



2010 ANNUAL REPORT

KIA Motors Slovakia s.r.o.







Contents

1. Foreword	5
2. Kia Motors Slovakia	
Company Profile.....	6
Company Management.....	8
Production Process.....	9
Kia Motors Slovakia in 2010.....	12
Goals and Expansion Forecast for 2011 ..	12
3. Sustainable Development	
Environmental Aspects.....	13
Human Resources.....	13
Obligations to the Slovak Republic.....	14
Corporate Social Responsibility	14
4. Quality Management System	15
5. Financial Overview	15
6. Yearly Closing	17



1. Foreword

Since 2004, when the construction of the production plant of Kia Motors started in Slovakia, Kia has been writing new history in Europe. Kia Motors Slovakia near Zilina is a key tool for Kia Motors Corporation how to succeed in the European market where it delivers high quality cars to an expanding network of European dealers.

The year 2010 has marked the company history with a lot of significant successes as well as challenges. In 2010, we produced more than 229,000 vehicles and over 320,000 engines. Since the launch of volume production in December 2006, the vehicles manufactured at Kia Motors Slovakia have met the high demanding needs of quality among more than 730,000 Europeans in overall. Last year, we launched the volume production of two SUV models. In January, we started to produce Hyundai ix35 and in June 2010 the new Kia Sportage.

Furthermore, the construction of the new engine shop was launched. Currently, we are in the process of the completion of the construction work and technology installation of the second engine shop. We plan to begin the volume production in the new engine shop in the second half of 2011. Kia employed more than 3,000 people by December 31, 2010.

The key resources of Kia Motors Slovakia to reach its defined strategic goals are its employees. In 2010, the company continued focusing on active communication with employees, and also supported their professional and personal development through various training activities.

In Slovakia, Kia is one of the main long-term drivers in the economy as well as a responsible and respectable corporate citizen in the community we live. We are glad that our company brings benefits not only to the Zilina region but to the whole Slovakia as well.

Considering the above, herewith I submit you our annual report for year 2010.

Myung-Chul Chung
President and CEO of Kia Motors Slovakia



2. Kia Motors Slovakia

Company Profile

On March 18, 2004, Kia Motors Corporation (hereinafter "KMC") officially confirmed the construction of its first European automotive plant in Slovakia. Kia Motors Slovakia is a company 100% owned by KMC. The main activity is production of motor vehicles including the engines. The registered capital is in the amount of EUR 433,322,934.01. The current company executives are Mr. Myung-Chul Chung and Mr. Jung-Pil Kuk.

KMC is a maker of quality vehicles for the young-at-heart. KMC is emerging as one of the world's elite car companies with focus on the ongoing complete regeneration of its product line-up. In 2010, the company world widely produced a total of 2,100,000 cars and reached annual revenues of USD 20 billion with 44,000 employees.

KMC operates under Hyundai-Kia Automotive Group, as at end of the year 2010 one of the largest carmakers in the world.

The volume production at Kia Motors Slovakia started in December 2006 with the 5-door version of the model cee'd. Year 2007 presented the first year of volume production during which the company smoothly introduced three new models in one year: the SUV model Sportage in June, the family cee'd_sw in July and the 3-door sporty pro_cee'd in October.

The ultimate annual capacity of Kia Motors Slovakia plant is 300,000 cars. There are three models produced at Kia Motors Slovakia, cee'd, the C-segment car, and two SUV models, Sportage and Hyundai ix35.

Plant size	Site: 166 ha	Buildings: 44 ha
Capacity	300,000 cars per year	
Products	Cars	Kia cee'd – 5-door version Kia cee'd_sw Kia pro_cee'd Kia Sportage Hyundai ix35
	Engines	Gasoline: 1,4 L and 1,6 L Diesel: 1,4 L, 1,6 L and 1,7 L
Production	Cars	2010: 229,505 2006 – 2010: 730,826
	Engines	2010: 320,977 2006 – 2010: 859,699





Key events in Kia Motors Slovakia history

2004	March	Investment Agreement signed between Kia Motors Corporation and the Slovak Republic
2005	April	Groundbreaking ceremony held in Zilina
	October	Launch of construction
	December	Completion of plant construction
2006	January	Installation of production technologies
	June	Launch of trial production of vehicles
	December	Launch of cee'd volume production
2007	June	Launch of volume production of SUV Sportage
	September	Production of the 100,000 th car
	November	Obtained the international Environmental Management ISO 14 001 certificate
2008	July	Establishment of Kia Foundation Fund with Pontis Foundation
	September	Production of the 300,000 th car
	November	Acquired the international Quality Management ISO 9001 certificate
2009	July	Production launch of the facelifted 5-door cee'd
	September	The third work shift in Engine shop
	December	Production of the 500,000 th car
2010	January	Launch of volume production of SUV Hyundai ix35
	March	Launch of the new Engine shop construction
	June	Production launch of new Kia Sportage

Company Management



Myung-Chul Chung
President and CEO

Myung-Chul Chung studied at Korea University in Seoul, South Korea, and successfully graduated in the field of metallurgical engineering in 1976. He started to work for Hyundai Group in 1978 working for the Procurement department. Before he joined Kia Motors Slovakia, he had been in charge of the vehicle parts procurement. During his career with Hyundai, he also gained experience in overseas operations such as the Hyundai plant in Canada and Indonesia project. In 2005, he became the Head of the Purchasing and Procurement Group at Kia Motors Slovakia. Together with his colleagues he participated in establishment of the first Kia production facility in Europe. In 2011, he became the President and CEO of Kia Motors Slovakia. He is authorized to act solely as a statutory body of Kia Motors Slovakia.



Jong-Hwan Kim
Vice-President of the
Production Group

Jong-Hwan Kim graduated from Jeonbuk National University in 1980 specialized in mechanical engineering. He started his professional career in Hyundai Group in 1982. During 1997-1998, he was working in China and since January 1999 he has been working for Kia Motors Corporation. He came to Slovakia to participate in the project in 2004. At Kia Motors Slovakia, he is responsible for the production.



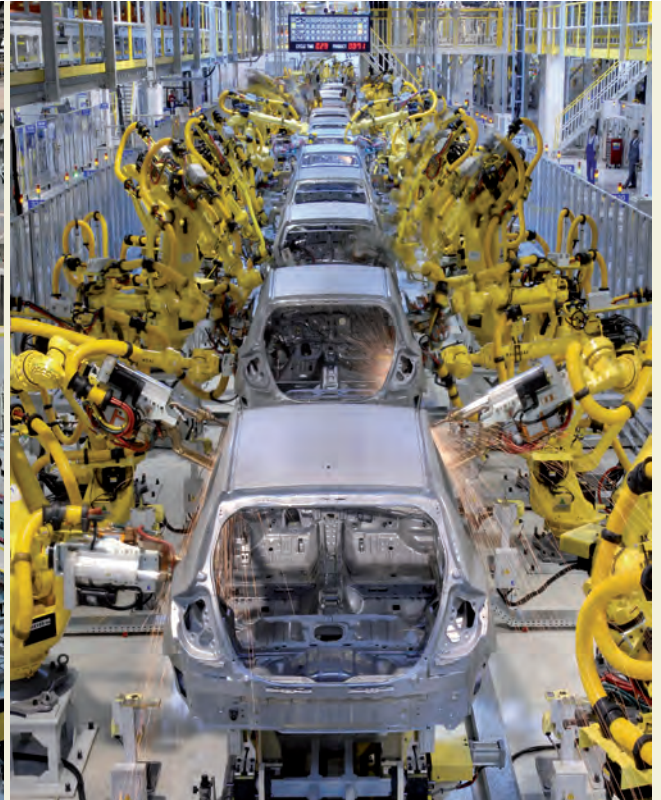
Kyo-Man Song
Vice-President of the
Administration Group

Kyo-Man Song studied at Changwon University in Kyungnam, South Korea, and successfully graduated in the field of business and management in 1985. He started to work for Hyundai Mobis in 1987. He joined Kia Motors Slovakia in 2010 and he has been Vice-President of the Administration Group. Before he joined Kia Motors Slovakia, he had been in charge of the General Affairs Group and Employee Relations Group in headquarters of Kia Motors Corporation in Seoul, South Korea, since 1999. During his career with Kia, he also gained experience in the field of human resources.



Jung-Pil Kuk
Chief Financial Officer,
Kia Motors Slovakia

Jung-Pil Kuk graduated Sung Sil University in Seoul, South Korea in 1981 in the field of administration. In 1987, he started to work for Kia Motors Corporation in Seoul. He also worked as a Head of the Plant Accounting team. In July 2009, he joined Kia Motors Slovakia and he is in charge of the Head of Business Management Group. Mr. Jung Pil Kuk acts solely as a statutory body of Kia Motors Slovakia as well.



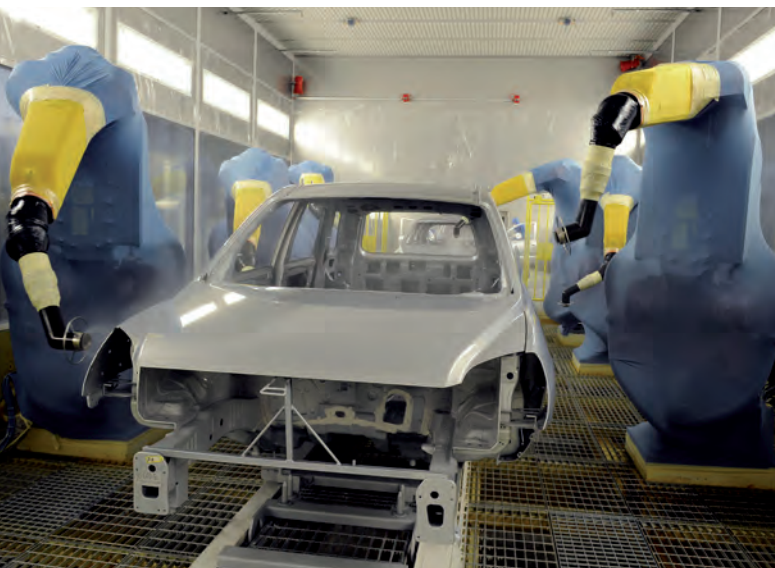
Production Process

Press shop

The production process of a car starts at the press shop. Apart from the blanking line where the steel coil enters and the panels are cut, the testing line where adjusted forms are tested and set up, there are two main press lines. Currently, they produce more than 67 various panel types. The production capacity of the press shop is up to 5 million panels per year. One panel is pressed within 20 seconds. The quality of the produced panels is checked by using a unique 3D optical inspection system that can distinguish even the smallest defects on the surface. The auto palletizing system loads manufactured parts onto pallets using four robots at each production line which are then further supplied to the body shop by forklift trucks. Only the side panels of car body are transferred by an electric monorail system into the automatic storage area having a capacity of 7,000 panels.

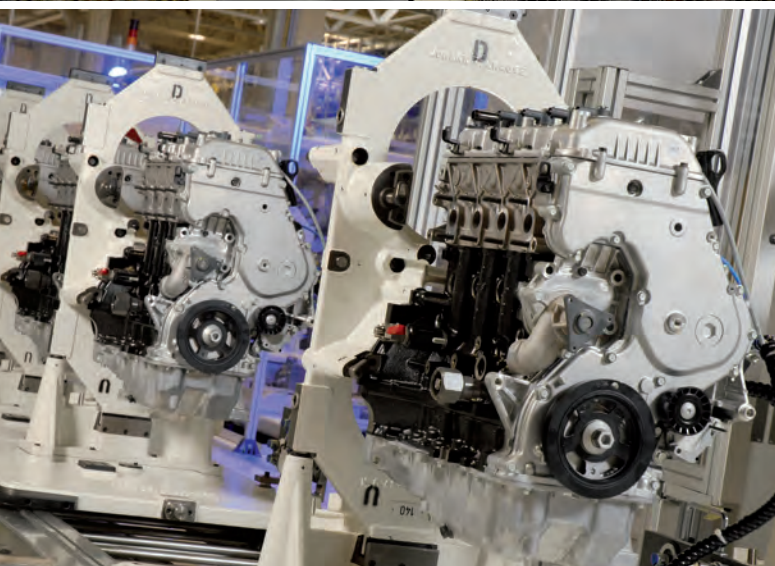
Body shop

The welding automation ratio in the body shop is 100% which means there is no manual welding. There are 322 robots used for welding as well as loading and conveying of car parts. The production of the body shop is highly flexible and allows us to manufacture up to 8 different car models on the same production line. Since January 2010, we have been producing car bodies of models such as cee'd (in its three car body versions), Sportage as well as the Hyundai ix35 model.



Paint shop

The total length of the conveyor system, on which a body passes through individual phases of the production process in the paint shop including buffer zones, is 7.5 km. In the pre-treatment and electrochemical coating processes, a unique 360° rotation-dipping system is used, which ensures the coating of a protection substance. A total of 46 robots participate in the sealer and paint applications. However, Kia Motors Slovakia wants to behave environmentally friendly, only water-borne paints are used. Currently, we offer 12 colours to our customers for the model cee'd, 10 colours for the Sportage model and 9 for Hyundai ix35.



Engine shop

We produce gasoline (1.4 L, 1.6 L) and diesel engines (1.4 L, 1.6 L, 1.7 L) in the only Engine shop in Slovakia. We also produce engines for the Hyundai Motor Manufacturing Czech production plant in Nosovice, the Czech Republic. At the engine shop, four metal cutting lines operate and produce cylinder blocks, cylinder heads and crank shafts as well as the assembly line. Here we assemble all components of the engine, which is around a total of 350. Fully functioning engines leave the engine shop and are stored in the automatic storage system. After which they are moved by a conveyor system to Mobis, the biggest supplier of Kia Motors Slovakia where they are assembled to the front suspension.

Assembly shop

The assembly shop is the biggest shop of all the production halls. Its size represents 100,000 m² and the hall is almost 450 meters long. Over 1,100 operators work here in two shifts. Under each car there is so called skillet which can move the car body into the specific high for the convenience of operators. The assembly shop can be divided into four parts. The car completion starts with the assembling of electric cables and minor interior as well as exterior car parts followed by the assembly of chassis parts. In the third part of the assembly shop are the final lines where front and rear glass, wheels, seats and other necessary components are assembled as well as the car is completed. Inspection of the individual assembled parts and the liquids fulfillment followed by tests and adjustments of lights as well as breaking system is provided at the end of the assembly line.



Kia Motors Slovakia in 2010

In 2010, Kia Motors Slovakia focused its attention on the adjustment of the production lines and the launch of volume production of two SUV models Kia Sportage and Hyundai ix35. Kia Motors Slovakia produced in total more than 229,500 vehicles in 2010.

With its own engine shop, Kia Motors Slovakia is the only engine producer in Slovakia. Five differ-

ent types of engines are produced – 1.4 L and 1.6 L gasoline, and 1.4 L, 1.6 L and 1.7 L diesel. A total of 320,977 engines were produced, posting a year-on-year increase of 31.5%. In 2010, the construction of the new engine shop was launched.

Kia in Slovakia is the biggest employer in the Zilina region while employing more than 3,000 employees. In 2010, Kia created around 100 new positions due to the new Engine shop.

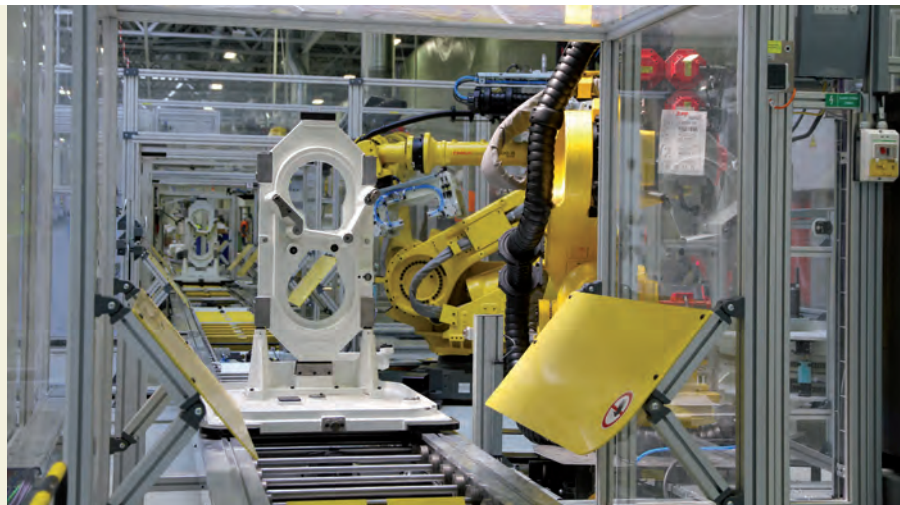
Goals and Expansion Forecast for 2011

One of the biggest aims of Kia Motors Slovakia in 2011 is to finalize the construction work and technology installation of the second engine shop. We plan to begin with the engine volume production at the end of the year. The total investment amount will reach around EUR 100 million and will create more than 250 new job positions. Production capacity of the new engine shop will be 150,000 engines per year. Thus the overall engine production will reach 450,000 units per year.

Kia Motors Slovakia also plans to launch the volume production of the third Kia model, Kia Venga, in the autumn 2011.

In the field of personal policy the efforts of Kia Motors Slovakia will be to keep those more than 3,000 employed people. The company will try to increase the qualifications of its employees on all management as well as operation levels.

The company has set several aims that are to be achieved for 2011 in the field of quality. One of the most important will be following of quality rules in accordance with national and European



legislation and ISO 9001 norm. A re-certification audit will be made in Kia Motors Slovakia to obtain the renewal of the certificate that will confirm the functionality and development of the quality management system.

In terms of environment, the Facility and Environment team will also continue with employees' education and implementation of new legislation connected with environmental protection, and the company will also follow the Environmental Management System.

3. Sustainable Development

Environmental Aspects

Kia Motors Slovakia realizes its responsibility to the environment so it focuses its attention on the production of environmentally friendly cars and monitors the impact on the environment during the whole production process.

Environmental Management system according to the international standard ISO 14001 was implemented and certified in 2007. Its re-certification was held in 2010. As a part of it, Kia Motors Slovakia monitors the consumption of water, energy, material as well as the amount of scrap and emissions in term of one car production and accepts savings measures. The aim of Kia Motors Slovakia is to proceed in the development of environmental management because environment protection is a key to the successful business and sustainable development.

The production plant is located in the second degree of protected water source area so therefore

a network of boreholes were constructed before the starting plant construction to monitor the impact of work and later the impact of the production plant operation on the underground water sources. Apart from the state-of-the-art technologies used in the production plant, Kia Motors Slovakia uses the latest available technologies for environment protection such as the revolutionary system of exhausts in the assembly shop. All industrial waste water from the production plant is treated in the water treatment plant (WTP) at physical and chemical levels, and then the water is further biologically treated at the WTP in Hricov.

The waste management system is well-established in all production shops to ensure the right waste separation. Attention is also focused on the selection of used materials in the production process. We use only water-borne paints in the paint shop and waxes with a minimum content of volatile organic compounds for the final car treatment.



Human Resources

As at December 31, 2010, Kia Motors Slovakia employed 2,963 active employees. Highly qualified employees are the key to the success of the company. Kia has thus invested in training programs where each employee acquires a special education and training program based on the position and job description. The company has been providing education in form of basic common entry courses, special programs and trainings for blue-collar workers in Slovakia as well as abroad since 2005. Almost 1,000 employees in total have par-

ticipated in training courses with the parent company in Korea. The aim of the course is to brush up the employees' knowledge and skills in their field of expertise. Furthermore, various training activities organized within the project under the support from the European Social Fund with the Operational Program Employment and Social Inclusion were attended by more than 2,600 employees (some of them attended several trainings) in 2010. They spent 26,439 hours by training which represents over 10 hours of training for one participating person. Overall, we performed 159 different types of trainings.

Obligations to the Slovak Republic

Kia Motors Slovakia follows and fulfills all legal obligations, such as, filing reports and payment of taxes, insurance and all other obligations under VAT, customs duties and employee-related

duties. Investment reports about fulfillment of obligations connected with drawing of state aid are prepared on regular basis and provided to the Ministry of Economy of the Slovak Republic. Kia has settled all claims and liabilities towards all state authorities.

Corporate Social Responsibility

Kia Motors Slovakia is a responsible corporate citizen. The company established the Kia Foundation Fund with the Pontis Foundation in the second half of 2008 with the aim to improve the quality of life in the Zilina region. The Kia Foundation fund strategy includes environmental protection, support of marginalized groups and mobility.

In cooperation with the Pontis Foundation, Kia Motors Slovakia prepared an Employee Grant Program through which employees were able to support one of the non-profit organizations in the Zilina region. Experts from an independent committee considering 8 criteria chose 22 projects from 36 involved organizations. Kia Motors Slovakia supported this program with the financial amount of EUR 39,000. In 2011, the company plans to prepare the third year of Employee Grant Program.

From September 22 until September 25, 2010, the project called Nasa Zilina was held. Over 650 volunteers from 10 involved companies including Kia Motors Slovakia employees helped 14 non-profit organizations. Besides traditional activities such as cleaning of parks and public places, decorating of interior facilities, experience and know-how from the field of marketing, communication and information technologies were donated.



The volunteers worked 2,589 hours which represents more than 1.5 work years of an individual. The Nasa Zilina project will be held in 2011 again.

The third project of 2010 Kia Motors Slovakia financed from the Kia Foundation Fund was Kia Innovation Award from August 18 until November 4, 2010. The schools from Zilina and Trencin regions could participate and compete for the financial support by preparing a project from the automotive field. The main aim was to support creativity of students and development of the students' knowledge. Altogether 16 work groups from 8 schools participated in the Kia Innovation Award project. All projects were evaluated by independent committee. The three winning project were awarded financial prizes in the amount of EUR 6,500, 4,500 and 2,500. The winner of the competition became the project "The car model powered by the fuel cell", from Secondary Polytechnical School in Prievidza.

Donation

In January 2010, the 500,000th produced vehicle in our plant was donated to the Transplantation Centre of the Faculty Hospital in Martin. This car is used for the transfers of surgery teams and organs for transplantation in the Slovak Republic.

Every year Kia Motors Slovakia organizes blood donation days. From 2007 until September 2010, 200 employees donated the most precious liquid directly in the plant.



4. Quality Management System

Customer satisfaction is of top priority and importance for Kia Motors Slovakia and all its employees. Qualified and educated employees ensure the requested quality on all production process levels, from the quality control of the supplied parts and material, through quality control during the production process in each production shop until the final quality control of the assembled cars. Overall 305 employees, which means around 10% of all employees, ensure the quality control of the produced vehicles and engines.

Automobiles produced at Kia Motors Slovakia meet the high demanding needs of the European Union. The Quality Management System of Kia Motors Slovakia has been certified by the independent certification body Det Norske Veritas according to ISO 9001. The certification by the renowned company, as well as the upgrade of the certificate according the revised standard ISO 9001:2008 confirm our long term commitment to focus on quality of our products and oblige us to the continuous improvement of all processes.

5. Financial Overview

Income Statement

in TEUR

	2010	2009
Sales	2 888 748	1 684 599
Cost of sales	(2 678 405)	(1 547 712)
Gross profit	210 343	136 887
Administrative and selling expenses, net	(164 752)	(92 647)
Other operating income / (expenses), net	10 728	(13 493)
Operating profit	56 319	30 747
Interest costs	(20 089)	(24 940)
Interest revenue	14 651	15 806
Other financial income / (cost), net	666	(269)
Net finance costs	(4 772)	(9 403)
Profit before taxes	51 547	21 344
Income tax	(8 627)	4 591
Profit for the period	42 920	25 935

Balance sheet

in TEUR

	31 December 2010	31 December 2009
Assets		
Non-current assets	650 695	610 868
Current assets	1 186 649	964 853
Total assets	1 837 344	1 575 721
Equity		
Issued capital	433 323	433 323
Retained earnings and legal reserve fund	79 960	37 040
Total equity	513 283	470 363
Liabilities		
Total non-current liabilities	361 394	214 869
Total current liabilities	962 667	890 489
Total liabilities	1 324 061	1 105 358
Total equity and liabilities	1 837 344	1 575 721

Statement of changes in share capital

in TEUR

Capital increasing	Amount (EUR)	Contributions of capital	EUR/SKK
Balance as of 1.1.2010	433 323		EUR
Balance as of 31.12.2010	433 323		EUR

Distribution of profit/loss

in TEUR

Description	Proposed for the Decision to Sole Partner of KMS in TEUR
contribution to reserve fund	2 146
transfer to accumulated profits from previous years	40 774
Total net profit/loss for the year 2010	42 920

The general meeting will decide on the distribution of profit in the amount of 42 920 TEUR for the year 2010 accounting period. The proposal presented by the statutory body to the general meeting is as follows:

- contribution to reserve fund in the amount of 2 146 TEUR
- transfer to accumulated profits from previous years 40 774 TEUR.

The general meeting will be held after April 2011.

6. Yearly Closing

Statement of financial position as at 31 December 2010

in TEUR

	Note	31-Dec-10	31-Dec-09
Assets			
Property, plant and equipment	11	627 170	589 831
Intangible assets	12	4 593	5 801
Prepaid royalty expense	17	18 932	15 236
Total non-current assets		650 695	610 868
Inventories	14	264 402	162 600
Trade and other accounts receivables	15	899 598	748 802
Cash and cash equivalents	16	1 575	38 786
Inter-group loan		-	-
Prepaid expenses	17	21 074	14 663
Income tax receivable		-	2
Total current assets		1 186 649	964 853
Total assets		1 837 344	1 575 721
Equity			
Issued capital	18	433 323	433 323
Legal reserve fund	18	5 261	3 964
Retained earnings		74 699	33 076
Total equity		513 283	470 363
Liabilities			
Interest-bearing loans and borrowings	19	260 464	151 517
Provisions	20	100 930	63 352
Deferred tax liabilities		-	-
Total non-current liabilities		361 394	214 869
Interest-bearing loans and borrowings	19	385 216	521 222
Trade and other accounts payables	21	529 075	349 227
Provisions	20	39 757	20 040
Income tax payable		8 619	
Total liabilities		1 324 061	1 105 358
Total equity and liabilities		1 837 344	1 575 721

Notes to the financial statements for the year ended 31 December 2010

in TEUR

	Note	2010	2009
Cash flows from operating activities			
Profit for the year		42 920	25 935
Adjustments for:			
Depreciation of property, plant and equipment and intangible assets	11,12	118 167	77 911
Write down of inventories	8,14	-	705
Impairment provision to property, plant and equipment	8,11	-	16 209
Release of state aid related to property, plant and equipment	6,11	-19 669	-11 105
Interest expense	9	20 089	24 940
Interest revenue	9	-14 651	-15 806
Warranty provision charges	20	81 628	32 232
Warranty provision release	20	-	-4 122
Other provision charges		1 338	-
Release of prepaid royalty	6,17	15 438	12 656
Tax expense	10	8 627	-4 591
Other		-50	-107
Operating profit before changes in working capital items		253 837	154 857
(Increase) / decrease in inventories	14	-101 802	25 914
(Increase) in trade, other receivables and other prepayments	15,17	-147 833	-138 358
Increase in trade and other payables	21	162 499	109 955
Cash generated from operating activities		166 701	152 368
Interest paid from financing receivables, overdrafts and other		-9 668	-10 999
Interest received from financing receivables and bank deposits		14 651	18 112
Tax paid		-6	-2 049
Warranty claims net of supplier chargebacks	20	-24 811	-12 738
Net cash generated from operating activities		146 867	144 694
Cash flows from investing activities			
Acquisition of property, plant and equipment	11	-164 557	-56 311
Acquisition of intangible assets	12	-818	-76
Lump sum royalty prepaid	17	-4 700	-5 000
Inter-group loan provided	16	-	60 000
Interest received on intergroup loan provided		-	1 361
Proceeds from sale of non-current assets		175	651
Finance lease payments, including interests		-422	-
Subsidies for acquisition of property, plant and equipment	11	30 050	7 748
Net cash generated from (used for) investing activities		-140 272	8 373
Cash flows from financing activities			
Repayment of long term bank loans	19	-92 612	-40 554
Receipt of short term bank loans	19	-34 500	-4 000
Receipt of long term loan		150 000	-
Prepaid transaction cost		-4 899	-
Interest paid on long term bank loans and short term bank loans		-9 439	-10 919
Net cash provided by financing activities		8 550	-55 473
Net increase in cash and cash equivalents	16	15 145	97 594
Cash and cash equivalents at beginning of year	16	-31 357	-128 951
Cash and cash equivalents at end of year	16	-16 212	-31 357

Note: Bills of exchange amounting to TEUR 298 634 (in 2009: TEUR 295 643) accounted for as trade receivables and short term bank loans was considered as non cash effective for the purpose of the cash flow statement (see Note 15 and 19 for details).

Statement of comprehensive income for the year ended 31 December 2010

in TEUR

	Note	2010	2009
Sales	5	2 888 748	1 684 599
Cost of sales	6	-2 678 405	-1 547 712
Gross profit		210 343	136 887
Administrative and selling expenses, net	7	-164 752	-92 647
Other operating income / (expenses), net	8	10 728	-13 493
Operating profit		56 319	30 747
Interest costs		-20 089	-24 940
Interest revenue		14 651	15 806
Other financial income / (cost), net		666	-269
Net finance costs	9	-4 772	-9 403
Profit before taxes		51 547	21 344
Income tax	10	-8 627	4 591
Profit for the period		42 920	25 935

Statement of changes in equity for the year ended 31 December 2010

in TEUR

	Note	Share capital	Legal reserve fund	(Accumulated deficit)/ Retained earnings	Total
		(Note 18)	(Note 18)		
Balance as of 1 January 2009		433 323	1 467	9 638	444 428
Balance as of 1 January 2009		-	2 497	-2 497	-
Total comprehensive income for the year ended 31 December 2009		-	-	25 935	25 935
Balance as of 31 December 2009	18	433 323	3 964	33 076	470 363
Contribution to legal reserve fund		-	1 297	-1 297	-
Total comprehensive income for the year ended 31 December 2010		-	-	42 920	42 920
Balance as of 31 December 2010	18	433 323	5 261	74 699	513 283

Notes to the Financial Statements as at 31 December 2010

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's registered address is:

Kia Motors Slovakia s.r.o.
Mariánske námestie 30/5
Žilina 010 01
Slovensko

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

These financial statements have been prepared as at 31 December 2010 and for the year then ended and were prepared and authorized for issue by the Company's directors on 25 January 2011.

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 2010 to 31 December 2010.

The Statutory Financial Statements of the Company as at 31 December 2009, i.e. for the preceding accounting period, were approved by the shareholders at the Company's general meeting on 15 June 2010 and were filed together with the audited annual report in the collection of deeds of the Commercial Register on 13 July 2010. The balance sheet and income statement for the preceding period were published in the commercial bulletin No. 236/2010 on 9 December 2010.

The Company's bodies:

Directors In Kyu Bae
 Jung-Pil Kuk

Information about the ultimate parent

The Company is consolidated into the financial statements of KIA Motors Corporation, Yangjae-Dong, Seocho-gu 231, 137-938 Seoul, Korea, which is the Company's parent, which is further consolidated in the group financial statements of KIA Motors Corporation, Yangjae-Dong, Seocho-gu 231, 137-938 Seoul, Korea.

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 20 – Provision for warranty repairs

4. Significant accounting policies

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

a) Foreign currency

Transactions in foreign currencies are translated to euro at the foreign exchange rate ruling at the date 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 of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the fair value was determined.

b) Property, plant and equipment**i. Owned assets**

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

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

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

ii. Subsequent costs

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

iii. Leased assets

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

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

iv. Depreciation

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

■ buildings	30 years
■ machinery and equipment	3-15 years
■ moulds	5 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.

c) Intangible assets

i. Owned assets

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

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	5 years

d) Prepaid royalties

The Company pays a lump sum and running royalty to its parent Company for the production of cars and engines.

i. Lump sum royalty

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

ii. Running royalty

Running royalties represent regular expenses derived from the number of cars produced, and are recorded as cost of goods sold (refer to the Note 6).

e) Trade and other accounts receivables

Trade and other receivables are recognized initially at fair value, subsequent to initial recognition they are stated at their amortized cost using the effective interest rate method, less impairment losses (see accounting policy i).

f) Bills of Exchange and related borrowings

The Company finance its receivable balances with three customers, related parties, through external banks. The Company remains liable to the banks until its customers have paid in full. The Company is grossing up its receivables balances in the balance sheet as receivables from related parties and liabilities due to banks. Both amounts are presented as Bills of Exchange and are accounted for as trade and other accounts receivables (refer to the Note 15) and short term borrowings (refer to the Note 19).

According to the agreement with these customers, the parties are shares interest costs from the transactions. The interest paid to the bank is recorded as an interest expenses and the interest re-invoiced to related parties is recorded as interest income (refer to note 9).

g) 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 costs 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.

h) 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.

i) Impairment

Financial assets

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

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

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

All impairment losses are recognized in profit or loss.

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

Non-financial assets

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

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

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

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

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

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

j) 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.

k) 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.

l) Trade and other payables

Trade and other payables are recognized initially at fair value. Subsequent to initial recognition they are stated at amortized cost.

m) Revenue for goods sold

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods. A significant element of the Company's revenue is with related parties (see Note 24).

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.

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 secured bank loan and short term bank loan facilities are presented in the cash flows from financing activities. Interest received from intercompany loans is presented in cash flows from investing activities. Interest paid on overdrafts, interest paid and received from financing receivables (see accounting policy f) and other interest paid and received are presented in cash flows from operating activities.

o) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed

at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

p) Employee benefits

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

A provision 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.

q) Government grants

Government grants are initially recognized in the balance sheet when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it.

Grants that compensate the Company for expenses incurred are initially recognized as deferred revenue and it is released to the income statement as other operating income on a systematic basis in the same periods in which the expenses are recognized.

Grants that compensate the Company for the acquisition costs of property, plant and equipment are initially recognized as a deduction of property, plant and equipment and are amortized, reflected in the income statement as a deduction of depreciation expense over the useful life of the assets to which they relate.

r) New standards

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these is expected to have an effect on the financial statements of the Company, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2013 financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

5. Revenue

Revenue is principally represented by sale of cars (Cee'd, ix35 and Sportage model) and sale of engines to another production plant. The breakdown by key products and geographical area is as follows:

in thousands of euro	2010	2009
Revenue from sale of cars in EU countries excluding Slovakia	1 874 812	1 099 870
Revenue from sale of cars to non EU countries	701 404	390 717
Sale of engines and spare parts	295 623	158 892
Revenue from sale of cars in Slovakia	16 909	35 120
	<u>2 888 748</u>	<u>1 684 599</u>

6. Cost of sales

in thousands of euro	2010	2009
Material consumption	2 420 157	1 358 420
Depreciation and amortization (refer to Note 11, 12)	117 661	77 453
Personnel expenses	56 410	44 724
Energy consumption	20 182	16 263
Running royalty charge	20 506	14 752
Lump sum royalty charge (refer to Note 17)	15 438	12 656
Amortization of government grants (refer to Note 11)	(19 669)	(11 105)
Other	47 720	34 549
	2 678 405	1 547 712

7. Administrative and selling expenses

in thousands of euro	2010	2009
Logistics services	76 229	57 520
Warranty charge net of release (refer to Note 20)	81 628	28 110
Personnel expenses	2 783	2 434
Marketing services	541	2 075
Depreciation and amortisation (refer to Note 11, 12)	506	458
Other operating expenses	3 065	2 050
	164 752	92 647

8. Other operating (expenses) / income, net

in thousands of euro	2010	2009
Impairment of property, plant and equipment (refer to Note 11)	0	(16 209)
Write down of inventories (refer to Note 14)	0	(705)
Sale of scrap material	7 803	2 662
Government grants received for job creation and education	458	995
Sale of non-exclusive rights	-	-
Other operating (expenses) / income	2 467	(236)
	10 728	(13 493)

9. Net finance expenses

Recognized in the income statement

in thousands of euro	2010	2009
Interest expense, long term bank loans	(7 072)	(9 168)
Interest expense, short term bank loans	(2 629)	(3 054)
Interest expense, overdraft	(368)	(1 256)
Interest expense, leases	(102)	(23)
Interest expense, financing of receivables	(9 918)	(11 439)
	(20 089)	(24 940)
Interest income from DA transactions	14 609	14 543
Interest income, other	42	10
Interest income, intercompany loan	0	1 253
	14 651	15 806
Net interest expense	(5 438)	(9 134)
Foreign exchange losses	(3 013)	(5 225)
Foreign exchange gains	3 679	4 956
Net foreign exchange (loss) / gains	666	(269)
Net finance costs	(4 772)	-(9 403)

Financing of receivables

The Company finances its receivable balances with three customers (related parties) through external banks. According to the agreement with customers, the parties share interest costs from the transactions, which are reflected as interest expenses paid by the Company to the bank and interest income from the related parties (refer to point 4, f).

10. Income tax

in thousands of euro	2010	2009
Current tax expense		
Period income tax charge	(8 627)	2 142
Deferred tax expense		
Origination and reversal of temporary differences	-	2 449
Total income tax expense in the income statement	(8 627)	4 591

Reconciliation of effective tax rate

in thousands of euro	2010	%	2009	%
Profit before tax	51 547	-	21 344	-
Income tax using the domestic corporation tax rate	(9 794)	(19,0%)	(4 055)	(19,0%)
Prior year income tax payment	-	0,0%	2 142	10,0%
Deferred tax change resulted from prior year tax payments	-	0,0%	(2 142)	(10,0%)
Deferred tax from previous year unrecognized deferred tax asset	1 688	3,3%	8 869	41,5%
Tax non-deductible expenses and other items	(521)	(1,0%)	(223)	(1,0%)
Income tax (recovery) / charge for the year	(8 627)	(16,7%)	4 591	21,5%

11. Property, plant and equipment

in thousands of euro	Land and Buildings	Machinery and equipment	Other	Assets under construction	Advance payments	Total
Cost						
Balance at 1 January 2009	207 710	627 270	4 890	4 377	751	844 998
Acquisitions	1 915	18 555	364	37 212	35	58 081
Transfers	196	2 505	157	(2 107)	(751)	-
Disposals	-	(1 080)	(135)	-	-	(1 215)
Balance at 31 December 2009	209 821	647 250	5 276	39 482	35	901 864
Balance at 1 January 2010	209 821	647 250	5 276	39 482	35	901 864
Acquisitions	16 956	99 219	220	39 428	8 734	164 557
Transfer	59	35 846	92	(35 997)	-	-
Disposals	-	(1 909)	-	-	-	(1 909)
Balance at 31 December 2010	226 836	780 406	5 588	42 913	8 769	1 064 512
Depreciation and impairment losses						
Depreciation and impairment losses	14 210	109 553	2 471	-	-	126 234
Depreciation charge for the year	7 046	66 196	1 563	-	-	74 805
Impairment provision	-	16 209	-	-	-	16 209
Disposals	-	(557)	(128)	-	-	(685)
Balance at 31 December 2009	21 256	191 401	3 906	-	-	216 563
Balance at 1 January 2010	21 256	191 401	3 906	-	-	216 563
Depreciation charge for the year	7 109	107 935	1 097	-	-	116 141
Disposals	-	(1 213)	-	-	-	(1 213)
Balance at 31 December 2010	28 365	298 123	5 003	-	-	331 491
Government grants						
At 31 December 2009	(25 966)	(69 504)	-	-	-	(95 470)
At 31 December 2010	(31 590)	(74 261)	-	-	-	(105 851)
Carrying amounts						
At 1 January 2009	168 600	443 790	2 419	4 377	751	619 937
At 31 December 2009	162 599	386 345	1 370	39 482	35	589 831
At 1 January 2010	162 599	386 345	1 370	39 482	35	589 831
At 31 December 2010	166 881	408 022	585	42 913	8 769	627 170

Impairment provision

At 31 December 2009 the Company recorded impairment provision in the amount of TEUR 16,209 due to discontinuance of old Sportage production. From 1 January 2010 the Company reassessed the estimated useful life of sportage moulds to five years and depreciated them fully till 30 June 2010.

Work performed by the entity and capitalized to property, plant and equipment

Acquisitions to property, plant and equipment includes eighty four vehicles produced mounting to TEUR 1 050 (2009: seventy in total amount of TEUR 765) added to other assets.

Insurance

Property, plant and equipment is insured against damage up to TEUR 1 317 833 (2009: TEUR 1 186 388).

Government grants

The Company is entitled to receive government grants related to the acquisition costs of property, plant and equipment if certain conditions are fulfilled. The conditions are stipulated in the Investment Agreement between the Company and the Slovak State. The grants received are recorded as a deduction of property, plant and equipment and are being amortized over the estimated useful lives of the property, plant and equipment for which they have been received once such assets are placed into use. Details of amounts received and amounts amortized are as follows:

in thousands of euro	31 December 2010	31 December 2009
Balance as at 1 January	95 470	98 827
Additions	30 050	7 748
Amortization for the period (refer to Note 6)	(19 669)	(11 105)
Balance as at 31 December	105 851	95 470

Overview of government grants by long term and short term is set out in the table below:

in thousands of euro	31 December 2010	31 December 2009
Short term	19 669	10 404
Long term	86 182	85 066
	105 851	95 470

The release of government grants related to property, plant and equipment is recorded in cost of goods sold (refer to Note 6).

12. Intangible assets

in thousands of euro	Information technologies and software	
Cost		
Balance at 1 January 2009		15 500
Acquisitions		76
Transfers from property, plant and equipment		-
Balance at 31 December 2009		15 576
Balance at 1 January 2010		15 576
Acquisitions		818
Transfers from property, plant and equipment		-
Balance at 31 December 2010		16 394
Amortization and impairment losses		
Balance at 1 January 2009		6 669
Amortization for the year		3 106
Balance at 31 December 2009		9 775
Balance at 1 January 2010		9 775
Amortization for the year		2 026
Balance at 31 December 2010		11 801
Carrying amounts		
At 1 January 2009		8 831
At 31 December 2009		5 801
At 1 January 2010		5 801
At 31 December 2010		4 593

13. Deferred tax

in thousands of euro	31 December 2010	31 December 2009
Property, plant and equipment (including government grants)	(17 076)	(15 798)
Warranty provision	17 066	15 681
Other items	10	117
Deferred tax asset	-	-

The Company has unrecognized deferred tax assets related to tax losses carried forward and other tax deductible temporary differences amounting to TEUR 9 400 (2009: TEUR 11 000).

14. Inventories

in thousands of euro	31 December 2010	31 December 2009
Raw materials and consumables	210 824	127 453
Work in progress and semi-finished goods	24 707	10 401
Finished goods	28 871	25 451
Impairment	-	(705)
	264 402	162 600

15. Trade and other accounts receivables

in thousands of euro	31 December 2010	31 December 2009
Trade account receivables	471 541	402 583
Bills of exchange receivable (refer to accounting policy 4,f)	298 634	295 643
Value added tax receivable	102 984	48 246
Government grants receivables	25 416	-
Other receivables	1 023	2 330
	899 598	748 802

The breakdown by currency is as follows:

in thousands of euro	31 December 2010	%	31 December 2009	%
	Balance recalculated to TEUR		Balance recalculated to TEUR	
EUR	833 144	92.6%	645 482	86.2%
GBP	66 454	7.4%	103 320	13.8%
	899 598	100.0%	748 802	100.0%

The Company did not recognize any impairment provision as at 31 December 2010 (31 December 2009: TEUR 0) as trade and other receivables are due from companies within the HYUNDAI-KIA Group (totaled 82% and 86% as at 31 December 2010 and 31 December 2009, respectively). 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.

The Company is exposed to a customer concentration risk as 54%, 24% and 16% (31 December 2009: 79%, 0% and 5%) of trade account receivables including bills of exchange, as well as 29%, 36% and 17% of revenues during the period ended 31 December 2010 (31 December 2009: 62%, 0% and 19%) relate to Kia Motors Europe GmbH, HYUNDAI Motor Europe and KIA Motors Russia, respectively.

16. Cash and cash equivalents
(as presented in the Balance Sheet and Statement of Cash flows)

in thousands of euro	31 December 2010	31 December 2009
Bank balances	1 574	38 785
Vouchers	1	1
Cash and cash equivalents	1 575	38 786
Bank overdrafts (refer to Note 19)	(17 787)	(70 143)
Cash and cash equivalents as presented in Cash flow Statement	(16 212)	(31 357)

17. Prepaid expenses

in thousands of euro	31 December 2010	31 December 2009
Non-current assets:		
Prepaid royalty expense net of cumulated amortization	34 716	28 105
less: current portion	(15 784)	(12 869)
Total	18 932	15 236

in thousands of euro	31 December 2010	31 December 2009
Current assets:		
Current portion of prepaid royalty expense net of cumulated amortization	15 784	12 869
Prepaid interest from financing of receivables	1 158	1 794
Prepaid upfront fees to undrawn loans	4 089	-
Other prepayments	43	-
Total	21 074	14 663

Following is the overview of royalty pre payments made:

in thousands of euro	Year	Royalty prepaid (TEUR)	Amortization period (months)
Royalty for car model	2006	54 887	64
Royalty for engine	2007	951	48
Royalty for car model	2008	2 609	36
Royalty for car model	2009	5 000	33
Royalty for car model	2010	4 700	72

For 2010 the Company accrued a royalty payment for a car model in the amount of TEUR 17 349, which will be paid in 2011.

Overview of movement in prepaid expenses is set out in the table below:

in thousands of euro	Royalty cars	Royalty engines	Total
Initial payments			
Balance at 1 January 2009	57 496	951	58 447
Additional payments made in the year	5 000	-	5 000
Balance at 31 December 2009	62 496	951	63 447
Balance at 1 January 2010	62 496	951	63 447
Additional payments made in the year	22 049	-	22 049
Balance at 31 December 2010	84 545	951	85 496
Amortization and impairment losses			
Balance at 1 January 2009	22 309	377	22 686
Amortization for the year (Refer to Note 6)	12 418	238	12 656
Balance at 31 December 2009	34 727	615	35 342
Balance at 1 January 2010	34 727	615	35 342
Amortization for the year (Refer to Note 6)	15 102	336	15 438
Balance at 31 December 2010	49 829	951	50 780
Carrying amounts			
At 1 January 2009	35 187	574	35 761
At 31 December 2009	27 769	336	28 105
At 1 January 2010	27 769	336	28 105
At 31 December 2010	34 716	-	34 716

The amortization of royalty prepayments is recorded in cost of goods sold (refer to Note 6).

18. Capital and reserves

Share capital

The Company's authorized total authorized and issued share capital amounted to TEUR 433 323 as of 31 December 2010 (31 December 2009: 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 totaling 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 not yet reached yet the maximum balance, a further distribution amounting to TEUR 38 071 from the Company's profits is required in the future. The legal reserve fund can only be used to cover the Company's losses.

19. Interest-bearing loans and borrowings

in thousands of euro	31 December 2010	31 December 2009
Non-current liabilities		
Secured bank loans	261 617	152 168
Unamortized transaction costs long term	-2 172	-1 982
Leasing liability	1 019	1 331
Long term bank loans	260 464	151 517

in thousands of euro	31 December 2010	31 December 2009
Current liabilities		
Current portion of secured bank loans	40 554	92 614
Unamortized transaction costs	(1 106)	(1 117)
Bank overdrafts (refer to Note 16)	17 787	70 143
Short term loan facilities	29 000	63 500
Leasing liability	347	439
Bill of exchange (refer to accounting policy 4,f)	298 634	295 643
Short term bank loans	385 216	521 222

Long term loans

The long term bank loans are fully covered by a guarantee provided by KIA Motors Corporation, the Company's parent company.

Unamortized transaction costs related to transaction costs incurred in concluding the long facilities. These are amortized over the period of the loan using effective interest rate method. Annual amortization is recorded in the income statement together in the line interest expense from long term bank loan.

All the loans presented above bears the variable interest rate, except for secured bank loan with carrying value of TEUR 57 947, which has a fixed rate interest.

Finance lease

Finance lease liability represents present value of payments to Glovis for long term five and is payable as follows:

in thousands of euro	Future minimum lease payments	Interest	Present value of minimum lease payments	Finance lease
	31 December 2010	31 December 2010	31 December 2010	31 December 2009
Less than one year	430	83	347	439
Between one and five years	1 162	143	1 019	1 331
	1 592	226	1 366	1 770

20. Provisions

in thousands of euro	Warranty	Other	Total
Balance at 1 January 2009	67 160	779	67 939
Provisions charges (refer to Note 7)	32 232	860	33 092
Actual costs	(15 327)	(779)	(16 106)
Supplier chargebacks	2 589	-	2 589
Provision release (refer to Note 7)	(4 122)	-	(4 122)
Balance at 31 December 2009	82 532	860	83 392
Balance at 1 January 2010	82 532	860	83 392
Provisions charges (refer to Note 7)	81 628	1 338	82 966
Actual costs	(30 510)	(860)	(31 370)
Supplier chargebacks	5 699	0	5 699
Balance at 31 December 2010	139 349	1 338	140 687

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

in thousands of euro	31 December 2010	31 December 2009
Non-current	100 930	63 352
Current	39 757	20 040
Balance at the reporting date	140 687	83 392

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.

21. Trade and other accounts payables

in thousands of euro	31 December 2010	31 December 2009
Trade payables including accruals	499 340	342 313
Employee related liabilities	4 516	3 290
Other payables	24 674	3 318
Payroll withholding taxes	545	306
	529 075	349 227

The entire balance of Trade and other account payables are denominated in EUR.

22. Capital commitments

At 31 December 2010 the Company had orders in place to acquire property, plant and equipment in the amount of TEUR 62 051 (31 December 2009: TEUR 3 800).

23. Contingencies

Uncertainties in tax legislation

Many parts of Slovak tax legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

Pending litigations

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-KIA Group and with its directors and executive officers. The ultimate controlling party is HYUNDAI Motors Company.

Transactions with key management personnel

There have been no transactions with management, except for their salaries, which are included in the caption of administrative expense in the income statement and in total amount to TEUR 450 (2009: TEUR 404).

Other related party transactions

Other related parties, which are also part of the HYUNDAI-KIA Group, include: Mobis Slovakia, HYUNDAI Motor Company, Glovis Co. Ltd, Hysco Slovakia, Glovis Slovakia, Autoever systems corp. (Slovak branch), AutoEver Systems Europe GmbH (Slovak branch), AMCO (Slovak branch), Kia Austria GmbH, Kia Motors Belgium N.V., Kia Automobiles France, Kia Motors Deutschland GmbH, Kia Motors Ireland, Kia Motors Iberia S.L., Kia Sverige AB, Kia Motors (UK) Ltd., Kia Motors Czech s.r.o., Kia Hungary KFT, Kia Motors Polska, Kia Motors Russia LLC, Kia Motors Nederland B.V., Kia Motors Sales Slovakia, Kia Motors Europe GmbH, HYUNDAI Motor Europe GmbH.

Transactions with the parent company

in thousands of euro	2010	2009
Revenues	1 562	552
Purchase of services, material and acquisitions of property, plant and equipment	(372 101)	(242 626)
Technical support and other costs	(3 596)	(1 890)
Running royalty charge	(13 278)	(14 752)
Royalty prepaid	-	(5 000)

Transactions with other group companies

in thousands of euro	2010	2009
Revenues	2 814 306	1 596 014
Purchase of services, material and acquisitions of property, plant and equipment	(1 387 242)	(621 162)
Lump sum royalty prepaid	(4 700)	-
Running royalty charge	(7 195)	-
Repayment of intercompany loan initially given to KME	-	60 000
Interest income from intercompany loan	-	1 253
Interest income from refunded interest expense from financing receivables	14 100	14 537

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

Assets and liabilities arising from transactions with the parent company

in thousands of euro	31 December 2010	31 December 2009
Trade, other receivables and prepayments	502	117
Trade payables	(150 387)	(140 417)

Assets and liabilities arising from transactions with other group companies

in thousands of euro	31 December 2010	31 December 2009
Trade accounts receivable	448 965	375 015
Trade accounts receivable – Bills of Exchange	298 634	295 643
Trade accounts payable	(194 980)	(114 811)

25. Financial risk management

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

- credit risk;
- liquidity risk;
- market risk;
- operational risk;
- currency risk;
- interest rate 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. Further quantitative disclosures are included throughout these financial statements.

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

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

Credit risk

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

93% (2009: 95%) of the Company's revenue is attributable to sales transactions with customers in the HYUNDAI-KIA Group which are related parties. To date the Company has recovered all due amounts from HYUNDAI-KIA Group customers.

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-KIA Group requiring credit over a certain amount. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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.

The Company 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 prepares monthly, quarterly and annual cash flow forecasts to manage liquidity.

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

31 December 2010

in thousands of euro	Note	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Trade and other receivables	15	899 598	899 598	-	-	-	-
Cash and cash equivalents	16	1 575	1 575	-	-	-	-
Interest bearing loans and borrowings, excl. unamortized costs	19	(648 959)	(367 066)	(30 276)	(126 460)	(83 907)	(41 250)
Trade and other accounts payables	21	(529 075)	(529 075)	-	-	-	-
Income tax receivable		(8 619)	-	-	-	-	-
		(285 480)	5 032	(30 276)	(126 460)	(83 907)	(41 250)

The Company's management expects the current short term loan facilities which fall due in 2010 to be fully prolonged in 2010.

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

31. december 2009

in thousands of euro	Note	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Trade and other receivables	15	748 802	748 802	-	-	-	-
Cash and cash equivalents	16	38 786	38 786	-	-	-	-
Interest bearing loans and borrowings, excl. unamortized costs	19	(675 838)	(358 896)	(163 443)	(81 947)	(61 086)	(10 466)
Trade and other accounts payables	21	(349 227)	(349 227)	-	-	-	-
Income tax receivable		-	-	-	-	-	-
		(237 477)	79 465	(163 443)	(81 947)	(61 086)	(10 466)

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.

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.

Operational risk

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.

Currency risk

The Company is exposed to foreign currency risk in sales that are denominated in GBP and purchases that are dependent of the fluctuation of KRW against EUR.

In 2010 7.6 % (2009 9.5 %) of sales were realized in GBP. A decrease or increase of the EUR/GBP exchange rate by 1% would increase or decrease net profit by TEUR 2 200 (2009: TEUR 1 600). Some 20% (2009: 20 %) of purchases depend on the fluctuation of exchange rate between the Korean won and EUR. A decrease or increase of EUR/KRW exchange rate by 1% would decrease or increase net profits by TEUR 4 700 (2009: 2 700)

Interest rate risk

Management has entered in to loan contracts which are exposed to floating interest rates in the normal course of business.

An increase or decrease of interest rate (euribor, libor) by 100 basis points, considering all other factors remain unchanged, would cause a decrease or an increase of profitability by TEUR 2 700 (2009: TEUR 3 808).

Capital management

The Company defines the capital as its Equity. 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.

There were no changes in the Group's approach to capital management during the year.

26. Fair values**Fair values versus carrying amounts**

The fair value of trade and other receivables, cash and cash equivalents, trade and other payables, loans and interest bearing borrowings with variable interest rate is approximated by their carrying amounts as at 31 December 2010 as well as at 31 December 2009.

The fair value of the portion of fixed rate Secured Bank loan with a carrying amount of TEUR 57 947 approximates its carrying amount as at 31 December 2010.

Basis for determining fair values

The fair value of trade, other receivables and payables is estimated as the present value of the future cash flows discounted at market rate of interest at the reporting date.

27. 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.

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 20 – Provisions for warranty repairs

Provisions for warranty repairs

The Company has a provision for warranty costs, which at 31 December 2010 amounted to TEUR 139 349 (2009: TEUR 82 532) as disclosed in note 20. The Company provides a warranty coverage period of five years on its Cee'd, new Sportage and ix35 models. In addition, for vehicles sold in the European Union and other selected countries a further two years warranty coverage period is provided on engines and transmissions. All warranty coverage periods are subject to a maximum mileage of 150 000 kilometers.

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, including current sales trends, the expected number of units to be affected and the estimated average repaired costs per unit and each country. Our products contain parts manufactured by third party suppliers. Hence suppliers typically warrant these parts, the estimated receivables from warranties of these suppliers are deducted from the provision.

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 include, but are not limited to, the fact that our models are new first produced from 2006 and 2010, respectively, as well as the period of the warranty coverage is above that previously provided by the KIA Group. Our policy is to continuously monitor the adequacy of warranty provisions. Therefore warranty charges are maintained at an amount we deem 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 calculation of warranty provision is sensitive to changes in the warranty trend line 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 12 600 (2009: TEUR 7 200).

These financial statements were approved on 25 January 2011

Jung-Pil Kuk
CFO



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Report on Audit of Consistency

of the annual report with the financial statements pursuant to Article 23 (5) of Act No. 540/2007 Coll. on Auditors, Audit and Oversight of Audit

To the Owner and Management of KIA Motors Slovakia, s.r.o.:

We have audited the financial statements of the company KIA Motors Slovakia, s.r.o. as of 31 December 2010, presented on pages 12 – 39 of the annual report. We have issued an independent auditor's report on the financial statements on 25 January 2011 with the following wording:

Independent Auditors' Report

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

We have audited the accompanying financial statements of KIA Motors Slovakia s.r.o. ("the Company"), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010 and 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.

25 January 2011
Bratislava, Slovak Republic

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

Responsible auditor:
Luboš Vančo
License SKAU No. 745

Responsible audit partner:
Kenneth Ryan

Report on the Audit of Consistency of the annual report with the financial statements

Supplement to the auditor's report

We have audited the consistency of the annual report with the financial statements in accordance with the Act on Accounting.

The accuracy of the annual report is the responsibility of the company's management. Our responsibility is to audit the consistency of the annual report with the financial statements, based on which we are required to issue an appendix to the auditor's report on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the information presented in the annual report, subject to presentation in the financial statements, is consistent, in all material respects, with the relevant financial statements.

We have reviewed the consistency of the information presented in the annual report on pages 1 – 11 with the information presented in the financial statements as of 31 December 2010. We have not audited any data or information other than the accounting information obtained from the financial statements and accounting books. We believe that the audit performed provides a sufficient and appropriate basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements as of 31 December 2010, presented on pages 12 – 39 of the annual report.

15 March 2011
Bratislava, Slovak Republic

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



Responsible auditor:
Luboš Vančo
License SKAU No. 745





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