



HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

HYUNDAI MOTOR COMPANY

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INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on February 28, 2018

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

We have audited the accompanying consolidated financial statements of Hyundai Motor Company (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and December 31, 2016, respectively, and the consolidated statements of income, comprehensive income, statements of changes in equity and statements of cash flows, all expressed in Korean Won, for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("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.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2017 and December 31, 2016, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

A handwritten signature in black ink that reads "Deloitte Anjin NL". The signature is written in a cursive, flowing style.

February 28, 2018

Notice to Readers

This report is effective as of February 28, 2018, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

**HYUNDAI MOTOR COMPANY (the “Company”)
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Lee, Won Hee
Chief Executive Officer
HYUNDAI MOTOR COMPANY

Main Office Address: (Road Name Address) 12, Heolleung-ro, Seocho-gu, Seoul
(Phone Number) 02-3464-1114

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017 AND 2016

ASSETS	NOTES	December 31, 2017	December 31, 2016
(In millions of Korean Won)			
Current assets:			
Cash and cash equivalents	19	₩ 8,821,529	₩ 7,890,089
Short-term financial instruments	19	7,745,829	7,361,735
Other financial assets	5,19	12,886,769	12,723,993
Trade notes and accounts receivable	3,19	3,838,043	4,437,552
Other receivables	4,19	3,007,869	3,181,030
Inventories	6	10,279,904	10,523,812
Current tax assets		91,263	46,924
Financial services receivables	13,19	25,536,188	24,865,594
Non-current assets classified as held for sale	8	29,068	29,068
Other assets	7,19	1,739,452	1,389,803
Total current assets		73,975,914	72,449,600
Non-current assets:			
Long-term financial instruments	19	145,277	99,484
Other financial assets	5,19	2,512,409	2,560,550
Long-term trade notes and accounts receivable	3,19	123,933	138,105
Other receivables	4,19	1,227,602	1,301,059
Property, plant and equipment ("PP&E")	9	29,827,142	29,405,716
Investment property	10	199,498	211,671
Intangible assets	11	4,809,336	4,586,172
Investments in joint ventures and associates	12	17,252,338	18,070,121
Deferred tax assets	32	1,123,902	1,116,774
Financial services receivables	13,19	25,631,830	26,918,009
Operating lease assets	14	20,727,950	21,317,260
Other assets	7,19	642,323	661,407
Total non-current assets		104,223,540	106,386,328
Total assets		₩ 178,199,454	₩ 178,835,928

(Continued)

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017 AND 2016 (CONTINUED)

LIABILITIES AND EQUITY	NOTES	December 31, 2017	December 31, 2016
		(In millions of Korean Won)	
Current liabilities:			
Trade notes and accounts payable	19	₩ 6,483,875	₩ 6,985,942
Other payables	19	5,040,057	4,946,723
Short-term borrowings	15,19	9,959,654	8,760,678
Current portion of long-term debt and debentures	15,19	13,098,547	14,836,967
Income tax payable		151,525	540,909
Provisions	16	1,809,978	1,925,562
Other financial liabilities	17,19	25,652	138,106
Other liabilities	18,19	6,591,421	5,474,906
Total current liabilities		43,160,709	43,609,793
Non-current liabilities:			
Long-term other payables	19	19,189	22,586
Debentures	15,19	36,454,192	36,456,392
Long-term debt	15,19	12,488,137	13,389,983
Net defined benefit liabilities	33	157,213	492,173
Provisions	16	4,844,463	5,047,078
Other financial liabilities	17,19	438,070	23,454
Deferred tax liabilities	32	3,234,707	4,622,226
Other liabilities	18,19	2,645,420	2,827,665
Total non-current liabilities		60,281,391	62,881,557
Total liabilities		103,442,100	106,491,350
Equity:			
Capital stock	20	1,488,993	1,488,993
Capital surplus	21	4,201,214	4,202,597
Other capital items	22	(1,640,096)	(1,640,096)
Accumulated other comprehensive loss	23	(2,278,955)	(1,223,244)
Retained earnings	24	67,332,328	64,361,408
Equity attributable to the owners of the Company		69,103,484	67,189,658
Non-controlling interests		5,653,870	5,154,920
Total equity		74,757,354	72,344,578
Total liabilities and equity		₩ 178,199,454	₩ 178,835,928

(Concluded)

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	NOTES	2017	2016
		(In millions of Korean Won, except per share amounts)	
Sales	25,38	₩ 96,376,079	₩ 93,649,024
Cost of sales	30	78,798,172	75,959,720
Gross profit		17,577,907	17,689,304
Selling and administrative expenses	26,30	13,003,240	12,495,804
Operating income		4,574,667	5,193,500
Gain on investments in joint ventures and associates, net	27	225,053	1,729,447
Finance income	28	972,943	1,111,238
Finance expenses	28	1,120,386	678,037
Other income	29	1,153,744	1,177,887
Other expenses	29,30	1,367,471	1,226,963
Income before income tax		4,438,550	7,307,072
Income tax expense (benefit)	32	(107,850)	1,587,419
Profit for the year		₩ 4,546,400	₩ 5,719,653
Profit attributable to:			
Owners of the Company		4,032,824	5,406,435
Non-controlling interests		513,576	313,218
Earnings per share attributable to the owners of the Company:	31		
Basic earnings per share:			
Common stock		₩ 14,993	₩ 20,118
1 st preferred stock		₩ 15,043	₩ 20,156
Diluted earnings per share:			
Common stock		₩ 14,993	₩ 20,118
1 st preferred stock		₩ 15,043	₩ 20,156

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(In millions of Korean Won)	
Profit for the year	₩ 4,546,400	₩ 5,719,653
Other comprehensive income :		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit plans	29,698	(2,601)
Changes in retained earnings of equity-accounted investees, net	(4,451)	12,433
	<u>25,247</u>	<u>9,832</u>
Items that may be reclassified subsequently to profit or loss:		
Gain (loss) on available-for-sale (“AFS”) financial assets, net	191,861	(152,755)
Gain on valuation of cash flow hedge derivatives, net	26,868	37,066
Changes in share of earnings of equity-accounted investees, net	(288,883)	(114,037)
Gain (loss) on foreign operations translation, net	(1,069,341)	475,636
	<u>(1,139,495)</u>	<u>245,910</u>
Total other comprehensive income (loss)	<u>(1,114,248)</u>	<u>255,742</u>
Total comprehensive income	<u>₩ 3,432,152</u>	<u>₩ 5,975,395</u>
Comprehensive income attributable to:		
Owners of the Company	2,994,783	5,614,509
Non-controlling interests	437,369	360,886
Total comprehensive income	<u>₩ 3,432,152</u>	<u>₩ 5,975,395</u>

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total equity attributable to the owners of the Company	Non- controlling interests	Total equity
	(In millions of Korean Won)							
Balance at January 1, 2016	₩ 1,488,993	₩ 3,520,395	₩ (1,588,697)	₩ (1,431,821)	₩ 60,035,088	₩ 62,023,958	₩ 4,857,443	₩ 66,881,401
Comprehensive income:								
Profit for the year	-	-	-	-	5,406,435	5,406,435	313,218	5,719,653
Loss on AFS financial assets, net	-	-	-	(150,181)	-	(150,181)	(2,574)	(152,755)
Gain on valuation of cash flow hedge derivatives, net	-	-	-	34,725	-	34,725	2,341	37,066
Changes in valuation of equity-accounted investees, net	-	-	-	(108,205)	12,390	(95,815)	(5,789)	(101,604)
Remeasurements of defined benefit plans	-	-	-	-	(12,893)	(12,893)	10,292	(2,601)
Gain on foreign operations translation, net	-	-	-	432,238	-	432,238	43,398	475,636
Total comprehensive income	-	-	-	208,577	5,405,932	5,614,509	360,886	5,975,395
Transactions with owners, recorded directly in equity:								
Payment of cash dividends	-	-	-	-	(1,079,544)	(1,079,544)	(5,002)	(1,084,546)
Increase in subsidiaries' stock	-	(684)	-	-	-	(684)	26,721	26,037
Purchases of subsidiaries' stock	-	15,273	-	-	-	15,273	(111,868)	(96,595)
Disposals of subsidiaries' stock	-	1,438	-	-	-	1,438	26,785	28,223
Reclassification to other financial liabilities	-	621,267	-	-	-	621,267	-	621,267
Purchases of treasury stock	-	-	(261,552)	-	-	(261,552)	-	(261,552)
Disposals of treasury stock	-	44,908	210,153	-	-	255,061	-	255,061
Others	-	-	-	-	(68)	(68)	(45)	(113)
Total transactions with owners, recorded directly in equity	-	682,202	(51,399)	-	(1,079,612)	(448,809)	(63,409)	(512,218)
Balance at December 31, 2016	₩ 1,488,993	₩ 4,202,597	₩ (1,640,096)	₩ (1,223,244)	₩ 64,361,408	₩ 67,189,658	₩ 5,154,920	₩ 72,344,578

(Continued)

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (CONTINUED)

	Capital stock	Capital surplus	Other capital items	Accumulated other comprehensive income (loss)	Retained earnings	Total equity attributable to the owners of the Company	Non- controlling interests	Total equity
	(In millions of Korean Won)							
Balance at January 1, 2017	₩ 1,488,993	₩ 4,202,597	₩ (1,640,096)	₩ (1,223,244)	₩ 64,361,408	₩ 67,189,658	₩ 5,154,920	₩ 72,344,578
Comprehensive income:								
Profit for the year	-	-	-	-	4,032,824	4,032,824	513,576	4,546,400
Gain on AFS financial assets, net	-	-	-	190,717	-	190,717	1,144	191,861
Gain on valuation of cash flow hedge derivatives, net	-	-	-	3,221	-	3,221	23,647	26,868
Changes in valuation of equity-accounted investees, net	-	-	-	(281,652)	(4,435)	(286,087)	(7,247)	(293,334)
Remeasurements of defined benefit plans	-	-	-	-	22,105	22,105	7,593	29,698
Loss on foreign operations translation, net	-	-	-	(967,997)	-	(967,997)	(101,344)	(1,069,341)
Total comprehensive Income (loss)	-	-	-	(1,055,711)	4,050,494	2,994,783	437,369	3,432,152
Transactions with owners, recorded directly in equity:								
Payment of cash dividends	-	-	-	-	(1,079,504)	(1,079,504)	(59,166)	(1,138,670)
Increase in subsidiaries' stock	-	(1,383)	-	-	-	(1,383)	76,832	75,449
Purchases of subsidiaries' stock	-	-	-	-	-	-	43,976	43,976
Disposals of subsidiaries' stock	-	-	-	-	-	-	(17)	(17)
Others	-	-	-	-	(70)	(70)	(44)	(114)
Total transactions with owners, recorded directly in equity	-	(1,383)	-	-	(1,079,574)	(1,080,957)	61,581	(1,019,376)
Balance at December 31, 2017	₩ 1,488,993	₩ 4,201,214	₩ (1,640,096)	₩ (2,278,955)	₩ 67,332,328	₩ 69,103,484	₩ 5,653,870	₩ 74,757,354

(Concluded)

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	NOTES	2017	2016
		(In millions of Korean Won)	
Cash flows from operating activities:			
Cash generated from operations:			
	34		
Profit for the year		₩ 4,546,400	₩ 5,719,653
Adjustments		12,781,081	11,165,345
Changes in operating assets and liabilities		<u>(11,384,252)</u>	<u>(13,565,128)</u>
		5,943,229	3,319,870
Interest received		517,453	486,709
Interest paid		(1,746,629)	(1,670,859)
Dividend received		852,820	932,038
Income tax paid		<u>(1,644,452)</u>	<u>(2,070,794)</u>
Net cash provided by operating activities		<u>3,922,421</u>	<u>996,964</u>
Cash flows from investing activities:			
Proceeds from purchases of short-term financial instruments, net		(253,493)	(419,325)
Proceeds from disposal (purchase) of other financial assets (current), net		64,513	(1,580,624)
Proceeds from disposals of other financial assets (non-current)		85,667	595,927
Receipts from other receivables		210,881	147,797
Disposals of long-term financial instruments		26	14
Proceeds from disposals of property, plant and equipment		118,138	133,286
Proceeds from disposals of intangible assets		2,231	10,613
Proceeds from disposals of investments in joint ventures and associates		-	12,477
Acquisitions of other financial assets (non-current)		(177,382)	(244,563)
Increases in other receivables		(218,411)	(168,083)
Purchases of long-term financial instruments		(20,627)	(11,146)
Acquisitions of property, plant and equipment		(3,055,023)	(2,971,161)
Acquisitions of intangible assets		(1,463,103)	(1,406,352)
Cash outflows from business combinations, net		(1,784)	(2,370)
Acquisitions of investments in joint ventures and associates		(80,144)	(431,517)
Other cash receipts from investing activities, net		<u>44,098</u>	<u>23,277</u>
Net cash used in investing activities		<u>(4,744,413)</u>	<u>(6,311,750)</u>

(Continued)

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (CONTINUED)

	<u>NOTES</u>	<u>2017</u>	<u>2016</u>
		(In millions of Korean Won)	
Cash flows from financing activities:			
Proceeds from (repayment of) short-term borrowings, net	₩	1,345,789	₩ (1,369,186)
Proceeds from long-term debt and debentures		28,134,152	27,509,144
Paid-in capital increase of subsidiaries		75,449	25,536
Purchases of subsidiaries' stock		-	(96,595)
Disposals of subsidiaries' stock		-	34,206
Repayment of long-term debt and debentures		(26,264,109)	(19,015,198)
Purchases of treasury stock		-	(261,552)
Dividends paid		(1,138,661)	(1,084,546)
Other cash receipts (payments) from financing activities, net		28,571	(50,391)
Net cash provided by financing activities		<u>2,181,191</u>	<u>5,691,418</u>
Effect of exchange rate changes on cash and cash equivalents		(427,759)	181,994
Net increase in cash and cash equivalents		931,440	558,626
Cash and cash equivalents, beginning of the year		<u>7,890,089</u>	<u>7,331,463</u>
Cash and cash equivalents, end of the year	₩	<u>8,821,529</u>	₩ <u>7,890,089</u>
(Concluded)			

See accompanying notes to consolidated financial statements

HYUNDAI MOTOR COMPANY AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. GENERAL:

Hyundai Motor Company (the “Company” or “Parent Company”) was incorporated in December 1967, under the laws of the Republic of Korea. The Company and its subsidiaries (the “Group”) manufactures and distributes motor vehicles and parts, operates vehicle financing and credit card processing, and manufactures trains.

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

As of December 31, 2017, the major shareholders of the Company are Hyundai MOBIS (45,782,023 shares, 20.78%) and Chung, Mong Koo (11,395,859 shares, 5.17%).

(1) The Company’s consolidated subsidiaries as of December 31, 2017 are as follows:

Name of subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Capital Services, Inc.	Financing	Korea	59.68%	
Hyundai Card Co., Ltd. (*1)	"	"	36.96%	
Hyundai Rotem Company (Hyundai Rotem) (*1)	Manufacturing	"	43.36%	
Hyundai KEFICO Corporation (Hyundai KEFICO)	"	"	100.00%	
Green Air Co., Ltd.	"	"	51.00%	Hyundai Rotem 51.00%
Hyundai Auto Electronics Company Ltd.	R&D	"	60.00%	
Hyundai Partecs Co., Ltd.	Manufacturing	"	56.00%	
Hyundai NGV Tech Co., Ltd.	Engineering	"	53.66%	
Maintrans Company	Services	"	80.00%	Hyundai Rotem 80.00%
Jeonbuk Hyundai Motors FC Co., Ltd.	Football club	"	100.00%	
Hyundai Motor America (HMA)	Sales	USA	100.00%	
Hyundai Capital America (HCA)	Financing	"	80.00%	HMA 80.00%
Hyundai Motor Manufacturing Alabama, LLC (HMMA)	Manufacturing	"	100.00%	HMA 100.00%
Hyundai Translead, Inc. (HT)	"	"	100.00%	
Stamped Metal American Research Technology, Inc. (SMARTI)	Holding company	"	72.45%	HMA 72.45%
Stamped Metal American Research Technology LLC	Manufacturing	"	100.00%	SMARTI 100.00%
Hyundai America Technical Center, Inc. (HATCI)	R&D	"	100.00%	
Genesis Motor America LLC	Sales	"	100.00%	HMA 100.00%
Hyundai Rotem USA Corporation	Manufacturing	"	100.00%	Hyundai Rotem 100.00%
Hyundai Rio Vista, Inc.	Real estate development	"	100.00%	HT 100.00%
Hyundai Auto Canada Corp. (HACC)	Sales	Canada	100.00%	HMA 100.00%
Hyundai Auto Canada Captive Insurance Inc. (HACCI)	Insurance	"	100.00%	"
Hyundai Capital Canada Inc. (HCCA)	Financing	"	70.00%	Hyundai Capital Services 20.00%
Hyundai Capital Lease Inc. (HCLI)	"	"	100.00%	HCCA 100.00%
HK Lease Funding LP	"	"	100.00%	HCLI 99.99%, HCCA Funding Inc. 0.01%
HCCA Funding Inc.	"	"	100.00%	HCLI 100.00%
Hyundai Motor India Limited (HMI)	Manufacturing	India	100.00%	
Hyundai Motor India Engineering Private Limited (HMIE)	R&D	"	100.00%	HMI 100.00%

Name of subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Capital India Private Limited (HCI)	Financing	India	100.00%	Hyundai Capital Services 100.00%
Hyundai Motor Japan Co., Ltd. (HMJ)	Sales	Japan	100.00%	
Hyundai Motor Japan R&D Center Inc. (HMJ R&D)	R&D	"	100.00%	
Beijing Jingxian Motor Safeguard Service Co., Ltd. (BJMSS)	Sales	China	100.00%	
Beijing Jingxianronghua Motor Sale Co., Ltd.	"	"	100.00%	BJMSS 100.00%
Hyundai Millennium (Beijing) Real Estate Development Co., Ltd.	Real estate development	"	99.00%	CMEs 99.00%
Rotem equipments (Beijing) Co., Ltd.	Sales	"	100.00%	Hyundai Rotem 100.00%
KEFICO Automotive Systems (Beijing) Co., Ltd.	Manufacturing	"	100.00%	Hyundai KEFICO 100.00%
KEFICO Automotive Systems (Chongqing) Co., Ltd.	"	"	90.00%	Hyundai KEFICO 90.00%
KEFICO VIETNAM COMPANY LIMITED	"	Vietnam	100.00%	Hyundai KEFICO 100.00%
HYUNDAI THANH CONG VIETNAM AUTO MANUFACTURING CORPORATION (HTMV) (*1)	"	"	50.00%	
Hyundai Thanh cong Commercial Vehicle Joint Stock Company (HTCV) (*1)	"	"	50.00%	
Hyundai Motor Company Australia Pty Limited (HMCA)	Sales	Australia	100.00%	
Hyundai Capital Australia Pty Limited	Financing	"	100.00%	Hyundai Capital Services 100.00%
HR Mechanical Services Limited	Services	New Zealand	100.00%	Hyundai Rotem 100.00%
Hyundai Motor Manufacturing Czech, s.r.o. (HMMC)	Manufacturing	Czech	100.00%	
Hyundai Motor Czech s.r.o (HMCZ)	Sales	"	100.00%	
Hyundai Motor Europe GmbH (HME)	Marketing and sales	Germany	100.00%	
Hyundai Motor Deutschland GmbH (HMD)	Sales	"	100.00%	
Hyundai Motor Europe Technical Center GmbH (HMETC)	R&D	"	100.00%	
Hyundai Motor Sport GmbH (HMSG)	Marketing	"	100.00%	HME 100.00%
Hyundai Capital Europe GmbH	Financing	"	100.00%	Hyundai Capital Services 100.00%
Hyundai Capital Bank Europe GmbH	"	"	85.00%	Hyundai Capital Services 65.00%
Hyundai Motor Commonwealth of Independent States B.V (HMCIS B.V)	Holding company	Netherlands	100.00%	HMMR 1.40%
Hyundai Motor Netherlands B.V. (HMNL)	Sales	"	100.00%	
Hyundai Motor Manufacturing Rus LLC (HMMR)	Manufacturing	Russia	70.00%	
Hyundai Motor Commonwealth of Independent States (HMCIS)	Sales	"	100.00%	HMCIS B.V 100.00%
Hyundai Capital Services Limited Liability Company	Financing	"	100.00%	Hyundai Capital Europe 100.00%
Hyundai Truck And Bus Rus LLC (HTBR)	Sales	"	100.00%	
Hyundai Assan Otomotiv Sanayi Ve Ticaret A.S. (HAOSVT)	Manufacturing	Turkey	70.00%	
Hyundai EURotem Demiryolu Araclari Sanayi ve Ticaret A.S	"	"	50.50%	Hyundai Rotem 50.50%
Hyundai Rotem Company – Hyundai EURotem Demiryolu Araclari SAN. VE TIC. A.S ORTAK GIRISIMI	Sales	"	100.00%	Hyundai Rotem 65.00%, Hyundai EURotem A.S. 35.00%
Hyundai Rotem Company – Hyundai EUrotem Mahmutbey Projesi ORTAK GIRISIMI	"	"	100.00%	Hyundai Rotem 85.00%, Hyundai EURotem A.S. 15.00%
Hyundai Motor UK Limited (HMUK)	"	UK	100.00%	
Hyundai Motor Company Italy S.r.l (HMCI)	"	Italy	100.00%	
Hyundai Motor Espana. S.L.U. (HMES)	"	Spain	100.00%	
Hyundai Motor France SAS (HMF)	"	France	100.00%	

Name of subsidiaries	Nature of business	Location	Ownership percentage	Indirect ownership
Hyundai Motor Poland Sp. Zo. O (HMP)	Sales	Poland	100.00%	
Hyundai Motor DE Mexico S DE RL DE CV (HMM)	"	Mexico	100.00%	HT 0.01%
Hyundai de Mexico, SA DE C.V., (HYMEX)	Manufacturing	"	99.99%	HT 99.99%
HYUNDAI KEFICO MEXICO S DE RL DE CV	"	"	100.00%	Hyundai KEFICO 100.00%
Hyundai Motor Brasil Montadora de Automoveis LTDA (HMB)	"	Brazil	100.00%	
Hyundai Capital Brasil Servicos De Assistencia Financeira Ltda	Financing	"	100.00%	Hyundai Capital Services 100.00%
Hyundai Rotem Brasil Industria E Comercio De Trens Ltda.	Manufacturing	"	100.00%	Hyundai Rotem 100.00%
HMB Holding Participacoes Financeiras Ltda.	Holding company	"	99.99%	HMB 99.99%
China Millennium Corporations (CMEs)	"	Cayman Islands	59.60%	
KyoboAXA Private Tomorrow Securities Investment Trust No.12	Investment	Korea	100.00%	
Shinhan BNPP Private Corporate Security Investment Trust No.34	"	"	100.00%	
Shinhan BNPP Private Corporate Security Investment Trust No.36 (*2)	"	"	100.00%	
Miraeasset Triumph Private Equity Security Investment Trust No.15	"	"	100.00%	
Autopia Fifty-Second Asset Securitization Specialty Company (*1)	Financing	"	0.50%	Hyundai Capital Services 0.50%
Autopia Fifty-Fourth ~ Sixty-Fourth Asset Securitization Specialty Company (*1)	"	"	0.50%	"
Privia the Fourth ~ Fifth Securitization Specialty Co., Ltd. (*1)	"	"	0.50%	Hyundai Card 0.50%
Super Series First ~ Fifth Securitization Specialty Co., Ltd. (*1)	"	"	0.50%	"
Bluewalnut Co., Ltd.	"	"	100.00%	Hyundai Card 100.00%
Hyundai CHA Funding, LLC	"	USA	100.00%	HCA 100.00%
Hyundai Lease Titling Trust	"	"	100.00%	"
Hyundai HK Funding, LLC	"	"	100.00%	"
Hyundai HK Funding Two, LLC	"	"	100.00%	"
Hyundai HK Funding Three, LLC	"	"	100.00%	"
Hyundai HK Funding Four, LLC	"	"	100.00%	"
Hyundai ABS Funding, LLC	"	"	100.00%	"
HK Real Properties, LLC	"	"	100.00%	"
Hyundai Auto Lease Offering, LLC	"	"	100.00%	"
Hyundai HK Lease, LLC	"	"	100.00%	"
Extended Term Amortizing Program, LLC	"	"	100.00%	"
Hyundai Asset Backed Lease, LLC	"	"	100.00%	"
Hyundai Protection Plan, Inc.	Insurance	"	100.00%	"
Hyundai Protection Plan Florida, Inc.	"	"	100.00%	"
Hyundai Capital Insurance Services, LLC	"	"	100.00%	"
Hyundai Capital Insurance Company	"	"	100.00%	"
Power Protect Extended Services, Inc.	"	"	100.00%	"
Power Protect Extended Services Florida, Inc.	"	"	100.00%	"

(*1) The Group is considered to have substantial control over the entities by virtue of an agreement with other investors or relationship with structured entities.

(*2) Name of company has been changed due to change of fund management company for the year ended December 31, 2017.

- (2) Summarized financial position and results of operations of the Company's major consolidated subsidiaries as of and for the year ended December 31, 2017 are as follows:

Name of subsidiaries	Assets	Liabilities	Sales	Profit (loss) for the year
(In millions of Korean Won)				
Hyundai Capital Services, Inc. (*)	₩ 27,608,147	₩ 23,538,668	₩ 3,243,544	₩ 299,903
Hyundai Card Co., Ltd. (*)	15,416,497	12,546,121	3,020,772	191,565
Hyundai Rotem Company (*)	4,083,912	2,665,613	2,725,658	(46,259)
Hyundai KEFICO Corporation (*)	1,621,607	1,036,019	1,786,039	44,586
HCA (*)	39,109,088	35,001,114	9,123,763	1,208,108
HMA	6,991,716	5,455,661	16,082,850	(868,115)
HMMA	3,991,788	1,480,249	7,049,070	115,048
HMMC	3,656,291	1,519,402	6,631,281	394,078
HMI (*)	3,291,954	1,497,283	6,346,672	349,862
HAOSVT	1,616,576	1,243,789	3,175,821	40,053
HME (*)	1,607,499	1,585,184	8,818,566	5,803
HMMR	1,316,285	793,189	2,938,098	145,460
HACC (*)	1,122,543	632,036	2,720,971	(2,414)
HMB	1,106,169	706,262	2,353,343	78,539
HMCA	690,611	528,378	1,950,766	(6,871)

(*) Based on the subsidiary's consolidated financial statements.

Summarized financial position and results of operations of the Company's major consolidated subsidiaries as of and for the year ended December 31, 2016 are as follows:

Name of subsidiaries	Assets	Liabilities	Sales	Profit (loss) for the year
(In millions of Korean Won)				
Hyundai Capital Services, Inc. (*)	₩ 25,157,406	₩ 21,371,809	₩ 2,781,848	₩ 300,702
Hyundai Card Co., Ltd. (*)	14,596,987	11,903,178	2,754,223	189,966
Hyundai Rotem Company (*)	4,473,160	3,005,993	2,984,783	23,144
Hyundai KEFICO Corporation (*)	1,408,766	815,468	2,011,606	143,692
HCA (*)	43,204,606	40,108,057	8,632,667	89,208
HMA	8,742,487	6,277,835	17,322,391	(341,860)
HMMA	4,513,528	1,803,552	8,217,390	294,350
HMMC	3,260,750	1,534,684	6,786,623	389,376
HMI (*)	2,851,771	1,300,333	5,981,155	330,280
HAOSVT	1,561,301	1,230,706	3,319,664	18,165
HME (*)	1,445,054	1,428,705	8,419,927	6,218
HMMR	1,312,789	900,607	2,041,115	81,480
HACC (*)	1,170,157	652,995	2,721,444	26,878
HMB	1,128,327	725,411	1,635,641	(8,076)
HMCA	675,267	498,955	1,895,400	(46,232)

(*) Based on the subsidiary's consolidated financial statements.

- (3) The financial statements of all subsidiaries, which are used in the preparation of the consolidated financial statements, are prepared for the same reporting periods as the Company's.

- (4) Summarized cash flows of non-wholly owned subsidiaries that have material non-controlling interests to the Group for the year ended December 31, 2017 are as follows:

Description	Hyundai Capital Services, Inc.	Hyundai Card Co., Ltd.	Hyundai Rotem Company
	(In millions of Korean Won)		
Cash flows from operating activities	₩ (2,208,619)	₩ (161,413)	₩ 219,226
Cash flows from investing activities	(83,265)	(63,608)	31,239
Cash flows from financing activities	2,382,540	334,639	(391,780)
Effect of exchange rate changes on cash and cash equivalents	-	-	(3,108)
Net increase (decrease) in cash and cash equivalents	₩ 90,656	₩ 109,618	₩ (144,423)

Summarized cash flows of non-wholly owned subsidiaries that had material non-controlling interests to the Group for the year ended December 31, 2016 are as follows:

Description	Hyundai Capital Services, Inc.	Hyundai Card Co., Ltd.	Hyundai Rotem Company
	(In millions of Korean Won)		
Cash flows from operating activities	₩ (517,926)	₩ (666,946)	₩ 611,077
Cash flows from investing activities	(342,741)	(72,361)	55,617
Cash flows from financing activities	516,661	778,359	(343,474)
Effect of exchange rate changes on cash and cash equivalents	(3)	-	3,710
Net increase (decrease) in cash and cash equivalents	₩ (344,009)	₩ 39,052	₩ 326,930

- (5) Details of non-wholly owned subsidiaries of the Company that have material non-controlling interests as of December 31, 2017 are as follows:

Description	Hyundai Capital Services, Inc.	Hyundai Card Co., Ltd.	Hyundai Rotem Company
	(In millions of Korean Won)		
Ownership percentage of non-controlling interests	40.32%	63.04%	56.64%
Non-controlling interests	₩ 1,641,343	₩ 1,809,592	₩ 870,219
Profit (loss) attributable to non-controlling interests	119,873	120,770	(36,761)
Dividends paid to non-controlling interests	33,438	23,571	2,110

Details of non-wholly owned subsidiaries of the Company that had material non-controlling interests as of December 31, 2016 are as follows:

Description	Hyundai Capital Services, Inc.	Hyundai Card Co., Ltd.	Hyundai Rotem Company
	(In millions of Korean Won)		
Ownership percentage of non-controlling interests	40.32%	63.04%	56.64%
Non-controlling interests	₩ 1,530,795	₩ 1,698,277	₩ 909,309
Profit attributable to non-controlling interests	117,348	119,762	21,782
Dividends paid to non-controlling interests	-	-	4,955

(6) Financial support provided to consolidated structured entities

As of December 31, 2017, Hyundai Card Co., Ltd. and Hyundai Capital Services, Inc., subsidiaries of the Company, have agreements that provide counterparties with rights to claim themselves in the event of default on the derivatives relating to asset-backed securities issued by consolidated structured entities, Autopia Fifty-Second, Fifty-Seventh, Fifty-Ninth and Sixtyth Asset Securitization Specialty Company, Super Series First, Third, Fourth and Fifth Securitization Specialty Co., Ltd..

(7) The nature and the risks associated with interests in unconsolidated structured entities

1) Nature of interests in an unconsolidated structured entity of the Group as of December 31, 2017 is as follows:

Description	Purpose	Nature of business	Method of funding	Total assets
(In millions of Korean Won)				
Asset securitization SPC	Fund raising through asset-securitization	Fund collection	Corporate bond and others	₩ 1,318,767
Investment fund	Investment in beneficiary certificate and others, Development trust, Unspecified monetary trust, Principal unsecured trust, Operation of trust investment	Fund management and operation and others, Trust management and operation, Payment of trust fee, Distribution of trust benefit	Sales of beneficiary certificates, Sales of trust investment product	3,619,909
Structured Finance	Fund raising through project financing	Project financing for construction project and ship investment	Project financing and others	8,285,718

Nature of interests in an unconsolidated structured entity of the Group as of December 31, 2016 is as follows:

Description	Purpose	Nature of business	Method of funding	Total assets
(In millions of Korean Won)				
Asset securitization SPC	Fund raising through asset-securitization	Fund collection	Corporate bond and others	₩ 827,967
Investment fund	Investment in beneficiary certificate and others, Development trust, Unspecified monetary trust, Principal unsecured trust, Operation of trust investment	Fund management and operation and others, Trust management and operation, Payment of trust fee, Distribution of trust benefit	Sales of beneficiary certificates, Sales of trust investment product	8,564,510
Structured Finance	Fund raising through project financing	Project financing for construction project and ship investment	Project financing and others	6,656,185

- 2) Risks associated with interests in an unconsolidated structured entity of the Group as of December 31, 2017 are as follows:

Description	Book value in the structured entity (*)	Financial support provided to the structured entity		Maximum amount of exposure to loss of the structured entity
		Method	Purpose	
(In millions of Korean Won)				
Asset securitization SPC Investment fund	₩ 78,932	Loan obligation	Loan agreement (Credit line)	₩ 152,964
	193,739	Beneficiary certificates, Investment trust	Invest agreement	193,739
Structured Finance	432,193	Loan obligation	Loan agreement (Credit line)	954,450

(*) Interest in structured entities is recognized as AFS financial assets and others according to K-IFRS 1039.

Risks associated with interests in an unconsolidated structured entity of the Group as of December 31, 2016 are as follows:

Description	Book value in the structured entity (*)	Financial support provided to the structured entity		Maximum amount of exposure to loss of the structured entity
		Method	Purpose	
(In millions of Korean Won)				
Asset securitization SPC Investment fund	₩ 94,307	Mezzanine debt and others	Credit facility, Loan agreement (Credit line)	₩ 121,965
	194,705	Beneficiary certificates, Investment trust	Invest agreement	194,705
Structured Finance	314,065	Loan obligation	Loan agreement (Credit line)	475,100

(*) Interest in structured entities is recognized as AFS financial assets and others according to K-IFRS 1039.

(8) Significant restrictions of the subsidiaries

- 1) As of December 31, 2017, Hyundai Card Co., Ltd., subsidiary of the Company, has significant restrictions that require it to obtain consent from directors appointed by non-controlling shareholders in the event of acquiring a company, entry into new business, guarantee, investment in stocks or contracts beyond a certain amount.
- 2) As of December 31, 2017, Hyundai Rotem Company, subsidiary of the Company, is required to obtain consent from directors appointed by non-controlling shareholders in the event of significant change in the capital structure of the entity, excluding transactions according to the business plan or the regulation of the Board of Directors, such as issue, disposal, repurchase or retirement of stocks or options, increase or decrease of capital.

(9) Changes in consolidated subsidiaries

Subsidiaries newly included in or excluded from consolidation for the year ended December 31, 2017 are as follows:

Changes	Name of subsidiaries	Description
Included	HR Mechanical Services Limited	Acquisition
"	Super Series Fourth Securitization Specialty Co., Ltd.	"
"	Super Series Fifth Securitization Specialty Co., Ltd.	"
"	Autopia Sixty-Fourth Asset Securitization Specialty Company	"
"	Hyundai HK Funding Four, LLC	"
"	Hyundai Asset Backed Lease, LLC	"
"	HMB Holding Participacoes Financeiras Ltda.	"
"	Genesis Motor America LLC	"
"	HYUNDAI THANH CONG VIETNAM AUTO MANUFACTURING CORPORATION (HTMV)	"
"	Hyundai Thanh cong Commercial Vehicle Joint Stock Company (HTCV)	"
Excluded	Autopia Forty-Sixth Asset Securitization Specialty Company	Liquidation
"	Autopia Forty-Ninth Asset Securitization Specialty Company	"
"	Autopia Fiftieth Asset Securitization Specialty Company	"
"	Autopia Fifty-First Asset Securitization Specialty Company	"
"	Hyundai Rotem First Co., Ltd.	"
"	Beijing Xinhuaixiaqiyuetong Motor Chain Co., Ltd.	"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of consolidated financial statements preparation

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

The significant accounting policies used for the preparation of the consolidated financial statements are summarized below. These accounting policies are consistent with those applied to the consolidated financial statements for the year ended December 31, 2016, except for the adoption effect of the new accounting standards and interpretations described below.

1) New and revised standards that have been applied from the year beginning on January 1, 2017 are as follows:

- K-IFRS 1007 (Amendment): ‘Statement of Cash Flows’

The amendment requires to disclose changes in liabilities arising from financial activities. Additional disclosure required related to the first time application of these amendments in the current year are in note 34. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period.

- K-IFRS 1012 (Amendment): ‘Income Taxes’

The amendment clarifies that in evaluating the deferred tax assets arising from deductible temporary difference of debt instruments measured at fair value, the carrying amount of an asset does not limit the estimation of probable future taxable profits.

- Annual Improvements to K-IFRS 2014-2016 Cycle

The Group has applied the amendments to K-IFRS 1112 ‘Share-based Payment included in the Annual Improvements’ to K-IFRS 2014-2016 Cycle for the first time in the current year. The amendments state that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale.

The above changes in accounting policies did not have any material impact on the Group’s consolidated financial statements.

- 2) New and revised standards that have been issued but are not yet effective as of the authorization date for issue of financial statements, and that have not been applied earlier by the Group are as follows:

- K-IFRS 1109 (Enactment): ‘Financial Instruments’

The enactment to K-IFRS 1109 contains the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

The Group has finalized analysis for assessing financial impact of adoption of K-IFRS 1109 based on the information available at the end of current period. The expected financial impact of the new standard on the consolidated financial statements are as follows:

A. Classification and measurement of financial assets

When the Group adopts new standard of K-IFRS 1109, the Group classifies financial assets as seen in the table below based on the entity’s business model for managing the financial assets and the contractual cash flows characteristics of the financial assets as measured at amortised cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). If the host contract is determined in a hybrid contract, an entity may classify the entire hybrid contract as a financial asset rather than separating the embedded derivative from the host contract.

Business model	Contractual cash flows characteristic	
	Principal and Interest	Otherwise
Financial assets for contractual cash inflows	Measured at amortised cost (*1)	
Financial assets for contractual cash inflows and for sale	FVOCI (*1)	FVTPL (*2)
Financial assets for sale and others	FVTPL	

(*1) An entity may measure at FVTPL to eliminate or reduce accounting mismatch (irrevocable).

(*2) An entity may measure at FVOCI for investments in equity instruments that are not held for trading (irrevocable).

The Group has loans and receivables of ₩75,485,673 million, AFS financial assets of ₩2,308,955 million and financial assets at FVTPL of ₩12,964,437 million in the consolidated statements of financial position as of December 31, 2017.

The objective of financial assets such as loans and receivables held is to collect contractual cash flows and they have the sole purpose of collecting principal and interest of outstanding amounts on a specified date. Therefore, loans and receivables are classified as Measured at amortised cost. The Group anticipates that this does not have any significant impact on the Group’s consolidated financial statements.

K-IFRS 1109 permits an entity to make an irrevocable election to present in other comprehensive income for changes in the fair value of an investment in an equity instrument that is not held for trading. Gains and losses presented in other comprehensive income cannot be subsequently transferred to profit or loss (i.e. there is no recycling).

The Group holds AFS financial assets as long-term investments and plans to measure at FVOCI in accordance with K-IFRS 1109. The Group anticipates that opening retained earnings as of January 1, 2018 increases ₩293,309 million due to retrospective adjustment of impairment in AFS financial asset in accordance with K-IFRS 1109.

The Group has plans to change its measurement of financial assets from FVTPL in K-IFRS 1039 to FVTPL in K-IFRS 1109. Therefore, the Group anticipates that this does not have any significant impact on the Group's consolidated financial statements.

B. Classification and measurement of financial liabilities.

For financial liabilities measured at FVTPL using the fair value option, K-IFRS 1109 requires the effects of changes in fair value attributable to an entity's credit risk to be recognised in other comprehensive income. The amounts presented in other comprehensive income are not subsequently transferred to profit or loss unless this treatment of the credit risk component creates or enlarges a measurement mismatch.

As of December 31, 2017, the Group has financial liabilities measured at amortised cost of ₩87,380,799 million and financial liabilities with changes in fair value recognised in profit or loss of ₩555 million.

In accordance with analysis for assessing financial impact of adoption of K-IFRS 1109, the Group anticipates that it does not have any significant impact on the Group's consolidated financial statements as the effects of changes in financial liabilities credit risk is not material.

C. Impairment: Financial assets and contract assets

Under K-IFRS 1039, the impairment is recognised only when there is an objective evidence of impairment based on incurred loss model, but under K-IFRS 1109, impairment is recognised based on expected credit loss model for debt instrument, lease receivables, contract assets, loan contracts and financial guarantee contracts that are measured at amortised cost or fair value through other comprehensive income.

Under K-IFRS 1109, financial assets are classified into three stages depending on the extent of increase in the credit risk on financial instruments since initial recognition. The loss allowance is measured at an amount equal to twelve months expected credit losses or the lifetime expected credit losses and therefore credit losses will be recognised earlier than under the incurred loss model of K-IFRS 1039.

	Case	Allowance
Stage 1	Non-significant increase in credit risk since initial recognition	Twelve months expected credit losses : The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the twelve months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Lifetime expected credit losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Credit-impaired financial assets	

Under K-IFRS 1109, an entity shall recognise the cumulative changes of lifetime expected credit losses since the initial recognition as a loss allowance for any purchased or originated credit-impaired financial assets.

The Group has net of loans and receivables with an allowance of ₩1,227,745 million.

The Group has plan to recognise allowance of trade notes, accounts receivable, financial services receivables and contract assets that have a significant financing component for lifetime expected credit losses from initial recognition until derecognition (the simplified approach) for low credit risk.

The Group anticipates recognise ₩1,399,357 million credit losses in accordance with analysis for assessing financial impact of adoption of K-IFRS 1109.

D. Hedge Accounting

The new standard, K-IFRS 1109, retains the mechanics of hedge accounting in K-IFRS 1039. Under the new model, it is possible for an entity to reflect its risk management activities on the financial statements by focusing on principle-based hedge effectiveness assessment instead of simply complying with a rule-based approach under the K-IFRS 1039. The new model introduced greater flexibility to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and overhauling the quantitative hedge effectiveness (80 – 125%) test.

In accordance with the transition requirements, entities with initial application may continue to retain the existing requirements under K-IFRS 1039 as their accounting policy.

As of December 31, 2017, the Group applies hedge accounting and has a deferred net profit of ₩6,943 million in accumulated other comprehensive income in relation to cash flow hedging instruments.

The Group analyzes financial impact assuming to apply hedge accounting in accordance with K-IFRS 1109. The Group anticipates that variability of profit or loss would be reduced as the Group qualifies risk management criterias for hedge accounting in accordance with K-IFRS 1109

- K-IFRS 1115 (Enactment): 'Revenue from Contracts with Customers'

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces a 5-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract, 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018 - Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115 - Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers, and K-IFRS 2031 - Revenue-Barter Transactions Involving Advertising Services.

The Enactments are effective for annual periods beginning on or after January 1, 2018. Under this transition method, the Group will apply this standard retrospectively with the cumulative effect of initially applying this Standard recognised at January 1, 2018, only to contracts that are not completed contracts at the date of initial application.

The Group has finalized analysis for assessing financial impact of adoption of K-IFRS 1115 based on the information available at the end of current period. The expected financial impact of the new standard on the consolidated financial statements are as follows:

A. Identify the performance obligations in the contract

The Group manufactures and distributes motor vehicles, trains and parts, and operates vehicle financing and credit card processing. In 2017, vehicle operating segment sales were ₩74,490,230 million which is approximately 77% of the Group's total sales.

Upon application of K-IFRS 1115, the Group identifies the performance obligation in the contract with customers which are (1) Vehicle sales, (2) Additional service, (3) Additional warranty and (4) Other services. Timing of the revenue recognition may change depending on when the performance obligation is satisfied, either at a point in time or over time.

B. Allocation of the transaction price

Upon application of K-IFRS 1115, the Group allocates the transaction price of multiple performance obligation identified in one contract based on relative standalone selling price. The Group plans to use an expected cost plus margin approach by estimating the expected costs for each transaction and adding an appropriate profit margin.

C. Variable consideration

Upon application of K-IFRS 1115, the Group estimates the amount of consideration depending on which method the entity expects to better predict the amount of consideration to which it will be entitled—the expected value or the most likely amount. Variable consideration is included in the transaction price only to the extent that it is probable or highly probable that a significant reversal in the cumulative amount of revenue recognized will not occur in the future periods.

As of January 1, 2018, the effect of adjustments on retained earnings as a result of the retrospective application of K-IFRS 1115 for contracts that are not completed is not expected to be significant on consolidated financial statements.

- K-IFRS 1040 (Amendment): ‘Investment Property’

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in K-IFRS 1040 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). The amendments are effective for annual periods beginning on or after January 1, 2018.

- K-IFRS 2122 (Enactment): ‘Foreign Currency Transactions and Advance Consideration’

The enactment addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. The enactment specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the enactment requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Enactment is effective for annual periods beginning on or after January 1, 2018.

- Annual Improvements to K-IFRS 2014-2016 cycle

The Annual Improvements include amendments to K-IFRS 1101 - First-time Adoption and K-IFRS 1028 - Investment in Associates and Joint Ventures. The amendments to K-IFRS 1028 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. Both the amendments to K-IFRS 1101 and 1028 are effective for annual periods beginning on or after January 1, 2018.

- K-IFRS 1116 (Enactment) : ‘Leases’

This enactment provides a single lessee accounting model that operating leasee recognises a right-of-use asset and a lease liability. This enactment will supersede K-IFRS 1017 - Leases, K-IFRS 2104 - Determining whether an Arrangement contains a Lease, K-IFRS 2015 - Operating Leases– Incentives, K-IFRS 2027 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The enactment are effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

At inception of a contract, the entity assesses whether the contract is, or contains, a lease. The entity also assesses it at the date of initial application. However, the entity is not required to reassess whether a contract before at the date of initial application is, or contains if the entity adopts a practical expedient.

For a contract that is, or contains, a lease, an entity accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

At the commencement date, a lessee recognises a right-of-use asset and a lease liability. A lessee may elect not to apply the requirements to short-term leases that, at the commencement date, has a maximum possible term of 12 months or less and leases for which the underlying asset is of low value (e.g below USD 5,000). As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

In lessor accounting, this standard is not significantly changed from K-IFRS 1017 - Leases.

As at 31 December 2017, the Group has operating lease contracts and the Group is currently assessing its potential impact on financial statement. However, the Group has practical difficulties to provide expected impact unless preliminary assessment is complete.

The Group is currently evaluating the impacts of above mentioned enactments and amendments on the Group’s consolidated financial statements.

The consolidated financial statements as of and for the year ended on December 31, 2017, to be submitted at the ordinary shareholders' meeting were authorized for issuance at the board of directors' meeting on February 20, 2018.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as otherwise stated in the accounting policies below. Historical cost is usually measured at the fair value of the consideration given to acquire the assets.

(3) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (or its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the Company. The carrying amount of non-controlling interests consists of the amount of those non-controlling interests at the initial recognition and the changes in shares of the non-controlling interests in equity since the date of the acquisition. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if the non-controlling interest has a deficit balance.

Changes in the Group's ownership interests in subsidiaries, without a loss of control, 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 owners of the Group.

When the Group loses control of a subsidiary, the profit 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), 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 as specified by applicable K-IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded 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 jointly controlled entity.

(4) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration includes any asset or liability resulting from a contingent consideration arrangement and is measured at fair value.

Acquisition-related costs are recognized in profit or loss as incurred. When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at its fair value at the acquisition date (i.e., the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Prior to the acquisition date, the amount resulting from changes in the value of its equity interest in the acquiree that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were directly disposed of.

(5) Revenue recognition

1) Sale of goods

The Group recognizes revenue from sale of goods when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group

The Group grants award credits, which the customers can redeem for awards such as free or discounted goods or services. The fair value of the award credits are estimated by considering the fair value of the goods granted, the expected rate and period of collection. The fair value of the consideration received or receivable from the customer is allocated to award credits and sales transaction. The consideration allocated to the award credits is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

2) Rendering of services

The Group recognizes revenue from rendering of services based on the percentage of completion when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

3) Royalties

The Group recognizes revenue from royalties on an accrual basis in accordance with the substance of the relevant agreement.

4) Dividend and interest income

Revenues arising from dividends are recognized when the right to receive payment is established. Interest income is recognized using the effective interest method as time passes.

5) Construction contracts

Where the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs associated with the construction contract are recognized as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the end of reporting period.

The percentage of completion of a contract activity is reliably measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, by surveys of work performed or by completion of a physical proportion of the contract work. Variations in contract work, claim and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

(6) Foreign currency translation

The individual financial statements of each entity in the Group are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions occurring in currencies other than their functional currency (foreign currencies) are recorded using the exchange rate on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the exchange rate at the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences resulting from settlement of assets or liabilities and translation of monetary items denominated in foreign currencies are recognized in profit or loss in the period in which they arise except for some exceptions.

For the purpose of presenting the consolidated financial statements, assets and liabilities in the Group's foreign operations are translated into Won, using the exchange rates at the end of reporting period. Income and expense items are translated at the average exchange rate for the period, unless the exchange rate during the period has significantly fluctuated, in which case the exchange rates at the dates of the transactions are used. The exchange differences arising, if any, are recognized in equity as other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the end of reporting period.

Foreign exchange gains or losses are classified in finance income (expenses) or other income (expenses) by the nature of the transaction or event.

(7) Financial assets

The Group classifies financial assets into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") financial assets, loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

Financial instruments classified as financial assets at FVTPL include contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies or financial assets classified as held for trading or designated as FVTPL upon initial recognition. A financial asset is classified as FVTPL, if it has been acquired principally for the purpose of selling or repurchasing in near term. All derivative assets, except for derivatives that are designated and effective hedging instruments, are classified as held for trading financial assets which are measured at FVTPL. Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2) HTM financial assets

HTM financial assets are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. HTM financial assets are presented at amortized cost using the effective interest rate, less accumulated impairment loss, and interest income is recognized using the effective interest rate method.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and measured at amortized cost. Interest income is recognized using the effective interest rate method, except for short-term receivables for which the discount effect is not material.

4) AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM financial assets nor financial assets at FVTPL. AFS financial assets are measured at fair value. However, 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 cost.

A gain or loss on changes in fair value of AFS financial assets is recognized in other comprehensive income, except for impairment loss, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets. Accumulated other comprehensive income is reclassified to profit or loss from equity at the time of impairment recognition or elimination of related financial assets. Dividends on an AFS equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(8) Impairment of financial assets

1) Financial assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate computed at initial recognition. The carrying amount of the asset is reduced either directly or through use of an allowance account, and the amount of the loss is recognized in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

2) Financial assets carried at cost

The amount of the impairment loss on financial assets that are carried at cost because their fair value cannot be reliably measured is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

3) AFS financial assets

If there is objective evidence of impairment on AFS financial assets, the cumulative loss that has been recognized in other comprehensive income, less any impairment loss previously recognized in profit or loss is reclassified from equity to profit or loss. In the case of equity instruments, objective evidence of impairment is taken to exist if there is a significant or prolonged decline in the fair value of each investment below its cost. Impairment losses recognized in profit or loss for investments in equity instruments classified as AFS are not reversed through profit or loss. Meanwhile, if, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(9) Derecognition of financial assets

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

(10) Inventory

Inventory is measured at the lower of cost or net realizable value. Inventory cost, including the fixed and variable manufacturing overhead cost, is calculated, using the moving average method, except for the cost for inventory in transit, which is determined by the identified cost method.

(11) Investments in associates and 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 investment in an associate or a joint venture is initially recognized at cost and accounted for using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement 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 the 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 the 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 the joint venture.

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. The entire carrying amount of the investment, including goodwill is tested for impairment and presented at the amount less accumulated impairment losses. 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 we 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 the Group continues to use the equity method, the Group 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 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

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 remeasurement to fair value upon such changes in ownership interests.

Unrealized gains from transactions between the Group and its associates or joint ventures are eliminated up to the shares in associate (joint venture) stocks. Unrealized losses are also eliminated, unless evidence of impairment in assets transferred is produced. If the accounting policy of associates or joint ventures differs from the Group, financial statements are adjusted accordingly before applying equity method of accounting. If the Group's ownership interest in an associate or a joint venture is reduced, but the significant influence is continued, the Group reclassifies to profit or loss only a proportionate amount of the gain or loss previously recognized in other comprehensive income.

(12) Property, plant and equipment

Property, plant and equipment is to be recognized if, and only if it is probable that future economic benefits associated with the asset will flow to the Group, and the cost of the asset can be measured reliably. After the initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes any cost 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. In addition, in case the recognition criteria are met, the subsequent costs will be added to the carrying amount of the asset or recognized as a separate asset, and the carrying amount of what was replaced is derecognized.

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

	<u>Representative useful lives (years)</u>
Buildings and structures	12 – 50
Machinery and equipment	6 – 15
Vehicles	6 – 15
Dies, molds and tools	4 – 6
Office equipment	3 – 15
Other	2 – 30

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 accounting estimate.

(13) Investment property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost and transaction costs are included in the initial measurement. After initial recognition, the book value of investment property is presented at the cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized as the carrying amount of the asset when, and only when it is probable that future economic benefits associated with the asset will flow to the Group, and the cost of the asset can be measured reliably, or recognized as a separate asset if appropriate. The carrying amount of what was replaced is derecognized.

Land is not depreciated, and other investment properties are depreciated using the straight-line method over the period from 20 to 50 years. The Group reviews the depreciation method, the estimated useful lives and residual values at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

(14) Intangible assets

1) Goodwill

Goodwill arising from a business combination is recognized as an asset at the time of obtaining control (the acquisition date). Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Group's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the Group's previously held equity interest in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortized, but tested for impairment at least annually. For purposes of impairment tests, goodwill is allocated to those cash-generating units ("CGU") of the Group expected to have synergies from the business combination. CGU that goodwill has been allocated is tested for impairment every year or when an event occurs that indicates impairment. If the recoverable amount of a CGU is less than its carrying amount, the impairment will first decrease the goodwill allocated to that CGU and the remaining impairment will be allocated among other assets relative to its carrying value. Impairment recognized for goodwill may not be reversed. When disposing a subsidiary, related goodwill will be included in gain or loss from disposal.

2) Development costs

The expenditure on research is recognized as an expense when it is incurred. The expenditure on development is recognized as an intangible asset, and amortization is computed using the straight-line method based on the estimated useful lives of the assets since the asset is available for use or sale.

Research and development activities are conducted in phases of preceding research, development approval, product development and mass production. The Group generally recognizes intangible assets as development activities after the development approval phases which product specification, release schedule, and sales plan are established. Expenditure incurred at the previous phase is recognised as an expense considered as research activities when it is incurred.

3) Intangible assets acquired separately

Intangible assets are measured initially at cost, and are subsequently measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized by the straight-line method based on estimated useful lives from the date of availability. The Group reviews the estimated useful life and amortization method at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate. Intangible assets assessed as having indefinite useful life such as club membership are subjected to annual impairment test without amortization.

The representative useful lives are as follows:

	<u>Representative useful lives (years)</u>
Development costs	3, 7
Industrial property rights	5 – 10
Software	3 – 7
Other	5 – 40

(15) Impairment of tangible and intangible assets

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset to determine the extent of the impairment loss. Recoverable amount is the higher of fair value, less costs to sell and value in use.

If the cash inflow of individual asset occurs separately from other assets or group of assets, the recoverable amount is measured for that individual asset; otherwise, it is measured for each CGU to which the asset belongs. Except for goodwill, all non-financial assets that have incurred impairment are tested for reversal of impairment at the end of each reporting period.

Intangible assets with indefinite useful lives or intangible assets not yet available for use are not amortized, but tested for impairment at least annually.

(16) Non-current assets classified as held for sale

The Group classifies a non-current asset (or disposal group) as held for sale, if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. The management must be committed to a plan to sell the asset (or disposal group), and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of their carrying amount and fair value, less costs to sell.

(17) Lease

Leases are classified as finance leases when 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) The Group as 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 interest income is allocated to accounting periods so as to reflect an effective interest rate 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 as expense on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets and liabilities 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. Minimum lease payments are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as 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 rents for operating lease are recognized as expenses in the periods in which they are incurred.

(18) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets, until they are ready for their intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(19) Retirement benefit plans

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation, less the fair value of plan assets. Defined benefit obligations are calculated by an actuary using the Projected Unit Credit Method.

The present value of the defined benefit obligations is measured by discounting estimated future cash outflows by the interest rate of high-quality corporate bonds, with similar maturity as the expected post-employment benefit payment date. In countries where there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds are used.

The remeasurements of the net defined benefit liabilities (assets) comprising actuarial gain or loss from changes in actuarial assumptions or differences between actuarial assumptions and actual results, the effect of the changes to the asset ceiling and return on plan assets, excluding amounts included in net interest on the net defined benefit liabilities (assets), are recognized in other comprehensive income of the consolidated statements of comprehensive income, which is immediately recognized as retained earnings. Those recognized in retained earnings will not be reclassified in profit or loss. Past service costs are recognized in profit and loss when the plan amendment occurs, and net interest is calculated by applying the discount rate determined at the beginning of the annual reporting period to the net defined benefit liabilities (assets). Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on settlements), net interest expense (income), and remeasurements.

The retirement benefit obligation recognized in the consolidated statements 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.

(20) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits 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. A provision is measured using the present value of the cash flows estimated to settle the present obligation. The increase in provision due to passage of time is recognized as interest expense.

The Group generally provides a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. Also, the Group accrues probable expenses, which may occur due to product liability suit, voluntary recall campaign and other obligations at the end of the reporting period. In addition, the Group recognizes provisions for the probable losses of unused loan commitment, construction contracts, precontract sale or service contract due to legal or constructive obligations.

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.

(21) Taxation

Income tax expense is composed of current and deferred tax.

1) Current tax

The current tax is computed based on the taxable profit for the current year. The taxable profit differs from the income before income tax as reported in the consolidated statements of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax expense 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 consolidated 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 shall be generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities shall not be 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 when the Group is able to control the timing of 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 that taxable profit will be available against which the temporary difference can be utilized and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that 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 be applied in the period in which the liability is settled or the asset is 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 assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority. Also, they are offset when 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.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, or items arising from initial accounting treatments of a business combination. The tax effect arising from a business combination is included in the accounting for the business combination.

(22) Treasury stock

When the Group repurchases its equity instruments (treasury stock), the incremental costs and net of tax effect are deducted from equity and recognized as other capital item deducted from the total equity in the consolidated statements of financial position. In addition, profits or losses from purchase, sale or retirement of treasury stocks are directly recognized in equity and not in current profit or loss.

(23) Financial liabilities and equity instruments

Debt instruments and equity instruments issued by the Group are recognized as financial liabilities or equity depending on the contract and the definitions of financial liability and equity instrument.

1) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at issuance amount, net of direct issuance costs.

2) Financial guarantee liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 *Revenue*

3) Financial liabilities at FVTPL

Financial instruments classified as financial liabilities at FVTPL include contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies or financial liability classified as held for trading or designated as FVTPL upon initial recognition. FVTPL is stated at fair value, and the gains and losses arising on remeasurement and the interest expenses paid in financial liabilities are recognized in profit and loss.

4) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

5) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when the Group's obligations are discharged, cancelled or they expire.

(24) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured 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 such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedges) and the risk of changes in cash flow of a highly probable forecast transaction and the risk of changes in foreign currency exchange rates of firm commitment (cash flow hedges).

1) Fair value hedges

The Group recognizes the changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. 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 is no longer qualified for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. If the forecast transaction results in the recognition of a non-financial asset or liability, the related gain and loss recognized in other comprehensive income and accumulated in equity are transferred from equity to the initial cost of related non-financial asset or liability.

Cash flow hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for the criteria of hedging. Any gain or loss accumulated in equity at that time remains in equity, and is recognized as profit or loss when the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(25) 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 consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of K-IFRS 1017 *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realisable 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 Levels 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 in Note 19.

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

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

(27) Significant accounting estimates and key sources of estimation uncertainties

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that cannot be identified from other sources. The estimation and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimations. The estimates and underlying assumptions are continually evaluated. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The main accounting estimates and assumptions related to the significant risks that may make significant changes to the carrying amounts of assets and liabilities after the reporting period are as follows:

1) Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

2) Warranty provision

The Group recognizes provisions for the warranties of its products as described in Note 2.(20). The amounts are recognized based on the best estimate of amounts necessary to settle the present and future warranty obligation.

3) Defined benefit plans

The Group operates defined retirement benefit plans. Defined benefit obligations are determined at the end of each reporting period using an actuarial valuation method that requires management assumptions on discount rates, rates of expected future salary increases and mortality rates. The characteristic of post-employment benefit plan that serves for the long term period causes significant uncertainties when the post-employment benefit obligation is estimated.

4) Taxation

The Group recognizes current tax and deferred tax based on the best estimates of income tax effect to be charged in the future as the result of operating activities until the end of the reporting period. However, actual final income tax to be charged in the future may differ from the relevant assets and liabilities recognized at the end of the reporting period and the difference may affect income tax charged or credited, or deferred tax assets and liabilities in the period in which the final income tax determined.

5) Fair value of financial instruments

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The Group makes judgements on the choice of various valuation methods and assumptions based on the condition of the principal market at the end of the reporting period.

6) Measurement and useful lives of property, plant, equipment or intangible assets

If the Group acquires property, plant, equipment or intangible assets from business combination, it is required to estimate the fair value of the assets at the acquisition date and determine the useful lives of such assets for depreciation and amortization.

3. TRADE NOTES AND ACCOUNTS RECEIVABLE:

(1) Trade notes and accounts receivable as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Trade notes and accounts receivable	₩ 3,903,210	₩ 129,739	₩ 4,487,352	₩ 146,262
Allowance for doubtful accounts	(65,167)	-	(49,800)	-
Present value discount accounts	-	(5,806)	-	(8,157)
	<u>₩ 3,838,043</u>	<u>₩ 123,933</u>	<u>₩ 4,437,552</u>	<u>₩ 138,105</u>

(2) Aging analysis of trade notes and accounts receivable

As of December 31, 2017 and 2016, total trade notes and accounts receivable that are past due, but not impaired, amount to ₩246,961 million and ₩335,516 million, respectively; of which ₩187,740 million and ₩298,775 million, respectively, are past due less than 90 days, but not impaired. As of December 31, 2017 and 2016, the impaired trade notes and accounts receivable amount to ₩65,167 million and ₩49,800 million, respectively.

(3) Transferred trade notes and accounts receivable that are not derecognized

As of December 31, 2017 and 2016, total trade notes and accounts receivable (including inter-company receivables within the Group) which the Group transferred to financial institutions but did not qualify for derecognition, amount to ₩1,338,160 million and ₩1,472,786 million, respectively. Cash and cash equivalents received as consideration for the transfer are recognized as short-term borrowings due to the fact that the risks and rewards were not transferred substantially.

(4) The changes in allowance for doubtful accounts for the years ended December 31, 2017 and 2016 are as follows:

Description	2017	2016
	(In millions of Korean Won)	
Beginning of the year	₩ 49,800	₩ 59,530
Impairment loss (gain)	19,211	(5,197)
Write-off	(4,336)	(4,649)
Effect of foreign exchange differences	492	116
End of the year	<u>₩ 65,167</u>	<u>₩ 49,800</u>

4. OTHER RECEIVABLES:

Other receivables as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Accounts receivable – others	₩ 1,952,871	₩ 841,803	₩ 1,939,269	₩ 925,524
Due from customers for contract work	1,024,899	-	1,220,582	-
Lease and rental deposits	34,953	335,918	27,957	335,870
Deposits	2,368	34,822	3,366	35,770
Others	3,906	15,059	557	3,895
Allowance for doubtful accounts	(11,128)	-	(10,701)	-
	<u>₩ 3,007,869</u>	<u>₩ 1,227,602</u>	<u>₩ 3,181,030</u>	<u>₩ 1,301,059</u>

5. OTHER FINANCIAL ASSETS:

(1) Other financial assets as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Financial assets at fair value through profit or loss (“FVTPL”)	₩ 12,770,096	₩ 194,341	₩ 12,454,530	₩ 104,499
Derivative assets that are effective hedging instruments	23,411	14,786	185,114	142,107
AFS financial assets	11,833	2,297,122	3,911	2,308,822
Loans	81,429	6,160	80,438	5,122
	<u>₩ 12,886,769</u>	<u>₩ 2,512,409</u>	<u>₩ 12,723,993</u>	<u>₩ 2,560,550</u>

(2) AFS financial assets that are measured at fair value as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	Acquisition cost	Book value	Book value	
	(In millions of Korean Won)			
Debt instruments	₩ 310,234	₩ 309,969	₩ 266,800	
Equity instruments	1,730,202	1,998,986	2,045,933	
	<u>₩ 2,040,436</u>	<u>₩ 2,308,955</u>	<u>₩ 2,312,733</u>	

(3) Equity instruments classified into AFS financial assets as of December 31, 2017 and 2016 consist of the following:

Name of the company	Ownership percentage (%)	December 31, 2017		December 31, 2016
		Acquisition cost	Book value	Book value
(In millions of Korean Won)				
Hyundai Steel Company (*1)	6.87	₩ 1,110,704	₩ 821,266	₩ 798,843
Hyundai Glovis Co., Ltd.	4.88	210,688	249,008	282,880
Korea Aerospace Industries, Ltd. (*2)	-	73,331	224,487	316,979
Hyundai Heavy Industries Co., Ltd. (*3)	2.88	42,443	164,102	318,645
Hyundai Oilbank Co., Ltd.	4.35	53,734	147,930	143,957
Hyundai Robotics Co., Ltd. (*3)	2.13	9,018	132,189	-
Hyundai Green Food Co., Ltd.	2.36	15,005	34,500	35,539
Hyundai Electric & Energy Systems Co., Ltd. (*3)	2.10	2,779	22,997	-
Hyundai Development Company	0.60	9,025	17,348	20,228
Hyundai M Partners Co., Ltd.	9.29	9,888	12,153	11,470
NICE Information Service Co., Ltd.	2.25	3,312	11,870	9,466
KT Corporation	0.09	8,655	7,263	7,059
NICE Holdings Co., Ltd.	1.30	3,491	7,202	8,653
Hyundai Asan Corporation	1.88	22,500	2,117	2,117
Hyundai Merchant Marine Company	0.03	9,161	444	669
Others		146,468	144,110	89,428
		<u>₩ 1,730,202</u>	<u>₩ 1,998,986</u>	<u>₩ 2,045,933</u>

(*1) The Group entered into a total return swap agreement to transfer 5,745,741 shares out of total 14,919,336 shares to a third party and partial shares have been disposed of for the year ended December 31, 2016.

(*2) The Group entered into a total return swap agreement to transfer total shares to a third party for the year ended December 31, 2016.

(*3) Hyundai Heavy Industries Co., Ltd. was spun off into Hyundai Heavy Industries Co., Ltd., Hyundai Robotics Co., Ltd., Hyundai Construction Equipment Co., Ltd., and Hyundai Electric & Energy Systems Co., Ltd. for the year ended December 31, 2017.

6. INVENTORIES:

Inventories as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017	December 31, 2016
(In millions of Korean Won)		
Finished goods	₩ 6,065,752	₩ 6,692,155
Merchandise	50,575	52,133
Semifinished goods	638,802	401,279
Work in progress	387,816	350,295
Raw materials	1,314,902	1,300,218
Supplies	285,264	267,073
Materials in transit	583,055	613,134
Others	953,738	847,525
Total (*)	<u>₩ 10,279,904</u>	<u>₩ 10,523,812</u>

(*) As of December 31, 2017 and 2016, the Group recognized a valuation allowance in amount of ₩88,945 million and ₩135,789 million, respectively.

7. OTHER ASSETS:

Other assets as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Accrued income	₩ 357,228	₩ 2,714	₩ 315,132	₩ 4,798
Advanced payments	535,677	-	444,872	566
Prepaid expenses	472,732	609,958	402,565	641,132
Prepaid value-added tax and others	373,815	29,651	227,234	14,911
	<u>₩ 1,739,452</u>	<u>₩ 642,323</u>	<u>₩ 1,389,803</u>	<u>₩ 661,407</u>

8. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE:

Non-current assets classified as held for sale as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Vehicles	₩ 29,068	₩ 29,068

The Group has committed to a plan to sell vehicles that were classified as held for sale as of December 31, 2017 and has initiated active programs to complete the plan. The assets will be disposed within 12 months.

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment ("PP&E") as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017			December 31, 2016		
	Acquisition cost	Accumulated depreciation (*)	Book value	Acquisition cost	Accumulated depreciation (*)	Book value
	(In millions of Korean Won)					
Land	₩ 11,794,842	₩ -	₩ 11,794,842	₩ 11,787,909	₩ -	₩ 11,787,909
Buildings	8,872,257	(2,892,913)	5,979,344	8,468,976	(2,691,704)	5,777,272
Structures	1,270,122	(614,390)	655,732	1,232,479	(570,153)	662,326
Machinery and equipment	14,541,693	(8,448,876)	6,092,817	14,518,954	(8,245,668)	6,273,286
Vehicles	338,166	(147,410)	190,756	324,984	(138,015)	186,969
Dies, molds and tools	9,016,755	(6,500,234)	2,516,521	8,264,752	(6,063,227)	2,201,525
Office equipment	1,603,205	(1,130,204)	473,001	1,548,768	(1,111,017)	437,751
Others	82,512	(35,289)	47,223	91,548	(47,895)	43,653
Construction in progress	2,076,906	-	2,076,906	2,035,025	-	2,035,025
	<u>₩ 49,596,458</u>	<u>₩ (19,769,316)</u>	<u>₩ 29,827,142</u>	<u>₩ 48,273,395</u>	<u>₩ (18,867,679)</u>	<u>₩ 29,405,716</u>

(*) Accumulated impairment is included.

(2) The changes in PP&E for the year ended December 31, 2017 are as follows:

Description	Beginning of the year	Acquisitions	Transfers within PP&E	Disposals	Depreciation	Others (*)	End of the year
(In millions of Korean Won)							
Land	₩ 11,787,909	₩ 38,739	₩ 62,485	₩ (48,592)	₩ -	₩ (45,699)	₩ 11,794,842
Buildings	5,777,272	11,687	593,014	(12,750)	(269,447)	(120,432)	5,979,344
Structures	662,326	5,892	65,626	(3,296)	(65,958)	(8,858)	655,732
Machinery and equipment	6,273,286	21,421	1,041,344	(165,065)	(922,957)	(155,212)	6,092,817
Vehicles	186,969	33,586	76,996	(38,948)	(51,303)	(16,544)	190,756
Dies, molds and tools	2,201,525	12,372	1,120,233	(10,062)	(745,951)	(61,596)	2,516,521
Office equipment	437,751	53,343	168,248	(1,268)	(175,899)	(9,174)	473,001
Others	43,653	5,390	12,880	(63)	(12,224)	(2,413)	47,223
Construction in progress	2,035,025	3,097,987	(3,140,826)	(880)	-	85,600	2,076,906
	<u>₩ 29,405,716</u>	<u>₩ 3,280,417</u>	<u>₩ -</u>	<u>₩ (280,924)</u>	<u>₩ (2,243,739)</u>	<u>₩ (334,328)</u>	<u>₩ 29,827,142</u>

(*) Others include the effect of foreign exchange differences, transfers from or to other accounts and acquisitions due to business combination.

The changes in PP&E for the year ended December 31, 2016 are as follows:

Description	Beginning of the year	Acquisitions	Transfers within PP&E	Disposals	Depreciation	Others (*)	End of the year
(In millions of Korean Won)							
Land	₩ 11,774,629	₩ 2,234	₩ 57,472	₩ (26,517)	₩ -	₩ (19,909)	₩ 11,787,909
Buildings	5,495,276	11,992	526,342	(107,649)	(278,475)	129,786	5,777,272
Structures	612,748	7,705	102,629	(3,514)	(58,886)	1,644	662,326
Machinery and equipment	6,150,584	18,609	1,019,539	(28,246)	(914,321)	27,121	6,273,286
Vehicles	174,243	42,537	75,165	(53,441)	(45,633)	(5,902)	186,969
Dies, molds and tools	1,988,557	6,402	861,267	(3,094)	(690,211)	38,604	2,201,525
Office equipment	432,738	56,604	103,133	(2,178)	(157,398)	4,852	437,751
Others	33,627	4,344	11,224	(229)	(8,248)	2,935	43,653
Construction in progress	2,036,525	2,700,889	(2,756,771)	(14,883)	-	69,265	2,035,025
	<u>₩ 28,698,927</u>	<u>₩ 2,851,316</u>	<u>₩ -</u>	<u>₩ (239,751)</u>	<u>₩ (2,153,172)</u>	<u>₩ 248,396</u>	<u>₩ 29,405,716</u>

(*) Others include the effect of foreign exchange differences, transfers from or to other accounts and acquisitions due to business combination.

10. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017			December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
(In millions of Korean Won)						
Land	₩ 58,669	₩ -	₩ 58,669	₩ 58,669	₩ -	₩ 58,669
Buildings	303,162	(174,477)	128,685	309,551	(169,101)	140,450
Structures	18,630	(6,486)	12,144	18,630	(6,078)	12,552
	<u>₩ 380,461</u>	<u>₩ (180,963)</u>	<u>₩ 199,498</u>	<u>₩ 386,850</u>	<u>₩ (175,179)</u>	<u>₩ 211,671</u>

(2) The changes in investment property for the year ended December 31, 2017 are as follows:

Description	Beginning of the year	Transfers	Disposals	Depreciation	Effect of foreign exchange differences	End of the year
(In millions of Korean Won)						
Land	₩ 58,669	₩ -	₩ -	₩ -	₩ -	₩ 58,669
Buildings	140,450	392	-	(10,405)	(1,752)	128,685
Structures	12,552	-	-	(408)	-	12,144
	<u>₩ 211,671</u>	<u>₩ 392</u>	<u>₩ -</u>	<u>₩ (10,813)</u>	<u>₩ (1,752)</u>	<u>₩ 199,498</u>

The changes in investment property for the year ended December 31, 2016 are as follows:

Description	Beginning of the year	Transfers	Disposals	Depreciation	Effect of foreign exchange differences	End of the year
(In millions of Korean Won)						
Land	₩ 59,631	₩ -	₩ (962)	₩ -	₩ -	₩ 58,669
Buildings	218,833	(66,181)	-	(11,055)	(1,147)	140,450
Structures	12,960	-	-	(408)	-	12,552
	<u>₩ 291,424</u>	<u>₩ (66,181)</u>	<u>₩ (962)</u>	<u>₩ (11,463)</u>	<u>₩ (1,147)</u>	<u>₩ 211,671</u>

(3) The fair value of investment property as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017	December 31, 2016
(In millions of Korean Won)		
Land	₩ 58,669	₩ 58,669
Buildings	316,534	326,692
Structures	15,496	15,496
	<u>₩ 390,699</u>	<u>₩ 400,857</u>

The fair value measurement of the investment property was performed by an independent third party. The Group deems the change in fair value from the fair value measurement performed at the initial recognition of the investment property is not material.

The fair value of the investment property is classified as Level 3, based on the inputs used in the valuation techniques. The fair value has been determined based on the cost approach and the market approach. The cost approach measured fair value as current replacement cost considering supplementary installation, depreciation period, structure and design.

(4) Income and expenses related to investment property for the years ended December 31, 2017 and 2016 are as follows:

Description	2017	2016
(In millions of Korean Won)		
Rental income	₩ 46,020	₩ 49,596
Operating and maintenance expenses	16,410	15,521

11. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017			December 31, 2016		
	Acquisition cost	Accumulated amortization (*)	Book value	Acquisition cost	Accumulated amortization (*)	Book value
	(In millions of Korean Won)					
Goodwill	₩ 293,452	₩ (2,023)	₩ 291,429	₩ 292,373	₩ (2,080)	₩ 290,293
Development costs	8,125,215	(4,543,101)	3,582,114	7,356,890	(4,025,900)	3,330,990
Industrial property rights	246,884	(133,484)	113,400	225,286	(116,123)	109,163
Software	1,025,083	(678,150)	346,933	984,113	(625,832)	358,281
Others	498,257	(222,182)	276,075	499,410	(205,995)	293,415
Construction in progress	239,151	(39,766)	199,385	245,634	(41,604)	204,030
	<u>₩ 10,428,042</u>	<u>₩ (5,618,706)</u>	<u>₩ 4,809,336</u>	<u>₩ 9,603,706</u>	<u>₩ (5,017,534)</u>	<u>₩ 4,586,172</u>

(*) Accumulated impairment is included.

(2) The changes in intangible assets for the year ended December 31, 2017 are as follows:

Description	Beginning of the year	Internal developments and separate acquisitions	Transfers within intangible assets			Impairment gain (loss) (*1)	Others (*2)	End of the year
				Disposals	Amortization			
	(In millions of Korean Won)							
Goodwill	₩ 290,293	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,136	₩ 291,429
Development costs	3,330,990	1,307,849	41,584	-	(1,096,567)	(12,592)	10,850	3,582,114
Industrial property rights	109,163	1,938	18,613	-	(17,240)	-	926	113,400
Software	358,281	36,944	24,341	(51)	(133,546)	(517)	61,481	346,933
Others	293,415	9,659	10,399	(2,372)	(27,489)	37	(7,574)	276,075
Construction in progress	204,030	98,175	(94,937)	-	-	(30)	(7,853)	199,385
	<u>₩ 4,586,172</u>	<u>₩ 1,454,565</u>	<u>₩ -</u>	<u>₩ (2,423)</u>	<u>₩ (1,274,842)</u>	<u>₩ (13,102)</u>	<u>₩ 58,966</u>	<u>₩ 4,809,336</u>

(*1) The development costs related to the discontinued sales and development projects that were recognized as impairment losses for the year end December 31, 2017.

(*2) Others include the effect of foreign exchange differences, transfer from or to other accounts and acquisitions due to business combination and others.

The changes in intangible assets for the year ended December 31, 2016 are as follows:

Description	Beginning of the year	Internal developments and separate acquisitions	Transfers within intangible assets			Impairment gain (loss)	Others (*)	End of the year
				Disposals	Amortization			
	(In millions of Korean Won)							
Goodwill	₩ 292,078	₩ -	₩ -	₩ -	₩ -	₩ -	₩ (1,785)	₩ 290,293
Development costs	3,015,782	1,224,743	99,265	(34)	(1,022,841)	4,446	9,629	3,330,990
Industrial property rights	97,212	1,545	25,430	(43)	(15,602)	-	621	109,163
Software	330,531	24,152	38,056	(234)	(129,929)	(205)	95,910	358,281
Others	292,203	18,028	5,956	(13,003)	(25,819)	15	16,035	293,415
Construction in progress	270,282	105,695	(168,707)	(49)	-	(2,461)	(730)	204,030
	<u>₩ 4,298,088</u>	<u>₩ 1,374,163</u>	<u>₩ -</u>	<u>₩ (13,363)</u>	<u>₩ (1,194,191)</u>	<u>₩ 1,795</u>	<u>₩ 119,680</u>	<u>₩ 4,586,172</u>

(*) Others include the effect of foreign exchange differences and transfer from or to other accounts.

(3) Development costs of intangible assets as of December 31, 2017 consist of the following:

Description		Book value	Residual useful lives (*)
		(In millions of Korean Won)	
Automobile	Developing	₩ 1,161,212	-
"	Amortizing	1,862,297	38 months
Powertrain	Developing	195,865	-
"	Amortizing	109,202	32 months
Others	Developing	1,487	-
"	Amortizing	252,051	37 months
		<u>₩ 3,582,114</u>	

(*) Since the residual amortization period differs for each project, the residual useful lives of the development cost is weighted averaged at the end of reporting period.

(4) Research and development expenditures for the years ended December 31, 2017 and 2016 are as follows:

Description	2017	2016
(In millions of Korean Won)		
Development costs (intangible assets)	₩ 1,307,849	₩ 1,224,743
Research and development costs (*1)	<u>1,179,922</u>	<u>1,127,486</u>
Total (*2)	<u>₩ 2,487,771</u>	<u>₩ 2,352,229</u>

(*1) Manufacturing costs, administrative expenses and other expenses are included.

(*2) Amortization of development costs are not included.

(5) Impairment test of goodwill

The allocation of goodwill amongst the Group's CGU as of December 31, 2017 and 2016 is as follows:

Description	December 31, 2017	December 31, 2016
(In millions of Korean Won)		
Vehicle	₩ 190,977	₩ 189,841
Finance	482	482
Others	<u>99,970</u>	<u>99,970</u>
	<u>₩ 291,429</u>	<u>₩ 290,293</u>

The recoverable amounts of the Group's CGU are measured at their value-in-use calculated based on cash flow projections of financial budgets for the next five years approved by management. The pretax discount rate applied to the cash flow projections for the years ended December 31, 2017 and 2016, are 12.8% and 11.0% respectively. Cash flow projections beyond the next five-year period are extrapolated by using the estimated growth rate which does not exceed the long-term average growth rate of the region and industry to which the CGU belongs. No impairment loss has been recognized for the years ended December 31, 2017 and 2016.

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

(1) Investments in joint ventures and associates as of December 31, 2017 consist of the following:

Name of the company	Nature of business	Location	Ownership percentage	Book value
			(%)	(In millions of Korean Won)
Beijing-Hyundai Motor Company (BHMC) (*1) Beijing Hyundai Qiche Financing Company (BHAF) (*1,3)	Manufacturing Financing	China	50.00	₩ 1,456,579
Hyundai WIA Automotive Engine (Shandong) Company (WAE)	Manufacturing	China	22.00	167,805
Hyundai Powertech (Shandong) Co., Ltd (PTS)	Manufacturing	China	30.00	120,256
Kia Motors Corporation	Manufacturing	Korea	33.88	8,882,325
Hyundai Engineering & Construction Co., Ltd.	Construction	Korea	20.95	2,959,910
Hyundai WIA Corporation	Manufacturing	Korea	25.35	794,150
Hyundai Powertech Co., Ltd.	Manufacturing	Korea	37.58	547,295
Hyundai Dymos Inc.	Manufacturing	Korea	47.27	399,724
Hyundai Commercial Inc.	Financing	Korea	50.00	373,797
HMC Investment Securities Co., Ltd.	Securities brokerage	Korea	27.49	254,766
Eukor Car Carriers Inc. (*2)	Transportation	Korea	12.00	160,255
Hyundai Autoever Corp.	IT Service	Korea	28.96	119,162
Haevichi Hotels & Resorts Co., Ltd.	Hotelkeeping	Korea	41.90	106,531
Others (*4)				429,430
				₩ 17,252,338

(*1) Each of the joint arrangements in which the Group retains joint control is structured through a separate entity and there are no contractual terms stating that the parties retain rights to the assets and obligations for the liabilities relating to the joint arrangement or other relevant facts and circumstances. As a result, the Group considers that the parties that retain joint control in the arrangement have rights to the net assets and classifies the joint arrangements as joint ventures. Also, there are restrictions, which require consent from the director who is designated by the other investors, for certain transactions, such as payment of dividend.

(*2) As the Group is considered to be able to exercise significant influence by representation on the board of directors of the investee and other reasons, although the total ownership percentage is less than 20%, the investment is accounted for using the equity method.

(*3) The entity is categorized as a joint venture although the Group's total ownership percentage is a majority share of 53%, because the Group does not have control over the entity by virtue of an agreement with the other investors.

(*4) For the year ended December 31, 2017, the Group has stopped recognizing its share of losses of the Sichuan Hyundai Motor Company (CHMC) and unrecognized share of losses of a joint venture, both for the reporting period and cumulatively are ₩20,437 million.

Investments in joint ventures and associates as of December 31, 2016 consist of the following:

Name of the company	Nature of business	Location	Ownership percentage	Book value
			(%)	(In millions of Korean Won)
Beijing-Hyundai Motor Company (BHMC) (*1)	Manufacturing	China	50.00	₩ 2,225,824
Beijing Hyundai Qiche Financing Company (BHAF) (*1,3)	Financing	China	53.00	445,735
Hyundai WIA Automotive Engine (Shandong) Company (WAE)	Manufacturing	China	22.00	186,929
Hyundai Powertech (Shandong) Co., Ltd (PTS)	Manufacturing	China	30.00	111,997
Kia Motors Corporation	Manufacturing	Korea	33.88	8,811,840
Hyundai Engineering & Construction Co., Ltd.	Construction	Korea	20.95	3,267,243
Hyundai WIA Corporation	Manufacturing	Korea	25.35	821,861
Hyundai Powertech Co., Ltd.	Manufacturing	Korea	37.58	502,891
Hyundai Dymos Inc.	Manufacturing	Korea	47.27	371,499
Hyundai Commercial Inc.	Financing	Korea	50.00	256,078
HMC Investment Securities Co., Ltd.	Securities brokerage	Korea	27.49	245,501
Eukor Car Carriers Inc. (*2)	Transportation	Korea	12.00	174,100
Haevichi Hotels & Resorts Co., Ltd.	Hotelkeeping	Korea	41.90	108,082
Hyundai Autoever Corp.	IT Service	Korea	28.96	107,382
Others				433,159
				₩ 18,070,121

(*1) Each of the joint arrangements in which the Group retains joint control is structured through a separate entity and there are no contractual terms stating that the parties retain rights to the assets and obligations for the liabilities relating to the joint arrangement or other relevant facts and circumstances. As a result, the Group considers that the parties that retain joint control in the arrangement have rights to the net assets and classifies the joint arrangements as joint ventures. Also, there are restrictions, which require consent from the director who is designated by the other investors, for certain transactions, such as payment of dividend.

(*2) As the Group is considered to be able to exercise significant influence by representation on the board of directors of the investee and other reasons, although the total ownership percentage is less than 20%, the investment is accounted for using the equity method.

(*3) The entity is categorized as a joint venture although the Group's total ownership percentage is a majority share of 53%, because the Group does not have control over the entity by virtue of an agreement with the other investors.

(2) The changes in investments in joint ventures and associates for the year ended December 31, 2017 are as follows:

Name of the company	Beginning of the year	Acquisitions (disposals)	Share of			End of the year
			profits (losses) for the year	Dividends	Others (*1)	
(In millions of Korean Won)						
BHMC	₩ 2,225,824	₩ -	₩ (74,456)	₩ (592,318)	₩ (102,471)	₩ 1,456,579
BHAF	445,735	-	64,120	(3,440)	(26,062)	480,353
WAE	186,929	4,721	(8,423)	(5,268)	(10,154)	167,805
PTS	111,997	18,023	16,006	(18,930)	(6,840)	120,256
Kia Motors Corporation	8,811,840	-	308,823	(151,050)	(87,288)	8,882,325
Hyundai Engineering & Construction Co., Ltd. (*2)	3,267,243	-	15,479	(11,664)	(311,148)	2,959,910
Hyundai WIA Corporation	821,861	-	(14,781)	(7,583)	(5,347)	794,150
Hyundai Powertech Co., Ltd.	502,891	-	52,349	-	(7,945)	547,295
Hyundai Dymos Inc.	371,499	-	31,512	-	(3,287)	399,724
Hyundai Commercial Inc.	256,078	-	136,510	(15,000)	(3,791)	373,797
HMC Investment Securities Co., Ltd.	245,501	-	13,906	(3,226)	(1,415)	254,766
Eukor Car Carriers Inc.	174,100	-	7,470	-	(21,315)	160,255
Hyundai Autoever Corp	107,382	-	15,576	(4,126)	330	119,162
Haevichi Hotels & Resorts Co., Ltd.	108,082	-	(1,784)	-	233	106,531
Others	433,159	57,400	(34,718)	(10,360)	(16,051)	429,430
	<u>₩ 18,070,121</u>	<u>₩ 80,144</u>	<u>₩ 527,589</u>	<u>₩ (822,965)</u>	<u>₩ (602,551)</u>	<u>₩ 17,252,338</u>

(*1) Others consist of changes in impairment loss, accumulated other comprehensive income/(loss) and others.

(*2) As recoverable amount of the Hyundai Engineering & Construction Co., Ltd. is less than its carrying amount, ₩302,536 million of impairment loss is recognized. The recoverable amount are measured at their value-in-use and the discount rate applied to the calculation is 8%.

The changes in investments in joint ventures and associates for the year ended December 31, 2016 are as follows:

Name of the company	Beginning of the year	Acquisitions (disposals)	Share of			End of the year
			profits (losses) for the year	Dividends	Others (*)	
(In millions of Korean Won)						
BHMC	₩ 2,189,321	₩ 242,434	₩ 559,793	₩ (666,208)	₩ (99,516)	₩ 2,225,824
BHAF	220,475	188,014	50,515	-	(13,269)	445,735
WAE	184,255	-	8,154	-	(5,480)	186,929
PTS	93,998	-	20,884	-	(2,885)	111,997
Kia Motors Corporation	8,047,548	-	904,067	(151,050)	11,275	8,811,840
Hyundai Engineering & Construction Co., Ltd.	3,180,493	-	79,434	(11,664)	18,980	3,267,243
Hyundai WIA Corporation	814,413	-	16,655	(7,583)	(1,624)	821,861
Hyundai Powertech Co., Ltd.	433,088	-	68,441	-	1,362	502,891
Hyundai Dymos Inc.	326,439	-	47,852	-	(2,792)	371,499
Hyundai Commercial Inc.	242,507	-	32,245	(8,950)	(9,724)	256,078
HMC Investment Securities Co., Ltd.	238,001	-	10,990	(3,630)	140	245,501
Eukor Car Carriers Inc.	191,468	-	(14,425)	(14,520)	11,577	174,100
Haevichi Hotels & Resorts Co., Ltd.	110,312	-	(2,289)	-	59	108,082
Hyundai Autoever Corp.	91,701	-	18,769	(4,126)	1,038	107,382
Others	545,924	(10,387)	(72,658)	(13,541)	(16,179)	433,159
	<u>₩ 16,909,943</u>	<u>₩ 420,061</u>	<u>₩ 1,728,427</u>	<u>₩ (881,272)</u>	<u>₩ (107,038)</u>	<u>₩ 18,070,121</u>

(*) Others consist of changes in accumulated other comprehensive income (loss), changes in ownership percentage and others.

(3) Summarized financial information of the Group's major joint ventures and associates as of and for the year ended December 31, 2017 is as follows:

Name of the company	Current assets	Non-current assets	Current liabilities	Non-current liabilities
(In millions of Korean Won)				
BHMC	₩ 6,748,910	₩ 4,132,036	₩ 7,495,325	₩ 355,758
BHAF (*)	4,961,986	-	4,055,661	-
WAE	753,485	760,642	318,440	432,938
PTS	853,846	216,947	577,765	92,174
Kia Motors Corporation	21,642,079	30,652,359	15,323,019	10,110,242
Hyundai Engineering & Construction Co., Ltd.	13,227,409	5,199,636	7,291,215	2,741,133
Hyundai WIA Corporation	3,859,385	3,334,297	1,727,926	2,325,658
Hyundai Powertech Co., Ltd.	1,054,803	1,648,206	925,897	285,796
Hyundai Dymos Inc.	1,419,940	1,026,734	1,052,358	522,381
Hyundai Commercial Inc. (*)	7,748,768	-	6,902,931	-
HMC Investment Securities Co., Ltd. (*)	7,025,157	-	6,179,803	-
Eukor Car Carriers Inc.	493,721	2,542,164	458,070	1,244,540
Hyundai Autoever Corp	681,216	122,740	380,035	8,164
Haevichi Hotels & Resorts Co., Ltd.	19,128	433,933	193,290	84,626

Name of the company	Sales	Profit (loss) for the year from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss)
(In millions of Korean Won)				
BHMC	₩ 12,149,126	₩ (159,438)	₩ -	₩ (159,438)
BHAF (*)	298,296	120,980	-	120,980
WAE	1,058,952	(38,293)	(45,997)	(84,290)
PTS	1,361,845	53,353	-	53,353
Kia Motors Corporation	53,535,680	968,018	(245,241)	722,777
Hyundai Engineering & Construction Co., Ltd.	16,854,433	374,321	(8,417)	365,904
Hyundai WIA Corporation	7,487,392	(63,004)	(26,269)	(89,273)
Hyundai Powertech Co., Ltd.	3,065,579	172,575	-	172,575
Hyundai Dymos Inc.	4,006,243	69,837	(1,938)	67,899
Hyundai Commercial Inc. (*)	429,370	272,413	7,364	279,776
HMC Investment Securities Co., Ltd. (*)	521,346	50,204	(9,324)	40,880
Eukor Car Carriers Inc.	1,799,182	57,618	(170,493)	(112,875)
Hyundai Autoever Corp	1,473,376	55,179	1,188	56,367
Haevichi Hotels & Resorts Co., Ltd.	121,452	2,407	584	2,991

(*) The companies operate financial business and their total assets (liabilities) are included in current assets (liabilities) as the companies do not distinguish current and non-current portion in their separate financial statements.

Summarized financial information of the Group's major joint ventures and associates as of and for the year ended December 31, 2016 is as follows:

Name of the company	Current Assets	Non-current assets	Current liabilities	Non-current liabilities
	(In millions of Korean Won)			
BHMC	₩ 6,571,169	₩ 4,084,409	₩ 5,780,436	₩ 295,508
BHAF (*)	5,362,202	-	4,521,193	-
WAE	799,333	901,220	279,757	571,118
PTS	739,315	229,686	474,965	120,713
Kia Motors Corporation	20,912,221	29,977,039	16,246,900	8,062,936
Hyundai Engineering & Construction Co., Ltd.	14,949,282	4,934,177	8,746,584	2,994,568
Hyundai WIA Corporation	3,743,344	3,278,735	1,698,890	2,064,600
Hyundai Powertech Co., Ltd.	1,250,565	1,539,496	1,008,026	442,156
Hyundai Dymos Inc.	1,341,859	1,049,604	1,132,962	450,616
Hyundai Commercial Inc. (*)	6,017,380	-	5,400,892	-
HMC Investment Securities Co., Ltd. (*)	5,887,084	-	5,070,875	-
Eukor Car Carriers Inc.	393,017	3,056,960	486,687	1,514,638
Haevichi Hotels & Resorts Co., Ltd.	28,337	433,187	148,142	141,229
Hyundai Autoever Corp.	687,569	108,493	418,494	3,927

Name of the company	Sales	Profit (loss) for the year from continuing operations	Other comprehensive income (loss)	Total comprehensive income (loss)
	(In millions of Korean Won)			
BHMC	₩ 20,128,709	₩ 1,171,934	₩ -	₩ 1,171,934
BHAF (*)	481,778	95,309	-	95,309
WAE	1,452,939	27,719	-	27,719
PTS	2,159,373	69,615	-	69,615
Kia Motors Corporation	52,712,906	2,754,640	63,186	2,817,826
Hyundai Engineering & Construction Co., Ltd.	18,744,454	650,376	109,075	759,451
Hyundai WIA Corporation	7,589,447	130,727	(6,106)	124,621
Hyundai Powertech Co., Ltd.	3,600,725	180,276	3,631	183,907
Hyundai Dymos Inc.	4,339,633	131,465	(5,472)	125,993
Hyundai Commercial Inc. (*)	386,377	71,334	(9,673)	61,661
HMC Investment Securities Co., Ltd. (*)	563,354	39,787	69,612	109,399
Eukor Car Carriers Inc.	1,679,763	(114,524)	90,912	(23,612)
Haevichi Hotels & Resorts Co., Ltd.	106,243	2,305	129	2,434
Hyundai Autoever Corp.	1,335,966	64,707	3,500	68,207

(*) The companies operate financial business and their total assets (liabilities) are included in current assets (liabilities) as the companies do not distinguish current and non-current portion in their separate financial statements.

- (4) Summarized additional financial information of the Group's major joint ventures as of and for the year ended December 31, 2017 is as follows:

Name of the company	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation and amortization	Interest income	Interest expenses	Income tax expense (benefit)
(In millions of Korean Won)							
BHMC	₩ 329,263	₩ 1,080,090	₩ -	₩ 373,222	₩ 26,106	₩ 123,581	₩ (14,897)
BHAF (*)	782,333	3,429,969	-	4,219	470,763	180,523	40,680

- (*) Operating finance business of which total assets (liabilities) are included in current financial liabilities as BHAF does not distinguish current and non-current portion in separate financial statements.

Summarized additional financial information of the Group's major joint ventures as of and for the year ended December 31, 2016 is as follows:

Name of the company	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation and amortization	Interest income	Interest expenses	Income tax expense
(In millions of Korean Won)							
BHMC	₩ 132,608	₩ -	₩ 242,564	₩ 352,770	₩ 11,234	₩ 112,057	₩ 388,926
BHAF (*)	875,763	3,847,839	-	3,164	463,498	156,979	34,265

- (*) Operating finance business of which total assets (liabilities) are included in current financial liabilities as BHAF does not distinguish current and non-current portion in separate financial statements.

- (5) The aggregate amounts of the Group's share of the joint ventures' and associates', that are not individually material, loss and comprehensive loss for the years ended December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
(In millions of Korean Won)		
Loss for the year	₩ (34,718)	₩ (72,658)
Other comprehensive loss	(16,051)	(16,179)
Total comprehensive loss	₩ (50,769)	₩ (88,837)

- (6) Reconciliation of the Group's share of net assets of the Group's major joint ventures and associates to their carrying amounts as of December 31, 2017 is as follows:

Name of the company	Group's share of net assets	Goodwill	Unrealized profit (loss) and others	Carrying amounts
BHMC	₩ 1,514,932	₩ -	₩ (58,353)	₩ 1,456,579
BHAF	480,353	-	-	480,353
WAE	167,805	-	-	167,805
PTS	120,256	-	-	120,256
Kia Motors Corporation	8,749,248	197,089	(64,012)	8,882,325
Hyundai Engineering & Construction Co., Ltd. (*)	2,125,080	834,821	9	2,959,910
Hyundai WIA Corporation	797,455	-	(3,305)	794,150
Hyundai Powertech Co., Ltd.	548,330	-	(1,035)	547,295
Hyundai Dymos Inc.	401,195	-	(1,471)	399,724
Hyundai Commercial Inc.	373,797	-	-	373,797
HMC Investment Securities Co., Ltd.	214,714	40,052	-	254,766
Eukor Car Carriers Inc.	159,993	-	262	160,255
Hyundai Autoever Corp.	119,162	-	-	119,162
Haevichi Hotels & Resorts Co., Ltd. (*)	102,955	3,576	-	106,531

- (*) The difference between the carrying amount and the fair value of the investee's identifiable assets and liabilities as of the acquisition date is included in the amount of net assets.

Reconciliation of the Group's share of net assets of the Group's major joint ventures and associates to their carrying amounts as of December 31, 2016 is as follows:

Name of the company	Group's share of net assets	Goodwill	Unrealized profit (loss) and others	Carrying amounts
BHMC	₩ 2,289,817	₩ -	₩ (63,993)	₩ 2,225,824
BHAF	445,735	-	-	445,735
WAE	186,929	-	-	186,929
PTS	111,997	-	-	111,997
Kia Motors Corporation	8,667,785	197,089	(53,034)	8,811,840
Hyundai Engineering & Construction Co., Ltd. (*)	2,129,886	1,137,357	-	3,267,243
Hyundai WIA Corporation	825,700	-	(3,839)	821,861
Hyundai Powertech Co., Ltd.	504,501	-	(1,610)	502,891
Hyundai Dymos Inc.	373,593	-	(2,094)	371,499
Hyundai Commercial Inc.	256,078	-	-	256,078
HMC Investment Securities Co., Ltd.	205,449	40,052	-	245,501
Eukor Car Carriers Inc.	173,838	-	262	174,100
Haevichi Hotels & Resorts Co., Ltd. (*)	104,506	3,576	-	108,082
Hyundai Autoever Corp.	107,382	-	-	107,382

- (*) The difference between the carrying amount and the fair value of the investee's identifiable assets and liabilities as of the acquisition date is included in the amount of net assets.

- (7) The market price of listed equity securities as of December 31, 2017 is as follows:

Name of the company	Price per share	Total number of shares	Market value
Kia Motors Corporation	₩ 33,500	137,318,251	₩ 4,600,161
Hyundai Engineering & Construction Co., Ltd.	36,300	23,327,400	846,785
Hyundai WIA Corporation	65,000	6,893,596	448,084
HMC Investment Securities Co., Ltd.	10,900	8,065,595	87,915

13. FINANCIAL SERVICES RECEIVABLES:

(1) Financial services receivables as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Loan obligations	₩ 36,848,028	₩ 38,156,062
Card receivables	12,979,942	12,223,581
Financial lease receivables	2,437,466	2,422,222
Others	36,668	29,061
	52,302,104	52,830,926
Allowance for doubtful accounts	(1,133,967)	(1,078,002)
Loan origination fee	13,182	40,628
Present value discount accounts	(13,301)	(9,949)
	₩ 51,168,018	₩ 51,783,603

(2) Aging analysis of financial services receivables

As of December 31, 2017 and 2016, total financial services receivables that are past due, but not impaired, amount to ₩1,513,093 million and ₩1,421,906 million, respectively; among them, financial services receivables past due less than 90 days are ₩1,512,976 million and ₩1,421,802 million, respectively. As of December 31, 2017 and 2016, the impaired financial services receivables amount to ₩523,274 million and ₩538,961 million, respectively.

(3) Transferred financial services receivables that are not derecognized

As of December 31, 2017 and 2016, the Group issued asset-backed securities, which have recourse to the underlying assets, based on loans, card receivables and others. As of December 31, 2017, the carrying amounts (including intercompany receivables within the Group) and fair values of the transferred financial assets that are not derecognized are ₩20,449,746 million and ₩20,452,768 million, respectively. The carrying amounts and fair values of the associated liabilities are ₩13,129,165 million and ₩12,970,433 million, respectively, and the net position is ₩7,482,335 million. As of December 31, 2016, the carrying amounts (including intercompany receivables within the Group) and fair values of the transferred financial assets that are not derecognized are ₩20,674,676 million and ₩20,609,441 million, respectively, the carrying amounts and fair values of the associated liabilities are ₩15,060,372 million and ₩14,946,084 million, respectively, and the net position is ₩5,663,357 million.

(4) The changes in allowance for doubtful accounts of financial services receivables for the years ended December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Beginning of the year	₩ 1,078,002	₩ 938,300
Impairment loss	753,514	705,035
Write-off	(443,008)	(465,067)
Disposals and others	(222,842)	(108,659)
Effect of foreign exchange differences	(31,699)	8,393
End of the year	₩ 1,133,967	₩ 1,078,002

- (5) Gross investments in financial leases and their present value of minimum lease receipts as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017		December 31, 2016	
	Gross investments in financial leases	Present value of minimum lease payment receivable	Gross investments in financial leases	Present value of minimum lease payment receivable
	(In millions of Korean Won)			
Not later than one year	₩ 1,173,541	₩ 1,050,165	₩ 1,140,416	₩ 1,029,983
Later than one year and not later than five years	1,489,664	1,384,980	1,492,004	1,390,070
Later than five years	281	277	81	80
	<u>₩ 2,663,486</u>	<u>₩ 2,435,422</u>	<u>₩ 2,632,501</u>	<u>₩ 2,420,133</u>

- (6) Unearned interest income of financial leases as of December 31, 2017 and 2016 is as follows:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Gross investments in financial lease	₩ 2,663,486	₩ 2,632,501
Net lease investments:		
Present value of minimum lease payment receivable	2,435,422	2,420,133
Present value of unguaranteed residual value	2,044	2,089
	<u>2,437,466</u>	<u>2,422,222</u>
Unearned interest income	<u>₩ 226,020</u>	<u>₩ 210,279</u>

14. **OPERATING LEASE ASSETS:**

- (1) Operating lease assets as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Acquisition cost	₩ 24,345,256	₩ 24,829,330
Accumulated depreciation	(3,517,368)	(3,360,559)
Accumulated impairment loss	(99,938)	(151,511)
	<u>₩ 20,727,950</u>	<u>₩ 21,317,260</u>

- (2) Future minimum lease payment receivable related to operating lease assets as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Not later than one year	₩ 3,765,437	₩ 3,839,810
Later than one year and not later than five years	3,869,709	4,246,435
Later than five years	7	7
	<u>₩ 7,635,153</u>	<u>₩ 8,086,252</u>

15. BORROWINGS AND DEBENTURES:

(1) Short-term borrowings as of December 31, 2017 and 2016 consist of the following:

Description	Lender	Annual interest rate	December 31,	December 31,	December 31,
		December 31, 2017	2017	2016	
		(%)	(In millions of Korean Won)		
Overdrafts	Citi Bank and others	0.10~1.30	₩ 317,189	₩ 223,992	
General loans	Woori Bank and others	0.40~7.46	3,727,189	2,949,149	
Loans on trade receivables collateral	KEB Hana Bank and others	LIBOR + 0.15~0.45	1,338,160	1,472,786	
Banker's Usance	KEB Hana Bank and others	LIBOR + 0.25~0.40	376,547	429,493	
Short-term debentures		1.63	69,993	159,890	
Commercial paper	Shinhan Bank and others	1.44~2.21	3,570,389	3,007,411	
Asset-backed securities	RBC and others	1.92	560,187	517,957	
			<u>₩ 9,959,654</u>	<u>₩ 8,760,678</u>	

(2) Long-term debt as of December 31, 2017 and 2016 consists of the following:

Description	Lender	Annual interest rate	December 31,	December 31,	December 31,
		December 31, 2017	2017	2016	
		(%)	(In millions of Korean Won)		
General loans	Mizuho Bank and others	0.40~15.40	₩ 6,368,138	₩ 6,253,057	
Facility loan	Korea Development Bank and others	0.32~8.70	255,281	296,821	
Commercial paper	KTB Investment & Securities and others	1.62~2.24	2,070,000	790,000	
Asset-backed securities	JP Morgan and others	1.96~2.32	6,782,232	8,595,052	
Others	NH Investment & Securities and others		567,125	567,125	
			<u>16,042,776</u>	<u>16,502,055</u>	
Less: present value discounts			107,752	112,050	
Less: current maturities			3,446,887	3,000,022	
			<u>₩ 12,488,137</u>	<u>₩ 13,389,983</u>	

(3) Debentures as of December 31, 2017 and 2016 consist of the following:

Description	Latest maturity date	Annual interest rate	December 31,	December 31,	December 31,
		December 31, 2017	2017	2016	
		(%)	(In millions of Korean Won)		
Guaranteed public debentures			₩ -	₩ 604,250	
Non-guaranteed public debentures	September 19, 2027	1.44~6.53	22,956,764	22,685,513	
Non-guaranteed private debentures	August 29, 2027	1.45~3.25	10,107,160	10,027,427	
Asset-backed securities	May 15, 2024	1.05~3.12	13,140,350	15,074,314	
			<u>46,204,274</u>	<u>48,391,504</u>	
Less: discount on debentures			98,422	98,167	
Less: current maturities			9,651,660	11,836,945	
			<u>₩ 36,454,192</u>	<u>₩ 36,456,392</u>	

16. PROVISIONS:

(1) Provisions as of December 31, 2017 and 2016 consist of the following:

Description	December 31,		December 31,	
	2017		2016	
	(In millions of Korean Won)			
Warranty	₩	5,226,297	₩	5,612,978
Other long-term employee benefits		636,380		641,193
Others		791,764		718,469
	₩	6,654,441	₩	6,972,640

(2) The changes in provisions for the year ended December 31, 2017 are as follows:

Description	Other long-term					
	Warranty	employee benefits	Others			
	(In millions of Korean Won)					
Beginning of the year	₩	5,612,978	₩	641,193	₩	718,469
Charged		1,392,351		53,107		718,840
Utilized		(1,743,049)		(57,930)		(619,102)
Amortization of present value discounts		92,718		-		9,843
Changes in expected reimbursements by third parties		(11,971)		-		-
Effect of foreign exchange differences		(116,730)		10		(36,286)
End of the year	₩	5,226,297	₩	636,380	₩	791,764

The changes in provisions for the year ended December 31, 2016 are as follows:

Description	Other long-term					
	Warranty	employee benefits	Others			
	(In millions of Korean Won)					
Beginning of the year	₩	5,639,595	₩	643,274	₩	459,031
Charged		1,194,945		77,753		452,471
Utilized		(1,360,774)		(79,824)		(222,819)
Amortization of present value discounts		96,113		-		2,026
Changes in expected reimbursements by third parties		3,087		-		-
Effect of foreign exchange differences		40,012		(10)		27,760
End of the year	₩	5,612,978	₩	641,193	₩	718,469

17. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016					
	Current	Non-current	Current	Non-current				
	(In millions of Korean Won)							
Financial liabilities at FVTPL	₩	555	₩	-	₩	18,068	₩	21
Derivative liabilities that are effective hedging instruments		25,097		438,070		120,038		23,433
	₩	25,652	₩	438,070	₩	138,106	₩	23,454

18. OTHER LIABILITIES:

Other liabilities as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
	(In millions of Korean Won)			
Advances received	₩ 746,977	₩ 86,359	₩ 604,420	₩ 123,424
Withholdings	964,884	301,247	1,240,641	337,667
Accrued expenses	3,830,729	-	2,752,047	-
Unearned income	315,035	1,075,434	299,916	1,114,407
Due to customers for contract work	438,977	-	319,801	-
Others	294,819	1,182,380	258,081	1,252,167
	<u>₩ 6,591,421</u>	<u>₩ 2,645,420</u>	<u>₩ 5,474,906</u>	<u>₩ 2,827,665</u>

19. FINANCIAL INSTRUMENTS:

(1) Financial assets by categories as of December 31, 2017 are as follows:

Description	Financial assets at FVTPL	Loans and receivables	AFS financial assets	Derivative assets that are effective hedging instruments	Book value	Fair value
	(In millions of Korean Won)					
Cash and cash equivalents	₩ -	₩ 8,821,529	₩ -	₩ -	₩ 8,821,529	₩ 8,821,529
Short-term and long-term financial instruments	-	7,891,106	-	-	7,891,106	7,891,106
Trade notes and accounts receivable	-	3,961,976	-	-	3,961,976	3,961,976
Other receivables	-	3,195,513	-	-	3,195,513	3,195,513
Other financial assets	12,964,437	87,589	2,308,955	38,197	15,399,178	15,399,178
Other assets	-	359,942	-	-	359,942	359,942
Financial services receivables	-	51,168,018	-	-	51,168,018	51,287,698
	<u>₩ 12,964,437</u>	<u>₩ 75,485,673</u>	<u>₩ 2,308,955</u>	<u>₩ 38,197</u>	<u>₩ 90,797,262</u>	<u>₩ 90,916,942</u>

Financial assets by categories as of December 31, 2016 are as follows:

Description	Financial assets at FVTPL	Loans and receivables	AFS financial assets	Derivative assets that are effective hedging instruments	Book value	Fair value
	(In millions of Korean Won)					
Cash and cash equivalents	₩ -	₩ 7,890,089	₩ -	₩ -	₩ 7,890,089	₩ 7,890,089
Short-term and long-term financial instruments	-	7,461,219	-	-	7,461,219	7,461,219
Trade notes and accounts receivable	-	4,575,657	-	-	4,575,657	4,575,657
Other receivables	-	3,257,612	-	-	3,257,612	3,257,612
Other financial assets	12,559,029	85,560	2,312,733	327,221	15,284,543	15,284,543
Other assets	-	319,930	-	-	319,930	319,930
Financial services receivables	-	51,783,603	-	-	51,783,603	52,203,515
	<u>₩ 12,559,029</u>	<u>₩ 75,373,670</u>	<u>₩ 2,312,733</u>	<u>₩ 327,221</u>	<u>₩ 90,572,653</u>	<u>₩ 90,992,565</u>

(2) Financial liabilities by categories as of December 31, 2017 are as follows:

Description	Financial liabilities at FVTPL	Financial liabilities carried at amortized cost	Derivative liabilities that are effective hedging instruments	Book value	Fair value
(In millions of Korean Won)					
Trade notes and accounts payable	₩ -	₩ 6,483,875	₩ -	₩ 6,483,875	₩ 6,483,875
Other payables	-	5,059,246	-	5,059,246	5,059,246
Borrowings and debentures	-	72,000,530	-	72,000,530	71,987,443
Other financial liabilities	555	-	463,167	463,722	463,722
Other liabilities	-	3,837,148	-	3,837,148	3,837,148
	<u>₩ 555</u>	<u>₩ 87,380,799</u>	<u>₩ 463,167</u>	<u>₩ 87,844,521</u>	<u>₩ 87,831,434</u>

Financial liabilities by categories as of December 31, 2016 are as follows:

Description	Financial liabilities at FVTPL	Financial liabilities carried at amortized cost	Derivative liabilities that are effective hedging instruments	Book value	Fair value
(In millions of Korean Won)					
Trade notes and accounts payable	₩ -	₩ 6,985,942	₩ -	₩ 6,985,942	₩ 6,985,942
Other payables	-	4,969,309	-	4,969,309	4,969,309
Borrowings and debentures	-	73,444,020	-	73,444,020	73,573,334
Other financial liabilities	18,089	-	143,471	161,560	161,560
Other liabilities	-	2,752,118	-	2,752,118	2,752,118
	<u>₩ 18,089</u>	<u>₩ 88,151,389</u>	<u>₩ 143,471</u>	<u>₩ 88,312,949</u>	<u>₩ 88,442,263</u>

(3) Fair value estimation

The Group categorizes the assets and liabilities measured at fair value into the following three-level fair value hierarchy in accordance with the inputs used for fair value measurement:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurements of financial instruments by fair value hierarchy levels as of December 31, 2017 are as follows:

Description	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In millions of Korean Won)			
Financial assets:				
Financial assets at FVTPL	₩ 111,654	₩ 12,852,783	₩ -	₩ 12,964,437
Derivative assets that are effective hedging instruments	-	38,197	-	38,197
AFS financial assets	1,708,825	264,611	335,519	2,308,955
	<u>₩ 1,820,479</u>	<u>₩ 13,155,591</u>	<u>₩ 335,519</u>	<u>₩ 15,311,589</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 555	₩ -	₩ 555
Derivative liabilities that are effective hedging instruments	-	463,167	-	463,167
	<u>₩ -</u>	<u>₩ 463,722</u>	<u>₩ -</u>	<u>₩ 463,722</u>

Fair value measurements of financial instruments by fair value hierarchy levels as of December 31, 2016 are as follows:

Description	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In millions of Korean Won)			
Financial assets:				
Financial assets at FVTPL	₩ 82,512	₩ 12,476,517	₩ -	₩ 12,559,029
Derivative assets that are effective hedging instruments	-	327,221	-	327,221
AFS financial assets	1,810,323	244,250	258,160	2,312,733
	<u>₩ 1,892,835</u>	<u>₩ 13,047,988</u>	<u>₩ 258,160</u>	<u>₩ 15,198,983</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 18,089	₩ -	₩ 18,089
Derivative liabilities that are effective hedging instruments	-	143,471	-	143,471
	<u>₩ -</u>	<u>₩ 161,560</u>	<u>₩ -</u>	<u>₩ 161,560</u>

The changes in financial instruments classified as Level 3 for the year ended December 31, 2017 are as follows:

Description	Beginning of the year	Purchases	Disposals	Valuation	Transfers (*)	End of the year
		(In millions of Korean Won)				
AFS financial assets	₩ 258,160	₩ 77,177	₩ (3,999)	₩ 4,681	₩ (500)	₩ 335,519

(*) For the year ended December 31, 2017, due to MediaZen Inc. now being listed on the Korea New Exchange, the fair value hierarchy level has transferred from Level 3 to Level 1.

The changes in financial instruments classified as Level 3 for the year ended December 31, 2016 are as follows:

Description	Beginning of the year	Purchases	Disposals	Valuation	Transfers	End of the year
		(In millions of Korean Won)				
AFS financial assets	₩ 232,557	₩ 22,795	₩ (3,783)	₩ 6,591	₩ -	₩ 258,160

- (4) Interest income, dividend income and interest expenses by categories of financial instruments for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017			2016		
	Interest income	Dividend income	Interest expenses	Interest income	Dividend income	Interest expenses
(In millions of Korean Won)						
Non-financial services:						
Loans and receivables	₩ 272,106	₩ -	₩ -	₩ 204,109	₩ -	₩ -
Financial assets (liabilities) at FVTPL	168,614	-	17,408	173,485	-	8,572
AFS financial assets	-	29,734	-	-	35,135	-
Financial liabilities carried at amortized cost	-	-	221,010	-	-	209,312
	<u>₩ 440,720</u>	<u>₩ 29,734</u>	<u>₩ 238,418</u>	<u>₩ 377,594</u>	<u>₩ 35,135</u>	<u>₩ 217,884</u>
Financial services:						
Loans and receivables	₩ 3,434,974	₩ -	₩ -	₩ 2,977,629	₩ -	₩ -
Financial assets at FVTPL	25,436	1,499	-	25,371	1,298	-
AFS financial assets	1,136	3,098	-	1,202	4,783	-
Financial liabilities carried at amortized cost	-	-	1,432,527	-	-	1,382,775
	<u>₩ 3,461,546</u>	<u>₩ 4,597</u>	<u>₩ 1,432,527</u>	<u>₩ 3,004,202</u>	<u>₩ 6,081</u>	<u>₩ 1,382,775</u>

- (5) Financial assets and liabilities subject to offsetting, and financial instruments subject to an enforceable master netting arrangement or similar agreement as of December 31, 2017 consist of the following:

Description	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the consolidated statement of financial position	Net amounts of financial assets and liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position - financial instruments	Related amounts not set off in the statement of financial position - collateral received (pledged)	Net amounts
Financial assets:						
Trade notes and accounts receivable	₩ 4,100,242	₩ 138,266	₩ 3,961,976	₩ -	₩ -	₩ 3,961,976
Other receivables	3,387,809	192,296	3,195,513	-	-	3,195,513
Financial assets at FVTPL	196,662	-	196,662	-	-	196,662
Derivative assets that are effective hedging instruments (*)	38,197	-	38,197	10,389	-	27,808
	<u>₩ 7,722,910</u>	<u>₩ 330,562</u>	<u>₩ 7,392,348</u>	<u>₩ 10,389</u>	<u>₩ -</u>	<u>₩ 7,381,959</u>
Financial liabilities:						
Trade notes and accounts payable	₩ 6,683,461	₩ 199,586	₩ 6,483,875	₩ -	₩ -	₩ 6,483,875
Other payables	5,190,222	130,976	5,059,246	-	-	5,059,246
Financial liabilities at FVTPL	555	-	555	-	-	555
Derivative liabilities that are effective hedging instruments (*)	463,167	-	463,167	10,389	-	452,778
	<u>₩ 12,337,405</u>	<u>₩ 330,562</u>	<u>₩ 12,006,843</u>	<u>₩ 10,389</u>	<u>₩ -</u>	<u>₩ 11,996,454</u>

- (*) These are derivative assets and liabilities that the Group may have the right to offset in the event of default, insolvency or bankruptcy of the counterparty although these do not meet the criteria of offsetting under K-IFRS 1032.

Financial assets and liabilities, subject to offsetting, and financial instruments subject to an enforceable master netting arrangement or similar agreement as of December 31, 2016 consist of the following:

Description	Gross amounts of recognized financial assets and liabilities	Gross amounts of recognized financial assets and liabilities set off in the consolidated statement of financial position	Net amounts of financial assets and liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position - financial instruments	Related amounts not set off in the statement of financial position - collateral received (pledged)	Net amounts
(In millions of Korean Won)						
Financial assets:						
Trade notes and accounts receivable	₩ 4,729,796	₩ 154,139	₩ 4,575,657	₩ -	₩ -	₩ 4,575,657
Other receivables	3,540,993	283,381	3,257,612	-	-	3,257,612
Financial assets at FVTPL (*)	107,749	-	107,749	683	-	107,066
Derivative assets that are effective hedging instruments (*)	327,221	-	327,221	92,656	-	234,565
	<u>₩ 8,705,759</u>	<u>₩ 437,520</u>	<u>₩ 8,268,239</u>	<u>₩ 93,339</u>	<u>₩ -</u>	<u>₩ 8,174,900</u>
Financial liabilities:						
Trade notes and accounts payable	₩ 7,280,018	₩ 294,076	₩ 6,985,942	₩ -	₩ -	₩ 6,985,942
Other payables	5,112,753	143,444	4,969,309	-	-	4,969,309
Financial liabilities at FVTPL (*)	18,089	-	18,089	683	-	17,406
Derivative liabilities that are effective hedging instruments (*)	143,471	-	143,471	92,656	-	50,815
	<u>₩ 12,554,331</u>	<u>₩ 437,520</u>	<u>₩ 12,116,811</u>	<u>₩ 93,339</u>	<u>₩ -</u>	<u>₩ 12,023,472</u>

(*) These are derivative assets and liabilities that the Group may have the right to offset in the event of default, insolvency or bankruptcy of the counterparty although these do not meet the criteria of offsetting under K-IFRS 1032.

(6) The commission income (financial services revenue) arising from financial assets or liabilities other than financial assets or liabilities at FVTPL for the years ended December 31, 2017 and 2016 are, ₩1,815,536 million and ₩1,773,305 million, respectively. In addition, the fee expenses (cost of sales from financial services) occurring from financial assets or liabilities other than financial assets or liabilities at FVTPL for the years ended December 31, 2017 and 2016, are ₩989,424 million and ₩923,515 million, respectively.

(7) The Group recognizes transfers between levels of the fair value hierarchy at the date of the event or change in circumstances that caused the transfer. There are no significant transfers between Level 1 and Level 2 for the year ended December 31, 2017.

(8) Descriptions of the valuation techniques and the inputs used in the fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

- Currency forwards, options and swaps

Fair value of currency forwards, options and swaps is measured based on forward exchange rate quoted in the current market at the end of the reporting period, which has the same remaining period of derivatives to be measured. If the forward exchange rate, which has the same remaining period of currency forwards, options and swaps, is not quoted in the current market, fair value is measured using estimates of similar period of forward exchange rate by applying interpolation method with quoted forward exchange rates.

As the inputs used to measure the fair value of currency forwards, options and swaps are supported by observable market data, such as forward exchange rates, the Group classified the estimates of fair value measurements of the currency forwards, options and swaps as Level 2 of the fair value hierarchy.

- Debt instruments including corporate bonds

Fair value of debt instruments including corporate bonds is measured applying discounted cash flow method. The rate used to discount cash flows is determined based on swap rate and credit spreads of debt instruments, which have the similar credit rating and period quoted in the current market with those of debt instruments including corporate bonds that should be measured. The Group classifies fair value measurements of debt instruments including corporate bonds as Level 2 of the fair value hierarchy since the rate, which has significant effects on fair value of debt instruments including corporate bonds, is based on observable market data.

- Unlisted equity securities

Fair value of unlisted equity securities is measured using discounted cash flow projection and others, and certain assumptions not based on observable market prices or rate, such as sales growth rate, pretax operating income ratio and discount rate based on business plan and circumstance of industry are used to estimate the future cash flow. The discount rate used to discount the future cash flows, is calculated by applying the Capital Asset Pricing Model, using the data of similar listed companies. The Group determines that the effect of estimation and assumptions referred above affecting fair value of unlisted equity securities is significant and classifies fair value measurements of unlisted securities as Level 3 of the fair value hierarchy.

- (9) The quantitative information about significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy and the description of relationships of significant unobservable inputs to the fair value are as follows:

Description	Fair value at December 31, 2017 (In millions of Korean Won)	Valuation techniques	Unobservable inputs	Range	Description of relationship
Unlisted equity Securities	₩ 289,948	Discounted cash flow and others	Sales growth rate Pre-tax operating income margin	2.9% ~ 3.0% 4.4%	If the sales growth rate and the pretax operating income ratio rise or the discount rate declines, the fair value increases.
			Discount rate	11.23%	

The Group does not expect the changes in unobservable inputs for alternative assumptions that can be applied reasonably to have significant impact on the fair value measurements.

20. CAPITAL STOCK:

The Company's number of shares authorized is 600,000,000 shares. Common stock and preferred stock as of December 31, 2017 and 2016 consist of the following:

- (1) Common stock

Description	December 31, 2017 (In millions of Korean Won)	December 31, 2016 (In millions of Korean Won, except par value)
Issued	220,276,479 shares	220,276,479 shares
Par value	₩ 5,000	₩ 5,000
Capital stock	1,157,982	1,157,982

The Company completed stock retirement of 10,000,000 common shares and 1,320,000 common shares as of March 5, 2001, and May 4, 2004, respectively. Due to these stock retirements, the total face value of outstanding stock differs from the capital stock amount.

(2) Preferred stock

Description	Par value	Issued	Korean Won	Dividend rate
			(In millions of Korean Won)	
1 st preferred stock	₩ 5,000	25,109,982 shares	₩ 125,550	Dividend rate of common stock + 1%
2 nd preferred stock	"	37,613,865 shares	193,069	The lowest stimulated dividend rate : 2%
3 rd preferred stock	"	2,478,299 shares	12,392	The lowest stimulated dividend rate : 1%
		65,202,146 shares	₩ 331,011	

As of March 5, 2001, the Company retired 1,000,000 second preferred shares. Due to the stock retirement, the total face value of outstanding stock differs from the capital stock amount. The preferred shares are non-cumulative, participating and non-voting.

21. CAPITAL SURPLUS:

Capital surplus as of December 31, 2017 and 2016 consists of the following:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Stock paid-in capital in excess of par value	₩ 3,321,334	₩ 3,321,334
Others	879,880	881,263
	₩ 4,201,214	₩ 4,202,597

22. OTHER CAPITAL ITEMS:

Other capital items consist of treasury stocks purchased for the stabilization of stock price. Number of treasury stocks as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
	(Number of shares)	
Common stock	13,222,514	13,222,514
1 st preferred stock	2,202,059	2,202,059
2 nd preferred stock	1,376,138	1,376,138
3 rd preferred stock	24,782	24,782

23. ACCUMULATED OTHER COMPREHENSIVE LOSS:

Accumulated other comprehensive loss as of December 31, 2017 and 2016 consists of the following:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Gain on valuation of AFS financial assets	₩ 486,596	₩ 535,812
Loss on valuation of AFS financial assets	(1,915)	(241,848)
Gain on valuation of cash flow hedge derivatives	9,062	37,966
Loss on valuation of cash flow hedge derivatives	(2,119)	(34,244)
Gain on share of the other comprehensive income of equity-accounted investees	165,563	172,722
Loss on share of the other comprehensive income of equity-accounted investees	(814,987)	(540,494)
Loss on foreign operations translation, net	(2,121,155)	(1,153,158)
	₩ (2,278,955)	₩ (1,223,244)

24. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Legal reserve (*)	₩ 744,836	₩ 718,336
Discretionary reserve	46,848,647	43,874,647
Unappropriated	19,738,845	19,768,425
	₩ 67,332,328	₩ 64,361,408

(*) The Commercial Code of the Republic of Korea requires the Company to appropriate as a legal reserve, a minimum of 10% of annual cash dividends declared, until such reserve equals 50% of its capital stock issued. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

Appraisal gains, amounting to ₩1,852,871 million, derived from asset revaluation by the Asset Revaluation Law of Korea are included in retained earnings. It may be only transferred to capital stock or used to reduce accumulated deficit, if any.

(2) The computation of the interim dividends for the year ended December 31, 2017 is as follows:

Description	Common stock	1 st Preferred stock	2 nd Preferred stock	3 rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Number of shares issued	220,276,479	25,109,982	37,613,865	2,478,299
Treasury stocks	(13,222,514)	(2,202,059)	(1,376,138)	(24,782)
Shares, net of treasury stocks	207,053,965	22,907,923	36,237,727	2,453,517
Dividends per share	₩ 1,000	₩ 1,000	₩ 1,000	₩ 1,000
Dividend rate	20%	20%	20%	20%
Dividends declared	207,054	22,908	36,238	2,453

The computation of the interim dividends for the year ended December 31, 2016 is as follows:

Description	Common stock	1 st Preferred stock	2 nd Preferred stock	3 rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Number of shares issued	220,276,479	25,109,982	37,613,865	2,478,299
Treasury stocks	(13,222,314)	(2,202,059)	(1,376,138)	(24,782)
Shares, net of treasury stocks	207,054,165	22,907,923	36,237,727	2,453,517
Dividends per share	₩ 1,000	₩ 1,000	₩ 1,000	₩ 1,000
Dividend rate	20%	20%	20%	20%
Dividends declared	207,054	22,908	36,238	2,453

(3) The computation of the proposed dividends for the year ended December 31, 2017 is as follows:

Description	Common stock	1 st Preferred stock	2 nd Preferred stock	3 rd Preferred stock
	(In millions of Korean Won, except per share amounts)			
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Number of shares issued	220,276,479	25,109,982	37,613,865	2,478,299
Treasury stocks	(13,222,514)	(2,202,059)	(1,376,138)	(24,782)
Shares, net of treasury stocks	207,053,965	22,907,923	36,237,727	2,453,517
Dividends per share	₩ 3,000	₩ 3,050	₩ 3,100	₩ 3,050
Dividend rate	60%	61%	62%	61%
Dividends declared	621,162	69,869	112,337	7,483

The computation of the dividends for the year ended December 31, 2016 is as follows:

Description	Common stock	1 st Preferred stock	2 nd Preferred stock	3 rd Preferred stock
(In millions of Korean Won, except per share amounts)				
Par value per share	₩ 5,000	₩ 5,000	₩ 5,000	₩ 5,000
Number of shares issued	220,276,479	25,109,982	37,613,865	2,478,299
Treasury stocks	(13,222,514)	(2,202,059)	(1,376,138)	(24,782)
Shares, net of treasury stocks	207,053,965	22,907,923	36,237,727	2,453,517
Dividends per share	₩ 3,000	₩ 3,050	₩ 3,100	₩ 3,050
Dividend rate	60%	61%	62%	61%
Dividends declared	621,162	69,869	112,337	7,483

25. SALES:

Sales for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
(In millions of Korean Won)		
Sales of goods	₩ 80,378,325	₩ 78,607,348
Rendering of services	1,445,580	1,422,296
Royalties	138,636	215,616
Financial services revenue	11,290,926	10,062,030
Revenue related to construction contracts	2,608,678	2,934,765
Others	513,934	406,969
	₩ 96,376,079	₩ 93,649,024

26. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
(In millions of Korean Won)		
Selling expenses:		
Export expenses	₩ 736,167	₩ 726,124
Overseas market expenses	301,445	422,993
Advertisements and sales promotion	2,460,378	2,233,095
Sales commissions	667,945	625,620
Expenses for warranties	1,553,626	1,419,579
Transportation expenses	270,333	245,741
	5,989,894	5,673,152
Administrative expenses:		
Payroll	2,529,852	2,558,476
Post-employment benefits	171,406	174,834
Welfare expenses	422,126	414,757
Service charges	1,275,158	1,231,608
Research	1,039,260	1,019,188
Others	1,575,544	1,423,789
	7,013,346	6,822,652
	₩ 13,003,240	₩ 12,495,804

27. GAIN (LOSS) ON INVESTMENTS IN JOINT VENTURES AND ASSOCIATES:

Gain (loss) on investments in joint ventures and associates for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
	(In millions of Korean Won)	
Gain on share of earnings of equity-accounted investees, net	₩ 527,589	₩ 1,728,427
Gain on disposals of investments in associates, net	-	1,020
Impairment loss on investments in associates	(302,536)	-
	<u>₩ 225,053</u>	<u>₩ 1,729,447</u>

28. FINANCE INCOME AND EXPENSES:

(1) Finance income for the years ended December 31, 2017 and 2016 consists of the following:

Description	2017	2016
	(In millions of Korean Won)	
Interest income	₩ 440,720	₩ 377,594
Gain on foreign exchange transactions	159,131	186,418
Gain on foreign currency translation	195,647	154,143
Dividend income	29,734	35,135
Gain on valuation of derivatives	82,871	77,905
Gain on disposal of AFS financial assets and others	64,840	280,043
	<u>₩ 972,943</u>	<u>₩ 1,111,238</u>

(2) Finance expenses for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
	(In millions of Korean Won)	
Interest expenses	₩ 333,034	₩ 272,133
Loss on foreign exchange transactions	180,322	172,918
Loss on foreign currency translation	145,619	134,088
Loss on valuation of derivatives	249	60,420
Impairment loss on AFS financial assets	373,440	7,629
Loss on valuation of financial assets at FVTPL and others	87,722	30,849
	<u>₩ 1,120,386</u>	<u>₩ 678,037</u>

29. OTHER INCOME AND EXPENSES:

(1) Other income for the years ended December 31, 2017 and 2016 consists of the following:

Description	2017	2016
	(In millions of Korean Won)	
Gain on foreign exchange transactions	₩ 405,026	₩ 391,533
Gain on foreign currency translation	183,766	219,642
Gain on disposals of PP&E	23,789	37,269
Commission income	129,456	125,275
Rental income	83,100	80,495
Others	328,607	323,673
	₩ 1,153,744	₩ 1,177,887

(2) Other expenses for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
	(In millions of Korean Won)	
Loss on foreign exchange transactions	₩ 437,602	₩ 407,891
Loss on foreign currency translation	282,699	141,602
Loss on disposals of PP&E	186,575	143,734
Impairment loss on non-current assets classified as held for sale	-	18,575
Donations	68,843	75,802
Others	391,752	439,359
	₩ 1,367,471	₩ 1,226,963

30. EXPENSES BY NATURE:

Expenses by nature for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
	(In millions of Korean Won)	
Changes in inventories	₩ 351,359	₩ (1,092,520)
Raw materials and merchandise used	53,039,414	52,101,673
Employee benefits	8,920,952	8,877,589
Depreciation	2,254,552	2,164,635
Amortization	1,274,842	1,194,191
Others	27,327,764	26,436,919
Total (*)	₩ 93,168,883	₩ 89,682,487

(*) Sum of cost of sales, selling and administrative expenses and other expenses in the consolidated statements of income.

31. EARNINGS PER COMMON STOCK AND PREFERRED STOCK:

Basic earnings per common stock and preferred stock are computed by dividing profit available to common stock and preferred stock by the weighted-average number of common stock and preferred stock outstanding during the year. The Group does not compute diluted earnings per common stock for the years ended December 31, 2017 and 2016, since there are no dilutive items during the years.

Basic earnings per common stock and preferred stock for the years ended December 31, 2017 and 2016 are computed as follows:

Description	December 31, 2017			December 31, 2016		
	Profit available to share	Weighted-average number of shares outstanding (*1)	Basic earnings per share	Profit available to share	Weighted-average number of shares outstanding (*1)	Basic earnings per share
(In millions of Korean Won, except per share amounts)						
Common stock	₩ 3,104,373	207,053,965	₩ 14,993	₩ 4,163,029	206,935,279	₩ 20,118
1 st Preferred stock (*2)	344,605	22,907,923	15,043	461,733	22,907,923	20,156
2 nd Preferred stock	546,938	36,237,727	15,093	732,220	36,237,727	20,206
3 rd Preferred stock	36,908	2,453,517	15,043	49,453	2,453,517	20,156

(*1) Weighted-average number of shares outstanding includes the effects of treasury stock transactions.

(*2) 1st preferred stock meets the definition of 'ordinary shares' as defined in K-IFRS 1033 *Earnings per Share*.

32. INCOME TAX EXPENSE:

(1) Income tax expense (benefit) for the years ended December 31, 2017 and 2016 consist of the following:

Description	2017	2016
(In millions of Korean Won)		
Income tax currently payable	₩ 1,250,042	₩ 1,710,846
Adjustments recognized in the current year in relation to the prior years	(44,320)	(96,908)
Changes in deferred taxes due to:		
Temporary differences	(2,071,031)	889,259
Tax credits and deficits	676,384	(876,908)
Items directly charged to equity	(96,821)	40,929
Income tax payable directly charged to equity	-	(14,337)
Effect of foreign exchange differences	177,896	(65,462)
Income tax expense (benefit)	₩ (107,850)	₩ 1,587,419

(2) The reconciliation from income before income tax to income tax expense (benefit) pursuant to Corporate Income Tax Law of Korea for the years ended December 31, 2017 and 2016 is as follows:

Description	2017	2016
(In millions of Korean Won)		
Income before income tax	₩ 4,438,550	₩ 7,307,072
Income tax expense calculated at current applicable tax rates of 22.5% in 2017 and 25.9% in 2016	999,530	1,896,019
Adjustments:		
Non-taxable income	(50,863)	(45,614)
Disallowed expenses	77,793	104,221
Tax credits	(349,453)	(472,915)
Impact of changes in tax rates	(804,048)	-
Others	19,191	105,708
	(1,107,380)	(308,600)
Income tax expense (benefit)	₩ (107,850)	₩ 1,587,419
Effective tax rate (*)	-	21.7%

(*) The Group does not determine effective tax rate for the year ended December 31, 2017 as tax benefit is recognised.

(3) The changes in deferred tax assets (liabilities) for the year ended December 31, 2017 are as follows:

Description	Beginning of the year		Changes		End of the year	
	(In millions of Korean Won)					
Provisions	₩	2,006,171	₩	(129,994)	₩	1,876,177
AFS financial assets		(186,583)		(1,212)		(187,795)
Subsidiaries, associates and joint ventures		(1,494,267)		(13,565)		(1,507,832)
Reserve for research and manpower development		(80,858)		50,270		(30,588)
Derivatives		(12,146)		(19,972)		(32,118)
PP&E		(6,757,297)		2,254,086		(4,503,211)
Accrued income		98,456		(27,745)		70,711
Gain (loss) on foreign currency translation		574		(633)		(59)
Others		120,666		(40,204)		80,462
		(6,305,284)		2,071,031		(4,234,253)
Accumulated deficit and tax credit carryforward		2,799,832		(676,384)		2,123,448
	₩	(3,505,452)	₩	1,394,647	₩	(2,110,805)

The changes in deferred tax assets (liabilities) for the year ended December 31, 2016 are as follows:

Description	Beginning of the year		Changes		End of the year	
	(In millions of Korean Won)					
Provisions	₩	1,939,888	₩	66,283	₩	2,006,171
AFS financial assets		(359,803)		173,220		(186,583)
Subsidiaries, associates and joint ventures		(1,306,562)		(187,705)		(1,494,267)
Reserve for research and manpower development		(158,628)		77,770		(80,858)
Derivatives		12,447		(24,593)		(12,146)
PP&E		(5,795,677)		(961,620)		(6,757,297)
Accrued income		59,550		38,906		98,456
Gain (loss) on foreign currency translation		(428)		1,002		574
Others		193,188		(72,522)		120,666
		(5,416,025)		(889,259)		(6,305,284)
Accumulated deficit and tax credit carryforward		1,922,924		876,908		2,799,832
	₩	(3,493,101)	₩	(12,351)	₩	(3,505,452)

(4) The components of items charged to equity for the years ended December 31, 2017 and 2016 are as follows:

Description	2017		2016	
	(In millions of Korean Won)			
Income tax payable directly charged to equity:				
Gain on disposals of treasury stock, net	₩	-	₩	(14,337)
Deferred tax charged or credited to:				
Loss (gain) on valuation of AFS financial assets, net		(89,737)		47,822
Gain on valuation of cash flow hedge derivatives, net		(8,681)		(11,804)
Remeasurements of defined benefit plans		(9,992)		407
Changes in retained earnings of equity-accounted investees		11,589		(113)
Changes in share of the other comprehensive income of equity-accounted investees		-		4,617
	₩	(96,821)	₩	40,929

(5) The temporary differences not recognized as deferred tax liabilities related to subsidiaries, associates and joint ventures are ₩8,144,899 million and ₩8,324,109 million as of December 31, 2017 and 2016, respectively.

33. RETIREMENT BENEFIT PLAN:

- (1) Expenses recognized in relation to defined contribution plans for the years ended December 31, 2017 and 2016 are as follows:

Description	2017		2016	
	(In millions of Korean Won)			
Paid-in cash	₩	8,288	₩	7,605
Recognized liability		1,257		873
	₩	9,545	₩	8,478

- (2) The significant actuarial assumptions used by the Group as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
Discount rate	4.41%	3.42%
Rate of expected future salary increase	4.62%	4.21%

Employee turnover and mortality assumptions used for actuarial valuation are based on the economic conditions and statistical data of each country where entities within the Group are located.

- (3) The amounts recognized in the consolidated statements of financial position related to defined benefit plans as of December 31, 2017 and 2016 consist of the following:

Description	December 31, 2017		December 31, 2016	
	(In millions of Korean Won)			
Present value of defined benefit obligations	₩	5,321,580	₩	4,937,999
Fair value of plan assets		(5,179,426)		(4,449,721)
	₩	142,154	₩	488,278
Net defined benefit liabilities		157,213		492,173
Net defined benefit assets		(15,059)		(3,895)

- (4) Changes in net defined benefit assets and liabilities for the year ended December 31, 2017 are as follows:

Description	Present value of defined benefit obligations		Fair value of plan assets		Net defined benefit liabilities	
	(In millions of Korean Won)					
Beginning of the year	₩	4,937,999	₩	(4,449,721)	₩	488,278
Current service cost		546,342		-		546,342
Interest expenses (income)		142,930		(130,600)		12,330
Past service cost		(48)		-		(48)
		5,627,223		(4,580,321)		1,046,902
Remeasurements:						
Return on plan assets		-		(6,042)		(6,042)
Actuarial gains and losses arising from changes in demographic assumptions		1,108		-		1,108
Actuarial gains and losses arising from changes in financial assumptions		(86,192)		-		(86,192)
Actuarial gains and losses arising from experience adjustments and others		51,436		-		51,436
		(33,648)		(6,042)		(39,690)
Contributions		-		(814,443)		(814,443)
Benefits paid		(250,000)		194,926		(55,074)
Transfers in (out)		(149)		451		302
Effect of foreign exchange differences and others		(21,846)		26,003		4,157
End of the year	₩	5,321,580	₩	(5,179,426)	₩	142,154

Changes in net defined benefit assets and liabilities for the year ended December 31, 2016 are as follows:

Description	Present value of defined benefit obligations		Fair value of plan assets		Net defined benefit liabilities	
	(In millions of Korean Won)					
Beginning of the year	₩	4,464,399	₩	(3,859,966)	₩	604,433
Current service cost		543,176		-		543,176
Interest expenses (income)		123,981		(113,943)		10,038
		<u>5,131,556</u>		<u>(3,973,909)</u>		<u>1,157,647</u>
Remeasurements:						
Return on plan assets		-		19,254		19,254
Actuarial gains and losses arising from changes in demographic assumptions		(16,177)		-		(16,177)
Actuarial gains and losses arising from changes in financial assumptions		38,115		-		38,115
Actuarial gains and losses arising from experience adjustments and others		(37,219)		-		(37,219)
		<u>(15,281)</u>		<u>19,254</u>		<u>3,973</u>
Contributions		-		(646,097)		(646,097)
Benefits paid		(197,888)		158,359		(39,529)
Transfers in (out)		2,246		(844)		1,402
Effect of foreign exchange differences and others		17,366		(6,484)		10,882
End of the year	₩	<u>4,937,999</u>	₩	<u>(4,449,721)</u>	₩	<u>488,278</u>

- (5) The sensitivity analysis below has been determined based on reasonably possible changes of the significant assumptions as of December 31, 2017 and 2016, while holding all other assumptions constant.

Description	Effect on the net defined benefit liabilities			
	December 31, 2017		December 31, 2016	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	(In millions of Korean Won)		(In millions of Korean Won)	
Discount rate	₩ (488,202)	₩ 574,125	₩ (638,427)	₩ 763,768
Rate of expected future salary increase	539,260	(470,246)	730,367	(623,622)

- (6) The fair value of the plan assets as of December 31, 2017 and 2016 consists of the following:

Description	December 31, 2017		December 31, 2016	
	(In millions of Korean Won)			
Insurance instruments	₩	4,873,665	₩	4,192,438
Debt instruments		120,277		111,003
Others		185,484		146,280
	₩	<u>5,179,426</u>	₩	<u>4,449,721</u>

34. CASH FLOWS:

(1) Cash generated from operations for the years ended December 31, 2017 and 2016 are as follows:

Description	2017		2016	
	(In millions of Korean Won)			
Profit for the year	₩	4,546,400	₩	5,719,653
Adjustments:				
Post-employment benefits		559,881		554,087
Depreciation		2,254,552		2,164,635
Amortization of intangible assets		1,274,842		1,194,191
Provision for warranties		1,392,351		1,194,945
Income tax expense (benefit)		(107,850)		1,587,419
Loss (gain) on foreign currency translation, net		48,905		(98,095)
Loss on disposals of PP&E, net		162,786		106,465
Interest income, net		(107,686)		(105,461)
Gain on disposals of AFS financial assets, net		(35,650)		(254,372)
Gain on share of earnings of equity-accounted investees, net		(527,589)		(1,728,427)
Gain on disposals of investments in associates, net		-		(1,020)
Cost of sales from financial services, net		6,305,394		5,816,431
Impairment loss on investments in associates		302,536		-
Impairment loss on AFS financial assets		373,440		7,629
Others		885,169		726,918
		12,781,081		11,165,345
Changes in operating assets and liabilities:				
Decrease in trade notes and accounts receivable		425,448		199,488
Decrease in other receivables		142,656		438,498
Increase in other financial assets		(494,059)		(616,763)
Increase in inventories		(726,406)		(1,324,465)
Decrease (increase) in other assets		(439,430)		109,288
Increase (decrease) in trade notes and accounts payable		40,271		(380,363)
Increase in other payables		109,302		680,435
Increase in other liabilities		1,350,891		82,012
Decrease in other financial liabilities		(25,156)		(5,365)
Changes in net defined benefit liabilities		(804,521)		(635,898)
Payment of severance benefits		(55,074)		(39,529)
Decrease in provisions		(2,420,081)		(1,663,417)
Changes in financial services receivables		(2,567,406)		(3,877,597)
Increase in operating lease assets		(5,717,246)		(6,509,766)
Others		(203,441)		(21,686)
		(11,384,252)		(13,565,128)
Cash generated from operations	₩	5,943,229	₩	3,319,870

(2) Major non-cash transactions not stated on the consolidated statements of cash flows from investing and financing activities for the years ended December 31, 2017 and 2016 are as follows:

Description	2017		2016	
	(In millions of Korean Won)			
Reclassification of the current portion of long-term debt and debentures	₩	14,335,321	₩	14,836,967
Reclassification of construction-in-progress to PP&E		3,140,826		2,756,771
Reclassification of construction-in-progress to intangible assets		94,937		168,707

(3) Changes in liabilities arising from financial activities for the year ended December 31, 2017 are as follows:

Description	Beginning of the year	Cash flows from financing activities	Changes from non-cash transactions				End of the year
			Reclassified as current	Effect of exchange rate changes	Present value discounts	Others(*2)	
(In millions of Korean Won)							
Short-term borrowings (*1)	₩ 23,597,645	₩ (13,698,936)	₩ 14,335,321	₩ (1,177,345)	₩ 48,714	₩ (47,198)	₩ 23,058,201
Long-term debts	13,389,983	4,220,938	(4,058,782)	(1,075,734)	1,869	9,863	12,488,137
Debentures	36,456,392	12,693,831	(10,276,539)	(2,449,311)	29,819	-	36,454,192

(*1) The current portion of long-term debts and debentures are included.

(*2) Others include acquisitions due to business combination and others.

35. **RISK MANAGEMENT:**

(1) Capital risk management

The Group manages its capital to maintain an optimal capital structure for maximizing profit of its shareholder and reducing the cost of capital. Debt-to-equity ratio calculated as total liabilities divided by total equity is used as an index to manage the Group's capital. The overall capital risk management policy is consistent with that of the prior year. Debt-to-equity ratios as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
(In millions of Korean Won)		
Total liabilities	₩ 103,442,100	₩ 106,491,350
Total equity	74,757,354	72,344,578
Debt-to-equity ratio	138.4%	147.2%

(2) Financial risk management

The Group is exposed to various financial risks, such as market risk (foreign exchange risk, interest rate risk and equity price risk), credit risk and liquidity risk related to its financial instruments. The purpose of risk management of the Group is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to an acceptable level of risks to the Group. Overall, the Group's financial risk management policy is consistent with the prior period policy.

1) Market risk

The Group is mainly exposed to financial risks arising from changes in foreign exchange rates and interest rates. Accordingly, the Group uses financial derivative contracts to hedge and to manage its interest rate risk and foreign currency risk.

a) Foreign exchange risk management

The Group is exposed to various foreign exchange risks by making transactions in foreign currencies. The Group is mainly exposed to foreign exchange risk in USD, EUR and JPY.

The Group manages foreign exchange risk by matching the inflow and the outflow of foreign currencies according to each currency and maturity, and by adjusting the foreign currency settlement date based on its exchange rate forecast. The Group uses foreign exchange derivatives; such as currency forward, currency swap and currency option; as hedging instruments. However, speculative foreign exchange trade on derivative financial instruments is prohibited.

The Group's sensitivity to a 5% change in exchange rate of the functional currency against each foreign currency on income before income tax as of December 31, 2017 would be as follows:

Foreign Currency	Foreign Exchange Rate Sensitivity	
	Increase by 5%	Decrease by 5%
	(In millions of Korean Won)	
USD	₩ 9,346	₩ (9,346)
EUR	(23,839)	23,839
JPY	(7,460)	7,460

The sensitivity analysis includes the Group's monetary assets, liabilities and derivative assets, liabilities but excludes items of income statements, such as changes of sales and cost of sales due to exchange rate fluctuation.

b) Interest rate risk management

The Group has borrowings with fixed or variable interest rates. Also, the Group is exposed to interest rate risk arising from financial instruments with variable interest rates. The Group manages its interest rate risk through regular assessments of the change in market conditions and the adjustments in nature of its interest rates.

The Group's sensitivity to a 1% change in interest rates on income before income tax as of December 31, 2017 would be as follows:

Accounts	Interest Rate Sensitivity	
	Increase by 1%	Decrease by 1%
	(In millions of Korean Won)	
Cash and cash equivalents	₩ 16,657	₩ (16,657)
Financial assets at FVTPL	352	(27)
Short-term and long-term financial instruments	4,706	(4,706)
Borrowings and debentures	(142,437)	142,437

The Company's subsidiaries, Hyundai Card Co., Ltd. and Hyundai Capital Services, Inc., that are operating financial business, are managing interest rate risk by utilizing value at risk (VaR). VaR is defined as a threshold value, which is a statistical estimate of the maximum potential loss based on normal distribution. As of December 31, 2017 and 2016, the amounts of interest rate risk measured at VaR are ₩194,899 million and ₩180,341 million, respectively.

c) Equity price risk

The Group is exposed to market price fluctuation risk arising from equity instruments. As of December 31, 2017, the amounts of held for trading equity instruments and AFS equity instruments measured at fair value are ₩111,654 million and ₩1,998,986 million, respectively.

2) Credit risk

The Group is exposed to credit risk when a counterparty defaults on its contractual obligation resulting in a financial loss for the Group. The Group operates a policy to transact with counterparties who only meet a certain level of credit rating, which was evaluated based on the counterparty's financial conditions, default history, and other factors. The credit risk in the liquid funds and derivative financial instruments is limited as the Group transacts only with financial institutions with high credit-ratings assigned by international credit-rating agencies. Except for the guarantee of indebtedness discussed in Note 37, the book value of financial assets in the consolidated financial statements represents the maximum amounts of exposure to credit risk.

3) Liquidity risk

The Group manages liquidity risk based on maturity profile of its funding. The Group analyses and reviews actual cash outflow and its budget to match the maturity of its financial liabilities to that of its financial assets.

Due to the inherent nature of the industry, the Group requires continuous R&D investment and is sensitive to economic fluctuations. Thus the Group possesses the appropriate amount of cash held and cash equivalents. In addition, the Group has agreements in place with financial institutions with respect to trade financing and overdraft to mitigate any significant unexpected market deterioration. The Group, also, continues to strengthen its credit rates to secure a stable financing capability.

The Group's maturity analysis of its non-derivative liabilities according to their remaining contract period before expiration as of December 31, 2017 is as follows:

Description	Remaining contract period			Total
	Not later than one year	Later than one year and not later than five years	Later than five years	
	(In millions of Korean Won)			
Non interest-bearing liabilities	₩ 15,361,081	₩ 20,116	₩ -	₩ 15,381,197
Interest-bearing liabilities	24,460,968	48,641,036	2,405,613	75,507,617
Financial guarantee	1,077,741	7,936	19,664	1,105,341

The maturity analysis is based on the non-discounted cash flows and the earliest maturity date at which payments, i.e., both principal and interest, should be made.

(3) Derivative instrument

The Group enters into derivative instrument contracts, such as currency forwards, currency options, currency swaps and interest rate swaps to hedge its exposure to changes in foreign exchange rate.

As of December 31, 2017 and 2016, the Group deferred a net profit of ₩6,943 million and a ₩3,722 million, respectively, in accumulated other comprehensive loss, on its effective cash flow hedging instruments.

The longest period in which the forecasted transactions are expected to occur is within 50 months as of December 31, 2017.

For the years ended December 31, 2017 and 2016, the Group recognizes a net loss of ₩490,945 million and a net profit of ₩214,125 million in profit or loss (before tax), respectively, which resulted from the ineffective portion of its cash flow hedging instruments and changes in the valuation of its other non-hedging derivative instruments.

36. RELATED-PARTY TRANSACTIONS:

The transactions and balances of receivables and payables within the Group are wholly eliminated in the preparation of the consolidated financial statements of the Group.

- (1) For the year ended December 31, 2017, significant transactions arising from operations between the Group and related parties or affiliates by the Monopoly Regulation and Fair Trade Act of the Republic of Korea (“the Act”) are as follows:

Description		Sales/proceeds		Purchases/expenses	
		Sales	Others	Purchases	Others
(In millions of Korean Won)					
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 851,971	₩ 11,641	₩ 4,712,207	₩ 53,726
	Mobis Alabama, LLC	152,716	218	1,175,462	5,211
	Mobis Automotive Czech s.r.o.	-	520	1,576,856	13,200
	Mobis India, Ltd.	25,209	2,933	1,085,635	125
	Mobis Parts America, LLC	33,173	3,092	773,394	571
	Mobis Parts Europe N.V.	16,595	1,601	357,531	4
	Mobis Brasil Fabricacao De Auto Pecas Ltda	4,554	-	254,642	-
	Mobis Module CIS, LLC	-	332	407,778	48
	Others	14,173	8,760	748,265	5,898
	Joint ventures and associates	1,019,330	649,567	132,123	349,113
Joint ventures and associates	Kia Motors Corporation	564,105	1,677	1,839,684	11,479
	Kia Motors Manufacturing Georgia, Inc.	1,127,755	149	622	-
	Kia Motors Russia LLC	111,606	2,015	624,525	-
	Kia Motors Slovakia s.r.o.	680,745	69,248	317	-
	BHMC	3,343	-	2,631	6,198
	HMGC	278,107	7,904	1,229,744	2,769
	Hyundai WIA Corporation	394,212	69,433	2,799,431	2,132,879
	Others	2,518	6,693	961	-
Other related parties	816,290	138,163	6,170,011	1,822,825	
Affiliates by the Act					

For the year ended December 31, 2016, significant transactions arising from operations between the Group and related parties or affiliates by the Act are as follows:

Description		Sales/proceeds		Purchases/expenses	
		Sales	Others	Purchases	Others
(In millions of Korean Won)					
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 924,980	₩ 9,051	₩ 4,541,726	₩ 25,424
	Mobis Alabama, LLC	54,191	4,125	1,371,530	10,092
	Mobis Automotive Czech s.r.o.	3	448	1,604,304	210
	Mobis India, Ltd.	47,765	2,039	1,029,460	2,104
	Mobis Parts America, LLC	35,198	3,587	751,418	1,037
	Mobis Parts Europe N.V.	13,448	8,743	310,899	31
	Mobis Brasil Fabricacao De Auto Pecas Ltda	4,160	-	247,829	-
	Mobis Module CIS, LLC	314	302	225,395	-
	Others	34,058	2,136	720,424	3,140
	Joint ventures and associates	978,230	634,883	144,926	276,581
Joint ventures and associates	Kia Motors Corporation	738,506	2,010	2,671,999	3,596
	Kia Motors Manufacturing Georgia, Inc.	883,858	27	645	-
	Kia Motors Russia LLC	111,846	9,323	803,184	34
	Kia Motors Slovakia s.r.o.	1,454,281	81,286	233	-
	BHMC	12,300	41	1,027	3,371
	HMGC	203,546	67,005	974,723	4,715
	Hyundai WIA Corporation	452,843	41,769	2,607,397	2,090,566
	Others	2,055	3,131	37	-
Other related parties	790,839	118,829	5,546,570	1,703,170	
Affiliates by the Act					

- (2) As of December 31, 2017, significant balances related to the transactions between the Group and related parties or affiliates by the Act are as follows:

Description		Receivables (*1,2)		Payables	
		Trade notes and accounts receivable	Other receivables and others	Trade notes and accounts payable	Other payables and others
(In millions of Korean Won)					
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 150,640	₩ 12,322	₩ 620,182	₩ 209,749
	Mobis Alabama, LLC	9,514	765	42,710	-
	Mobis Automotive Czech s.r.o.	-	259	118,894	-
	Mobis India, Ltd.	939	10	170,877	11
	Mobis Parts America, LLC	2,134	40	53,628	1,483
	Mobis Parts Europe N.V.	1,886	85	27,100	-
	Mobis Module CIS, LLC	-	42	42,202	-
	Others	8,576	1,054	72,715	5,667
Joint ventures and associates	Kia Motors Corporation	235,557	326,585	22,013	127,920
	Kia Motors Manufacturing Georgia, Inc.	24,547	14,747	176,080	10,047
	Kia Motors Russia LLC	84,934	183	1	-
	Kia Motors Slovakia s.r.o.	5,085	365	27,702	50
	Kia Motors America, Inc.	-	105,854	64	18,400
	BHMC	286,916	87,455	-	582
	HMGC	-	-	44	3,977
	Hyundai WIA Corporation	69,426	19,252	148,572	96,067
Others	182,346	113,488	405,009	634,076	
Other related parties	236	557	184	-	
Affiliates by the Act	204,869	983,238	689,203	324,512	

- (*1) The Group has recognized the allowance for doubtful accounts for the related parties' receivables in the amount of ₩21,915 million as of December 31, 2017 and the bad debt or doubt expenses is recognized in the amount of ₩21,872 million for the year ended December 31, 2017.
- (*2) As of December 31, 2017, outstanding payment of ₩12,947 million of corporate purchase card agreement provided by Hyundai Card Co., Ltd. are included. For the year ended December 31, 2017, amount used and repayment of agreement are ₩251,676 million and ₩261,624 million respectively.

As of December 31, 2016, significant balances related to the transactions between the Group and related parties or affiliates by the Act are as follows:

Description		Receivables		Payables	
		Trade notes and accounts receivable	Other receivables and others	Trade notes and accounts payable	Other payables and others
(In millions of Korean Won)					
Entity with significant influence over the Company and its subsidiaries	Hyundai MOBIS Co., Ltd.	₩ 182,335	₩ 20,482	₩ 844,228	₩ 176,459
	Mobis Alabama, LLC	44	8,254	91,761	-
	Mobis Automotive Czech s.r.o.	40	691	135,290	-
	Mobis India, Ltd.	325	16,733	127,908	5
	Mobis Parts America, LLC	5,250	168	64,287	2,369
	Mobis Parts Europe N.V.	10,576	1,812	40,473	-
	Mobis Module CIS, LLC	-	74	26,611	-
	Others	19,378	181	63,496	3,786
Joint ventures and associates	Kia Motors Corporation	247,612	319,371	44,337	115,044
	Kia Motors Manufacturing Georgia, Inc.	52,670	9,936	150,402	7,395
	Kia Motors Russia LLC	103,534	1	-	-
	Kia Motors Slovakia s.r.o.	7,554	1,264	49,762	169
	Kia Motors America, Inc.	-	115,296	79	20,758
	BHMC	280,352	43,284	-	11,329
	HMGC	-	48	-	1,164
	Hyundai WIA Corporation	40,008	55,003	151,169	84,713
	Others	157,606	88,864	389,176	670,383
Other related parties		456	474	9	-
Affiliates by the Act		197,930	869,441	914,777	383,664

(3) Significant fund transactions and equity contribution transactions for the year ended December 31, 2017, between the Group and related parties are as follows:

Description	Loans		Borrowings		Acquisition	Equity contribution
	Lending	Collection	Borrowing	Repayment		
(In millions of Korean Won)						
Joint ventures and associates	-	-	-	-	-	₩ 80,144

Significant fund transactions and equity contribution transactions for the year ended December 31, 2016, between the Group and related parties are as follows:

Description	Loans		Borrowings		Acquisition	Equity contribution
	Lending	Collection	Borrowing	Repayment		
(In thousands of U.S. Dollars, Chinese Yuan)						
Entities with significant influence over the Company and its subsidiaries	-	\$ 140,000	-	-	-	-
Joint ventures and associates	¥ 350,000	-	-	-	\$ 19,181	₩ 431,517

For the years ended December 31, 2017 and 2016, the Group received dividends of ₩835,338million and ₩897,954 million from related parties and affiliates by the Act, respectively and paid dividends of ₩278,995 million and ₩248,840 million to related parties, respectively. During 2017, the Group traded in other financial assets and others of ₩2,379,920 million with HMC Investment Securities Co., Ltd., an associate of the Group. The Group has other financial assets of ₩1,534,980 million in the consolidated statements of financial position as of December 31, 2017.

- (4) Compensation of registered and unregistered directors, who are considered to be the key management personnel for the years ended December 31, 2017 and 2016 are as follows:

Description	2017	2016
	(In millions of Korean Won)	
Short-term employee salaries	₩ 172,557	₩ 190,413
Post-employment benefits	37,810	37,820
Other long-term benefits	285	490
	₩ 210,652	₩ 228,723

37. COMMITMENTS AND CONTINGENCIES:

- (1) As of December 31, 2017 the debt guarantees provided by the Group, excluding the ones provided to the Company's subsidiaries are as follows:

Description	Domestic	Overseas (*)
	(In millions of Korean Won)	
To associates	₩ 1,327	₩ 8,992
To others	9,934	1,107,788
	₩ 11,261	₩ 1,116,780

- (*) The guarantee amounts in foreign currencies are translated into Korean Won using the Base Rate announced by Seoul Money Brokerage Services, Ltd. as of December 31, 2017.
- (2) As of December 31, 2017, the Group is involved in domestic and foreign lawsuits as a defendant. In addition, the Group is involved in lawsuits for product liabilities and others. The Group obtains insurance for potential losses, which may result from product liabilities and other lawsuits. Meanwhile, as of December 31, 2017, the Group is currently involved in lawsuits for ordinary wage, which involves disputes over whether certain elements of remuneration are included in the earnings used for the purposes of calculating overtime, allowances for unused annual paid leave and retirement benefits, and unable to estimate the outcome or the potential consolidated financial impact.
- (3) As of December 31, 2017, a substantial portion of the Group's PP&E is pledged as collateral for various loans and leasehold deposits up to ₩840,374 million. In addition, the Group pledged certain bank deposits, checks, promissory notes and others, including 213,466 shares of Kia Motors Corporation, as collateral to financial institutions and others. Certain receivables held by the Company's foreign subsidiaries, such as financial services receivables are pledged as collateral for their borrowings.
- (4) As of December 31, 2017, the Group has overdrafts, general loans, and trade-financing agreements with numerous financial institutions, including Kookmin Bank, with a combined limit of up to USD 22,700 million, and ₩6,452,800 million of Korean Won.
- (5) As of December 31, 2017, Hyundai Capital Services, Inc. and Hyundai Card Co., Ltd. have entered into agreements for certain borrowings including trigger clauses for the purpose of credit enhancement. If the Company's credit rating falls below a certain level, this may result in early repayment of the borrowings or termination of the contracts.

38. SEGMENT INFORMATION:

- (1) The Group has a vehicle segment, a finance segment and other segments. The vehicle segment is engaged in the manufacturing and sale of motor vehicles. The finance segment operates vehicle financing, credit card processing and other financing activities. Other segments include the R&D, train manufacturing and other activities, which cannot be classified in the vehicle segment or in the finance segment.
- (2) Sales and operating income by operating segments for the years ended December 31, 2017 and 2016 are as follows:

	For the year ended December 31, 2017				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total sales	₩ 111,479,729	₩ 15,744,881	₩ 7,741,527	₩ (38,590,058)	₩ 96,376,079
Inter-company sales(*)	(36,989,499)	(330,291)	(1,270,268)	38,590,058	-
Net sales	74,490,230	15,414,590	6,471,259	-	96,376,079
Operating income	2,585,413	718,137	338,792	932,325	4,574,667

(*) Inter-company sales include intersegment sales in the Group.

	For the year ended December 31, 2016				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total sales	₩ 109,939,363	₩ 14,338,675	₩ 8,100,575	₩ (38,729,589)	₩ 93,649,024
Inter-company sales(*)	(37,255,793)	(286,843)	(1,186,953)	38,729,589	-
Net sales	72,683,570	14,051,832	6,913,622	-	93,649,024
Operating income	3,481,150	703,212	574,808	434,330	5,193,500

(*) Inter-company sales include intersegment sales in the Group.

- (3) Assets and liabilities by operating segments as of December 31, 2017 and 2016 are as follows:

	As of December 31, 2017				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total assets	₩ 99,724,673	₩ 84,016,995	₩ 7,604,015	₩ (13,146,229)	₩ 178,199,454
Total liabilities	34,910,194	72,348,770	4,613,747	(8,430,611)	103,442,100
Borrowings and debentures	7,412,234	64,694,680	2,512,959	(2,619,343)	72,000,530
	As of December 31, 2016				
	Vehicle	Finance	Others	Consolidation adjustments	Total
	(In millions of Korean Won)				
Total assets	₩ 100,011,029	₩ 84,586,904	₩ 7,882,397	₩ (13,644,402)	₩ 178,835,928
Total liabilities	36,631,454	74,467,009	4,877,520	(9,484,633)	106,491,350
Borrowings and debentures	7,244,070	66,007,607	2,856,737	(2,664,394)	73,444,020

- (4) Sales by region where the Group's entities are located in for the years ended December 31, 2017 and 2016 are as follows:

For the year ended December 31, 2017							
	Korea	North America	Asia	Europe	Others	Consolidation adjustments	Total
(In millions of Korean Won)							
Total sales	₩ 53,226,776	₩ 37,568,642	₩ 8,644,922	₩ 32,480,853	₩ 3,044,944	₩ (38,590,058)	₩ 96,376,079
Inter-company sales	(15,144,026)	(6,764,174)	(451,473)	(16,230,385)	-	38,590,058	-
Net sales	<u>38,082,750</u>	<u>30,804,468</u>	<u>8,193,449</u>	<u>16,250,468</u>	<u>3,044,944</u>	<u>-</u>	<u>96,376,079</u>

For the year ended December 31, 2017							
	Korea	North America	Asia	Europe	Others	Consolidation adjustments	Total
(In millions of Korean Won)							
Total sales	₩ 53,122,501	₩ 39,147,944	₩ 8,017,997	₩ 29,966,102	₩ 2,124,069	₩ (38,729,589)	₩ 93,649,024
Inter-company sales	(15,040,163)	(7,920,660)	(401,243)	(15,365,951)	(1,572)	38,729,589	-
Net sales	<u>38,082,338</u>	<u>31,227,284</u>	<u>7,616,754</u>	<u>14,600,151</u>	<u>2,122,497</u>	<u>-</u>	<u>93,649,024</u>

- (5) Non-current assets by region where the Group's entities are located in as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
(In millions of Korean Won)		
Korea	₩ 29,443,964	₩ 28,390,134
North America	2,040,394	2,415,983
Asia	1,047,364	1,046,491
Europe	2,076,017	2,011,233
Others	390,816	489,727
	<u>34,998,555</u>	<u>34,353,568</u>
Consolidation adjustments	(162,579)	(150,009)
Total (*)	<u>₩ 34,835,976</u>	<u>₩ 34,203,559</u>

(*) Sum of PP&E, intangible assets and investment property.

- (6) There is no single external customer who represents 10% or more of the Group's revenue for the years ended December 31, 2017 and 2016.

39. CONSTRUCTION CONTRACTS:

- (1) Cost, income and loss and claimed construction from construction in progress as of December 31, 2017 and 2016 are as follows:

Description	December 31, 2017	December 31, 2016
	(In millions of Korean Won)	
Accumulated accrual cost	₩ 9,998,070	₩ 10,871,107
Accumulated income	784,071	984,358
Accumulated construction in process	10,782,141	11,855,465
Progress billing	(10,196,219)	(10,954,684)
Due from customers	1,024,899	1,220,582
Due to customers	(438,977)	(319,801)
Reserve (*)	47,574	62,090

- (*) Reserve is recognized as long-term trade notes and accounts receivable in the consolidated financial statements
- (2) Effects on profit or loss of current and future periods, due from customers related to changes in accounting estimates of total contract revenue and total contract costs of ongoing contracts of Hyundai Rotem, a subsidiary of the Company, as of December 31, 2017 are as follows:

Description	December 31, 2017
	(In millions of Korean Won)
Changes in accounting estimates of total contract revenue	₩ 25,244
Changes in accounting estimates of total contract costs	(22,045)
Effects on profit or loss of current period	50,223
Effects on profit or loss of future periods	(2,934)
Changes in due from customers	(18,596)
Provision for construction losses	97,973

Effects on profit or loss of current and future periods were calculated by total contract costs estimated based on the situation occurred since the commencement of the contract to December 31, 2017, and the estimates of contract revenue as of December 31, 2017. Total contract revenue and costs are subject to change in future periods.

- (3) There is no contract more than 5% of the Group's revenue in the prior period that is recognized in the current period by the stage of completion method for basis of the percentage of total costs incurred to date bear to the estimated total contract costs instruments for the year ended December 31, 2017.

40. BUSINESS COMBINATIONS:

- (1) The Company acquired 50% of the shares in HTMV from THANH CONG and obtained control over HTMV on March 29, 2017.

Considerations for acquisition and the fair value of the assets acquired at the acquisition date are as follows:

Description	Amounts
	(In millions of Korean Won)
Considerations transferred	₩ 32,609
Non-controlling interests	32,609
Assets and liabilities acquired:	
Current assets	34,647
Non-current assets	41,393
Current liabilities	959
Non-current liabilities	9,863
Fair value of identifiable net assets	65,218
Goodwill	₩ -

The Group recognized sales of ₩258,863 million and net income of ₩5,419 million arising from the acquisition for the year ended December 31, 2017.

- (2) The Company acquired 50% of the shares in HTCVC from THANH CONG and obtained control over HTCVC on October 2, 2017.

Considerations for acquisition and the fair value of the assets acquired at the acquisition date are as follows:

Description	Amounts
	(In millions of Korean Won)
Considerations transferred	₩ 11,367
Non-controlling interests	11,367
Assets and liabilities acquired:	
Current assets	22,734
Non-current assets	-
Current liabilities	-
Non-current liabilities	-
Fair value of identifiable net assets	22,734
Goodwill	₩ -

The Group recognized no sales and net loss of ₩57 million arising from the acquisition for the year ended December 31, 2017.