Kia Motors Slovakia s.r.o.

ANNUAL REPORT 2016

The Power to Surprise

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FOREWORD

In December 2016, Kia Motors Slovakia celebrated the 10th anniversary of the launch of passenger car production in Slovakia. During the past decade more than 2.5 million vehicles and 3.8 million engines have left the production lines. The mentioned period represents an era of continuous growth and development in the company's history during which the annual production capacity has gradually increased to current 350,000 vehicles.

Last year was the seventh consecutive year in which the production was increased. In total, 339,500 vehicles and 612,915 engines were produced. The fourth generation of Kia Sportage, having dominated production quantity with nearly two thirds since the launch of volume production in December 2015, has become the main reason of success. Production of one of the most selling CUVs in Europe recorded over 10 percent rise year-on-year.

Record breaking production has also been confirmed by performance of our models in the reliability and quality tests. Among many, a particularly significant success of Sportage in a reliability survey of the reputable research company J.D. Power on the German market stands out when in competition with 24 brands and 68 models it came in first place. Its dominance was also affirmed by a victory in 100,000 km long-term durability tests of the renowned German automotive magazines Auto Motor und Sport and AutoBild. In both long-term tests the third generation achieved zero-defect results.

Kia Motors Slovakia is one of the most significant companies in the country in many aspects. On a long-term basis, it has belonged to the top producers, employers and exporters, as well as contributors to the state budget. Achieved production and business results were highlighted with the National Quality Award in 2016 awarded by the Slovak Office of Standards, Metrology and Testing. At the same time, our company was evaluated as a Leading HR Organisation among automotive companies in Slovakia by PricewaterhouseCoopers Slovensko four times in a row.

All of the mentioned results would be difficult to achieve without challenge and passion of our employees. Combination of their everyday effort together with a unique innovation system gives our company a particular competitiveness advantage. Huge acknowledgement belongs also to all of our suppliers and business partners thanks to whom we are able to provide the top quality cars and fulfil our ambitious goals continuously.

Eek Hee Lee
President and CEO
Kia Motors Slovakia


F.I.L 09
F.I.L 08
F.I.L 07

KEY EVENTS IN KIA MOTORS SLOVAKIA'S HISTORY

2004
March
Investment Agreement between KMC and the Slovak Republic
October
Plant construction launched

2006
December
Production of cee'd

2007
June
Sportage production
November
ISO 14001 certificate

2008
November
ISO 9001 certificate

2010
June
3rd generation Sportage

2011

September
Production in Engine shop II

October
Production of Venga

2012

April
2nd generation cee'd

December
STN OHSAS 18001 certificate

2013

May
cee'd GT and pro_ cee'd GT production

2014

October
National Productivity Award 2013

November
Slovak Gold Exclusive quality certificate

2015

November
4th generation Sportage

2016

November
Slovak National Quality Award 2016

KIA MOTORS SLOVAKIA

Company Profile

On March 18, 2004, Kia Motors Corporation officially confirmed the construction of its first European automotive plant in Slovakia. Kia Motors Slovakia s.r.o. (hereinafter referred to as "Kia Motors Slovakia") is a company 100 percent owned by Kia Motors Corporation. The main activity is the production of motor vehicles including engines. The registered capital is in the amount of 433,322,934.01 EUR. In 2016, the company executives were Eek Hee Lee and Jun Gyu Lee.

The volume production at Kia Motors Slovakia started in December 2006. The plant currently manufactures Kia cee'd of lower middle class in three car body versions, the CUV model Kia Sportage, and the MPV representative Kia Venga.

Company Executives

Eek Hee Lee

President and CEO

Eek Hee Lee studied at the University of Ulsan, South Korea, and successfully graduated in the field of Mechanical Engineering in 1979. He started his career with Hyundai Group in 1981. After several years, he joined the car production plant in Ulsan as Director of Production Management until 2004.

Later, Mr. Lee began to work for the Hyundai Motor Company Headquarters where he became responsible for Strategic Planning and Global Production Management. As a highly skilled professional, he became the President and CEO of Kia Motors Slovakia in December 2011. He is authorized to act solely as a statutory body of Kia Motors Slovakia.

Jun Gyu Lee

Chief Financial Officer, Head of Business Management Division

In 1991, Jun Gyu Lee graduated from Sogang University in Seoul, South Korea, specializing in Business Administration. Three years later, he started to work for Hyundai Motor in Foreign Capital Management. In 2010, Jun Gyu Lee joined Kia Motors Corporation and worked with the Global Accounting department. Mr. Lee has been working at Kia Motors Slovakia since March 2015 as CFO and Head of Business Management division. He is authorized to act solely as a statutory body of Kia Motors Slovakia.

Kia Motors Corporation

Kia Motors Corporation is a maker of world-class quality vehicles for the young-at-heart. The company was founded in 1944 and is Korea's oldest manufacturer of motor vehicles. Over three million Kia vehicles a year are produced at 14 manufacturing and assembly operations in five countries. In 2016, Kia Motors sold 3,007,976 vehicles through a network of distributors and dealers covering 180 countries thus conquering the three-million mark for the first time. The global value of the Kia Motors brand has grown by 12 percent over the last year, according to Interbrand's exclusive list of the 100 'Best Global Brands'. According to the 2016 study, Kia has risen to the 69th most valuable brand in the world. The Korean manufacturer's estimated brand value grew from 5.7 billion USD in 2015 to 6.3 billion USD in 2016. As of December 31, 2016, Kia Motors employed 51,443 employees worldwide. Its annual revenues represent 52,713 billion KRW. Kia Motors Corporation's brand slogan – "The Power to Surprise" – represents the company's global commitment to surprise the world by providing exciting and inspiring experiences that go beyond expectations.

Kia Motors Slovakia in 2016

- Export: 95 countries
- 339,500 cars
- 612,915 engines
- Sportage 64%, cee'd 28%, Venga 8%
- 56% of Kia EU* sales made in KMS
- Export: UK 16%, Germany 9%, Russia 9%
- Most popular engine: 1.7 L diesel 24%
- Profit after taxes: 213,991 thousand EUR
- Revenue: 5,566,181 thousand EUR

* EU and EFTA member states

Yearly car production (units)

YEAR	PRODUCTION
2006	5,015
2007	145,078
2008	201,507
2009	150,021
2010	229,505
2011	252,252
2012	292,050
2013	313,000
2014	323,720
2015	338,020
2016	339,500

Yearly engines production

YEAR	PRODUCTION
2006	2,882
2007	114,499
2008	176,934
2009	244,407
2010	320,977
2011	359,588
2012	464,480
2013	491,046
2014	493,141
2015	582,238
2016	612,900

Goals and forecasts for 2017

In recent years, car sales have stabilized on the European market and gradually reached the pre-crisis level of 2008. Despite the positive sales trend on markets in several European countries, vehicle demand on Kia Motors Slovakia's two key markets will depend on political decisions. The EU economic sanctions against the Russian Federation remain in place, which is why a continuous negative impact on the purchasing power of the local population can be expected. The impact of Brexit from the single European market will be known after the final agreement on arrangement of its trade relations with the EU. The depreciation of the British pound may have a negative impact on the economic results of our company in the near future.

During 2016 Kia Motors Slovakia invested 60 million euros in its plant. Another 130 million euros will be used in 2017 to adapt production lines for production of a new model and engine. The business plan of Kia Motors Slovakia counts with production of 335,000 cars. During the upcoming year, employee's training in relation to the planned production of a new model will be organized. Besides them, another around 240 operators and engineers are going to get training on the new model directly at the Research and Development Centre in Namyang, South Korea. The main educational focus will again remain on technical skills and management competencies.

Despite the unfavourable situation on the labour market over the last year we managed to secure the necessary staff to cover the continuous production. Finding suitable candidates with appropriate qualifications and work habits is increasingly challenging. In case of further deterioration on the labour market, Kia Motors Slovakia is ready to expand its recruitment activities also outside the Zilina region. In terms of employee health protection, several activities focused on preventing damage of health, evaluation factors at workplace and work, ergonomics and regular medical check-ups were carried out last year. In 2017, attention will be aimed at further development of ergonomics, start of rehabilitation program for employees as well as creating a single electronic system for more efficient data collection in the field of health and safety.

Product Line-Up

Kia Sportage

Last year, the CUV Kia Sportage was Kia's most sold model in Europe. In November 2015, production of the fourth generation with improved driving experience and higher comfort was launched. It acquired the maximum of five stars in the Euro NCAP safety rating. For customers expecting sportier drive, a GT Line edition comes in handy.

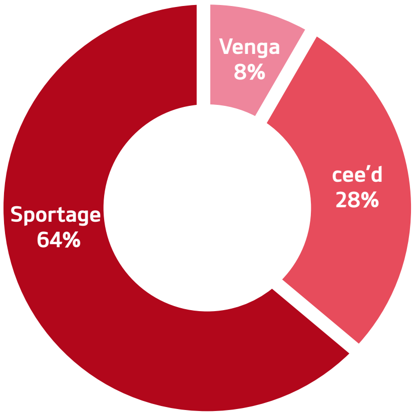
The model Sportage is sold as a front-wheel drive with a six-speed manual gearbox in combination with gasoline 1.6-litre GDI (GDI 97 kW or T-GDI 130 kW) or diesel 1.7-litre (85 kW) or 2.0-litre (100 kW) engines. The all-wheel drive variant comes with gasoline 1.6-litre T-GDI (130 kW) and diesel 2.0-litre CRDi (100 kW or 136 kW) engines. For 2.0-litre engines, a six-speed automatic or manual gearbox can be chosen from. The Kia Sportage also comes with a seven-speed dual-clutch transmission. It is offered only with the new 1.6-litre T-GDI engine with 130 kW or 1.7-litre diesel engine (104 kW). The 2.4-litre (135 kW) engine available in combination with the six-speed automatic transmission completes the all-wheel drive Sportage portfolio.

Kia cee'd

The Kia cee'd family of the C-segment has successfully applied itself with European customers ever since 2006. Kia cee'd comes in three body versions: five-door hatchback, three-door sporty pro_cee'd, and family Sportswagon. From the first half of 2015, a product enhanced version of its second generation has been manufactured. For those who enjoy a sporty ride, two high-performance versions are at hand: Kia cee'd GT and Kia pro_cee'd GT powered by 1.6-litre turbocharged GDI gasoline engine delivering 150 kW. The modern cee'd also comes in a GT Line that attracts customers with its sporty look and dynamic attributes of the GT version. The GT Line comes in three body versions. At the moment, each of the body versions of Kia cee'd is available in two gasoline engines: 1.4-litre (73 kW) and 1.6-litre (99 kW) as well as two diesel engines: 1.4-litre (66 kW) and 1.6-litre (81 kW and 100 kW). The 1.0-litre T-GDI (73 kW or 88 kW) is at disposal, too.

Kia Venga

The spacious mini MPV designed and produced only for European customers completes the product line-up rolling off the production lines at Kia Motors Slovakia. Venga as well as cee'd are both produced exclusively in the Slovak plant. It passed strict reliability and durability tests and is a product with stable position in the production portfolio. Since October 2014, a product enhanced version with a new face and more modern interior has been available. Currently, the model comes with two gasoline 1.4-litre (66 kW) and 1.6-litre (92 kW) in addition to two diesel 1.4-litre (66 kW) and 1.6-litre (85 kW) engines.



Engines

In 2016, Kia Motors Slovakia manufactured a record 612,900 engines representing a 5 percent year-on-year increase. More than half of all produced engines were exported. The single most built engine was the 1.7-litre diesel accounting for 24 percent of all customer orders. Diesel engines constituted over 50 percent of the total engine production. The plant currently assembles 1.4-litre and 1.6-litre as well as 1.6-litre GDI and T-GDI gasoline engines. The company also produces 1.4-litre, 1.6-litre, 1.7-litre, and 2.0-litre diesel engines.

Production Process

Press shop

2 press lines

86 types of panels

20-second panel production

5 million panels annually

Body shop

100% welding automatization

354 robots

Capacity **8** types of car bodies

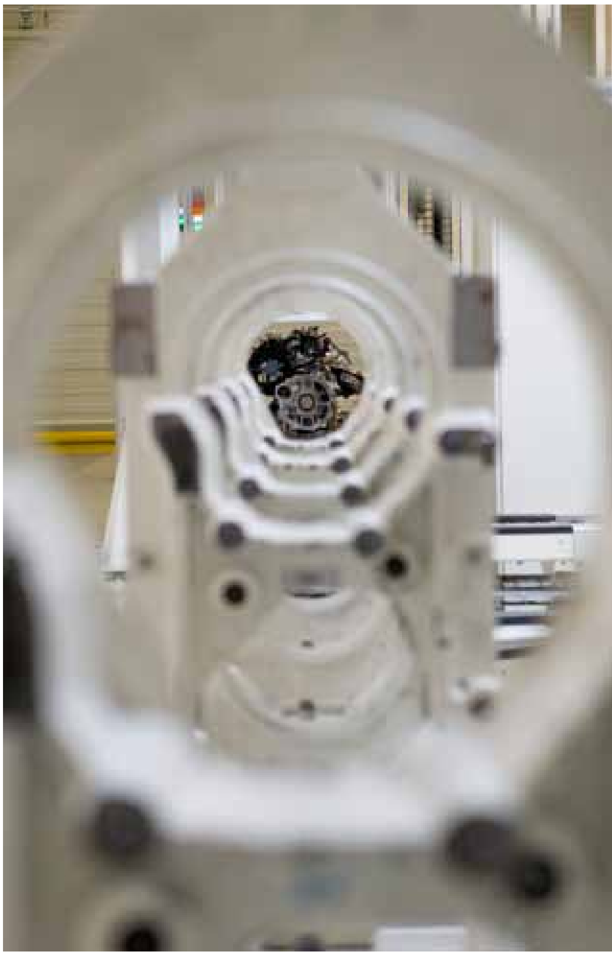
Paint shop

360º Ro-Dip conveyor system

7.5 km conveyor system

80 robots

14 colour options



Engine shop

5 gasoline engines

4 diesel engines

7 metal cutting lines

2 assembly lines

Assembly shop

Area **18** football pitches

225 working stations

43% modularization

3.5 km test track

SUSTAINABLE DEVELOPMENT

Environmental Aspects

An Environmental Management System at Kia Motors Slovakia is based on corporate social responsibility principles valid for the whole HYUNDAI MOTOR GROUP divided into economical, societal and environmental responsibility. The company implements management systems in order to achieve its environmental responsibility as an outstanding carmaker.

Environmental strategy is based on the key factors such as minimization of climate change effect, reduction of gas emission, recyclability increase and fulfilment of clean production.

Throughout the whole manufacturing process, Kia Motors Slovakia takes environment into consideration focusing on car production and R&D activities which are environmentally friendly. Evidence of such behaviour is shown in the implementation of the Environmental Management System, which was certified according to the international standard ISO 14001. Among others are certificates received for manufactured car models: LCA - Life Cycle Assessment based on ISO 14040 and Integrating environmental aspects into product design and development based on ISO 14062.

The company is a member of several national and international environmental groupings, e.g. membership in the legislative committee of Automotive Industry Association of the Slovak Republic, working groups of ACEA (industrial emissions, process chemicals, REACH), etc.

The Environmental Management System commits the company to comply not only with the required legislation, but also to a constant improvement of environmental protection, regular evaluation of environmental performance and growth in environmental awareness of all employees. An important part of the system is regular monitoring and evaluation of consumption of water, energy, materials as well as the amount of waste, waste waters and emissions over the period of one car production, and acceptance of environmental goals for their reduction.

The Kia manufacturing plant reduces its long-term impact on the environment. While using the electric energy in the main plant, the energy effectivity has been improved by 17 percent due to implementation of innovative solutions. Also decreased consumption of natural gas has been recorded thanks to which the amount of CO_2 emitted during the car production was reduced by 13 percent in the same period. Kia has confirmed its responsible approach towards the environment by planting 1,258 trees on its premises in Teplicka nad Vahom.

The goal of Kia Motors Slovakia is to proceed in the development of environmental management because environmental protection is a key to a successful business and sustainable development.

Human Resources

As of December 31, 2016, the plant employed a total of 3,625 people, while the average age reached 35 years. The human resources policy at Kia Motors Slovakia stands on the following basic pillars: employee care, transparent communication with employees on horizontal level, highly competitive remuneration system, wide range of benefits usable in free time as well as improvement of conditions for employees. Since 2005, a unique concept of counselling rooms so-called Harmony rooms have been utilized; Harmony rooms are located directly in production shops, through which employees have an opportunity to actively participate in improvement of the working environment and relationships in the workplace. Every year the company organizes events for its employees and their family members; the most significant ones being the Kia Family Day and Parents' Day. In order to increase the level of care for its employees and offer assistance in overcoming personal difficulties, the company prepared a new program of psychological counseling available from December 2016. The idea behind the concept is to help employees conquer any stress related to their person and achieve harmony.

In 2016, a consulting firm Price-waterhouseCoopers Slovensko recognized Kia Motors Slovakia as a Leading HR Organization with the most effective management of human resources and best practices in the field of personnel management in Slovakia in the contest the company has won four times in a row.

Education of Employees

Kia Motors Slovakia has, since its inception, focused on the personal and professional growth of its employees, which the company considers a key to its success. Last year, production and administrative employees attended 345 different types of trainings, including trainings required by law. The goal of all trainings was to improve their skills and increase their expertise as well as strengthen the work and management competencies.

Kia Motors Slovakia also organizes trainings in cooperation with the parent company Kia Motors Corporation. The main objective is to acquire necessary skills and technical knowledge required for production of new models. In 2016, 91 employees attended trainings in South Korea. Throughout the year 2016, Kia Motors Slovakia's employees were trained for 41,986 hours altogether. For employees with best work results Kia organizes a motivational program Kia Spirit every year in South Korea; last year, 60 of them participated in the program. Kia Motors Slovakia has its own Training Centre in the village of Gbelany.

Safety and Occupational Health in 2016

In 2016, several activities in the field of occupational health were carried out focusing on prevention against health damage of employees, especially through medical exams, field evaluation factors of work and workplaces as well as ergonomics. Throughout the year, orientation exams with electromyograph and perimeter were launched at the company's doctor's office, which optimize conditions for selection of employees for certain positions.

This year, in the area of field evaluation of work factors, the company focused on re-evaluation of all positions in the plant that are in contact with chemical agents. At the same time, in cooperation with production related departments and based on results from measurement of work factors (noise, vibration and physical load), a uniform so-called healthiest possible rotation of positions was established during a shift in four production shops, according to which the Regional Office of Public Health in Zilina categorized positions to one of the four work categories.

In ergonomics we successfully managed to improve workplaces, e.g. by supplementing ergonomic pads for underneath the feet and exchanging or determining processes of repairing vibration tools. Moreover, Kia Motors Slovakia purchased ergonomic software that we plan to start using in 2017, thereby contributing to analysis of problematic places and positions in terms of physical load. Suggested solutions of problematic places will be consulted and applied by members of a work group created in 2016 to make workplaces even more effective from ergonomics point of view.

Due Fulfilment of Obligations

Kia Motors Slovakia follows and fulfils all legal obligations, such as filing reports and payment of taxes, insurance and all other obligations under VAT, customs duties and employee-related duties. The company observes the obligations under the statutory audit act, whereby the legally stipulated functions of the audit committee rest with the company's supervisory board. Investment reports about the fulfilment of obligations connected with the drawing of state aid are prepared on a regular basis and provided to the Ministry of Economy of the Slovak Republic. Kia settled all due claims and due liabilities towards all state authorities by December 31, 2016.

Cooperation with Schools

Kia Motors Slovakia has cooperated actively with secondary vocational schools in the Zilina region since 2007; since then it has enabled more than 700 students to obtain practical experience in its production facilities.

In the 2016/2017 school year, 39 students finished vocational practical training in the Kia plant.

In the 2016/2017 school year, Kia is participating in the dual education system for the first time. Twenty-two students in total from the Secondary Vocational Engineering School in Kysucke Nove Mesto will graduate in the following specializations: Mechanical specialist of car production and Programmer of machining and welding tools and devices. The students have not only been receiving practical experience with the most attractive employer in the Zilina region, they are also going to be guaranteed a working position after their graduation.

Six secondary students and two university students have joined the scholarship program at Kia Motors Slovakia in the 2016/2017 school year. Conditions for obtaining scholarships were excellent study results and practical vocational training during their studies.

Kia Motors Slovakia offers plant tours of its production shops to secondary vocational school students and technical university students. In 2016, 3,422 students accompanied by their teachers visited the production plant.

Philanthropy

In 2016, Kia Motors Slovakia continued to realize its intention to be a responsible partner for organizations and inhabitants of the Zilina Self-Governing Region by supporting various philanthropic activities. The company supported 181 projects via Kia Motors Slovakia Foundation with the total amount of EUR 1,614,726 (for more information, please see the 2016 Annual Report of Kia Motors Slovakia Foundation). The company also donated a financial amount of EUR 375,000 for direct realization of projects. The primary fields of support in 2016 were self-realization of disabled sportsmen, equal opportunities for minority groups, increase of environmental stability and safety, education, culture, development of sports and volunteering of the company employees. Development of education and sports with focus on children and youth remains the target of the foundation in 2017.

A significant part of the corporate responsibility of Kia Motors Slovakia is the company's volunteering program: blood donation, support of 20 non-profit organizations via volunteering or help with reconstruction of Zilina Faculty Hospital. In 2016, Kia volunteers worked for 1,875 hours altogether. In the same year, 69 of our employees participated in the largest volunteering event in Slovakia titled Our City, which benefited 10 various organizations in the Zilina region in one day. In 2016, Kia Motors Slovakia Foundation in cooperation with the National Blood Transfusion Service organized three blood donations for administrative employees. The most precious body fluid was donated 57 times. Voluntary blood donations have been organized in Kia Motors Slovakia since 2007.

Corporate Philosophy

Since its establishment, HYUNDAI MOTOR GROUP has been guided by its philosophy and values, and has flourished by keeping these intact in the organization. In 2011, Kia Motors Slovakia adopted the corporate philosophy and believes that its growth into a global company could not have been possible without our management philosophy and horizontal principles that stress trust based, on-site, and transparent management. Effective as of March 1, 2014, Kia Motors Slovakia established a system for handling motions and investigation of allegations of unethical behaviour of the company employees.

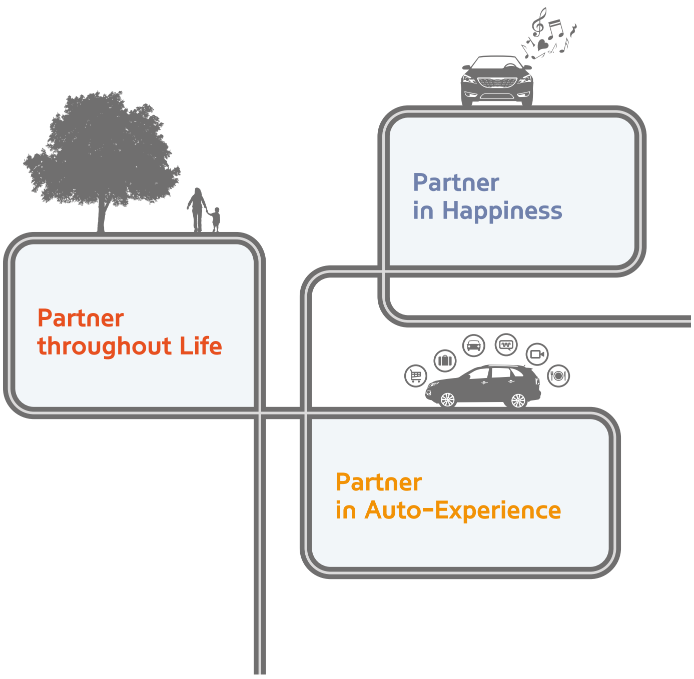
Kia Motors fulfils corporate philosophy representing the values which have to be kept, the direction we want to take, and a clear vision of our future. Endowed with an intrinsic passion for success, we pledge to work together toward our new vision and aspiration for 2020. A company's management philosophy is the answer to why the HYUNDAI MOTOR GROUP exists, and is a tenet that should be deeply embedded in the minds and actions of employees.

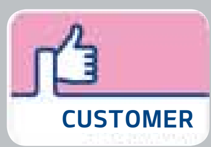
The five core values defined as part of our new corporate philosophy are principles that have existed in us throughout our history, and are principles that all employees promise to further foster in our organization.

Together for a better future.

VISION 2020

Lifetime partner in automobiles and beyond





We promote a **customer**-driven corporate culture by providing the best quality and impeccable service.

We embrace every opportunity for greater **challenge**, and are confident in achieving our goals.

We are focused on mutual communication and **collaboration** within the company and with our business partners.

We respect the diversity of cultures and customs and strive to become a respected **global** corporate citizen.

We believe the future of our organization lies in the hearts and capabilities of **people,** and will help them develop their potential by creating a corporate culture that respects talent.

QUALITY MANAGEMENT SYSTEM

Customer satisfaction is a top priority for Kia Motors Slovakia and all its employees. Qualified and educated employees ensure the highest quality level throughout the whole production process, from the very beginning of production planning through car production all the way to final quality control of newly manufactured vehicles prepared for export to customers. Almost 400 employees ensure the quality of vehicles during the manufacturing process to only deliver safe and reliable cars of high quality.

Automobiles produced at Kia Motors Slovakia meet the high demands of the European Union and countries they are exported to. All engines assembled into the plant's products distributed in the European Union comply with the Euro 6 emission standard. Engines exported to the Russian Federation comply with the Euro 5 emission standard. Moreover, all vehicles manufactured in the plant received top crash test safety ranking - five stars - in Euro NCAP. Models manufactured in the Slovak Kia plant have achieved success across the whole of Europe. Among the most significant ones is the win of the third generation of Kia Sportage in the Vehicle Dependability Study conducted in Germany by the renowned J.D. Power association. Model Sportage ranked first among 24 brands and 68 models. Its dominance was ensured with a win in the 100,000-kilometre long term tests in acclaimed German automotive magazines Auto Motor und Sport and AutoBild.

Apart for product quality, focus is turned to improvement of a management system. The Quality Management System at Kia Motors Slovakia was recertified by an independent certification body DNV GL according to ISO 9001:2008 in 2014. In 2016, a historically highest value of customer satisfaction with quality of our vehicles was recorded. Continuous improvement of all processes within the company in order to achieve maximum customer satisfaction ensured the company a win in the most prestigious quality award in Slovakia - the 2016 National Quality Award of the Slovak Republic. In 2017, Kia Motors Slovakia will prepare for recertification according to a new ISO 9001:2015 standards planned for October 2017.

Národná cena Slovenskej republiky za kvalitu

VÍŤAZ

2016

6. Financial Overview

Income Statement In TEUR

	2016	2015
Revenue	5,566,181	5,073,403
Cost of sales	-5,031,643	-4,464,096
Gross profit	**534,538**	**609,307**
Administrative and selling expenses	-272,912	-303,184
Operating profit	**261,626**	**306,123**
Interest costs	-1,968	-2,200
Interest income	1,379	2,831
Other financial (expense)/income, net	-4,220	-9,869
Net finance costs	**-4,809**	**-9,238**
Other operating income/(expenses), net	23,356	-26,647
Profit before taxes	**280,173**	**270,238**
Current and deferred income tax	-66,182	-60,100
Total comprehensive income for the year	**213,991**	**210,138**

Statement of changes in share capital

In TEUR

Capital increasing	Amount	Contributions of capital	EUR
Balance as of 1.1.2016	**433,323**		**EUR**
Balance as of 31.12.2016	**433,323**		**EUR**

Balance sheet

In TEUR

	31 December 2016	31 December 2015
Assets		
Non-current assets	652,390	730,533
Current assets	1,507,047	1,459,483
Total assets	**2,159,437**	**2,190,016**
Equity		
Issued capital	433,323	433,323
Legal reserve fund and accumulated profit	467,462	418,347
Total equity	**900,785**	**851,670**
Liabilities		
Non-current liabilities	604,688	497,530
Current liabilities	653,964	840,816
Total liabilities	**1,258,652**	**1,338,346**
Total equity and liabilities	**2,159,437**	**2,190,016**

Distribution of profit

The general meeting will decide on the distribution of profit in the amount of 213,991 TEUR for the year 2016 accounting period. The proposal presented by the statutory body to the general meeting is as follows:
- No contribution to reserve fund.
- Distribution of the remaining amount will be decided on general meeting.

The general meeting will be held in March 2017.

7. Yearly Closing

Statement of financial position as at 31 December 2016

in TEUR

	Note	31 December 2016	31 December 2015
Assets			
Property, plant and equipment	11	568,861	646,953
Intangible assets	12	4,044	3,882
Prepaid royalty expense	13	4,904	24,519
Deferred tax assets	15	74,581	55,179
Total non-current assets		**652,39**	**730,533**
Inventories	16	307,866	316,936
Trade and other accounts receivable	17	863,791	946,068
Cash and cash equivalents	18	53,939	35,287
Prepaid expenses	13	19,774	19,783
Intercompany loan receivable	19	259,891	99,674
Finance lease receivable	14	-	557
Income tax receivable		1,786	41,178
Total current assets		**1,507,047**	**1,459,483**
Total assets		**2,159,437**	**2,190,016**
Equity			
Issued capital	20	433,323	433,323
Legal reserve fund	20	43,332	43,332
Accumulated profit		424,13	375,015
Total equity		**900,785**	**851,67**
Liabilities			
Interest-bearing loans and borrowings	21	190,396	111,448
Provisions	22	414,292	386,082
Total non-current liabilities		**604,688**	**497,53**
Interest-bearing loans and borrowings	21	16,064	29,434
Trade and other accounts payable	23	443,452	689,300
Provisions	22	194,448	122,082
Total current liabilities		**653,964**	**840,816**
Total liabilities		**1,258,652**	**1,338,346**
Total equity and liabilities		**2,159,437**	**2,190,016**

Statement of cash flows for the year ended 31 December 2016

in TEUR

Cash flows from operating activities	Note	2016	2015
Profit for the year		213,991	210,138
Adjustments for:			
Depreciation of property, plant and equipment and intangible assets, net of amortisation of state aid	11, 12	105,102	107,109
Value adjustment for inventories		80	-17,598
Scrap of property on retirement		92	255
Interest costs	8	1,968	2,200
Interest income	8	-1,379	-2,831
Unrealized FX losses		1,152	20,607
Unrealized FX gains		-14,936	258
Warranty provisions charges	22	117,568	145,150
Other provision charges, net of actual costs	22	52,083	-44,644
Warranty provision reversal	22	–	-3,500
Release of prepaid royalty	6	19,616	20,715
Tax expense	10	66,182	60,100
Gain on/(loss from) sale of property, plant and equipment		-599	554
Operating profit before changes in working capital items		**560,920**	**497,997**
Decrease/(Increase) in inventories	16	8,990	-17,244
Decrease/(Increase) in trade and other receivables and prepaid expenses	13, 17	95,849	-225,845
(Decrease)/Increase in trade and other payables	23	-245,855	223,665
Cash generated from operating activities		**419,904**	**478,573**
Interest paid from financing receivables, overdrafts and other		-387	–
Interest received from on bills of exchange and bank deposits		1,236	2,767
Tax paid		-46,192	-124,753
Warranty claims	22	-69,074	-70,063
Net cash generated from operating activities		**305,487**	**286,024**
Cash flows from investing activities			
Acquisition of property, plant and equipment	11	-26,201	-116,606
Acquisition of intangible assets	12	-1,712	-887
Receipt of finance lease payments including interest	14	559	6,713
Provision of intercompany loan	19	-160,217	-54,892
Proceeds from sale of non-current assets		1,247	287
Interest received from intercompany loan		368	623
Net cash (used for) investing activities		**-185,956**	**-164,762**
Cash flows from financing activities			
Finance lease payments including interests	21	-3,491	-4,189
Repayment of long-term bank loans	21	-26,250	-36,719
Payment of dividend		-164,876	-173,238
Interest paid on long-term bank loans		-1,262	-1,616
Receipt of long-term bank loan	21	95,000	80,000
Net cash (used for) financing activities		**-100,879**	**-135,762**
Net increase/(decrease) in cash and cash equivalents		18,652	-14,500
Cash and cash equivalents at beginning of the period	18	35,287	49,787
Cash and cash equivalents at end of the period	18	**53,939**	**35,287**

Statement of comprehensive income for the year ended 31 December 2016

in TEUR

	Note	2016	2015
Revenue	5	5,566,181	5,073,403
Cost of sales	6	-5,031,643	-4,464,096
Gross profit		**534,538**	**609,307**
Administrative and selling expenses	7	-272,912	-303,184
Operating profit		**261,626**	**306,123**
Interest costs		-1,968	-2,2
Interest income		1,379	2,831
Other financial expense, net		-4,22	-9,869
Net finance costs	8	**-4,809**	**-9,238**
Other operating income/(expense)	9	23,356	-26,647
Profit before taxes		**280,173**	**270,238**
Current and deferred income tax	10	-66,182	-60,1
Profit for the year		**213,991**	**210,138**
Other comprehensive income		–	–
Total comprehensive income for the year		**213,991**	**210,138**

Statement of changes in equity for the year ended 31 December 2016

in TEUR

	Note	**Share capital**	**Legal reserve fund**	**Retained earnings**	**Total**
		(Note 20)	(Note 20)		
Balance as of 1 January 2015		433,323	30,154	351,293	814,770
Total comprehensive income for the year		–	–	210,138	210,138
Legal reserve fund transfer		–	13,178	-13,178	–
Dividend distribution		–	–	-173,238	-173,238
Balance as of 31 December 2015	20	**433,323**	**43,332**	**375,015**	**851,670**
Balance as of 1 January 2016		433,323	43,332	375,015	851,670
Total comprehensive income for the year		–	–	213,991	213,991
Dividend distribution		–	–	-164,876	-164,876
Balance as of 31 December 2016	20	**433,323**	**43,332**	**424,130**	**900,785**

Notes to the financial statements for the year ended 31 December 2016

1. General information about the Company

Kia Motors Slovakia s.r.o. (hereinafter referred to as "the Company") is a company incorporated in Slovakia. The Company was established on 13 February 2004 and was registered in the Commercial Register on 26 February 2004 (Commercial Register of the District Court Zilina, Section s.r.o., file 15074/L).

The Company's registered address is:

Kia Motors Slovakia s.r.o.
ICO: 35 876 832
DIC: 2021787801
Sv. Jana Nepomuckeho 1282/1
Teplicka nad Vahom 013 01
Slovakia

The principal activity of the Company is the manufacture and sale of automobiles and engines.

These financial statements have been prepared as at 31 December 2016 and for the year then ended and were prepared and authorized for issue by the Company's directors on 24 January 2017. Financial statements can be modified until the approval of the General Assembly.

The Financial Statements have been prepared as ordinary financial statements in accordance with Article 17 (6) of Slovak Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January 2016 to 31 December 2016.

The Financial Statements of the Company as at 31 December 2015 including the auditor's report on the audit of the financial statements as at 31 December 2015 and the annual report including the supplement auditor's report on the audit of the compliance of the annual report with the financial statements were filed in the Register of Financial Statements on 22 June 2016.

On 16 January 2017 the general meeting appointed KPMG Slovensko spol. s r.o. as the auditor of the Financial Statements for the period from 1 January 2016 to 31 December 2016.

The Company's bodies:

Directors	Eek Hee Lee
	Jun Gyu Lee

Information about the ultimate parent

The Company is consolidated into the financial statements of Kia Motors Corporation, 12, Heolleung-ro, Seocho-gu, Seoul, Korea, which is the Company's parent thus potential statements are available to public at Seoul, Korea stock exchange.

2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

3. Basis of preparation

The financial statements have been prepared on a historical cost basis.

Functional currency
The financial statements are presented in euro, which is the Company's functional currency, and are rounded to the nearest thousand.

Use of estimates and judgment
The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 22 - Provision for warranty repairs

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Foreign currency

Transactions in foreign currencies are translated to euro at the foreign exchange rate ruling at the date preceding the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date preceding the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the fair value was determined.

b) Property, plant and equipment

i. Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy i). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

ii. Subsequent costs

The Company recognizes in the carrying amount of an item of property or plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

iii. Leased assets

Leases in terms of which the Company assumes substantially all the risk and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value or the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

iv. Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- buildings 20 - 30 years
- machinery and equipment 3 - 15 years
- moulds 4 - 5 years
- other 2 - 4 years

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Expenditure on repairs or maintenance of property and equipment incurred to restore or maintain future economic benefits expected from the assets is recognized as an expense when incurred. Depreciation methods and useful lives, as well as residual values, are reassessed at the reporting date.

v. Government grants

The Company is entitled to receive government grants related to the acquisition costs of property, plant and equipment if certain conditions are fulfilled. The conditions are stipulated in the Investment Agreement between the Company and the Slovak Republic or in decisions issued by Ministry of Economy. The grants received are recorded as a deduction of property, plant and equipment and are being amortized over the estimated useful lives of the property, plant and equipment for which they have been received once such assets are placed into use. Non-monetary grants received are recorded at fair value upon receipt date.

c) Intangible assets

i. Owned assets

Intangible assets acquired by the Company have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses (see accounting policy i).

Emission rights purchased or granted by Slovak Republic are measured at costs respectively the market value at the grant date.

ii. Subsequent costs

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

iii. Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of each part of intangible assets. The estimated useful lives are as follows:

- software 4 – 6 years
- other intangible assets 4 – 5 years

iv. Emission rights

Emission rights are acquired for own use only and are accounted for as an intangible asset. The emission rights granted by government are recorded at fair value at the date of receipt.
Emission rights are disposed to cost of goods sold, once used.

d) Royalties

The Company pays royalty to its parent Company for the production and sale of cars.

i. Lump sum royalty

Prepaid lump sum royalties are initially recorded as prepayments and are amortized on a straight-line basis over the period for which the royalty has been paid. Amortization cost is recorded as cost of goods sold (refer to Note 6). The lump sum royalty reduces the running royalty calculated on the basis described below.

ii. Running royalty

Royalties represent regular expense derived from the entity's revenue for sale of cars (until 2012: on the basis of number of cars produced), and are recorded as cost of goods sold (refer to the Note 6).

e) Trade and other accounts receivable, finance lease receivable and intercompany loan receivable

Trade, other receivables, finance receivables and intercompany loans provided are recognized initially at fair value, subsequent to initial recognition they are stated at their amortized cost using the effective interest rate method, less impairment losses (see accounting policy i). Trade receivable is offset with trade liability and presented on the net basis in financial position when and only when, there is currently a legal enforceable right to set off and there is an intention to settle the receivables and liabilities on the net basis or to realize them simultaneously.

According to the agreement with three customers, the Company charges the customer a fixed interest rate for the agreed portion of financed period, which is recorded as interest income on Bills of Exchange from related parties (refer to note 8).

f) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of production inventories is based on standard cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of non-production inventories is based on a weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

h) Impairment

Financial assets
A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

Non-financial assets
The carrying amounts of the Company's assets, other than inventories (see accounting policy b, c and e) and deferred tax assets (see accounting policy o) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

j) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for warranties is recognized when the underlying products or services are sold. The suppliers warrant for a part of warranty provision and they bear the risk of failure of their parts. KMS warrants for the actual claim to the customers and it may reclaim a portion that was caused by suppliers. The reclaim asset is fully recognized when it is virtually certain it will be collected. For further description refer to Note 29.

k) Trade and other payables

Trade and other payables are recognized initially at fair value. Subsequent to initial recognition they are stated at amortized cost. Trade payable is offset with trade receivable and presented on the net basis in financial position when and only when, there is currently a legal enforceable right to set off and there is an intention to settle the liabilities and receivables on the net basis or to realize them simultaneously.

l) Revenue for goods sold

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods. A significant element of the Company's revenue is with related parties (see Note 25).

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For majority of customers the risks and rewards usually transfer when the product is delivered to first carrier. Generally the cars sold to the customers have no rights of return.

m) Finance costs and finance income

Finance costs and finance income comprise interest expense on borrowings calculated using the effective interest rate method, interest income on funds invested and foreign exchange gains and losses related to changes in the bank balances and loans.

Interest income and expense are recognized in the income statement as they accrue, using the effective interest method, except to the extent that they relate to the financing of property, plant and equipment, in which case they are capitalized as part of the acquisition costs of the related assets.

Interest paid from the long term bank loan, short term bank loan and finance lease liabilities are presented in the cash flows from financing activities. Interest received from finance lease receivable is presented in cash flows from investing activities. Interest paid on overdrafts, interest paid and received from financing receivables (see accounting policy f) and other interest paid and received are presented in cash flows from operating activities.

n) Other operating income and expense

Other operating costs and other operating income comprise of foreign exchange gains and losses related to operating income and operating expenses, gain on sale of property, plant and equipment, government grants for job creation and education and other items.

o) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and tax losses carried forward. Temporary differences relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

p) Employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term employee benefits comprise of a retirement bonus defined based on the benefit that an employee will receive upon first retirement. The amount of this benefit depends on years of service and is accrued based on actuarial estimations. The minimum requirement of the Labour Code for a retirement bonus is one month average salary.

q) Government grants

Government grants are initially recognized in the balance sheet when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are initially recognized as deferred revenue and it is released to the income statement as other operating income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Company for the acquisition costs of property, plant and equipment are initially recognized as a deduction of property, plant and equipment and are amortized, reflected in the income statement as a deduction of depreciation expense over the useful life of the assets to which they relate (refer to Note 4, b.v.).

r) New standards

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2016 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. Key features of the new standard are:

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect cash flows, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement and are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for trade receivables and lease.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.
The standard has not been endorsed by the European Union yet. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 has been issued on 28 May 2014 and is effective for the periods beginning on or after 1 January 2018. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be recognised separately, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The standard has been endorsed by the European Union. Clarifications to IFRS 15 Revenue from Contracts with Customers is not yet endorsed by the EU but IFRS 15 Revenue from Contracts with Customers including Effective Date of IFRS 15 have been endorsed by the EU. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 16 Leases
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.
IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.
Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:
- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

Annual Improvements to IFRSs

The improvements introduce amendments existing standards, interpretations and consequential amendments to other standards and interpretations. None of these amendments or interpretations have been endorsed by EU yet.
None of these amendments are expected to have a significant impact on the financial statements of the Entity.

Amendments to IAS 7 (applicable to annual periods beginning on or after 1 January 2017). The amendment require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (applicable to annual periods beginning on or after 1 January 2017). The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018). The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and

a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable to annual periods beginning on or after 1 January 2021). The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (effective date has not been set yet by the IASB). The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (applicable to annual periods beginning on or after 1 January 2017). The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

Amendments to IAS 40 Transfers of Investment Property (applicable to annual periods beginning on or after 1 January 2018). The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable to annual periods beginning on or after 1 January 2018). The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

5. Revenue

Revenue is principally represented by sale of cars (cee'd, Venga, Sportage and new Sportage model) and sale of engines to another production plant. The breakdown by key products and geographical area is as follows:

In thousands of euro	2016	2015
Revenue from sales of cars to EU countries excluding Slovakia	3,468,552	2,918,333
Revenue from sales of cars to non EU countries	1,397,301	1,491,306
Sale of engines, spare parts and waste	636,877	611,066
Revenue from sale of cars to Slovakia	63,451	52,698
Total	**5,566,181**	**5,073,403**

6. Cost of sales

In thousands of euro	2016	2015
Material consumption	4,497,322	3,952,284
Depreciation and amortization (refer to Note 11, 12)	110,927	113,914
Amortization of government grants (refer to Note 11)	-6,319	-7,300
Personnel expenses	92,037	87,898
Energy consumption	22,229	22,961
Creation of inventory provision	89	3,025
Running royalty charge	226,849	202,402
Royalty charge	19,616	20,715
Other cost of sales	68,893	68,197
Total	**5,031,643**	**4,464,096**

The Company had on average 3,605 employees, out of that were 2 managers (in 2015: 3,590, out of that 2 managers). As at 31 December 2016 the Company had 3,625 employees, out of that 2 managers (as at 31 December 2015: 3,646, out of that 2 managers).

7. Administrative and selling expenses

In thousands of euro	2016	2015
Logistics services	138,233	152,763
Warranty charges (refer to Note 22)	117,568	141,650
Personnel expenses	4,264	3,869
Marketing services	6,766	1,156
Depreciation and amortization (refer to Note 11,12)	494	495
Other operating expenses	5,587	3,251
Total	**272,912**	**303,184**

8. Net finance costs

In thousands of euro	2016	2015
Interest expense, long term bank loans	-1,513	-1,960
Interest expense, leases and other	455	240
	-1,968	**-2,200**
Interest income, other	747	1,717
Interest income on Bills of Exchange from related parties	264	491
Interest income intercompany loan	368	623
	1,379	**2,831**
Net interest (expense)/income	**-589**	**631**
Foreign exchange losses	-12,424	-14,252
Foreign exchange gains	8,204	4,383
Net foreign exchange losses	**-4,220**	**-9,869**
Net finance costs	**-4,809**	**-9,238**

Interests on trade receivables and related borrowings

According to the agreement with three customers, related parties, the Company charges the customer a fixed interest rate for the agreed portion of financed period, which is recorded as interest income on trade receivables from related parties (refer to Note 25).

9. Other operating income/(expense), net

In thousands of euro	2016	2015
Foreign exchange gains	50,929	38,369
Foreign exchange losses	-29,091	-65,689
Governments grants received for job creation and education	–	-44
Scrap of property on retirement	-92	-255
Gain/(Loss) from sale of property	678	-554
Other operating income	932	1,526
Net other operating income/(expense)	**23,356**	**-26,647**

10. Income tax

In thousands of euro	2016	2015
Current tax expense		
Period income tax charge	-73,387	-63,339
Adjustment to prior year income tax	-12,197	11
	-85,584	-63,328
Deferred tax expense		
Origination and reversal of temporary differences	19,402	3,228
	19,402	3,228
Total income tax expense	**-66,182**	**-60,100**

Reconciliation of effective tax rate

In thousands of euro	**2016**	**%**	**2015**	**%**
Profit before tax	280,173		270,238	
Income tax using the domestic corporation tax rate	-61,638	(22.00%)	-59,452	(22.00%)
Effect of decrease in the tax rate (from 22% to 21%)	-3,941	(1.41%)	–	–
Tax non-deductible expenses and other items	-601	(0.21%)	-659	(0.24%)
Change in estimates related to prior year	-2	(0.00%)	11	0.00%
Income tax charge for the year	**-66,182**	**(23.62%)**	**-60,100**	**(22.24%)**

The statutory tax rate decreased in December 2016 from 22% to 21% and will be applicable effective from 1 January 2017.

11. Property, plant and equipment

In thousands of euro	Lands and Buildings	Machinery and equipment	Other	Investments in progress	Total
Cost					
Balance at 1 January 2015	284,115	1,059,342	7,962	5,037	1,356,456
Acquisitions	–	–	–	116,606	116,606
Transfer	1,831	116,309	753	-118,893	–
Disposals	–	-19,672	-301	–	-19,973
Balance at 31 December 2015	**285,946**	**1,155,979**	**8,414**	**2,750**	**1,453,089**
Balance at 1 January 2016	285,946	1,155,979	8,414	2,750	1,453,089
Acquisitions	–	–	–	26,200	26,200
Transfer	2,555	23,636	654	-26,845	–
Disposals	–	-14,628	-208	–	-14,836
Balance at 31 December 2016	**288,501**	**1,164,987**	**8,860**	**2,105**	**1,464,453**
Depreciation and impairment losses					
Balance at 1 January 2015	63,425	585,211	6,959	–	655,595
Depreciation charge for the period	9,320	103,012	648	–	112,980
Disposals	–	-18,576	-301	–	-18,877
Balance at 31 December 2015	**72,745**	**669,647**	**7,306**	**–**	**749,698**
Balance at 1 January 2016	72,745	669,647	7,306	–	749,698
Depreciation charge for the period	9,397	99,911	641	–	109,949
Disposals	–	-13,969	-205	–	-14,174
Balance at 31 December 2016	**82,142**	**755,589**	**7,742**	**–**	**845,473**
Government grants acquisition costs					
Balance 1 January 2015	38,282	118,227	–	–	156,509
At 31 December 2015	38,282	118,227	–	–	156,509
At 31 December 2016	**38,282**	**118,227**	**–**	**–**	**156,509**
Government grants amortization					
Balance 1 January 2015	9,406	83,365	–	–	92,771
Amortization	1,317	5,983	–	–	7,300
At 31 December 2015	10,723	89,348	–	–	100,071
Amortization	1,317	5,002	–	–	6,319
At 31 December 2016	**12,040**	**94,350**	**–**	**–**	**106,390**
Carrying amounts					
At 1 January 2015	191,814	439,269	1,003	5,037	637,123
At 31 December 2015	185,642	457,453	1,108	2,750	646,953
At 31 December 2016	**180,117**	**385,521**	**1,118**	**2,105**	**568,861**

Insurance
Property, plant and equipment is insured against damage up to TEUR 1,064,762 (2015: TEUR 1,033,533).

Leases
The Company leases material moulds for production of Venga model from related party under finance lease. The net book value of the moulds at 31 December 2016 amounts to TEUR 2,296 (2015: TEUR 3,551).

12. Intangible assets

In thousands of euro	Information technologies and software	Emission rights	Assets under construction	Total
Cost				
Balance at 1 January 2015	22,594	155	160	22,909
Acquisition	–	–	1,083	1,083
Transfers	882	233	-1,115	–
Disposals	–	-192	–	-192
Balance at 31 December 2015	**23,476**	**196**	**128**	**23,800**
Balance at 1 January 2016	23,476	196	128	23,800
Acquisition	–	–	1,844	1,844
Transfers	1,472	210	-1,682	–
Disposals	-383	-225	–	-608
Balance at 31 December 2016	**24,565**	**181**	**290**	**25,036**
Amortization and impairment losses				
Balance at 1 January 2015	18,343	–	–	18,343
Amortization for the year	1,429	–	–	1,429
Balance at 31 December 2015	**19,772**	–	–	**19,772**
Balance at 1 January 2016	19,772	–	–	19,772
Amortization for the year	1,472	–	–	1,472
Disposals	-383	–	–	-383
Balance at 31 December 2016	**20,861**	**–**	**–**	**20,861**
Government grants acquisition costs				
Balance at 1 January 2015	–	141	–	141
Acquisitions	–	196	–	196
Disposals	–	-191	–	-191
Balance at 31 December 2015	–	146	–	146
Acquisitions	–	131	–	131
Disposals	–	146	–	146
Balance at 31 December 2016	**–**	**131**	**–**	**131**
Carrying amounts				
At 1 January 2015	4,251	14	160	4,425
At 31 December 2015	**3,704**	**50**	**128**	**3,882**
At 1 January 2016	3,704	50	128	3,882
At 31 December 2016	**3,704**	**50**	**290**	**4,044**

13. Prepaid expenses

In thousands of euro	31 December 2016	31 December 2015
Non-current assets:		
Lump sum royalty prepaid	24,520	44,135
less: current portion	-19,616	-19,616
Total	**4,904**	**24,519**

In thousands of euro	31 December 2016	31 December 2015
Current assets:		
Lump sum royalty prepaid	19,616	19,616
Other prepayments	158	167
Total	**19,774**	**19,783**

Following is an overview of lump sum royalty prepayments:

In thousands of euro	Year	Royalty prepaid (TEUR)	Amortization period (months)
Royalty for current cee'd car model	2012	117,693	72

The Company pays lump sum royalty and running royalty according to royalty agreements. These agreements secure the Company a right to produce and sell cars and engines in the production plant. The amortization of royalty prepayments is recorded in cost of goods sold, in the same line of the statement of comprehensive income as the costs for running royalty (refer to Note 6).

Royalties represent regular expenses derived from the entity's revenue for sale of cars (until 2012: on the basis of number of cars produced), and are recorded as cost of goods sold (refer to the Note 6).

14. Finance lease receivable

Finance lease receivable represents present value of future payments from related party for a five years lease of moulds. The outstanding finance lease payments are as follows:

In thousands of euro	Minimum lease payments	Interest	Present value of minimum lease payments	Finance lease
	31 December 2016	31 December 2016	31 December 2016	31 December 2015
Less than one year	-	-	-	557
Between one and five years	-	-	-	-
	-	**-**	**-**	**557**

15. Deferred tax assets

In thousands of euro	31 December 2016	31 December 2015
Property, plant and equipment (net of government grants)	-45,679	-48,907
Warranty provision	116,364	111,236
Other provisions	11,735	191
Other items	333	831
Subtotal for temporary difference	**82,753**	**63,351**
Unrecognized deferred tax asset	-8,172	-8,172
Deferred tax asset	**74,581**	**55,179**

16. Inventories

In thousands of euro	31 December 2016	31 December 2015
Raw materials and consumables	250,609	267,936
Less value adjustment	-2,431	-
Work in progress and semi-finished goods	31,900	20,443
Less value adjustment	-234	-299
Finished goods	28,471	31,582
Less value adjustment	-449	-2,726
	307,866	**316,936**

Value adjustment to inventories was created for expected lower recoverable amount of finished products and for other inventory items that are expected to have lower recoverable value.

Movements of provision for inventories are set out in the table below:

In thousands of euro	31 December 2015	Creation	Use	Reversal	31 December 2016
Provision to raw material	-	2,431	-	-	2,431
Provision to work in progress and semi-finished goods	299	234	-299	-	234
Provision to finished goods	2,726	449	-2,726	-	449
	3,025	**3,114**	**-3,025**	**-**	**3,114**

Insurance
Inventory is insured against damage up to TEUR 178,250 (2015: TEUR 147,328).

17. Trade and other accounts receivable

In thousands of euro	31 December 2016	31 December 2015
Trade accounts receivable	684,105	719,185
Value added tax receivable	173,747	222,471
Other receivables	4,865	4,295
Financial	**862,717**	**945,951**
Advance payment received	1,074	117
Non-financial	**1,074**	**117**
	863,791	**946,068**

The breakdown by currency is as follows:

In thousands of euro	31 December 2016	%	31 December 2015	%
EUR	517,629	60.0%	641,206	67.8%
RUB	195,020	22.6%	152,182	16.1%
GBP	87,596	10.1%	93,345	9.9%
USD	26,904	3.1%	59,167	6.2%
SEK	25,531	3.0%	-	0,0%
PLN	10,037	1.2%	-	0.0%
NZD	-	0.0%	51	0.0%
	862,717	**100.0%**	**945,951**	**100.0%**

67% or TEUR 580,587 (as at 31 December 2015: 70% or TEUR 657,809) of trade and other receivables are due from companies within the HYUNDAI MOTOR GROUP. The Company has not incurred any significant historical impairment losses.

The Company expects to recover value added tax in two months from the balance sheet date on the grounds of valid legislation.

As at 31 December 2016 the Company offset gross trade and other accounts receivable of TEUR 53,360 (as at 31 December 2015: TEUR 73,793) with the gross trade and other accounts payable of selected business partners of TEUR 27,257 (31 December 2015: TEUR 30,557) with certain partners and presented them as net receivable of TEUR 26,103 (31 December 2015: TEUR 43,236).

18. Cash and cash equivalents

In thousands of euro	31 December 2016	31 December 2015
Bank balances	53,938	35,286
Vouchers	1	1
Cash and cash equivalents	**53,939**	**35,287**

Cash and cash equivalents in the amount of EUR 16,183 thousand are denominated in GBP and EUR 53 thousand are denominated in RUB (31 December 2015: in GBP was EUR 53 thousand and in RUB was EUR 27,072 thousand).

19. Intercompany loan receivable

The intercompany loan receivable represents the positive balance on the cash pool account of the Group, where the Company transferred part of its available cash resources.

20. Capital and reserves

Share capital
The Company's total authorized and issued share capital amounted to TEUR 433,323 as of 31 December 2016 (31 December 2015: TEUR 433,323). The share capital is fully paid up.
The sole shareholder of the Company exercise full voting rights and has rights to receive dividends.

Legal reserve fund
The Company is obliged by Slovak law to create a legal reserve totalling a minimum of 5% of net profit (annually) and up to a maximum of 10% of registered share capital. As the fund's balance has already reached the maximum balance, no further distribution from the Company's profits is required by law. The legal reserve fund can only be used to cover the Company's losses.

21. Interest-bearing loans and borrowings

In thousands of euro	31 December 2016	31 December 2015
Non-current liabilities		
Long-term bank loans	190,396	111,448
Long-term bank loans	**190,396**	**111,448**
Current liabilities		
Short-term portion of the long-term bank loan	16,052	25,982
Lease liability	–	3,423
Accrued interest and other	12	29
Short-term bank loans	**16,064**	**29,434**

Certain type of long term bank loans is fully covered by a guarantee provided by Kia Motors Corporation, the Company's parent company.

All the loans presented above bear the variable interest rate.

Finance lease
Finance lease liability represents present value of payments to related parties for five year lease of parking lot and another five year lease of moulds and are payable as follows:

In thousands of euro	Future minimum lease payments	Interest	Present value of minimum lease payments	Finance lease
	31 December 2016	31 December 2016	31 December 2016	31 December 2015
Less than one year	–	–	–	3,423
Between one and five years	–	–	–	–
	–	**–**	**–**	**3,423**

22. Provisions

In thousands of euro	Warranty	Other	Total
Balance at 1 January 2015	**434,032**	**47,189**	**481,221**
Provisions charges (refer to Note 7)	145,150	1,768	146,918
Actual costs	-70,063	-46,412	-116,475
Provision reversed	-3,500	–	-3,500
Balance at 31 December 2015	**505,619**	**2,545**	**508,164**
Balance at 1 January 2016	**505,619**	**2,545**	**508,164**
Provisions charges (refer to Note 7)	117,568	53,759	171,327
Actual costs	-69,075	-1,676	-70,751
Provision reversed (refer to Note 7)	–	–	–
Balance at 31 December 2016	**554,112**	**54,628**	**608,740**

An overview of long-term and short-term provisions is set out in the following table:

In thousands of euro	31 December 2016	31 December 2015
Non-current	414,292	386,082
Current	194,448	122,082
Balance at the reporting date	**608,740**	**508,164**

Warranty provision

The warranty provision is measured based on the probability of the products requiring repair or replacement and the best estimate of the costs to be incurred in respect of defective products sold on or before the balance sheet date. The warranty period granted is up to 7 years, which is the period over which it is expected the provision to be used.

Other provisions

Other provisions were recorded for estimated cash outflows resulted from past events incurred during 2016 and it is expected they will be used in 2017.

Warranty provision reclaims

KMS warrants for the actual claim amount to the customers and it reclaims a portion that was caused by suppliers. The reclaim asset is recognized when it is virtually certain it will be collected, i.e. mostly at the time the claim is attributed to the supplier. As at 31 December 2016 the amount of estimated reclaims represents TEUR 83,761 (as at 31 December 2015: TEUR 68,209).

23. Trade and other accounts payable

In thousands of euro	31 December 2016	31 December 2015
Trade payables including accruals	420,043	662,407
Employee related liabilities	10,080	9,743
Other payables	7,715	10,282
Payroll withholding taxes	1,143	1,533
Financial	**438,981**	**683,965**
Advance payment received	4,471	5,335
Non-financial	**4,471**	**5,335**
	443,452	**689,300**

The breakdown by currencies is as follows:

In thousands of euro	**31 December 2016 Balance recalculated to EUR**	**%**	**31 December 2015 Balance recalculated to EUR**	**%**
EUR	436,452	99.4%	681,449	99.6%
USD	1,880	0.4%	2,027	0.3%
RUB	649	0.2%	479	0.1%
JPY	0	0.0%	10	0.0%
	438,981	**100.0%**	**683,965**	**100.0%**

66% or TEUR 291,325 (as at 31 December 2015: 75% or TEUR 516,862) of trade and other payables are due to companies within the HYUNDAI MOTOR GROUP.

As at 31 December 2016 the Company offset gross trade accounts payable of TEUR 249,007 (as at 31 December 2015: TEUR 312,624) with the gross trade accounts receivable of TEUR 27,257 (as at 31 December 2015: TEUR 30,557) with certain partners and presented them as net receivable of TEUR 221,750 (as at 31 December 2015: TEUR 282,067).

24. Capital commitments and contingencies

Capital commitments
At 31 December 2016 the Company had orders in place to acquire property, plant and equipment in the amount of TEUR 12,545 (31 December 2015: TEUR 9,379).

Contingences
The directors do not expect the outcome of pending litigations to have a material effect on the Company's financial position.

25. Related parties

Identity of related parties
The Company has a related party relationship with its parent Kia Motors Corporation and other group companies within the HYUNDAI MOTOR GROUP and with its directors and executive officers. The ultimate controlling party is Hyundai Motor Company, who is entitled to exercise the control over entities identified by the Company as related parties. Those Companies within HYUNDAI MOTOR GROUP have a common Board.

Transactions with key management personnel
There have been no transactions with management, except for their salaries, which are included in the caption of administrative expense in the income statement and in total amount to TEUR 666 (2015: TEUR 532).

Other related party transactions
Other related parties are part of the HYUNDAI MOTOR GROUP and also the parent Company Kia Motors Corporation, the managing Company.

Transactions with the parent company	**2016**	**2015**
In thousands of euro		
Revenue	38	1,559
Warranty provision chargebacks	4,226	1,309
Purchases of material	-75,982	-92,687
Acquisition of property, plant and equipment	-64	-15,272
Purchase of services	-635	-3,765
Payment of dividends	-164,876	-173,238
Running royalties charge	-226,850	-202,402

Transactions with other companies	2016	2015
In thousands of euro		
Revenues	4,620,280	4,410,200
Revenue from sale of property	1,239	21
Interest income from lease interest	2	177
Warranty provision chargebacks	14,365	8,240
Purchase of material	-2,761,397	-2,476,026
Acquisition of property, plant and equipment	-7,839	-22,275
Purchase of services	-149,871	-145,381
Warranty charges	-76,672	-71,562
Interest from intercompany loan	371	625
Interest expense on finance lease	-68	-240
Interest income from refunded interest from financing receivables	264	491

Significant assets and liabilities arising from related-party transactions are presented in the table below:

Assets and liabilities arising from transactions with the parent company	2016	2015
In thousands of euro		
Trade accounts receivable and prepayments	4	1
Trade accounts payable	-11,680	-75,924

Assets and liabilities arising from transactions with other group companies	2016	2015
In thousands of euro		
Trade accounts receivable	580,583	657,808
Intercompany loan receivable	259,891	99,674
Finance lease receivable	-	557
Finance lease liability	-	-3,423
Trade accounts payable	-279,645	-440,938

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within six months period, except for the finance lease receivable and finance lease liability, which matures according to the repayment calendar within five years period.

26. Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital and further quantitative disclosures.

Risk management framework

The Directors have overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Directors monitor compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

83% (1-12/2015: 88%) of the Company's revenue is attributable to sales transactions with customers in the HYUNDAI MOTOR GROUP which are related parties. To date the Company has recovered all due amounts from HYUNDAI MOTOR

GROUP customers. 84% (in 2015: 91%) of the outstanding trade receivables balance is due from customers in HYUNDAI MOTOR GROUP who cooperates with the entity since its incorporation of tax office for VAT. No impairment provision has been recorded to either due or past due balance of this receivable as management assessed these credits with high quality on the basis of historical collection. In the past the Company recovered its VAT balance within 2 months from the balance sheet date, on this basis it expects low collection risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers outside the HYUNDAI MOTOR GROUP requiring credit over a certain amount. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's management uses overdraft accounts and short term facilities to finance their operational needs, whereas long term financing and equity are used to finance investments.

The Company's management is monitoring the available cash balance on a regular basis. The available cash balance comprise of overdraft limits and available cash in comparison to the expected financial liabilities that become due in the following month. The Company treats its plans according to current situation and in compliance with its plans and predictions of future cash-flow situation.

The Company's management is monitoring whether they have sufficient resources to fulfil their obligations when they fall due. The management is monitoring liquidity through targeted current ratio of above 1.2 calculated as current assets divided with current liabilities. At 31 December 2016 the current ratio reached management target of 2.30 (as at 31 December 2015: 1.74).

The following are contractual maturities of financial liabilities including interest payments as at:

31 December 2016

In thousands of euro	**Note**	**Carrying amount**	**6 months or less**	**7-12 months**	**2-3 years**	**4-5 years**	**more than 5 years**
Trade and other receivables	17	862,717	862,717	–	–	–	–
Intercompany loan receivable	19	259,891	259,891	–	–	–	–
Cash and cash equivalents	18	53,939	53,939	–	–	–	–
Interest bearing loans and borrowings, excl. unamortized costs	21	-206,875	-13,125	-3,125	-187,500	-3,125	–
Interests		-1,578	-425	-414	-716	-23	–
Transaction costs	21	427	108	90	213	16	–
Trade and other accounts payable	23	-438,981	-438,981	–	–	–	–
Warranty provision	22	-554,112	-70,679	-70,664	-254,448	-132,463	-25,858
Other provisions	22	-54,628	-53,105	–	–	–	-1,523
Income tax receivable/payable		1,786	–	1,786	–	–	–
		-77,414	**600,340**	**-72,327**	**-442,451**	**-135,595**	**-27,381**

The following are contractual maturities of financial liabilities including interest payments as at:

31 December 2015

In thousands of euro	**Note**	**Carrying amount**	**6 months or less**	**7-12 months**	**2-3 years**	**4-5 years**	**more than 5 years**
Trade and other receivables	17	945,951	945,951	–	–	2	24
Intercompany loan receivable	19	99,674	99,674	–	–	–	–
Finance lease receivable, including interests	14	559	559	–	–	–	–
Cash and cash equivalents	18	35,287	35,287	–	–	–	–
Interest bearing loans and borrowings, excl. unamortized costs	21	-141,548	-15,164	-14,509	-102,500	-9,375	–
Interests		-2,200	-591	-561	-906	-142	–
Transaction costs	21	695	143	125	335	92	–
Trade and other accounts payable	23	-683,965	-683,965	–	–	–	–
Warranty provision	22	-505,619	-61,751	-58,654	-222,553	-131,574	-31,087
Other provisions	22	-2,545	-1,676	–	–	–	-869
Income tax receivable/payable		41,178	–	41,178	-	-	-
		-212,533	**318,441**	**-32,421**	**-325,624**	**-140,997**	**-31,932**

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk
The Company is exposed to foreign currency risk in sales and purchases in other currency that the functional currency, i.e. GBP, USD, PLN, SEK and RUB. The total exposures which arise from the currency risk are monitored on revenue side, as 74% (2015: 71%) of revenues and 99% (2015: 99%) of purchases are denominated in euro and management is not hedging the exposures on FX fluctuations. In addition management has exposure in foreign currency on the bank account. The total exposure is stated in note 8. Net finance costs.

All the borrowings are denominated in the functional currency euro to reduce any currency risk from borrowings.

A strengthening and weakening of RUB, GBP, SEK, USD and PLN by 5% against EUR at 31 December 2016 would have increased/(decreased) equity and net profit by the amounts shown below.

In thousands of EUR	**Impact on profit and equity – strengthening of foreign currency**		**Impact on profit and equity – weakening of foreign currency**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
RUB	10,233	9,409	-9,258	-8,513
GBP	5,462	4,915	-4,942	-4,447
SEK	1,373	–	-1,243	–
USD	1,364	3,010	-1,234	-2,723
PLN	553	–	-501	–
NZD	–	3	–	-2

Interest rate risk
Management has entered in to loan contracts which are exposed to floating interest rates in the normal course of business. Management policy is to enter in the variable interest rates borrowings contracts only. Management does not see the need to hedge the interest rates related to these contracts.

An increase of interest rate (EURIBOR, LIBOR) by 100 basis points, considering all other factors remain unchanged, would cause a decrease of profitability by TEUR 2,069 (2015: TEUR 1,165).

The sensitivities were estimated based on year end balances and the actual results might differ from these estimates.

Capital management
The Company defines the capital as its Equity and long-term borrowings. The Company's policy is to maintain a strong capital base so as to sustain future development of the business and maintain sufficient funds for significant capital expenditures that are planned within the next three years. The Company's needs for capital are satisfied through borrowings and through contributions to share capital. The Company does not provide share options to employees or other external parties.

Management is targeting the debt to equity ratio below 2.5. The ratio is calculated as total liabilities less cash divided by the equity as summarized in the table below:

In thousands of euro	**2016**	**2015**
Total liabilities	1,258,652	1,338,346
Less available cash	-53,939	-35,287
Total liabilities less cash	1,204,713	1,303,059
Total equity	900,785	851,670
Adjusted debt/equity ratio	1.3	1.5

27. Operational risk

The Company is exposed indirectly to the purchasing trends of consumers in the automotive sector. This risk is managed by the Company's parent company through monitoring market trends and adjusting production volumes accordingly.

Day-to-day operations harbour various risks that could potentially weaken the Company's financial position and performance. Business risks that could result from production interruptions due to e.g. energy outages, technical failures, fires, floods etc. are partially hedged using insurance contracts.

New products inherently carry the risk that customer might not accept them. For this reason, the parent Company conducts extensive analyses and customer surveys. Trends are identified in timely fashion and examined closely to determine their relevance to customers.

28. Fair values

Fair values versus carrying amounts
The fair value of trade and other receivables, cash and cash equivalents, finance lease receivables, trade and other payables, finance lease payables, loans and interest bearing borrowings with variable interest rate is approximated by their carrying amounts as at 31 December 2016 as well as at 31 December 2015.

Basis for determining fair values
The fair value of trade and other receivables, cash and cash equivalents, finance lease receivables, trade and other payables, finance lease payables, loans and interest bearing borrowings is estimated as the present value of the future cash flows discounted at market rate of interest at the reporting date.

29. Accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Provisions for warranty repairs

The Company has a provision for warranty costs, which at 31 December 2016 amounted to TEUR 554,112 (31 December 2015: TEUR 505,619) as disclosed in note 22.The Company provides a warranty coverage period up to five years on its cee'd, Sportage, Venga and ix35 models. In addition, for Kia vehicles sold in the European Union and other selected countries a further two years warranty coverage period is provided on engines and transmissions. All warranty coverage periods are subject to a maximum mileage of 150,000 kilometres. These conditions may vary depending on respective model and market.

The provision represent the estimated warranty costs, which we calculate based on historical experience with consideration given to the expected level of future warranty repairs, the expected number of units to be affected and the estimated average repaid costs per unit and each country. The products contain parts manufactured by third party suppliers.

We believe the calculation of warranty provision is a critical accounting estimate because changes in the calculation can materially affect net income and require us to estimate the frequency and amounts of future warranty claims, which are inherently uncertain. The uncertainties further include, but are not limited to, the fact that the models produced in our factory, especially SUV model of new Sportage QL are new first produced in 2015, as well as the period of the warranty coverage is above that previously provided by the Kia Motors Group. The policy is to continuously monitor the adequacy of warranty provisions. Therefore warranty charges are maintained at an amount deemed adequate to cover estimated future warranty claims. Actual claims in the future may differ from the original estimates, which may result in material revisions of the warranty charges.

The warranty provision estimate was based on a trend line for group of countries, which represents expected level of warranty costs in year 2 to year 7 as a percentage of year 1. This is our best estimate which was based on historical experiences from claims incurred for different models of Kia Motors Group. The calculation of warranty provision is sensitive to the changes in the warranty trend line and to the estimated value of future warranty claims. An increase or decrease of the warranty trend line by 10% would increase or decrease the warranty provision by TEUR 49,222 (31 December 2015: TEUR 44,914). The sensitivities were estimated based on year end balances and the actual results might differ from these estimates.

These financial statements were approved on 24 January 2017.

Jun Guy Lee
CFO

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Translation of the Appendix to the independent Auditors' Report originally prepared in Slovak language

Appendix to the independent Auditors' Report issued on the Annual Report

pursuant to Article 27 (6) of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended

("the Act on Statutory Audit")

To the Owners and Directors of Kia Motors Slovakia s r. o.

We have audited the financial statements of Kia Motors Slovakia s.r.o.("the Company") as of 31 December 2016 presented in Chapter 7 of the accompanying Annual Report. We have issued an independent auditors' report on the financial statements on 24 January 2017 with the following wording:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kia Motors Slovakia s.r.o.("the Company"), which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section. We are independent of the Company in accordance with the ethical requirements of the Act No. 423/2015 Coll. on statutory audit and on amendments to Act No. 431/2002 Coll. on accounting as amended ("the Act on Statutory Audit") including the Code of Ethics for an Auditor that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Statutory Body for the Financial Statements

The statutory body is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the

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statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.

- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

24 January 2017
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96

Responsible auditor:
Ľuboš Vančo
License SKAU No. 745

Report on Other Legal and Regulatory Requirements

Reporting on Information in the Annual Report

The statutory body is responsible for the information in the Annual Report prepared in accordance with the Act No. 431/2002 Coll. on Accounting as amended ("the Act on Accounting"). Our opinion on the financial statements does not cover other information in the Annual Report.

In connection with our audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether the other information is materially inconsistent with the audited financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Report, we consider whether it includes the disclosures required by the Act on Accounting.

Based on the work undertaken in the course of the audit of the financial statements, in our opinion:

- the information given in the Annual Report for the year 2016 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

In addition to this, in light of the knowledge of the accounting entity and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in this respect.

15 February 2017
Bratislava, Slovak Republic

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The Power to Surprise

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