Kia Motors Slovakia s.r.o.

ANNUAL REPORT 2018

The Power to Surprise

CONTENTS

1.

FOREWORD

At our company, the year 2018 was a year of challenges. Last year we launched a volume production of four new models. We managed to meet the production goal of 333,000 cars and 486,731 engines. Since the start of production in December 2006, the total number of produced vehicles climbed to more than 3,258,200 and the number of engines to over 4,889,800 units.

In the beginning of May, we first introduced into production a five-door version of the third-generation Kia Ceed. Changing the design of the new generation has brought about a change in the name of the vehicle. The name Ceed continues to imply a vehicle designed and assembled in the Community of Europe with European Design, but this time there is no apostrophe in its name. After the summer shutdown, we commenced production of a wagon version-Kia Ceed Sportswagon. Both of these body types had already existed with the first two generations of the model. The new addition is the latest body type of the Ceed-so-called shooting brake with an extended rear part, which kept its name after its three-door predecessor ProCeed. Kia Sportage remained the most popular model, which was introduced to an upgraded version of its fourth generation in the middle of the year.

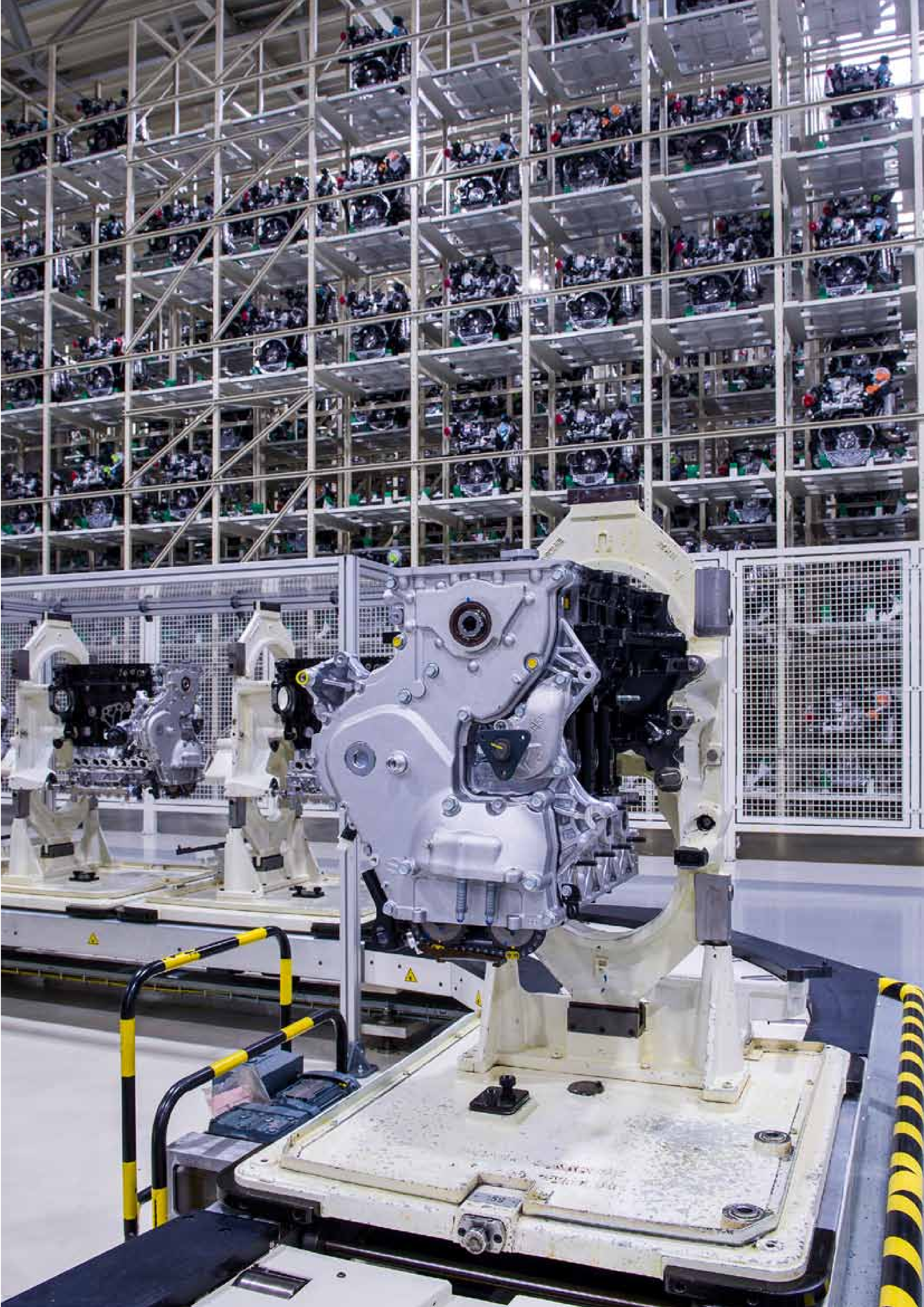
The year 2018 also turned out to be a challenging year for the company in terms of engine production. In 2017, our customers preferred the purchase of gasoline vehicles for the first time. Last year, however, the difference between gasoline and diesel aggregates plummeted to the detriment of diesel engines, with demand steadily declining. Changing customer preferences is attributed to the tightening of emission standards as well as publicized information on the forthcoming bans on the entry of diesel-powered vehicles into the centres of several European cities. Those are the reasons why our company introduced a production of the Kia Sportage with mild-hybrid technology last year. We are going to be extending this technology to other models from our product line-up, too.

From July 2, 2018, new organisational change came into effect within the parent company Kia Motors Corporation resulting in the establishment of a regional centre in Europe to which our company falls directly under. This is due to greater autonomy in decision-making as well as in the formation of a sales strategy and a faster reaction time with changing trends. I believe that this step will also help to increase the sales of our vehicles in Europe.

I am very glad that our company has reaffirmed its commitment to remain an important socially responsible company not only in the region in which it operates but nationwide as well by winning the National Award of the Slovak Republic for Corporate Social Responsibility organised by the Office for Standardization, Metrology and Testing of the Slovak Republic.

Last but not least, I would like to thank the employees of our company for meeting our production targets and our important key indicators as well as achieving the highest possible quality of products we produce. Special thanks go to our business partners, suppliers, and our customers, without whom we would not be able to fulfil our goals.

Kyong Jae Lee
President



2. KEY EVENTS IN KIA

2004
March
Investment Agreement between Kia Motors Corporation 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

MOTORS SLOVAKIA'S HISTORY

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

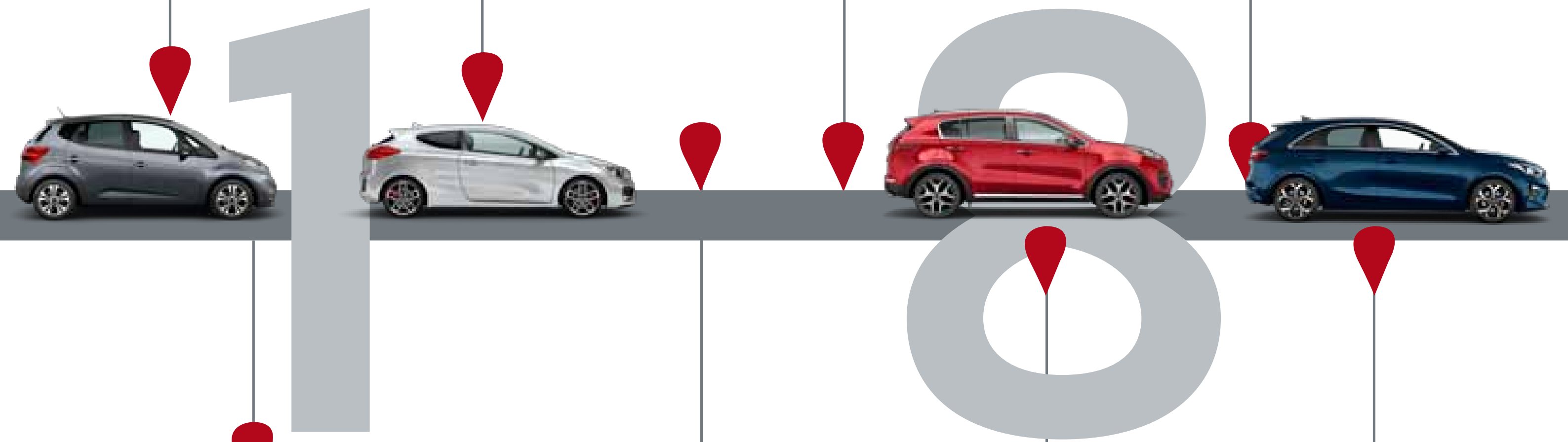
2014
October
National Productivity Award 2013
November
Slovak Gold Exclusive quality certificate

2015
November
4th generation Sportage

2016
November
Slovak National Quality Award 2016

2017
April
Via Bona Slovakia Award (Responsible Large Company category)

2018
May
Production of 3rd generation Ceed
November
Slovak National CSR Award 2018



3. COMPANY PROFILE

Kia Motors Slovakia

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% owned by Kia Motors Corporation. The main activity is production of motor vehicles including engines. The registered capital is in the amount of 433,322,934.01 EUR. In 2018, the company executives were Dae Sik Kim and Jun Gyu Lee.

The volume production at Kia Motors Slovakia started in December 2006. The plant currently manufactures Kia Ceed lower middle class in three car body versions, the SUV model Kia Sportage, and the MPV representative Kia Venga. From the second half of 2018, the company has also produced its first mild-hybrid technology with diesel engine and EcoDynamics+ 48V battery.

Company Executives

Dae Sik Kim
Executive

Dae Sik Kim studied at University of Hanyang, South Korea, and successfully graduated in the field of Machine Design and Production Engineering in 1983. He started his career with Kia Motors Corporation in 1985. After several years, he continued at the Sohari car production plant where he worked as Head of Production Management until 2000. From 2005, Mr. Kim began to work for Kia Motors Headquarters as Head of Global Production Management. Before he joined Kia Motors Slovakia, he was Head of Corporate Planning department in Hyundai Motor Group. After his experienced professional career he received an opportunity to use his skills abroad in the position of the President and CEO of Kia Motors Slovakia. He was authorized to act solely as a statutory body of Kia Motors Slovakia during his executive position with the company.

Jun Gyu Lee
Executive

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 worked at Kia Motors Slovakia from March 2015 till December 2018 as CFO and Head of Business Management division. Jun Gyu Lee was authorized to act solely as a statutory body of Kia Motors Slovakia during his executive position with the company.

Kyong Jae Lee
President

Kyong Jae Lee finished his university studies at the National Chonbuk University majoring in Mechanical Engineering in 1983. He started his career at Hyundai Motor in 1985. He worked at the Hyundai Motor Manufacturing plant in Alabama between 2002 and 2006. Mr. Lee then developed his professional growth at Hyundai Motor Manufacturing Czech until 2012 followed with South Korean factory in Ulsan. From 2013 until 2015 he led the Project Management department in Hyundai Motor Manufacturing Rus. Since January 2016, he has worked for Kia Motors Slovakia as Vice President of the Production Division. On December 1, 2018, Kyong Jae Lee became the President of the company.

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. Around 3 million Kia vehicles a year are produced at 14 manufacturing and assembly operations in five countries. In 2018, Kia Motors sold more than 2.8 million vehicles through a network of distributors and dealers covering 180 countries. Research and development centres focused on the development of new models and technologies are located in four countries, with major development centre in South Korean Namyang. Research and development for the European market is in the German city of Rüsselsheim. The global value of the Kia Motors brand grew by 4% over the last year, according to Interbrand's exclusive list of the 100 "Best Global Brands". Based on the 2018 study, Kia ranks 71st most valuable brand in the world. The Korean manufacturer's estimated brand value grew from 6.3 billion USD in 2016 to 6.9 billion USD in 2018. As of December 31, 2018, Kia Motors employed more than 51,000 employees worldwide. Its annual revenues represent 45 billion USD. Kia Motors Corporation's brand slogan - "The Power to Surprise" - expresses the company's commitment to overcoming customer expectations through continuous innovation in the automotive industry.

Kia Motors Slovakia in 2018

Export to **89** countries

333,000 cars

486,731 engines

Sportage **67%**, Ceed **28%**, Venga **5%**

Export: Russia **17%**, UK **15%**, Germany **8%**
Spain **7%**, Italy **7%**

Revenue: **5,185,633** thousand EUR

Net profit: **240,681** thousand EUR

Total investment: **168** million EUR

Kia Motors Europe

Kia Motors Europe is a sales, marketing and service affiliate of Kia Motors Corporation in Europe based in Frankfurt covering over thirty different markets. In 2018, the Kia sales in the old continent grew by 4.7% (494,304 vehicles sold) and the market share rose to 3.2%. Kia Motors has recorded an increase in sales in Europe for ten years in a row. The Kia brand has managed the complex situation in the markets with introduction of new crossovers as well as electric models. Plans for 2019 include launch of ProCeed sales as well as several models with new electrified powertrains across Europe.

Goals and forecasts for 2019

In 2018, passenger car sales in the European market increased only marginally with almost 15.2 million automobiles sold in total. New car sales in the EU declined in the last four months of the year, when the new WLTP emission measurement process was introduced. In 2019 analysts expect only a slight growth in sales in Europe. The risk is mainly the UK's exit from the EU, development of the Italian economy along with new emission testing phases that will start from September. Vehicle sales will also be affected by EU targets requiring a significant reduction of greenhouse gas emissions in the coming years from EU member states along with manufacturers. For Kia Motors Slovakia the situation in two key markets - the UK and the Russian Federation continues to be fundamental. It is expected that as a result of the uncertainty caused by "Brexit", the automotive market in the UK will also decline in 2019.

In 2019, Kia Motors Slovakia's business plan is to produce 338,000 passenger cars. Throughout the year, full capacity utilization is expected to be achieved by producing three body versions of the latest generation of the Ceed (five-door hatchback, Sportswagon and the sporty ProCeed) as well as the production of the product-enhanced Sportage. For the year 2019, a total investment of more than 160 million EUR is planned for the production line adjustments in connection with production of the new body version of Ceed and assembly of alternative aggregates.

Product Line-Up

Kia Sportage

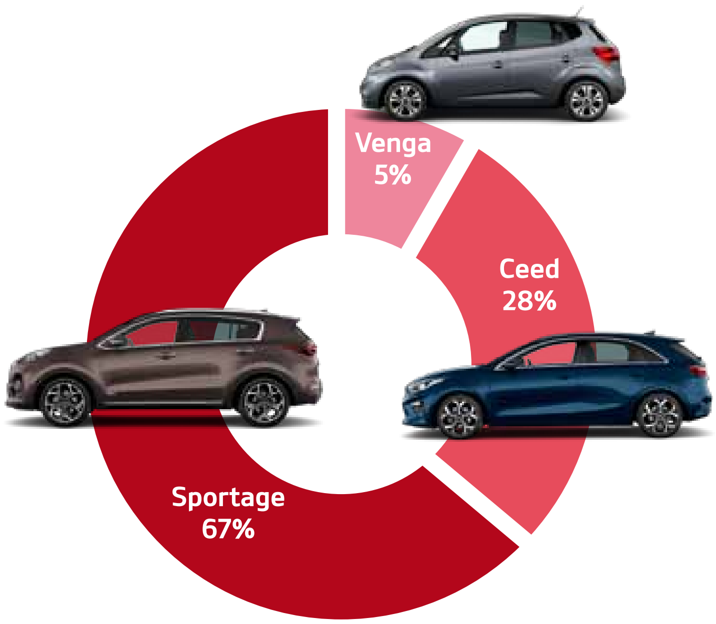
Even in 2018 the Kia Sportage was the best-selling Kia model not only in Europe but globally. In May 2018, a product-enhanced version was introduced into volume production, bringing customers a new exterior and interior design, offering new security and infotainment technologies. The upgraded Sportage features a wider range of engines, including the new Kia mild-hybrid EcoDynamics+ system. EcoDynamics+ supplements acceleration with power from a 48-volt lithium-ion battery and extends engine off time with a new Mild-Hybrid Starter-Generator unit. In addition, it reduces CO_2 emissions by 4% under the new, world-class Light Vehicle Testing Procedure (WLTP). All propulsion systems fully meet the requirements of the Euro 6d TEMP emission standard.

Kia Ceed, Ceed Sportswagon a ProCeed

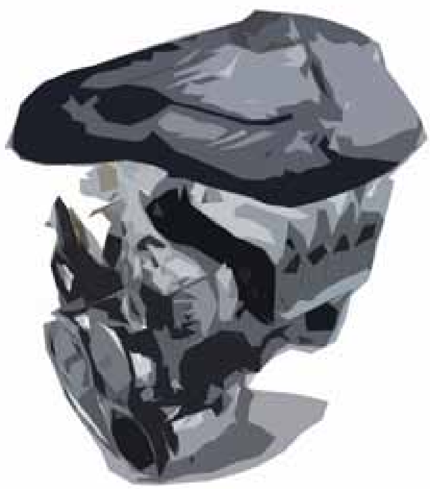
The Ceed model has been successfully applying for European customers since 2006. Kia Motors Slovakia has launched the third-generation Ceed volume production in May 2018. It is a model that has been designed, developed, built and manufactured in Europe. Its role is to strengthen Kia's position in the compact segment on the old continent. The first version to get into production was five-door hatchback, followed by Sportswagon with a prolonged body type in August, and finally by sporty ProCeed in November. The most significant changes occurred in the safety and electrification of available engines. It includes high-beam assist, driver attention warning, lane keeping assist or forward collision-avoidance assist. ProCeed GT means the return of the high-performance Kia GT. It is powered by the same 1.6-litre T-GDi engine as the new Ceed GT. This is the most powerful engine in the offer with 204 horsepower and 265 Nm torque. In the new ProCeed GT and Ceed GT, the Kia's seven-speed dual-clutch gearbox has been used to provide a lightweight gearshift range.

Kia Venga

The versatile mini MPV, designed and produced exclusively for European customers, complements the product portfolio of models manufactured on Kia Motors Slovakia's production lines. Venga is together with the Ceed exclusively produced in Slovakia. It has undergone rigorous tests of reliability and durability and at the same time the model represents a product with several years of stable position in the product portfolio. Since October 2014, the product has been upgraded to a product-enhanced version that delivered a new face and a more modern interior. It is currently available with two gasoline engines of 1.4 litres (66 kW) and 1.6 litres (92 kW) as well as two diesel engines with a capacity of 1.4 litres (66 kW) and 1.6 litres (85 kW).



Engines



Kia Motors Slovakia produced a total of 486,731 engines in 2018. In the course of the past year, the trend in demand for gasoline engines grew even more. The change also affected Kia Motors Slovakia and gasoline engines accounted for up to 63% of the total volume of engines produced last year. The plant currently produces 1.4-litre and 1.6-litre gasoline engines as well as 1.6-litre and 2.0-litre diesel engines.

Production Process

Press shop

1 blanking line
2 press lines
86 types of panels
20 second panel production
5,280,000 panels annually

Body shop

100% welding automatization
374 robots
Capacity of **8** types of car bodies

Paint shop

360º Ro-Dip conveyor system
7.5 km conveyor system
83 robots
13 colour options (6 new)

Engine shop

2 production shops
2 gasoline engines
2 diesel engines
7 metal cutting lines
2 assembly lines

Assembly shop

Area **18** football pitches
280 working stations
43% modularisation
3.5 km test track

4. SUSTAINABLE DEVELOPMENT

Environmental aspects – environmental protection

Kia Motors Slovakia's environmental policy is established on the principles of corporate social responsibility effective for the entire Hyundai Motor Group, divided into economic, social and environmental responsibilities. Based on this, the 2020 Environmental Strategy for Kia Motors Slovakia was created and adopted in 2017. It consists of three main areas to focus on in the near future.

The first area is environmental awareness, management and cooperation. The aim is to raise environmental awareness among all employees to understand how they can protect and improve the environment in their day-to-day work. It includes cooperation with all interested parties and transparent presentation of environmental performance indicators. The second area is energy saving and emissions reduction. The policy aims to reduce greenhouse gas and volatile organic compounds emissions, and to use more green technologies and improve the management system. The last area represents the view of waste as a new source. Waste is raw material and energy of the future; therefore, our priority is not only to get rid of it, but rather seek ways to reuse it, recycle it, and use it for energy. We support so-called circular economy in order to preserve value of the products and materials as long as possible and thereby minimize the volume of waste.

The underlying environmental policy is the established and certified ISO 14001 Environmental Management System, which the company continually improves and which was certified in 2017 for a new revision of this standard. In 2018, the Environmental Management System was successfully recertified, which obliges the company not only to comply with legal requirements, but also to continuously improve environmental protection, regular environmental performance assessment, and environmental awareness of all employees. An important part of the system is also regular monitoring and evaluation of consumption of water, energy and materials as well as the amount of waste, waste water and emissions produced in terms of conversion to produced vehicle, and adoption of environmental objectives to improve these indicators.

Kia Motors Slovakia minimizes the impact of its activities on the environment not only in the whole production process but also in the production and development of cars. Proof of this is the use of state-of-the-art technologies and systematic environmental monitoring of environmental performance and certificates issued for our models such as LCA Life Cycle Assessment according to ISO 14040 and Integration of Environmental Aspects into Product Design and Development according to ISO 14062.

The company is a member of national and international environmental groups, such as membership in the Legislative Commission of the Automobile Industry Association of the Slovak Republic, membership in European Automobile Manufacturers Association working groups (industrial emissions, process chemicals, REACH), and others. Active participation in these clusters gives us the opportunity, for example, to comment on the legislation in preparation while carefully preparing for important legislation changes.

The goal of Kia Motors Slovakia is to continuously improve the environmental management of the plant because environmental protection is one of the keys to successful business.

Introduction of a more efficient waste sorting system in offices where the company is expanding the amount of separate commodities is evidence. Collection is regularly reviewed and checked. The company also supported the idea of purchasing software that should address collection efficiency and the quality of separated waste in production halls. The project should be implemented in the course of 2019.

Human Resources

As of December 31, 2018, the plant employed 3,787 people with average age of 37 years. The human resources policy at Kia Motors Slovakia stands on the following basic pillars: employee care, transparent communication with employees on horizontal level, a highly competitive remuneration system, a wide range of benefits used in free time as well as improvement of conditions for employees. Through joint seminars with employees aimed at involving employees in internal decision-making processes. Since 2005, a unique concept of counselling rooms so-called Harmony rooms located directly in production shops have been utilized. In these rooms, employees can actively participate in improving work environment and workplace relationships. Every year, the company organises events for employees and their family members, the most important being the Kia Open Day, Parents Day, St. Nicolas Day, or Women's Day.

In 2018, the company won the PricewaterhouseCoopers Slovakia award named HR Leading Organisation for the fifth time; the award recognizes institutions with the best human resources management in the automotive industry in Slovakia.

Education of Employees

Since its inception, the company has placed emphasis on the personal and professional growth of its employees, which it considers to be the key to its success. The company has its own Training Centre in the village of Gbelany, where many trainings take place. In 2018, both production and administration employees received 280 different types of trainings. In the past year, the company carried out 1,395 training sessions, including trainings required by law. Their aim was to deepen employees' qualifications, increase their skills, but also to strengthen their work and management competencies. A total of 9,305 people participated in the education and development programs and 44,573 man hours were trained. A new feature last year was the arrangement of special employee days 9 special seminars for operators attended by 228 operators from all production shops. Last year, the company intensively continued its work with leading employees from production. Improvement of competence skills was completed by a total of 115 supervisors and 222 senior operators.

Kia Motors Slovakia organises trainings together with the parent company Kia Motors Corporation. The main objective is to acquire the necessary skills and technical knowledge for the production of new models. In 2018, 187 employees participated in training in South Korea. For the best-performing employees, the company runs an annual Kia Spirit Up! incentive program in South Korea; the company took advantage of the fact that the 2018 Winter Olympics took place in South Korea's PyeongChang so 60 selected employees attended this special event.

Safety and Occupational Health in 2018

Kia Motors Slovakia has made a major shift in health care in 2018. On August 16, 2018, the company opened a new Medical Centre directly on the plant's grounds, which offers, in addition to the medical examinations, a possibility of rehabilitation in terms of prevention of health problems in connection with work or treatment of health issues.

The Medical Centre offers the company employees the following:

- Occupational medical doctor to carry out medical examinations regarding work
- General practitioner
- Provision of premedical first aid
- Room for physiotherapy exercises
- Health procedures (ultrasound, electrotherapy, shock wave, laser therapy, etc.)

There are two types of rehabilitation in the Medical Centre:

A) Rehabilitation regarding work:
Employee who has spent five years at a risk position (noise, vibration, or physical load) is required to complete 80 hours of preventive exercises within 24 months from the date of entitlement.

B) Rehabilitation related to a health issue:
Participation in this rehabilitation is individual and depends on the employee's diagnosis. A room for physiotherapy exercises and specialized medical procedures is available to employees.

Rehabilitations are executed in the exercise room. These are focused on the most loaded and threatened body parts during work such as upper limbs and upper and lower back. Regular physiotherapy exercises with aids such as fit balls, balance pads, overballs, TRX, SM system, and others are provided.

The centre is fully equipped with state-of-the-art ultrasound therapy, electrotherapy, laser therapy, selective radiofrequency therapy, shock wave therapy, and hydrotherapy of the upper limbs. Therapies help to relieve pain and inflammation, tissue bleeding, and regeneration of muscles, tendons, tissues and joints.

Health issues are reviewed based on diagnosis. The centre employees emphasize the importance of regular exercise, acquiring of the right habits, strengthening the weakened muscles, or correct body posture, which also requires collaboration of the company employees.

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. Kia Motors Slovakia has identified the end-user benefits and, under the law, is registered in the public sector partner register. Kia settled all due claims and due liabilities towards all state authorities by December 31, 2018.

Compliance with Ethical Rules

The company has declared its commitment to act in accordance with all ethical rules and regulations through the introduction of the compliance system, which provides assistance in interpreting ethical issues and addressing them not only in the company but also towards its business partners. Compliance focuses particularly on business ethics, anti-corruption measures, management of conflict of interests, gift policy, whistleblowing and prevention of anti-social activities or competition rules, or the prevention of the criminal consequences of possible unlawful actions by employees.

In addition to complying with legal obligations, a substantial part of compliance activity was aimed at educating employees in the field of cyber security and personal data protection following the applicability of the General Data Protection Regulation. It is precisely these areas that need to be seen as critical in the context of current technological and societal developments, with the understanding of the fundamental principles leading to transparent conduct, risk identification and the prevention of negative impacts, such as not only financial losses, sanctions, but also reputational risks.

Cooperation with Schools

Kia Motors Slovakia has been actively cooperating with secondary vocational schools in the Zilina region since 2007. Since then it has enabled more than 700 students to obtain practical studies in the company's production facilities. In the 2018/2019 school year, 29 students finished vocational practical training in the Kia plant.

In the 2018/2019 school year, the carmaker continues in the dual education system. In total, 67 students from the Secondary Vocational Engineering School in Kysucke Nove Mesto will graduate in the following specializations: Mechanic – specialist of car production, Programmer of machining and welding tools and devices, and Mechanic – mechatronic. The students have not only been receiving practical studies with the most attractive employer in the Zilina region, they are also going to be guaranteed a working position after their graduation. In the upcoming school year, the company is going to extend cooperation with other schools in the dual education system, namely Secondary Joined School in Martin and Secondary Vocational Electrotechnical School in Zilina.

Three secondary school students and three university students have entered the scholarship program at Kia Motors Slovakia in the 2018/2019 school year. Conditions for obtaining scholarship were excellent study results and practical vocational training during their studies.

In order to improve the quality of training of students as well as newly-recruited employees, the company continues to develop and upgrade the work position of a trainer. As of December 31, 2018, 19 dedicated trainers, whom were completely excluded from the production process, were operating in the plant. Thanks to their deployment, the adaptive process of new employees has been improved and their readiness to work in production increased.

Philanthropy

In 2018, Kia Motors Slovakia continued to realise its intention to be a responsible partner for organisations and inhabitants of the Zilina Self-Governing Region by supporting various philanthropic activities. Via Kia Motors Slovakia Foundation, the company supported 207 projects in the total amount of 1.8 million EUR (more information in the 2018 Annual Report of Kia Motors Slovakia Foundation). The company also donated a financial amount of 322,000 EUR for direct realisation of projects. The primary focus of support in 2018 was technical and language education for children and youth, building of sport arenas, support of sport clubs and ecomobility, volunteering, and increase of quality of health care. The goal of the foundation in 2019 remains the development of education and sport targeting children and youth as well as support of mobility and bike sharing representing an alternative to public city transport.

A significant part of the corporate responsibility of Kia Motors Slovakia is the company's volunteering program, blood donation and support of 22 non-profit organisations. In 2018, Kia volunteers worked for 780 hours altogether. 86 employees participated in the largest volunteering event in Slovakia titled "Our City", which benefited various organisations in the Zilina region in one day. In 2018, Kia Motors Slovakia Foundation in cooperation with the National Blood Transfusion Service of the Slovak Republic organised blood donations for administrative employees. Voluntary blood donations have been organised in Kia Motors Slovakia since 2007.

The company donated 390 portable fire extinguishers in April of last year to voluntary fire brigades from 16 municipalities. Firefighters can use them for exercises, demonstrations and festivals. The provided extinguishers will help them to improve their skills. In June, the plant handed over 10 multifunctional copy machines for printing, copying, and scanning to educational institutions, non-profit organisations, and surrounding communities. In September, three baby changing tables were donated to a nursery school in Zilina; 400 office chairs were given to the Faculty Hospital with the Polyclinic Zilina and 11 elementary schools in the Zilina region.

In 2018, Kia Motors Slovakia entered the 5th year of the National Award of the Slovak Republic for Corporate Social Responsibility in the Large Enterprise category, organised by the Office for Standardization, Metrology and Testing of the Slovak Republic as a coordinator of the state quality policy. The company won first place which publicly confirms the long-term commitment to social responsibility in accordance with European recognized criteria. The vision "Together for a Better Future" expresses the will to create fundamental values and to promote harmonious growth with an emphasis on environmental aspects and respect for human needs.

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 organisation. 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 new management philosophy and horizontal principles that stress trust based, on-site, and transparent management.

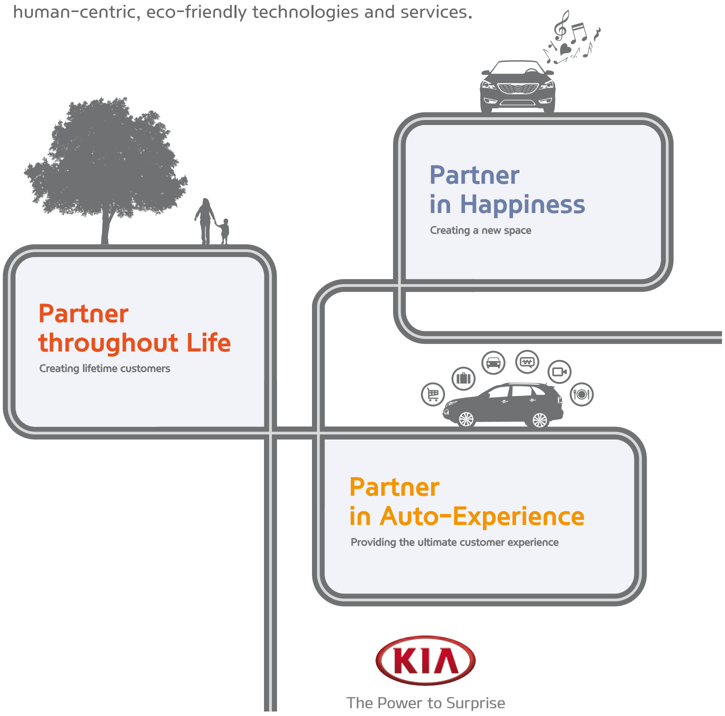
Kia Motors fulfils corporate philosophy representing the values which have to be kept, the direction we want to take, and a clear vision of our future. Endowed with an intrinsic passion for success, we pledge to work together toward our new vision and aspiration for 2020. A company's management philosophy 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 organisation.

VISION 2020

Lifetime partner in automobiles and beyond

To become a trusted lifetime partner of our customers, we will bring a new perspective to automobiles through innovative mobility solutions based on human-centric, eco-friendly technologies and services.



CUSTOMER

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

CHALLENGE

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

COLLABORATION

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

GLOBAL

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

PEOPLE

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.

5. QUALITY MANAGEMENT SYSTEM

For Kia Motors Slovakia and all its employees, the main goal is to pursue the path of continuous improvement and to constantly increase customer satisfaction by increasing the quality of the produced vehicles following the current legislation in the automotive industry and enhancing the competitiveness of vehicles on the market.

During 2018, Kia Motors Slovakia successfully launched volume production of the third-generation Ceed in three body versions as well as the GT and GT lines, a product enhanced Sportage; prepared all engines produced in engine shops to meet the Euro 6d TEMP emission standards. The plant has thus ensured that all manufactured cars meet the new requirements for vehicles intended for the European market.

Despite the launch of production of several new models, the initial quality of the produced vehicles improved by 11% compared to 2017. An improvement in the quality of longer-used vehicles by 17% was also registered. In the production process, a high level of quality is ensured by skilled and experienced employees, starting with the preparation and planning of production through actual production of automobiles, inter-operative quality control and final inspection of finished vehicles ready for distribution to customers. As of December 31, 2018, more than 420 employees were employed in connection with production quality.

The company results are proof of effective process improvement, deployment of more efficient practices and new wireless technologies (WOBD). The implementation of the new LOT tracking system, which records production information on mounted parts, has raised the traceability level. Based on this, it is possible to clearly and effectively determine the movement and location of the entire series of components from a supplier. Effectively managing goals, risks, opportunities and improvement projects, the company is systematically improving and increasing the satisfaction of its customers.

At the end of 2018, Kia Motors Slovakia has begun developing completely new management software for all certified management systems that will focus on document management, reporting, internal audits, risk management and opportunities in the first phase. Implementation of this phase of the software will be completed in 2019 and should streamline process management and thus help to continuously improve it with the help of the software interconnection of input and output processes from interested parties.

6. FINANCIAL OVERVIEW

Income Statement

In TEUR

	2018	2017
Revenue	5,185,633	5,184,666
Cost of sales	- 4,918,478	- 4,801,947
Gross profit	**267,155**	**382,719**
Administrative and selling expenses	60,754	-91,356
Operating profit	**327,909**	**291,363**
Interest costs	-1,268	-1,036
Interest income	2,129	1,194
Other financial (expense)/income, net	-1,497	-145
Net finance costs	**-636**	**13**
Other operating income/(expenses), net	-22,003	-25,047
Profit before taxes	**305,270**	**266,329**
Current and deferred income tax	-64,589	-56,458
Total comprehensive income for the year	**240,681**	**209,871**

Statement of changes in share capital

In TEUR

Capital increasing	Amount	Contributions of capital	EUR
Balance as of 1.1.2018	**433,323**		**EUR**
Balance as of 31.12.2018	**433,323**		**EUR**

Balance sheet

In TEUR

	31 December 2018	31 December 2017
Assets		
Non-current assets	776,157	722,192
Current assets	1,387,574	1,373,655
Total assets	**2,163,731**	**2,095,847**
Equity		
Issued capital	433,323	433,323
Legal reserve fund and accumulated profit	607,876	467,195
Total equity	**1,041,199**	**900,518**
Liabilities		
Non-current liabilities	427,495	570,255
Current liabilities	695,037	625,074
Total liabilities	**1,122,532**	**1,195,329**
Total equity and liabilities	**2,163,731**	**2,095,847**

Distribution of profit

The general meeting will decide on the distribution of profit in the amount of 240,681 TEUR for the year 2018 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 second quarter of 2019.

7. YEARLY CLOSING

Statement of comprehensive income for the year ended 31 December 2018

in TEUR

	Note	2018	2017
Revenue	*5*	5,185,633	5,184,666
Cost of sales	*6*	-4,918,478	- 4,801,947
Gross profit		**267,155**	**382,719**
Administrative and selling expenses	*7*	60,754	-91,356
Operating profit		**327,909**	**291,363**
Interest costs		-1,268	-1,036
Other finance costs		-5,944	-5,807
Interest income		2,129	1,194
Other finance income		4,447	5,662
Net finance income / (costs)	*8*	**-636**	**13**
Other operating (expense) / income	*9*	-22,003	-25,047
Profit before taxes		**305,270**	**266,329**
Current and deferred income tax	*10*	-64,589	-56,458
Profit for the year		**240,681**	**209,871**
Other comprehensive income		0	0
Total comprehensive income for the year		**240,681**	**209,871**

Statement of changes in equity for the year ended 31 December 2018

in TEUR

	Note	Share capital	Legal reserve fund	Retained earnings	Total
		(Note 20)	(Note 20)		
Balance as of 1 January 2017		433,323	43,332	424,130	900,785
Total comprehensive income for the year		0	0	209,871	209,871
Dividend distribution		0	0	-210,138	-210,138
Balance as of 31 December 2017	*20*	**433,323**	**43,332**	**423,863**	**900,518**
Balance as of 1 January 2018		433,323	43,332	423,863	900,518
Total comprehensive income for the year		0	0	240,681	240,681
Dividend distribution		0	0	-100,000	-100,000
Balance as of 31 December 2018	*20*	**433,323**	**43,332**	**564,544**	**1,041,199**

Statement of cash flows for the year ended 31 December 2018

in TEUR

Cash flows from operating activities	*Note*	31 December 2018	31 December 2017
Assets			
Property, plant and equipment	*11*	643,158	571,107
Intangible assets	*12*	4,188	3,733
Reclaim receivable	*14*	53,334	60,437
Deferred tax assets	*15*	75,477	86,915
Total non-current assets		**776,157**	**722,192**
Inventories	*16*	412,651	353,530
Trade and other accounts receivable	*17*	920,166	914,800
Cash and cash equivalents	*18*	26,762	45,817
Prepaid expenses		138	6,008
Intercompany loan receivable	*19*	12,230	52,360
Income tax receivable		15,627	1,140
Total current assets		**1,387,574**	**1,373,655**
Total assets		**2,163,731**	**2,095,847**
Equity			
Issued capital	*20*	433,323	433,323
Legal reserve fund	*20*	43,332	43,332
Accumulated profit		564,544	423,863
Total equity		**1,041,199**	**900,518**
Liabilities			
Interest-bearing loans and borrowings	*21*	3,109	104,283
Provisions	*14*	400,674	465,972
Contract liability	*13*	23,712	0
Total non-current liabilities		**427,495**	**570,255**
Interest-bearing loans and borrowings	*21*	101,175	86,119
Trade and other accounts payable	*22*	490,077	353,204
Provisions	*14*	103,785	185,751
Total current liabilities		**695,037**	**625,074**
Total liabilities		**1,122,532**	**1,195,329**
Total equity and liabilities		**2,163,731**	**2,095,847**

Statement of cash flows for the year ended 31 December 2018

in TEUR

Cash flows from operating activities	Note	2018	2017
Profit for the year		240,681	209,871
Adjustments for:			
Depreciation of property, plant and equipment and intangible assets, net of amortisation of state aid	*11,12*	94,460	103,295
Value adjustment for inventories		1,043	-3,114
Retirement of property, plant and equipment		284	583
Value adjustment to receivables		78	0
Interest costs	*8*	1,268	1,036
Interest income	*8*	-2,129	-1,194
Unrealized FX losses		11,432	2,775
Unrealized FX gains		-520	-1,186
Warranty provisions charges	*14*	78,054	79,099
Release of prepaid royalty	*6*	4,904	19,616
Release of warranty provision		-147,144	0
Tax expense	*10*	64,589	56,458
(Gain on) / loss from sale of property, plant and equipment		-2	-580
Operating profit before changes in working capital items		**346,998**	**466,659**
(Increase) / Decrease in inventories	*16*	-60,164	-42,550
(Increase) / Decrease in trade and other receivables and prepaid expenses	*17*	-15,359	-29,547
(Decrease) / Increase in trade and other payables	*22*	136,894	-90,225
(Decrease) / Increase in contract liabilities		23,712	0
(Decrease) / Increase of other provisions	*14*	784	-50,569
Cash generated from operating activities		**432,865**	**253,768**
Interest paid from financing receivables, overdrafts and other		577	0
Interest received on trade receivables from related parties and bank deposits		907	893
Tax paid		-67,638	-68,146
Warranty claims paid	*14*	-101,009	-106,357
Reclaims collected	*14*	30,496	36,333
Net cash generated from operating activities		**295,044**	**116,491**
Cash flows from investing activities			
Acquisition of property, plant and equipment	*11*	-165,439	-105,673
Acquisition of intangible assets	*12*	-1,861	-1,309
Collection / (Provision) of intercompany loan	*19*	40,130	207,531
Proceeds from sale of non-current assets		53	1,750
Interest received from intercompany loan		91	323
Net cash generated from / (used for) investing activities		**-127,026**	**102,622**
Cash flows from financing activities			
Repayment of long-term bank loans		-86,250	-16,250
Payment of dividend		-100,000	-210,138
Interest paid on long-term bank loans		-559	-847
Net cash (used for) financing activities		**-186,809**	**-227,235**
Net (decrease) / increase in cash and cash equivalents		-18,791	-8,122
Cash and cash equivalents at beginning of the period	*18*	45,817	53,939
Changes in FX related to cash and cash equivalents		-264	0
Cash and cash equivalents at end of the period	*18*	**26,762**	**45,817**

Notes to the financial statements for the year ended 31 December 2018

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, engines and spare parts.

These financial statements have been prepared as at 31 December 2018 and for the year then ended and were prepared and authorized for issue by the Company's directors on 28 February 2019. 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 2018 to 31 December 2018.

The Financial Statements of the Company as at 31 December 2017 including the auditor's report on the audit of the financial statements as at 31 December 2017 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 26 June 2018.

On 27 October 2017 the general meeting appointed KPMG Slovensko spol. s r.o. as the auditor of the Financial Statements for the period from 1 January 2018 to 31 December 2018.

The Company's bodies:

Directors	Dae Sik Kim (till 29 January 2019)
	Kyong Jae Lee (from 29 January 2019)
	Jun Gyu Lee (till 29 January 2019)
	Chong Hae Koo (from 29 January 2019)

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 statements of Kia Motors Corporation are available to public through the 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 13 – Contract liability
- Note 14 – Provision for warranty and reclaim assets
- Note 28 – Accounting estimates and judgements

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 h). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Cost also includes, where relevant, the costs of dismantling and removing the items and restoring the site on which they are located.

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. The replacing part is derecognized at the same moment. 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.

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 related to PPE

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. Such grants are recognised 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 h).

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. Emission rights purchased are measured at costs. Emission rights granted by government are recorded at fair value at the date of receipt. The portion of grant related with the emission rights granted is accounted for as a reduction of intangible asset.

Once used, emission rights are recorded to cost of goods sold, together with the portion of grant, which relates to the used emission rights.

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 expensed proportionally over the period for which the royalty has been paid to cost of goods sold (refer to Note 6). The lump sum royalty reduces the running royalty calculated on the basis described below.

ii. Variable royalty payments

Royalties represent regular expense calculated from the Company's revenue for sale of cars multiplied by an agreed percentage (until 2012: on the basis of number of cars produced), and are recorded as cost of goods sold (refer to Note 6). The amount of variable royalty recorded is reduced by the portion of lump sum royalty expense.

e) Trade and other accounts receivable and intercompany loan receivable

Trade, other receivables and intercompany loans provided are recognized initially at fair value. Subsequently they are measured 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.

The Company charges certain customers a variable interest rate for the agreed portion of financed period, which is recorded as interest income on trade receivables 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
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised costs. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

The financial assets at amortised cost consist of trade and other receivables, cash and cash equivalents, and intercompany loan.

Under IFRS 9, loss allowances are measured on either of the following bases:
- 12-month ECLs: these are ECLs that result from all possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial asset.

The company has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECL.

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

The Company assumes that the credit risk on a financial asset due from third party customers has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECL's

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are not discounted as they don't include any significant financial component.

Impairment losses related to trade and other receivables 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.

The impact of IFRS 9 adoption was not considered material for the financial statements. The Company took advantage of the paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement including impairment losses.

Non-financial assets

The carrying amounts of the Company's assets, other than inventories (see accounting policy f) and deferred tax assets (see accounting policy p) 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.

Reclaim asset is recognized for reimbursement from individual suppliers according to the contractual terms. The suppliers warrant for the defects incurred within 5 years period, which is shorter compared to the warranty period granted to customers, unless the reclaim is not within the campaign. The reclaim asset is fully recognized when it is virtually certain that it will be collected.

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

The Company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in Note 4 l).

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of goods was recognized when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods and the amount of revenue could be measured reliably.

A significant element of the Company's revenue is with related parties (see Note 24).

Sale of cars

The Company recognizes the revenue from sale of cars, when the control passes to its customers, which is determined using INCOTERMS. The Company usually uses the INCOTERMS conditions, where the control passes at a point the goods are loaded to the first carrier.

The amount invoiced to the customers may include two separate performance obligations:
- the sale of car; and
- the extended warranty coverage for year 6 and 7.

Management concluded that the extended warranty coverage is a separate performance obligation because of its length. The judgment was also based on historical experience of HYUNDAI MOTOR GROUP with the sale of its cars in different markets.

The Company invoice a full amount on car delivery to the customer. This amount is split to the separate performance obligations based on proportion of the standalone selling prices that are determined using costs plus margin method. The revenue from extended warranty service is recognized as a contract liability and the performance obligation will be fulfilled in year 6 and year 7 after the date the car is sold to the final customer, i.e. warranty period starts.

Sale of engines and spare parts

The Company recognizes the revenue from sales of engines and spare parts, when the control passes to its customers, which is determined using INCOTERMS. The Company usually uses INCOTERMS conditions, where the control passes at a point the goods are loaded to the first carrier.

Revenue from transportation of goods

The revenue from transportation services is part of the invoiced price for sale of the car to the customer and it is presented in the line "Revenue from sale of cars". The costs of transporting goods are recognized in cost of goods sold. The Company is fully exposed to the risks related with organization of transportation services on which basis management concluded the Company acts as a principal.

Effects from Introduction of New accounting standard IFRS 15

in TEUR

	Note	**Balances without adoption of IFRS 15 31 December 2018**	**Adjustments**	**As audited 31 December 2018**
Assets				
Property, plant and equipment	*11*	643,158		643,158
Intangible assets	*12*	4,188		4,188
Reclaim receivable	*14*	53,334		53,334
Deferred tax assets	*15*	75,477		75,477
Total non-current assets		**776,157**		**776,157**
Inventories	*16*	412,651		412,651
Trade and other accounts receivable	*17*	920,166		920,166
Cash and cash equivalents	*18*	26,762		26,762
Prepaid expenses		138		138
Intercompany loan receivable	*19*	12,230		12,230
Income tax receivable		15,627		15,627
Total current assets		**1,387,574**		**1,387,574**
Total assets		**2,163,731**		**2,163,731**
Equity				
Issued capital	*20*	433,323		433,323
Legal reserve fund	*20*	43,332		43,332
Accumulated profit		564,544		564,544
Total equity		**1,041,199**		**1,041,199**
Liabilities				
Interest-bearing loans and borrowings	*21*	3,109		3,109
Provisions	*14*	424,386	-23,712	400,674
Contract liability	*13*	0	23,712	23,712
Total non-current liabilities		**427,495**	**0**	**427,495**
Interest-bearing loans and borrowings	*21*	101,175		101,175
Trade and other accounts payable	*22*	490,077		490,077
Provisions	*14*	103,785		103,785
Total current liabilities		**695,037**	**0**	**695,037**
Total liabilities		**1,122,532**	**0**	**1,122,532**
Total equity and liabilities		**2,163,731**	**0**	**2,163,731**

in TEUR

	Note	**Balances without adoption of IFRS 15 31 December 2018**	**Adjustments**	**As audited 31 December 2018**
Revenue	*5*	5,209,345	−23,712	5,185,633
Cost of sales	*6*	−4,760,244	−158,234	−4,918,478
Gross profit		**449,101**	**−181,946**	**267,155**
Administrative and selling expenses	*7*	−121,192	181,946	60,754
Operating profit		**327,909**	**0**	**327,909**
Interest costs		−1,268		−1,268
Other finance costs		−5,944		−5,944
Interest income		2,129		2,129
Other finance income		4,447		4,447
Net finance income / (costs)	*8*	**−636**		**−636**
Other operating (expense) / income	*9*	−22,003		−22,003
Profit before taxes		**305,270**	**0**	**305,270**
Current and deferred income tax	*10*	−64,589		−64,589
Profit for the year		**240,681**	**0**	**240,681**
Other comprehensive income		0		0
Total comprehensive income for the year		**240,681**	**0**	**240,681**

in TEUR

	Note	**Share capital**	**Legal reserve fund**	**Retained earnings**	**Total**
		(Note 20)	(Note 20)		
Balance as of 1 January 2018		**433,323**	**43,332**	**423,863**	**900,518**
Total comprehensive income for the year		0	0	240,681	240,681
Dividend distribution		0	0	−100,000	−100,000
Balance as of 31 December 2018 without adoption of IFRS 15	*20*	**433,323**	**43,332**	**564,544**	**1,041,199**
Adjustments		**0**	**0**	**0**	**0**
As audited as of 31 December 2018		**433,323**	**43,332**	**564,544**	**1,041,199**

in TEUR

Cash flows from operating activities	*Note*	Balances without adoption of IFRS 15 31 December 2018	Adjustments	As audited 31 December 2018
Profit for the year		240,681		240,681
Adjustments for:				
Depreciation of property, plant and equipment and intangible assets, net of amortisation of state aid	*11,12*	94,460		94,460
Value adjustment to inventories		1,043		1,043
Retirement of property, plant and equipment		284		284
Value adjustment to receivables	*17*	78		78
Interest costs	*8*	1,268		1,268
Interest income	*8*	-2,129		-2,129
Unrealized FX losses		11,432		11,432
Unrealized FX gains		-520		-520
Warranty provisions charges	*14*	101,766	-23 712	78,054
Release of prepaid royalty	*6*	4,904		4,904
Release of warranty provision	*14*	-147,144		-147,144
Tax expense	*10*	64,589		64,589
(Gain on) sale of property, plant and equipment		-2		-2
Operating profit before changes in working capital items		**370,710**	**-23 712**	**346,998**
Decrease / (Increase) in inventories	*16*	-60,164		-60,164
(Increase) in trade and other receivables and prepaid expenses	*14,17*	-15,359		-15,359
Increase in trade and other payables	*22*	136,894		136,894
Increase in contract liability	*13*	0	23 712	23,712
(Decrease) / Increase of other provisions	*14*			
Cash generated from operating activities		**432,865**	**0**	**432,865**
Interest paid from financing receivables, overdrafts and other		577		577
Interest received on trade receivables from related parties and bank deposits		907		907
Tax paid		-67,638		-67,638
Warranty claims paid		-101,009		-101,009
Reclaims collected		30,496		30,496
Net cash generated from operating activities		**295,044**	**0**	**295,044**
Cash flows from investing activities				
Acquisition of property, plant and equipment	*11*	-165,439		-165,439
Acquisition of intangible assets	*12*	-1,861		-1,861
Collection / (Provision) of intercompany loan	*19*	40,130		40,130
Proceeds from sale of non-current assets		53		53
Interest received from intercompany loan		91		91
Net cash (used for) investing activities		**-127,026**		**-127,026**
Cash flows from financing activities				
Repayment of long-term loans		-86,250		-86,250
Repayment of dividends		-100,000		-100,000
Interest paid on long-term bank loans		-559		-559
Net cash (used for) financing activities		**-186,809**	**0**	**-186,809**
Net increase in cash and cash equivalents		-18,791	0	-18,791
Cash and cash equivalents at beginning of the period	*18*	45,817	0	45,817
Changes in FX related to cash and cash equivalents		-264		-264
Cash and cash equivalents at end of the period	*18*	**26,762**	**0**	**26,762**

m) 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 reduction of depreciation expense over the useful life of the assets to which they relate (refer to Note 4 b) v.).

n) 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 from conversion of cash held in currencies other than EUR and translation of cash balance denominated in foreign currency to EUR.

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 e) and other interest paid and received are presented in cash flows from operating activities.

o) Other operating income and expense

Other operating expense and other operating income comprise foreign exchange gains and losses that arise during collection or translation of receivables and payment or translation of liabilities denominated in currencies other than EUR, gains and losses on sale of property, plant and equipment, government grants for job creation and education and other items.

p) 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 calculated using the balance sheet liability method, on 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 considered. 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.

q) 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 retirement bonus the employee is entitled to 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.

r) New standards not yet adopted

The following new standards, amendments and interpretations are not yet effective for the annual reporting period ended 31 December 2018 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

Standards and interpretations adopted by the European Union

IFRS 16 Leases
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Company 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.

Adoption of IFRS 16 is expected to have an impact on the Company's financial statements in the period of initial application as it is required to recognise new assets and liabilities for its operating leases.

The Company will recognise new assets (right-of-use) and liabilities for its operating leases of production premises and land.

The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities and new assets of MEUR 4 as at 1 January 2019. Additionally, the Company expects to recognise depreciation charge for right-of-use assets TEUR 230 and interest expense on lease liabilities TEUR 40 for the year ended 31 December 2019. At the same time the application of the standard will decrease the operating expenses by TEUR 260.

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach with the value of initially recognized right-of-use asset being equal the respective lease liability. Therefore there will be no effect on the equity as at 1 January 2019.

IFRIC 23 — Uncertainty over Income Tax Treatments

Effective for annual reporting periods beginning on or after 1 January 2019.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the company's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. A company must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company does not operate in a complex multinational tax environment and does not have material uncertain tax positions.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

Effective for annual periods beginning on or after 1 January 2019. These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.
The amendments enable companies to measure at amortized cost some prepayable financial assets with so-called negative compensation.
The Company does not expect that the amendments will have a material impact on the financial statements because the Company does not have prepayable financial assets with negative compensation.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively.

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.

The Company expects that the amendments, when initially applied, will not have a material impact on the financial statements as the Company is not an insurance provider.

Standards and interpretations, not yet adopted by the European Union

IFRS 17 Insurance contracts

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted for companies that apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on or before the date of initial application of IFRS 17.

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Company expects that the standard, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The European Commission decided to defer the endorsement indefinitely.

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.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

Effective for annual reporting periods beginning on or after 1 January 2019, to be applied retrospectively. Earlier application is permitted.

The Amendments clarifies that companies account for investments in associates or joint ventures, for which equity method is not applied, in accordance with provisions of IFRS 9 Financial Instruments.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Company has no subsidiaries, associates or joint ventures.

Annual improvements to IFRSs 2015 – 2017 Cycle

The improvements introduce amendments to four standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. These amendments are applicable to annual periods beginning on or after 1 January 2019; to be applied retrospectively.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:
- clarify that the company remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
- clarify that the company does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the company should always account for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the Company originally recognized past transactions or events that generated distributable profits; and
- clarify that the company should exclude from the funds that the company borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

None of these amendments are expected to have a significant impact on the financial statements of the Company.

Amendments to IAS 19: Employee Benefits

Effective for annual periods beginning on or after 1 January 2019.
The Amendments require that the company uses current and updated assumptions when a change to a plan, an amendment, curtailment or settlement takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

The Company does not expect the Amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020.
The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Company does not expect the Amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective for annual periods beginning on or after 1 January 2020.
The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Company does not expect the Amendments to have a material impact on its financial statements when initially applied. The Company does not plan to apply above mentioned standards, amendments and interpretation before the day they come into effect. All new standards, amendments and interpretation, which are relevant for the Company, will be applied by the Company when they come into effect.

5. Revenue

The effect of initially applying IFRS 15 on Company's revenues from contracts with customers is described in Note 4 l). As the Company selected a cumulative effect transition method, as well as the Company considered the contracts with the customers for supply of goods and services delivered in 2017 for completed based on previous IAS 18, the comparative information does not need to be restated according to IFRS 15.

Revenue from contracts with customers is principally represented by sale of cars (cee'd, Ceed, Venga and Sportage model) and sale of engines to another production plant, a related party. The breakdown by key products and geographical area is as follows:

In thousands of euro	2018	2017
Revenue from sales of cars to EU countries excluding Slovakia	3,061,084	3,231,017
Revenue from sales of cars to non EU countries	1,604,713	1,388,478
Sale of engines, spare parts and others	454,371	505,148
Revenue from sale of cars to Slovakia	65,465	60,023
Total	**5,185,633**	**5,184,666**

The following table provides information about receivables and contract liabilities from revenues from contracts with customers:

In thousands of euro	2018	2017
Amount of receivables included in trade receivables - Note 17	657,664	706,833
Contract liabilities - Note 13	-23,712	0
Prepayments from customers - Note 22	-333	-14,281

6. Cost of sales

In thousands of euro	2018	2017
Material consumption	4,225,341	4,125,567
Logistics services	158,234	143,827
Depreciation and amortization (refer to Note 11,12)	100,250	109,085
Personnel expenses	111,729	103,756
Energy consumption	22,117	20,968
Royalty charge	4,904	19,616
Running royalty charge	231,623	214,360
Creation of inventory provision	1,043	0
Amortization of government grants (refer to Note 11)	-6,290	-6,290
Other cost of sales	69,527	71,058
Total	**4,918,478**	**4,801,947**

The Company had on average 3,748 employees, out of that were 2 managers (in 2017: 3,682, out of that 2 managers). As at 31 December 2018 the Company had 3,787 employees, out of that 2 managers (as at 31 December 2017: 3,755, out of that 2 managers).

7. Administrative and selling expenses

In thousands of euro	2018	2017
Warranty charges net of warranty reclaim asset (refer to Note 14)	78,054	79,099
Warranty provision release	-147,144	0
Personnel expenses	5,206	4,606
Marketing services	450	387
Depreciation and amortization (refer to Note 11,12)	500	500
Other expenses	2,180	6,764
Total	**-60,754**	**91,356**

8. Net finance costs

In thousands of euro	2018	2017
Interest expense, long-term bank loans	-691	-1,036
Interest expense from financing receivables	-577	0
	-1,268	**-1,036**
Interest income, bank balance	665	629
Interest income on trade receivables from related parties	1,373	242
Interest income intercompany loan	91	323
	2,129	**1,194**
Net interest income / (expense)	**861**	**158**
Foreign exchange losses	- 5,944	-5,807
Foreign exchange gains	4,447	5,662
Net foreign exchange (losses) / gains	**- 1,497**	**-145**
Net finance income / (costs)	**-636**	**13**

Interests on trade receivables and related borrowings

The Company charges certain customers, related parties, a variable interest rate for the agreed portion of financed period, which is recorded as interest income on trade receivables from related parties (refer to Note 24).

9. Other operating income/(expense), net

In thousands of euro	2018	2017
Foreign exchange gains operating	13,330	18,181
Gain from sale of property	6	630
Other operating income	1,849	1,608
Other operating income	**15,185**	**20,419**
Foreign exchange losses operating	-36,033	-43,913
Scrap of property on retirement	-284	-583
Other operating expenses	-871	-970
Other operating expense	**-37,188**	**-45,466**
Total other operating (expense) / income	**-22,003**	**-25,047**

10. Income tax

In thousands of euro	2018	2017
Current tax expense		
Period income tax charge	-53,172	-68,815
Adjustment to prior year income tax	21	23
Deferred tax expense		
Origination and reversal of temporary differences	-11,438	12,334
Total income tax expense	**-64,589**	**-56,458**

Reconciliation of effective tax rate

In thousands of euro	2018	%	2017	%
Profit before tax	305,270		266,329	
Income tax using the domestic corporation tax rate	-64,107	-21.00%	-55,929	-21.00%
Tax non-deductible expenses and other items	-548	-0.18%	-532	-0.20%
(Over) / underprovided to prior year	66	0.02%	3	-0.00%
Income tax charge for the year	**-64,589**	**-21.16%**	**-56,458**	**-21.20%**

The statutory tax rate decreased in December 2016 from 22% to 21% and is 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 2017	288,501	1,164,987	8,860	2,105	1,464,453
Acquisitions	0	0	0	105,673	105,673
Transfer	2,017	17,252	168	-19,437	0
Disposals	0	-15,858	-162	0	-16,020
Balance at 31 December 2017	**290,518**	**1,166,381**	**8,866**	**88,341**	**1,554,106**
Balance at 1 January 2018	290,518	1,166,381	8,866	88,341	1,554,106
Acquisitions	0	0	0	165,439	165,439
Transfer	4,669	238,180	613	-243,462	0
Disposals	0	-36,935	-251	0	-37,186
Balance at 31 December 2018	**295,187**	**1,367,626**	**9,228**	**10,318**	**1,682,359**
Depreciation and impairment losses					
Balance at 1 January 2017	82,142	755,589	7,742	0	845,473
Depreciation charge for the period	9,515	97,998	501	0	108,014
Disposals	0	-14,156	-161	0	-14,317
Balance at 31 December 2017	**91,657**	**839,431**	**8,082**	**0**	**939,170**
Balance at 1 January 2018	91,657	839,431	8,082	0	939,170
Depreciation charge for the period	9,703	89,159	483	0	99,345
Disposals	0	-36,603	-250	0	-36,853
Balance at 31 December 2018	**101,360**	**891,987**	**8,315**	**0**	**1,001,662**
Government grants acquisition costs					
Balance 1 January 2017	38,282	118,227	0	0	156,509
At 31 December 2017	38,282	118,227	0	0	156,509
	38,282	**118,227**	**0**	**0**	**156,509**
Government grants amortization					
Balance 1 January 2017	12,040	94,350	0	0	106,390
Amortization	1,317	4,973	0	0	6,290
At 31 December 2017	13,357	99,323	0	0	112,680
Amortization	1,317	4,973	0	0	6,290
At 31 December 2018	**14,674**	**104,296**	**0**	**0**	**118,970**
Carrying amounts					
At 1 January 2017	180,117	385,521	1,118	2,105	568,861
At 31 December 2017	173,936	308,046	784	88,341	571,107
At 31 December 2018	**170,219**	**461,708**	**913**	**10,318**	**643,158**

Insurance
Property, plant and equipment are insured against damage up to TEUR 1,108,793 (2016: TEUR 1,064,762).

12. Intangible assets

In thousands of euro	Information technologies and software	Emission rights	Assets under development	Total
Cost				
Balance at 1 January 2017	24,565	181	290	25,036
Acquisition	0	0	1,441	1,441
Transfers	1,180	132	-1,312	0
Disposals	-322	-174	0	-496
Balance at 31 December 2017	**25,423**	**139**	**419**	**25,981**
Balance at 1 January 2018	25,423	139	419	25,981
Acquisition	1,357	249	503	2,109
Transfers	413	0	-413	0
Disposals	-7	-146	0	-153
Balance at 31 December 2018	**27,186**	**242**	**509**	**27,937**
Amortization and impairment losses				
Balance at 1 January 2017	20,861	0	0	20,861
Amortization for the year	1,570	0	0	1,570
Disposals	-322	0	0	-322
Balance at 31 December 2017	**22,109**	**0**	**0**	**22,109**
Balance at 1 January 2018	22,109	0	0	22,109
Amortization for the year	1,405	0	0	1,405
Disposals	-7	0	0	-7
Balance at 31 December 2018	**23,507**	**0**	**0**	**23,507**
Government grants acquisition costs				
Balance at 1 January 2017	0	131	0	131
Acquisitions	0	132	0	132
Disposals	0	124	0	124
Balance at 31 December 2017	0	139	0	139
Acquisitions	0	248	0	248
Disposals	0	145	0	145
Balance at 31 December 2018	**0**	**242**	**0**	**242**
Carrying amounts				
At 1 January 2017	3,704	50	290	4,044
At 31 December 2017	**3,314**	**0**	**419**	**3,733**
At 1 January 2018	3,314	0	419	3,733
At 31 December 2018	**3,679**	**0**	**509**	**4,188**

13. Prepaid expenses

In thousands of euro	31 December 2018	31 December 2017
Non-current	23,712	–
Current	–	–
	23,712	**–**

In thousands of euro	31 December 2018	31 December 2017
2019	0	0
2020	0	0
2021	0	0
2022	0	0
2023	5,018	0
2024	12,121	0
2025	6,573	0
	23,712	**0**

14. Provisions and reclaim assets

In thousands of euro	Warranty	Other	Total
Balance at 31 December 2017	**647,664**	**4,059**	**651,723**
Provisions charges (refer to Note 7)	100,105	2,218	102,323
Use	-101,009	-1,434	-102,443
Provision reversed	-147,144	0	-147,144
Balance at 31 December 2018	**499,616**	**4,843**	**504,459**

During 2018 and after a full warranty cycle of 7 years of a specific model, the estimate of cost per unit in warranty was revised to reflect the actual costs incurred. This resulted in a provision reversal of TEUR 147,144 in 2018.

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

In thousands of euro	31 December 2018	31 December 2017
Non-current	400,674	465,972
Current	103,785	185,751
Balance at the reporting date	**504,459**	**651,723**

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 the provision is expected to be used. Suppliers warrant their products up to 5-year period. The creation of warranty provision and reclaim charges are recorded to Administrative and selling expenses, refer to Note 7, on a net basis. For sensitivity analysis, refer to Note 28.

Other provisions

Other provision were recorded for estimated cash outflows resulted from past events incurred during 2018 and it is expected they will be used in 2019 except for provision for long-term employee benefits.

Reclaim asset

In thousands of euro	**Reclaim**
Balance at 31 December 2017	**84,478**
Reclaim charges (refer to Note 7)	22,051
Use	-30,496
Balance at 31 December 2018	**76,033**

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

In thousands of euro	**31 December 2018**	**31 December 2017**
Non-current	53,334	60,437
Current	22,699	24,041
Balance at the reporting date	**76,033**	**84,478**

Company 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 that it will be collected. As at 31 December 2018 the amount of estimated reclaims, that has been assessed as being virtually certain, represents TEUR 76,033 (as at 31 December 2017: TEUR 84,478).

15. Deferred tax assets

In thousands of euro	**31 December 2018**	**31 December 2017**
Property, plant and equipment	-48,769	-49,919
Warranty provision net of reclaim asset	104,919	136,009
Contract liability	4,980	0
Other items	14,347	825
Deferred tax asset	**75,477**	**86,915**

Property, plant and equipment includes unrecorded deferred tax asset of TEUR 8,172.

16. Inventories

In thousands of euro	**31 December 2018**	**31 December 2017**
Raw materials and consumables	306,607	265,847
Less value adjustment	- 1,043	0
Work in progress and semi-finished goods	78,897	58,591
Less value adjustment	0	0
Finished goods	28,190	29,092
Less value adjustment	0	0
	412,651	**353,530**

Insurance

Inventory is insured against damage up to TEUR 185,294 (2017: TEUR 190,223).

17. Trade and other accounts receivable

In thousands of euro	**31 December 2018**	**31 December 2017**
Trade accounts receivable	679,232	727,215
Value adjustment to receivables	-78	0
Other receivables	14,383	10,895
Financial	**693,537**	**738,110**
Value added tax receivable	203,930	152,624
Reclaim asset (refer to Note 14)	22,699	24,041
Advance payment made	0	25
Non-financial	**226,629**	**176,690**
	920,166	**914,800**

Expected credit loss for customers as at 1 January and 31 December 2018

The Company uses allowances matrix to measure the ECLs of third party trade receivables from its customers, which comprise a large number of small balances. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics - ageing of receivables and type of sale, i.e. sale of cars, sale of parts and other receivables.

Management assess a credit risk grade for each customer and for every sales transaction. The financial receivables from sale of cars due from third party customers are in 99% secured via letter of credit with the Company's authorized bank, whereby the risk is reduced to an acceptable low level. As the vast majority of third party receivables are from sale of cars, the Company does not provide a split of receivable to different risk grades, but it provides the split of receivables by type of transaction.

No impairment allowance is calculated to the receivables of customers from HYUNDAI MOTOR GROUP.

The following table provides information about the type of receivables by category and impairment loss allowance as at 31 December 2018:

In thousands of euro

	Gross carrying amount	**Impairment loss allowance**	**Weighted average loss rate**
Receivables HYUNDAI MOTOR GROUP	572,448	0	0.0%
Receivables sale of cars	112,068	28	0.02%
Receivables sale of parts	5,644	42	0.74%
Other receivables	3,455	8	0.23%
	693,615	**78**	

As at 31 December 2018 the Company records trade receivables and other receivables from customers in HYUNDAI MOTOR GROUP that are past due and not provided for in the amount of TEUR 72,839 (overdue less than 1 month). The customers in HYUNDAI MOTOR GROUP cooperates with the Company since its incorporation. None of these customers' balances have been written off or are credit-impaired at the balance sheet date.

The following table provides the information about the exposure to credit risk and ECLs for third party trade receivables, i.e. excluding receivables from HYUNDAI MOTOR GROUP:

In thousands of euro	**Gross carrying amount**	**Impairment loss allowance**	**Weighted average loss rate**	**Credit impaired**
Current (not past due)	105,835	0	0.0%	No
1-30 days past due	14,224	32	0.22%	No
31-90 days past due	824	6	0.73%	No
More than 90 days past due	284	40	14.08%	Yes
	121,167	**78**		

The breakdown by currency is as follows:

In thousands of euro	31 December 2018	%	31 December 2017	%
EUR	266,879	38.5%	300,684	40.7%
GBP	176,431	25.4%	196,882	26.7%
RUB	152,437	22.0%	193,660	26.2%
CZK	15,166	2.2%	18,993	2.6%
SEK	3,618	0.5%	10,400	1.4%
USD	57,337	8.3%	6,485	0.9%
PLN	15,778	2.3%	6,363	0.9%
HUF	5,891	0.8%	4,643	0.6%
	693,537	**100%**	**738,110**	**100%**

62% or TEUR 572,370 (as at 31 December 2017: 68% or TEUR 623,376) 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 2018 the Company offset gross trade and other accounts receivable of TEUR 33,282 (as at 31 December 2017: TEUR 37,570) with the gross trade and other accounts payable of selected business partners of TEUR 22,805 (31 December 2017: TEUR 19,969) with certain partners and presented them as net receivable of TEUR 10,572 (31 December 2017: TEUR 17,601).

18. Cash and cash equivalents

In thousands of euro	31 December 2018	31 December 2017
Bank balances	26,761	45,816
Vouchers	1	1
Cash and cash equivalents	**26,762**	**45,817**

Cash and cash equivalents in the amount of TEUR 19,865 are denominated in foreign currencies (31 December 2017: TEUR 36,820).

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 2018 (31 December 2017: 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 2018	31 December 2017
Non-current liabilities		
Long-term bank loans	3,109	104,283
Long-term bank loans	**3,109**	**104,283**
Current liabilities		
Short-term portion of the long-term bank loan	101,173	86,113
Accrued interest and other	2	6
Short-term bank loans	**101,175**	**86,119**

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.

22. Trade and other accounts payable

In thousands of euro	31 December 2018	31 December 2017
Trade payables including accruals	469,751	323,270
Employee related liabilities	11,619	10,937
Other payables	6,960	3,359
Payroll withholding taxes	1,414	1,357
Financial	**489,744**	**338,923**
Advance payment received	333	14,281
Non-financial	**333**	**14,281**
	490,077	**353,204**

The breakdown by currencies is as follows:

In thousands of euro	31 December 2018 Balance recalculated to EUR	%	31 December 2017 Balance recalculated to EUR	%
EUR	486,371	99.3%	336,688	99.4%
USD	2,937	0.6%	1,123	0.3%
RUB	365	0.1%	1,112	0.3%
JPY	71	0.0%	0	0.0%
	489,744	**100%**	**338,923**	**100%**

67% or TEUR 327,805 (as at 31 December 2017: 59% or TEUR 210,047) of trade and other payables are due to companies within the HYUNDAI MOTOR GROUP.

As at 31 December 2018 the Company offset gross trade accounts payable of TEUR 194,528 (as at 31 December 2017: TEUR 168,845) with the gross trade accounts receivable of TEUR 22,805 (as at 31 December 2017: TEUR 19,969) with certain partners and presented them as net payable of TEUR 171,724 (as at 31 December 2017: TEUR 148,876).

23. Capital commitments and contingencies

Capital commitments
At 31 December 2018 the Company had orders in place to acquire property, plant and equipment in the amount of TEUR 33,929 (31 December 2017: TEUR 15,095).

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

24. 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 and selling expenses in the income statement and in total amount to TEUR 846 (2017: TEUR 607).

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	**2018**	**2017**
In thousands of euro		
Revenue	3,835	17
Warranty claims	-65	0
Warranty claim chargebacks	12,133	9,404
Purchases of material	-55,769	-90,846
Acquisition of property, plant and equipment	-19,615	-16,016
Purchase of services	-5,931	-1,760
Dividends	-100,000	-210,138
Running royalties charge	-231,624	-214,360

Transactions with other companies in Hyundai Group	**2018**	**2017**
In thousands of euro		
Revenues	4,467,873	4,432,173
Revenue from sale of property	40	1,579
Warranty claim chargebacks	15,787	21,679
Purchase of material	-2,753,714	-2,656,746
Acquisition of property, plant and equipment	-32,009	-11,554
Purchase of services	-147,779	-136,212
Warranty claims	-80,487	-87,218
Interest from intercompany loan	93	326
Interest income on trade receivables from related parties	1,262	242

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	**2018**	**2017**
In thousands of euro		
Trade accounts receivable and prepayments	5,542	3,825
Trade accounts payable	-76,438	-31,299

Assets and liabilities arising from transactions with other group companies	**2018**	**2017**
In thousands of euro		
Trade accounts receivable	566,828	619,551
Intercompany loan receivable	12,230	52,360
Trade accounts payable	-251,367	-178,748

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within 6-month period.

25. 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 analyze 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. Carrying amount of financial assets represent the maximum credit exposure.

Impairment loss on financial assets recognized in profit or loss in 2018 was in the amount of TEUR 78 and was related with trade and other receivables from third party customers.

86% (1-12/2017: 85%) 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 2017: 86%) of the outstanding trade receivables balance is due from customers in HYUNDAI MOTOR GROUP who cooperates with the Company since its incorporation. None of these customers' balances have been written off or are credit-impaired at the balance sheet date.

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 Company limits the credit risk from trade receivables with third parties by establishing a form of sales transactions mainly via Letter of Credit as well as inspection of relevant country risk and bank risk involved in Letter of Credit transaction. The quantitative information over credit risk are disclosed under Note 17.

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 comprises 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 2018 the current ratio reached management target of 2.00 (as at 31 December 2017: 2.20).

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

31 December 2018

In thousands of euro	***Note***	**Carrying amount**	**6 months or less**	**7-12 months**	**2-3 years**	**4-5 years**	**more than 5 years**
Interest bearing loans and borrowings, excl. unamortized costs	*21*	-104,375	-98,125	-3,125	-3,125	0	0
Interests		-207	-92	-91	-24	0	0
Transaction costs	*21*	92	46	30	16	0	0
Trade and other accounts payable	*22*	-489,744	-489,744	0	0	0	0
Subtotal financial liabilities		**-594,234**	**-587,915**	**-3,186**	**-3,133**	0	0
Trade and other receivables	*17*	693,537	693,537	0	0	0	0
Value added tax receivable	*17*	203,930	203,930	0	0	0	0
Intercompany loan receivable	*19*	12,230	12,230	0	0	0	0
Cash and cash equivalents	*18*	26,762	26,762	0	0	0	0
Warranty provision	*14*	-499,616	-50,888	-50,887	-225,630	-136,606	-35 605
Reclaim asset	*14*	76,033	11,350	11,349	33,221	20,113	0
Other provisions	*14*	-4,843	-2,010	0	0	0	-2 833
Income tax receivable / (payable)		15,627	0	15,627	0	0	0
Subtotal other assets and liabilities		**523,660**	**894,911**	**-23,911**	**-192,409**	**-116,493**	**-38,438**
		-70,574	**306,996**	**-27,097**	**-195,542**	**-116,493**	**-38,438**

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

31 December 2017

In thousands of euro	**Note**	**Carrying amount**	**6 months or less**	**7-12 months**	**2-3 years**	**4-5 years**	**more than 5 years**
Interest bearing loans and borrowings, excl. unamortized costs	*21*	-190,625	-83,125	-3,125	-104,375	0	0
Interests		-745	-274	-268	-203	0	0
Transaction costs	*21*	229	76	61	92	0	0
Trade and other accounts payable	*22*	-338,923	-338,923	0	0	0	0
Subtotal financial liabilities		**-530,064**	**-422,246**	**-3,332**	**-104,486**	0	0
	17	688,970	688,970	0	0	0	0
Trade and other receivables	*17*	738,110	738,110	0	0	0	0
Value added tax receivable	*17*	152,624	152,624	0	0	0	0
Intercompany loan receivable	*19*	52,360	52,360	0	0	0	0
Cash and cash equivalents	*18*	45,817	45,817	0	0	0	0
Warranty provision	*14*	-647,664	-89,711	-94,606	-308,544	-132,728	-22,075
Reclaim asset	*14*	84,477	11,701	12,340	40,245	17,312	2,879
Other provisions	*14*	-4,059	-1,434	0	0	0	-2,625
Income tax receivable / (payable)		1,140	0	1,140	0	0	0
Subtotal other assets and liabilities		**422,805**	**909,467**	**-81,126**	**-268,299**	**-115,416**	**-21,821**
		-107,259	**487,221**	**-84,458**	**-372,785**	**-115,416**	**-21,821**

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, RUB, CZK and HUF. The total exposures which arise from the currency risk are monitored on revenue side, as 60% (2017: 64%) of revenues and 99% (2017: 99%) of purchases are denominated in euro and management is not hedging the exposures on FX fluctuations. In addition management has exposure on its foreign currency bank accounts.

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

A strengthening and weakening of each of the GBP, SEK, USD, CZK, HUF and PLN by 5% and RUB by 10% against EUR at 31 December 2018 (all other variables held constant) 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 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
RUB +/- 10%	18,160	24,239	-14,858	-19,832
GBP +/- 5%	9,286	10,362	-8,401	-9,375
CZK +/- 5%	853	1,000	-772	-904
USD +/- 5%	3,013	670	-2,726	-606
SEK +/- 5%	190	547	-172	-495
PLN +/- 5%	1,072	541	-970	-489
HUF +/- 5%	310	244	-281	-221

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 1,436 (2017: TEUR 1,988).

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	**2018**	**2017**
Total liabilities	1,122,532	1,195,329
Less available cash	-26,762	-45,817
Total liabilities less cash	1,095,770	1,149,512
Total equity	1,041,199	900,518
Adjusted debt/equity ratio	1.1	1.3

26. 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 harbor 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.

27. 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 2018 as well as at 31 December 2017.

Basis for determining fair values

The fair value of trade and other receivables, cash and cash equivalents, 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.

28. 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 2018 amounted to TEUR 499,616 (31 December 2017: TEUR 647,664) and related reclaim asset of TEUR 76,033 (31 December 2017: TEUR 84,478) as disclosed in Note 14. The Company provides a warranty coverage period up to 5 years on its cee'd, Ceed, Sportage, Venga and ix35 models. In addition, for Kia vehicles sold in the European Union and other selected countries a further 2-year warranty coverage period is provided on engines and transmissions. These conditions may vary depending on respective model and market, however all warranty coverage periods are subject to a maximum mileage of 150,000 kilometres.

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 repair costs per unit and each country. The products contain parts manufactured by third party suppliers, who typically warrant for the parts that they produce and that are assembled in the car.

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 first produced in 2016, are new, 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 44,381 (31 December 2017: TEUR 57,532). The sensitivities were estimated based on year end balances and the actual results might differ from these estimates.

The reclaim asset was calculated based on expected reimbursement of future warranty defects that would be collected from the suppliers. It has been estimated as expected recovery rate of the warranty provision. The actual recovery rate may change in the future. An increase or decrease in warranty recovery rate by 10% would increase or decrease the warranty reclaim asset by TEUR 6,754 (31 December 2017: TEUR 8,448).

These financial statements were approved on 28 February 2019.

Chong Hae Koo
CFO

KPMG Slovensko spol. s r.o.
Dvořákovo nábrežie 10
P.O. Box 7
820 04 Bratislava 24
Slovakia

Telephone +421 (0)2 59 98 41 11
Fax +421 (0)2 59 98 42 22
Internet www.kpmg.sk

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 Owner 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 2018 presented in Section 7 of the accompanying Annual Report. We have issued an independent auditors' report on the financial statements on 28 February 2019 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 2018, 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 a 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 2018, 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 and Those Charged with Governance 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 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.

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

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

KPMG

underlying transactions and events in a manner that achieves fair presentation.

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

28 February 2019
Bratislava, Slovak Republic

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

Responsible auditor:
Peter Nemečkay
License UDVA No. 1054

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 of the Company, 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 2018 is consistent with the financial statements prepared for the same financial year; and
- the Annual Report contains information according to the Act on Accounting.

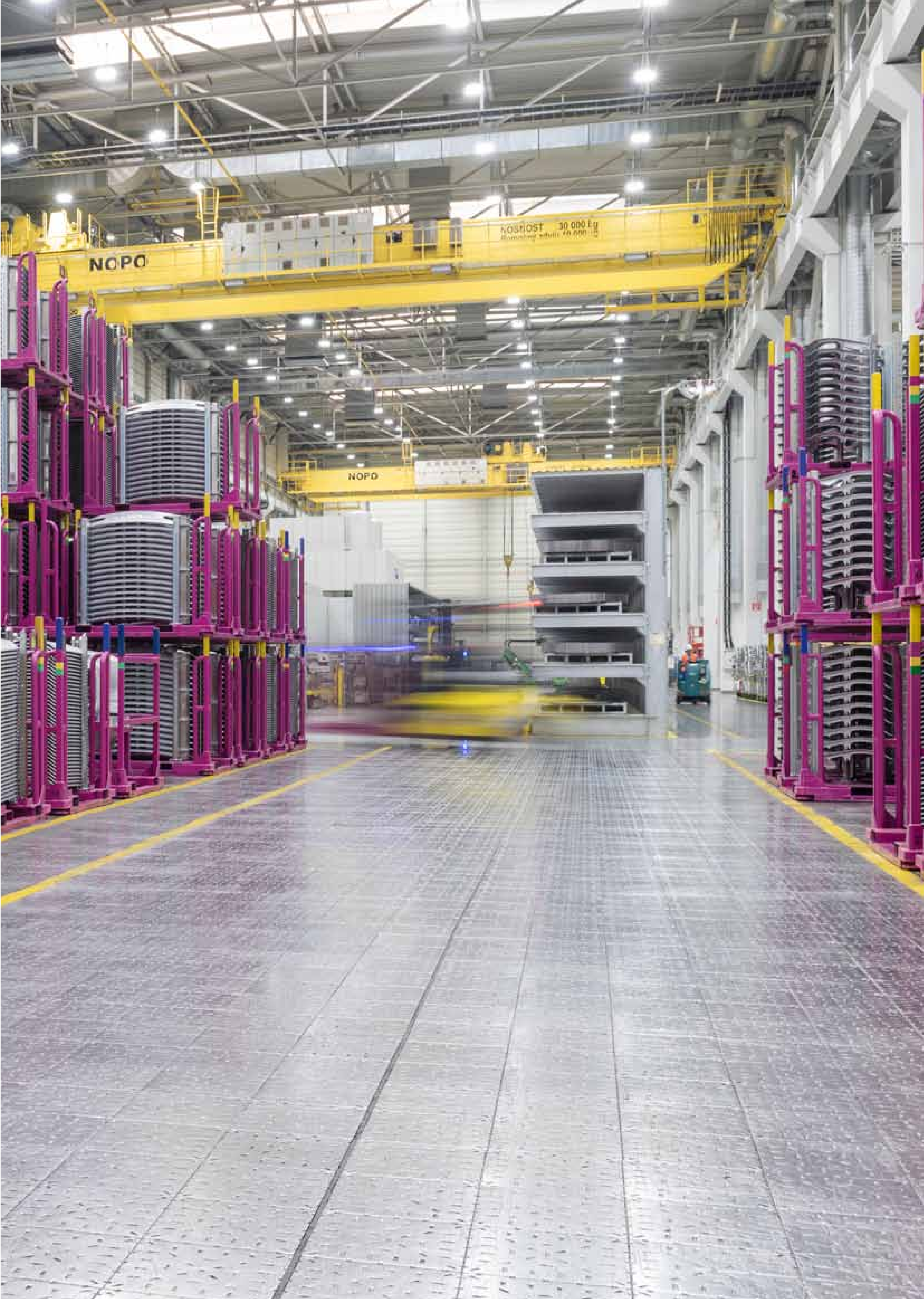
In addition to this, in light of the knowledge of the Company and its environment obtained in the course of audit, we are required to report if we have identified material misstatement in the Annual Report that we have obtained prior to the date of this auditors' report. We have nothing to report in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

22 March 2019
Bratislava, Slovak Republic

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

Slovenská komora audítorov
SKAU
Č.licencie 96
KPMG
Slovensko spol. s r.o.

Responsible auditor:
Peter Nemečkay
License UDVA No. 1054


NOPO
NOPO

The Power to Surprise

Kia Motors Slovakia s.r.o.
Sv. Jana Nepomuckeho 1282/1
013 01 Teplicka nad Vahom
Slovak Republic
Tel.: +421 41 515 0111
Fax: +421 41 515 0901
www.kia.sk