

SSANGYONG MOTOR COMPANY

Separate Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Ssangyong Motor Company

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

Management's responsibility

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

Auditors' audits responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate 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 separate financial statements.

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

Conclusion

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

Other matters

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

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

The accompanying separate financial statements as of and for the years ended December 31, 2017 and 2016 have been translated into Indian Rupee solely for the convenience of the reader and such translation does not comply with K-IFRS. We have audited the translation and nothing came to our attention that cause us to believe that the separate financial statements expressed in Korean won have not been translated into Indian Rupee on the basis set forth in note 2.(1) to the separate financial statements.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 16, 2018

This report is effective as of March 16, 2018, the audits report date. Certain subsequent events or circumstances, which may occur between the audits report date and the time of reading this report, could have a material impact on the separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SSANGYONG MOTOR COMPANY
Separate Statements of Financial Position

As of December 31, 2017 and 2016

(In thousands of won and in thousands of rupee)

| | Note | Korean won | | Indian rupee | |
|-------------------------------------|-------------|------------------------|----------------------|-----------------------|--------------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Assets | | | | | |
| Cash and cash equivalents | 4,5,33 ₩ | 212,521,514 | 234,657,416 | Rs 12,710,617 | 14,034,534 |
| Trade and other receivables, net | 7,32,33 | 211,750,192 | 236,732,144 | 12,664,485 | 14,158,621 |
| Derivative assets | | - | 756,035 | - | 45,217 |
| Inventories, net | 8,24 | 223,537,426 | 200,132,723 | 13,369,463 | 11,969,660 |
| Other current assets | 10 | 7,497,721 | 7,294,543 | 448,429 | 436,277 |
| Total current assets | | 655,306,853 | 679,572,861 | 39,192,994 | 40,644,309 |
| Non-current financial instruments | 5,33 | 4,000 | 6,000 | 239 | 359 |
| Non-current other receivables, net | 7,32,33 | 39,637,401 | 41,036,985 | 2,370,658 | 2,454,365 |
| Available-for-sale financial assets | 6,33 | 560,000 | 560,000 | 33,493 | 33,493 |
| Property, plant and equipment, net | 11,13 | 1,239,668,891 | 1,198,961,457 | 74,142,876 | 71,708,221 |
| Intangible assets, net | 11,12 | 303,268,722 | 234,344,498 | 18,138,081 | 14,015,819 |
| Investments in subsidiaries | 9 | 1,056,486 | 5,829,056 | 63,187 | 348,628 |
| Investments in joint venture | 9 | 10,200,000 | 10,200,000 | 610,048 | 610,048 |
| Other non-current assets | 10 | 273,283 | 273,319 | 16,345 | 16,347 |
| Total non-current assets | | 1,594,668,783 | 1,491,211,315 | 95,374,927 | 89,187,280 |
| Total assets | | ₩ 2,249,975,636 | 2,170,784,176 | Rs 134,567,921 | 129,831,589 |

See accompanying notes to the separate financial statements.

SSANGYONG MOTOR COMPANY
Separate Statements of Financial Position, Continued

As of December 31, 2017 and 2016

(In thousands of won and in thousands of rupee)

| | Note | Korean won | | Indian rupee | |
|---|-----------------|------------------------|----------------------|-----------------------|--------------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Liabilities | | | | | |
| Trade and other payables | 14,18, 32,33 | ₩ 752,417,705 | 669,397,408 | Rs 45,001,059 | 40,035,730 |
| Short-term borrowings | 13,18,33 | 163,840,987 | 181,967,721 | 9,799,102 | 10,883,237 |
| Derivative liabilities | 25,33 | 409,259 | 5,798,806 | 24,477 | 346,819 |
| Provision of warranty for sale - current | 15 | 53,046,748 | 53,153,294 | 3,172,652 | 3,179,025 |
| Other long-term employee benefits liabilities- current | | 1,190,438 | 1,330,939 | 71,198 | 79,602 |
| Other current liabilities | 16 | 35,145,612 | 33,296,425 | 2,102,011 | 1,991,412 |
| Total current liabilities | | <u>1,006,050,749</u> | <u>944,944,593</u> | <u>60,170,499</u> | <u>56,515,825</u> |
| Long-term borrowings | 13,18,33 | 70,000,000 | 12,500,000 | 4,186,603 | 747,608 |
| Non-current other payables | 33 | 3,374,007 | 5,507,071 | 201,794 | 329,370 |
| Defined benefit liabilities | 17 | 284,563,123 | 279,609,200 | 17,019,326 | 16,723,038 |
| Other long-term employee benefits liabilities | | 15,138,490 | 15,357,662 | 905,412 | 918,520 |
| Non-current provision of warranty for sale | 15 | 93,192,809 | 92,695,690 | 5,573,733 | 5,544,001 |
| Total non-current liabilities | | <u>466,268,429</u> | <u>405,669,623</u> | <u>27,886,868</u> | <u>24,262,537</u> |
| Total liabilities | | ₩ <u>1,472,319,178</u> | <u>1,350,614,216</u> | <u>88,057,367</u> | <u>80,778,362</u> |
| Equity | | | | | |
| Capital stock | 19 | 689,746,980 | 686,100,480 | 41,252,810 | 41,034,718 |
| Other capital surplus | 20 | 133,141,920 | 131,678,360 | 7,963,034 | 7,875,500 |
| Other equity | 21 | - | (2,574,700) | - | (153,989) |
| Retained earnings (Accumulated deficit) | 22 | (45,232,442) | 4,965,820 | (2,705,290) | 296,998 |
| Total equity | | ₩ <u>777,656,458</u> | <u>820,169,960</u> | <u>46,510,554</u> | <u>49,053,227</u> |
| Total liabilities and equity | | ₩ <u>2,249,975,636</u> | <u>2,170,784,176</u> | Rs <u>134,567,921</u> | <u>129,831,589</u> |

See accompanying notes to the separate financial statements.

SSANGYONG MOTOR COMPANY
Separate Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

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

| | Note | Korean won | | Indian rupee | |
|--|---------|---------------------|--------------------|-----------------------|-------------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Sales | 31,32 ₩ | 3,489,882,083 | 3,626,340,467 | Rs 208,725,005 | 216,886,392 |
| Cost of sales | 24,32 | 2,976,693,716 | 3,035,871,861 | 178,031,921 | 181,571,284 |
| Gross profit | | <u>513,188,367</u> | <u>590,468,606</u> | <u>30,693,084</u> | <u>35,315,108</u> |
| Selling, general and administrative expenses | 24,26 | 577,434,759 | 559,953,922 | 34,535,572 | 33,490,067 |
| Operating income (loss) | | <u>(64,246,392)</u> | <u>30,514,684</u> | <u>(3,842,488)</u> | <u>1,825,041</u> |
| Other income | 27,32 | 29,156,178 | 57,806,493 | 1,743,791 | 3,457,326 |
| Other expenses | 27,32 | 39,785,895 | 38,569,095 | 2,379,539 | 2,306,765 |
| Finance income | 25,28 | 25,938,730 | 28,244,307 | 1,551,359 | 1,689,253 |
| Finance costs | 25,28 | 22,007,422 | 21,226,581 | 1,316,233 | 1,269,532 |
| Profit (Loss) before income taxes | | <u>(70,944,801)</u> | <u>56,769,808</u> | <u>(4,243,110)</u> | <u>3,395,323</u> |
| Income tax expenses | 23 | - | - | - | - |
| Profit (Loss) for the year | | <u>(70,944,801)</u> | <u>56,769,808</u> | <u>(4,243,110)</u> | <u>3,395,323</u> |
| Other comprehensive income (loss) for the year | 21,22 | 23,321,239 | 37,590,950 | 1,394,811 | 2,248,263 |
| Items that will never be reclassified to profit or loss: | | | | | |
| Defined benefit plan re-measurements | | 20,746,539 | 40,392,990 | 1,240,822 | 2,415,849 |
| Items that are or may be reclassified subsequently to profit or loss: | | | | | |
| Changes in fair value of cash flow hedge | 17 | 2,574,700 | (2,802,040) | 153,989 | (167,586) |
| Total comprehensive income(loss) for the year | ₩ | <u>(47,623,562)</u> | <u>94,360,758</u> | <u>Rs (2,848,299)</u> | <u>5,643,586</u> |
| Earnings (Losses) per share | | | | | |
| Basic and diluted earnings (losses) per share | 29 ₩ | (515) | 414 | Rs (31) | 25 |

See accompanying notes to the separate financial statements.

SSANGYONG MOTOR COMPANY
Separate Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In thousands of won)

| | Korean won | | | | | | | |
|---|---------------|--|---------------------------|-------------------------------|------------------------------------|--------------|---|--------------|
| | Capital stock | Other capital surplus | | | Gain on disposal of treasury stock | Other equity | Retained earnings (Accumulated deficit) | Total |
| | | Paid-in capital in excess of par value | Gain on capital reduction | Debt to be swapped for equity | | | | |
| Balance at January 1, 2016 | ₩ 686,100,480 | 11,452,713 | 118,189,001 | 931,508 | 1,105,138 | 227,340 | (92,196,978) | 725,809,202 |
| Total comprehensive income(loss) for the year: | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 56,769,808 | 56,769,808 |
| Defined benefit plan re-measurements | - | - | - | - | - | - | 40,392,990 | 40,392,990 |
| Changes in fair value of cash flow hedge | - | - | - | - | - | (2,802,040) | - | (2,802,040) |
| Balance at December 31, 2016 | ₩ 686,100,480 | 11,452,713 | 118,189,001 | 931,508 | 1,105,138 | (2,574,700) | 4,965,820 | 820,169,960 |
| Balance at January 1, 2017 | ₩ 686,100,480 | 11,452,713 | 118,189,001 | 931,508 | 1,105,138 | (2,574,700) | 4,965,820 | 820,169,960 |
| Total comprehensive income(loss) for the year: | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (70,944,801) | (70,944,801) |
| Defined benefit plan re-measurements | - | - | - | - | - | - | 20,746,539 | 20,746,539 |
| Changes in fair value of cash flow hedge | - | - | - | - | - | 2,574,700 | - | 2,574,700 |
| Transactions with owners of the Parent Company, recognized directly in equity: | | | | | | | | |
| Issue of ordinary shares | 3,646,500 | 1,463,560 | - | - | - | - | - | 5,110,060 |
| Balance at December 31, 2017 | ₩ 689,746,980 | 12,916,273 | 118,189,001 | 931,508 | 1,105,138 | - | (45,232,442) | 777,656,458 |

See accompanying notes to the separate financial statements.

SSANGYONG MOTOR COMPANY
Separate Statements of Changes in Equity, Continued

For the years ended December 31, 2017 and 2016

(In thousands of rupee)

| | Indian rupee | | | | | | | |
|---|---------------|--|---------------------------------|-------------------------------------|---|--------------|--|-------------|
| | Capital stock | Other capital surplus | | | | Other equity | Retained earnings (Accumulated deficit) | Total |
| | | Paid-in capital in excess of par value | Gain on capital reduction | Debt to be swapped for equity | Gain on disposal of treasury stock | | | |
| Balance at January 1, 2016 | Rs 41,034,718 | 684,971 | 7,068,720 | 55,712 | 66,097 | 13,597 | (5,514,174) | 43,409,641 |
| Total comprehensive income(loss) for the year: | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 3,395,323 | 3,395,323 |
| Defined benefit plan re-measurements | - | - | - | - | - | - | 2,415,849 | 2,415,849 |
| Changes in fair value of cash flow hedge | - | - | - | - | - | (167,586) | - | (167,586) |
| Balance at December 31, 2016 | Rs 41,034,718 | 684,971 | 7,068,720 | 55,712 | 66,097 | (153,989) | 296,998 | 49,053,227 |
| Balance at January 1, 2017 | Rs 41,034,718 | 684,971 | 7,068,720 | 55,712 | 66,097 | (153,989) | 296,998 | 49,053,227 |
| Total comprehensive income(loss) for the year: | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (4,243,110) | (4,243,110) |
| Defined benefit plan re-measurements | - | - | - | - | - | - | 1,240,822 | 1,240,822 |
| Changes in fair value of cash flow hedge | - | - | - | - | - | 153,989 | - | 153,989 |
| Transactions with owners of the Parent Company, recognized directly in equity: | | | | | | | | |
| Issue of ordinary shares | 218,092 | 87,534 | - | - | - | - | - | 305,626 |
| Balance at December 31, 2017 | Rs 41,252,810 | 772,505 | 7,068,720 | 55,712 | 66,097 | - | (2,705,290) | 46,510,554 |

See accompanying notes to the separate financial statements.

SSANGYONG MOTOR COMPANY
Separate Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|----------------------|----------------------|----------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Cash flows from operating activities | | | | |
| Profit(loss) for the year | ₩ (70,944,801) | 56,769,808 | Rs (4,243,110) | 3,395,323 |
| Adjustment | 285,797,741 | 269,966,797 | 17,093,166 | 16,146,340 |
| Changes in assets and liabilities | (8,648,043) | (80,134,808) | (517,227) | (4,792,752) |
| Cash generated from operations (note 30) | <u>206,204,897</u> | <u>246,601,797</u> | <u>12,332,829</u> | <u>14,748,911</u> |
| Interest received | 2,645,797 | 2,640,051 | 158,241 | 157,898 |
| Interest paid | (3,780,915) | (3,636,291) | (226,131) | (217,482) |
| Dividends received | 11,000 | 11,000 | 658 | 658 |
| Net cash provided by operating activities | <u>205,080,779</u> | <u>245,616,557</u> | <u>12,265,597</u> | <u>14,689,985</u> |
| Cash flows from investing activities | | | | |
| Proceed from disposal of property, plant and equipment | 294,784 | 2,010,394 | 17,631 | 120,239 |
| Proceed from disposal of intangible assets | 763,636 | - | 45,672 | - |
| Acquisition of property, plant and equipment | (157,492,950) | (127,492,681) | (9,419,435) | (7,625,160) |
| Acquisition of intangible assets | (118,257,642) | (82,779,869) | (7,072,825) | (4,950,858) |
| Cash flow used in other investing activities | (2,753,543) | (2,430,157) | (164,686) | (145,436) |
| Net cash used in investing activities | <u>(277,445,715)</u> | <u>(210,692,313)</u> | <u>(16,593,643)</u> | <u>(12,601,215)</u> |
| Cash flows from financing activities | | | | |
| Proceeds from borrowings | 70,000,000 | 24,030,389 | 4,186,603 | 1,437,224 |
| Proceeds from issuing capital stock | 5,110,060 | - | 305,626 | - |
| Receipts of government grants | 133,034 | 429,493 | 7,956 | 25,688 |
| Repayment of borrowings | (25,014,060) | (17,500,000) | (1,496,056) | (1,046,651) |
| Net cash provided by financing activities | <u>50,229,034</u> | <u>6,959,882</u> | <u>3,004,129</u> | <u>416,261</u> |
| Net increase(decrease) in cash and cash equivalents | <u>(22,135,902)</u> | <u>41,884,126</u> | <u>(1,323,917)</u> | <u>2,505,031</u> |
| Cash and cash equivalents at January 1 | <u>234,657,416</u> | <u>192,773,290</u> | <u>14,034,534</u> | <u>11,529,503</u> |
| Cash and cash equivalents at December 31 | <u>₩ 212,521,514</u> | <u>234,657,416</u> | <u>Rs 12,710,617</u> | <u>14,034,534</u> |

See accompanying notes to the separate financial statements.

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

1. General Description of the Company

(1) Organization and description of business of the Company

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

(2) Major shareholders

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

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

2. Basis of Preparation and Accounting Policies

(1) Basis of translating separate financial statements

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

(2) Statement of compliance

The Company has prepared its separate financial statements in accordance with the K-IFRS. The Company's financial statements are separate financial statements prepared in accordance with the requirements of K-IFRS No. 1027, Separate Financial Statements, in which a parent, or an investor with joint control of, or significant influence over, an investee, accounts for the investments on the basis of the direct equity interest rather than on the basis of the underlying results and net assets of the investees.

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(2) Statement of compliance, continued

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

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

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

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

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

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

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

2) New standards and interpretations not yet adopted

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

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

The Company has reviewed and analyzed the Company's 5-step recognition of all types of contracts based on the five-step model for the adoption of K-IFRS No. 1115, which is expected to be initially applied on January 1, 2018. The major impacts of the adoption of the Standard are as follows.

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(2) Statement of compliance, continued

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

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

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

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

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

Classification and measurement of financial assets

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

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(2) Statement of compliance, continued

As of December 31, 2017, the Company has loans and receivables amounting to ₩462,148 million, available-for-sale financial assets at fair value through profit or loss amounting to ₩560 million. The loan and receivable is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of it give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As such, the loan and receivables is expected to be classified as financial assets at amortized cost under K-IFRS 1109.

Classification and measurement of financial liabilities

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

As of December 31, 2017, the Company has financial liabilities at amortized costs amounting to ₩965,336 million, and financial liabilities at fair value through profit or loss amounting to ₩409 million.

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

Impairment: Financial assets and contract assets

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(2) Statement of compliance, continued

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

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

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

Hedge accounting

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

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

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

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

③ Amendments to K-IFRS No. 1116 : Leases

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(3) Accounting for investments in subsidiaries and joint ventures

The Company in accordance with the K-IFRS No. 1027 'Consolidated and Separate financial statements' is a parent company and it has subsidiaries, Ssangyong Motor (Shanghai) Co., Ltd. and Ssangyong European Parts Center B.V., and has a joint venture with SY auto capital Co., Ltd. When the Company prepares separate financial statements, the investments in subsidiaries and a joint venture are accounted for at cost basis by the direct investment proportion. Also, the Company recognizes a dividend from a subsidiary in profit or loss in the separate financial statements when its right to receive the dividend is established.

(4) Revenue recognition

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

① Sale of goods

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

② Rendering of services

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

③ Royalty income

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

④ Dividend and interest income

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

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

(5) Foreign currencies

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(5) Foreign currencies, continued

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

(6) Financial Instruments

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

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

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

① Financial assets at FVTPL

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(6) Financial Instruments, continued

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

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

② Held-to-maturity investments

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

③ AFS financial assets

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

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

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

④ Loans and receivables

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

⑤ Impairment of financial assets

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(6) Financial Instruments, continued

⑤ Impairment of financial assets, continued

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

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

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

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

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

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(6) Financial Instruments, continued

⑥ De-recognition of financial assets

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

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

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

(7) Financial liabilities

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

① Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS No. 1103 applies, held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(7) Financial liabilities, continued

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

- a. such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b. the financial liability forms part of a Company of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c. it forms part of a contract containing one or more embedded derivatives, and K-IFRS No. 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

② Other financial liabilities

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

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

③ De-recognition of financial liabilities

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

(8) Paid-in capital

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(9) Derivative financial instruments

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

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

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

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

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

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

(10) Inventories

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(11) Property, plant and equipment

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

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

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

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

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

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

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

(12) Intangible assets

① Intangible assets acquired separately

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(12) Intangible assets, continued

② Internally generated intangible assets - research and development expenditure

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

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

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

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

③ Derecognition of intangible assets

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

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

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(14) Retirement benefit costs and termination benefits

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

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

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

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

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

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

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

(15) Provisions

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(15) Provisions, continued

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

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

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

(16) Lease

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

① As a lessor

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

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

② As a lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see Note 2. (17)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(16) Lease, continued

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

(17) Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(18) Government grants

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

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

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

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

(19) Taxation

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

① Current tax

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

② Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(19) Taxation, continued

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

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

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

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

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

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

③ Current and deferred taxes for the year

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

2. Basis of Preparation and Accounting Policies, Continued

(20) Fair value

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

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

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

(21) Segment information

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

3. Significant Accounting Estimates and Assumptions

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

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

4. Cash and Cash Equivalents

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

5. Restricted Financial Instruments

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

(In thousands of won and in thousands of rupee)

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

6. Available-for sale Financial Assets

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

(In thousands of won)

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

(In thousands of rupee)

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

7. Trade and Other Receivables

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

(In thousands of won)

| | | 2017 | | 2016 | |
|---------------------------------------|---|--------------------|-------------------|--------------------|-------------------|
| | | Current | Non-current | Current | Non-current |
| Trade receivables | ₩ | 195,038,354 | 6,223,160 | 218,738,512 | 7,282,322 |
| Less: Allowance for doubtful accounts | | (126,715) | - | (93,208) | - |
| Other receivables | | 8,679,435 | 147,594 | 7,660,486 | 170,500 |
| Less: Allowance for doubtful accounts | | (3,723,780) | (44,250) | (1,732) | (44,250) |
| Loans and others | | 11,886,976 | 33,322,231 | 10,473,406 | 33,660,841 |
| Less: Allowance for doubtful accounts | | (4,078) | (11,334) | (45,320) | (32,428) |
| | ₩ | <u>211,750,192</u> | <u>39,637,401</u> | <u>236,732,144</u> | <u>41,036,985</u> |

(In thousands of rupee)

| | | 2017 | | 2016 | |
|---------------------------------------|----|-------------------|------------------|-------------------|------------------|
| | | Current | Non-current | Current | Non-current |
| Trade receivables | Rs | 11,664,973 | 372,199 | 13,082,447 | 435,546 |
| Less: Allowance for doubtful accounts | | (7,579) | - | (5,575) | - |
| Other receivables | | 519,105 | 8,827 | 458,163 | 10,197 |
| Less: Allowance for doubtful accounts | | (222,714) | (2,647) | (104) | (2,647) |
| Loans and others | | 710,944 | 1,992,956 | 626,401 | 2,013,207 |
| Less: Allowance for doubtful accounts | | (244) | (677) | (2,711) | (1,938) |
| | Rs | <u>12,664,485</u> | <u>2,370,658</u> | <u>14,158,621</u> | <u>2,454,365</u> |

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

(In thousands of won)

| | | 2017 | | 2016 | |
|-------------------|---|--------------------|-------------------|--------------------|-------------------|
| | | Trade receivables | Others(*) | Trade receivables | Others(*) |
| Not past due | ₩ | 201,261,514 | 50,164,648 | 225,924,026 | 47,617,839 |
| Less than 30 days | | - | - | - | - |
| More than 60 days | | - | - | - | - |
| More than 90 days | | - | 3,871,588 | 96,808 | 4,347,394 |
| | ₩ | <u>201,261,514</u> | <u>54,036,236</u> | <u>226,020,834</u> | <u>51,965,233</u> |

(In thousands of won)

| | | 2017 | | 2016 | |
|-------------------|----|-------------------|------------------|-------------------|------------------|
| | | Trade receivables | Others(*) | Trade receivables | Others(*) |
| Not past due | Rs | 12,037,172 | 3,000,279 | 13,512,203 | 2,847,957 |
| Less than 30 days | | - | - | - | - |
| More than 60 days | | - | - | - | - |
| More than 90 days | | - | 231,554 | 5,790 | 260,012 |
| | Rs | <u>12,037,172</u> | <u>3,231,833</u> | <u>13,517,993</u> | <u>3,107,969</u> |

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

7. Trade and Other Receivables, Continued

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

(In thousands of won and in thousands of rupee)

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

(In thousands of won and in thousands of rupee)

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

8. Inventories

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|------------------|---------------|-------------|---------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Merchandises | ₩ 34,648,961 | 36,986,821 | Rs 2,072,306 | 2,212,130 |
| Finished goods | 66,624,320 | 46,638,240 | 3,984,708 | 2,789,368 |
| Work-in-process | 29,867,552 | 28,203,922 | 1,786,337 | 1,686,837 |
| Raw materials | 33,097,439 | 32,040,766 | 1,979,512 | 1,916,314 |
| Sub-materials | 414,413 | 433,593 | 24,785 | 25,933 |
| Supplies | 3,632,719 | 3,545,334 | 217,268 | 212,042 |
| Goods in transit | 55,252,022 | 52,284,047 | 3,304,547 | 3,127,036 |
| | ₩ 223,537,426 | 200,132,723 | Rs 13,369,463 | 11,969,660 |

The Company has measured inventories at the lower of cost or net realizable value. The loss on valuation of inventories amounted to ₩ 3,103,515 thousand (Rs 185,617 thousand) for the year ended December 31, 2017 is included in cost of sales.

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

9. Investments in Subsidiaries and a Joint venture

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

| | Company | Location | Owner ship | Closing month | 2017 | | 2016 |
|---------------|--|-------------|------------|---------------|---------------------|-------------------|-------------------|
| | | | | | Acquisition cost | Book value | Book value |
| Subsidiaries | Ssangyong Motor (Shanghai) Co., Ltd.(*1) | China | 100% | December | ₩ 5,338,097 | 1,056,486 | 5,829,056 |
| | Ssangyong European Parts Center B.V. | Netherlands | 100% | December | 835,695 | - | - |
| | | | | | <u>6,173,792</u> | <u>1,056,486</u> | <u>5,829,056</u> |
| Joint venture | SY Auto Capital Co., Ltd.(*2) | Korea | 51% | December | <u>10,200,000</u> | <u>10,200,000</u> | <u>10,200,000</u> |
| | | | | | ₩ <u>16,373,792</u> | <u>11,256,486</u> | <u>16,029,056</u> |

(*1) Impairment loss on investments in subsidiaries of ₩ 4,772,571 thousand for the year ended December 31, 2017.

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

(In thousands of rupee)

| | Company | Location | Owner ship | Closing month | 2017 | | 2016 |
|---------------|--|-------------|------------|---------------|-------------------|----------------|----------------|
| | | | | | Acquisition cost | Book value | Book value |
| Subsidiaries | Ssangyong Motor (Shanghai) Co., Ltd.(*1) | China | 100% | December | Rs 319,264 | 63,187 | 348,628 |
| | Ssangyong European Parts Center B.V. | Netherlands | 100% | December | 49,982 | - | - |
| | | | | | <u>369,246</u> | <u>63,187</u> | <u>348,628</u> |
| Joint venture | SY Auto Capital Co., Ltd.(*2) | Korea | 51% | December | <u>610,048</u> | <u>610,048</u> | <u>610,048</u> |
| | | | | | Rs <u>979,294</u> | <u>673,235</u> | <u>958,676</u> |

(*1) Impairment loss on investments in subsidiaries of Rs 285,441 thousand for the year ended December 31, 2017.

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

10. Other Assets

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|---------------------------------|-------------|-----------|--------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Other current assets | | | | |
| Advance payments | ₩ 1,741,178 | 1,784,844 | Rs 104,137 | 106,749 |
| Prepaid expenses | 5,423,950 | 5,167,105 | 324,400 | 309,038 |
| Current tax assets | 332,593 | 342,594 | 19,892 | 20,490 |
| | ₩ 7,497,721 | 7,294,543 | 448,429 | 436,277 |
| Other non-current assets | | | | |
| Other non-current assets | ₩ 273,283 | 273,319 | Rs 16,345 | 16,347 |

11. Property, Plant and Equipment

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

(In thousands of won)

| | 2017 | | | | |
|--------------------------|------------------|-------------------|--------------------------|-------------------------------|---------------|
| | Acquisition cost | Government grants | Accumulated depreciation | Accumulated impairment losses | Book value |
| Land | ₩ 475,062,920 | - | - | - | 475,062,920 |
| Buildings | 543,207,391 | (1,845,609) | (217,544,488) | (148,366,786) | 175,450,508 |
| Structures | 109,871,927 | (111,068) | (64,129,824) | (28,913,882) | 16,717,153 |
| Machinery | 1,298,011,168 | (261,084) | (1,033,241,296) | (95,508,817) | 168,999,971 |
| Vehicles | 7,669,974 | (7,411) | (5,896,222) | (583,550) | 1,182,791 |
| Tools and molds | 1,200,844,395 | (31,214) | (743,644,745) | (158,770,322) | 298,398,114 |
| Equipment | 67,497,396 | (42,425) | (47,685,144) | (3,354,079) | 16,415,748 |
| Construction in progress | 87,441,686 | - | - | - | 87,441,686 |
| | ₩ 3,789,606,857 | (2,298,811) | (2,112,141,719) | (435,497,436) | 1,239,668,891 |

(In thousands of won)

| | 2016 | | | | |
|--------------------------|------------------|-------------------|--------------------------|-------------------------------|---------------|
| | Acquisition cost | Government grants | Accumulated depreciation | Accumulated impairment losses | Book value |
| Land | ₩ 475,072,283 | - | - | - | 475,072,283 |
| Buildings | 538,730,945 | (1,906,386) | (206,865,385) | (148,366,786) | 181,592,388 |
| Structures | 108,248,754 | (115,454) | (62,439,683) | (28,913,882) | 16,779,735 |
| Machinery | 1,281,190,863 | (333,844) | (1,011,171,267) | (96,363,713) | 173,322,039 |
| Vehicles | 7,820,106 | (8,944) | (6,125,571) | (680,671) | 1,004,920 |
| Tools and molds | 1,070,562,591 | (13,254) | (683,055,335) | (159,733,640) | 227,760,362 |
| Equipment | 68,375,740 | (18,479) | (45,517,321) | (3,605,443) | 19,234,497 |
| Construction in progress | 103,179,053 | - | - | - | 103,179,053 |
| Machinery in transit | 1,016,181 | - | - | - | 1,016,181 |
| | ₩ 3,654,196,516 | (2,396,361) | (2,015,174,562) | (437,664,135) | 1,198,961,458 |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

11. Property, Plant and Equipment, Continued

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

(In thousands of rupee)

| | | 2017 | | | | |
|--------------------------|----|-----------------------------|------------------------------|-------------------------------------|--|-------------------|
| | | Acquisition cost | Government grants | Accumulated depreciation | Accumulated impairment losses | Book value |
| Land | Rs | 28,412,854 | - | - | - | 28,412,854 |
| Buildings | | 32,488,480 | (110,383) | (13,011,034) | (8,873,612) | 10,493,451 |
| Structures | | 6,571,288 | (6,643) | (3,835,516) | (1,729,299) | 999,830 |
| Machinery | | 77,632,247 | (15,615) | (61,796,728) | (5,712,250) | 10,107,654 |
| Vehicles | | 458,731 | (443) | (352,645) | (34,901) | 70,742 |
| Tools and molds | | 71,820,837 | (1,867) | (44,476,360) | (9,495,833) | 17,846,777 |
| Equipment | | 4,036,925 | (2,538) | (2,851,982) | (200,603) | 981,802 |
| Construction in progress | | 5,229,766 | - | - | - | 5,229,766 |
| | Rs | <u>226,651,128</u> | <u>(137,489)</u> | <u>(126,324,265)</u> | <u>(26,046,498)</u> | <u>74,142,876</u> |

(In thousands of rupee)

| | | 2016 | | | | |
|--------------------------|----|-----------------------------|------------------------------|-------------------------------------|--|-------------------|
| | | Acquisition cost | Government grants | Accumulated depreciation | Accumulated impairment losses | Book value |
| Land | Rs | 28,413,414 | - | - | - | 28,413,414 |
| Buildings | | 32,220,750 | (114,018) | (12,372,332) | (8,873,612) | 10,860,788 |
| Structures | | 6,474,208 | (6,905) | (3,734,431) | (1,729,299) | 1,003,573 |
| Machinery | | 76,626,248 | (19,967) | (60,476,749) | (5,763,381) | 10,366,151 |
| Vehicles | | 467,710 | (535) | (366,362) | (40,710) | 60,103 |
| Tools and molds | | 64,028,863 | (793) | (40,852,592) | (9,553,447) | 13,622,031 |
| Equipment | | 4,089,458 | (1,105) | (2,722,328) | (215,637) | 1,150,388 |
| Construction in progress | | 6,170,996 | - | - | - | 6,170,996 |
| Machinery in transit | | 60,776 | - | - | - | 60,776 |
| | Rs | <u>218,552,423</u> | <u>(143,323)</u> | <u>(120,524,794)</u> | <u>(26,176,086)</u> | <u>71,708,220</u> |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

11. Property, Plant and Equipment, Continued

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

(In thousands of won)

| | | 2017 | | | | | |
|--------------------------|---|----------------------|--------------------|------------------|----------------------|------------------|----------------------|
| | | Beginning balance | Acquisition | Disposal | Depreciation | Others(*) | Ending balance |
| Land | ₩ | 475,072,283 | 73,126 | (82,489) | - | - | 475,062,920 |
| Buildings | | 181,592,388 | 208,020 | (1,039) | (10,618,327) | 4,269,466 | 175,450,508 |
| Structures | | 16,779,735 | 786,249 | (7,845) | (1,681,746) | 840,760 | 16,717,153 |
| Machinery | | 173,322,039 | 44,987 | (105,279) | (31,100,022) | 26,838,246 | 168,999,971 |
| Vehicles | | 1,004,920 | 244,577 | (5,264) | (420,250) | 358,808 | 1,182,791 |
| Tools and molds | | 227,760,362 | 4,905,915 | (610,423) | (77,389,074) | 143,731,334 | 298,398,114 |
| Equipment | | 19,234,497 | 3,316,663 | (50,004) | (6,901,222) | 815,814 | 16,415,748 |
| Construction in progress | | 103,179,053 | 158,642,593 | - | - | (174,379,960) | 87,441,686 |
| Machinery in transit | | 1,016,181 | 389,149 | - | - | (1,405,330) | - |
| | ₩ | <u>1,198,961,458</u> | <u>168,611,279</u> | <u>(862,343)</u> | <u>(128,110,641)</u> | <u>1,069,138</u> | <u>1,239,668,891</u> |

(In thousands of won)

| | | 2016 | | | | | |
|--------------------------|---|----------------------|--------------------|------------------|----------------------|----------------|----------------------|
| | | Beginning balance | Acquisition | Disposal | Depreciation | Others(*) | Ending balance |
| Land | ₩ | 475,531,313 | 9,502 | (468,532) | - | - | 475,072,283 |
| Buildings | | 190,494,892 | 233,348 | (151,728) | (10,490,072) | 1,505,948 | 181,592,388 |
| Structures | | 16,766,128 | 1,567,112 | (47,999) | (1,735,542) | 230,036 | 16,779,735 |
| Machinery | | 185,774,908 | 58,198 | (26,658) | (29,157,378) | 16,672,969 | 173,322,039 |
| Vehicles | | 1,380,302 | 64,752 | (32,145) | (520,040) | 112,051 | 1,004,920 |
| Tools and molds | | 252,248,090 | 4,169,299 | (19,915) | (69,930,044) | 41,292,932 | 227,760,362 |
| Equipment | | 22,794,469 | 2,711,179 | (23,460) | (6,940,572) | 692,881 | 19,234,497 |
| Construction in progress | | 40,866,774 | 118,971,315 | (120,000) | - | (56,539,036) | 103,179,053 |
| Machinery in transit | | 1,924,851 | 2,239,081 | - | - | (3,147,751) | 1,016,181 |
| | ₩ | <u>1,187,781,727</u> | <u>130,023,786</u> | <u>(890,437)</u> | <u>(118,773,648)</u> | <u>820,030</u> | <u>1,198,961,458</u> |

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

11. Property, Plant and Equipment, Continued

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

(In thousands of rupee)

| | | 2017 | | | | | |
|--------------------------|----|--------------------------|--------------------|-----------------|---------------------|------------------|-----------------------|
| | | Beginning balance | Acquisition | Disposal | Depreciation | Others(*) | Ending balance |
| Land | Rs | 28,413,414 | 4,374 | (4,934) | - | - | 28,412,854 |
| Buildings | | 10,860,788 | 12,441 | (62) | (635,067) | 255,351 | 10,493,451 |
| Structures | | 1,003,573 | 47,024 | (469) | (100,583) | 50,285 | 999,830 |
| Machinery | | 10,366,151 | 2,691 | (6,297) | (1,860,049) | 1,605,158 | 10,107,654 |
| Vehicles | | 60,103 | 14,628 | (314) | (25,135) | 21,460 | 70,742 |
| Tools and molds | | 13,622,031 | 293,416 | (36,509) | (4,628,533) | 8,596,372 | 17,846,777 |
| Equipment | | 1,150,388 | 198,366 | (2,991) | (412,753) | 48,792 | 981,802 |
| Construction in progress | | 6,170,996 | 9,488,193 | - | - | (10,429,423) | 5,229,766 |
| Machinery in transit | | 60,776 | 23,274 | - | - | (84,050) | - |
| | Rs | <u>71,708,220</u> | <u>10,084,407</u> | <u>(51,576)</u> | <u>(7,662,120)</u> | <u>63,945</u> | <u>74,142,876</u> |

(In thousands of rupee)

| | | 2016 | | | | | |
|--------------------------|----|--------------------------|--------------------|-----------------|---------------------|------------------|-----------------------|
| | | Beginning balance | Acquisition | Disposal | Depreciation | Others(*) | Ending balance |
| Land | Rs | 28,440,868 | 568 | (28,022) | - | - | 28,413,414 |
| Buildings | | 11,393,235 | 13,956 | (9,075) | (627,397) | 90,069 | 10,860,788 |
| Structures | | 1,002,759 | 93,727 | (2,871) | (103,800) | 13,758 | 1,003,573 |
| Machinery | | 11,110,939 | 3,481 | (1,594) | (1,743,862) | 997,187 | 10,366,151 |
| Vehicles | | 82,554 | 3,873 | (1,923) | (31,103) | 6,702 | 60,103 |
| Tools and molds | | 15,086,608 | 249,360 | (1,191) | (4,182,419) | 2,469,673 | 13,622,031 |
| Equipment | | 1,363,306 | 162,152 | (1,403) | (415,106) | 41,439 | 1,150,388 |
| Construction in progress | | 2,444,185 | 7,115,509 | (7,177) | - | (3,381,521) | 6,170,996 |
| Machinery in transit | | 115,123 | 133,916 | - | - | (188,263) | 60,776 |
| | Rs | <u>71,039,577</u> | <u>7,776,542</u> | <u>(53,256)</u> | <u>(7,103,687)</u> | <u>49,044</u> | <u>71,708,220</u> |

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

11. Property, Plant and Equipment, Continued

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

(In thousands of won and in thousands of rupee)

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

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

(In thousands of won and in thousands of rupee)

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

12. Intangible Assets

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

(In thousands of won)

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

(In thousands of won)

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

(In thousands of rupee)

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

(In thousands of rupee)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

12. Intangible Assets, Continued

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

(In thousands of won)

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

(In thousands of won)

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

12. Intangible Assets, Continued

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

(In thousands of rupee)

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

(In thousands of rupee)

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

12. Intangible Assets, Continued

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

(In thousands of won and in thousands of rupee)

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

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

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

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

(In thousands of won and in thousands of rupee)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

13. Borrowings

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

(In thousands of won and in thousands of rupee)

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

(*) Current portion of long-term borrowing

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

(In thousands of won and in thousands of rupee)

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

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

(In thousands of won)

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

(In thousands of rupee)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

14. Other Financial Liabilities

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

(In thousands of won and in thousands of rupee)

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

15. Provision of Warranty for sale

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

(In thousands of won and in thousands of rupee)

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

16. Other Liabilities

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|-------------------------|--------------|------------|--------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Advances from customers | ₩ 3,943,130 | 3,359,440 | Rs 235,833 | 200,923 |
| Deposits received | 531,789 | 613,895 | 31,806 | 36,716 |
| Withholdings | 30,670,693 | 29,323,090 | 1,834,372 | 1,753,773 |
| | ₩ 35,145,612 | 33,296,425 | Rs 2,102,011 | 1,991,412 |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

17. Employee Benefits

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

(In thousands of won and in thousands of rupee)

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

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

(In thousands of won)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

17. Employee Benefits, Continued

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

(In thousands of won)

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

(In thousands of rupee)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

17. Employee Benefits, Continued

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

(In thousands of rupee)

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

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

(In thousands of won and in thousands of rupee)

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

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

17. Employee Benefits, Continued

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

(In thousands of won and in thousands of rupee)

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

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

18. Commitments and Contingencies

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

- (1) The Company carries product liability insurance for all products that it sells.
- (2) As of December 31, 2017, the Company has agreements with Korea Development Bank and others for various borrowings, trading finance and others with limit of ₩ 267,500 million and USD 240 million.
- (3) As of December 31, 2017, the Company has been provided with guarantees amounting to USD 896,649 by Standard Chartered Bank Korea Limited in connection with refunds for advance received and performing transactions.
- (4) As of December 31, 2017, two claims as a plaintiff were filled with the claim amount of ₩ 2,301 million (Rs 138 million) and 11 claims as a defendant were filled with the claims of ₩ 3,815 million (Rs 228 million). The provision amounting to ₩ 7,364 million (Rs 440 million) is recognized as other payable for the foregoing lawsuits and claims, since the amounts for potential loss can be estimated and management expect that it is probable that the Company will be required to incur an outflow.

19. Capital Stock

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

20. Other Capital Surplus and Retained Earnings

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|----------------------|--------------------|---------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Paid-up capital in excess of par value | ₩ 12,916,273 | 11,452,714 | Rs 772,504 | 684,971 |
| Gain on capital reduction | 118,189,001 | 118,189,001 | 7,068,720 | 7,068,720 |
| Debt to be swapped for equity | 931,508 | 931,508 | 55,712 | 55,712 |
| Gain on disposal of treasury stock | 1,105,138 | 1,105,137 | 66,098 | 66,097 |
| | ₩ <u>133,141,920</u> | <u>131,678,360</u> | Rs <u>7,963,034</u> | <u>7,875,500</u> |

21. Other Equity

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|------------|-------------|--------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Gains (losses) on valuation of derivatives | ₩ - | (2,574,700) | Rs - | (153,989) |

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

(In thousands of won and in thousands of rupee)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

22. Retained Earnings (Deficit)

(1) Details of retained earnings (deficit) as of December 31, 2017 and 2016 are as follows:
(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|-----------------------------|----------------|-----------|----------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Retained earnings (Deficit) | ₩ (45,232,442) | 4,965,820 | Rs (2,705,290) | 296,998 |

(2) Changes in retained earnings (deficit) for the years ended December 31, 2017 and 2016 are as follows:
(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|-------------------------------------|----------------|--------------|----------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Beginning balance | ₩ 4,965,820 | (92,196,978) | Rs 296,998 | (5,514,174) |
| Profit (Loss) for the year | (70,944,801) | 56,769,808 | (4,243,110) | 3,395,323 |
| Defined benefit plan re-measurement | 20,746,539 | 40,392,990 | 1,240,822 | 2,415,849 |
| Ending balance | ₩ (45,232,442) | 4,965,820 | Rs (2,705,290) | 296,998 |

(3) Statements of appropriation of retained earnings (disposition of accumulated deficits) for the years ended December 31, 2017 and 2016 are as follows:

Date of Disposition for 2017: March 30, 2018

Date of Appropriation for 2016: March 31, 2017

(In thousands of won)

| | 2017 | 2016 |
|--|----------------|--------------|
| Unappropriated retained earnings(Deficit) | | |
| Balance at beginning of year | 4,965,821 | (92,196,977) |
| Profit(loss) for the year | (70,944,801) | 56,769,808 |
| Re-measurements of defined benefit liabilities | 20,746,538 | 40,392,990 |
| | ₩ (45,232,442) | 4,965,821 |
| Disposition of deficit | | |
| Gain on sales of treasury stock | 1,105,138 | - |
| Gain on capital reduction | 44,127,304 | - |
| | ₩ 45,232,442 | - |
| Undisposed accumulated deficits to be carried over to subsequent year | ₩ - | 4,965,821 |

(In thousands of rupee)

| | 2017 | 2016 |
|--|----------------|-------------|
| Unappropriated retained earnings(Deficit) | | |
| Balance at beginning of year | 296,999 | (5,514,173) |
| Profit(loss) for the year | (4,243,110) | 3,395,323 |
| Re-measurements of defined benefit liabilities | 1,240,822 | 2,415,849 |
| | Rs (2,705,290) | 296,999 |
| Disposition of deficit | | |
| Gain on sales of treasury stock | 66,097 | - |
| Gain on capital reduction | 2,639,193 | - |
| | Rs 2,705,290 | - |
| Undisposed accumulated deficits to be carried over to subsequent year | Rs - | 296,999 |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

23. Income Tax Expense

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

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

(In thousands of won)

| | | 2017 | | | Ending balance |
|--|---|-------------------|-------------|-------------|----------------|
| | | Beginning balance | Decrease | Increase | |
| Allowance for doubtful accounts | ₩ | - | - | 1,597,027 | 1,597,027 |
| Government grants | | 3,025,504 | 1,163,320 | 1,163,287 | 3,025,471 |
| Provision for warranties | | 145,848,984 | 145,848,984 | 146,239,557 | 146,239,557 |
| Defined benefit liabilities | | 282,337,426 | 19,766,561 | 24,541,393 | 287,112,258 |
| Impairment loss of property, plant and equipment | | 99,336,813 | 8,037,821 | - | 91,298,992 |
| Intangible assets | | 231,282 | 8,221,828 | 31,593,450 | 23,602,904 |
| Depreciation | | 11,528,277 | 1,125,035 | 3,130,884 | 13,534,126 |
| Other payables | | 26,297,688 | 26,773,724 | 27,033,001 | 26,556,965 |
| Accrued expenses | | 34,274,171 | 34,274,171 | 36,769,573 | 36,769,573 |
| Investment in subsidiaries | | 4,184,519 | - | 963,693 | 5,148,212 |
| Derivatives | | 5,042,771 | 5,042,771 | 409,259 | 409,259 |
| Other long-term employee benefit | | 16,688,601 | 16,688,601 | 16,328,928 | 16,328,928 |
| Trade receivable | | - | - | 2,458,305 | 2,458,305 |
| Other receivable | | - | 4,320,982 | 6,328,240 | 2,007,258 |
| Land | | (260,713,528) | - | - | (260,713,528) |
| Others | | 887,397 | 96,382 | 47,801 | 838,816 |
| Deficit carried over on tax | | 1,113,990,602 | 5,528,421 | - | 1,108,462,181 |
| Sub-total | ₩ | 1,482,960,507 | 276,888,601 | 298,604,398 | 1,504,676,304 |
| Not recognized as deferred tax assets | | 1,482,960,507 | | | 1,504,676,304 |
| Recognized as deferred tax assets | | - | | | - |
| Statutory tax rate (%) | | 22% | | | 22% |
| Deferred tax assets resulting from temporary differences or deficits carried over on tax | | - | | | - |
| Tax credit carry-forwards: | | 3,223,052 | - | - | 3,223,052 |
| Not recognized as deferred tax assets | | 3,223,052 | - | - | 3,223,052 |
| Recognized as deferred tax assets | | - | | | - |
| Deferred tax assets resulting from tax credit carry-forwards | | - | | | - |
| Total deferred income tax | ₩ | - | | | - |

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

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

23. Income Tax Expense, Continued

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

(In thousands of won)

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

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For the years ended December 31, 2017 and 2016

23. Income Tax Expense, Continued

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

(In thousands of rupee)

| | | 2017 | | | Ending balance |
|---|----|----------------------|------------|------------|-------------------|
| | | Beginning balance | Decrease | Increase | |
| Allowance for doubtful accounts | Rs | - | - | 95,516 | 95,516 |
| Government grants | | 180,951 | 69,577 | 69,575 | 180,949 |
| Provision for warranties | | 8,723,025 | 8,723,025 | 8,746,385 | 8,746,385 |
| Defined benefit liabilities | | 16,886,210 | 1,182,211 | 1,467,787 | 17,171,786 |
| Loss on revaluation of property, plant and equipment | | 5,941,197 | 480,731 | - | 5,460,466 |
| Intangible assets | | 13,833 | 491,736 | 1,889,560 | 1,411,657 |
| Depreciation | | 689,490 | 67,287 | 187,254 | 809,457 |
| Other payables | | 1,572,828 | 1,601,299 | 1,616,806 | 1,588,335 |
| Accrued expenses | | 2,049,891 | 2,049,891 | 2,199,137 | 2,199,137 |
| Investment in subsidiaries | | 250,270 | - | 57,637 | 307,907 |
| Derivatives | | 301,601 | 301,601 | 24,477 | 24,477 |
| Other long-term employee benefit | | 998,122 | 998,122 | 976,611 | 976,611 |
| Trade receivable | | - | - | 147,028 | 147,028 |
| Other receivable | | - | 258,432 | 378,483 | 120,051 |
| Land | | (15,592,914) | - | - | (15,592,914) |
| Others | | 53,074 | 5,764 | 2,859 | 50,169 |
| Deficit carried over on tax | | 66,626,232 | 330,647 | - | 66,295,585 |
| Sub-total | Rs | 88,693,810 | 16,560,323 | 17,859,115 | 89,992,602 |
| Not recognized as deferred tax assets | | 88,693,810 | | | 89,992,602 |
| Recognized as deferred tax assets | | - | | | - |
| Statutory tax rate (%) | | 22% | | | 22% |
| Deferred tax assets resulting from temporary differences | | - | | | - |
| Tax credit carry-forwards: | | 192,766 | - | - | 192,766 |
| Not recognized as deferred tax assets | | 192,766 | - | - | 192,766 |
| Recognized as deferred tax assets | | - | | | - |
| Deferred tax assets resulting from tax credit carry-forwards | | - | | | - |
| Total deferred income tax | Rs | - | | | - |

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

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For the years ended December 31, 2017 and 2016

23. Income Tax Expense, Continued

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

(In thousands of rupee)

| | | 2016 | | | Ending balance |
|--|----|-------------------|------------|------------|----------------|
| | | Beginning balance | Decrease | Increase | |
| Government grants | Rs | 163,391 | 135,373 | 152,933 | 180,951 |
| Provision for warranties | | 8,600,118 | 8,600,118 | 8,723,025 | 8,723,025 |
| Defined benefit liabilities | | 17,000,540 | 632,314 | 517,984 | 16,886,210 |
| Impairment loss of property, plant and equipment | | 6,505,957 | 564,760 | - | 5,941,197 |
| Intangible assets | | 1,634,221 | 1,620,788 | 400 | 13,833 |
| Depreciation | | 980,521 | 334,820 | 43,789 | 689,490 |
| Other payables | | 2,364,677 | 2,364,677 | 1,572,828 | 1,572,828 |
| Accrued expenses | | 1,926,300 | 1,926,300 | 2,049,891 | 2,049,891 |
| Investment in subsidiaries | | 250,270 | - | - | 250,270 |
| Derivatives | | (100,695) | (100,695) | 301,601 | 301,601 |
| Other long-term employee benefit | | 973,840 | 973,840 | 998,122 | 998,122 |
| Land | | (15,592,914) | - | - | (15,592,914) |
| Others | | 107,386 | 52,215 | (2,097) | 53,074 |
| Deficit carried over on tax | | 70,305,026 | 3,678,794 | - | 66,626,232 |
| Sub-total | Rs | 95,118,637 | 20,783,304 | 14,358,476 | 88,693,810 |
| Not recognized as deferred tax assets | | 95,118,637 | | | 88,693,810 |
| Recognized as deferred tax assets | | - | | | - |
| Statutory tax rate (%) | | 22% | | | 22% |
| Deferred tax assets resulting from temporary differences | | - | | | - |
| Tax credit carry-forwards: | | 552,382 | 359,616 | - | 192,766 |
| Not recognized as deferred tax assets | | 552,382 | 359,616 | - | 192,766 |
| Recognized as deferred tax assets | | - | | | - |
| Deferred tax assets resulting from tax credit carry-forwards | | - | | | - |
| Total deferred income tax | Rs | - | | | - |

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For the years ended December 31, 2017 and 2016

24. Nature of Expenses

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|-----------------|---------------|----------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Changes in inventories | ₩ (19,311,850) | 12,062,765 | Rs (1,155,015) | 721,457 |
| Raw materials consumed and purchase of merchandise | 2,367,958,723 | 2,430,416,134 | 141,624,326 | 145,359,817 |
| Employee benefits | 524,812,464 | 526,882,450 | 31,388,305 | 31,512,108 |
| Depreciation | 128,110,641 | 118,773,648 | 7,662,120 | 7,103,687 |
| Amortization | 50,833,365 | 37,074,271 | 3,040,273 | 2,217,361 |
| Others | 501,725,132 | 470,616,515 | 30,007,484 | 28,146,921 |
| | ₩ 3,554,128,475 | 3,595,825,783 | Rs 212,567,493 | 215,061,351 |

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

25. Derivatives

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

26. Selling, General and Administrative Expenses

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|-------------------|---------------|-------------|---------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Warranty expenses | ₩ 64,028,928 | 70,110,525 | Rs 3,829,481 | 4,193,213 |
| Commissions | 236,689,627 | 221,325,357 | 14,156,078 | 13,237,163 |
| Advertising | 18,803,819 | 18,239,964 | 1,124,630 | 1,090,907 |
| Export expenses | 33,078,418 | 40,766,448 | 1,978,374 | 2,438,185 |
| Others | 37,622,939 | 34,396,663 | 2,250,177 | 2,057,216 |
| | ₩ 390,223,731 | 384,838,957 | Rs 23,338,740 | 23,016,684 |

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Notes to the Separate Financial Statements

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26. Selling, General and Administrative Expenses, Continued

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--------------------------|---------------|-------------|---------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Salaries | ₩ 51,868,180 | 51,639,556 | Rs 3,102,164 | 3,088,490 |
| Retirement benefit costs | 5,732,951 | 7,689,824 | 342,880 | 459,918 |
| Employee welfare | 12,042,071 | 12,680,033 | 720,220 | 758,375 |
| Rent expense | 11,413,936 | 10,280,359 | 682,652 | 614,854 |
| Service fees | 35,109,259 | 28,000,497 | 2,099,836 | 1,674,671 |
| Depreciation | 14,073,926 | 11,328,016 | 841,742 | 677,513 |
| R&D expenses | 19,616,836 | 15,535,921 | 1,173,256 | 929,182 |
| Amortization | 4,320,197 | 6,343,525 | 258,385 | 379,397 |
| Bad debt expense | 33,507 | 48,746 | 2,004 | 2,915 |
| Others | 33,000,165 | 31,568,488 | 1,973,693 | 1,888,068 |
| | ₩ 187,211,028 | 175,114,965 | Rs 11,196,832 | 10,473,383 |

27. Other Income and Expenses

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|---|--------------|------------|--------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Foreign exchange transaction gain | ₩ 11,049,978 | 15,020,958 | Rs 660,884 | 898,383 |
| Foreign exchange translation gain | 501,746 | 964,567 | 30,009 | 57,689 |
| Gain on disposal of property, plant and equipment | 179,970 | 1,241,347 | 10,764 | 74,243 |
| Others | 17,424,484 | 40,579,621 | 1,042,134 | 2,427,011 |
| | ₩ 29,156,178 | 57,806,493 | Rs 1,743,791 | 3,457,326 |

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|---|--------------|------------|--------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Foreign exchange transaction loss | ₩ 9,171,400 | 13,534,228 | Rs 548,529 | 809,463 |
| Foreign exchange translation loss | 659,308 | 796,917 | 39,432 | 47,663 |
| Loss on disposal of property, plant and equipment | 747,529 | 121,335 | 44,709 | 7,257 |
| Loss on disposal of trade receivables | 14,775,609 | 17,212,495 | 883,709 | 1,029,455 |
| Other bad debt expenses | 3,723,115 | 39,960 | 222,674 | 2,390 |
| Impairment loss on investments in subsidiaries | 4,772,571 | - | 285,441 | - |
| Others | 5,936,363 | 6,864,160 | 355,045 | 410,537 |
| | ₩ 39,785,895 | 38,569,095 | Rs 2,379,539 | 2,306,765 |

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Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

28. Finance Income and Costs

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|---------------------|-------------------|---------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Interest income | ₩ 2,720,063 | 2,550,914 | Rs 162,683 | 152,567 |
| Dividend income | 11,000 | 11,000 | 658 | 658 |
| Foreign exchange transaction gain | 8,768,966 | 9,341,735 | 524,459 | 558,715 |
| Foreign exchange translation gain | 5,614,093 | 3,524,018 | 335,771 | 210,767 |
| Realized gain of financial derivatives | 8,824,608 | 12,339,373 | 527,788 | 738,001 |
| Unrealized gain of financial derivatives | - | 477,267 | - | 28,545 |
| | ₩ <u>25,938,730</u> | <u>28,244,307</u> | Rs <u>1,551,359</u> | <u>1,689,253</u> |

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|---------------------|-------------------|---------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Interest expense | ₩ 906,267 | 794,387 | Rs 54,202 | 47,511 |
| Foreign exchange transaction loss | 11,944,650 | 11,435,400 | 714,393 | 683,935 |
| Foreign exchange translation loss | 1,419 | 736,804 | 85 | 44,067 |
| Realized loss of financial derivatives | 8,745,827 | 5,314,653 | 523,076 | 317,862 |
| Unrealized loss of financial derivatives | 409,259 | 2,945,337 | 24,477 | 176,157 |
| | ₩ <u>22,007,422</u> | <u>21,226,581</u> | Rs <u>1,316,233</u> | <u>1,269,532</u> |

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|--|--------------------|------------------|-------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Loan and receivables | ₩ 4,250,786 | 2,450,076 | Rs 254,233 | 146,536 |
| AFS financial assets | 11,000 | 11,000 | 658 | 658 |
| Derivatives financial assets (liabilities) | (330,478) | 4,556,650 | (19,765) | 272,527 |
| | ₩ <u>3,931,308</u> | <u>7,017,726</u> | Rs <u>235,126</u> | <u>419,721</u> |

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29. Earnings (losses) per Share

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

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

| | Korean won | | Indian rupee | |
|--|----------------|-------------|----------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Profit (loss) for the year | ₩ (70,944,801) | 56,769,808 | Rs (4,243,110) | 3,395,323 |
| Profit (loss) contributed to common stocks | (70,944,801) | 56,769,808 | (4,243,110) | 3,395,323 |
| Weighted average number of common shares | 137,801,538 | 137,220,096 | 137,801,538 | 137,220,096 |
| Basic earnings(losses) per share(*) | ₩ (515) | 414 | Rs (31) | 25 |

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

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

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

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30. Cash Flows

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|---|----------------------|---------------------|----------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Profit (loss) for the year | ₩ (70,944,801) | 56,769,808 | Rs (4,243,110) | 3,395,323 |
| Adjustments for: | | | | |
| Retirement benefit costs | 45,579,001 | 49,324,847 | 2,726,017 | 2,950,051 |
| Depreciation | 128,110,641 | 118,773,648 | 7,662,120 | 7,103,687 |
| Amortization | 50,833,365 | 37,074,271 | 3,040,273 | 2,217,361 |
| Losses on disposal of trade receivables | 14,775,609 | 17,212,495 | 883,709 | 1,029,455 |
| Impairment loss on investments in subsidiaries | 4,772,570 | - | 285,441 | - |
| Foreign exchange translation gain and loss, net | (5,455,112) | (2,954,864) | (326,263) | (176,726) |
| Losses (Gains) on disposal of property, plant and equipment | 567,559 | (1,120,012) | 33,945 | (66,986) |
| Interest expense and income, net | (1,813,796) | (1,756,527) | (108,481) | (105,056) |
| Dividends income | (11,000) | (11,000) | (658) | (658) |
| Unrealized gain and loss of financial derivatives, net | 409,259 | 2,468,070 | 24,477 | 147,612 |
| Losses on valuation of inventories | 3,103,515 | 5,967,918 | 185,617 | 356,933 |
| Increase in provision of warranty for sale | 41,427,330 | 44,949,094 | 2,477,711 | 2,688,343 |
| Others | 3,498,800 | 38,857 | 209,258 | 2,324 |
| | <u>285,797,741</u> | <u>269,966,797</u> | <u>17,093,166</u> | <u>16,146,340</u> |
| Changes in assets and liabilities | | | | |
| Trade receivables | 9,943,823 | (83,438,130) | 594,726 | (4,990,319) |
| Other receivables | (1,499,990) | (852,934) | (89,712) | (51,013) |
| Inventories | (26,760,100) | 37,430,245 | (1,600,484) | 2,238,651 |
| Trade payables | 44,369,430 | 49,527,501 | 2,653,674 | 2,962,171 |
| Other payables | 23,140,929 | (22,819,320) | 1,384,027 | (1,364,792) |
| Accrued expenses | 2,495,403 | 2,066,435 | 149,247 | 123,591 |
| Usage of provision of warranty for sale | (41,036,757) | (42,894,089) | (2,454,351) | (2,565,436) |
| Payment of retirement benefits | (19,878,539) | (21,328,382) | (1,188,907) | (1,275,622) |
| Others | 577,758 | 2,173,866 | 34,553 | 130,017 |
| | <u>(8,648,043)</u> | <u>(80,134,808)</u> | <u>(517,227)</u> | <u>(4,792,752)</u> |
| Net cash provided by operating activities | ₩ <u>206,204,897</u> | <u>246,601,797</u> | Rs <u>12,332,829</u> | <u>14,748,911</u> |

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|---|--------------|-----------|--------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Changes in other payables related to the acquisition of property, plant and equipment | ₩ 11,118,329 | 2,531,105 | Rs 664,972 | 151,382 |

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For the years ended December 31, 2017 and 2016

30. Cash Flows, Continued

(3) Adjustment of liabilities from financing activities

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

(In thousands of won)

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

(In thousands of rupee)

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

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

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For the years ended December 31, 2017 and 2016

31. Segment Information

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

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

(In thousands of won and in thousands of rupee)

| Sales region | Korean won | | Indian rupee | |
|-------------------|-----------------|---------------|----------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Republic of Korea | ₩ 2,732,196,915 | 2,553,029,090 | Rs 163,408,906 | 152,693,127 |
| Europe | 362,467,676 | 554,661,696 | 21,729,968 | 33,173,546 |
| Asia Pacific | 172,829,002 | 286,887,952 | 10,160,428 | 17,158,370 |
| Others | 222,388,490 | 231,761,729 | 13,425,703 | 13,861,349 |
| | ₩ 3,489,882,083 | 3,626,340,467 | Rs 208,725,005 | 216,886,392 |

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

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|-----------------------|-----------------|---------------|----------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Automobile | ₩ 3,117,252,232 | 3,206,664,894 | Rs 186,438,531 | 191,786,178 |
| Merchandise and parts | 333,300,506 | 345,292,355 | 19,934,241 | 20,651,457 |
| Others | 39,329,345 | 74,383,218 | 2,352,233 | 4,448,757 |
| | ₩ 3,489,882,083 | 3,626,340,467 | Rs 208,725,005 | 216,886,392 |

32. Transactions and Balances with Related Parties

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

| Relationship | Company |
|---------------|---|
| Parent | Mahindra & Mahindra Ltd. |
| Subsidiaries | Ssangyong Motor (Shanghai) Co., Ltd. Ssangyong European Parts Center B.V. |
| Joint venture | SY Auto Capital Co., Ltd. |
| Others | Mahindra Vehicle Manufacturing Ltd., Mahindra & Mahindra South Africa Ltd., PININFARINA S.p.A. |

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32. Transactions and Balances with Related Parties, Continued

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

(In thousands of won)

| <u>Relationship</u> | <u>Company</u> | <u>Description</u> | <u>2017</u> | <u>2016</u> |
|---------------------|---|--------------------|-------------|-------------|
| Parent | Mahindra & Mahindra Ltd. | Sales | ₩ 8,898,635 | 49,184,486 |
| | | Other income | 95,019 | 308,320 |
| | | Purchases | 1,529,987 | 697,879 |
| Subsidiaries | Ssangyong European Parts Center B.V. and other | Other expenses | 640,963 | 1,973,780 |
| | | Sales | 12,999,111 | 14,755,334 |
| Joint venture | SY Auto Capital Co., Ltd. | Other expenses | - | 137 |
| | | Other expenses | 14,089,290 | 16,376,188 |
| Others | Mahindra Vehicle Manufacturing Ltd. and others | Sales | 735,257 | 288,975 |
| | | Other income | 5,179 | 26,442 |
| | | Other expenses | 963,843 | 85,809 |

(In thousands of rupee)

| <u>Relationship</u> | <u>Company</u> | <u>Description</u> | <u>2017</u> | <u>2016</u> |
|---------------------|---|--------------------|-------------|-------------|
| Parent | Mahindra & Mahindra Ltd. | Sales | Rs 532,215 | 2,941,656 |
| | | Other income | 5,683 | 18,440 |
| | | Purchases | 91,506 | 41,739 |
| Subsidiaries | Ssangyong European Parts Center B.V. and other | Other expenses | 38,335 | 118,049 |
| | | Sales | 777,459 | 882,496 |
| Joint venture | SY Auto Capital Co., Ltd. | Other expenses | - | 8 |
| | | Other expenses | 842,661 | 979,437 |
| Others | Mahindra Vehicle Manufacturing Ltd. and others | Sales | 43,975 | 17,283 |
| | | Other income | 310 | 1,581 |
| | | Other expenses | 57,646 | 5,132 |

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

(In thousands of won)

| <u>Relationship</u> | <u>Company</u> | <u>Description</u> | <u>2017</u> | <u>2016</u> |
|---------------------|---|--------------------|-------------|-------------|
| Parent | Mahindra & Mahindra Ltd. | Trade receivables | ₩ 4,120,559 | 2,693,260 |
| | | Other receivables | 77,342 | 60,430 |
| | | Other payables | 2,308,472 | 1,781,004 |
| Subsidiaries | Ssangyong European Parts Center B.V. and other | Trade receivables | 15,239,822 | 15,079,280 |
| | | Other receivables | 408,064 | 454,765 |
| | | Other payables | 21,010 | 450,982 |
| Joint venture | SY Auto Capital Co., Ltd. | Other payables | 450,795 | 91,887 |
| Others | Mahindra Vehicle Manufacturing Ltd. and others | Trade receivables | 37,279 | 15,977 |
| | | Other payables | 18,250 | 36,773 |

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32. Transactions and Balances with Related Parties, Continued

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

(In thousands of rupee)

| Relationship | Company | Description | 2017 | 2016 |
|---------------|---|----------------------|---------|---------|
| Parent | Mahindra & Mahindra Ltd. | Trade receivables Rs | 246,445 | 161,080 |
| | | Other receivables | 4,626 | 3,614 |
| | | Other payables | 138,067 | 106,519 |
| Subsidiaries | Ssangyong European Parts Center B.V. and other | Trade receivables | 911,473 | 901,871 |
| | | Other receivables | 24,406 | 27,199 |
| | | Other payables | 1,257 | 26,973 |
| Joint venture | SY Auto Capital Co., Ltd. | Other payables | 26,961 | 5,496 |
| Others | Mahindra Vehicle Manufacturing Ltd. and others | Trade receivables | 2,230 | 956 |
| | | Other payables | 1,092 | 2,199 |

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

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

(In thousands of won and in thousands of rupee)

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

33. Financial Instruments

(1) Capital risk management

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

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

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

(In thousands of won and in thousands of rupee)

| | | Korean won | | Indian rupee | |
|----------------------------|---|---------------|---------------|---------------|------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Debt (A) | ₩ | 1,472,319,178 | 1,350,614,216 | Rs 88,057,367 | 80,778,362 |
| Equity (B) | | 777,656,458 | 820,169,960 | 46,510,554 | 49,053,227 |
| Debt-to-equity ratio (A/B) | | 189.33% | 164.67% | 189.33% | 164.67% |

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33. Financial Instruments, Continued

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

1) Financial assets

(In thousands of won)

| | | 2017 | | | |
|---------------------------------|---|----------------------------------|---------------------------------|--------------------|--------------------|
| | | Loans and Receivables | AFS financial assets | Total | Fair value |
| Cash and cash equivalents | ₩ | 212,521,514 | - | 212,521,514 | 212,521,514 |
| Long-term financial instruments | | 4,000 | - | 4,000 | 4,000 |
| Trade and other receivables | | 249,625,174 | - | 249,625,174 | 249,625,174 |
| AFS financial assets | | - | 560,000 | 560,000 | 560,000 |
| | ₩ | <u>462,150,688</u> | <u>560,000</u> | <u>462,710,688</u> | <u>462,710,688</u> |

(In thousands of won)

| | | 2016 | | | | | |
|---------------------------------|---|----------------------------------|---------------------------------|--|--|--------------------|--------------------|
| | | Loans and Receivables | AFS financial assets | Financial assets at FVTPL | Derivatives designated to hedge | Total | Fair value |
| Cash and cash equivalents | ₩ | 234,657,416 | - | - | - | 234,657,416 | 234,657,416 |
| Long-term financial instruments | | 6,000 | - | - | - | 6,000 | 6,000 |
| Trade and other receivables | | 276,024,854 | - | - | - | 276,024,854 | 276,024,854 |
| AFS financial assets | | - | 560,000 | - | - | 560,000 | 560,000 |
| Derivative assets | | - | - | 445,691 | 310,344 | 756,035 | 756,035 |
| | ₩ | <u>510,688,270</u> | <u>560,000</u> | <u>445,691</u> | <u>310,344</u> | <u>512,004,305</u> | <u>512,004,305</u> |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

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

1) Financial assets, continued

(In thousands of rupee)

| | | 2017 | | | |
|---------------------------------|----|----------------------------------|---------------------------------|-------------------|-------------------|
| | | Loans and Receivables | AFS financial assets | Total | Fair value |
| Cash and cash equivalents | Rs | 12,710,617 | - | 12,710,617 | 12,710,617 |
| Long-term financial instruments | | 239 | - | 239 | 239 |
| Trade and other receivables | | 14,929,735 | - | 14,929,735 | 14,929,735 |
| AFS financial assets | | - | 33,493 | 33,493 | 33,493 |
| | Rs | <u>27,640,591</u> | <u>33,493</u> | <u>27,674,084</u> | <u>27,674,084</u> |

(In thousands of rupee)

| | | 2016 | | | | | |
|---------------------------------|----|----------------------------------|---------------------------------|--|--|-------------------|-------------------|
| | | Loans and Receivables | AFS financial assets | Financial assets at FVTPL | Derivatives designated to hedge | Total | Fair value |
| Cash and cash equivalents | Rs | 14,034,534 | - | - | - | 14,034,534 | 14,034,534 |
| Long-term financial instruments | | 359 | - | - | - | 359 | 359 |
| Trade and other receivables | | 16,508,664 | - | - | - | 16,508,664 | 16,508,664 |
| AFS financial assets | | - | 33,493 | - | - | 33,493 | 33,493 |
| Derivative assets | | - | - | 26,656 | 18,561 | 45,217 | 45,217 |
| | Rs | <u>30,543,557</u> | <u>33,493</u> | <u>26,656</u> | <u>18,561</u> | <u>30,622,267</u> | <u>30,622,267</u> |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

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

2) Financial liabilities

(In thousands of won)

| | | 2017 | | | | |
|--------------------------|---|--|--------------------------------|---------------------------------|--------------------|--------------------|
| | | Financial liability measured at amortized cost | Financial liabilities at FVTPL | Derivatives designated to hedge | Total | Fair value |
| Trade and other payables | ₩ | 717,494,834 | - | - | 717,494,834 | 717,494,834 |
| Borrowings | | 233,840,987 | - | - | 233,840,987 | 233,840,987 |
| Derivative liabilities | | - | 409,259 | - | 409,259 | 409,259 |
| | ₩ | <u>951,335,821</u> | <u>409,259</u> | <u>-</u> | <u>951,745,080</u> | <u>951,745,080</u> |

(In thousands of won)

| | | 2016 | | | | |
|--------------------------|---|--|--------------------------------|---------------------------------|--------------------|--------------------|
| | | Financial liability measured at amortized cost | Financial liabilities at FVTPL | Derivatives designated to hedge | Total | Fair value |
| Trade and other payables | ₩ | 641,244,202 | - | - | 641,244,202 | 641,244,202 |
| Borrowings | | 194,467,721 | - | - | 194,467,721 | 194,467,721 |
| Derivative liabilities | | - | 2,833,061 | 2,965,745 | 5,798,806 | 5,798,806 |
| | ₩ | <u>835,711,923</u> | <u>2,833,061</u> | <u>2,965,745</u> | <u>841,510,729</u> | <u>841,510,729</u> |

(In thousands of rupee)

| | | 2017 | | | | |
|--------------------------|----|--|--------------------------------|---------------------------------|-------------------|-------------------|
| | | Financial liability measured at amortized cost | Financial liabilities at FVTPL | Derivatives designated to hedge | Total | Fair value |
| Trade and other payables | Rs | 42,912,371 | - | - | 42,912,371 | 42,912,371 |
| Borrowings | | 13,985,705 | - | - | 13,985,705 | 13,985,705 |
| Derivative liabilities | | - | 24,477 | - | 24,477 | 24,477 |
| | Rs | <u>56,898,076</u> | <u>24,477</u> | <u>-</u> | <u>56,922,553</u> | <u>56,922,553</u> |

(In thousands of rupee)

| | | 2016 | | | | |
|--------------------------|----|--|--------------------------------|---------------------------------|-------------------|-------------------|
| | | Financial liability measured at amortized cost | Financial liabilities at FVTPL | Derivatives designated to hedge | Total | Fair value |
| Trade and other payables | Rs | 38,351,926 | - | - | 38,351,926 | 38,351,926 |
| Borrowings | | 11,630,845 | - | - | 11,630,845 | 11,630,845 |
| Derivative liabilities | | - | 169,441 | 177,377 | 346,818 | 346,818 |
| | Rs | <u>49,982,771</u> | <u>169,441</u> | <u>177,377</u> | <u>50,329,589</u> | <u>50,329,589</u> |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

(3) Financial risk management

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

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

1) Market risk

a. Foreign exchange risk

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

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

(In thousands of won and in thousands of rupee)

| Currency | Korean won | | Indian rupee | |
|----------|---------------|----------------|--------------|--------------|
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD | ₩ 3,218,890 | (3,218,890) Rs | 192,517 | (192,517) |
| EUR | (1,943,060) | 1,943,060 | (116,212) | 116,212 |
| JPY | (8,572,184) | 8,572,184 | (512,690) | 512,690 |
| Others | 917,579 | (917,579) | 54,879 | (54,879) |
| | ₩ (6,378,775) | 6,378,775 Rs | (381,506) | 381,506 |

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

(In thousands of won and in thousands JPY)

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

(3) Financial risk management, continued

b. Interest rate risk

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

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

2) Credit risk

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

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

The Company estimates allowances for doubtful accounts (default, liquidation, bankruptcy, court receivership, workout, disappearance, full-scale capital erosion, etc.) through individual analysis for the receivables that are over more than 90 days

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

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

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

(In thousands of won and in thousands of rupee)

| | Korean won | | Indian rupee | |
|-------------------------------|-------------|-------------|---------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Trade and other receivables ₩ | 249,625,174 | 276,024,854 | Rs 14,929,735 | 16,508,664 |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

(3) Financial risk management, continued

3) Liquidity risk

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

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

(In thousands of won)

| | 2017 | | |
|--------------------------|----------------------|--------------------|--------------------|
| | Within a year | Over 1 year | Total |
| Trade payables | ₩ 526,467,392 | - | 526,467,392 |
| Other payables | 186,726,912 | - | 186,726,912 |
| Short-term borrowings(*) | 165,030,362 | - | 165,030,362 |
| Derivatives liabilities | 409,259 | - | 409,259 |
| Other payables | 926,535 | - | 926,535 |
| Long-term borrowings(*) | - | 75,719,767 | 75,719,767 |
| Long-term other payables | - | 3,374,008 | 3,374,008 |
| | ₩ 879,560,460 | 79,093,775 | 958,654,235 |

(*) Including expected interest expenses.

(In thousands of won)

| | 2016 | | |
|--------------------------|----------------------|--------------------|--------------------|
| | Within a year | Over 1 year | Total |
| Trade payables | ₩ 482,375,280 | - | 482,375,280 |
| Other payables | 152,502,510 | - | 152,502,510 |
| Short-term borrowings(*) | 183,588,225 | - | 183,588,225 |
| Derivatives liabilities | 5,798,806 | - | 5,798,806 |
| Other payables | 859,341 | - | 859,341 |
| Long-term borrowings(*) | - | 13,145,534 | 13,145,534 |
| Long-term other payables | - | 5,507,071 | 5,507,071 |
| | ₩ 825,124,162 | 18,652,605 | 843,776,767 |

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

(3) Financial risk management, continued

3) Liquidity risk, continued

(In thousands of rupee)

| | | 2017 | | |
|--------------------------|----|----------------------|--------------------|-------------------|
| | | Within a year | Over 1 year | Total |
| Trade payables | Rs | 31,487,284 | - | 31,487,284 |
| Other payables | | 11,167,878 | - | 11,167,878 |
| Short-term borrowings(*) | | 9,870,237 | - | 9,870,237 |
| Derivatives liabilities | | 24,477 | - | 24,477 |
| Other payables | | 55,415 | - | 55,415 |
| Long-term borrowings(*) | | - | 4,528,694 | 4,528,694 |
| Long-term other payables | | - | 201,795 | 201,795 |
| | Rs | <u>52,605,291</u> | <u>4,730,489</u> | <u>57,335,780</u> |

(In thousands of rupee)

| | | 2016 | | |
|--------------------------|----|----------------------|--------------------|-------------------|
| | | Within a year | Over 1 year | Total |
| Trade payables | Rs | 28,850,196 | - | 28,850,196 |
| Other payables | | 9,120,964 | - | 9,120,964 |
| Short-term borrowings(*) | | 10,980,157 | - | 10,980,157 |
| Derivatives liabilities | | 346,819 | - | 346,819 |
| Other payables | | 51,396 | - | 51,396 |
| Long-term borrowings(*) | | - | 786,216 | 786,216 |
| Long-term other payables | | - | 329,370 | 329,370 |
| | Rs | <u>49,349,532</u> | <u>1,115,586</u> | <u>50,465,118</u> |

(*) Including expected interest expenses.

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

(In thousands of won and in thousands of rupee)

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

(4) Fair value of financial instruments

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

2) Valuation methods and assumptions applied in fair value measurement

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

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

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

33. Financial Instruments, Continued

(4) Fair value of financial instruments, continued

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

(In thousands of won)

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

(In thousands of rupee)

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

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

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

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016

Independent Auditors' Review Report on Internal Accounting Control System

English Translation of a Report Originally Issued in Korean

To the President of
Ssangyong Motor Company:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Ssangyong Motor Company (the "Company") as of December 31, 2017. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment result, I believe that the Company's Internal Accounting Management System, as of December 31, 2017, is effectively designed and operating, in all material respects, in conformity with the best practice guideline."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of separate financial statements for external purposes in accordance with K-IFRS. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2017 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2017. We did not review the Company's IACS subsequent to December 31, 2017. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

March 16, 2018

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of and for the year ended December 31, 2017 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

SSANGYONG MOTOR COMPANY
Notes to the Separate Financial Statements

For the years ended December 31, 2017 and 2016


Report on the operations of the Internal Accounting Management System

To the Audit Committee of Ssangyong Motor Company

I, as the Internal Accounting Manager ("IAM") of Ssangyong Motor Company ("the Company"), assessed the effectiveness of the design and operation of the Company's Internal Accounting Management System ("IAMS") for the year ending December 31, 2017.

The Company's management, including myself, is responsible for designing and operating an IAMS. I assessed the design and operational effectiveness of the IAMS in the prevention and detection of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable financial statements. I followed the Best Practice Guideline to assess the effectiveness of the IAMS design and operation.

Based on the assessment results, I believe that the Company's IAMS, as of December 31, 2017, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline.


February 13, 2018
Internal Accounting Manager
Vasudev Tumbe (Signature)

