

The 56th Annual Report

(Jan 1, 2017 – Dec 31, 2017)

Ssangyong Motor Company

[56th Annual Shareholders' Meeting]

Opening Remarks

Distinguished shareholders!

I sincerely extend my gratitude to you for attending this 56th Annual Shareholders' Meeting of Ssangyong Motor Company out of your busy schedule.

In 2017, among the world top 10 countries, the Korean auto industry only witnessed de-growth for 2 years in a row, due to the sluggish global sales.

Ssangyong Motor also faced a lot of difficulties in the export markets mainly due to strong Won, accelerated transfer to gasoline engine in Europe and contraction of Iranian market resulting from the U.S. economic sanction, which caused Ssangyong Motor to fall back to the deficit again last year after recording surplus in 2016 for the first time in 9 years.

However, despite such unfavorable situation, Ssangyong Motor reported healthy growth in domestic market for the 8th straight year. This was led by good sales of Tivoli and successful launch and momentum of G4 Rexton vehicles.

Ssangyong Motor has also enhanced its position as "SUV specialist" through its flagship models which became the No. 1 brands in the small and large SUV segments.

Through the stabilized labor management relationship, Ssangyong accomplished "no strike" for 8 years. This opened new doors to cooperation and built trust between the labor and the management.

All the shareholders' everlasting interest and support made this happen.

Once again, I would like to thank all the shareholders.

Distinguished shareholders!

The automotive industry worldwide is facing many uncertainties. While the global economy is growing at a slow pace, innovation and technology is driving the change in global markets.

The Korean automotive industry is facing holistic challenges and threats caused by GM Korea issues and revision of labor acts which added operational difficulties for automobile companies.

Accordingly, this year, Ssangyong Motor will pursue qualitative growth and secure competitiveness for future growth, resulting in financial turnaround of the company.

In order to achieve this, Ssangyong Motor will focus on core initiatives such as ▲ establishment of stable sales network for 150,000 units and improvement of profits, ▲ strengthening of quality competitiveness, ▲ establishment of future strategies to cope with new technology environments, and ▲ strengthening of advanced labor management relationship. Ssangyong Motor will concentrate all its resources and capacities towards these initiatives.

First of all, to secure stable sales network, SYMC will aggressively launch new products and at the same time, will establish efficient and supportive production system.

Through the face lift, Tivoli, which is competing well in the markets, will maintain young and trendy image, sustaining its brand position as flagship small SUV.

The country's first premium open-style SUV Rexton Sports has created sensation in the market since its launch and its contracts have surpassed 10,000 units within the shortest period of time, creating "Another Tivoli Legend".

'G4 Rexton' is also expanding its global markets to OCEANIA and South East Asia after being launched in Europe and Central America last year.

Considering difficulties that CBU markets have now due to the fluctuating FX and strengthened protectionism, Ssangyong Motor will expand our CKD business into the emerging markets.

In addition to the CKD business which is now underway in India and Iran, SYMC is going to explore new markets including Brazil market.

Moreover, SYMC will start new working system 'Daytime 2 shift system' from April.

The purpose of this 'Daytime 2 shift system' is to upgrade the company's competitiveness for sustainable growth, and it will contribute in enhancing the quality of life of the employees and the manufacturing and quality competitiveness.

Through above mentioned strategy, Ssangyong Motor will sustain its growth in the domestic market and pursue the global sales increase.

Distinguished shareholders!

With the launch of Rexton Sports, Ssangyong Motor reshaped the product lineup under the three umbrella brands: Rexton, Korando and Tivoli.

Based on this new line-up, Ssangyong Motor intends to maximize synergy among different models to enhance the Ssangyong brand value and brand awareness.

By releasing facelift models at regular intervals, SYMC will lead the next SUV markets continuously.

Lastly, Ssangyong Motor is committed to technology innovation and ecofriendly cars. Our diverse strategic programs like Electric Vehicle, Autonomous driving car and Connected car will proceed as planned creating paradigm shift in the automotive industry.

Hence we believe that 2018 will be the meaningful year as we prepare new growth paradigm towards our future growth. We are on our path to become Global SUV specializer.

Once again, I seek your continuous support and wish you and your family happiness and health.

Thank you.

March 30, 2018

C.E.O Johng-Sik, Choi

Ssangyong Motor Company

I . Annual Report

1. Corporate Overview

1) The objective of the company

- | | |
|---|--|
| (1) Manufacture and sale of various automobiles and parts thereof | (12) Sale and lease of real estate, equipment and facilities |
| (2) Manufacture and sale of various heavy equipment and parts thereof | (13) Management of automobiles (used car sale; car scrapping agency; automobile lease) |
| (3) Repair of various automobiles and heavy equipment | (14) Manufacture and sale of various molds |
| (4) Agency of automobile inspection | (15) E-commerce and internet-related business |
| (5) Manufacture of fire-fighting equipment | (16) Various types of valued-added telecommunication business and specially-designated telecommunication business including an automobile information business, and sale and lease business of related equipment |
| (6) Export and import and agency thereof | (17) Other businesses incidental to any of the foregoing |
| (7) Wholesale of automobile parts | |
| (8) Issue of offer sheets for sale of goods | |
| (9) Manufacture and production of various engines and related parts | |
| (10) Agency of automobile registration | |
| (11) Sales and consignment sale of good imported or exported | |

2) Core business

Manufacturing and sales of various automobiles and parts

3) Plant and other premises

Name	Major Business	Location
Pyeongtaek plant (Main Office)	Manufacture of vehicles	455-12, Dongsak-ro, Pyeongtaek-si, Gyeonggi-do
Changwon plant	Manufacture of engines	10, Gongdan-ro 474beon-gil, Seongsan-gu, Changwon-si, Gyeongsangnam-do
Seoul Service Center and 11 other sites	Maintenance and part sales	243, Gurodong-ro, Guro-gu, Seoul

4) Employees data

Gender	Office workers	Factory workers	Others	Total	Remarks
Male	1,527	3,244	24	4,795	-
Female	85	3	28	116	-
Total	1,612	3,247	52	4,911	-

5) Matters related to shares

① Type and number of issued shares

(Unit: Share, thousand KRW)

Sort of stock	The number of stocks	Amount	% of common stock	Remarks
Common Stock	137,949,396	689,746,980	100%	-

② Changes in capital

(Unit: Share, thousand KRW)

Date	Sort of stock	Increase / Decrease		After Change		Remarks
		Shares	Amount	Shares	Amount of Capital	
2011.01.04	Common	5,193	25,965	36,542,794	182,713,970	Debt-equity swap
2011.02.09	Common	85,419,047	427,095,235	121,961,841	609,809,205	Paid-in capital increase (to the 3 rd party)
2012.05.19	Common	644,550	3,222,750	122,606,391	613,031,955	Paid-in capital increase (to the 3 rd party)
2012.08.15	Common	68,250	341,250	122,674,641	613,373,205	Paid-in capital increase (to the 3 rd party)

2013.05.23	Common	14,545,455	72,727,275	137,220,096	686,100,480	Paid-in capital increase (to the 3 rd party)
2017.03.04	Common	729,300	3,646,500	137,949,396	689,746,980	Paid-in capital increase (to the 3 rd party)

③ General affairs on shares

Closing date	December 31 st		
Period of closing shareholders' registry	January 1 st - January 10 th	Base date	December 31 st
Public notice	SYMC's Website (http://www.smotor.com) or Kukmin IBo		
Type of share certificates	Eight types : One (1), Five (5), Ten (10), Fifty (50), One Hundred (100), Five Hundred (500), One Thousand (1,000), and Ten Thousand (10,000)		
Agent	Name	Korea Securities Depository	
	Location	23, Yeouinaru-ro 4-gil, Yeongdeungpo-gu, Seoul, Korea	

6) Corporate bond

(Unit: thousand KRW)

Type of bond	Date of issue	Issue amount	Interest rate	Outstanding amount	Repayment date	Payment guaranteed by
-	-	-	-	-	-	-

2. Sales Performance

1) Overall outlook

① Domestic market

The domestic automotive sales volume in 2017 decreased by 2.5% YoY to 1,560,180 due to demand shrink caused from base effect of 2016's individual consumption tax and rising household debts.

- **PC** : Market decreased by 6.1% YoY. PC in 2017 showed sales decrease in all size expect for large PC despite product development of domestic makers.
- **RV** : RV market grew by 0.4% YoY thanks to product launch of domestic makers in 2nd half of the year.
 - ♦ SUV: Increased by 1.5% YoY with the introduction of new models in the market, especially G4 Rexton and Tivoli Armour.
 - ♦ CDV: Decreased by 5.0% YoY due to aging models.
- **SYMC** : SYMC sales increased by 3.0% (2nd highest in the industry) thanks to the product launch of G4 Rexton and continuous popularity for Tivoli and Tivoli Armour.

(Unit: Vehicle - CBU only)

Classification	2017	2016	2015
Tivoli	38,071	37,540	45,021
Tivoli Air	17,209	19,395	-
G4 Rexton	15,235	-	-
Rexton	1,146	5,260	6,087
Korando C	7,841	8,951	15,677
Korando Sports	22,912	26,141	25,905
Chairman H	-	-	1
Chairman W	517	957	1,290
Korando Turismo	3,746	5,310	5,683
Total	106,677	103,554	99,664

② Overseas market

The European auto market sold 15.63 million units in 2017, up 3.3 percent compared to the last year. Overall Europe market continues to expand growth by economic recovery and new car release. By contrast, Sales in the UK were sluggish due to uncertainties of Brexit risk.

The Chinese auto market sold 28.88 million units, up 3 percent compared to the last year. In China sales of electric vehicles are strong, while economic growth is slowing down. Emerging markets such as Russia and Brazil have increased sales in anticipation of the economic recovery.

SYMC sold 37,008 units, excluding CKD, in 2017. In 2018, we will boost our sales in the global market by launching new pick up model (Domestic name: Rexton Sports) following up New Rexton (Domestic name: G4 Rexton) launched in 2017.

(Unit: Vehicle - CBU only)

Classification	2017	2016	2015
Rexton W	1,630	5,992	4,360
G4 Rexton	3,189	-	-
Korando C	5,789	5,616	9,421
Tivoli	13,226	22,932	18,672
XLV	2,946	5,954	-
Korando Sports	7,276	8,229	8,399
Actyon	-	5	388
Chairman W	1	12	15
Korando Turismo	2,951	3,460	3,622
Total	37,008	52,200	44,877

2) Production performance

(Unit: Vehicle)

Category	56 th	55 th	Remarks
Passenger car	314	919	Chairman W
RV	145,031	154,681	G4 Rexton, Rexton W, Korando C, Korando Sports, Korando Turismo, Tivoli, XLV
Total	145,345	155,600	

3) Sales performance

(Unit: Mil. KRW, Vehicle)

Category	56 th		55 th		Remarks
	Volume	Amount	Volume	Amount	
Passenger car	518	26,140	969	50,415	Chairman W
RV (Including CKD)	143,167	3,091,112	154,875	3,156,250	G4 Rexton, Rexton W, Korando C, Korando Sports, Korando Turismo, Tivoli, XLV
Others (Parts)		372,630	-	419,675	
Total	143,685	3,489,882	155,844	3,626,340	

4) Major asset increase and their financing status

(Unit: Mil. KRW)

Investment areas	Amount	Financing details
Land	73	Self-financing and new borrowing
Building, Structures	6,121	
Vehicle Transport Equipment	603	
Machines	26,951	
Tools	148,791	
Equipment etc.	4,161	
Total	186,700	

3. Parent company, subsidiary company and company combinations

1) Parent company status

Parent company name	Mahindra & Mahindra Ltd.		
Parent company address	Gateway Building, Apollo Bunder, Mumbai 400 001, India		
Capital stock	INR 2,968.1mm	Major business areas	Vehicle/Tractor manufacturing and related business
Number of shares in SYMC	99,964,502 shares	% shareholding	72.46%
Major business with parent company	Revenue etc. : 9,734 million won Purchasing etc. : 3,135 million won		

※ The above capital stock is as of Sep 30, 2017.

2) Subsidiary company etc status

(Unit: Share)

Subsidiary company				Relationship with SYMC		
Company name	Location	Capital	Core business areas	Number of shares owned	% of shares owned	Business relations with SYMC
Ssangyong(Shanghai) Automotive Co., Ltd.	China	30,000,000 (CNY)	Sale of vehicles and vehicle parts	No stock issued	100%	-
Ssangyong European Parts Center BV	Netherlands	700,000 (EUR)	Sale of vehicle parts	7,000	100%	Import & sale of vehicle parts
SY Auto Capital Co., Ltd.	Korea	20,000,000,000(WON)	Sales Finance company of vehicle	2,040,000	51%	Sales Finance company of vehicle

3) Concurrent posts in subsidiary companies etc.

Directors		Concurrent office			
Name	Position in SYMC	Company	Position in concurrent office	Responsible area	Remarks
Choi, Johngh Sik	President	Ssangyong(Shanghai) Automotive Co., Ltd.	Representative Director	-	-

Chung, Yong Won	Managing Director	Ssangyong(Shanghai) Automotive Co., Ltd.	Director	-	-
Lee, Jong Dae	Assistant Managing Director	Ssangyong European Parts Center BV	Director	-	-
Vasudev Tumbe	Vice President	SY Auto Capital Co., Ltd.	Director	-	-
Song, Young Han	Executive Director	SY Auto Capital Co., Ltd.	Director	-	-

4. Business performance and financial condition for the past 3 years

1) Consolidated Income Statement

(Unit: Mil.KRW)

Title of account	56th	55th	54th
	(Jan 1, 2017 – Dec 31, 2017)	(Jan 1, 2016 – Dec 31, 2016)	(Jan 1, 2015 – Dec 31, 2015)
I . Sales	3,494,638	3,628,537	3,390,065
II . Cost of sales	2,978,560	3,036,759	2,868,750
III . Gross profit	516,078	591,778	521,315
V . Selling and administrative expenses	581,354	563,784	557,127
IV . Operating profit (Loss)	(65,276)	27,994	(35,812)
V . Non-operating income	29,156	57,808	31,871
VII . Non-operating expense	35,014	38,569	29,825
VIII . Financial income	25,980	28,327	17,403
IX . Financial expense	22,026	21,241	45,215
X . Joint enterprise profit(loss)	1,396	3,814	(332)
XI . PBT	(65,784)	58,133	(61,910)
XII . Corporate tax	37	30	32
XIII . Net income (loss)	(65,821)	58,103	(61,942)

2) Consolidated Statements of Financial Condition

(Unit: Mil. KRW)

Title of account	56th	55th	54th
	(As of Dec 31, 2017)	(As of Dec 31, 2016)	(As of Dec 31, 2015)
Assets			
I . Current assets	655,191	681,796	613,893
II . Non-current assets	1,592,828	1,481,627	1,425,305
Total assets	2,248,019	2,163,423	2,039,198
Liabilities		-	-
I . Current liabilities	1,006,596	945,060	878,770
II . Non-current liabilities	466,268	405,669	443,373
Total liabilities	1,472,864	1,350,729	1,322,143
Shareholders' equity		-	-
I . Capital stock	689,747	686,100	686,100
II . Other capital surplus	133,142	131,678	131,678
III . Other capital adjustments	1,154	(1,285)	1,571
IV . Retained earnings	(48,888)	(3,799)	(102,294)
Total Shareholders' equity	775,155	812,694	717,055
Total liabilities and shareholders' equity	2,248,019	2,163,423	2,039,198

3) Income Statement

(Unit: Mil. KRW)

Title of account	56th	55th	54th
	(Jan 1, 2017 – Dec 31, 2017)	(Jan 1, 2016 – Dec 31, 2016)	(Jan 1, 2015 – Dec 31, 2015)
I . Sales	3,489,882	3,626,340	3,385,556
II . Cost of sales	2,976,694	3,035,871	2,868,338
III . Gross profit	513,188	590,469	517,218
IV . Selling and administrative expenses	577,435	559,954	550,411
V . Operating profit (Loss)	(64,246)	30,515	(33,193)

VI. Non operating income	29,156	57,806	31,830
VII. Non operating expenses	39,786	38,569	29,825
VIII. Financial income	25,939	28,244	17,731
IX. Financial expenses	22,007	21,226	45,202
X. PBT	(70,945)	56,770	(58,659)
XI. Corporate tax	-	-	-
XII. Net income (loss)	(70,945)	56,770	(58,659)

4) Financial Statement

(Unit: Mil. KRW)

Title of Account	56th	55th	54th
	(as of Dec 31, 2017)	(as of Dec 31, 2016)	(as of Dec 31, 2015)
Assets			
I . Current assets	655,307	679,573	605,694
II. Non - Current assets	1,594,669	1,491,211	1,441,896
Total assets	2,249,976	2,170,784	2,047,590
Liabilities			
I . Current liabilities	1,006,051	944,945	878,408
II. Non - current liabilities	466,268	405,669	443,373
Total liabilities	1,472,319	1,350,614	1,321,781
Shareholders' equity			
I . Capital stock	689,747	686,100	686,100
II. Other capital surplus	133,142	131,678	131,678
III. Other capital adjustment	-	-2,574	227
IV. Retained earnings(Deficit)	(45,232)	4,966	(92,196)
Total equity	777,656	820,170	725,809
Total liabilities and equity	2,249,976	2,170,784	2,047,590

※ Above financial statements are drawn up based on K-IFRS(Separate).

5. Issues to be addressed

N/A

6. Board & Audit Committee status

Name	Position	Responsible area/ Major role	Transaction with company	Remarks
Choi, Johng Sik	President and C.E.O. (Director)	-	None	-
Pawan Kumar Goenka	Director	Chairman of Board	None	-
Rajeev Dubey	Director	-	None	-
Chang, Dae Ryun	Member of audit committee (Outside director)	Chairman of audit committee	None	-
Dominic DiMarco	Member of audit committee (Outside director)	Chairman of ODCRC	None	-
Won, Bong Hee	Member of audit committee (Outside director)	-	None	-
Park, Yong Hwan	Member of audit committee (Outside director)	-	None	-

7. Major shareholder status

(Unit: Share)

Name of shareholders	Number of shares owned	Percentage of shares	Business relations with SYMC	Remarks
Mahindra & Mahindra Ltd.	99,964,502	72.46%	Part sales, etc	Largest shareholder
National Pension Service	2,618,957	1.90%		
KB Asset Management	991,210	0.72%	-	-
ESOP	861,292	0.62%	-	-
NORGES BANK	563,408	0.41%	-	-
VANGUARD TOTAL INTERNATIONAL STOCK INDEX	515,545	0.37%	-	-

8. Investment in other companies by SYMC and its subsidiaries (solely or collectively)

(Unit: Share)

Name of other company*	Investment company	Investment in other companies		Other companies' investment in SYMC	
		Number of shares owned	Percentage of shares owned (%)	Number of shares owned	Percentage of shares (%)
Ssangyong (Shanghai) Automotive Co., Ltd.	SYMC	-	100%	-	-
Ssangyong European Parts Center BV	SYMC	7,000	100%	-	-
SY Auto Capital Co., Ltd.	SYMC & KB Capital	2,040,000	51%	-	-

* The companies where SYMC has more than 10% of total shares.

9. Major creditors

(Unit: Mil. KRW, Share)

Creditor name	Credit amount	Number of shares owned	Percentage of shares owned	Remarks
KDB Bank	100,000	0	0.00%	-
JPMorgan Chase Bank	36,210	0	0.00%	-
Bank of America Merrill Lynch	27,878	0	0.00%	-
Citibank	18,313	0	0.00%	-
Australia and New Zealand Bank	13,862	0	0.00%	-
WOORI BANK	12,500	0	0.00%	-
BNP PARIBAS	10,891	0	0.00%	-
Deutsche Bank	7,312	0	0.00%	-
KEB Hana Bank	6,875	0	0.00%	-

10. Important issues after closing date

N/A

11. Other important matters related to Business

N/A

The Audit Committee's Report

As members of the Audit Committee of Ssangyong Motor Company, we have audited accounting and business of the 56th business year starting from January 1, 2017 to December 31, 2017. Hereby we report the result of the audit as follows.

1. Outline of the Audit Methods

(1) Financial Audits

For financial audits, we looked through finance-related books and documents, reviewed financial statements, consolidated financial statements and attached specifications. Upon necessary, we conducted an investigation using comparison, inspection, observation and inquiry and other proper auditing procedures.

(2) Audits on Business

For audits on business, we attended the BOD meetings and other important meetings. We were briefed on sales by BOD when it is required. We looked into documents regarding important business matters and closely examined the contents of documents. We conducted audits using proper auditing method.

2. Issues Related to Filling in separate Statement of Financial Position, consolidated Statement of Financial Position, separate Statement of Comprehensive Income, consolidated Statement of Comprehensive Income

In the separate Statement of Financial Position, consolidated Statement of Financial Position, separate Statement of Comprehensive Income, consolidated Statement of Comprehensive Income, the company's asset and status of profits and losses are being filled in properly, according to the law and articles of incorporation.

3. Issues Related to Statement of appropriation of deficit

The Statement of appropriation of deficit is being filled in properly given the company's property status and other situations, according to the law and articles of incorporation.

4. Issues related to Annual Report

Annual report demonstrates company's situations accurately according to the law and the articles of incorporation.

Feb 13, 2018
Ssangyong Motor Company

Chairman of the Audit Committee	Chang, Dae-Ryun
Member of the Audit Committee	Dominic DiMarco
Member of the Audit Committee	Won, Bong-hee
Member of the Audit Committee	Park, Yong-Hwan

Independent Auditors' Report (Consolidated)

**To the Shareholders and Board of Directors of
Ssangyong Motor Company:**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ssangyong Motor Company (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years 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 audit 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 consolidated financial statements are free from material misstatement.

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

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

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 respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Others

The financial statements of SsangYong Motor Co., Ltd. for the period ended December 31, 2016 were audited by other auditors and the auditor's report dated March 16, 2017 expressed an unqualified opinion on March 16, 2018.

Kyo-Tae Kim
KPMG
152, Teheran-ro, Gangnam-gu, Seoul

Independent Auditors' Report (Separate)

**To the Shareholders and Board of Directors of
Ssangyong Motor Company:**

Report on the Financial Statements

We have audited the accompanying separate financial statements of Ssangyong Motor Company (the "Company"), which comprise the separate statements of financial position as of December 31, 2017 respectively, and the separate statements of comprehensive income, separate statements of changes in stockholders' equity and separate statements of cash flows, for the years ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 audit 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 separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 respectively and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Others

The financial statements of SsangYong Motor Co., Ltd. for the period ended December 31, 2016 were audited by other auditors and the auditor's report dated March 16, 2017 expressed an unqualified opinion on March 16, 2018.

March 16, 2018
Kyo-Tae Kim
KPMG
152, Teheran-ro, Gangnam-gu, Seoul

Consolidated Financial Statements

1) Consolidated statements of financial position

56th term (as of 2017.12.31)

55th term (as of 2016.12.31)

(Unit : KRW)

Title of Account	56 th	55 th
Assets		
I. Current assets	655,191,219,796	681,796,355,349
1. Cash and cash equivalents	215,443,729,768	238,401,707,090
2. Trade receivables	187,064,712,812	212,394,952,021
3. Non-trade receivables	4,838,305,896	7,454,962,455
4. Other current receivables	11,921,800,361	10,471,126,954
5. Derivatives assets	-	756,035,467
6. Inventories	228,374,428,544	204,979,631,991
7. Other current assets	7,548,242,415	7,337,939,371
II. Non-current assets	1,592,827,653,736	1,481,626,824,370
1. Non-current financial instruments	4,000,000	6,000,000
2. Other non-current receivables	33,953,846,043	33,754,663,015
3. Non-current available for sale financial assets	560,000,000	560,000,000
4. Property, plant and equipment	1,239,703,950,683	1,199,006,449,675
5. Intangible assets	303,268,722,439	234,344,497,954
6. Join enterprise investment	15,063,851,200	13,681,894,414
7. Other non-current assets	273,283,371	273,319,312
Total assets	2,248,018,873,532	2,163,423,179,719
Liabilities		-
I. Current Liabilities	1,006,595,519,995	945,059,630,316
1. Trade payables	526,482,551,907	482,391,329,855
2. Non-trade payables	189,284,735,304	152,572,053,251
3. Short-term borrowings	163,840,987,050	181,967,721,200
4. Derivatives Liability	409,259,095	5,798,806,301
5. Other current payables	37,164,319,879	34,519,616,413
6. Provision for product warranties	53,046,747,890	53,153,294,239
7. Other long-term employees benefit obligation	1,190,438,138	1,330,939,340
8. Other current liabilities	35,176,480,732	33,325,869,717

Title of Account	56th	55th
II. Non-current liabilities	466,268,429,097	405,669,623,189
1. Long term borrowings	70,000,000,000	12,500,000,000
2. Other non-current payables	3,374,007,893	5,507,071,099
3. Retirement benefit obligation	284,563,122,681	279,609,199,761
4. Other long-term employees benefit obligation	15,138,489,583	15,357,662,601
5. Provision for long-term product warranties	93,192,808,940	92,695,689,728
Total liabilities	1,472,863,949,092	1,350,729,253,505
Shareholders' equity		-
Owner of the company	775,154,924,440	812,693,926,214
I. Capital stock	689,746,980,000	686,100,480,000
II. Other capital surplus	133,141,919,432	131,678,359,632
III. Other capital adjustments	1,153,581,473	(1,285,812,572)
IV. Accumulated deficit (Retained earnings)	(48,887,556,465)	(3,799,100,846)
Non-controlling interests	-	-
Total shareholders' equity	775,154,924,440	812,693,926,214
Total liabilities and shareholders' equity	2,248,018,873,532	2,163,423,179,719

2) Consolidated statements of comprehensive loss

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	56 th	55 th
I. Sales	3,494,637,644,343	3,628,536,546,385
1. Goods	3,117,252,231,588	3,206,664,893,588
2. Merchandise	337,559,900,204	346,847,511,519
3. Other sales	40,316,060,382	75,554,378,939
4. Sales discounts	(490,547,831)	(530,237,661)
II. Cost of sales	2,978,559,796,229	3,036,758,966,582
1. Goods	2,776,656,991,187	2,830,001,672,868
2. Merchandise	169,787,291,731	179,859,288,645
3. Other costs of sales	32,115,513,311	26,898,005,069
III. Gross profit	516,077,848,114	591,777,579,803
IV. Selling and administrative expenses	581,353,654,340	563,783,510,244
1. Selling expenses	390,697,540,125	385,060,256,726
2. Administrative expenses	190,656,114,215	178,723,253,518
V. Operating income(loss)	(65,275,806,226)	27,994,069,559
VI. non-operating income	29,156,178,060	57,808,123,354
VII. non-operating expenses	35,014,442,824	38,569,434,947
VIII. Financial income	25,979,516,111	28,326,880,989
IX. Financial expense	22,025,221,350	21,240,116,777
X. Join venture investment income(loss)	1,395,752,540	3,813,716,648
XI. PBT(loss)	(65,784,023,689)	58,133,238,826
XII. Corporate tax	37,174,808	30,737,602
XIII. Net income (loss)	(65,821,198,497)	58,102,501,224
Owner of the company	(65,821,198,497)	58,102,501,224
Non-controlling interests	-	-
XIV. Other comprehensive income(loss)	23,172,136,896	37,536,247,458
1. Not to be reclassified as profit or loss in future	20,732,742,878	40,392,990,483
1) DBO gains/losses	20,746,538,632	40,392,990,483
2) Variations in joint venture remeasurement factors	(13,795,754)	
2. To be reclassified as profit or loss in future	2,439,394,018	(2,856,743,025)

Title of Account	56th	55th
1) Gain on valuation of derivatives	2,574,700,025	(2,802,040,025)
2) Gain on overseas operations translation credit	(135,306,007)	(54,703,000)
XV. Total comprehensive income (loss)	(42,649,061,601)	95,638,748,682
Owner of the company	(42,649,061,601)	95,638,748,682
Non-controlling interests	-	-
XVI. Loss per share		-
1. Basic and diluted loss per share	(478)	423

3) Consolidated statements of changes in shareholders' equity

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	Capital stock	Other Capital Surplus				Other Capital adjustments	Retained earnings (Deficit)	Non-controlling interests	Total
		Paid-in capital in excess of par	Gain on capital reduction	Debt to be swapped for equity	Gain from sales of treasury stock				
Balance at Jan 1, 2016	686,100,480,000	11,452,712,819	118,189,001,064	931,508,409	1,105,137,340	1,570,930,453	(102,294,592,553)	-	717,055,177,532
Total comprehensive income(loss)									
Net Income	-	-	-	-	-	-	58,102,501,224	-	58,102,501,224
Actuary of defined benefit	-	-	-	-	-	-	40,392,990,483	-	40,392,990,483
Gain on valuation of derivatives	-	-	-	-	-	(2,802,040,025)	-	-	(2,802,040,025)
Overseas operations translation credit	-	-	-	-	-	(54,703,000)	-	-	(54,703,000)
Balance at Dec 31, 2016	686,100,480,000	11,452,712,819	118,189,001,064	931,508,409	1,105,137,340	(1,285,812,572)	(3,799,100,846)	-	812,693,926,214
Balance at Jan 1, 2017	686,100,480,000	11,452,712,819	118,189,001,064	931,508,409	1,105,137,340	(1,285,812,572)	(3,799,100,846)	-	812,693,926,214
Total comprehensive income(loss)									
Net Income	-	-	-	-	-	-	(65,821,198,497)	-	(65,821,198,497)
Actuary of defined benefit	-	-	-	-	-	-	20,746,538,632	-	20,746,538,632
Gain on valuation of derivatives	-	-	-	-	-	2,574,700,025	-	-	2,574,700,025
Overseas operations translation credit	-	-	-	-	-	(135,305,980)	-	-	(135,305,980)
Variations in joint venture re-measurement factors	-	-	-	-	-	-	(13,795,754)	-	(13,795,754)
Transactions with shareholders directly recognized in equity									
Paid-increase	3,646,500,000	1,463,559,800	-	-	-	-	-	-	5,110,059,800
Balance at Dec 31, 2017	689,746,980,000	12,916,272,619	118,189,001,064	931,508,409	1,105,137,340	1,153,581,473	(48,887,556,465)	-	775,154,924,440

4) Consolidated statements of cash flows

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	56 th	55 th
I. Net cash provided by operating activities	204,375,560,797	244,369,118,172
1. Cash flows from operating activities	205,476,098,165	245,297,049,510
(1) Net income (loss)	(65,821,198,497)	58,102,501,224
(2) Adjustments	280,201,951,930	266,109,490,188
(3) Changes in net working capital	(8,904,655,268)	(78,914,941,902)
2. Interests received	2,682,052,386	2,709,910,853
3. Interests paid	(3,793,589,754)	(3,648,842,191)
4. Dividend income received	11,000,000	11,000,000
II. Net cash provided by investing activities	(277,454,555,398)	(210,693,643,815)
1. Cash inflows from investing activities	7,281,143,236	5,010,236,869
(1) Decrease in other receivables	6,220,682,215	2,999,563,996
(2) Decrease in long-term financial instrument	2,000,000	
(3) Disposal of property, plant and equipment	294,784,406	2,010,394,163
(4) Disposal of intangible assets	763,636,365	-
(5) Decrease in other assets	40,250	278,710
2. Cash outflows from investing activities	(284,735,698,634)	(215,703,880,684)
(1) Increase in other receivables	8,976,266,184	5,430,000,000
(2) Acquisition of property, plant and equipment	157,501,790,486	127,494,011,871
(3) Acquisition of intangible assets	118,257,641,964	82,779,868,813
III. Net cash provided by financing activities	50,229,034,650	6,959,882,274
1. Cash inflows from financing activities	75,243,094,152	24,459,882,274
(1) Increase in borrowings	70,000,000,000	24,030,389,144
(2) Capital increase with consideration	5,110,059,800	429,493,130
(3) Government grant	133,034,352	-
2. Cash outflows from financing activities	(25,014,059,502)	(17,500,000,000)
(1) Redemption of borrowings	25,014,059,502	17,500,000,000
IV. Effect of exchange rate changes on cash and cash equivalents	(108,017,371)	(115,553,401)
V. Net increase in cash and cash equivalents	(22,957,977,322)	40,519,803,230
VI. Cash and cash equivalents at the beginning of the period	238,401,707,090	197,881,903,860
VII. Cash and cash equivalents at the end of the period	215,443,729,768	238,401,707,090

Separate Financial Statements

1) Statements of financial position

56th term (as of 2017.12.31)

55th term (as of 2016.12.31)

(Unit : KRW)

Title of Account	56 th	55 th
Assets		
I. Current assets	655,306,853,216	679,572,861,017
1. Cash and cash equivalents	212,521,514,253	234,657,416,084
2. Trade receivables	194,911,639,365	218,645,303,615
3. Non-trade receivables	4,955,654,445	7,658,754,110
4. Other current receivables	11,882,897,796	10,428,086,319
5. Derivatives assets	-	756,035,467
6. Inventories	223,537,426,093	200,132,722,692
7. Other current assets	7,497,721,264	7,294,542,730
II. Non-current assets	1,594,668,782,874	1,491,211,314,998
1. Non-current financial instruments	4,000,000	6,000,000
2. Other non-current receivables	39,637,401,016	41,036,984,873
3. Non-current available for sale financial assets	560,000,000	560,000,000
4. Property, plant and equipment	1,239,668,890,519	1,198,961,456,707
5. Intangible assets	303,268,722,439	234,344,497,954
6. Investments in subsidiaries	1,056,485,529	5,829,056,152
7. Investments in Joint ventures	10,200,000,000	10,200,000,000
8. Other non-current assets	273,283,371	273,319,312
Total assets	2,249,975,636,090	2,170,784,176,015
Liabilities		
I. Current Liabilities	1,006,050,749,193	944,944,592,566
1. Trade payables	526,467,391,988	482,375,279,702
2. Non-trade payables	188,785,993,568	152,502,510,151
3. Short-term borrowings	163,840,987,050	181,967,721,200
4. Derivative liability	409,259,095	5,798,806,301
5. Other current payables	37,164,319,879	34,519,616,413
6. Provision for product warranties	53,046,747,890	53,153,294,239
7. Current other long-term employees benefit obligation	1,190,438,138	1,330,939,340

Title of Account	56th	55th
8. Other current liabilities	35,145,611,585	33,296,425,220
II. Non-current liabilities	466,268,429,097	405,669,623,189
1. Long term borrowings	70,000,000,000	12,500,000,000
2. Other non-current payables	3,374,007,893	5,507,071,099
3. Retirement benefit obligation	284,563,122,681	279,609,199,761
4. Other long-term employees benefit obligation	15,138,489,583	15,357,662,601
5. Provision for long-term product warranties	93,192,808,940	92,695,689,728
Total liabilities	1,472,319,178,290	1,350,614,215,755
Shareholders' equity		
I. Capital stock	689,746,980,000	686,100,480,000
II. Other capital surplus	133,141,919,432	131,678,359,632
III. Other capital adjustments	-	(2,574,700,025)
IV. Retained earnings (accumulated deficit)	(45,232,441,632)	4,965,820,653
Total shareholders' equity	777,656,457,800	820,169,960,260
Total liabilities and shareholders' equity	2,249,975,636,090	2,170,784,176,015

2) Statements of comprehensive loss

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	56 th	55 th
I. Sales	3,489,882,082,764	3,626,340,467,068
1. Goods	3,117,252,231,588	3,206,664,893,588
2. Merchandise	333,791,053,504	345,822,592,216
3. Other sales	39,329,345,503	74,383,218,925
4. Sales discounts	(490,547,831)	(530,237,661)
II. Cost of sales	2,976,693,716,040	3,035,871,860,775
1. Goods	2,776,656,991,187	2,830,001,672,868
2. Merchandise	168,886,612,603	181,635,357,626
3. Other costs of sales	31,150,112,250	24,234,830,281
III. Gross profit	513,188,366,724	590,468,606,293
IV. Selling and administrative expenses	577,434,758,471	559,953,922,599
1. Selling expenses	390,223,730,397	384,838,957,096
2. Administrative expenses	187,211,028,074	175,114,965,503
V. Operating profit(loss)	(64,246,391,747)	30,514,683,694
VI. Non-operating income	29,156,178,060	57,806,492,679
VII. Non-operating expenses	39,785,895,454	38,569,094,169
VIII. Financial income	25,938,729,763	28,244,307,074
IX. Financial expenses	22,007,421,539	21,226,581,459
X. PBT	(70,944,800,917)	56,769,807,819
XI. Corporate tax	-	-
XII. Net income (loss)	(70,944,800,917)	56,769,807,819
XIII. Other comprehensive income(loss)	23,321,238,657	37,590,950,458
1. Not to be reclassified as profit or loss in future	20,746,538,632	40,392,990,483
1) DBO gains/losses	20,746,538,632	40,392,990,483
2. To be reclassified as profit or loss in future	2,574,700,025	(2,802,040,025)
1) Gain on valuation of derivatives	2,574,700,025	(2,802,040,025)
XIV. Total comprehensive income (loss)	(47,623,562,260)	94,360,758,277
XV. Loss per share		
1. Basic and diluted loss per share	(515)	414

3) Statements of changes in shareholders' equity

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	Capital stock	Other Capital Surplus				Other Capital adjustments	Retained earnings (Deficit)	Total
		Paid-in capital in excess of par	Gain on capital reduction	Debt to be swapped for equity	Gain from sales of treasury stock			
Balance at Jan 1, 2016	686,100,480,000	11,452,712,819	118,189,001,064	931,508,409	1,105,137,340	227,340,000	(92,196,977,649)	725,809,201,983
Total comprehensive income(loss)								
Net income(loss)	-	-	-	-	-	-	56,769,807,819	56,769,807,819
Actuary of defined benefit	-	-	-	-	-	-	40,392,990,483	40,392,990,483
Gain on valuation of derivatives	-	-	-	-	-	(2,802,040,025)	-	(2,802,040,025)
Balance at Dec 31, 2016	686,100,480,000	11,452,712,819	118,189,001,064	931,508,409	1,105,137,340	(2,574,700,025)	4,965,820,653	820,169,960,260
Balance at Jan 1, 2017	686,100,480,000	11,452,712,819	118,189,001,064	931,508,409	1,105,137,340	(2,574,700,025)	4,965,820,653	820,169,960,260
Total comprehensive income(loss)								
Net income(loss)	-	-	-	-	-	-	(70,944,800,917)	(70,944,800,917)
Actuary of defined benefit	-	-	-	-	-	-	20,746,538,632	20,746,538,632
Gain on valuation of derivatives	-	-	-	-	-	2,574,700,025	-	2,574,700,025
Transactions with shareholders directly recognized in equity								
Paid-increase	3,646,500,000	1,463,559,800	-	-	-	-	-	5,110,059,800
Balance at Dec 31, 2017	689,746,980,000	12,916,272,619	118,189,001,064	931,508,409	1,105,137,340	-	(45,232,441,632)	777,656,457,800

4) Statements of cash flows

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	56 th	55 th
I. Net cash provided by operating activities	205,080,777,994	245,616,556,539
1. Cash flows from operating activities	206,204,896,914	246,601,797,348
(1) Net income (loss)	(70,944,800,917)	56,769,807,819
(2) Adjustments	285,797,740,581	269,966,797,865
(3) Changes in net working capital	(8,648,042,750)	(80,134,808,336)
2. Interests received	2,645,795,758	2,640,050,477
3. Interests paid	(3,780,914,678)	(3,636,291,286)
4. Dividend income received	11,000,000	11,000,000
II. Net cash provided by investing activities	(277,445,714,475)	(210,692,313,143)
1. Cash inflows from investing activities	7,281,143,236	5,010,236,869
(1) Decrease in other receivables	6,220,682,215	2,999,563,996
(2) Decrease in financial instrument	2,000,000	
(3) Disposal of property, plant and equipment	294,784,406	2,010,394,163
(4) Disposal of intangible assets	763,636,365	-
(5) Decrease in other assets	40,250	278,710
2. Cash outflows from investing activities	(284,726,857,711)	(215,702,550,012)
(1) Increase in other receivables	8,976,266,184	5,430,000,000
(2) Acquisition of property, plant and equipment	157,492,949,563	127,492,681,199
(3) Acquisition of intangible assets	118,257,641,964	82,779,868,813
III. Net cash provided by financing activities	50,229,034,650	6,959,882,274
1. Cash inflows from financing activities	75,243,094,152	24,459,882,274
(1) Increase in borrowings	70,000,000,000	24,030,389,144
(2) Capital increase with consideration	5,110,059,800	-
(3) Government Grant	133,034,352	429,493,130
2. Cash outflows from financing activities	(25,014,059,502)	(17,500,000,000)
(1) Redemption of borrowings	25,014,059,502	17,500,000,000
IV. Net increase in cash and cash equivalents	(22,135,901,831)	41,884,125,670
V. Cash and cash equivalents at the beginning of the period	234,657,416,084	192,773,290,414
VI. Cash and cash equivalents at the end of the period	212,521,514,253	234,657,416,084

**5) Statement of appropriation of retained earning
(Statement of disposition of deficit)**

56th term (2017.01.01 - 2017.12.31)

55th term (2016.01.01 - 2016.12.31)

(Unit : KRW)

Title of Account	56 th Expected appropriation date: Mar. 30, 2018	55 th Finalized disposition date: Mar.31, 2017
I. Unappropriated retained earnings (deficit)	(45,232,441,632)	4,965,820,653
1. Undisposed retained earnings(deficit) carried over from prior year	4,965,820,653	(92,196,977,649)
2. Net income (loss)	(70,944,800,917)	56,769,807,819
3. Actuarial income(loss)	20,746,538,632	40,392,990,483
II. Appropriation earnings(deficit)	45,232,441,632	-
1. Gain from sales of treasury stock	1,105,137,340	-
2. Gain on capital reduction	44,127,304,292	-
III. Unappropriated earnings(deficit) to be carried forward to the subsequent year	-	4,965,820,653