interest	Total	
		Capital stock	Paid-in capital in excess of par value	Gain on capital reduction	Debt to be swapped for equity	Gain on disposal of treasury stock				Other equity
<b>Balance at January 1, 2016</b>	₩	686,100,480	11,452,713	118,189,001	931,508	1,105,138	1,570,930	(102,294,592)	-	717,055,178
<b>Total comprehensive income(loss) for the period:</b>										
Profit for the period		-	-	-	-	-	-	58,102,501	-	58,102,501
Defined benefit plan re-measurements		-	-	-	-	-	-	40,392,990	-	40,392,990
Changes in fair value of cash flow hedge		-	-	-	-	-	(2,802,040)	-	-	(2,802,040)
Foreign currency translation difference for foreign operation		-	-	-	-	-	(54,703)	-	-	(54,703)
<b>Balance at December 31, 2016</b>	₩	<u>686,100,480</u>	<u>11,452,713</u>	<u>118,189,001</u>	<u>931,508</u>	<u>1,105,138</u>	<u>(1,285,813)</u>	<u>(3,799,101)</u>	-	<u>812,693,926</u>
<b>Balance at January 1, 2017</b>	₩	686,100,480	11,452,713	118,189,001	931,508	1,105,138	(1,285,813)	(3,799,101)	-	812,693,926
<b>Total comprehensive income(loss) for the period:</b>										
Loss for the period		-	-	-	-	-	-	(65,821,198)	-	(65,821,198)
Defined benefit plan re-measurements		-	-	-	-	-	-	20,746,539	-	20,746,539
Changes in fair value of cash flow hedge		-	-	-	-	-	2,574,700	-	-	2,574,700
Foreign currency translation difference for foreign operation		-	-	-	-	-	(135,306)	-	-	(135,306)
Defined benefit plan re-measurements of joint ventures		-	-	-	-	-	-	(13,797)	-	(13,797)
<b>Transactions with owners of the Parent Company, recognized directly in equity:</b>										
Issue of ordinary shares		<u>3,646,500</u>	<u>1,463,560</u>	-	-	-	-	-	-	<u>5,110,060</u>
<b>Balance at December 31, 2017</b>	₩	<u>689,746,980</u>	<u>12,916,273</u>	<u>118,189,001</u>	<u>931,508</u>	<u>1,105,138</u>	<u>1,153,581</u>	<u>(48,887,557)</u>	-	<u>775,154,924</u>

See accompanying notes to the consolidated financial statements.



SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In thousands of rupee)

	Capital stock	Other capital surplus				Other equity	Accumulated deficit	Non-controlling interest	Total
		Paid-in capital in excess of par value	Gain on capital reduction	Debt to be swapped for equity	Gain on disposal of treasury stock				
<b>Balance at January 1, 2016</b>	Rs 41,034,718	684,971	7,068,720	55,712	66,097	93,954	(6,118,097)	-	42,886,075
<b>Total comprehensive income(loss) for the period:</b>									
Profit for the period	-	-	-	-	-	-	3,475,030	-	3,475,030
Defined benefit plan re-measurements	-	-	-	-	-	-	2,415,849	-	2,415,849
Changes in fair value of cash flow hedge	-	-	-	-	-	(167,586)	-	-	(167,586)
Foreign currency translation difference for foreign operation	-	-	-	-	-	(3,271)	-	-	(3,271)
<b>Balance at December 31, 2016</b>	Rs 41,034,718	684,971	7,068,720	55,712	66,097	(76,903)	(227,218)	-	48,606,097
<b>Balance at January 1, 2017</b>	Rs 41,034,718	684,971	7,068,720	55,712	66,097	(76,903)	(227,218)	-	48,606,097
<b>Total comprehensive income(loss) for the period:</b>									
Loss for the period	-	-	-	-	-	-	(3,936,676)	-	(3,936,676)
Defined benefit plan re-measurements	-	-	-	-	-	-	1,240,822	-	1,240,822
Changes in fair value of cash flow hedge	-	-	-	-	-	153,989	-	-	153,989
Foreign currency translation difference for foreign operation	-	-	-	-	-	(8,092)	-	-	(8,092)
Defined benefit plan re-measurements of joint ventures	-	-	-	-	-	-	(825)	-	(825)
<b>Transactions with owners of the Parent Company, recognized directly in equity:</b>									
Issue of ordinary shares	218,092	87,534	-	-	-	-	-	-	305,626
<b>Balance at December 31, 2017</b>	Rs 41,252,810	772,505	7,068,720	55,712	66,097	68,994	(2,923,897)	-	46,360,941

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
<b>Cash flows from operating activities</b>				
Profit(loss) for the year	₩ (65,821,198)	58,102,501	Rs (3,936,676)	3,475,030
Adjustment	280,201,951	266,109,490	16,758,490	15,915,639
Changes in assets and liabilities	(8,904,655)	(78,914,941)	(532,576)	(4,719,794)
<b>Cash generated from operations (note 30)</b>	<u>205,476,098</u>	<u>245,297,050</u>	<u>12,289,238</u>	<u>14,670,875</u>
Interest received	2,682,053	2,709,911	160,410	162,077
Interest paid	(3,793,590)	(3,648,843)	(226,889)	(218,232)
Dividends received	11,000	11,000	658	658
<b>Net cash provided by operating activities</b>	<u>204,375,561</u>	<u>244,369,118</u>	<u>12,223,417</u>	<u>14,615,378</u>
<b>Cash flows from investing activities</b>				
Proceed from disposal of property, plant and equipment	294,784	2,010,394	17,631	120,239
Proceed from disposal of intangible assets	763,636	-	45,672	-
Acquisition of property, plant and equipment	(157,501,790)	(127,494,013)	(9,419,964)	(7,625,239)
Acquisition of intangible assets	(118,257,642)	(82,779,869)	(7,072,825)	(4,950,858)
Cash flow used in other investing activities	(2,753,543)	(2,430,156)	(164,685)	(145,436)
<b>Net cash used in investing activities</b>	<u>(277,454,555)</u>	<u>(210,693,644)</u>	<u>(16,594,171)</u>	<u>(12,601,294)</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	70,000,000	24,030,389	4,186,603	1,437,224
Receipts of government grants	133,034	429,493	7,956	25,688
Proceeds from issuing capital stock	5,110,060	-	305,626	-
Repayment of borrowings	(25,014,060)	(17,500,000)	(1,496,056)	(1,046,651)
<b>Net cash provided by financing activities</b>	<u>50,229,034</u>	<u>6,959,882</u>	<u>3,004,129</u>	<u>416,261</u>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<u>(108,017)</u>	<u>(115,553)</u>	<u>(6,459)</u>	<u>(6,912)</u>
<b>Net Increase(decrease) in cash and cash equivalents</b>	<u>(22,957,977)</u>	<u>40,519,803</u>	<u>(1,373,084)</u>	<u>2,423,433</u>
Cash and cash equivalents at January 1	<u>238,401,707</u>	<u>197,881,904</u>	<u>14,258,475</u>	<u>11,835,042</u>
Cash and cash equivalents at December 31	₩ <u>215,443,730</u>	<u>238,401,707</u>	Rs <u>12,885,391</u>	<u>14,258,475</u>

See accompanying notes to the consolidated financial statements.

# SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

### 1. General Description of the Company

#### (1) Organization and description of business of the Company

Ssangyong Motor Company (the "Company") was incorporated on December 6, 1962, in the Republic of Korea and listed its stocks on the Korea Stock Exchange in May 1975. The Company is headquartered in Dongsak-ro, Pyeongtaek, and its factories are located in Pyeongtaek, Gyeonggi-do, and Changwon, Gyeongsangnam-do, Republic of Korea to manufacture, sell and fix multiple types of vehicle, heavy machinery and those parts.

#### (2) Major shareholders

As of December 31, 2017, the Company's shareholders are as follows:

<u>Name of shareholder</u>	<u>Number of shares</u>	<u>Percentage of ownership</u>
Mahindra & Mahindra Ltd.	99,964,502	72.46%
Others	37,984,894	27.54%
	<u>137,949,396</u>	<u>100.00%</u>

The consolidated financial statements comprise the Company and its subsidiaries (the "Company") and the Company's interest in associates and joint ventures.

### 2. Basis of Preparation and Accounting Policies

#### (1) Basis of translating consolidated financial statements

The consolidated financial statements are expressed in Korean won and have been translated into Indian rupees at the rate of ₩ 16.72 to INR 1 on December 31, 2017, solely for the convenience of the reader. These translations should not be construed as a representation that any or all of the amounts shown could be converted into Indian rupees at this or any other rate.

#### (2) Statement of compliance

The Company has prepared its consolidated financial statements in accordance with the K-IFRS.

Major accounting policies used for the preparation of the consolidated financial statements are stated below. Unless stated otherwise, these accounting policies have been applied consistently to the consolidated financial statements for the current period and accompanying comparative period.

The accompanying consolidated financial statements have been prepared on the historical cost basis, except as described below. Historical cost is generally based on the fair value of the consideration given.

- ① Derivatives measured at fair value
- ② FVTPL measured at fair value
- ③ Defined benefit liabilities that present value of defined benefit obligation deducted by plan assets

The consolidated financial statements as of and for the year ended 2017, to be submitted at the ordinary shareholders' meeting on March 30, 2018, were authorized for issuance at the board of directors' meeting on February 13, 2018.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(2) Statement of compliance, continued**

1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year:

① Amendments to K-IFRS No. 1007 : Statement of Cash Flows

The amendments to K-IFRS No. 1007 contain the requirement that changes in liabilities arising from financing activities to be disclosed (to the extent necessary). The management believes that the impact of the amendments to K-IFRS No. 1007 on its consolidated financial statements is not significant.

② Amendments to K-IFRS No. 1012 : Income taxes

The amendments to K-IFRS No. 1012 clarify the following:

- a. The carrying value of an asset does not limit the estimation of probable future taxable profits.
- b. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- c. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The management believes that the impact of the amendments to K-IFRS No. 1012 on its consolidated financial statements is not significant.

2) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2017, and the Company has not early adopted them.

① Amendments to K-IFRS No. 1115, 'Revenue from Contracts with Customers'

The Company has reviewed and analyzed all types of contracts based on the five-step model for the adoption of K-IFRS No. 1115, which is expected to be initially applied on January 1, 2018. The major impacts of the adoption of the Standard are as follows.

The Company has identified distinct performance obligations for our products and merchandise contract with our customers, such as (1) sales of vehicles and merchandise, (2) transportation of vehicles, and (3) warranties. Recognition of the revenues recognized at the time of the transfer of the risks and rewards of the goods is to be realized at the time when the obligation to perform the transportation and warranty is identified and implemented in the contract of transfer of the goods.

Our sales contract with customers has the option of customers purchasing additional warranties. Also, depending on the sales policy, customers may be offered service warranty beyond the assurance warranty when selling a vehicle. When a customer purchases a warranty or provides a service warranty to a customer under a sales policy, sales recognition related to the performance obligations is deferred to the time the performance obligation is fulfilled, and is not recognized in provision of warranties.

Transaction price of a service warranty to a customer under a sales policy is allocated by relative individual sales price that is estimated by "expected cost plus a margin approach"

The consideration paid to other customers defined in K-IFRS No. 1115 are recognized by deducting from related sales.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(2) Statement of compliance, continued**

The Company has applied the simplified method for recognizing the cumulative effect of the contracts that are not completed on the first application date to reflect retained earnings. As of the end of the year, there are no financial impacts due to uncompleted contracts due to changes in accounting policies. As a result, the beginning balance of retained earnings does not change on the initial application date.

② Amendments to K-IFRS No. 1109 : Financial Instruments

Key features of the new standard, K-IFRS 1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships. It replaces existing guidance in K-IFRS 1039, 'Financial Instruments: Recognition and Measurement'. The Company plans to adopt K-IFRS 1109 for the year beginning after January 1, 2018.

The Company reviewed changes in internal controls processes or accounting processing systems, and performed an assessment of the impact resulting from the application of K-IFRS 1109. The Company has performed a detailed assessment of the impact resulting from the application of K-IFRS 1109, and expects to disclose additional quantitative information in the notes to the financial statements for the year ending December 31, 2018. Expected impacts on the consolidated financial statements are generally categorized as follows:

*Classification and measurement of financial assets*

Under K-IFRS 1109, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics, as detailed in the below table.

Under K-IFRS 1109, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model	Contractual cash flows are solely payments of principal and interests	All other cases
To collect contractual cash flows	At amortized cost(*)	
Both to collect contractual cash flows and sell financial assets	At FVOCI(*)	FVTPL(**)
For trading, and others	At FVOCI	

(\*) The Company may irrevocably designate as at FVTPL to eliminate or significantly reduce an accounting mismatch.

(\*\*) The Company may irrevocably designate equity investments that is not held for trading as at FVOCI.

As of December 31, 2017, the Company has loans and receivables amounting to ₩451,464 million, available-for-sale financial assets at fair value through profit or loss amounting to ₩560 million. The loan and receivable is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of it give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As such, the loan and receivables is expected to be classified as financial assets at amortized cost under K-IFRS 1109.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(2) Statement of compliance, continued**

*Classification and measurement of financial liabilities*

Under K-IFRS 1109, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if recognizing the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities in OCI creates or increases an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

As of December 31, 2017, the Company has financial liabilities at amortized costs amounting to ₩951,880 million, and financial liabilities at fair value through profit or loss amounting to ₩409 million.

As a result of the preliminary assessment, the impact of financial liabilities on financial statements by adopting K-IFRS1109 is not significant because the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities are insignificant.

*Impairment: Financial assets and contract assets*

K-IFRS 1109 replaces the 'incurred loss' model, which recognizes impairment of financial assets and contract assets only when a loss event has been identified, in the existing standard with a forward-looking 'expected credit loss' (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under K-IFRS 1109, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS 1039 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

	<b>Classification(*)</b>	<b>Loss allowances</b>
Stage 1	Credit risk has not increased significantly since the initial recognition (**)	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increase significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	

(\*) The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses if trade receivables or contract assets resulting from transactions within the scope of K-IFRS 1115 do not contain a significant financing component (or when the entity applies the practical expedient for contracts that are one year or less). The Company can choose its accounting policy to measure the loss allowance at an amount equal to lifetime expected assets if the trade receivables or contract assets contain a significant financing component in accordance with K-IFRS 1115. The accounting policy shall be applied to all lease receivables resulting from the transactions that are within the scope of K-IFRS 1017.

(\*\*) The Company may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(2) Statement of compliance, continued**

As of December 31, 2017, the Company has recognized loss allowances amounting to ₩3,910 million for loans and receivables. The Company has chosen its accounting policy to measure the loss allowance at an amount equal to lifetime expected assets if the trade receivables or contract assets contain a significant financing component, and plan to use practical simplification method that the credit risk on a financial instrument has not increased significantly at the reporting date.

As a result of the preliminary assessment, the impact of impairment of financial assets or contractual assets on financial statements by adopting K-IFRS1109 is not significant.

*Hedge accounting*

K-IFRS 1109 retains the mechanics of hedge accounting (fair value hedge, cash flow hedge, hedging on net investment in a foreign operation) which was defined in the existing guidance in K-IFRS 1039, but provides principle-based and less complex guidance in hedging which focuses on the risk management activities. More hedged items and hedging instruments would qualify for hedge accounting, more qualitative and forward-looking approach will be taken to assessing hedge effectiveness, and qualitative threshold (80~125%) is removed under K-IFRS 1109.

When initially applying K-IFRS 1109, the Company may choose as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS 1039.

The Company has held forward contract for hedging changes in foreign exchange rate, but there is not derivatives that is designated the hedge accounting at the reporting date.

The Company plans to apply hedge accounting as much as possible to determine whether it meets the requirements for hedge accounting in accordance with K-IFRS 1109. The volatility of current profit and loss is expected to decrease.

③ Amendments to K-IFRS No. 1116 : Leases

K-IFRS 1116 replaces existing lease guidance, including K-IFRS 1017 Leases and K-IFRS interpretation 2104 Determining whether an arrangement contains a lease. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply K-IFRS 1115 at or before the date of initial application of K-IFRS 1116.

K-IFRS 1116 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemption for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, lessors continue to classify leases as finance or operation leases.

As a lessee, the Company can choose between retrospective application method and modified retrospective application method. The Company will perform a detailed assessment of the impact resulting from the application of K-IFRS 1116, and expects to disclose additional quantitative information in the notes to the financial statements for the period ending December 31, 2018 after completion of its assessment during 2018.

# SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

**For the years ended December 31, 2017 and 2016**

### **2. Basis of Preparation and Accounting Policies, Continued**

#### **(3) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and the entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- a. the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- b. potential voting rights held by the Company, other vote holders or other parties;
- c. rights arising from other contractual arrangements; and
- d. any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Company gains control to the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in-line with the Company's accounting policies.

All inter-company transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation. Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Company loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS No. 1039, Financial Instruments: Recognition and Measurement, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.



# SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

**For the years ended December 31, 2017 and 2016**

### **2. Basis of Preparation and Accounting Policies, Continued**

#### **(4) Investments in joint ventures**

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement, whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale; in which case, it is accounted for in accordance with K-IFRS No. 1105, Non-Current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Company's share of losses of an associate or a joint venture exceeds the Company's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate or joint venture), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Company losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS No. 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis it would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Company reduces its ownership interest in an associate or a joint venture, but continues to use the equity method, it reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Company applies K-IFRS No. 5, Non-Current Assets Held for Sale and Discontinued Operations, to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(4) Investments in joint ventures, continued**

The requirements of K-IFRS No. 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS No. 1036, Impairment of Assets, by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount, and any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS No. 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no re-measurement to fair value upon such changes in ownership interests.

When a Company entity transacts with an associate or a joint venture of the Company, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Company.

**(5) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below.

① Sale of goods

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

② Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Depending on the nature of the transaction, the Company determines the stage of completion by reference to surveys of work performed, services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable.

③ Royalty income

Royalty income is recognized on an accrual basis that reflects the economic substance of the related contracts.

④ Dividend and interest income

Dividend income from investments is recognized when the shareholders' right to receive payment has been established (provided it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(5) Revenue recognition, continued**

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

**(6) Foreign currencies**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- a. exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- b. exchange differences on transactions entered into in order to hedge certain foreign currency risks below for hedging accounting policies); and
- c. exchange differences on monetary items receivable from, or payable to, a foreign operation for which settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation) are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests, as appropriate).

**(7) Financial Instruments**

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(7) Financial Instruments, continued**

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets, and is determined at the time of initial recognition.

① Financial assets at FVTPL

Financial assets classified as FVTPL are measured at fair value, and gains and losses are recognized in profit or loss. A financial asset is classified as held for trading if:

- a. it has been acquired principally for the purpose of selling in the near term;
- b. on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- c. it is a derivative that is not designated and effective as a hedging instrument.

Financial assets other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- a. such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b. the financial asset forms part of a Company of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- c. it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

As of December 31, 2017, there are no financial assets designated as financial assets at fair value through profit or loss.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset, and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

② Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(7) Financial Instruments, continued**

③ AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as investments revaluation reserve). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

④ Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

⑤ Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment include:

- a. significant financial difficulty of the issuer or counterparty,
- b. default or delinquency in interest or principal payments,
- c. it becoming probable that the borrower will enter bankruptcy or financial reorganization or
- d. the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments and an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(7) Financial Instruments, continued**

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the trade and other receivables, where the carrying amount is reduced through the use of an allowance. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

⑥ De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(7) Financial Instruments, continued**

On de-recognition of financial assets other than in its entirety (e.g., when the Company retains an option to repurchase part of a transferred asset or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

**(8) Financial liabilities**

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

① Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- a. it has been acquired principally for the purpose of repurchasing in the near term;
- b. on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- c. it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- a. such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b. the financial liability forms part of a Company of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Companying is provided internally on that basis; or
- c. it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(8) Financial liabilities, continued**

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss is recognized in other gains and losses line item in the statement of comprehensive income.

② Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability, and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

③ De-recognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**(9) Paid-in capital**

Common stock is classified as equity. Incremental costs directly related to capital transactions are deducted from equity as a net amount reflecting the tax effect.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.



SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(10) Derivative financial instruments**

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risk by foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument; in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in other gains and losses line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

**(11) Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost of inventories, except for those in transit, are measured under the weighted-average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

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**2. Basis of Preparation and Accounting Policies, Continued**

**(12) Property, plant and equipment**

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as a consolidated asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (Years)
Buildings	24–50
Structures	13–30
Machinery and equipment	10
Vehicles	6–10
Others	6–10

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

**(13) Intangible assets**

① Intangible assets acquired

Intangible assets with finite useful lives that are acquired are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired are carried at cost, less accumulated impairment losses.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(13) Intangible assets, continued**

② Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, and only if, the development project is designed to produce new or substantially improved products, and the Company can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired.

③ Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

**(14) Impairment of property, plant and equipment**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(15) Retirement benefit costs and termination benefits**

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

If the contributions are not linked to services (e.g., contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by K-IFRS No. 1019 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

**(16) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(16) Provisions, continued**

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

**(17) Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

① As a lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

② As a lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see Note 2. (18)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising from operating leases are recognized as an expense in the period in which they are incurred.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(17) Lease, continued**

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed

**(18) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**(19) Government grants**

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the consolidated statement of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

**(20) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

① Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(20) Taxation, continued**

② Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

③ Current and deferred taxes for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

**2. Basis of Preparation and Accounting Policies, Continued**

**(21) Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS No. 1102 Share-based payment; leasing transactions that are within the scope of K-IFRS No. 1017 Leases; and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS No. 1002 Inventories or value in use in K-IFRS No. 1036 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- b. Level 2 inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

**(22) Segment information**

Segment information is presented in the same format as the reporting material presented to the Company's management. The Company's management is liable for the assessment of the resources to be allocated to the business segments and the performance results of the business segments.

**(23) Accounting Treatment related to the Emission Rights Cap and Trade Scheme**

The Company classifies the emission rights as intangible assets. Emission right allowances the government allocated free of charge are measured at ₩0, and emission right allowances purchased are measured at cost that the Company paid to purchase the allowances. If emission rights that the government allocated free of charge are sufficient to settle the emission rights allowances allotted for vintage year, the emissions liabilities are measured at ₩0. However, for the emission liabilities that exceed the allowances allocated free of charge, the shortfall is measured at best estimate at the end of the reporting period.



SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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### 3. Significant Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, differ from actual results. The significant estimates and assumptions and those which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities after the end of the reporting period are addressed below.

- Note 12 Intangible assets: Assumptions for estimating recoverable amount for impairment test of development expenditures.
- Note 15 Provision for warranty for sale: Assumptions of expected expenditures based on warranty periods
- Note 17 Employee benefits: Actuarial assumptions
- Note 18 Commitments and Contingencies: Assumption of expected expenditures in future
- Note 23 Income tax expenses: Recognized deferred tax assets

### 4. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and highly liquid short-term financial instruments that may be easily converted into cash and whose risk of value fluctuation is not material.

### 5. Restricted Financial Instruments

Restricted financial Instruments as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Financial institution	Korean won		Indian rupee		Description
		2017	2016	2017	2016	
Cash and cash equivalents	Shinhan Bank and others	₩ 1,108,695	177,208	Rs 66,310	10,599	Litigated asset, government grants and others
	Woori Bank	748,483	746,591	44,766	44,653	Unconfirmed reorganization debt pledged as collateral
Long-term financial instruments	Shinhan Bank and others	4,000	6,000	238	358	Bank account deposit
		₩ <u>1,861,178</u>	<u>929,799</u>	Rs <u>111,314</u>	<u>55,610</u>	

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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**6. Available-for sale Financial Assets**

Available-for sale financial assets as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

	Ownership (%)		2017		2016
			Acquisition cost	Net asset value	Book value
Kihyup Technology Banking Corporation(*)	1.72	₩	500,000	697,010	500,000
Korea Management Consultants Association(*)	1.50		60,000	680,983	60,000
		₩	<u>560,000</u>	<u>1,377,993</u>	<u>560,000</u>

(In thousands of rupee)

	Ownership (%)		2017		2016
			Acquisition cost	Net asset value	Book value
Kihyup Technology Banking Corporation(*)	1.72	Rs	29,904	41,687	29,904
Korea Management Consultants Association(*)	1.50		3,589	40,729	3,589
		Rs	<u>33,493</u>	<u>82,416</u>	<u>33,493</u>

(\*) Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at acquisition cost.

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For the years ended December 31, 2017 and 2016

**7. Trade and Other Receivables**

(1) Details of trade and other receivables as of December 31, 2017 and 2016 are as follows:  
(In thousands of won)

		2017		2016	
		Current	Non-current	Current	Non-current
Trade receivables	₩	187,191,428	539,605	212,488,160	-
Less: Allowance for doubtful accounts		(126,715)	-	(93,208)	-
Other receivables		8,562,086	147,594	7,456,694	170,500
Less: Allowance for doubtful accounts		(3,723,780)	(44,250)	(1,732)	(44,250)
Loans and others		11,925,878	33,322,232	10,516,447	33,660,841
Less: Allowance for doubtful accounts		(4,078)	(11,334)	(45,320)	(32,428)
	₩	<u>203,824,819</u>	<u>33,953,847</u>	<u>230,321,041</u>	<u>33,754,663</u>

(In thousands of rupee)

		2017		2016	
		Current	Non-current	Current	Non-current
Trade receivables	Rs	11,195,661	32,273	12,708,623	-
Less: Allowance for doubtful accounts		(7,579)	-	(5,575)	-
Other receivables		512,086	8,827	445,975	10,197
Less: Allowance for doubtful accounts		(222,714)	(2,647)	(104)	(2,647)
Loans and others		713,270	1,992,956	628,974	2,013,208
Less: Allowance for doubtful accounts		(244)	(677)	(2,711)	(1,938)
	Rs	<u>12,190,480</u>	<u>2,030,732</u>	<u>13,775,182</u>	<u>2,018,820</u>

(2) Details of aging analysis of the trade and other receivables as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

		2017		2016	
		Trade receivables	Others(*)	Trade receivables	Others(*)
Not past due	₩	187,731,033	50,086,201	212,391,352	47,457,088
Less than 30 days		-	-	-	-
More than 60 days		-	-	-	-
More than 90 days		-	3,871,588	96,808	4,347,394
	₩	<u>187,731,033</u>	<u>53,957,789</u>	<u>212,488,160</u>	<u>51,804,482</u>

(In thousands of rupee)

		2017		2016	
		Trade receivables	Others(*)	Trade receivables	Others(*)
Not past due	Rs	11,227,934	2,995,586	12,702,833	2,838,341
Less than 30 days		-	-	-	-
More than 60 days		-	-	-	-
More than 90 days		-	231,554	5,790	260,013
	Rs	<u>11,227,934</u>	<u>3,227,139</u>	<u>12,708,623</u>	<u>3,098,354</u>

(\*) Others consist of other receivables, loans and others.

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For the years ended December 31, 2017 and 2016

**7. Trade and Other Receivables, Continued**

(3) Changes in allowance for trade and other receivables for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)

	2017		2016	
	Trade receivables	Others	Trade receivables	Others
Beginning balance	₩ 93,208	123,730	44,462	170,174
Bad debt expense	33,507	3,723,115	48,746	39,960
Reversal of allowance for bad debts	-	(63,403)	-	(86,404)
Ending balance	₩ 126,715	3,783,442	93,208	123,730

(In thousands of rupee)

	2017		2016	
	Trade receivables	Others	Trade receivables	Others
Beginning balance	Rs 5,575	7,400	2,660	10,178
Bad debt expense	2,004	222,674	2,915	2,390
Reversal of allowance for bad debts	-	(3,792)	-	(5,168)
Ending balance	Rs 7,579	226,282	5,575	7,400

**8. Inventories**

Details of inventories as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Merchandises	₩ 38,056,984	39,769,744	Rs 2,276,136	2,378,573
Finished goods	66,624,320	46,638,240	3,984,708	2,789,368
Work-in-process	29,867,552	28,203,922	1,786,337	1,686,837
Raw materials	33,097,439	32,040,766	1,979,512	1,916,314
Sub-materials	414,413	433,593	24,785	25,933
Supplies	3,632,719	3,545,334	217,268	212,042
Goods in transit	56,681,002	54,348,033	3,390,012	3,250,480
	₩ 228,374,429	204,979,632	Rs 13,658,758	12,259,547

The Company has measured inventories at the lower of cost or net realizable value. The loss on valuation of inventories amounted to ₩ 3,542,010 thousand (Rs 203,915 thousand) for the year ended December 31, 2017 is included in cost of sales.

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For the years ended December 31, 2017 and 2016

**9. Investments in Subsidiaries and a Joint venture**

(1) Details of investment in subsidiaries and a joint venture as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

	<u>Company</u>	<u>Location</u>	<u>Owner ship</u>	<u>Closing month</u>	<u>Industry</u>
Subsidiaries	Ssangyong Motor (Shanghai) Co., Ltd.	China	100%	December	Sales of automobile
	Ssangyong European Parts Center B.V.	Netherlands	100%	December	A/S and sales
Joint venture	SY Auto Capital Co., Ltd.(*)	Korea	51%	December	Finance

(\*) SY Auto Capital Co., Ltd. were established under joint venture agreement as a joint venture since the Company has rights only to the net assets, and their legal structures of arrangements are separated.

(2) Changes in the carrying amounts of investments in a joint venture for the year ended December 31, 2017 is as follows:

(In thousands of won)

		<u>Beginning balance</u>	<u>Share of profit of a joint venture</u>	<u>Changes in defined benefit plan re-measurements</u>	<u>Ending balance</u>
Ssangyong Motor (Shanghai) Co., Ltd.	₩	13,681,894	1,395,754	(13,797)	15,063,851

(In thousands of rupee)

		<u>Beginning balance</u>	<u>Share of profit of a joint venture</u>	<u>Changes in defined benefit plan re-measurements</u>	<u>Ending balance</u>
Ssangyong Motor (Shanghai) Co., Ltd.	Rs	818,295	83,478	(825)	900,948

(3) Summarized financial information of subsidiaries and a joint venture

1) The summarized financial information of the Company's subsidiaries and joint venture as of and for the year ended December 31, 2017 is as follows:

(In thousands of won)

		<b>2017</b>				
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Sales</u>	<u>Net income (loss)</u>
Ssangyong Motor (Shanghai) Co., Ltd.	₩	1,580,643	524,158	1,056,485	18,892	(1,190,972)
Ssangyong European Parts Center B.V.		12,283,604	15,689,509	(3,405,905)	17,735,781	145,124
SY Auto Capital Co., Ltd.(*)		79,844,693	51,070,952	28,773,741	10,767,932	2,489,859

(In thousands of rupee)

		<b>2017</b>				
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Sales</u>	<u>Net income (loss)</u>
Ssangyong Motor (Shanghai) Co., Ltd.	Rs	94,536	31,349	63,187	1,130	(71,230)
Ssangyong European Parts Center B.V.		734,665	938,368	(203,702)	1,060,752	8,680
SY Auto Capital Co., Ltd.(*)		4,775,400	3,054,484	1,720,918	644,015	148,915

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**9. Investments in Subsidiaries and a Joint venture, Continued**

(3) Summarized financial information of subsidiaries and a joint venture, continued:

(\*) Additional financial information for the joint venture for the year ended December 31, 2017 is as follows:

<i>(In thousands of won)</i>		<b>Cash and cash equivalents</b>	<b>Financial liabilities</b>	<b>Depreciation</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Income tax expense</b>
SY Auto Capital Co., Ltd.	₩	10,192,682	50,642,190	798,151	1,375,672	842,319	645,729
<i>(In thousands of rupee)</i>		<b>Cash and cash equivalents</b>	<b>Financial liabilities</b>	<b>Depreciation</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Income tax expense</b>
SY Auto Capital Co., Ltd.	Rs	609,610	3,028,839	47,736	82,277	50,378	38,620

2) The summarized financial information of the Company's subsidiaries and a joint venture as of and for the year ended 2016 is as follows:

<i>(In thousands of won)</i>		<b>2016</b>				
		<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Sales</b>	<b>Net income (loss)</b>
Ssangyong Motor (Shanghai) Co., Ltd.	₩	3,012,220	661,474	2,350,746	144,453	(832,206)
Ssangyong European Parts Center B.V.		11,489,757	15,008,769	(3,519,012)	16,806,961	141,588
SY Auto Capital Co., Ltd.(*)		65,291,551	38,980,618	26,310,933	17,747,215	6,961,565
<i>(In thousands of rupee)</i>		<b>2016</b>				
		<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Sales</b>	<b>Net income (loss)</b>
Ssangyong Motor (Shanghai) Co., Ltd.	Rs	180,157	39,562	140,595	8,640	(49,773)
Ssangyong European Parts Center B.V.		687,186	897,654	(210,467)	1,005,201	8,468
SY Auto Capital Co., Ltd.(*)		3,904,997	2,331,377	1,573,620	1,061,436	416,362

(\*) Additional financial information for the joint venture for the year ended 2016 is as follows:

<i>(In thousands of won)</i>		<b>Cash and cash equivalents</b>	<b>Financial liabilities</b>	<b>Depreciation</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Income tax expense</b>
SY Auto Capital Co., Ltd.	₩	6,033,165	37,592,961	722,806	897,492	717,765	1,860,316
<i>(In thousands of rupee)</i>		<b>Cash and cash equivalents</b>	<b>Financial liabilities</b>	<b>Depreciation</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Income tax expense</b>
SY Auto Capital Co., Ltd.	Rs	360,835	2,248,383	43,230	53,678	42,929	111,263

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For the years ended December 31, 2017 and 2016

**9. Investments in Subsidiaries and a Joint venture, Continued**

(4) Reconciliation from the net assets of the Company's joint venture to the carrying amount of investments in joint venture as of December 31, 2017 is as follows:

(In thousands of won)

	Net assets	Percentage of ownership	Share of the net assets of the Group	Reconciliation	Carrying amount
SY Auto Capital Co., Ltd. ₩	28,773,741	51%	14,674,608	389,243	15,063,851

(In thousands of rupee)

	Net assets	Percentage of ownership	Share of the net assets of the Group	Reconciliation	Carrying amount
SY Auto Capital Co., Ltd. Rs	1,720,918	51%	877,668	23,280	900,948

**10. Other Assets**

Details of other assets as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2017	2016	2017	2016
<b>Other current assets</b>					
Advance payments	₩	1,750,943	1,790,183	Rs 104,721	107,068
Prepaid expenses		5,464,706	5,205,163	326,837	311,315
Current tax assets		332,593	342,594	19,892	20,490
		<u>7,548,242</u>	<u>7,337,940</u>	<u>451,450</u>	<u>438,873</u>
<b>Other non-current assets</b>					
Other non-current assets	₩	273,283	273,319	Rs 16,345	16,347

**11. Property, Plant and Equipment**

(1) Details of property, plant and equipment as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

		2017				Book value
		Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	
Land	₩	475,062,920	-	-	-	475,062,920
Buildings		543,207,391	(1,845,609)	(217,544,488)	(148,366,786)	175,450,508
Structures		109,871,927	(111,068)	(64,129,824)	(28,913,882)	16,717,153
Machinery		1,298,011,168	(261,084)	(1,033,241,296)	(95,508,817)	168,999,971
Vehicles		7,730,749	(7,411)	(5,939,980)	(583,550)	1,199,808
Tools and molds		1,200,844,395	(31,214)	(743,644,745)	(158,770,322)	298,398,114
Equipment		67,614,131	(42,425)	(47,783,836)	(3,354,079)	16,433,791
Construction in progress		87,441,686	-	-	-	87,441,686
	₩	<u>3,789,784,367</u>	<u>(2,298,811)</u>	<u>(2,112,284,169)</u>	<u>(435,497,436)</u>	<u>1,239,703,951</u>

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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For the years ended December 31, 2017 and 2016

**11. Property, Plant and Equipment**

(1) Details of property, plant and equipment as of December 31, 2017 and 2016 are as follows, continued:

(In thousands of won)

		<b>2016</b>			
	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	₩ 475,072,283	-	-	-	475,072,283
Buildings	538,730,945	(1,906,386)	(206,865,385)	(148,366,786)	181,592,388
Structures	108,248,754	(115,454)	(62,439,683)	(28,913,882)	16,779,735
Machinery	1,281,190,863	(333,844)	(1,011,171,267)	(96,363,713)	173,322,039
Vehicles	7,884,450	(8,944)	(6,160,316)	(680,671)	1,034,519
Tools and molds	1,070,562,591	(13,254)	(683,055,335)	(159,733,640)	227,760,362
Equipment	68,495,631	(18,479)	(45,621,819)	(3,605,443)	19,249,890
Construction in progress	103,179,053	-	-	-	103,179,053
Machinery in transit	1,016,181	-	-	-	1,016,181
	<b>₩ 3,654,380,751</b>	<b>(2,396,361)</b>	<b>(2,015,313,805)</b>	<b>(437,664,135)</b>	<b>1,199,006,450</b>

(In thousands of rupee)

		<b>2017</b>			
	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	Rs 28,412,854	-	-	-	28,412,854
Buildings	32,488,480	(110,383)	(13,011,034)	(8,873,612)	10,493,451
Structures	6,571,288	(6,643)	(3,835,516)	(1,729,299)	999,830
Machinery	77,632,247	(15,615)	(61,796,728)	(5,712,250)	10,107,654
Vehicles	462,367	(443)	(355,262)	(34,901)	71,761
Tools and molds	71,820,837	(1,867)	(44,476,360)	(9,495,833)	17,846,777
Equipment	4,043,906	(2,538)	(2,857,885)	(200,603)	982,880
Construction in progress	5,229,766	-	-	-	5,229,766
	<b>Rs 226,661,745</b>	<b>(137,489)</b>	<b>(126,332,785)</b>	<b>(26,046,498)</b>	<b>74,144,973</b>

(In thousands of rupee)

		<b>2016</b>			
	<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated depreciation</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Land	Rs 28,413,414	-	-	-	28,413,414
Buildings	32,220,750	(114,018)	(12,372,332)	(8,873,612)	10,860,788
Structures	6,474,208	(6,905)	(3,734,431)	(1,729,299)	1,003,573
Machinery	76,626,248	(19,967)	(60,476,749)	(5,763,381)	10,366,151
Vehicles	471,559	(535)	(368,440)	(40,710)	61,874
Tools and molds	64,028,863	(793)	(40,852,592)	(9,553,447)	13,622,031
Equipment	4,096,630	(1,105)	(2,728,579)	(215,637)	1,151,309
Construction in progress	6,170,996	-	-	-	6,170,996
Machinery in transit	60,776	-	-	-	60,776
	<b>Rs 218,563,444</b>	<b>(143,323)</b>	<b>(120,533,123)</b>	<b>(26,176,086)</b>	<b>71,710,912</b>



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For the years ended December 31, 2017 and 2016

11. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)

		2017					
		Beginning balance	Acquisition	Disposal	Depreciation	Others(*)	Ending balance
Land	₩	475,072,283	73,126	(82,489)	-	-	475,062,920
Buildings		181,592,388	208,020	(1,039)	(10,618,327)	4,269,466	175,450,508
Structures		16,779,735	786,249	(7,845)	(1,681,746)	840,760	16,717,153
Machinery		173,322,039	44,987	(105,279)	(31,100,022)	26,838,246	168,999,971
Vehicles		1,034,519	244,577	(5,264)	(431,444)	357,420	1,199,808
Tools and molds		227,760,362	4,905,915	(610,423)	(77,389,074)	143,731,334	298,398,114
Equipment		19,249,890	3,325,503	(51,121)	(6,905,811)	815,330	16,433,791
Construction in progress		103,179,053	158,642,593	-	-	(174,379,960)	87,441,686
Machinery in transit		1,016,181	389,149	-	-	(1,405,330)	-
	₩	1,199,006,450	168,620,119	(863,460)	(128,126,424)	1,067,266	1,239,703,951

(In thousands of won)

		2016					
		Beginning balance	Acquisition	Disposal	Depreciation	Others(*)	Ending balance
Land	₩	475,531,313	9,502	(468,532)	-	-	475,072,283
Buildings		190,494,892	233,348	(151,728)	(10,490,072)	1,505,948	181,592,388
Structures		16,766,128	1,567,112	(47,999)	(1,735,542)	230,036	16,779,735
Machinery		185,774,908	58,198	(26,658)	(29,157,378)	16,672,969	173,322,039
Vehicles		1,422,723	64,752	(32,145)	(531,698)	110,887	1,034,519
Tools and molds		252,248,090	4,169,299	(19,915)	(69,930,044)	41,292,932	227,760,362
Equipment		22,815,144	2,712,510	(23,801)	(6,946,423)	692,460	19,249,890
Construction in progress		40,866,774	118,971,315	(120,000)	-	(56,539,036)	103,179,053
Machinery in transit		1,924,851	2,239,081	-	-	(3,147,751)	1,016,181
	₩	1,187,844,823	130,025,117	(890,778)	(118,791,157)	818,445	1,199,006,450

(\*) Capitalized borrowing costs in respect of construction in progress is ₩ 950,290 thousand (2016: ₩ 1,119,030 thousand) and ₩ 251,882 thousand (2016: ₩ 100,650 thousand) was transferred from inventory to vehicles during the year ended December 31, 2017. The government grants amounting to ₩ 133,034 thousand (2016: ₩ 399,650 thousand) were used for asset acquisition and the effect of exchange rate fluctuation was included in others during the year ended December 31, 2017.

(In thousands of rupee)

		2017					
		Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
Land	Rs	28,413,414	4,374	(4,934)	-	-	28,412,854
Buildings		10,860,788	12,441	(62)	(635,067)	255,351	10,493,451
Structures		1,003,573	46,334	(469)	(100,583)	50,975	999,830
Machinery		10,366,151	2,651	(6,297)	(1,860,049)	1,605,198	10,107,654
Vehicles		61,874	14,628	(314)	(25,804)	21,377	71,761
Tools and molds		13,622,031	289,109	(36,509)	(4,628,533)	8,600,679	17,846,777
Equipment		1,151,309	195,974	(3,057)	(413,027)	51,681	982,880
Construction in progress		6,170,996	9,488,193	-	-	(10,429,423)	5,229,766
Machinery in transit		60,776	23,274	-	-	(84,050)	-
	Rs	71,710,912	10,076,978	(51,642)	(7,663,063)	71,788	74,144,973

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**11. Property, Plant and Equipment, Continued**

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows, continued:

(In thousands of rupee)

		2016					Ending balance
		Beginning balance	Acquisition	Disposal	Depreciation	Others(*)	
Land	Rs	28,440,868	568	(28,022)	-	-	28,413,414
Buildings		11,393,235	13,956	(9,075)	(627,397)	90,069	10,860,788
Structures		1,002,759	93,727	(2,871)	(103,800)	13,758	1,003,573
Machinery		11,110,939	3,481	(1,594)	(1,743,862)	997,187	10,366,151
Vehicles		85,091	3,873	(1,923)	(31,800)	6,632	61,874
Tools and molds		15,086,608	249,360	(1,191)	(4,182,419)	2,469,673	13,622,031
Equipment		1,364,544	162,231	(1,424)	(415,456)	41,415	1,151,309
Construction in progress		2,444,185	7,115,509	(7,177)	-	(3,381,521)	6,170,996
Machinery in transit		115,123	133,916	-	-	(188,263)	60,776
	Rs	<u>71,043,352</u>	<u>7,776,621</u>	<u>(53,277)</u>	<u>(7,104,734)</u>	<u>48,950</u>	<u>71,710,912</u>

(\*) Capitalized borrowing costs in respect of construction in progress is Rs 56,836 thousand (2016: Rs 66,928 thousand) and Rs 15,065 thousand (2016:Rs 6,019 thousand) was transferred from inventory to vehicles during the year ended December 31, 2017. The government grants amounting to Rs 7,957 thousand (2016: Rs 23,903 thousand) was used for asset acquisition and the effect of exchange rate fluctuation was included in others during the year ended December 31, 2017.

(3) Details of pledged assets provided as collateral for the borrowings as of December 31, 2017 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		Book value	Collateralized amount	Book value	Collateralized amount
Land	₩	366,132,440		Rs	21,897,873
Buildings and structures		70,978,452	267,000,000		4,245,123
Machinery and others		1,529,294			91,465
		<u>438,640,186</u>	<u>267,000,000</u>		<u>26,234,461</u>
					<u>15,968,900</u>

(4) Capitalized borrowing costs and capitalization interest rate for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2017	2016	2017	2016
Capitalized interest expenses(*)	₩	3,023,949	2,810,875	Rs	180,859
Capitalization interest rate		3.22%	3.58%		3.22%
					168,115
					3.58%

(\*) Capitalized borrowing costs for intangible assets are ₩ 2,073,659 thousand (Rs 124,023 thousand) and ₩ 1,691,845 thousand (Rs 101,187 thousand) for the years ended December 31, 2017 and 2016, respectively.

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**12. Intangible Assets**

(1) Details of intangible assets as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

		<b>2017</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Development cost	₩	304,955,420	-	(115,794,054)	-	189,161,366
Patents		3,984,136	(18,286)	(2,294,527)	(78,338)	1,592,985
Other intangible assets		139,841,157	(20,628)	(26,943,689)	(362,469)	112,514,371
	₩	<u>448,780,713</u>	<u>(38,914)</u>	<u>(145,032,270)</u>	<u>(440,807)</u>	<u>303,268,722</u>

(In thousands of won)

		<b>2016</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Development cost	₩	170,793,491	-	(69,280,886)	-	101,512,605
Patents		3,489,061	(21,119)	(1,703,782)	(54,627)	1,709,533
Other intangible assets		154,930,497	(37,464)	(23,194,568)	(576,105)	131,122,360
	₩	<u>329,213,049</u>	<u>(58,583)</u>	<u>(94,179,236)</u>	<u>(630,732)</u>	<u>234,344,498</u>

(In thousands of rupee)

		<b>2017</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Development cost	Rs	18,238,961	-	(6,925,482)	-	11,313,479
Patents		238,285	(1,094)	(137,232)	(4,685)	95,274
Other intangible assets		8,363,706	(1,234)	(1,611,465)	(21,679)	6,729,328
	Rs	<u>26,840,952</u>	<u>(2,328)</u>	<u>(8,674,179)</u>	<u>(26,364)</u>	<u>18,138,081</u>

(In thousands of rupee)

		<b>2016</b>				
		<b>Acquisition cost</b>	<b>Government grants</b>	<b>Accumulated amortization</b>	<b>Accumulated impairment losses</b>	<b>Book value</b>
Development cost	Rs	10,214,922	-	(4,143,594)	-	6,071,328
Patents		208,676	(1,263)	(101,901)	(3,267)	102,245
Other intangible assets		9,266,178	(2,241)	(1,387,235)	(34,456)	7,842,246
	Rs	<u>19,689,776</u>	<u>(3,504)</u>	<u>(5,632,730)</u>	<u>(37,723)</u>	<u>14,015,819</u>

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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**12. Intangible Assets, Continued**

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)

		<b>2017</b>							
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Amortization</b>	<b>Impairment</b>	<b>Transfer</b>	<b>Others (*)</b>	<b>Ending balance</b>
<b>Internally created intangible assets:</b>									
Development cost	₩	101,512,605	-	-	(46,513,168)	-	134,161,929	-	189,161,366
Other intangible assets		123,384,189	113,469,519	-	-	-	(134,161,929)	2,073,659	104,765,438
	₩	224,896,794	113,469,519	-	(46,513,168)	-	-	2,073,659	293,926,804
<b>Individually acquired intangible assets:</b>									
Patents		1,709,533	495,075	-	(587,912)	(23,711)	-	-	1,592,985
Other intangible assets		7,738,171	4,293,048	(763,636)	(3,732,285)	213,635	-	-	7,748,933
		9,447,704	4,788,123	(763,636)	(4,320,197)	189,924	-	-	9,341,918
	₩	234,344,498	118,257,642	(763,636)	(50,833,365)	189,924	-	2,073,659	303,268,722

(In thousands of won)

		<b>2016</b>							
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Amortization</b>	<b>Impairment</b>	<b>Transfer</b>	<b>Others (*)</b>	<b>Ending balance</b>
<b>Internally created intangible assets:</b>									
Development cost	₩	109,536,141	-	-	(30,730,746)	-	22,707,210	-	101,512,605
Other intangible assets		66,170,633	78,228,921	-	-	-	(22,707,210)	1,691,845	123,384,189
	₩	175,706,774	78,228,921	-	(30,730,746)	-	-	1,691,845	224,896,794
<b>Individually acquired intangible assets:</b>									
Patents		1,584,610	671,369	-	(531,010)	(15,436)	-	-	1,709,533
Other intangible assets		9,653,201	3,878,085	-	(5,812,515)	-	19,400	-	7,738,171
		11,237,811	4,549,454	-	(6,343,525)	(15,436)	19,400	-	9,447,704
	₩	186,944,585	82,778,375	-	(37,074,271)	(15,436)	19,400	1,691,845	234,344,498

(\*) Capitalized borrowing costs in respect of other intangible assets is ₩ 2,073,659 thousand and ₩ 1,691,845 thousand for the years ended December 31, 2017 and 2016, respectively.

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For the years ended December 31, 2017 and 2016

**12. Intangible Assets, Continued**

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows, continued:

(In thousands of rupee)

		2017						Ending	
		Beginning	Acquisition	Disposal	Amortization	Impairment	Transfer	Others (*)	balance
		balance							
<b>Internally created intangible assets:</b>									
Development									
cost	Rs	6,071,328	-	-	(2,781,888)	-	8,024,039	-	11,313,479
Other									
intangible									
assets		7,379,437	6,786,454	-	-	-	(8,024,039)	124,023	6,265,875
	Rs	13,450,765	6,786,454	-	(2,781,888)	-	-	124,023	17,579,354
<b>Individually acquired intangible assets:</b>									
Patents		102,245	29,610	-	(35,162)	(1,419)	-	-	95,274
Other									
intangible									
assets		462,809	256,761	(45,672)	(223,223)	12,778	-	-	463,453
		565,054	286,371	(45,672)	(258,385)	11,359	-	-	558,727
	Rs	14,015,819	7,072,825	(45,672)	(3,040,273)	11,359	-	124,023	18,138,081

(In thousands of rupee)

		2016						Ending	
		Beginning	Acquisition	Disposal	Amortization	Impairment	Transfer	Others (*)	balance
		balance							
<b>Internally created intangible assets:</b>									
Development									
cost	Rs	6,551,205	-	-	(1,837,964)	-	1,358,087	-	6,071,328
Other									
intangible									
assets		3,957,574	4,678,763	-	-	-	(1,358,087)	101,187	7,379,437
	Rs	10,508,779	4,678,763	-	(1,837,964)	-	-	101,187	13,450,765
<b>Individually acquired intangible assets:</b>									
Patents		94,773	40,154	-	(31,759)	(923)	-	-	102,245
Other									
intangible									
assets		577,345	231,941	-	(347,638)	-	1,161	-	462,809
		672,118	272,095	-	(379,397)	(923)	1,161	-	565,054
	Rs	11,180,897	4,950,858	-	(2,217,361)	(923)	1,161	101,187	14,015,819

(\*) Capitalized borrowing costs in respect of other intangible assets is Rs 124,023 thousand and Rs 101,187 thousand for the years ended December 31, 2017 and 2016, respectively.

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**12. Intangible Assets, Continued**

(3) Details of capitalized development costs as of December 31, 2017 are as follows.

(In thousands of won and in thousands of rupee)

	Project name		Korean won		Indian rupee		Remaining amortization period
Development cost	RV(*1)	₩	154,255,390	Rs	9,225,801		2~5 years
	Power train and others		34,905,976		2,087,678		2~5 years
Other intangible assets	RV(*2)		96,540,111		5,773,930		-
	Power train and others		8,225,327		491,945		-
		₩	293,926,804	Rs	17,579,354		

(\*1) Development projects for vehicles that have been completed between 2015 and 2017, which are classified as inventories as of December 31, 2017.

(\*2) On-going development project for vehicles as of December 31, 2017 to respond to consumer needs and market conditions.

(4) Details of expenditures for research and developments for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee		
		2017	2016	2017	2016	
Capitalization of intangible assets	₩	115,543,178	79,920,766	Rs	6,910,477	4,779,950
Manufacturing costs		56,080,698	60,073,118		3,354,109	3,592,890
Selling and administrative expenses		19,616,836	15,535,921		1,173,256	929,182
	₩	191,240,712	155,529,805	Rs	11,437,842	9,302,022

**13. Borrowings**

(1) Details of short-term borrowings as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

Creditor	Type	Interest rate (%)	Korean won		Indian rupee	
			2017	2016	2017	2016
Korea						
Development Bank	Operating fund	CD+1.98	₩ 30,000,000	30,000,000	Rs 1,794,258	1,794,258
Woori Bank	Operating fund(*)	CD+2.00	12,500,000	25,000,000	747,608	1,495,215
Citi Bank Korea and others	Banker's usance	0.66 ~1.35	121,340,987	126,967,721	7,257,236	7,593,764
			₩ 163,840,987	181,967,721	Rs 9,799,102	10,883,237

(\*) Current portion of long-term borrowing

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**13. Borrowings, Continued**

(2) Details of long-term borrowing as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

Creditor	Type	Interest rate(%)	Korean won		Indian rupee	
			2017	2016	2017	2016
Korea Development Bank	Facility fund	CD+1.57	70,000,000	-	4,186,603	-
Woori Bank	Operating fund	CD+2.00	₩ 12,500,000	37,500,000	Rs 747,608	2,242,823
Less: Current portion			(12,500,000)	(25,000,000)	(747,608)	(1,495,215)
			₩ 70,000,000	12,500,000	Rs 4,186,603	747,608

(3) Details of pledged assets as collateral for borrowings as of December 31, 2017 are as follows:

(In thousands of won)

Creditor	Pledged assets	Borrowings amount	Maximum credit amount
Korea Development Bank	Land, buildings, structures and machinery	₩ 100,000,000	195,000,000
Woori Bank	Land, buildings and machinery	12,500,000	72,000,000
		₩ 112,500,000	267,000,000

(In thousands of rupee)

Creditor	Pledged assets	Borrowings amount	Maximum credit amount
Korea Development Bank	Land, buildings, structures and machinery	Rs 5,980,861	11,662,680
Woori Bank	Land, buildings and machinery	747,608	4,306,220
		Rs 6,728,469	15,968,900

**14. Other Financial Liabilities**

Details of other financial liabilities as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2017	2016	2017	2016
Accrued expenses	₩	37,164,320	34,519,616	Rs 2,222,746	2,064,570

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For the years ended December 31, 2017 and 2016

**15. Provision of Warranty for sale**

The Company generally provides warranty for each product sold and accrues warranty expense at the time of sale based on the history of actual claims. Changes in provision of warranty for sale for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Beginning balance	₩ 145,848,984	143,793,979	Rs 8,723,025	8,600,118
Increase	41,427,330	44,949,094	2,477,711	2,688,343
Decrease	(41,036,757)	(42,894,089)	(2,454,351)	(2,565,435)
Ending balance	₩ 146,239,557	145,848,984	Rs 8,746,385	8,723,026
Current	₩ 53,046,748	53,153,294	Rs 3,172,652	3,179,025
Non-current	93,192,809	92,695,690	5,573,733	5,544,001

**16. Other Liabilities**

Details of other liabilities as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Advances from customers	₩ 3,943,130	3,359,440	Rs 235,833	200,923
Deposits received	531,789	613,895	31,806	36,716
Withholdings	30,701,562	29,352,535	1,836,218	1,755,534
	₩ 35,176,481	33,325,870	Rs 2,103,857	1,993,173

**17. Employee Benefits**

(1) Details of defined benefit liabilities as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Present value of defined benefit obligations	₩ 285,658,090	280,792,667	Rs 17,084,815	16,793,820
Fair value of plan assets	(1,094,967)	(1,183,467)	(65,489)	(70,782)
	₩ 284,563,123	279,609,200	Rs 17,019,326	16,723,038



SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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For the years ended December 31, 2017 and 2016

**17. Employee Benefits, Continued**

(2) Changes in defined benefit liabilities for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)

Details	2017		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	₩ 280,792,667	(1,183,467)	279,609,200
Current service cost	37,549,102	-	37,549,102
Interest expense (income)	8,063,849	(33,950)	8,029,899
Sub-total	₩ 326,405,618	(1,217,417)	325,188,201
Re-measurement factors:			
Re-measurements of plan assets	-	19,501	19,501
Loss (gain) from experience adjustments	(12,356,496)	-	(12,356,496)
Loss (gain) from changes in financial assumptions	(8,594,588)	-	(8,594,588)
Loss (gain) from changes in demographic assumptions	185,044	-	185,044
Sub-total	₩ (20,766,040)	19,501	(20,746,539)
Benefit paid by plan	(102,949)	102,949	-
Benefit paid directly	(19,878,539)	-	(19,878,539)
Ending balance	₩ 285,658,090	(1,094,967)	284,563,123

(In thousands of won)

Details	2016		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	₩ 293,343,081	(1,337,356)	292,005,725
Current service cost	40,843,479	-	40,843,479
Interest expense (income)	8,520,142	(38,774)	8,481,368
Sub-total	₩ 342,706,702	(1,376,130)	341,330,572
Re-measurement factors:			
Re-measurements of plan assets	-	22,825	22,825
Loss (gain) from experience adjustments	(5,804,730)	-	(5,804,730)
Loss (gain) from changes in financial assumptions	(34,853,925)	-	(34,853,925)
Loss (gain) from changes in demographic assumptions	242,840	-	242,840
Sub-total	₩ (40,415,815)	22,825	(40,392,990)
Benefit paid by plan	(169,838)	169,838	-
Benefit paid directly	(21,328,382)	-	(21,328,382)
Ending balance	₩ 280,792,667	(1,183,467)	279,609,200

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**17. Employee Benefits, Continued**

(2) Changes in defined benefit liabilities for the years ended December 31, 2017 and 2016 are as follows, continued:

(In thousands of rupee)

Details	2017		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	Rs 16,793,820	(70,782)	16,723,038
Current service cost	2,245,760	-	2,245,760
Interest expense (income)	482,288	(2,031)	480,257
Sub-total	Rs 19,521,868	(72,813)	19,449,055
Re-measurement factors:			
Re-measurements of plan assets	-	1,167	1,167
Loss (gain) from experience adjustments	(739,025)	-	(739,025)
Loss (gain) from changes in financial assumptions	(514,030)	-	(514,030)
Loss (gain) from changes in demographic assumptions	11,066	-	11,066
Sub-total	Rs (1,241,989)	1,167	(1,240,822)
Benefit paid by plan	(6,157)	6,157	-
Benefit paid directly	(1,188,907)	-	(1,188,907)
Ending balance	Rs 17,084,815	(65,489)	17,019,326

(In thousands of rupee)

Details	2016		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	Rs 17,544,443	(79,985)	17,464,458
Current service cost	2,442,792	-	2,442,792
Interest expense (income)	509,578	(2,319)	507,259
Sub-total	Rs 20,496,813	(82,304)	20,414,509
Re-measurement factors:			
Re-measurements of plan assets	-	1,364	1,364
Loss (gain) from experience adjustments	(347,173)	-	(347,173)
Loss (gain) from changes in financial assumptions	(2,084,565)	-	(2,084,565)
Loss (gain) from changes in demographic assumptions	14,525	-	14,525
Sub-total	Rs (2,417,213)	1,364	(2,415,849)
Benefit paid by plan	(10,158)	10,158	-
Benefit paid directly	(1,275,622)	-	(1,275,622)
Ending balance	Rs 16,793,820	(70,782)	16,723,038

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For the years ended December 31, 2017 and 2016

**17. Employee Benefits, Continued**

(3) The components of plan assets as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Insurance contracts	₩ 1,094,967	1,183,467	Rs 65,488 -	70,782

(4) Actuarial assumptions used related to plans as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate (%)	3.15	2.89
Rate of future salary growth (%)	3.94	3.95

The discount rate is the market yield at the end of the reporting year on high quality corporate bonds(AA+) that have maturity which approximates the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The discount rate for the calculation of the present value of defined benefit obligations is also used as expected return on plan assets.

Weighted average duration of defined benefit obligation as of December 31, 2017 and 2016 are 12.0 years and 13.2 years, respectively.

(5) The sensitivity of the defined benefit obligations to key assumptions as of December 31, 2017 is as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	1% increase	1% decrease	1% increase	1% decrease
Discount rate	₩ (30,107,146)	35,111,141	Rs (1,800,667)	2,099,949
Future salary growth	33,325,244	(29,156,510)	1,993,137	(1,743,810)

Sensitivity analysis does not take into account the variance of all expected cash flows, but it provides an approximation of the sensitivity to the assumptions used.

**18. Commitments and Contingencies**

Details of commitments and contingencies as of December 31, 2017 are as follows:

- (1) The Company carries product liability insurance for all products that it sells.
- (2) As of December 31, 2017, the Company has agreements with Korea Development Bank and others for various borrowings, trading finance and others with limit of ₩ 267,500 million and USD 240 million.
- (3) As of December 31, 2017, the Company has been provided with guarantees amounting to USD 896,649 by Standard Chartered Bank Korea Limited in connection with refunds for advance received and performing transactions.

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**18. Commitments and Contingencies, Continued**

(4) As of December 31, 2017, two claims as a plaintiff were filled with the claim amount of ₩ 2,301 million (Rs 138 million) and 11 claims as a defendant were filled with the claims of ₩ 3,815 million (Rs 228 million). The provision amounting to ₩ 7,364 million (Rs 440 million) is recognized as other payable for the foregoing lawsuits and claims, since the amounts for potential loss can be estimated and management expect that it is probable that the Company will be required to incur an outflow.

**19. Capital Stock**

The Company's capital stock as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee, except for par value and share information)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Number of shares authorized	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000
Shares outstanding	137,949,396	137,220,096	137,949,396	137,220,096
Par value	5,000	5,000	299	299
Capital stock	₩ 689,746,980	686,100,480	Rs 41,252,810	41,034,718

**20. Other Capital Surplus and Retained Earnings**

Details of other capital surplus and retained earnings as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Paid-up capital in excess of par	₩ 12,916,273	11,452,713	Rs 772,504	684,971
Gain on capital reduction	118,189,001	118,189,001	7,068,720	7,068,720
Debt to be swapped for equity	931,508	931,508	55,712	55,712
Gain on disposal of treasury	1,105,138	1,105,138	66,098	66,097
	₩ 133,141,920	131,678,360	Rs 7,963,034	7,875,500

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**21. Other Equity**

(1) Details of the Company's other equity as of December 31, 2017 and 2016 are as follows:

*(In thousands of won and in thousands of rupee)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Gains (losses) on valuation of derivatives	₩ -	(2,574,700)	Rs -	(153,989)
Accumulated foreign currency translation difference for foreign operations	1,153,581	1,288,887	68,994	77,086
	<u>1,153,581</u>	<u>(1,285,813)</u>	<u>68,994</u>	<u>(76,903)</u>

(2) Changes in the Company's gains (losses) on valuation of derivatives for the years ended December 31, 2017 and 2016 are as follows:

*(In thousands of won and in thousands of rupee)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Beginning balance	₩ (2,574,700)	227,340	Rs (153,989)	13,597
Gains on valuation of derivatives	-	(2,574,700)	-	(153,989)
Reclassified to net income (losses)	2,574,700	(227,340)	153,989	(13,597)
Ending balance	₩ -	(2,574,700)	Rs -	(153,989)

(3) Changes in the foreign currency translation difference for foreign operation for the years ended December 31, 2017 and 2016 are as follows:

*(In thousands of won and in thousands of rupee)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Beginning balance	₩ 1,288,887	1,343,590	Rs 77,086	80,357
Foreign currency translation difference for foreign operation	(135,306)	(54,703)	(8,092)	(3,271)
Ending balance	₩ <u>1,153,581</u>	<u>1,288,887</u>	Rs <u>68,994</u>	<u>77,086</u>

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**22. Deficit**

(1) Details of deficit as of December 31, 2017 and 2016 are as follows:

*(In thousands of won and in thousands of rupee)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Deficit	₩ (48,887,557)	(3,799,101)	Rs (2,923,897)	(227,218)

(2) Changes in deficit for the years ended December 31, 2017 and 2016 are as follows:

*(In thousands of won and in thousands of rupee)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Beginning balance	₩ (3,799,101)	(102,294,592)	Rs (227,218)	(6,118,097)
Profit (Loss) for the year	(65,821,198)	58,102,501	(3,936,676)	3,475,030
Defined benefit plan re-measurement	20,746,539	40,392,990	1,240,822	2,415,849
Defined benefit plan re-measurement from joint venture	(13,797)	-	(825)	-
Ending balance	₩ (48,887,557)	(3,799,101)	Rs (2,923,897)	(227,218)

**23. Income Tax Expense**

(1) Composition of income tax expense for the years ended December 31, 2017 and 2016 are as follows:

*(In thousands of won and in thousands of rupee)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Income tax expense of parent(*)	₩ -	-	Rs -	-
Income tax expense of subsidiary	37,174	30,378	2,223	1,838
Total	37,174	30,378	2,223	1,838

(\*) Income tax expense and deferred income tax assets related to the temporary differences, deficit carried forward and tax credit carried forward are not recognized as of December 31, 2017.

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**23. Income Tax Expense, Continued**

(2) Changes in temporary differences and deferred income tax assets for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won)

	2017			Ending balance
	Beginning balance	Decrease	Increase	
Allowance for doubtful accounts	-	-	1,597,027	1,597,027
Government grants	₩ 3,025,504	1,163,320	1,163,287	3,025,471
Provision for warranties	145,848,984	145,848,984	146,239,557	146,239,557
Defined benefit liabilities	282,337,426	19,766,561	24,541,393	287,112,258
Impairment loss of property, plant and equipment	99,336,813	8,037,821	-	91,298,992
Intangible assets	231,282	8,221,828	31,593,450	23,602,904
Depreciation	11,528,277	1,125,035	3,130,884	13,534,126
Other payables	26,297,688	26,773,724	27,033,001	26,556,965
Accrued expenses	34,274,171	34,274,171	36,769,573	36,769,573
Investment in subsidiaries	4,184,519	-	963,693	5,148,212
Investment in joint ventures	-	-	(2,480,564)	(2,480,564)
Derivatives	5,042,771	5,042,771	409,259	409,259
Other long-term employee benefit	16,688,601	16,688,601	16,328,928	16,328,928
Trade receivable	-	-	2,458,305	2,458,305
Other receivable	-	4,320,982	6,328,240	2,007,258
Land	(260,713,528)	-	-	(260,713,528)
Others	887,397	96,382	47,801	838,816
Deficit carried over on tax	1,113,990,602	5,528,421	-	1,108,462,181
Sub-total	₩ 1,482,960,507	276,888,601	296,123,834	1,502,195,740
Not recognized as deferred tax assets	1,482,960,507			1,502,195,740
Recognized as deferred tax assets	-			-
Statutory tax rate (%)	22%			22%
Deferred tax assets resulting from temporary differences	-			-
Tax credit carry-forwards:	3,223,052	-	-	3,223,052
Not recognized as deferred tax assets	3,223,052	-	-	3,223,052
Recognized as deferred tax assets	-			-
Deferred tax assets resulting from tax credit carry-forwards	-			-
Total deferred income tax	₩ -			-

The Company does not recognize deferred tax assets since it could not estimate income tax decrease effect by deducting temporary differences, deficits carried over on tax and tax credit carry-forwards from expected future taxable income.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES  
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For the years ended December 31, 2017 and 2016

**23. Income Tax Expense, Continued**

(2) Changes in temporary differences and deferred income tax assets for the years ended December 31, 2017 and 2016, are as follows, continued:

(In thousands of won)

		2016			Ending balance
		Beginning balance	Decrease	Increase	
Government grants	₩	2,731,892	2,263,431	2,557,043	3,025,504
Provision for warranties		143,793,978	143,793,978	145,848,984	145,848,984
Defined benefit liabilities		284,249,024	10,572,282	8,660,684	282,337,426
Impairment loss of property, plant and equipment		108,779,594	9,442,781	-	99,336,813
Intangible assets		27,324,177	27,099,587	6,692	231,282
Depreciation		16,394,313	5,598,188	732,152	11,528,277
Other payables		39,537,402	39,537,402	26,297,688	26,297,688
Accrued expenses		32,207,735	32,207,735	34,274,171	34,274,171
Investment in subsidiaries		4,184,519	-	-	4,184,519
Derivatives		(1,683,621)	(1,683,621)	5,042,771	5,042,771
Other long-term employee benefit		16,282,599	16,282,600	16,688,602	16,688,601
Land		(260,713,528)	-	-	(260,713,528)
Others		1,795,498	873,040	(35,061)	887,397
Deficit carried over on tax		1,175,500,028	61,509,426	-	1,113,990,602
Sub-total	₩	1,590,383,610	347,496,829	240,073,726	1,482,960,507
Not recognized as deferred tax assets		1,590,383,610			1,482,960,507
Recognized as deferred tax assets		-			-
Statutory tax rate (%)		22%			22%
Deferred tax assets resulting from temporary differences		-			-
Tax credit carry-forwards:		9,235,834	6,012,782	-	3,223,052
Not recognized as deferred tax assets		9,235,834	6,012,782	-	3,223,052
Recognized as deferred tax assets		-			-
Deferred tax assets resulting from tax credit carry-forwards		-			-
Total deferred income tax	₩	-			-



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**23. Income Tax Expense, Continued**

(2) Changes in temporary differences and deferred income tax assets for the years ended December 31, 2017 and 2016, are as follows, continued:

(In thousands of rupee)

		2017			Ending balance
		Beginning balance	Decrease	Increase	
Government grants		-	-	95,516	95,516
Provision for warranties	Rs	180,951	69,577	69,575	180,949
Provision for product warranties		8,723,025	8,723,025	8,746,385	8,746,385
Defined benefit liabilities		16,886,210	1,182,211	1,467,787	17,171,786
Impairment loss of property, plant and equipment		5,941,197	480,731	-	5,460,466
Intangible assets		13,833	491,736	1,889,560	1,411,657
Depreciation		689,490	67,287	187,254	809,457
Other payables		1,572,828	1,601,299	1,616,806	1,588,335
Accrued expenses		2,049,891	2,049,891	2,199,137	2,199,137
Investment in subsidiaries		250,270	-	57,637	307,907
Investment in joint ventures		-	-	(148,359)	(148,359)
Derivatives		301,601	301,601	24,477	24,477
Other long-term employee benefit		998,122	998,122	976,611	976,611
Account receivable		-	-	147,028	147,028
Other receivable		-	258,432	378,483	120,051
Land		(15,592,914)	-	-	(15,592,914)
Others		53,074	5,764	2,859	50,169
Deficit carried over on tax		66,626,232	330,647	-	66,295,585
Sub-total	Rs	88,693,810	16,560,323	17,710,756	89,844,243
Not recognized as deferred tax assets		88,693,810	-	-	89,844,243
Recognized as deferred tax assets		-	-	-	-
Statutory tax rate (%)		22%			22%
Deferred tax assets resulting from temporary differences		-	-	-	-
Tax credit carry-forwards:		192,766	-	-	192,766
Not recognized as deferred tax assets		192,766	-	-	192,766
Recognized as deferred tax assets		-	-	-	-
Deferred tax assets resulting from tax credit carry-forwards		-	-	-	-
Total deferred income tax	Rs	-	-	-	-

The Company does not recognize deferred tax assets since it could not estimate income tax decrease effect by deducting temporary differences, deficits carried over on tax and tax credit carry-forwards from expected future taxable income.

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**23. Income Tax Expense, Continued**

(2) Changes in temporary differences and deferred income tax assets for the years ended December 31, 2017 and 2016, are as follows, continued:

(In thousands of rupee)

		<b>2016</b>			<b>Ending balance</b>
		<b>Beginning balance</b>	<b>Decrease</b>	<b>Increase</b>	
Government grants	Rs	163,391	135,373	152,933	180,951
Provision for warranties		8,600,118	8,600,118	8,723,025	8,723,025
Defined benefit liabilities		17,000,540	632,314	517,983	16,886,209
Impairment loss of property, plant and equipment		6,505,957	564,760	-	5,941,197
Intangible assets		1,634,221	1,620,789	400	13,832
Depreciation		980,521	334,820	43,789	689,490
Other payables		2,364,677	2,364,677	1,572,828	1,572,828
Accrued expenses		1,926,300	1,926,300	2,049,891	2,049,891
Investment in subsidiaries		250,270	-	-	250,270
Derivatives		(100,695)	(100,695)	301,601	301,601
Other long-term employee benefit		973,840	973,840	998,122	998,122
Land		(15,592,914)	-	-	(15,592,914)
Others		107,386	52,214	(2,097)	53,075
Deficit carried over on tax		70,305,026	3,678,793	-	66,626,233
Sub-total	Rs	95,118,638	20,783,303	14,358,475	88,693,810
Not recognized as deferred tax assets		95,118,638	-	-	88,693,810
Recognized as deferred tax assets		-	-	-	-
Statutory tax rate (%)		22%	-	-	22%
Deferred tax assets resulting from temporary differences		-	-	-	-
Tax credit carry-forwards:		552,382	359,616	-	192,766
Not recognized as deferred tax assets		552,382	359,616	-	192,766
Recognized as deferred tax assets		-	-	-	-
Deferred tax assets resulting from tax credit carry-forwards		-	-	-	-
Total deferred income tax	Rs	-	-	-	-

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For the years ended December 31, 2017 and 2016

**24. Nature of Expenses**

Details of nature of expenses for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Changes in inventories	₩ (19,936,950)	9,851,433	Rs (1,192,401)	589,201
Raw materials consumed and purchase of merchandise	2,369,824,804	2,433,514,572	141,735,933	145,545,130
Employee benefits	525,957,045	528,178,052	31,456,761	31,589,596
Depreciation	128,126,424	118,791,157	7,663,064	7,104,734
Amortization	50,833,365	37,074,271	3,040,273	2,217,361
Others	505,108,762	473,132,992	30,209,853	28,297,429
	₩ 3,559,913,450	3,600,542,477	Rs 212,913,483	215,343,451

Total expenses are equal to the sum of cost of sales and selling, general and administrative expenses.

**25. Derivatives**

The Company holds derivative contracts to minimize foreign exchange risk. As of December 31, 2017, there is no derivatives for cash flow hedge, and changes in fair value of derivative not designated as hedging instrument for the years ended December 31, 2017 is net amounting to ₩ 409,259 thousand (Rs 24,477 thousand) recognized in current loss.

**26. Selling, General and Administrative Expenses**

(1) Details of selling expenses for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Warranty expenses	₩ 64,029,487	70,148,889	Rs 3,829,515	4,195,508
Commissions	236,689,627	221,325,357	14,156,078	13,237,163
Advertising	18,803,819	18,239,964	1,124,630	1,090,907
Export expenses	33,078,418	40,766,448	1,978,374	2,438,185
Others	38,096,189	34,579,598	2,278,480	2,068,158
	₩ 390,697,540	385,060,256	Rs 23,367,077	23,029,921

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For the years ended December 31, 2017 and 2016

**26. Selling, General and Administrative Expenses, Continued**

(2) Details of general and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Salaries	₩ 52,725,428	52,577,827	Rs 3,153,435	3,144,607
Retirement benefit costs	5,732,951	7,689,824	342,880	459,918
Employee welfare	12,329,403	13,037,365	737,404	779,747
Rent expense	11,537,739	10,414,746	690,056	622,892
Service fees	35,326,474	28,138,104	2,112,827	1,682,901
Depreciation	14,089,709	11,345,526	842,686	678,560
R&D expenses	19,616,836	15,535,921	1,173,256	929,182
Amortization	4,320,197	6,343,525	258,385	379,397
Bad debt expense	33,507	48,746	2,004	2,915
Others	34,943,870	33,591,670	2,089,945	2,009,070
	₩ <u>190,656,114</u>	<u>178,723,254</u>	Rs <u>11,402,878</u>	<u>10,689,189</u>

**27. Other Income and Expenses**

(1) Details of other income for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Foreign exchange transaction gain	₩ 11,049,978	15,020,958	Rs 660,884	898,383
Foreign exchange translation gain	501,746	964,567	30,009	57,689
Gain on disposal of property, plant and equipment	179,970	1,241,347	10,764	74,243
Others	17,424,484	40,581,251	1,042,134	2,427,111
	₩ <u>29,156,178</u>	<u>57,808,123</u>	Rs <u>1,743,791</u>	<u>3,457,426</u>

(2) Details of other expenses for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Foreign exchange transaction loss	₩ 9,171,400	13,534,228	Rs 548,529	809,463
Foreign exchange translation loss	659,308	796,916	39,432	47,663
Loss on disposal of property, plant and equipment	748,646	121,676	44,776	7,277
Loss on disposal of trade receivables	14,775,609	17,212,495	883,709	1,029,455
Other bad debt expenses	3,723,115	39,960	222,674	2,390
Others	5,936,367	6,864,160	355,045	410,536
	₩ <u>35,014,445</u>	<u>38,569,435</u>	Rs <u>2,094,165</u>	<u>2,306,784</u>

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**28. Finance Income and Costs**

(1) Details of finance income for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Interest income	₩ 2,756,319	2,620,775	Rs 164,852	156,745
Dividend income	11,000	11,000	658	658
Foreign exchange transaction gain	8,772,393	9,349,334	524,664	559,169
Foreign exchange translation gain	5,615,197	3,529,134	335,837	211,073
Realized gain of financial derivatives	8,824,608	12,339,373	527,788	738,001
Unrealized gain of financial derivatives	-	477,266	-	28,545
	₩ <u>25,979,517</u>	<u>28,326,882</u>	Rs <u>1,553,799</u>	<u>1,694,191</u>

(2) Details of finance costs for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Interest expense	₩ 918,941	806,938	Rs 54,961	48,262
Foreign exchange transaction loss	11,945,458	11,435,400	714,441	683,935
Foreign exchange translation loss	5,737	737,789	343	44,126
Realized loss of financial derivatives	8,745,827	5,314,653	523,076	317,862
Unrealized loss of financial derivatives	409,259	2,945,337	24,477	176,157
	₩ <u>22,025,222</u>	<u>21,240,117</u>	Rs <u>1,317,298</u>	<u>1,270,342</u>

(3) Details of the Company's financial net profit or loss for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Loan and receivables	₩ 4,273,772	2,519,115	Rs 255,608	150,666
AFS financial assets	11,000	11,000	658	658
Derivatives financial assets (liabilities)	(330,477)	4,556,650	(19,765)	272,527
	₩ <u>3,954,295</u>	<u>7,086,765</u>	Rs <u>236,501</u>	<u>423,851</u>

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**29. Earnings (losses) per Share**

(1) Basic earnings (losses) per share for the years ended December 31, 2017 and 2016 are calculated as follows:

*(In thousands of won and in thousands of rupee, except per share information)*

	Korean won		Indian rupee	
	2017	2016	2017	2016
Profit (loss) for the year	₩ (65,821,198)	58,102,501	Rs (3,936,675)	3,475,030
Profit (loss) contributed to common stocks	(65,821,198)	58,102,501	(3,936,675)	3,475,030
Weighted average number of common shares	137,801,538	137,220,096	137,801,538	137,220,096
Basic earnings(losses) per share(*)	₩ (478)	423	Rs (29)	25

(\*) Diluted earnings (losses) per share are not calculated for the years ended December 31, 2017 and 2016, because there are no dilutive shares as of December 31, 2017 and 2016.

(2) Weighted average number of common shares outstanding for the years ended December 31, 2017 and 2016 are calculated as follows:

		2017		
	Outstanding Period	Common shares issued	Weighted-average	Common shares outstanding
Beginning Issuing	2017-01-01~2017-03-15	137,220,096	74/365	27,819,965
	2017-03-16~2017-12-31	137,949,396	291/365	109,981,573
				137,801,538
		2016		
	Outstanding Period	Common shares issued	Weighted-average	Common shares outstanding
Beginning	2016-01-01~2016-12-31	137,220,096	366/366	137,220,096

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For the years ended December 31, 2017 and 2016

**30. Cash Flows**

(1) Details of cash flows from operating activities for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
<b>Profit (loss) for the year</b>	₩ (65,821,198)	58,102,501	Rs (3,936,676)	3,475,030
<b>Adjustments for:</b>				
Retirement benefit costs	45,579,001	49,324,847	2,726,017	2,950,051
Depreciation	128,126,424	118,791,157	7,663,063	7,104,734
Amortization	50,833,365	37,074,271	3,040,273	2,217,361
Losses on disposal of trade receivables	14,775,609	17,212,495	883,709	1,029,455
Foreign exchange translation gain and loss, net	(5,451,898)	(2,958,996)	(326,069)	(176,974)
Loss (Gain) on disposal of property, plant and equipment	568,676	(1,119,671)	34,011	(66,962)
Interest expense and income, net	(1,837,378)	(1,813,837)	(109,892)	(108,483)
Dividends income	(11,000)	(11,000)	(658)	(658)
Unrealized gain and loss of financial derivatives, net	409,259	2,468,071	24,477	147,612
Losses on valuation of inventories	3,542,010	5,967,918	211,843	356,933
Increase in provision of warranty for sale	41,427,330	44,949,094	2,477,711	2,688,343
Equity profit on investments	(1,395,753)	(3,813,717)	(83,478)	(228,093)
Others	3,636,306	38,858	217,483	2,320
	<u>280,201,951</u>	<u>266,109,490</u>	<u>16,758,490</u>	<u>15,915,639</u>
<b>Changes in assets and liabilities</b>				
Trade receivables	10,530,730	(78,017,750)	629,828	(4,666,133)
Other receivables	(1,095,178)	(438,790)	(65,501)	(26,243)
Inventories	(27,109,085)	36,529,395	(1,621,357)	2,184,772
Trade payables	43,628,066	49,946,599	2,609,334	2,987,237
Other payables	22,988,506	(23,494,948)	1,374,911	(1,405,200)
Accrued expenses	2,495,403	2,066,435	149,247	123,591
Usage of provision of warranty for sale	(41,036,756)	(42,894,089)	(2,454,351)	(2,565,436)
Payment of retirement benefits	(19,878,539)	(21,328,382)	(1,188,907)	(1,275,622)
Others	572,198	(1,283,411)	34,220	(76,760)
	<u>(8,904,655)</u>	<u>(78,914,941)</u>	<u>(532,576)</u>	<u>(4,719,794)</u>
<b>Net cash provided by operating activities</b>	₩ <u>205,476,098</u>	<u>245,297,050</u>	Rs <u>12,289,238</u>	<u>14,670,875</u>

(2) Significant non-cash activities for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Changes in other payables related to the acquisition of property, plant and equipment	₩ 11,118,329	2,531,105	Rs 657,014	151,382

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**30. Cash Flows, Continued**

(3) Adjustment of liabilities from financing activities

Changes in liabilities from financial activities for the year ended December 31, 2017 is as follows:

(In thousands of won)

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Liquidity</u>	<u>Exchange rate effect</u>	<u>Ending balance</u>
Banker's usance (*)	₩ 126,967,721	-	(14,059)	-	(5,612,675)	121,340,987
Short-term borrowings	55,000,000	-	(25,000,000)	12,500,000	-	42,500,000
Long-term borrowings	12,500,000	70,000,000	-	(12,500,000)	-	70,000,000
	₩ 194,467,721	70,000,000	(25,014,059)	-	(5,612,675)	233,840,987

(In thousands of rupee)

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Liquidity</u>	<u>Exchange rate effect</u>	<u>Ending balance</u>
Banker's usance (*)	Rs 7,593,763	-	(841)	-	(335,686)	7,257,236
Short-term borrowings	3,289,474	-	(1,495,216)	747,608	-	2,541,866
Long-term borrowings	747,608	4,186,603	-	(747,608)	-	4,186,603
	Rs 11,630,845	4,186,603	(1,496,057)	-	(335,686)	13,985,705

(\*) The changes in usance borrowings are presented by net amounts.

**31. Segment Information**

(1) The Company determined itself as a single reportable segment by considering the nature of goods and service as well as the characteristic of assets used in providing service. The Company has not disclosed operating income or loss, profit or loss before income taxes and total assets and liabilities by reportable segment.

(2) Geographic sales information of the Company for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

<u>Sales region</u>	<u>Korean won</u>		<u>Indian rupee</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Republic of Korea	₩ 2,732,196,915	2,553,029,090	Rs 163,408,906	152,693,127
Europe	380,203,457	571,468,657	22,739,441	34,178,747
Asia Pacific	172,847,893	287,032,405	10,337,793	17,167,010
Others	222,388,490	231,761,729	13,300,747	13,861,347
Consolidated adjustment	(12,999,111)	(14,755,335)	(777,459)	(882,496)
	₩ 3,494,637,644	3,628,536,546	Rs 209,009,428	217,017,735

Non-current assets are not separately disclosed since those are located in Korea. Main customer over 10% of sales is not disclosed since most sales are occurred through contract with individual customer and authorized foreign agencies.



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**31. Segment Information, Continued**

(3) Information of sales of goods and service for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Automobile	₩ 3,117,252,232	3,206,664,894	Rs 186,438,531	191,786,178
Merchandise and parts	337,069,352	346,317,274	20,159,650	20,712,756
Others	40,316,060	75,554,378	2,411,247	4,518,801
	₩ 3,494,637,644	3,628,536,546	Rs 209,009,428	217,017,735

**32. Transactions and Balances with Related Parties**

(1) Details of related parties as of December 31, 2017 are as follows:

Relationship	Company
Parent	Mahindra & Mahindra Ltd.
Joint venture	SY Auto Capital Co., Ltd.
Others	Mahindra Vehicle Manufacturing Ltd., Mahindra & Mahindra South Africa Ltd., PININFARINA S.p.A.

(2) Transactions with related parties for the years ended December 31, 2017 and 2016 are as follows:

(In thousands of won)

Relationship	Company	Description	2017	2016
Parent	Mahindra & Mahindra Ltd.	Sales	₩ 8,898,635	49,184,486
		Other income	95,019	308,320
		Purchases	1,529,987	697,879
		Other expenses	640,963	1,973,780
Joint venture	SY Auto Capital Co., Ltd.	Other expenses	14,089,290	16,376,188
		Sales	735,257	288,975
Others	Mahindra Vehicle Manufacturing Ltd. and others	Other income	5,179	26,442
		Other expenses	963,843	85,809

(In thousands of rupee)

Relationship	Company	Description	2017	2016
Parent	Mahindra & Mahindra Ltd.	Sales	Rs 532,215	2,941,656
		Other income	5,683	18,440
		Purchases	91,506	41,739
		Other expenses	38,335	118,049
Joint venture	SY Auto Capital Co., Ltd.	Other expenses	842,661	979,437
		Sales	43,975	17,283
Others	Mahindra Vehicle Manufacturing Ltd. and others	Other income	310	1,581
		Other expenses	57,645	5,132

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**32. Transactions and Balances with Related Parties, Continued**

(3) Account balances with related parties as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

Relationship	Company	Description	2017	2016
Parent	Mahindra & Mahindra Ltd.	Trade receivables ₩	4,120,559	2,693,260
		Other receivables	77,342	60,430
		Other payables	2,308,472	1,781,004
Joint venture	SY Auto Capital Co., Ltd.	Other payables	450,795	91,887
		Others		
Others	Mahindra Vehicle Manufacturing Ltd. and others	Trade receivables	37,279	15,977
		Other payables	18,250	36,773

(In thousands of rupee)

Relationship	Company	Description	2017	2016
Parent	Mahindra & Mahindra Ltd.	Trade receivables Rs	246,445	161,080
		Other receivables	4,626	3,614
		Other payables	138,067	106,519
Joint venture	SY Auto Capital Co., Ltd.	Other payables	26,961	5,496
		Others		
Others	Mahindra Vehicle Manufacturing Ltd. and others	Trade receivables	2,230	956
		Other payables	1,092	2,199

Allowance for receivables from related parties are not recognized as of December 31, 2017 and 2016.

(4) Executive compensation of the Company for the years ended December 31, 2017 and 2016, are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2017	2016	2017	2016
Short-term employee benefits	₩	7,467,468	7,168,569	Rs 446,619	428,742
Retirement benefits		135,329	130,448	8,094	7,802

**33. Financial Instruments**

(1) Capital risk management

The Company manages capital risk in order to maximize shareholders' profit by maintaining sound or optimal capital structure through monitoring of financial ratios, such as debt-to-equity ratio on a monthly basis and implements capital structure improvement plan when necessary.

The Company uses debt ratio as a capital management index and calculates the ratio as total liabilities divided by total equity on financial statements. The Company is not subject to externally enforced capital regulation.

Debt-to-equity ratio as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2017	2016	2017	2016
Debt (A)	₩	1,472,863,950	1,350,729,253	Rs 88,089,949	80,785,242
Equity (B)		775,154,924	812,693,926	46,360,940	48,606,096
Debt-to-equity ratio (A/B)		190.00%	166.20%	190.01%	166.20%

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**33. Financial Instruments, Continued**

(2) Details of financial assets and liabilities by category as of December 31, 2017 and 2016 are as follows:

1) Financial assets

(In thousands of won)

		<b>2017</b>			
		<b>Loans and Receivables</b>	<b>AFS financial assets</b>	<b>Total</b>	<b>Fair value</b>
Cash and cash equivalents	₩	215,443,730	-	215,443,730	215,443,730
Long-term financial instruments		4,000	-	4,000	4,000
Trade and other receivables		236,032,708	-	236,032,708	236,032,708
AFS financial assets		-	560,000	560,000	560,000
	₩	<u>451,480,438</u>	<u>560,000</u>	<u>452,040,438</u>	<u>452,040,438</u>

(In thousands of won)

		<b>2016</b>					
		<b>Loans and Receivables</b>	<b>AFS financial assets</b>	<b>Financial assets at FVTPL</b>	<b>Derivatives designated to hedge</b>	<b>Total</b>	<b>Fair value</b>
Cash and cash equivalents	₩	238,401,707	-	-	-	238,401,707	238,401,707
Long-term financial instruments		6,000	-	-	-	6,000	6,000
Trade and other receivables		262,331,429	-	-	-	262,331,429	262,331,429
AFS financial assets		-	560,000	-	-	560,000	560,000
Derivative assets		-	-	445,691	310,344	756,035	756,035
	₩	<u>500,739,136</u>	<u>560,000</u>	<u>445,691</u>	<u>310,344</u>	<u>502,055,171</u>	<u>502,055,171</u>

(In thousands of rupee)

		<b>2017</b>			
		<b>Loans and Receivables</b>	<b>AFS financial assets</b>	<b>Total</b>	<b>Fair value</b>
Cash and cash equivalents	Rs	12,885,391	-	12,885,391	12,885,391
Long-term financial instruments		239	-	239	239
Trade and other receivables		14,116,789	-	14,116,789	14,116,789
AFS financial assets		-	33,493	33,493	33,493
	Rs	<u>27,002,419</u>	<u>33,493</u>	<u>27,035,912</u>	<u>27,035,912</u>

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**33. Financial Instruments, Continued**

(2) Details of financial assets and liabilities by category as of December 31, 2017 and 2016 are as follows, continued:

1) Financial assets, continued

(In thousands of rupee)

		<b>2016</b>				
	<b>Loans and Receivables</b>	<b>AFS financial assets</b>	<b>Financial assets at FVTPL</b>	<b>Derivatives designated to hedge</b>	<b>Total</b>	<b>Fair value</b>
Cash and cash equivalents	Rs 14,258,475	-	-	-	14,258,475	14,258,475
Long-term financial instruments	359	-	-	-	359	359
Trade and other receivables	15,689,679	-	-	-	15,689,679	15,689,679
AFS financial assets	-	33,493	-	-	33,493	33,493
Derivative assets	-	-	26,655	18,561	45,216	45,216
	<u>Rs 29,948,513</u>	<u>33,493</u>	<u>26,655</u>	<u>18,561</u>	<u>30,027,222</u>	<u>30,027,222</u>

2) Financial liabilities

(In thousands of won)

		<b>2017</b>			
	<b>Financial liability measured at amortized cost</b>	<b>Financial liabilities at FVTPL</b>	<b>Total</b>	<b>Fair value</b>	
Trade and other payables	₩ 718,008,735	-	718,008,735	718,008,735	
Borrowings	233,840,987	-	233,840,987	233,840,987	
Derivative liabilities	-	409,259	409,259	409,259	
	<u>₩ 951,849,722</u>	<u>409,259</u>	<u>952,258,981</u>	<u>952,258,981</u>	

(In thousands of won)

		<b>2016</b>			
	<b>Financial liability measured at amortized cost</b>	<b>Financial liabilities at FVTPL</b>	<b>Derivatives designated to hedge</b>	<b>Total</b>	<b>Fair value</b>
Trade and other payables	₩ 641,329,795	-	-	641,329,795	641,329,795
Borrowings	194,467,721	-	-	194,467,721	194,467,721
Derivative liabilities	-	2,833,061	2,965,745	5,798,806	5,798,806
	<u>₩ 835,797,516</u>	<u>2,833,061</u>	<u>2,965,745</u>	<u>841,596,322</u>	<u>841,596,322</u>

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For the years ended December 31, 2017 and 2016

**33. Financial Instruments, Continued**

(2) Details of financial assets and liabilities by category as of December 31, 2017 and 2016 are as follows, continued:

2) Financial liabilities, continued

(In thousands of rupee)

		<b>2017</b>			
		<b>Financial liability measured at amortized cost</b>	<b>Financial liabilities at FVTPL</b>	<b>Total</b>	<b>Fair value</b>
Trade and other payables	Rs	42,943,106	-	42,943,106	42,943,106
Borrowings		13,985,705	-	13,985,705	13,985,705
Derivative liabilities		-	24,477	24,477	24,477
	Rs	56,928,811	24,477	56,953,288	56,953,288

(In thousands of rupee)

		<b>2016</b>				
		<b>Financial liability measured at amortized cost</b>	<b>Financial liabilities at FVTPL</b>	<b>Derivatives designated to hedge</b>	<b>Total</b>	<b>Fair value</b>
Trade and other payables	Rs	38,357,045	-	-	38,357,045	38,357,045
Borrowings		11,630,845	-	-	11,630,845	11,630,845
Derivative liabilities		-	169,441	177,377	346,818	346,818
	Rs	49,987,890	169,441	177,377	50,334,708	50,334,708

(3) Financial risk management

The Company is exposed to credit risk, liquidity risk and market risk. In order to manage the aforementioned risks, the Company operates a risk management policy and a program that performs close monitoring and responds to each risk factors.

Financial assets that are subject to the financial risk management consist of cash and cash equivalents, AFS financial assets, trade receivables, other receivables and others; financial liabilities subject to the financial risk management consist of trade payables, other payables, borrowings, and others.

1) Market risk

a. Foreign exchange risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The Company assesses, manages and reports, on a regular basis, the foreign exchange risk for its receivables and payables denominated in foreign currency.

The table below shows the sensitivity for each foreign currency when exchange rates change 10%. Sensitivity analysis only includes foreign currency monetary items that are not paid, and it adjusts the translation assuming exchange rate changes 10% as of December 31, 2017.

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**33. Financial Instruments, Continued**

(3) Financial risk management, continued

1) Market risk, continued

a. Foreign exchange risk, continued

(In thousands of won and in thousands of rupee)

Currency	Korean won		Indian rupee	
	10% increase	10% decrease	10% increase	10% decrease
USD	₩ 3,220,829	(3,220,829) Rs	192,633	(192,633)
EUR	(3,466,805)	3,466,805	(207,345)	207,345
JPY	(8,572,184)	8,572,184	(512,690)	512,690
Others	876,797	(876,797)	52,439	(52,439)
	₩ (7,941,363)	7,941,363 Rs	(474,963)	474,963

Details of forward contracts which are not settled as of the year ended December 31, 2017, are as follows:

(In thousands of won and in thousands JPY)

	Maturity	Contracted exchange rate	Short-position amount	long-position amount	Fair value
Held for trading	Within 3 Months	9.6540	KRW 19,234,815	JPY 2,800,000	₩ (409,259)

(In thousands of rupee and in thousands JPY, KRW)

	Maturity	Contracted exchange rate	Short-position amount	long-position amount	Fair value
Held for trading	Within 3 Months	9.6540	KRW 19,234,815	JPY 2,800,000	Rs (24,477)

b. Interest rate risk

Sensitivity analysis was conducted assuming floating rate debt current balance is the same during the whole reporting year. When reporting interest rate risk to management internally, 0.5% variation is used, representing management's assessment about reasonably possible fluctuations of interest rates.

If other variables are constant and the interest rate is lower or higher by 0.5% than the current rate, the Company's current income will decrease or increase in ₩ 524,383 thousand (Rs 31,363 thousand) for the years ended December 31, 2017, due to floating rate debt's interest rate risk.

2) Credit risk

Credit risk arises from transactions in the ordinary course of business and investment activities and when a customer or a transacting party fails to perform obligations defined by respective contract terms. In order to manage the aforementioned credit risk, the Company regularly assesses credit ratings of its customers and transacting parties based on their financial status and past experiences, and establishes credit limit for each customer or transacting party.

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For the years ended December 31, 2017 and 2016

**33. Financial Instruments, Continued**

(3) Financial risk management, continued

2) Credit risk, continued

If a credit risk occurs with respect to a dealership sale, which is a major type of the Company's sales, the respective dealership bears all of the risk; the Company manages credit risk on product sales using two management index, agreed liability rate and agreed excess rate, and when the management index exceeds the agreed rate, it imposes a release restriction on the respective dealership and transfers a credit risk arising from product sales. The Company's trade receivables are usually collected within 30 days but some of the notes receivable are collected within 75 days.

The Company estimates an allowance for the receivables that are over more than 90 days, but less than one year through an individual analysis based on each transacting party; for receivables that are not subject to individual analysis, the Company estimates an allowance based on the historical loss rates.

For the receivables that are not subject to individual analysis, the allowance is estimated by applying the average loss rate for the past three years to the remaining balance of the receivables at the end of a reporting year; the average loss rate for the past three-years is calculated by dividing the amount of actual loss occurred in the past three years by the average balance of the receivables.

The Company estimates an allowance for the receivables that are over more than 90 days, but less than one year through an individual analysis based on each transacting party; for receivables that are not subject to individual analysis, the Company estimates an allowance based on the historical loss rates.

Maximum exposure in respect of credit risk as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2017	2016	2017	2016
Trade and other receivables	₩ 236,032,708	262,331,429	Rs 14,116,789	15,689,679

3) Liquidity risk

The Company has managed liquidity risk to maintain adequate level of liquidity by periodic projecting cash outflow. To manage the risks, the Company has entered into a factoring agreement with capital financial institutions.

The contractual maturities of financial liabilities as of December 31, 2017 and 2016 are as follows:

(In thousands of won)

	2017		
	Within a year	Over 1 year	Total
Trade payables	₩ 526,482,552	-	526,482,552
Other payables	187,225,641	-	187,225,641
Short-term borrowings(*)	165,030,362	-	165,030,362
Derivatives liabilities	409,259	-	409,259
Other payables	926,535	-	926,535
Long-term borrowings(*)	-	75,719,767	75,719,767
Long-term other payables	-	3,374,008	3,374,008
	₩ 880,074,349	79,093,775	959,168,124

(\*) Including expected interest expenses.

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For the years ended December 31, 2017 and 2016

**33. Financial Instruments, Continued**

(3) Financial risk management, continued

3) Liquidity risk, continued

(In thousands of won)

		2016		
		Within a year	Over 1 year	Total
Trade payables	₩	482,391,330	-	482,391,330
Other payables		152,572,053	-	152,572,053
Short-term borrowings(*)		183,588,225	-	183,588,225
Derivatives liabilities		5,798,806	-	5,798,806
Other payables		859,341	-	859,341
Long-term borrowings(*)		-	13,145,534	13,145,534
Long-term other payables		-	5,507,071	5,507,071
	₩	<u>825,209,755</u>	<u>18,652,605</u>	<u>843,862,360</u>

(In thousands of rupee)

		2017		
		Within a year	Over 1 year	Total
Trade payables	Rs	31,488,191	-	31,488,191
Other payables		11,197,706	-	11,197,706
Short-term borrowings(*)		9,870,237	-	9,870,237
Derivatives liabilities		24,477	-	24,477
Other payables		55,415	-	55,415
Long-term borrowings(*)		-	4,528,694	4,528,694
Long-term other payables		-	201,795	201,795
	Rs	<u>52,636,026</u>	<u>4,730,489</u>	<u>57,366,515</u>

(In thousands of rupee)

		2016		
		Within a year	Over 1 year	Total
Trade payables	Rs	28,851,156	-	28,851,156
Other payables		9,125,123	-	9,125,123
Short-term borrowings(*)		10,980,157	-	10,980,157
Derivatives liabilities		346,819	-	346,819
Other payables		51,396	-	51,396
Long-term borrowings(*)		-	786,216	786,216
Long-term other payables		-	329,370	329,370
	Rs	<u>49,354,651</u>	<u>1,115,586</u>	<u>50,470,237</u>

(\*) Including expected interest expenses.

Details of commitments for borrowings as of December 31, 2017 and 2016 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2017	2016	2017	2016
Limitation of commitments for Borrowings	Used	₩ 125,000,000	67,500,000	Rs 7,476,077	4,037,081
	Unused	142,500,000	132,000,000	8,522,727	7,894,737
		<u>₩ 267,500,000</u>	<u>199,500,000</u>	<u>Rs 15,998,804</u>	<u>11,931,818</u>



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**33. Financial Instruments, Continued**

(4) Fair value of financial instruments

1) The Company's management deems that the differences between carrying value and fair value of financial assets and financial liabilities recognized as amortized cost on financial statements is not significant.

2) Valuation methods and assumptions applied in fair value measurement

The fair values of financial instruments (i.e., government bonds and unsecured corporate bonds) traded on active markets are determined with reference to quoted market prices. The Company uses the closing price as the quoted market price for its financial assets.

The fair values of derivatives where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Non-option derivatives are evaluated by discounted cash flow method using the yield curve available. Options are evaluated by option-pricing models. Foreign exchange forward contracts are determined using the yield curve derived from market interest rates with the same maturity of forward contracts. To measure interest rate swaps, the cash flows are estimated by the yield curve derived from market interest rate and discounted to calculate the present value of swaps.

Fair values of other financial assets and liabilities (except those stated above) are calculated by generally accepted valuation models based on discounted cash flow analysis. In case of borrowings, its fair value are disclosed, but estimated in amortized costs. The company deem that its book value are similar to its fair values calculated by generally accepted valuation models based on discounts cash flow analysis.

3) The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2 or 3, based on the degree to which the fair value is observable.

Level 1	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or in indirectly (i.e. derived from prices)
Level 3	input for the asset or liability that are not based on observable market data (unobservable inputs)

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**33. Financial Instruments, Continued**

(4) Fair value of financial instruments, continued

Fair values of financial instruments by hierarchy level as of December 31, 2017 and 2016 are as follows:

*(In thousands of won)*

		Level 1	Level 2	Level 3	Fair value
<b>As of December 31, 2017</b>					
Derivatives liabilities	₩	-	409,259	-	409,259
<b>As of December 31, 2016</b>					
Derivatives assets	₩	-	756,035	-	756,035
Derivatives liabilities		-	5,798,806	-	5,798,806

*(In thousands of rupee)*

		Level 1	Level 2	Level 3	Fair value
<b>As of December 31, 2017</b>					
Derivatives liabilities	Rs	-	24,477	-	24,477
<b>As of December 31, 2016</b>					
Derivatives assets	Rs	-	45,217	-	45,217
Derivatives liabilities		-	346,819	-	346,819

4) The Company measures the foreign exchange forward contract derivative liabilities: ₩ 409,259 thousand (Rs 24,477 thousand) based on the forward rate announced officially in the market as of December 31, 2017. In the event that no corresponding forward rate with residual year of the foreign exchange forward contract in the market exists, the Company measured the market value through interpolation method.

As input factors used in measuring market value of foreign exchange forward are from observable exchange forward rate, the Company classified the fair value of foreign exchange forward as level 2.