

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2018 and 2017

(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

Opinion

We have audited the accompanying consolidated financial statements of Ssangyong Motor Company and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern assumption

As described in note 35, the Group incurred operating losses during the years ended December 31, 2018 and 2017, with operating losses of ₩ 64,176 million (Rs 4,032 million) and net losses of ₩ 61,838 million (Rs 3,885 million) for the year ended December 31, 2018. As of December 31, 2018, the Group's current liabilities exceeded current assets by ₩ 424,050 million (Rs 26,639 million) and the debt ratio was 218 percent. Considering the financial conditions of the Group, we determined that events or conditions exist that may cast significant doubt on the Group's ability to continue as going concern. As determining whether a material uncertainty exists related to the identified events or conditions that may cast significant doubt on the Group's ability to continue as a going concern requires significant auditor attention, we identified the going concern as a key audit matter.

The primary procedures we performed to address the key audit matter included:

- We evaluated the overall feasibility of the Group's plan for new capital increases, additional borrowings and the extension of the maturity of short-term borrowings for the next twelve months from the end of the reporting period.
- We evaluated whether the plan was realized after the management's assessment and also considered whether additional facts or information have become available up to the date of the auditor's report.
- We assessed whether the disclosure of the Group is adequate.

Revenue recognition

As described in note 2.(4) and 31, the Group generates profits by selling finished vehicles and then selling parts and providing maintenance activities. For sales of finished vehicles and sales of parts, revenue is recognized when control is transferred to the customer. Revenue from maintenance activities is recognized at the time the maintenance activity is completed to the customer.

We identified revenue recognition as a key audit matter, because there is a significant inherent risk that sales may be recognized before the revenue recognition conditions are met and that there is a risk that the revenue is overstated due to external pressure on financial performance as the revenue is one of the key performance indicators for the Group's executive directors.

The primary procedures we performed to address the key audit matter included:

- We evaluated the effectiveness of the design and operation of the Group's IT system general control and IT application controls related to revenue recognition.
- On a sampling basis, we vouched the sales transactions to supporting documents, to evaluate whether the Group has recognized the relevant revenue in accordance with the requirements of the relevant accounting standards and the Group's accounting policies.
- Selected sales transactions recorded immediately before and after the reporting date and vouched to the supporting documents to assess whether revenue is recognized in an appropriate accounting period.

Possibility of impairment of tangible and intangible assets

As described in note 3.(11) and 3.(12), the Group reviews for indication of asset impairment at each reporting date, and estimates the recoverable amount of the asset to determine the amount of the impairment loss if there is any indication of asset impairment. When the recoverable amount of an individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment indicator existed as the PBR, stock price divided by net asset value per share, is less than 1 and the Group has incurred continuous operating losses. Considering the significant degree of the judgment in estimating the value in use of the Group used in the impairment testing for non-financial assets which requires significant auditor attention, we identified the impairment of non-financial assets as a key audit matter.

The primary procedures we performed to address the key audit matter included:

- We evaluated whether the Group's personnel who performed the impairment testing had sufficient understanding of the underlying assets.
- We assessed whether the input data for estimation of the projected future cash flows have been appropriately approved and compared the key financial information used in the discounted cash flow projections with the approved financial information.
- We evaluated the reasonableness of the Group's methodology to estimate the value in use for impairment testing.
- We have assessed whether there are significant errors in the key assumptions applied to discounted cash flow projections such as projected sales and discount rates.

Other matters

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, 2018 and 2017 have been translated into Indian rupees solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean won have been translated into rupees on the basis set forth in note 2.(1) to the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Sang-Min, Nam.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 12, 2019

This report is effective as of March 12, 2019, 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.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2018 and 2017

(In thousands of won and in thousands of rupee)

	Note	Korean won		Indian rupee	
		2018	2017	2018	2017
Assets					
Cash and cash equivalents	4,5,33 ₩	156,062,657	215,443,730	Rs 9,803,856	13,534,175
Trade and other receivables, net	7,32,33	174,203,955	203,824,819	10,943,492	12,804,274
Derivative assets	25,33	891,319	-	55,993	-
Inventories, net	8,24	228,612,470	228,374,429	14,361,435	14,346,482
Other current assets	10	11,299,802	7,548,242	709,854	474,181
Total current assets		<u>571,070,203</u>	<u>655,191,220</u>	<u>35,874,630</u>	<u>41,159,112</u>
Non-current financial instruments	5,33	4,000	4,000	251	251
Non-current other receivables, net	7,32,33	35,124,579	33,953,847	2,206,526	2,132,981
Non-current financial assets	6,33	560,000	560,000	35,179	35,179
Property, plant and equipment, net	11,13	1,228,125,718	1,239,703,951	77,150,858	77,878,202
Intangible assets, net	11,12	353,759,963	303,268,722	22,223,201	19,051,341
Investments in joint venture	9	16,706,345	15,063,851	1,049,493	946,312
Other non-current assets	10	291,258	273,283	18,297	17,168
Total non-current assets		<u>1,634,571,863</u>	<u>1,592,827,654</u>	<u>102,683,805</u>	<u>100,061,434</u>
Total assets		<u>₩ 2,205,642,066</u>	<u>2,248,018,874</u>	<u>Rs 138,558,435</u>	<u>141,220,546</u>

See accompanying notes to the consolidated financial statements.

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

As of December 31, 2018 and 2017

(In thousands of won and in thousands of rupee)

	Note	Korean won		Indian rupee	
		2018	2017	2018	2017
Liabilities					
Trade and other payables	14,18, 32,33	₩ 731,995,228	752,931,607	Rs 45,983,941	47,299,164
Short-term borrowings	13,18, 30,33	178,227,545	163,840,987	11,196,254	10,292,491
Derivative liabilities	25,33	-	409,259	-	25,710
Provision of warranty for sale - current	15	49,209,826	53,046,748	3,091,361	3,332,397
Other long-term employee benefits liabilities- current		2,726,290	1,190,438	171,266	74,783
Other current liabilities	16	32,961,084	35,176,481	2,070,616	2,209,786
Total current liabilities		<u>995,119,973</u>	<u>1,006,595,520</u>	<u>62,513,438</u>	<u>63,234,331</u>
Long-term borrowings	13,18, 30,33	75,000,000	70,000,000	4,711,500	4,397,400
Non-current other payables	33	1,593,271	3,374,008	100,089	211,955
Other non-current liabilities	16	11,317,482	-	710,964	-
Defined benefit liabilities	17	329,181,466	284,563,123	20,679,180	17,876,256
Other long-term employee benefits liabilities		14,313,194	15,138,490	899,155	951,000
Non-current provision of warranty for sale	15	85,828,260	93,192,809	5,391,731	5,854,372
Total non-current liabilities		<u>517,233,673</u>	<u>466,268,430</u>	<u>32,492,619</u>	<u>29,290,983</u>
Total liabilities		₩ <u>1,512,353,646</u>	<u>1,472,863,950</u>	Rs <u>95,006,057</u>	<u>92,525,314</u>
Equity					
Capital stock	19	689,746,980	689,746,980	43,329,905	43,329,905
Other capital surplus	20	87,909,479	133,141,920	5,522,474	8,363,976
Other equity	21	1,242,617	1,153,581	78,061	72,468
Accumulated deficit	22	(85,610,656)	(48,887,557)	(5,378,062)	(3,071,117)
Equity attributable to owners of the Company		<u>693,288,420</u>	<u>775,154,924</u>	<u>43,552,378</u>	<u>48,695,232</u>
Non-controlling interests		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity		₩ <u>693,288,420</u>	<u>775,154,924</u>	Rs <u>43,552,378</u>	<u>48,695,232</u>
Total liabilities and equity		₩ <u>2,205,642,066</u>	<u>2,248,018,874</u>	Rs <u>138,558,435</u>	<u>141,220,546</u>

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Consolidated Statements of Comprehensive loss

For the years ended December 31, 2018 and 2017

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

	Note	Korean won		Indian rupee	
		2018	2017	2018	2017
Sales	31,32	₩ 3,704,793,546	3,494,637,644	Rs 232,735,131	219,533,137
Cost of sales	24,32	3,242,522,474	2,978,559,796	203,695,262	187,113,127
Gross profit		<u>462,271,072</u>	<u>516,077,848</u>	<u>29,039,869</u>	<u>32,420,010</u>
Selling, general and administrative expenses	24,26	526,447,069	581,353,654	33,071,405	36,520,636
Operating loss		<u>(64,175,997)</u>	<u>(65,275,806)</u>	<u>(4,031,536)</u>	<u>(4,100,626)</u>
Other income	27,32	11,201,136	29,156,178	703,654	1,831,591
Other expenses	27,32	10,530,861	35,014,445	661,549	2,199,607
Finance income	25,28	13,002,067	25,979,517	816,791	1,632,033
Finance costs	25,28	13,013,168	22,025,222	817,487	1,383,624
Share of profits of joint venture	9	1,719,303	1,395,754	108,007	87,681
Loss before income taxes		<u>(61,797,520)</u>	<u>(65,784,024)</u>	<u>(3,882,120)</u>	<u>(4,132,552)</u>
Income tax expenses	23	40,707	37,174	2,557	2,336
Loss for the year		<u>(61,838,227)</u>	<u>(65,821,198)</u>	<u>(3,884,677)</u>	<u>(4,134,888)</u>
Loss attributable to:					
Owners of the Company		(61,838,227)	(65,821,198)	(3,884,677)	(4,134,888)
Non-controlling interests		-	-	-	-
Other comprehensive income(loss) for the year	21,22	(20,028,277)	23,172,136	(1,258,177)	1,455,674
Items that will never be reclassified to profit or loss:					
Defined benefit plan re-measurements	17	(20,040,505)	20,746,539	(1,258,945)	1,303,298
Defined benefit plan re-measurements of joint ventures	9	(76,809)	(13,797)	(4,825)	(868)
Items that are or may be reclassified subsequently to profit or loss:					
Changes in fair value of cash flow hedge	21,25	103,000	2,574,700	6,470	161,743
Foreign currency translation difference for foreign operation		(13,964)	(135,306)	(877)	(8,499)
Total comprehensive loss for the year		<u>₩ (81,866,505)</u>	<u>(42,649,062)</u>	<u>Rs (5,142,854)</u>	<u>(2,679,214)</u>
Total comprehensive loss attributable to:					
Owners of the Company		(81,866,505)	(42,649,062)	(5,142,854)	(2,679,214)
Non-controlling interests		-	-	-	-
Losses per share					
Basic and diluted losses per share	29	₩ (448)	(478)	Rs (28)	(30)

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, 2018 and 2017

(In thousands of won)

		Other capital surplus					Other equity	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				
Balance at January 1, 2017	₩	686,100,480	11,452,713	118,189,001	931,508	1,105,138	(1,285,813)	(3,799,101)	-	812,693,926
Total comprehensive income(loss) for the year:										
Loss for the year		-	-	-	-	-	-	(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)
Transactions with owners of the Parent Company, recognized directly in equity:										
Issue of ordinary shares		3,646,500	1,463,560	-	-	-	-	-	-	5,110,060
Balance at December 31, 2017	₩	689,746,980	12,916,273	118,189,001	931,508	1,105,138	1,153,581	(48,887,557)	-	775,154,924
Balance at January 1, 2018	₩	689,746,980	12,916,273	118,189,001	931,508	1,105,138	1,153,581	(48,887,557)	-	775,154,924
Total comprehensive income(loss) for the year:										
Loss for the year		-	-	-	-	-	-	(61,838,227)	-	(61,838,227)
Defined benefit plan re-measurements		-	-	-	-	-	-	(20,040,505)	-	(20,040,505)
Changes in fair value of cash flow hedge		-	-	-	-	-	103,000	-	-	103,000
Foreign currency translation difference for foreign operation		-	-	-	-	-	(13,964)	-	-	(13,964)
Defined benefit plan re-measurements of joint ventures		-	-	-	-	-	-	(76,809)	-	(76,809)
Transactions with owners of the Parent Company, recognized directly in equity:										
Disposal of Accumulated Deficit		-	-	(44,127,304)	-	(1,105,138)	-	45,232,441	-	-
Balance at December 31, 2018	₩	689,746,980	12,916,273	74,061,697	931,508	-	1,242,617	(85,610,656)	-	693,288,420

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued

For the years ended December 31, 2018 and 2017

(In thousands of rupee)

		Other capital surplus					Other equity	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				
Balance at January 1, 2017	Rs	43,100,832	719,461	7,424,633	58,516	69,425	(80,776)	(238,659)	-	51,053,432
Total comprehensive income(loss) for the year:										
Loss for the year		-	-	-	-	-	-	(4,134,888)	-	(4,134,888)
Defined benefit plan re-measurements		-	-	-	-	-	-	1,303,298	-	1,303,298
Changes in fair value of cash flow hedge		-	-	-	-	-	161,743	-	-	161,743
Foreign currency translation difference for foreign operation		-	-	-	-	-	(8,499)	-	-	(8,499)
Defined benefit plan re-measurements of joint ventures		-	-	-	-	-	-	(868)	-	(868)
Transactions with owners of the Parent Company, recognized directly in equity:										
Issue of ordinary shares		229,073	91,941	-	-	-	-	-	-	321,014
Balance at December 31, 2017	Rs	<u>43,329,905</u>	<u>811,402</u>	<u>7,424,633</u>	<u>58,516</u>	<u>69,425</u>	<u>72,468</u>	<u>(3,071,117)</u>	-	<u>48,695,232</u>
Balance at January 1, 2018	Rs	43,329,905	811,402	7,424,633	58,516	69,425	72,468	(3,071,117)	-	48,695,232
Total comprehensive income(loss) for the year:										
Loss for the year		-	-	-	-	-	-	(3,884,677)	-	(3,884,677)
Defined benefit plan re-measurements		-	-	-	-	-	-	(1,258,945)	-	(1,258,945)
Changes in fair value of cash flow hedge		-	-	-	-	-	6,470	-	-	6,470
Foreign currency translation difference for foreign operation		-	-	-	-	-	(877)	-	-	(877)
Defined benefit plan re-measurements of joint ventures		-	-	-	-	-	-	(4,825)	-	(4,825)
Transactions with owners of the Parent Company, recognized directly in equity:										
Disposal of Accumulated Deficit		-	-	(2,772,077)	-	(69,425)	-	2,841,502	-	-
Balance at December 31, 2018	Rs	<u>43,329,905</u>	<u>811,402</u>	<u>4,652,556</u>	<u>58,516</u>	<u>-</u>	<u>78,061</u>	<u>(5,378,062)</u>	-	<u>43,552,378</u>

See accompanying notes to the consolidated financial statements.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Cash flows from operating activities				
Loss for the year	₩ (61,838,227)	(65,821,198)	Rs (3,884,677)	(4,134,888)
Adjustment	290,877,430	280,201,951	18,272,919	17,602,286
Changes in assets and liabilities	(49,981,589)	(8,904,655)	(3,139,843)	(559,390)
Cash generated from operations (note 30)	<u>179,057,614</u>	<u>205,476,098</u>	<u>11,248,399</u>	<u>12,908,008</u>
Interest received	2,604,644	2,682,053	163,624	168,487
Interest paid	(4,550,165)	(3,793,590)	(285,841)	(238,313)
Dividends received	11,000	11,000	691	691
Net cash provided by operating activities	<u>177,123,093</u>	<u>204,375,561</u>	<u>11,126,873</u>	<u>12,838,873</u>
Cash flows from investing activities				
Proceed from disposal of property, plant and equipment	447,785	294,784	28,131	18,518
Proceed from disposal of intangible assets	-	763,636	-	47,972
Acquisition of property, plant and equipment	(136,929,799)	(157,501,790)	(8,601,930)	(9,894,262)
Acquisition of intangible assets	(119,497,975)	(118,257,642)	(7,506,862)	(7,428,945)
Cash flow used in other investing activities	(1,713,945)	(2,753,543)	(107,672)	(172,978)
Net cash used in investing activities	<u>(257,693,934)</u>	<u>(277,454,555)</u>	<u>(16,188,333)</u>	<u>(17,429,695)</u>
Cash flows from financing activities				
Proceeds from borrowings	31,769,058	70,000,000	1,995,733	4,397,400
Receipts of government grants	2,012,470	133,034	126,423	8,357
Proceeds from issuing capital stock	-	5,110,060	-	321,014
Repayment of borrowings	(12,500,000)	(25,014,060)	(785,250)	(1,571,383)
Net cash provided by financing activities	<u>21,281,528</u>	<u>50,229,034</u>	<u>1,336,906</u>	<u>3,155,388</u>
Effect of exchange rate fluctuations on cash and cash equivalents	<u>(91,760)</u>	<u>(108,017)</u>	<u>(5,765)</u>	<u>(6,786)</u>
Net decrease in cash and cash equivalents	<u>(59,381,073)</u>	<u>(22,957,977)</u>	<u>(3,730,319)</u>	<u>(1,442,220)</u>
Cash and cash equivalents at January 1	<u>215,443,730</u>	<u>238,401,707</u>	<u>13,534,175</u>	<u>14,976,395</u>
Cash and cash equivalents at December 31	₩ <u>156,062,657</u>	<u>215,443,730</u>	Rs <u>9,803,856</u>	<u>13,534,175</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, 2018 and 2017

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, 2018, 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 INR 0.06282 to ₩ 1 on December 31, 2018, 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 Group 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 December 31, 2018, to be submitted at the ordinary shareholders' meeting on March 29, 2018, were authorized for issuance at the board of directors' meeting on January 30, 2018.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation and Accounting Policies, Continued

(2) Statement of compliance, continued

The Group has initially applied K-IFRS 1109 'Financial Instruments' and K-IFRS 1115 'Revenue from Contracts with Customers' for preparation of the separate interim financial statements as of and for the twelve-month periods ended December 31, 2018. The significant changes in accounting policies are described in note 2.(4).

(3) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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.

- Property, plant and equipment and Intangible assets: Assumptions for estimating recoverable amount for impairment test of development expenditures.
- Provision for warranty for sale: Assumptions of expected expenditures based on warranty periods.
- Employee benefits: Actuarial assumptions.
- Trade and other receivables: Estimation of the possibility of impairment of receivables.
- Inventories: Estimation of the possibility of losses of inventories.
- Going concern assumption: Judgment on whether there is any significant uncertainty of going concern assumption.

(4) Changes in accounting policies

New standard, interpretations, and changes in accounting policies resulting from the adoption of them are as follows. The changes in accounting policies described below is reflected in the annual consolidated financial statements for the year ended December 31, 2018.

① K-IFRS 1115, Revenue from Contracts with Customers

K-IFRS 1115 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS 1018 Revenue, K-IFRS 1011 Construction Contracts, K-IFRS 2113 Customer Loyalty Programs, K-IFRS 2115 Agreements for the Construction of Real Estate and K-IFRS 2118 Transfers of assets from customers.

The Group adopted K-IFRS 1115 using the cumulative effect method, with the effect of initially applying this standard recognized and applied to the contracts that are not completed at the date of initial application (January 1, 2018).

There is no effect on retained earnings as of January 1, 2018 because the Group concluded that the contracts before adopting K-IFRS 1115 were completed before the date.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation and Accounting Policies, Continued

(4) Changes in accounting policies, continued

The effect of adoption of the K-IFRS 1115 on the consolidated statement of financial position as of December 31, 2018 and the consolidated of statement comprehensive loss for the years ended December 31, 2018 are as follows. The effect on the consolidated statement of cash flow for the years ended December 31, 2018 is not significant.

1) Impact on the consolidated statements of financial position as of December 31, 2018

(In thousands of won)

	Amount in accordance with K-IFRS No. 1018(A)	Amount in accordance with K-IFRS No. 1115(B)	Difference(B-A)
Current assets(*1)	₩ 566,460,978	571,070,203	4,609,225
Non-current assets	1,634,571,863	1,634,571,863	-
Total assets	2,201,032,841	2,205,642,066	4,609,225
Current liabilities(*1)	989,565,661	995,119,973	5,554,312
Non-current liabilities(*2)	515,886,115	517,233,673	1,347,558
Total liabilities	1,505,451,776	1,512,353,646	6,901,870
Total equity	₩ 695,581,065	693,288,420	(2,292,645)

(In thousands of rupee)

	Amount in accordance with K-IFRS No. 1018(A)	Amount in accordance with K-IFRS No. 1115(B)	Difference(B-A)
Current assets(*1)	Rs 35,585,079	35,874,630	289,551
Non-current assets	102,683,805	102,683,805	-
Total assets	138,268,884	138,558,435	289,551
Current liabilities(*1)	62,164,516	62,513,438	348,922
Non-current liabilities(*2)	32,407,965	32,492,619	84,654
Total liabilities	94,572,481	95,006,057	433,576
Total equity	Rs 43,696,403	43,552,378	(144,025)

(*1) The Group analyzed deferring effects of revenue and associated costs due to non-fulfillment of performance obligations in relation to the additional services.

(*2) The Group analyzed the effect of the deferred revenue due to non-performance of obligations related to the additional guarantees.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation and Accounting Policies, Continued

(4) Changes in accounting policies, continued

2) Impact on the consolidated statements of comprehensive loss for the years ended December 31, 2018

(In thousands of won)

		Amount in accordance with K-IFRS No. 1018(A)	Amount in accordance with K-IFRS No. 1115(B)	Difference(B-A)
Gross sales(*)	₩	3,735,791,107	3,704,793,546	(30,997,561)
Cost of sales(*)		3,215,416,598	3,242,522,474	27,105,876
Selling, general and administrative expenses(*)		571,759,662	526,447,069	(45,312,593)
Loss for the period	₩	(59,545,582)	(61,838,227)	(2,292,645)

(In thousands of rupee)

		Amount in accordance with K-IFRS No. 1018(A)	Amount in accordance with K-IFRS No. 1115(B)	Difference(B-A)
Gross sales(*)	Rs	234,682,398	232,735,131	(1,947,267)
Cost of sales(*)		201,992,441	203,695,262	1,702,791
Selling, general and administrative expenses(*)		35,917,942	33,071,405	(2,846,537)
Loss for the period	Rs	(3,740,653)	(3,884,677)	(144,024)

(*) The Group analyzed the effect of the deferred revenue due to non-performance of obligations related to the additional guarantees and the effect of reclassification of accounts from Selling, general and administrative expenses related to other service to cost of sales.

The Group have 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. Revenues was recognized at the time of the transfer of the risks and rewards of the goods under K-IFRS 1018, and under K-IFRS 1115, revenue is recognized at the time when the obligation to perform the transportation and warranty is identified and implemented in the contract of transfer of the goods during contract period.

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 1115 are recognized by deducting from related sales.

② K-IFRS 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 effectiveness of hedging relationships.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation and Accounting Policies, Continued

(4) Changes in accounting policies, continued

Classification and measurement of financial assets

K-IFRS 1109, Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces K-IFRS 1039 Financial Instruments: Recognition and Measurement.

Most of the requirements of K-IFRS 1039 for classification and measurement of financial liabilities are existed, but categories of held to maturity, loans and receivables and available for sales are deleted under K-IFRS 1109.

There is no effect of adoption of the K-IFRS 1109 on the consolidated statement of financial position as of January 1, 2018.

The results of the classification and measurement of financial assets held by the Group as of January 1, 2018 are as follows:

(In thousands of won)

	Under K-IFRS 1039		Under K-IFRS 1109	
	Classification	Book value	Classification	Book value
Cash and cash equivalents	Loan and receivables	₩ 215,443,730	Amortised cost	₩ 215,443,730
Trade receivables	Loan and receivables	187,064,713	Amortised cost	187,064,713
Other receivables	Loan and receivables	3,092,349	Amortised cost	3,092,349
Loans and others	Loan and receivables	11,921,800	Amortised cost	11,921,800
Long-term financial instruments	Loan and receivables	4,000	Amortised cost	4,000
Long-term loans and others	Loan and receivables	33,953,846	Amortised cost	33,953,846
Non-current financial assets(*)	AFS financial assets	560,000	FVTPL	560,000

(In thousands of rupee)

	Under K-IFRS 1039		Under K-IFRS 1109	
	Classification	Book value	Classification	Book value
Cash and cash equivalents	Loan and receivables	Rs 13,534,175	Amortised cost	Rs 13,534,175
Trade receivables	Loan and receivables	11,751,405	Amortised cost	11,751,405
Other receivables	Loan and receivables	194,261	Amortised cost	194,261
Loans and others	Loan and receivables	748,927	Amortised cost	748,927
Long-term financial instruments	Loan and receivables	251	Amortised cost	251
Long-term loans and others	Loan and receivables	2,132,981	Amortised cost	2,132,981
Non-current financial assets(*)	AFS financial assets	35,179	FVTPL	35,179

(*) The Group judged that acquisition cost is the best estimate of fair values of non-current financial assets since these do not have a quoted market price in an active market and fair values of them cannot be reliably measured due to the excessively vast range of possible outcomes of the fair value measurement.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

2. Basis of Preparation and Accounting Policies, Continued

(4) Changes in accounting policies, continued

Impairment: Financial assets and contract assets

K-IFRS 1109 replaces the 'incurred loss' model in K-IFRS 1039 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. 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.

Under K-IFRS 1109, loss allowances will be measured on either of the following bases:

- 12-month ECLs: ECLs that result from possible default events within the 12 months after the reporting date
- lifetime ECLs: ECLs that result from all possible default events over the expected life of a financial instrument.

As of December 31, 2018, the Group has recognized loss allowances amounting to ₩ 4,088 million (Rs 257 million) for loans and receivables. The Group 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.

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.

3. Significant Accounting Policies

(1) New standards and interpretations not yet adopted

A number of new standards and amendments are required to be effective starting from annual period starting on January 1, 2019, and early adoption is allowed. The followings are newly required standards and amendments that the Group decided not to early adopt in preparation of the financial statements.

Amendments to K-IFRS No.1116: Leases

K-IFRS 1116 replaces existing leases guidance, including K-IFRS 1017 Leases, K-IFRS 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 is similar to the current standard, that classifies leases as finance or operating leases.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) New standards and interpretations not yet adopted, continued

Other revision standards

The following amendment standards will not have a material impact on the Group.

- K-IFRS 2123 'Uncertainty of tax treatment'
- K-IFRS 1109 'Financial instruments' revision
- K-IFRS 1028 'Investing in affiliated and joint ventures'
- K-IFRS 1019 'employee salary'
- Revised Conceptual Framework for Financial Reporting
- K-IFRS 1117 'Insurance contract'

(2) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and the entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Group 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 Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- a. the size of the Group'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 Group, other vote holders or other parties;
- c. rights arising from other contractual arrangements; and
- d. any additional facts and circumstances that indicate that the Group 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 Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group 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 Group's accounting policies.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(2) Basis of consolidation, continued

All inter-company transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group'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 Group.

When the Group 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 Group 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 1039, Financial Instruments: Recognition and Measurement, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Investments in joint ventures

An associate is an entity over which the Group 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 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 Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(3) Investments in joint ventures, continued

Any excess of the cost of acquisition over the Group'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 Group'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 Group 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 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 Group 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 Group 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 Group 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 Group applies K-IFRS 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.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group'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 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 1036 to the extent that the recoverable amount of the investment subsequently increases.

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

(4) Revenue recognition

The Group's financial statements have been prepared by first applying K-IFRS 1115 from January 1, 2018, 'Revenue from contracts with customers'. This change is explained in Note 2 (4).

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(5) 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.

(6) Non-derivative financial assets

① Recognition and initial measurement

Trade receivables and debt securities are recognized for the first time at the time of issue. Other financial instruments and financial liabilities are recognized only when the Group becomes a party to the financial instrument.

Except for trade receivables that do not include significant financial assets, are measured at fair value at the time of initial recognition and except for, financial assets at fair value through profit or loss or financial liabilities at fair value through profit or loss, transaction costs directly related to the acquisition of the financial asset or the issuance of the financial liability are added to or subtracted from the fair value. Trade receivables that do not include significant financial elements are initially measured at transaction prices.

② Classification and subsequent measurements

At initial recognition, financial assets are amortized cost, other comprehensive income - fair value debt instruments, other comprehensive income - fair value equity instruments or profit or loss - classified as measured at fair value.

Financial assets are not reclassified after initial recognition, unless the entity modifies the financial asset management model, in which case all of the financial assets impacted are reclassified on the first day of the first reporting period after the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows.
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(6) Non-derivative financial assets, continued

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

An assessment of whether contractual cash flows consist solely of principal and interest

The principal is defined as the fair value at the initial recognition of the financial asset. Interest consists of consideration for the time value of money, consideration for credit risk associated with the principal balance in a particular time period, as well as consideration for basic loan risk and costs (e.g., liquidity risk and operating costs) as well as profit.

When evaluating whether the contractual cash flows consist solely of payments for principal and interest, we take into account the terms and conditions of the applicable product. If a financial asset includes a contractual term that changes the timing or amount of a contractual cash flow, then the contractual terms must determine whether the contractual cash flows that may occur over the life of the financial instrument consist solely of principal payments.

When evaluating this, we consider the following:

- Conditional conditions that change the amount or timing of cash flow
- Provision to adjust contractual nominal interest rate, including variable interest rate characteristics
- Moderate repayment characteristics and maturity extension characteristics
- The terms of the contract that limit our claims for cash flows arising from a particular asset (e.g. non-property features)

If the reimbursement amounts represent interest on principal and remnant principal that have not yet been outstanding and include reasonable additional compensation for the early liquidation of the contract, the early repayment characteristics are consistent with the conditions under which principal and interest are paid on a particular day. In addition, for financial assets acquired at significant discounts or premiums on the contractual face value, the amortized amount represents the actual face value of the contract and the accrued interest on the contract (but not outstanding) (in this case, If the fair value of the characteristic is mild at the time of initial recognition of the financial asset.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(6) Non-derivative financial assets, continued

Subsequent measurement and profit and loss

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. See note 3 below for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

③ **Elimination**

In the event that the contractual rights to cash flows of financial assets have ceased, the Group transfers the contractual rights to receive the cash flows of the financial assets and substantially transfers the risks and rewards of ownership of the transferred financial assets. Or if the Group does not control or control the financial assets without retaining or transferring substantially all the risks and rewards of ownership.

If the Group transacts a recognized asset in its statement of financial position but holds most of the risks and rewards of ownership of the transferred asset, the transferred asset is not removed.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets

① Financial instruments and contract assets

The Group recognize a loss reserve for expected credit losses on the following assets:

- Financial assets measured at amortized cost- Other comprehensive income
- Debt instruments measured at fair value
- Contractual assets as defined in K-IFRS 1115

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held)

Total expected credit losses are the expected credit losses due to any default event that may occur during the expected life of the instrument. The expected 12-month credit loss is the total expected period that represents the expected credit loss due to a default event of a financial instrument that can occur within 12 months after the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months) Part of credit loss.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

② Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets, continued

③ Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The evidence that the credit of a financial asset is impaired includes the following observable information.

- Significant financial difficulties of issuer or borrower
- Default
- Inevitable mitigation of initial borrowing conditions for economic or contractual reasons related to the borrower's financial difficulties
- Borrowers are likely to go bankrupt or other financial restructuring becomes more likely- Termination of active market for financial assets due to financial difficulties

④ Presentation of allowance for credit loss on statement of financial position

The allowance for losses on financial assets at amortized cost is deducted from the carrying amount of the asset. For debt instruments measured at FVOCI, changes in credit risk are included in profit or loss and changes in non-credit risk are recognized in other comprehensive income.

⑤ Amounts written off

If there is no reasonable expectation of recovery of all or part of the contractual cash flows of a financial asset, the asset is removed. For individual customers, the Group assesses the timing and amount of each individual by assessing whether there is a reasonable expectation of recovery for the enterprise customer, based on historical experience with the recovery of similar assets. The Group has no expectation that the proceeds will be recovered significantly. However, deferred financial assets can be subject to collection activities in accordance with the collection procedure of the amount due.

(8) Financial liabilities and Paid-in capital

1) 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 Group'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 Group's own equity instruments.

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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(8) Financial liabilities and Paid-in capital, continued

2) Financial liabilities

The Group classifies financial liabilities as financial liabilities at fair value through profit or loss and other financial liabilities in accordance with the definition of the substance of contractual contracts and financial liabilities and recognizes them in the consolidated statement of financial position when becoming a party to the contract.

① Financial liabilities at fair value through profit or loss

Financial liabilities are classified as held for trading if they are classified as held for trading, are derivatives, or are initially recognized at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value after initial recognition and changes in fair value are recognized in profit or loss. Transaction costs incurred in connection with the initial recognition are recognized in profit or loss as incurred.

② Other financial liabilities

Non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities are measured initially at fair value, net of transaction costs directly attributable to the issue. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method. Interest expense is recognized using the effective interest method.

③ Elimination of financial liabilities

Group only eliminates financial liabilities when the contractual obligation of the financial liability is fulfilled, cancelled or expired. The Group recognizes new financial liabilities as fair value based on new contracts and removes existing liabilities when the contractual terms of the financial liabilities change and the cash flows change substantially. When a financial liability is derecognized, the difference between the carrying amount and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognized in profit or loss.

(9) Derivative financial instruments

The Group 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.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(9) Derivative financial instruments, continued

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 separate 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 Group 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.

(10) 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.

(11) 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 separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

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

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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(11) Property, plant and equipment, continued

	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 Group 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.

(12) Intangible assets

① Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately 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 separately are carried at cost, less accumulated impairment losses.

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 Group 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 separately.

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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(12) Intangible assets, continued

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.

(13) Impairment of property, plant and equipment and intangible assets except for goodwill

At the end of each reporting period, the Group 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 Group 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 group 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.

(14) 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 separate 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 Group 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.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(14) Retirement benefit costs and termination benefits, continued

The retirement benefit obligation recognized in the separate statement of financial position represents the actual deficit or surplus in the Group'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 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.

(15) Provisions

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

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.

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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(16) 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 Group'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 Group'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 Group 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 separate 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 Group's general policy on borrowing costs (see Note 3. (17)). 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.

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

(17) 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.

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3. Significant Accounting Policies, Continued

(18) Government grants

Government grants are not recognized until there is reasonable assurance that the Group 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 separate 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 Group 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 Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(19) 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 separate 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 Group 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.

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(19) Taxation, continued

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 Group 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 Group 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.

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For the years ended December 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(20) 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 Group 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 separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 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 1002 Inventories or value in use in K-IFRS 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.

(21) Segment information

Segment information is presented in the same format as the reporting material presented to the Group's management. The Group'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.

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

The Group 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 Group 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.

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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, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Financial institution	Korean won		Indian rupee		Description
		2018	2017	2018	2017	
Cash and cash equivalents	Shinhan Bank and others	₩ 1,086,949	1,108,695	Rs 68,282	69,648	Litigated asset, government grants and others
Long-term financial instruments	Woori Bank Shinhan Bank and others	750,379 4,000	748,483 4,000	47,139 251	47,020 251	Unconfirmed reorganization debt pledged as collateral Bank account deposit
		₩ 1,841,328	1,861,178	Rs 115,672	116,919	

6. Non-current Financial Assets

Non-current financial assets as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

	Ownership (%)		2018		2017
			Acquisition cost	Net asset value	Book value
Kihyup Technology Banking Corporation(*)	1.72	₩	500,000	708,599	500,000
Korea Management Consultants Association(*)	1.50		60,000	763,033	60,000
		₩	560,000	1,471,632	560,000

(In thousands of rupee)

	Ownership (%)		2018		2017
			Acquisition cost	Net asset value	Book value
Kihyup Technology Banking Corporation(*)	1.72	Rs	31,410	44,514	31,410
Korea Management Consultants Association(*)	1.50		3,769	47,934	3,769
		Rs	35,179	92,448	35,179

(*) 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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7. Trade and Other Receivables

(1) Details of trade and other receivables as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

		2018		2017	
		Current	Non-current	Current	Non-current
Trade receivables	₩	157,304,034	1,332,414	187,191,428	539,605
Less: Allowance for doubtful accounts		(122,904)	(1,395)	(126,715)	-
Other receivables		8,760,688	147,500	8,562,086	147,594
Less: Allowance for doubtful accounts		(3,918,799)	(44,250)	(3,723,780)	(44,250)
Loans and others		12,180,936	33,690,667	11,925,878	33,322,232
Less: Allowance for doubtful accounts		-	(357)	(4,078)	(11,334)
	₩	<u>174,203,955</u>	<u>35,124,579</u>	<u>203,824,819</u>	<u>33,953,847</u>

(In thousands of rupee)

		2018		2017	
		Current	Non-current	Current	Non-current
Trade receivables	Rs	9,881,839	83,702	11,759,366	33,898
Less: Allowance for doubtful accounts		(7,720)	(88)	(7,960)	-
Other receivables		550,346	9,266	537,870	9,272
Less: Allowance for doubtful accounts		(246,179)	(2,780)	(233,928)	(2,780)
Loans and others		765,206	2,116,448	749,182	2,093,303
Less: Allowance for doubtful accounts		-	(22)	(256)	(712)
	Rs	<u>10,943,492</u>	<u>2,206,526</u>	<u>12,804,274</u>	<u>2,132,981</u>

(2) Details of aging analysis of the trade and other receivables as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

		2018		2017	
		Trade receivables	Others(*)	Trade receivables	Others(*)
Not past due	₩	158,545,766	50,741,857	187,731,033	50,086,202
Less than 30 days		-	-	-	-
More than 60 days		-	-	-	-
More than 90 days		90,682	4,037,934	-	3,871,588
	₩	<u>158,636,448</u>	<u>54,779,791</u>	<u>187,731,033</u>	<u>53,957,790</u>

(In thousands of rupee)

		2018		2017	
		Trade receivables	Others(*)	Trade receivables	Others(*)
Not past due	Rs	9,959,845	3,187,603	11,793,264	3,146,415
Less than 30 days		-	-	-	-
More than 60 days		-	-	-	-
More than 90 days		5,696	253,663	-	243,212
	Rs	<u>9,965,541</u>	<u>3,441,266</u>	<u>11,793,264</u>	<u>3,389,627</u>

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

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For the years ended December 31, 2018 and 2017

7. Trade and Other Receivables, Continued

(3) Changes in allowance for trade and other receivables for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)

	2018		2017	
	Trade receivables	Others	Trade receivables	Others
Beginning balance	₩ 126,715	3,783,442	93,208	123,730
Bad debt expense	-	195,019	33,507	3,723,115
Reversal of allowance for bad debts	(2,416)	(15,055)	-	(63,403)
Ending balance	₩ 124,299	3,963,406	126,715	3,783,442

(In thousands of rupee)

	2018		2017	
	Trade receivables	Others	Trade receivables	Others
Beginning balance	Rs 7,960	237,676	5,855	7,773
Bad debt expense	-	12,251	2,105	233,886
Reversal of allowance for bad debts	(152)	(946)	-	(3,983)
Ending balance	Rs 7,808	248,981	7,960	237,676

8. Inventories

Details of inventories as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Merchandises	₩ 44,349,645	38,056,984	Rs 2,786,045	2,390,740
Finished goods	83,787,753	66,624,320	5,263,547	4,185,340
Work-in-process	27,069,755	29,867,552	1,700,522	1,876,280
Raw materials	31,654,571	33,097,439	1,988,540	2,079,181
Sub-materials	413,615	414,413	25,983	26,033
Supplies	3,611,193	3,632,719	226,855	228,207
Goods in transit	37,725,938	56,681,002	2,369,943	3,560,701
	₩ 228,612,470	228,374,429	Rs 14,361,435	14,346,482

The Group has measured inventories at the lower of cost or net realizable value. The allowance for valuation of inventories amounted to ₩ 44,193,010 thousand (Rs 2,776,205 thousand) for the year ended December 31, 2018. The loss on valuation of inventories amounted to ₩ 8,278,944 thousand (Rs 520,083 thousand) and ₩ 3,103,515 thousand (Rs 194,963 thousand) for the years ended December 31, 2018 and 2017 is included in cost of sales.

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For the years ended December 31, 2018 and 2017

9. Investments in Subsidiaries and a Joint venture

(1) Details of investment in subsidiaries and a joint venture as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

	<u>Company</u>	<u>Location</u>	<u>Owner ship</u>	<u>Closing month</u>	<u>Industry</u>
	Ssangyong Motor (Shanghai) Co., Ltd.	China	100%	December	Sales of automobile
Subsidiaries	Ssangyong European Parts Center B.V.	Netherlands	100%	December	A/S and sales
	Ssangyong Australia Pty Ltd.(*1)	Australia	100%	December	Sales of automobile

Joint venture SY Auto Capital Co., Ltd.(*2) Korea 51% December Finance

(*1) Ssangyong Australia Pty Ltd. was established in the current period and invested ₩2,950,833 thousand equivalent of 100.00% in equity.

(*2) SY Auto Capital Co., Ltd. were established under joint venture agreement as a joint venture since the Group 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, 2018 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.	₩	15,063,851	1,719,303	(76,809)	16,706,345
		<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	946,312	108,007	(4,825)	1,049,493

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

1) The summarized financial information of the Group's subsidiaries and joint venture as of and for the year ended December 31, 2018 is as follows:

(In thousands of won)

		<u>2018</u>				<u>Net income (loss)</u>
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Sales</u>	
Ssangyong Motor (Shanghai) Co., Ltd.	₩	857,388	559,977	297,411	117,767	(770,177)
Ssangyong European Parts Center B.V.		10,573,792	13,824,773	(3,250,981)	19,240,893	157,039
Ssangyong Australia Pty Ltd.		11,298,929	10,826,727	472,202	3,311,392	(2,455,680)
SY Auto Capital Co., Ltd.(*)		89,948,057	58,812,195	31,135,862	13,564,131	2,728,552

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For the years ended December 31, 2018 and 2017

9. Investments in Subsidiaries and a Joint venture, Continued

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

(In thousands of rupee)

		2018				
		Assets	Liabilities	Equity	Sales	Net income (loss)
Ssangyong Motor (Shanghai) Co., Ltd.	Rs	53,861	35,178	18,683	7,398	(48,383)
Ssangyong European Parts Center B.V.		664,246	868,473	(204,227)	1,208,713	9,865
Ssangyong Australia Pty Ltd.		709,799	680,135	29,664	208,022	(154,266)
SY Auto Capital Co., Ltd.(*)		5,650,537	3,694,582	1,955,955	852,099	171,408

(*) Additional financial information for the joint venture for the year ended December 31, 2018 is as follows:

(In thousands of won)

	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense
SY Auto Capital Co., Ltd. ₩	2,032,075	57,730,337	821,860	2,356,269	1,298,471	914,140

(In thousands of rupee)

	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense
SY Auto Capital Co., Ltd. Rs	127,655	3,626,620	51,629	148,021	81,570	57,426

2) The summarized financial information of the Group's subsidiaries and a joint venture as of and for the year ended 2017 is as follows:

(In thousands of won)

		2017				
		Assets	Liabilities	Equity	Sales	Net income (loss)
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)

		2017				
		Assets	Liabilities	Equity	Sales	Net income (loss)
Ssangyong Motor (Shanghai) Co., Ltd.	Rs	99,296	32,928	66,368	1,187	(74,817)
Ssangyong European Parts Center B.V.		771,656	985,615	(213,959)	1,114,162	9,117
SY Auto Capital Co., Ltd.(*)		5,015,844	3,208,277	1,807,567	676,441	156,413

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For the years ended December 31, 2018 and 2017

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 2017 is as follows:

<i>(In thousands of won)</i>	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense
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>	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense
SY Auto Capital Co., Ltd. Rs	640,304	3,181,342	50,140	86,420	52,914	40,565

(4) Reconciliation from the net assets of the Group's joint venture to the carrying amount of investments in joint venture as of December 31, 2018 is as follows:

<i>(In thousands of won)</i>	Net assets	Percentage of ownership	Share of the net assets of the Group	Reconciliation	Carrying amount
SY Auto Capital Co., Ltd. ₩	31,135,862	51.00%	15,879,290	827,055	16,706,345

<i>(In thousands of rupee)</i>	Net assets	Percentage of ownership	Share of the net assets of the Group	Reconciliation	Carrying amount
SY Auto Capital Co., Ltd. Rs	1,955,955	51.00%	997,537	51,956	1,049,493

10. Other Assets

Details of other assets as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Other current assets				
Advance payments ₩	1,028,309	1,750,943	Rs 64,598	109,994
Prepaid expenses	9,947,199	5,464,706	624,884	343,294
Current tax assets	324,294	332,593	20,372	20,893
	<u>11,299,802</u>	<u>7,548,242</u>	<u>709,854</u>	<u>474,181</u>
Other non-current assets				
Other non-current assets ₩	291,258	273,283	Rs 18,297	17,168

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

11. Property, Plant and Equipment

(1) Details of property, plant and equipment as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

	2018				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 475,116,992	(7,354)	-	-	475,109,638
Buildings	550,322,646	(3,734,723)	(228,576,444)	(148,366,786)	169,644,693
Structures	112,176,542	(90,063)	(65,850,786)	(28,862,964)	17,372,729
Machinery	1,276,272,698	(166,908)	(1,023,019,261)	(92,390,513)	160,696,016
Vehicles	8,195,311	(5,878)	(5,821,277)	(516,742)	1,851,414
Tools and molds	1,261,396,400	(24,038)	(826,949,338)	(157,469,741)	276,953,283
Equipment	69,709,884	(74,248)	(52,108,182)	(3,203,583)	14,323,871
Construction in progress	110,855,937	-	-	-	110,855,937
Machinery in transit	1,318,137	--	-	-	1,318,137
	<u>₩ 3,865,364,547</u>	<u>(4,103,212)</u>	<u>(2,202,325,288)</u>	<u>(430,810,329)</u>	<u>1,228,125,718</u>

(In thousands of won)

	2017				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
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>

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For the years ended December 31, 2018 and 2017

11. Property, Plant and Equipment, Continued

(1) Details of property, plant and equipment as of December 31, 2018 and 2017 are as follows, continued:

(In thousands of rupee)

		2018				
		Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	Rs	29,846,849	(462)	-	-	29,846,387
Buildings		34,571,269	(234,616)	(14,359,172)	(9,320,401)	10,657,080
Structures		7,046,930	(5,658)	(4,136,747)	(1,813,171)	1,091,354
Machinery		80,175,451	(10,485)	(64,266,070)	(5,803,972)	10,094,924
Vehicles		514,829	(369)	(365,693)	(32,462)	116,305
Tools and molds		79,240,922	(1,510)	(51,948,957)	(9,892,249)	17,398,206
Equipment		4,379,175	(4,664)	(3,273,436)	(201,250)	899,825
Construction in progress		6,963,971	-	-	-	6,963,972
Machinery in transit		82,805	-	-	-	82,805
	Rs	<u>242,822,201</u>	<u>(257,764)</u>	<u>(138,350,075)</u>	<u>(27,063,505)</u>	<u>77,150,858</u>

(In thousands of rupee)

		2017				
		Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	Rs	29,843,453	-	-	-	29,843,453
Buildings		34,124,288	(115,941)	(13,666,145)	(9,320,401)	11,021,801
Structures		6,902,154	(6,977)	(4,028,636)	(1,816,370)	1,050,171
Machinery		81,541,062	(16,401)	(64,908,218)	(5,999,864)	10,616,579
Vehicles		485,646	(466)	(373,150)	(36,659)	75,371
Tools and molds		75,437,045	(1,961)	(46,715,762)	(9,973,952)	18,745,370
Equipment		4,247,519	(2,665)	(3,001,780)	(210,703)	1,032,370
Construction in progress		5,493,087	-	-	-	5,493,087
	Rs	<u>238,074,254</u>	<u>(144,411)</u>	<u>(132,693,691)</u>	<u>(27,357,949)</u>	<u>77,878,202</u>

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For the years ended December 31, 2018 and 2017

11. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)

	2018					
	Beginning balance	Acquisition	Disposal	Depreciation	Others(*)	Ending balance
Land	₩ 475,062,920	54,072	-	-	(7,354)	475,109,638
Buildings	175,450,508	245,602	(352)	(10,958,093)	4,907,028	169,644,693
Structures	16,717,153	509,016	(3)	(1,719,493)	1,866,056	17,372,729
Machinery	168,999,971	33,906	(96,855)	(32,913,358)	24,672,352	160,696,016
Vehicles	1,199,808	114,689	(257,180)	(415,684)	1,209,781	1,851,414
Tools and molds	298,398,114	897,900	(224,932)	(89,610,504)	67,492,705	276,953,283
Equipment	16,433,791	3,901,949	(147,314)	(6,156,278)	291,723	14,323,871
Construction in progress	87,441,686	123,665,274	-	-	(100,251,023)	110,855,937
Machinery in transit	-	1,318,137	-	-	-	1,318,137
	₩ 1,239,703,951	130,740,545	(726,636)	(141,773,410)	181,268	1,228,125,718

(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

(*) Capitalized borrowing costs in respect of construction in progress is ₩ 1,073,366 thousand (2017: ₩ 950,290 thousand) and ₩ 1,171,678 thousand (2017: ₩ 251,882 thousand) was transferred from inventory to vehicles during the year ended December 31, 2018. The government grants amounting to ₩ 2,012,470 thousand (2017: ₩ 133,034 thousand) used for asset acquisition and the effect of exchange rate fluctuation was included in others during the year ended December 31, 2018.

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11. Property, Plant and Equipment, Continued

(2) Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of rupee)

		2018					
		Beginning balance	Acquisition	Disposal	Depreciation	Others (*)	Ending balance
Land	Rs	29,843,453	3,396	-	-	(462)	29,846,387
Buildings		11,021,801	15,430	(23)	(688,387)	308,259	10,657,080
Structures		1,050,171	31,976	-	(108,019)	117,226	1,091,354
Machinery		10,616,579	2,129	(6,084)	(2,067,617)	1,549,917	10,094,924
Vehicles		75,371	7,205	(16,156)	(26,113)	75,998	116,305
Tools and molds		18,745,370	56,406	(14,130)	(5,629,332)	4,239,892	17,398,206
Equipment		1,032,370	245,120	(9,254)	(386,738)	18,327	899,825
Construction in progress		5,493,087	7,768,654	-	-	(6,297,769)	6,963,972
Machinery in transit		-	82,805	-	-	-	82,805
	Rs	<u>77,878,202</u>	<u>8,213,121</u>	<u>(45,647)</u>	<u>(8,906,206)</u>	<u>11,388</u>	<u>77,150,858</u>

(In thousands of rupee)

		2017					
		Beginning balance	Acquisition	Disposal	Depreciation	Others(*)	Ending balance
Land	Rs	29,844,041	4,594	(5,182)	-	-	29,843,453
Buildings		11,407,633	13,068	(65)	(667,043)	268,208	11,021,801
Structures		1,054,101	49,392	(492)	(105,647)	52,817	1,050,171
Machinery		10,888,090	2,827	(6,614)	(1,953,703)	1,685,979	10,616,579
Vehicles		64,988	15,364	(331)	(27,103)	22,453	75,371
Tools and molds		14,307,906	308,191	(38,347)	(4,861,582)	9,029,202	18,745,370
Equipment		1,209,278	208,908	(3,211)	(433,824)	51,219	1,032,370
Construction in progress		6,481,709	9,965,927	-	-	(10,954,549)	5,493,087
Machinery in transit		63,837	24,446	-	-	(88,283)	-
	Rs	<u>75,321,583</u>	<u>10,592,717</u>	<u>(54,242)</u>	<u>(8,048,902)</u>	<u>67,046</u>	<u>77,878,202</u>

(*) Capitalized borrowing costs in respect of construction in progress is Rs 67,429 thousand (2017: Rs 59,697 thousand) and Rs 73,605 thousand (2017: Rs 15,823 thousand) was transferred from inventory to vehicles for the year ended December 31, 2018. The government grants amounting to Rs 126,423 thousand (2017: Rs 8,357 thousand) used for asset acquisition and the effect of exchange rate fluctuation was included in others for the year ended December 31, 2018.

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11. Property, Plant and Equipment, Continued

(3) Details of pledged assets provided as collateral for the borrowings as of December 31, 2018 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	₩ 340,125,850		Rs 21,366,706	
Buildings and structures	53,980,814	207,000,000	3,391,075	13,003,740
Machinery and others	39,574		2,486	
	₩ 394,146,238	207,000,000	Rs 24,760,267	13,003,740

(4) Capitalized borrowing costs and capitalization interest rate for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Capitalized interest expenses(*)	₩ 3,724,107	3,023,949	Rs 233,949	189,964
Capitalization interest rate	3.35%	3.22%	3.35%	3.22%

(*) Capitalized borrowing costs for intangible assets are ₩ 2,650,741 thousand (Rs 166,520 thousand) and ₩ 2,073,659 thousand (Rs 130,267 thousand) for the years ended December 31, 2018 and 2017, respectively.

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For the years ended December 31, 2018 and 2017

12. Intangible Assets

(1) Details of intangible assets as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

		2018				
		Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment losses	Book value
Development cost	₩	345,185,015	-	(182,160,013)	-	163,025,002
Patents		4,360,730	(11,559)	(2,907,159)	(107,788)	1,334,224
Other intangible assets		221,383,685	(6,186)	(30,567,312)	(1,409,450)	189,400,737
	₩	<u>570,929,430</u>	<u>(17,745)</u>	<u>(215,634,484)</u>	<u>(1,517,238)</u>	<u>353,759,963</u>

(In thousands of won)

		2017				
		Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment losses	Book value
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 rupee)

		2018				
		Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment losses	Book value
Development cost	Rs	21,684,523	-	(11,443,293)	-	10,241,230
Patents		273,941	(726)	(182,628)	(6,771)	83,816
Other intangible assets		13,907,323	(389)	(1,920,237)	(88,542)	11,898,155
	Rs	<u>35,865,787</u>	<u>(1,115)</u>	<u>(13,546,158)</u>	<u>(95,313)</u>	<u>22,223,201</u>

(In thousands of rupee)

		2017				
		Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment losses	Book value
Development cost	Rs	19,157,299	-	(7,274,182)	-	11,883,117
Patents		250,284	(1,149)	(144,142)	(4,921)	100,072
Other intangible assets		8,784,821	(1,296)	(1,692,603)	(22,770)	7,068,152
	Rs	<u>28,192,404</u>	<u>(2,445)</u>	<u>(9,110,927)</u>	<u>(27,691)</u>	<u>19,051,341</u>

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For the years ended December 31, 2018 and 2017

12. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)

		2018							
		Beginning balance	Acquisition	Disposal	Amortization	Impairment	Transfer	Others (*)	Ending balance
Internally created intangible assets:									
Development cost	₩	189,161,366	-	-	(66,365,959)	-	40,229,595	-	163,025,002
Other intangible assets		104,765,438	115,704,215	-	-	(1,046,981)	(40,229,595)	2,650,742	181,843,819
	₩	293,926,804	115,704,215	-	(66,365,959)	(1,046,981)	-	2,650,742	344,868,821
Individually acquired intangible assets:									
Patents		1,592,985	376,594	-	(605,905)	(29,450)	-	-	1,334,224
Other intangible assets		7,748,933	3,417,166	-	(3,609,181)	-	-	-	7,556,918
		9,341,918	3,793,760	-	(4,215,086)	(29,450)	-	-	8,891,142
	₩	303,268,722	119,497,975	-	(70,581,045)	(1,076,431)	-	2,650,742	353,759,963

(In thousands of won)

		2017							
		Beginning balance	Acquisition	Disposal	Amortization	Impairment	Transfer	Others (*)	Ending balance
Internally created intangible assets:									
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
Individually acquired intangible assets:									
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

(*) Capitalized borrowing costs in respect of other intangible assets is ₩ 2,650,741 thousand and ₩ 2,073,659 thousand for the years ended December 31, 2018 and 2017, respectively.

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12. Intangible Assets, Continued

(2) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of rupee)

		2018							
		Beginning balance	Acquisition	Disposal	Amortization	Impairment	Transfer	Others(*)	Ending balance
Internally created intangible assets:									
Development cost	Rs	11,883,117	-	-	(4,169,110)	-	2,527,223	-	10,241,230
Other intangible assets		6,581,365	7,268,539	-	-	(65,770)	(2,527,223)	166,520	11,423,431
	Rs	18,464,482	7,268,539	-	(4,169,110)	(65,770)	-	166,520	21,664,661
Individually acquired intangible assets:									
Patents		100,072	23,658	-	(38,063)	(1,851)	-	-	83,816
Other intangible assets		486,787	214,665	-	(226,728)	-	-	-	474,724
		586,859	238,323	-	(264,791)	(1,851)	-	-	558,540
	Rs	19,051,340	7,506,862	-	(4,433,901)	(67,620)	-	166,520	22,223,201

(In thousands of rupee)

		2017							
		Beginning balance	Acquisition	Disposal	Amortization	Impairment	Transfer	Others(*)	Ending balance
Internally created intangible assets:									
Development cost	Rs	6,377,022	-	-	(2,921,957)	-	8,428,052	-	11,883,117
Other intangible assets		7,750,994	7,128,155	-	-	-	(8,428,052)	130,268	6,581,365
	Rs	14,128,016	7,128,155	-	(2,921,957)	-	-	130,268	18,464,482
Individually acquired intangible assets:									
Patents		107,393	31,101	-	(36,933)	(1,490)	-	-	100,071
Other intangible assets		486,112	269,689	(47,972)	(234,462)	13,421	-	-	486,788
		593,505	300,790	(47,972)	(271,395)	11,931	-	-	586,859
	Rs	14,721,521	7,428,945	(47,972)	(3,193,352)	11,931	-	130,268	19,051,341

(*) Capitalized borrowing costs in respect of other intangible assets is Rs 166,520 thousand and Rs 130,268 thousand for the years ended December 31, 2018 and 2017, respectively.

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12. Intangible Assets, Continued

(3) Details of capitalized development costs as of December 31, 2018 are as follows:

(In thousands of won and in thousands of rupee)

	Project name		Korean won		Indian rupee		Remaining amortization period(*1)
			2018	2017	2018	2017	
Development cost	RV(*1)	₩	139,065,824		Rs	8,736,115	1~4 years
	Power train and others		23,959,178			1,505,116	1~4 years
Other intangible assets	RV(*2)		164,494,424			10,333,540	-
	Power train and others		17,349,394			1,089,890	-
		₩	344,868,820		Rs	21,664,661	

(*1) If the amortization is initiated, the remaining amortization period is recorded. If the amortization is not started, it is marked with "-" only.

(*2) It is a development project for vehicles under sale as of December 31, 2018.

(*3) On-going development project for vehicles as of December 31, 2018 to respond to consumer needs and market conditions.

(4) Details of expenditures for research and developments for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee		
		2018	2017	2018	2017	
Capitalization of intangible assets	₩	118,354,956	115,543,178	Rs	7,435,059	7,258,422
Manufacturing costs		69,401,524	56,080,698		4,359,804	3,522,989
Selling and administrative expenses		13,882,448	19,616,836		872,095	1,232,331
	₩	201,638,928	191,240,712	Rs	12,666,958	12,013,742

13. Borrowings

(1) Details of short-term borrowings as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

Creditor	Type	Interest rate (%)	Korean won		Indian rupee		
			2018	2017	2018	2017	
Korea Development Bank	Operating fund	CD+1.98	₩ 30,000,000	30,000,000	Rs	1,884,600	1,884,600
Woori Bank	Operating fund	-	-	12,500,000	-	-	785,250
Kookmin Bank	Facility fund(*)	CD+2.00	5,000,000	-	314,100	-	-
Citibank Korea and others	Banker's usance	0.30 ~3.53	143,227,545	121,340,987	8,997,554	7,622,641	
			₩ 178,227,545	163,840,987	Rs	11,196,254	10,292,491

(*) Current portion of long-term borrowing

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13. Borrowings, Continued

(2) Details of long-term borrowing as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

Creditor	Type	Interest rate(%)	Korean won		Indian rupee	
			2018	2017	2018	2017
Korea Development Bank	Facility fund	CD+1.57	₩ 70,000,000	70,000,000	Rs 4,397,400	4,397,400
Woori Bank	Operating fund	-	-	12,500,000	-	785,250
Kookmin Bank	Facility fund	CD+2.00	10,000,000	-	628,200	-
Less: Current portion			(5,000,000)	(12,500,000)	(314,100)	(785,250)
			₩ 75,000,000	70,000,000	Rs 4,711,500	4,397,400

(3) Details of pledged assets as collateral for borrowings as of December 31, 2018 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	10,000,000	12,000,000
		₩ 110,000,000	207,000,000

(In thousands of rupee)

Creditor	Pledged assets	Borrowings amount	Maximum credit amount
Korea Development Bank	Land, buildings, structures and machinery	Rs 6,282,000	12,249,900
Woori Bank	Land, buildings and machinery	628,200	753,840
		Rs 6,910,200	13,003,740

14. Other Financial Liabilities

Details of other financial liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2018	2017	2018	2017
Accrued expenses	₩	38,053,382	37,164,320	Rs 2,390,513	2,334,663

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15. Provision of Warranty for sale

The Group 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, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Beginning balance	₩ 146,239,557	145,848,984	Rs 9,186,769	9,162,233
Increase	27,317,842	41,427,330	1,716,106	2,602,465
Decrease	(38,519,313)	(41,036,757)	(2,419,783)	(2,577,929)
Ending balance	₩ 135,038,086	146,239,557	Rs 8,483,092	9,186,769
Current	₩ 49,209,826	53,046,748	Rs 3,091,361	3,332,397
Non-current	85,828,260	93,192,809	5,391,731	5,854,372

16. Other Liabilities

Details of other liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

	2018		2017	
	Current	Non-current	Current	Non-current
Advances from customers	₩ 3,817,676	-	₩ 3,943,130	-
Deposits received	525,166	-	531,789	-
Withholdings	22,650,209	-	30,701,562	-
Unearned revenue	5,968,033	11,317,482	-	-
	₩ 32,961,084	11,317,482	₩ 35,176,481	-

(In thousands of rupee)

	2018		2017	
	Current	Non-current	Current	Non-current
Advances from customers	Rs 239,826	-	Rs 247,707	-
Deposits received	32,991	-	33,407	-
Withholdings	1,422,887	-	1,928,672	-
Unearned revenue	374,912	710,964	-	-
	Rs 2,070,616	710,964	Rs 2,209,786	-

SSANGYONG MOTOR COMPANY AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017

17. Employee Benefits

(1) Details of defined benefit liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Present value of defined benefit obligations	₩ 330,195,117	285,658,090	Rs 20,742,858	17,945,042
Fair value of plan assets	(1,013,651)	(1,094,967)	(63,678)	(68,786)
	₩ 329,181,466	284,563,123	Rs 20,679,180	17,876,256

(2) Changes in defined benefit liabilities for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)

Details	2018		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	₩ 285,658,090	(1,094,967)	284,563,123
Current service cost	36,320,832	-	36,320,832
Interest expense (income)	8,892,349	(34,034)	8,858,315
Sub-total	₩ 330,871,271	(1,129,001)	329,742,270
Re-measurement factors:			
Re-measurements of plan assets	-	20,618	20,618
Loss (gain) from experience adjustments	1,253,039	-	1,253,039
Loss (gain) from changes in financial assumptions	18,608,552	-	18,608,552
Loss (gain) from changes in demographic assumptions	158,296	-	158,296
Sub-total	₩ 20,019,887	20,618	20,040,505
Benefit paid by plan	(94,732)	94,732	-
Benefit paid directly	(20,601,309)	-	(20,601,309)
Ending balance	₩ 330,195,117	(1,013,651)	329,181,466

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For the years ended December 31, 2018 and 2017

17. Employee Benefits, Continued

(2) Changes in defined benefit liabilities for the years ended December 31, 2018 and 2017 are as follows, continued:

(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 rupee)

Details	2018		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	Rs 17,945,041	(68,786)	17,876,255
Current service cost	2,281,675	-	2,281,675
Interest expense (income)	558,617	(2,138)	556,479
Sub-total	Rs 20,785,333	(70,924)	20,714,409
Re-measurement factors:			
Re-measurements of plan assets	-	1,295	1,295
Loss (gain) from experience adjustments	78,717	-	78,717
Loss (gain) from changes in financial assumptions	1,168,989	-	1,168,989
Loss (gain) from changes in demographic assumptions	9,944	-	9,944
Sub-total	Rs 1,257,650	1,295	1,258,945
Benefit paid by plan	(5,951)	5,951	-
Benefit paid directly	(1,294,174)	-	(1,294,174)
Ending balance	Rs 20,742,858	(63,678)	20,679,180

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For the years ended December 31, 2018 and 2017

17. Employee Benefits, Continued

(2) Changes in defined benefit liabilities for the years ended December 31, 2018 and 2017 are as follows, continued:

(In thousands of rupee)

Details	2017		
	PV of defined benefit obligation	Plan assets	Total
Beginning balance	Rs 17,639,395	(74,345)	17,565,050
Current service cost	2,358,835	-	2,358,835
Interest expense (income)	506,571	(2,133)	504,438
Sub-total	Rs 20,504,801	(76,478)	20,428,323
Re-measurement factors:			
Re-measurements of plan assets	-	1,225	1,225
Loss (gain) from experience adjustments	(776,235)	-	(776,235)
Loss (gain) from changes in financial assumptions	(539,912)	-	(539,912)
Loss (gain) from changes in demographic assumptions	11,624	-	11,624
Sub-total	Rs (1,304,523)	1,225	(1,303,298)
Benefit paid by plan	(6,467)	6,467	-
Benefit paid directly	(1,248,770)	-	(1,248,770)
Ending balance	Rs 17,945,041	(68,786)	17,876,255

(3) The components of plan assets as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Insurance contracts	₩ 1,013,651	1,094,967	Rs 63,678	68,786

(4) Actuarial assumptions used related to plans as of December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate (%)	2.63	3.15
Rate of future salary growth (%)	3.95	3.94

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, 2018 and 2017 are 11.6 years and 12.0 years, respectively.

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17. Employee Benefits, Continued

(5) The sensitivity of the defined benefit obligations to key assumptions as of December 31, 2018 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	₩ (33,690,779)	39,170,533	Rs (2,116,455)	2,460,693
Future salary growth	37,026,125	(32,517,154)	2,325,981	(2,042,728)

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, 2018 are as follows:

- (1) The Group carries product liability insurance for all products that it sells.
- (2) As of December 31, 2018, the Group has agreements with Korea Development Bank and others for various borrowings, trading finance and others with limit of ₩ 257,000 million (Rs 16,165 million) and USD 260 million.
- (3) As of December 31, 2018, the Group 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.
- (4) As of December 31, 2018, 3 claims as a plaintiff were filled with the claim amount of ₩ 4,592 million (Rs 288 million) and 12 claims as a defendant were filled with the claims of ₩ 3,879 million (Rs 244 million). The provision amounting to ₩ 6,584 million (Rs 414 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 Group will be required to incur an outflow.
- (5) Operation lease agreements - Lessee
 - 1) The Group has entered into operating lease agreements such as office supply lease and vehicle lease, and plans for future lease payment related to non-cancellable operation lease agreements as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

Details	2018		
	Less than 1 year	1~5 year	Total
Buildings etc	₩ 1,533,972	4,310,848	5,844,820
Vehicles	409,123	442,359	851,482
Equipment	1,468,006	2,104,231	3,572,237
	₩ 3,411,101	6,857,438	10,268,539

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18. Commitments and Contingencies, Continued

(5) Operation lease agreements – Lessee, continued

(In thousands of won)

Details	2017		
	Less than 1 year	1~5 year	Total
Buildings, etc.	₩ 860,361	2,493,782	3,354,143
Vehicles	405,207	226,431	631,638
Equipment	2,200,110	5,331,313	7,531,423
	₩ 3,465,678	8,051,526	11,517,204

(In thousands of rupee)

Details	2018		
	Less than 1 year	1~5 year	Total
Buildings, etc.	Rs 96,364	270,807	367,172
Vehicles	25,701	27,789	53,490
Equipment	92,220	132,188	224,408
	Rs 214,285	430,784	645,070

(In thousands of won)

Details	2017		
	Less than 1 year	1~5 year	Total
Buildings, etc.	Rs 54,048	156,659	210,707
Vehicles	25,455	14,224	39,679
Equipment	138,211	334,913	473,124
	Rs 217,714	505,797	723,511

2) The lease payments recognized by us are ₩ 5,666 million (Rs 356 million) and ₩ 5,649 million (Rs 355 million), respectively, in respect of operating lease agreements, including terminable contracts during 2018 and 2017.

(6) Operation lease agreements -Lessor

Details of income from sublease and income from lease for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Income from sublease	₩ 663,325	688,145	Rs 41,670	43,229
Income from lease	178,956	658,188	11,242	41,347
	₩ 842,281	1,346,333	Rs 52,912	84,577

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19. Capital Stock

The Group's capital stock as of December 31, 2018 and 2017 are as follows:

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

	Korean won		Indian rupee	
	2018	2017	2018	2017
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	137,949,396	137,949,396	137,949,396
Par value	5,000	5,000	314	314
Capital stock	₩ 689,746,980	689,746,980	Rs 43,329,905	43,329,905

20. Other Capital Surplus and Retained Earnings

Details of other capital surplus and retained earnings as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Paid-up capital in excess of par	₩ 12,916,273	12,916,273	Rs 811,402	811,402
Gain on capital reduction	74,061,697	118,189,001	4,652,556	7,424,633
Debt to be swapped for equity	931,509	931,508	58,516	58,516
Gain on disposal of treasury	-	1,105,138	-	69,425
	₩ 87,909,479	133,141,920	Rs 5,522,474	8,363,976

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For the years ended December 31, 2018 and 2017

21. Other Equity

(1) Details of the Group's other equity as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Gains (losses) on valuation of derivatives	₩ 103,000	-	- Rs 6,470	-
Accumulated foreign currency translation difference for foreign operations	1,139,617	1,153,581	71,591	72,468
	<u>1,242,617</u>	<u>1,153,581</u>	<u>78,061</u>	<u>72,468</u>

(2) Changes in the Group's gains (losses) on valuation of derivatives for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Beginning balance	₩ -	(2,574,700)	- Rs	(161,743)
Gains on valuation of derivatives	103,000	-	6,470	-
Reclassified to net income (losses)	-	2,574,700	-	161,743
Ending balance	₩ <u>103,000</u>	<u>-</u>	<u>- Rs 6,470</u>	<u>-</u>

(3) Changes in the foreign currency translation difference for foreign operation for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Beginning balance	₩ 1,153,581	1,288,887	Rs 72,468	80,967
Foreign currency translation difference for foreign operation	(13,964)	(135,306)	(877)	(8,499)
Ending balance	₩ <u>1,139,617</u>	<u>1,153,581</u>	<u>Rs 71,591</u>	<u>72,468</u>

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22. Deficit

(1) Details of deficit as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Deficit	₩ (85,610,656)	(48,887,557)	Rs (5,378,062)	(3,071,117)

(2) Changes in deficit for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Beginning balance	₩ (48,887,556)	(3,799,101)	Rs (3,071,117)	(238,659)
Disposition of deficit	45,232,442	-	2,841,502	-
Loss for the year	(61,838,227)	(65,821,198)	(3,884,677)	(4,134,888)
Defined benefit plan re-measurement	(20,040,506)	20,746,539	(1,258,945)	1,303,298
Defined benefit plan re-measurement from joint venture	(76,809)	(13,797)	(4,825)	(868)
Ending balance	₩ (85,610,656)	(48,887,557)	Rs (5,378,062)	(3,071,117)

23. Income Tax Expense

(1) Composition of income tax expense for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Income tax expense of parent(*)	₩ -	-	Rs -	-
Income tax expense of subsidiary	40,708	37,174	2,557	2,223
Total	₩ 40,708	37,174	Rs 2,557	2,223

(*) 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, 2018.

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For the years ended December 31, 2018 and 2017

23. Income Tax Expense, Continued

(2) Changes in temporary differences and deferred income tax assets for the years ended December 31, 2018 and 2017, are as follows:

(In thousands of won)

		2018			Ending balance
		Beginning balance	Decrease	Increase	
Allowance for doubtful accounts	₩	1,597,027	1,614,687	2,432,766	2,415,106
Government grants		3,025,471	2,297,962	4,312,115	5,039,624
Provision for warranties		146,239,557	146,239,557	135,038,086	135,038,086
Defined benefit liabilities		287,112,258	20,550,333	64,848,500	331,410,425
Impairment loss of property, plant and equipment		91,298,992	6,653,531	23,829	84,669,290
Intangible assets		23,602,904	6,590,801	2,145,022	19,157,125
Depreciation		13,534,126	1,031,848	4,259,448	16,761,726
Other payables		26,556,965	28,265,201	23,788,110	22,079,874
Accrued expenses		36,769,573	36,769,573	37,502,860	37,502,860
Investment in subsidiaries		(2,480,564)	-	(1,642,493)	(4,123,057)
Derivatives		409,259	409,259	(891,319)	(891,319)
Other long-term employee benefit		16,328,928	16,328,928	17,039,484	17,039,484
Trade receivable		2,458,305	-	446,041	2,904,346
Other receivable		2,007,258	37,313	1,059,860	3,029,805
Land		(260,713,528)	-	-	(260,713,528)
Others		838,816	(100,987)	3,953,187	4,892,990
Deficit carried over on tax		1,108,462,181	-	47,224,696	1,155,686,877
Sub-total	₩	1,497,047,528	266,688,006	341,540,192	1,571,899,714
Not recognized as deferred tax assets		1,497,047,528	266,688,006	341,540,192	1,571,899,714
Recognized as deferred tax assets		-	-	-	-
Statutory tax rate (%)		22%			22%
Deferred tax assets resulting from temporary differences or deficits carried over on tax		-	-	-	-
Tax credit carry-forwards:		3,223,052	-	19,233,613	22,456,665
Not recognized as deferred tax assets		3,223,052	-	19,233,613	22,456,665
Recognized as deferred tax assets		-	-	-	-
Deferred tax assets resulting from tax credit carry-forwards		-	-	-	-
Total deferred income tax	₩	-	-	-	-

The Group 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, 2018 and 2017, are as follows, continued:

(In thousands of won)

		2017			
		Beginning balance	Decrease	Increase	Ending balance
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		-	-	(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	₩	1,478,775,988	276,888,601	295,160,141	1,497,047,528
Not recognized as deferred tax assets		1,478,775,988	276,888,601	295,160,141	1,497,047,528
Recognized as deferred tax assets		-	-	-	-
Statutory tax rate (%)		22%			22%
Deferred tax assets resulting from temporary differences or deficits carried over on tax		-	-	-	-
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	₩	-	-	-	-

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For the years ended December 31, 2018 and 2017

23. Income Tax Expense, Continued

(2) Changes in temporary differences and deferred income tax assets for the years ended December 31, 2018 and 2017, are as follows, continued:

(In thousands of rupee)

		2018			Ending balance
		Beginning balance	Decrease	Increase	
Allowance for doubtful accounts	Rs	100,325	101,435	152,826	151,717
Government grants		190,060	144,358	270,887	316,589
Provision for warranties		9,186,769	9,186,769	8,483,093	8,483,093
Defined benefit liabilities		18,036,392	1,290,972	4,073,783	20,819,203
Loss on revaluation of property, plant and equipment		5,735,403	417,975	1,497	5,318,925
Intangible assets		1,482,734	414,034	134,750	1,203,451
Depreciation		850,214	64,821	267,579	1,052,972
Other payables		1,668,309	1,775,620	1,494,369	1,387,058
Accrued expenses		2,309,865	2,309,865	2,355,930	2,355,930
Investment in subsidiaries		(155,829)	-	(103,181)	(259,010)
Derivatives		25,710	25,710	(55,993)	(55,993)
Other long-term employee benefit		1,025,783	1,025,783	1,070,420	1,070,420
Trade receivable		154,431	-	28,020	182,451
Other receivable		126,096	2,344	66,580	190,332
Land		(16,378,024)	-	-	(16,378,024)
Others		52,694	(6,344)	248,339	307,378
Deficit carried over on tax		69,633,594	-	2,966,655	72,600,250
Sub-total	Rs	94,044,526	16,753,341	21,455,555	98,746,740
Not recognized as deferred tax assets		94,044,526	16,753,341	21,455,555	98,746,740
Recognized as deferred tax assets		-	-	-	-
Statutory tax rate (%)		22%			22%
Deferred tax assets resulting from temporary differences		-	-	-	-
Tax credit carry-forwards:		202,472	-	1,208,256	1,410,728
Not recognized as deferred tax assets		202,472	-	1,208,256	1,410,728
Recognized as deferred tax assets		-	-	-	-
Deferred tax assets resulting from tax credit carry-forwards		-	-	-	-
Total deferred income tax	Rs	-	-	-	-

The Group 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, 2018 and 2017, are as follows, continued:

(In thousands of rupee)

		2017			Ending balance
		Beginning balance	Decrease	Increase	
Allowance for doubtful accounts	Rs	-	-	100,325	100,325
Government grants		190,062	73,080	73,078	190,060
Provision for warranties		9,162,233	9,162,233	9,186,769	9,186,769
Defined benefit liabilities		17,736,437	1,241,735	1,541,690	18,036,392
Loss on revaluation of property, plant and equipment		6,240,339	504,936	-	5,735,403
Intangible assets		14,529	516,495	1,984,701	1,482,734
Depreciation		724,206	70,675	196,682	850,214
Other payables		1,652,021	1,681,925	1,698,213	1,668,309
Accrued expenses		2,153,103	2,153,103	2,309,865	2,309,865
Investment in subsidiaries		-	-	(155,829)	(155,829)
Derivatives		316,787	316,787	25,710	25,710
Other long-term employee benefit		1,048,378	1,048,378	1,025,783	1,025,783
Trade receivable		-	-	154,431	154,431
Other receivable		-	271,444	397,540	126,096
Land		(16,378,024)	-	-	(16,378,024)
Others		55,746	6,055	3,003	52,694
Deficit carried over on tax		69,980,890	347,295	-	69,633,594
Sub-total	Rs	92,896,708	17,394,142	18,541,960	94,044,526
Not recognized as deferred tax assets		92,896,708	17,394,142	18,541,960	94,044,526
Recognized as deferred tax assets		-	-	-	-
Statutory tax rate (%)		22%			22%
Deferred tax assets resulting from temporary differences		-	-	-	-
Tax credit carry-forwards:		202,472	-	-	202,472
Not recognized as deferred tax assets		202,472	-	-	202,472
Recognized as deferred tax assets		-	-	-	-
Deferred tax assets resulting from tax credit carry-forwards		-	-	-	-
Total deferred income tax	Rs	-	-	-	-

(3) Details of information that the expected expiration of tax losses and deferred tax credits which are not recognized as deferred tax assets.

(In thousands of won and in thousands of rupee)

		Korean won			Indian rupee	
		Deficit carried over on tax	Tax credit carry-forwards		Deficit carried over on tax	Tax credit carry-forwards
0 ~ 1 Year	₩	569,599,726	2,023,360	Rs	35,782,255	127,107
1 ~ 5 Years		431,643,646	20,433,305		27,115,854	1,283,620
5 ~ 10 Years		154,443,505	-		9,702,141	-
	₩	1,155,686,877	22,456,665	Rs	72,600,250	1,410,727

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24. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Changes in inventories	₩ (20,658,297)	(19,936,950)	Rs (1,297,754)	(1,252,439)
Raw materials consumed and purchase of merchandise	2,560,539,435	2,369,824,804	160,853,087	148,872,394
Employee benefits	543,376,706	525,957,045	34,134,926	33,040,622
Depreciation	141,773,410	128,126,424	8,906,206	8,048,902
Amortization	70,581,045	50,833,365	4,433,900	3,193,352
Others	473,357,244	505,108,763	29,736,302	31,730,932
	₩ 3,768,969,543	3,559,913,451	Rs 236,766,667	223,633,763

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

25. Derivatives

The Group holds derivative contracts to minimize foreign exchange risk. As of December 31, 2018, there is derivative for cash flow hedge ₩ 103,000 thousand (Rs 6,470 thousand) recognized in Other equity, and changes in fair value of derivative not designated as hedging instrument for the year ended December 31, 2018 is net amounting to ₩ 788,319 thousand (Rs 49,522 thousand) recognized in current profit.

26. Selling, General and Administrative Expenses

(1) Details of selling expenses for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Warranty expenses	₩ 49,391,583	64,029,487	Rs 3,102,779	4,022,333
Commissions	235,656,996	236,689,627	14,803,973	14,868,841
Advertising	17,977,724	18,803,819	1,129,361	1,181,256
Export expenses	9,247,333	33,078,418	580,917	2,077,986
Others	23,476,537	38,096,189	1,474,796	2,393,203
	₩ 335,750,173	390,697,540	Rs 21,091,826	24,543,619

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26. Selling, General and Administrative Expenses, Continued

(2) Details of general and administrative expenses for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Salaries	₩ 53,615,276	52,725,428	Rs 3,368,112	3,312,211
Retirement benefit costs	5,912,583	5,732,951	371,430	360,144
Employee welfare	13,249,465	12,329,403	832,331	774,533
Rent expense	12,226,314	11,537,739	768,057	724,801
Service fees	37,222,934	35,326,474	2,338,345	2,219,209
Depreciation	15,538,974	14,089,709	976,158	885,116
R&D expenses	13,882,448	19,616,836	872,095	1,232,330
Amortization	4,129,695	4,320,197	259,427	271,395
Bad debt expense	(2,416)	33,507	(152)	2,105
Others	34,921,623	34,943,870	2,193,776	2,195,173
	₩ <u>190,696,896</u>	<u>190,656,114</u>	Rs <u>11,979,579</u>	<u>11,977,017</u>

27. Other Income and Expenses

(1) Details of other income for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Foreign exchange transaction gain	₩ 5,772,244	11,049,978	Rs 362,612	694,159
Foreign exchange translation gain	269,394	501,746	16,923	31,520
Gain on disposal of property, plant and equipment	243,229	179,970	15,280	11,306
Others	4,916,269	17,424,484	308,839	1,094,606
	₩ <u>11,201,136</u>	<u>29,156,178</u>	Rs <u>703,654</u>	<u>1,831,591</u>

(2) Details of other expenses for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Foreign exchange transaction loss	₩ 5,878,888	9,171,400	Rs 369,312	576,147
Foreign exchange translation loss	601,157	659,308	37,765	41,418
Loss on disposal of property, plant and equipment	522,078	748,646	32,797	47,030
Loss on disposal of trade receivables	73,131	14,775,609	4,594	928,204
Other bad debt expenses	195,019	3,723,115	12,251	233,886
Others	3,260,588	5,936,365	204,830	372,922
	₩ <u>10,530,861</u>	<u>35,014,443</u>	Rs <u>661,549</u>	<u>2,199,607</u>

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28. Finance Income and Costs

(1) Details of finance income for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Interest income	₩ 2,485,558	2,756,319	Rs 156,143	173,152
Dividend income	11,000	11,000	691	691
Foreign exchange transaction gain	3,959,690	8,772,393	248,748	551,082
Foreign exchange translation gain	903,198	5,615,197	56,740	352,746
Realized gain of financial derivatives	4,835,727	8,824,608	303,780	554,362
Unrealized gain of financial derivatives	806,894	-	50,689	-
	₩ <u>13,002,067</u>	<u>25,979,517</u>	Rs <u>816,791</u>	<u>1,632,033</u>

(2) Details of finance costs for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Interest expense	₩ 963,968	918,941	Rs 60,556	57,728
Foreign exchange transaction loss	9,322,029	11,945,458	585,610	750,413
Foreign exchange translation loss	1,017,763	5,737	63,936	360
Realized loss of financial derivatives	1,690,833	8,745,827	106,218	549,413
Unrealized loss of financial derivatives	18,575	409,259	1,167	25,710
	₩ <u>13,013,168</u>	<u>22,025,222</u>	Rs <u>817,487</u>	<u>1,383,624</u>

(3) Details of the Group's financial net profit or loss for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Financial assets/ liabilities at amortized cost	₩ (3,955,314)	4,273,773	Rs (248,471)	268,479
Non-current financial assets	11,000	11,000	691	691
Derivatives financial assets (liabilities)	3,933,213	(330,478)	247,084	(20,761)
	₩ <u>(11,101)</u>	<u>3,954,295</u>	Rs <u>(696)</u>	<u>248,409</u>

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29. Losses per Share

(1) Basic losses per share for the years ended December 31, 2018 and 2017 are calculated as follows:

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

	Korean won		Indian rupee	
	2018	2017	2018	2017
Loss for the year	₩ (61,838,227)	(65,821,198)	Rs (3,884,677)	(4,134,888)
Loss contributed to common stocks	(61,838,227)	(65,821,198)	(3,884,677)	(4,134,888)
Weighted average number of common shares	137,949,396	137,801,538	137,949,396	137,801,538
Basic losses per share(*)	₩ (448)	(478)	Rs (28)	(30)

(*) Diluted losses per share are not calculated for the years ended December 31, 2018 and 2017, because there are no dilutive shares as of December 31, 2018 and 2017.

(2) Weighted average number of common shares outstanding for the years ended December 31, 2018 and 2017 are calculated as follows:

(In shares)

	2018		
	Outstanding period	Common shares issued	Common shares outstanding
Beginning	2018-01-01~2018-12-31	137,949,396	137,949,396

(In shares)

	2017		
	Outstanding period	Common shares issued	Common shares outstanding
Beginning	2017-01-01~2017-03-15	137,220,096	27,819,965
Issuing	2017-03-16~2017-12-31	137,949,396	109,981,573
			<u>137,801,538</u>

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30. Cash Flows

(1) Details of cash flows from operating activities for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Loss for the year	₩ (61,838,227)	(65,821,198)	Rs (3,884,677)	(4,134,888)
Adjustments for:				
Retirement benefit costs	45,179,147	45,579,001	2,838,154	2,863,273
Depreciation	141,773,410	128,126,424	8,906,206	8,048,902
Amortization	70,581,045	50,833,365	4,433,901	3,193,352
Losses on disposal of trade receivables	73,131	14,775,609	4,594	928,204
Foreign exchange translation gain and loss, net	446,328	(5,451,898)	28,038	(342,488)
Loss (Gain) on disposal of property, plant and equipment	278,849	568,676	17,516	35,724
Interest expense and income, net	(1,521,590)	(1,837,378)	(95,587)	(115,424)
Dividends income	(11,000)	(11,000)	(691)	(691)
Unrealized gain and loss of financial derivatives, net	(788,319)	409,259	(49,522)	25,710
Losses on valuation of inventories	7,981,632	3,542,010	501,406	222,509
Increase in provision of warranty for sale	27,285,585	41,427,330	1,714,080	2,602,465
Equity profit on investments	(1,719,302)	(1,395,753)	(108,007)	(87,681)
Others	1,318,514	3,636,306	82,831	228,431
	<u>290,877,430</u>	<u>280,201,951</u>	<u>18,272,919</u>	<u>17,602,286</u>
Changes in assets and liabilities				
Trade receivables	28,582,182	10,530,730	1,795,533	661,540
Other receivables	66,885	(1,095,178)	4,202	(68,799)
Inventories	(9,587,462)	(27,109,085)	(602,284)	(1,702,993)
Trade payables	8,633,150	43,628,066	542,334	2,740,715
Other payables	(25,900,071)	22,988,506	(1,627,042)	1,444,138
Accrued expenses	751,693	2,495,403	47,221	156,761
Usage of provision of warranty for sale	(38,519,313)	(41,036,756)	(2,419,783)	(2,577,929)
Payment of retirement benefits	(20,601,309)	(19,878,539)	(1,294,174)	(1,248,770)
Others	6,592,656	572,198	414,150	35,947
	<u>(49,981,589)</u>	<u>(8,904,655)</u>	<u>(3,139,843)</u>	<u>(559,390)</u>
Net cash provided by operating activities	₩ <u>179,057,614</u>	<u>205,476,098</u>	Rs <u>11,248,399</u>	<u>12,908,008</u>

(2) Significant non-cash activities for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Changes in other payables related to the acquisition of property, plant and equipment	₩ (6,189,254)	11,118,331	Rs (388,809)	698,455

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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, 2018 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(*)	₩	121,340,987	21,769,058	-	-	117,500	143,227,545
Short-term borrowings		42,500,000	-	(12,500,000)	5,000,000	-	35,000,000
Long-term borrowings		70,000,000	10,000,000	-	(5,000,000)	-	75,000,000
	₩	<u>233,840,987</u>	<u>31,769,058</u>	<u>(12,500,000)</u>	<u>-</u>	<u>117,500</u>	<u>253,227,545</u>

(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	7,622,641	1,367,532	-	-	7,381	8,997,554
Short-term borrowings		2,669,850	-	(785,250)	314,100	-	2,198,700
Long-term borrowings		4,397,400	628,200	-	(314,100)	-	4,711,500
	Rs	<u>14,689,891</u>	<u>1,995,732</u>	<u>(785,250)</u>	<u>-</u>	<u>7,381</u>	<u>15,907,754</u>

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

31. Segment Information

(1) The Group 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 Group 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 Group for the years ended December 31, 2018 and 2017 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>2018</u>	<u>2017</u>		<u>2018</u>	<u>2017</u>
Republic of Korea	₩	3,005,311,067	2,732,196,915	Rs	188,793,641	171,636,610
Europe		317,650,218	380,203,457		19,954,787	23,884,381
Asia Pacific		119,458,721	172,847,893		7,504,397	10,858,305
Others		286,152,937	222,388,490		17,976,128	13,970,445
Consolidated adjustment		<u>(23,779,397)</u>	<u>(12,999,111)</u>		<u>(1,493,822)</u>	<u>(816,604)</u>
	₩	<u>3,704,793,546</u>	<u>3,494,637,644</u>	Rs	<u>232,735,131</u>	<u>219,533,137</u>

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, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won			Indian rupee	
	2018	2017		2018	2017
Automobile	₩ 3,240,404,523	3,117,252,232	Rs	203,562,212	195,825,785
Merchandise and parts	362,319,256	337,069,352		22,760,896	21,174,697
Others	102,069,767	40,316,060		6,412,023	2,532,655
	₩ <u>3,704,793,546</u>	<u>3,494,637,644</u>	Rs	<u>232,735,131</u>	<u>219,533,137</u>

(4) Balance of Contracts as of December 31, 2018 and December 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won			Indian rupee	
	2018	2017		2018	2017
Receivables from contracts					
with customers	₩ 158,512,150	183,645,818	Rs	9,957,733	11,536,630
Contract assets	-	3,958,500		-	248,673
Contract liabilities	17,311,822	1,776,567		1,087,529	111,604

The contract assets are related to technical service contracts which are executed over periods. The contract liabilities are related to service warranties and transportation contracts that are executed over period, that are recognized in deferred income and advances from customers.

32. Transactions and Balances with Related Parties

(1) Details of related parties as of December 31, 2018 are as follows:

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

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32. Transactions and Balances with Related Parties, Continued

(2) Transactions with related parties for the years ended December 31, 2018 and 2017 are as follows:

(In thousands of won)

Relationship	Company	Description	2018	2017
Parent	Mahindra & Mahindra Ltd.	Sales	₩ 12,961,510	8,898,635
		Other income	-	95,019
		Purchases	110,907	1,529,987
Joint venture	SY Auto Capital Co., Ltd.	Other expenses	4,830,477	640,963
		Other expenses	21,734,022	14,089,290
Others	Mahindra Vehicle Manufacturing Ltd. and others	Sales	29,196,388	735,257
		Other income	-	5,179
		Other expenses	3,132,055	963,843

(In thousands of rupee)

Relationship	Company	Description	2018	2017
Parent	Mahindra & Mahindra Ltd.	Sales	Rs 814,242	559,012
		Other income	-	5,969
		Purchases	6,967	96,114
Joint venture	SY Auto Capital Co., Ltd.	Other expenses	303,451	40,265
		Other expenses	1,365,331	885,089
Others	Mahindra Vehicle Manufacturing Ltd. and others	Sales	1,834,117	46,189
		Other income	-	325
		Other expenses	196,756	60,549

(3) Account balances with related parties as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

Relationship	Company	Description	2018	2017
Parent	Mahindra & Mahindra Ltd.	Trade receivables	₩ 4,171,953	4,120,559
		Other receivables	30,314	77,342
		Other payables	669,683	2,308,472
Joint venture	SY Auto Capital Co., Ltd.	Other payables	242,805	450,795
		Trade receivables	5,450,701	37,279
Others	Mahindra Vehicle Manufacturing Ltd. and others	Other payables	2,556,284	18,250

(In thousands of rupee)

Relationship	Company	Description	2018	2017
Parent	Mahindra & Mahindra Ltd.	Trade receivables	Rs 262,082	258,854
		Other receivables	1,904	4,859
		Other payables	42,069	145,018
Joint venture	SY Auto Capital Co., Ltd.	Other payables	15,253	28,319
		Trade receivables	342,413	2,342
Others	Mahindra Vehicle Manufacturing Ltd. and others	Other payables	160,586	1,146

Allowance for receivables from related parties are not recognized as of December 31, 2018 and 2017.

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32. Transactions and Balances with Related Parties, Continued

(4) There is no transactions with related parties during the years ended December 31, 2018 and 2017.

(5) Executive compensation of the Group for the years ended December 31, 2018 and 2017, are as follows:

(In thousands of won and in thousands of rupee)

		Korean won			Indian rupee	
		2018	2017		2018	2017
Short-term employee benefits	₩	6,939,709	7,467,468	Rs	435,953	469,106
Retirement benefits		131,900	135,329		8,286	8,501

33. Financial Instruments

(1) Capital risk management

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

Debt-to-equity ratio as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won			Indian rupee	
		2018	2017		2018	2017
Debt (A)	₩	1,512,353,646	1,472,863,950	Rs	95,006,057	92,525,314
Equity (B)		693,288,420	775,154,924		43,552,378	48,695,232
Debt-to-equity ratio (A/B)		218.14%	190.01%		218.14%	190.01%

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33. Financial Instruments, Continued

(2) Details of financial assets and liabilities by category as of December 31, 2018 and 2017 are as follows:

1) Financial assets

(In thousands of won)

	2018				
	Amoritsed cost	Measured at FVTPL	Derivatives cash flow hedge	Total	Fair value
Cash and cash equivalents	₩ 156,062,657	-	-	156,062,657	156,062,657
Long-term financial instruments	4,000	-	-	4,000	4,000
Trade and other receivables	207,545,265	-	-	207,545,265	207,545,265
Non-current financial assets	-	560,000	-	560,000	560,000
Derivative assets	-	806,894	84,425	891,319	891,319
	<u>₩ 363,611,922</u>	<u>1,366,894</u>	<u>84,425</u>	<u>365,063,241</u>	<u>365,063,241</u>

(In thousands of won)

	2017			
	Amoritsed cost	Measured at FVTPL	Total	Fair value
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 rupee)

	2018				
	Amoritsed cost	Measured at FVTPL	Derivatives cash flow hedge	Total	Fair value
Cash and cash equivalents	Rs 9,803,856	-	-	9,803,856	9,803,856
Long-term financial instruments	251	-	-	251	251
Trade and other receivables	13,037,994	-	-	13,037,994	13,037,994
Non-current financial assets	-	35,179	-	35,179	35,179
Derivative assets	-	50,689	5,304	55,993	55,993
	<u>Rs 22,842,101</u>	<u>85,868</u>	<u>5,304</u>	<u>22,933,273</u>	<u>22,933,273</u>

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For the years ended December 31, 2018 and 2017

33. Financial Instruments, Continued

(2) Details of financial assets and liabilities by category as of December 31, 2018 and 2017 are as follows, continued:

1) Financial assets, continued

(In thousands of rupee)

		2017			
		Amoritsed cost	Measured at FVTPL	Total	Fair value
Cash and cash equivalents	Rs	13,534,175	-	13,534,175	13,534,175
Long-term financial instruments		251	-	251	251
Trade and other receivables		14,827,575	-	14,827,575	14,827,575
AFS financial assets		-	35,179	35,179	35,179
	Rs	<u>28,362,001</u>	<u>35,179</u>	<u>28,397,180</u>	<u>28,397,180</u>

2) Financial liabilities

(In thousands of won)

		2018			
		Financial liability measured at amortised cost	Financial liabilities at FVTPL	Total	Fair value
Trade and other payables	₩	693,223,692	-	693,223,692	693,223,692
Borrowings		253,227,545	-	253,227,545	253,227,545
	₩	<u>946,451,237</u>	<u>-</u>	<u>946,451,237</u>	<u>946,451,237</u>

(In thousands of won)

		2017			
		Financial liability measured at amortised cost	Financial liabilities at FVTPL	Total	Fair value
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>

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For the years ended December 31, 2018 and 2017

33. Financial Instruments, Continued

(2) Details of financial assets and liabilities by category as of December 31, 2018 and 2017 are as follows, continued:

2) Financial liabilities, continued

(In thousands of rupee)

		2018			
		Financial liability measured at amortised cost	Financial liabilities at FVTPL	Total	Fair value
Trade and other payables	Rs	43,548,313	-	43,548,313	43,548,313
Borrowings		15,907,754	-	15,907,754	15,907,754
	Rs	59,456,067	-	59,456,067	59,456,067

(In thousands of rupee)

		2017			
		Financial liability measured at amortised cost	Financial liabilities at FVTPL	Total	Fair value
Trade and other payables	Rs	45,105,308	-	45,105,308	45,105,308
Borrowings		14,689,891	-	14,689,891	14,689,891
Derivative liabilities		-	25,710	25,710	25,710
	Rs	59,795,199	25,710	59,820,909	59,820,909

(3) Financial risk management

The Group is exposed to credit risk, liquidity risk and market risk. In order to manage the aforementioned risks, the Group 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, non-current 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 Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The Group 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, 2018.

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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	₩ 3,508,288	(3,508,288) Rs	220,391	(220,391)
EUR	(3,569,199)	3,569,199	(224,217)	224,217
JPY	(9,878,289)	9,878,289	(620,554)	620,554
Others	679,253	(679,253)	42,670	(42,670)
	₩ (9,259,947)	9,259,947 Rs	(581,710)	581,710

Details of forward contracts which are not settled as of the year ended December 31, 2018, are as follows:

(In thousands of won and in thousands USD, JPY)

	Maturity	Contracted exchange rate	Short-position amount	long-position amount	Fair value
Cashflow hedge	Within 3 Months	1,125.98	USD 10,000	KRW11,259,800 ₩	84,425
Held for trading	Within 3 Months	9.91	KRW 24,477,440	JPY 2,470,000	592,470
	3 ~ 6 Months	9.87	KRW 6,909,200	JPY 700,000	214,424

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

	Maturity	Contracted exchange rate	Short-position amount	long-position amount	Fair value
Cashflow hedge	Within 3 Months	1,125.98	USD 10,000	RS 707,341 Rs	5,304
Held for trading	Within 3 Months	9.91	RS 1,537,673	JPY 2,470,000	37,219
	3 ~ 6 Months	9.87	RS 434,036	JPY 700,000	13,470

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 Group's current income will decrease or increase in ₩ 364,110 thousand (Rs 22,873 thousand) for the year ended December 31, 2018, due to floating rate debt's interest rate risk.

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For the years ended December 31, 2018 and 2017

33. Financial Instruments, Continued

(3) Financial risk management, continued

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 Group 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.

If a credit risk occurs with respect to a dealership sale, which is a major type of the Group's sales, the respective dealership bears all of the risk; the Group 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 Group's trade receivables are usually collected within 30 days but some of the notes receivable are collected within 75 days.

The Group 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 Group 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 Group 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 Group estimates an allowance based on the historical loss rates.

Maximum exposure in respect of credit risk as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

	Korean won		Indian rupee	
	2018	2017	2018	2017
Trade and other receivables ₩	207,545,265	236,032,708	Rs 13,037,994	14,827,575

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33. Financial Instruments, Continued

(3) Financial risk management, continued

3) Liquidity risk

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

The contractual maturities of financial liabilities as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

		2018		
		Within a year	Over 1 year	Total
Trade payables	₩	534,943,259	-	534,943,259
Other payables		155,611,475	-	155,611,475
Short-term borrowings(*)		179,518,770	-	179,518,770
Other payables		1,057,821	-	1,057,821
Long-term borrowings(*)		-	78,760,222	78,760,222
Long-term other payables		-	1,593,271	1,593,271
	₩	<u>871,131,325</u>	<u>80,353,493</u>	<u>951,484,818</u>

(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
	₩	<u>880,074,349</u>	<u>79,093,775</u>	<u>959,168,124</u>

(*) Including expected interest expenses.

(In thousands of rupee)

		2018		
		Within a year	Over 1 year	Total
Trade payables	Rs	33,605,136	-	33,605,136
Other payables		9,775,513	-	9,775,513
Short-term borrowings(*)		11,277,369	-	11,277,369
Other payables		66,452	-	66,452
Long-term borrowings(*)		-	4,947,717	4,947,717
Long-term other payables		-	100,089	100,089
	Rs	<u>54,724,470</u>	<u>5,047,806</u>	<u>59,772,276</u>

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33. Financial Instruments, Continued

(3) Financial risk management, continued

3) Liquidity risk, continued

(In thousands of rupee)

		2017		
		Within a year	Over 1 year	Total
Trade payables	Rs	33,073,634	-	33,073,634
Other payables		11,761,515	-	11,761,515
Short-term borrowings(*)		10,367,207	-	10,367,207
Derivatives liabilities		25,710	-	25,710
Other payables		58,205	-	58,205
Long-term borrowings(*)		-	4,756,716	4,756,716
Long-term other payables		-	211,955	211,955
	Rs	<u>55,286,271</u>	<u>4,968,671</u>	<u>60,254,942</u>

(*) Including expected interest expenses.

Details of commitments for borrowings as of December 31, 2018 and 2017 are as follows:

(In thousands of won and in thousands of rupee)

		Korean won		Indian rupee	
		2018	2017	2018	2017
Limitation of commitments for Borrowings	Used	₩ 110,000,000	125,000,000	Rs 6,910,200	7,852,500
	Unused	<u>147,000,000</u>	<u>142,500,000</u>	<u>9,234,540</u>	<u>8,951,850</u>
		<u>₩ 257,000,000</u>	<u>267,500,000</u>	<u>Rs 16,144,740</u>	<u>16,804,350</u>

(4) Fair value of financial instruments

1) The Group'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.

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33. Financial Instruments, Continued

(4) Fair value of financial instruments, continued

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 Group 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 Group 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)

Fair values of financial instruments by hierarchy level as of December 31, 2018 and 2017 are as follows:

(In thousands of won)

		Level 1	Level 2	Level 3	Fair value
As of December 31, 2018					
Derivatives assets	₩	-	891,319	-	891,319
As of December 31, 2017					
Derivatives liabilities		-	409,259	-	409,259

(In thousands of rupee)

		Level 1	Level 2	Level 3	Fair value
As of December 31, 2018					
Derivatives assets	Rs	-	55,993	-	55,993
As of December 31, 2017					
Derivatives liabilities	Rs	-	25,710	-	25,710

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33. Financial Instruments, Continued

(4) Fair value of financial instruments, continued

4) The Group measures the foreign exchange forward contract derivative liabilities: ₩ 891,319 thousand (Rs 55,993 thousand) based on the forward rate announced officially in the market as of December 31, 2018. In the event that no corresponding forward rate with residual year of the foreign exchange forward contract in the market exists, the Group 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 Group classified the fair value of foreign exchange forward as level 2.

34. Subsequent events

Mahindra & Mahindra Ltd., the largest shareholder of the rights offering ₩ 4,200 (Rs 264) per share under the face value of the registered common stock determined at the shareholders' meeting on October 25, 2018, participated in 11,890,606 shares, 100% of the capital increase shares in January 2019, to hold 74.66% of the total shares.

35. Going concern assumption

The Group's financial statements are prepared on the assumption that it will continue as going concern, and therefore our assets and liabilities are accounted for on the assumption that they can be recovered or repaid at their carrying amount through the normal course of business activities.

However, as of the end of the reporting period due to deteriorating financial structure, the Group has incurred operating losses of ₩ 64,176 million (Rs 4,032 million) and net losses of ₩ 61,838 million (Rs 3,885 million) as of the end of the reporting period. In addition, the Group's current liabilities exceed its current assets by ₩ 424,050 million (Rs 26,639 million).

The deterioration in the Group's financial structure was determined to be an event or situation that would significantly doubt on going concern assumption, and we plan the new capital increase and additional borrowing and the plan to extend the maturity of short-term borrowings. Under these plans, we have determined that there is no significant uncertainty about the going concern assumption.