

IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES.

IMPORTANT: *You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments.* The following applies to the offering circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA ("KOREA") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTIONS LAW OF KOREA AND ITS ENFORCEMENT DECREE), EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

Confirmation of your Representation: In order to be eligible to view the following offering circular or make an investment decision with respect to the securities, investors must be either (I) a Qualified Institutional Buyer ("QIB") (within the meaning of Rule 144A under the Securities Act) or (II) a non-U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing the following offering circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) a QIB or (b) a non-U.S. person and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and (2) you consent to the delivery of such offering circular by electronic transmission.

You are reminded that the following offering circular has been delivered to you on the basis that you are a person into whose possession the following offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the following offering circular to any other person. If this is not the case, you must return this offering circular to us immediately.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

The following offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch International and Standard Chartered Bank (collectively, the "Initial Purchasers") nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You should not reply by e-mail to this transmission, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

KIA CORPORATION

(a corporation with limited liability organized under the laws of the Republic of Korea)

**US\$300,000,000 1.000% Notes Due 2024**
US\$400,000,000 1.750% Notes Due 2026

The US\$300,000,000 1.000% notes due 2024 (the “2024 Notes”) and the US\$400,000,000 1.750% notes due 2026 (the “2026 Notes,” and together with the 2024 Notes, the “Notes”) are being issued by Kia Corporation (the “Company”), a corporation with limited liability organized under the laws of the Republic of Korea (“Korea”). The 2024 Notes will bear interest from and including April 16, 2021 at the rate of 1.000% per annum payable semi-annually in arrears on April 16 and October 16 of each year up to and excluding April 16, 2024, the maturity date, with the first interest payment to be made on October 16, 2021. The 2026 Notes will bear interest from and including April 16, 2021 at the rate of 1.750% per annum payable semi-annually in arrears on April 16 and October 16 of each year up to and excluding October 16, 2026, the maturity date, with the first interest payment to be made on October 16, 2021. The Company may not redeem the Notes in whole or in part prior to maturity except upon the occurrence of certain events related to Korean tax law as described herein. The Notes will be in registered form and will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Notes will constitute direct, unconditional and unsubordinated in right of payment and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves and at least equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

The Notes are being issued as “green” bonds under the Kia Corporation Green Finance Framework. See “Use of Proceeds.”

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of each series of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and the listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company or the Notes.

The Notes are expected to be rated “Baa1” by Moody’s Investors Service, Inc. and “BBB+” by S&P Global Ratings, a division of S&P Global, Inc. Such ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by such rating organizations.

Investing in the Notes involves risks that are described in the “Risk Factors” section beginning on page 8 of this Offering Circular.

The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction. Unless they are registered, the Notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction. Accordingly, the Notes are initially offered (i) in the United States only to qualified institutional buyers (“QIBs”) within the meaning of, and in reliance upon, Rule 144A under the Securities Act (“Rule 144A”) and (ii) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act (“Regulation S”), in each case, in compliance with applicable laws, regulations and directives. For further details about eligible offerees and resale restrictions, see “Plan of Distribution” and “Transfer Restrictions.”

The Notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company (“DTC”) for the accounts of its participants, including Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream”), on or about April 16, 2021.

Joint Bookrunners and Lead Managers

BofA Securities

Citigroup

HSBC

Standard Chartered Bank

The date of this Offering Circular is April 12, 2021.

TABLE OF CONTENTS

Summary	1
The Offering	3
Summary Financial and Other Information	6
Risk Factors	8
Use of Proceeds	26
Exchange Rates	27
Capitalization	28
Selected Financial and Other Data	29
Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Business	49
Governmental Regulations and Environmental Compliance	68
Management	75
Principal Shareholders	79
The Hyundai Motor Group	80
Related Party Transactions	81
Terms and Conditions of the Notes	82
Form of the Notes	94
Taxation	96
Plan of Distribution	102
Transfer Restrictions	107
Legal Matters	110
Independent Auditors	110
Index to Financial Statements	F-1

You are authorized to use this Offering Circular solely for the purpose of considering the purchase of the Notes described in this Offering Circular. The Company and other sources identified herein have provided the information contained in this Offering Circular. Having made all reasonable inquiries, the Company confirms that (i) this Offering Circular is true and accurate in all material respects and is not misleading, (ii) the opinions and intentions expressed herein are honestly held, (iii) there are no other facts the omissions of which make this Offering Circular, as a whole, or any of such information or the expression of any such opinions or intentions misleading in any material respect, (iv) this Offering Circular contains all information with respect to the Company and its subsidiaries and affiliates and the Notes, that is material in the context of the issue and offering of the Notes and (v) the Company has made all reasonable inquiries to ascertain such facts and to verify the accuracy of all such information and statements. The Company accepts responsibility accordingly.

This Offering Circular is based on information provided by the Company and by other sources that the Company believes are reliable. The Initial Purchasers (as defined under “Plan of Distribution”) or any of their respective affiliates, advisers, directors, employees, agents or representatives make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchasers or any of their respective affiliates, advisers, directors, employees, agents or representatives. The Initial Purchasers and their respective affiliates, advisers, directors, employees, agents or representatives have not independently verified all the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, assume no responsibility or liability for the contents, accuracy or completeness of any such information or for any other statement, made or purported to be made by the Initial Purchasers or on their behalf in connection with the Company or the issue and offering of the Notes or their distribution. Each of the Initial Purchasers and its respective affiliates, advisers, directors, employees, agents and representatives accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular (i) is not intended to provide the basis of any credit or other evaluation and (ii) should not be considered as a recommendation or constituting an invitation or offer by the Company or any of the Initial Purchasers that any recipient of this Offering Circular should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Company. This Offering Circular does not constitute an offer or invitation by or on behalf of the Company or any of the Initial Purchasers to any person to subscribe for or to purchase any Notes.

You may not reproduce or distribute this Offering Circular, in whole or in part, and you may not disclose any of the contents of this Offering Circular or use any information herein for any purpose other than considering the purchase of the Notes. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized and any disclosure of any of its contents, without the Company’s prior written consent, is prohibited. You agree to the foregoing by accepting delivery of this Offering Circular.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE NOTES HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED OR PASSED ON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Notes in any jurisdiction by any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of the Notes may be restricted by law in certain jurisdictions. Neither the Company nor any of the Initial Purchasers represents that this Offering Circular may be lawfully distributed or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Company or any of the Initial Purchasers which would permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Initial Purchasers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, Korea, Japan, Hong Kong and Singapore. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Plan of Distribution.”

No person is or has been authorized to give any information or to make any representation other than those contained in, or which is not consistent with, this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or any of the Initial Purchasers. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Notes by any person except in compliance with all applicable laws and regulations. Neither the delivery of this Offering Circular nor any sale made in connection with this Offering Circular shall under any circumstances imply that the information contained herein is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issue of the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

None of the Initial Purchasers nor the Company makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Industry and market data throughout this Offering Circular was obtained from a combination of the Company’s internal surveys, the good faith estimates of the Company’s management and publicly available industry publications or public filings made in Korea. While the Company believes that its internal surveys and estimates of its management are reliable and publicly available information has been obtained from sources it believes to be reliable, none of the Company nor any of the Initial Purchasers has independently verified such information nor makes any representation as to the accuracy of such information. Such information involves risks and uncertainties and is subject to change based on various factors, including those factors discussed in the “Risk Factors” section in this Offering Circular.

IN CONNECTION WITH THIS OFFERING, TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH, APPLICABLE LAWS AND REGULATIONS, ANY OF THE INITIAL PURCHASERS APPOINTED AS A STABILIZATION MANAGER (THE “STABILIZATION MANAGERS”) (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGERS) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZATION MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGERS) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR

AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Notes, the Company will be required under the terms of the Notes to furnish upon request of a holder or beneficial owner of the Notes to such person and any prospective investor designated by such person the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless the Company, as the case may be, at the time of the request is a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), or is exempt from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to publish on its website, in English, certain information pursuant to Rule 12g3-2(b) under the Exchange Act). In accordance with the Notes and the Fiscal Agency Agreement (as defined herein), copies of certain documents will be made available free of charge for inspection by holders of the Notes at the specified offices of the paying agents.

KOREAN SELLING RESTRICTIONS

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea (the “FSCMA”). The Notes have not been and will not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. In addition, until the expiration of one year after the issuance of the Notes, a holder of Notes will be prohibited from offering, delivering or selling any Notes, directly or indirectly, in Korea or to any Korean resident, except where relevant requirements are satisfied, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of professional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure promulgated thereunder.

UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“COBS”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“UK MiFIR”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “UK MiFIR Product Governance Rules”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) – The Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as

defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a corporation with limited liability organized under the laws of Korea. All of the directors and officers of the Company and certain other persons named herein reside in Korea. All or a significant portion of the assets of the directors and officers and certain other persons named herein and a substantial portion of the assets of the Company are located in Korea. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or against the Company in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to “Korea” herein shall mean the Republic of Korea. All references to “U.S.”, “US” or “United States” shall mean the United States of America. All references to “China” shall mean the People’s Republic of China. All references to the “Company” or “Kia” herein are references to Kia Corporation (formerly known as Kia Motors Corporation) and its subsidiaries unless the context otherwise requires.

In this Offering Circular, all references to “Won” or “₩” are references to the currency of the Republic of Korea, all references to “U.S. dollars,” “dollars,” “U.S.\$,” “US\$” and “\$” refer to the currency of the United States of America, all references to “Euro” and “€” are references to the currency of the European Union, all references to “RMB” refer to the currency of the People’s Republic of China, all references to “Japanese Yen” and “Yen” are references to the currency of Japan and all references to “R\$” are references to the currency of Brazil. The Company publishes its financial statements in Won. Unless otherwise indicated, all translations from Won to U.S. dollars herein were made at the rate of ₩1,088.0 to US\$1.00, the exchange rate based on the basic rate under the market average exchange rate system, provided by Seoul Money Brokerage Services, Ltd. between U.S. dollars and Won (the “Market Average Exchange Rate”) and in effect on December 31, 2020. These translations were made solely for the convenience of the reader. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. See “Exchange Rates.”

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

The Company’s audited annual consolidated financial statements as of and for the years ended December 31, 2018, 2019 and 2020 included elsewhere in this Offering Circular have been prepared in accordance with the Korean International Financial Reporting Standards (“K-IFRS”), which may differ in certain respects from International Financial Reporting Standards (“IFRS”) applied in other countries. In making an investment decision, investors must rely upon their own independent examination of the Company, the terms of this offering and the most recent financial information, including the risks involved. Potential investors should consult their own professional advisers for an understanding of the differences between K-IFRS and IFRS, and how these differences affect the financial information contained in this Offering Circular. This Offering Circular should not be considered as a recommendation by any of the Initial Purchasers that any recipient of this Offering Circular should purchase the Notes. Unless specified otherwise, the Company’s financial and other information included elsewhere in this Offering Circular is presented on a consolidated basis in accordance with K-IFRS.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute “forward-looking statements,” as defined in Section 27A of the Securities Act and Section 21E of the Exchange Act, including statements regarding the Company’s expectations and projections for future operating performance and business prospects. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “will,” “aim,” “will likely result,” “will continue,” “intend,” “plan,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Company’s financial condition and results of operation, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Company’s products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Company or any third party) involve known and unknown risks, uncertainties and other factors which may cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Company’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Company’s ability to successfully implement its business strategy, the condition of and changes in the Korean or global economies, the Company’s growth and expansion, changes in interest rates and exchange rates and changes in government regulation and licensing of the Company’s businesses in Korea and in other jurisdictions where the Company may operate, the changes in the price of and demand for the Company’s vehicles and the competition in the automotive manufacturing industry. Additional factors that could cause the Company’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors.” Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Company and the Initial Purchasers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

SUMMARY

You are encouraged to read this Offering Circular in its entirety. You should pay special attention to the discussion in “Risk Factors” beginning on page 8.

Overview

The Company engages in the design, manufacture, assembly and sale of vehicles and their parts. The Company, together with Hyundai Motor Company (“HMC”) and their respective consolidated subsidiaries, ranked fifth in global vehicle sales in 2020 with a global market share of 9.0%, according to IHS Global Insight, a global information company, and other data compiled by the Company. The Company manufactures a wide range of automotive products consisting of passenger vehicles (“PVs”), recreational vehicles (“RVs”) (including multi-purpose vehicles (“MPVs”), crossover utility vehicles (“CUVs”) and sports utility vehicles (“SUVs”)), commercial vehicles (“CVs”) and knockdowns (“CKDs”) for sale in Korea and overseas markets.

In Korea, the Company was the second largest automobile manufacturer in Korea as of December 31, 2020 in terms of sales volume and revenues after HMC, the largest shareholder of the Company. The Company estimates that its market share in Korea in terms of unit sales (including imported units) was approximately 29.3% in 2018, 29.2% in 2019 and 29.9% in 2020, based on the public filings of domestic automotive manufacturers and industry data published by the Korea Automobile Importers and Distributors Association. The Company believes that it has strong brand recognition in Korea with a reputation for attractive and innovative designs and high quality.

Internationally, the Company is one of the fastest growing manufacturers in the global auto industry and sold vehicles in over 170 countries worldwide through 18 sales subsidiaries and a global network of 4,719 dealers as of December 31, 2020. The Company believes that its strengths in the international markets include enhanced brand recognition, improved quality, innovative models and increased local production and distribution networks.

The following table sets forth the unit sales volume by vehicle categories of the Company on a worldwide retail sales basis, for the years indicated.

	For the Year Ended December 31,		
	2018	2019	2020
		(Units)	
PVs.....	1,459,414	1,368,600	1,049,265
RVs.....	1,257,594	1,395,225	1,505,166
CVs.....	98,283	105,627	107,727
Total.....	2,815,291	2,869,452	2,662,158

The following table sets forth the unit sales volume by vehicle categories and by regions, on a worldwide retail sales basis for the year ended December 31, 2020.

	Korea	United States	Europe	China	Others	Total
						(Units)
PVs.....	227,687	203,190	158,816	83,808	375,764	1,049,265
RVs.....	260,648	382,915	258,331	139,758	463,514	1,505,166
CVs.....	64,065	-	-	-	43,662	107,727
Total.....	552,400	586,105	417,147	223,566	882,940	2,662,158

The sales volume data presented above are on a retail sales basis and are different from the wholesale data presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” For a description on the method of calculation of unit sales volume in the above tables, see “Business – Overview.”

The Company currently owns and operates three principal automobile production plants in Korea. In order to enhance cost-competitiveness, reduce market risks resulting from foreign exchange fluctuations and address its capacity concerns, the Company has established, on a selective basis, manufacturing facilities overseas either through operating subsidiaries or by investing in joint venture companies. The Company currently manufactures vehicles at five overseas automobile plants in China, Slovakia, the United States, Mexico and India.

In recent years, the Company has focused its strategy on the expansion of its electric vehicle (“EV”) line-ups and the creation of mobility solutions and services, while promoting a more sustainable production process through the use of clean energy and recyclable materials at its facilities worldwide. See “Business – Strategy.”

In 2018, 2019 and 2020, the Company had sales of ₩54,170 billion, ₩58,146 billion and ₩59,168 billion, respectively, and profit for the year of ₩1,156 billion, ₩1,827 billion and ₩1,488 billion, respectively.

THE OFFERING

The following is only a summary description of the Notes, which are more fully described in “Terms and Conditions of the Notes” included elsewhere in this Offering Circular. The Terms and Conditions of the Notes prevails to the extent of any inconsistency with the terms set out in this section. Terms used and not otherwise defined in this summary have the meaning given to them in the Terms and Conditions of the Notes.

Issuer	Kia Corporation
Offering	The US\$300,000,000 1.000% notes due 2024 (the “2024 Notes”) and the US\$400,000,000 1.750% notes due 2026 (the “2026 Notes,” and together with the 2024 Notes, the “Notes”) are being offered (i) in the United States to QIBs in reliance on Rule 144A and (ii) outside of the United States to non-U.S. persons in reliance on Regulation S. See “Plan of Distribution.”
Offering Price	99.691% of the principal amount of the 2024 Notes and 99.797% of the principal amount of the 2026 Notes, plus accrued interest, if any, from April 16, 2021 (the “Issue Date”).
Ranking	The Notes will constitute direct, unconditional and unsubordinated in right of payment and unsecured obligations of the Company and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves and at least equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.
Denomination	The Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.
Certain Covenants	The Notes contain certain limitations on the creation, incurrence, issuance or assumption or the guarantee by the Company of certain debt secured by mortgage, charge, pledge, encumbrance or other security interest on any of the Company’s property or asset and on the consolidation, merger and sale of the Company’s assets. The Notes also contain certain limitations on sale and leaseback transactions by the Company. See “Terms and Conditions of the Notes – Certain Covenants.”
Interest	The 2024 Notes will bear interest from and including the Issue Date up to but excluding April 16, 2024 (the “2024 Notes Maturity Date”), at the rate of 1.000% per annum. The 2026 Notes will bear interest from and including the Issue Date up to but excluding October 16, 2026 (the “2026 Notes Maturity Date”), at the rate of 1.750% per annum. Interest on the Notes will be payable semi-annually in arrears on April 16 and October 16 of each year, beginning October 16, 2021.
Additional Amounts	All payments by the Company in respect of the Notes will be made without deduction or withholding for or on account of Taxes (as defined in “Terms and Conditions of the Notes”) unless such deduction or withholding is required by law. In such event, the Company will pay Additional Amounts (as defined in “Terms and Conditions of the Notes”) (subject to certain exceptions) in respect of Taxes as will result in the payment of amounts otherwise receivable absent any deduction or withholding on account of such Taxes.

Redemption	The 2024 Notes will be redeemed on the 2024 Notes Maturity Date and the 2026 Notes will be redeemed on the 2026 Notes Maturity Date at their Redemption Amount (which will be 100.0% of the principal amount of each series of the Notes plus accrued but unpaid interest, if any).
Tax Redemption	At any time, the Company may redeem any series of the Notes, in whole but not in part, at their Redemption Amount if the Company has or will become obliged to pay Additional Amounts in respect of any Taxes in respect of any payments on the Notes of such series. The Company will give not less than 30 nor more than 60 days' notice to Noteholders of such series of such redemption.
Form of the Notes	Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more global Notes (the "Unrestricted Global Notes") issued to DTC and registered in the name of a nominee of DTC, and held in New York, New York for the accounts of DTC participants, including Euroclear and Clearstream. Notes sold in reliance on Rule 144A will be represented by one or more global Notes (the "Restricted Global Notes" and together with the Unrestricted Global Notes, the "Global Notes") issued to DTC and registered in the name of a nominee of DTC. Euroclear, Clearstream or DTC, as the case may be, will credit the account of each of its participants with the principal amount of Notes being purchased by or through such participants. Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream. Except in the limited circumstances described herein, certificates in respect of Notes will not be issued in exchange for interests in the Global Notes. The Restricted Global Notes will bear a Securities Act legend and such Global Notes, or any interest therein, may not be transferred except in compliance with the transfer restrictions set forth in such legend. In addition, no interest in the Restricted Global Notes may be transferred to a person that takes delivery thereof through the Unrestricted Global Notes unless the transferor provides a Transfer Agent with a written certification regarding compliance with certain of such transfer restrictions.
Fiscal Agent	Citicorp International Limited will act as the fiscal agent (the "Fiscal Agent") under the Fiscal Agency Agreement for the Notes to be dated April 16, 2021 (the "Fiscal Agency Agreement").
Governing Law	The Notes and the Fiscal Agency Agreement will be governed by New York law.
Listings/Applications	Approval in-principle has been received from the SGX-ST for the listing and quotation of each series of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

Use of Proceeds An amount equal to the net proceeds from the sale of the Notes, which are expected to be approximately US\$694,761,000, after deduction of commission to the Initial Purchasers but before out-of-pocket expenses related to this offering, will be allocated toward the financing or refinancing, in whole or in part, of new or existing Eligible Projects (as defined in “Use of Proceeds”) in accordance with the Kia Corporation Green Finance Framework, which is in alignment with the GBP (as defined in “Use of Proceeds”). See “Use of Proceeds.”

Security Codes	2024 Notes:	<u>Rule 144A Notes</u>	<u>Regulation S Notes</u>
	ISIN	US49374JAB98	USY4760JAB99
	CUSIP	49374J AB9	Y4760J AB9
	2026 Notes:	<u>Rule 144A Notes</u>	<u>Regulation S Notes</u>
	ISIN	US49374JAA16	USY4760JAA17
	CUSIP	49374J AA1	Y4760J AA1

SUMMARY FINANCIAL AND OTHER INFORMATION

The following table summarizes certain consolidated financial and other information for the Company as of and for the years ended December 31, 2018, 2019 and 2020. The summary consolidated financial and other information set forth below have been derived from and should be read in conjunction with the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 and the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019, and the notes thereto, which are included elsewhere in this Offering Circular. Such financial statements have been prepared in accordance with K-IFRS and audited by Ernst & Young Han Young.

Consolidated Statements of Income Data

	For the Year Ended December 31,		
	2018	2019	2020
	(Won in billions, except earnings per share information)		
Sales	₩ 54,170	₩ 58,146	₩ 59,168
Cost of sales	46,177	48,767	49,223
Gross profit	7,993	9,379	9,946
Selling expenses	3,905	4,261	4,911
General and administrative expenses	2,930	3,108	2,968
Operating profit	1,157	2,010	2,066
Gain on investments in joint ventures and associates, net	617	507	61
Finance income	254	238	342
Finance costs	317	292	425
Other income	311	708	602
Other expenses	553	639	805
Profit before income taxes	1,469	2,531	1,841
Income tax expense	313	704	354
Profit for the year	₩ 1,156	₩ 1,827	₩ 1,488
Profit attributable to owners of the Company	1,156	1,827	1,488
Basic earnings per share in Won	2,883	4,556	3,710

Consolidated Statements of Financial Position Data

	As of December 31,		
	2018	2019	2020
	(Won in billions)		
Assets			
Cash and cash equivalents	₩ 2,293	₩ 4,269	₩ 10,161
Short-term financial instruments	4,668	3,062	2,913
Other current financial assets	1,627	1,839	1,806
Accounts and notes receivable – trade	2,049	2,155	1,819
Accounts and notes receivable – others	1,423	1,501	1,925
Advanced payments	99	471	123
Inventories	7,234	8,109	7,094
Current tax assets	247	84	147
Other current assets	71	67	105
Total current assets	19,712	21,555	26,093
Long-term financial instruments	₩ 83	₩ 104	₩ 135
Other non-current financial assets	771	802	711
Long-term accounts and notes receivable – trade	2	12	5
Investments in joint ventures and associates	13,348	13,916	14,614
Property, plant and equipment	14,803	15,747	15,580
Investment property	25	25	22
Intangible assets	2,510	2,553	2,666
Deferred tax assets	502	559	536
Other non-current assets	30	71	129
Total non-current assets	32,075	33,789	34,397
Total assets	51,787	55,345	60,490

	As of December 31,		
	2018	2019	2020
	(Won in billions)		
Liabilities			
Accounts and notes payable – trade	₩ 6,245	₩ 6,767	₩ 7,302
Short-term borrowings	1,367	1,415	4,479
Accounts and notes payable – others	2,297	3,234	2,382
Advances received	544	452	326
Accrued expenses	1,960	1,936	1,975
Income taxes payable	50	176	301
Current portion of long-term debt and bonds	905	1,075	789
Provisions – current	1,367	2,017	3,282
Other current liabilities	100	205	262
Total current liabilities	14,835	17,277	21,098
Bonds	₩ 3,099	₩ 2,667	₩ 2,723
Long-term debt	1,311	1,308	2,176
Long-term advances received	92	103	105
Net defined benefit liabilities	66	208	–
Provision for other long-term employee benefits	283	316	335
Provisions	3,459	1,839	1,409
Deferred tax liabilities	1,115	1,409	1,366
Other non-current liabilities	283	1,241	1,388
Total non-current liabilities	9,708	9,090	9,501
Total liabilities	24,543	26,367	30,599
Equity			
Capital stock	2,139	2,139	2,139
Capital surplus	1,561	1,561	1,561
Retained earnings	24,712	26,056	27,173
Accumulated other comprehensive loss	(1,107)	(717)	(921)
Other equity	(61)	(61)	(61)
Total equity	27,243	28,978	29,892
Total liabilities and equity	₩ 51,787	₩ 55,345	₩ 60,490

Other Financial Data

	For the Year Ended December 31,		
	2018	2019	2020
	(Won in billions, except ratios)		
Capital expenditures ⁽¹⁾	₩ 3,082	₩ 2,410	₩ 2,320
R&D expenditures ⁽²⁾	₩ 1,665	₩ 1,768	₩ 1,673
Depreciation and amortization ⁽³⁾	₩ 1,935	₩ 2,129	₩ 2,220
Net cash provided by operating activities	₩ 4,471	₩ 3,611	₩ 5,424
Debt-to-equity ratio ⁽⁴⁾	24.5%	22.3%	34.0%
Net debt-to-equity ratio ⁽⁵⁾	(6.7)%	(8.8)%	(15.2)%
Total liabilities-to-equity ratio	90.1%	91.0%	102.4%

Notes:

- (1) Represents cash outflows for acquisition of property, plant and equipment and acquisition of intangible assets.
- (2) R&D expenditures which were expensed when incurred and those which were capitalized for amortization in the subsequent periods. See Note 12(4) of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 12(4) of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.
- (3) See Note 28 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 28 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.
- (4) Total long-term debt, bonds and short-term borrowings over total equity. Long-term debt and bonds (including current portion of long-term debt and bonds) consists of bonds, local currency loans and foreign currency loans. See Note 13 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 13 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.
- (5) (i) Total long-term debt and bonds (including current portion of long-term debt and bonds and consisting of bonds, local currency loans and foreign currency loans) and short-term borrowings less cash and cash equivalents, short-term financial instruments and debt securities included in other current financial assets over (ii) total equity.

RISK FACTORS

An investment in the Notes is subject to numerous risks, including those listed below. Investors should carefully consider the following risks as well as the other information contained in this Offering Circular before purchasing the Notes. These risks could materially affect the Company's ability to meet its obligations under the Notes. In such case, investors may lose all or part of their original investment in, and the expected return on, the Notes.

Risks Relating to Industry

The worldwide automotive market is highly competitive.

The worldwide automotive market is highly competitive. The Company faces intense competition from automotive manufacturers in the markets in which it operates. In addition, competition is likely to further intensify in light of continuing globalization in the worldwide automotive industry. Factors affecting competition include product quality, design and features, the amount of time required for innovation and development, pricing, reliability, safety, fuel economy, customer service, distribution network, financing terms and production overcapacity as well as impacts of free trade agreements on retail prices. For example, production overcapacity within the industry has increased and will likely continue to increase, prompting manufacturers to offer marketing incentives on vehicles to maintain and grow market share. In addition, the free trade agreements with the United States and the European Union (the "EU") resulted in gradual reduction and elimination of tariffs on imported vehicles in Korea, which led to a significant increase of sales of imported vehicles in Korea. See "Business – Competition." Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in a further downward price pressure and adversely affect the Company's financial condition and results of operations. The Company's ability to adequately respond to the rapid changes in the global automotive market and to maintain its competitiveness will be fundamental to its future success in existing and new markets.

In terms of units sold, the Company's market shares in Korea were 29.3%, 29.2% and 29.9% in 2018, 2019 and 2020, respectively, according to the public filings of domestic automotive manufacturers and industry data published by the Korea Automobile Importers and Distributors Association. There can be no assurance that the Company will be able to continue to gain or maintain market share in the future.

Uncertain prospects for the global and Korean economies have adversely affected, and could continue to adversely affect, the sales and results of operations of the Company.

The demand for automobiles is influenced by many factors including the general condition of the global economy, availability of financing, interest rates, governmental regulations (including tariffs, import regulation and other taxes), fluctuations in disposable income of consumers, fuel prices and continued price volatility or reduced availability of fuel. The automotive industry in general is cyclical and economic slowdowns in the past have affected the automotive and related industries.

In addition, the overall prospects for the Korean and global economies in the remainder of 2021 and for the foreseeable future remain uncertain, among others due to the unfavorable economic conditions in Korea and globally resulting from the ongoing outbreak of the COVID-19 pandemic. See "– The ongoing global COVID-19 pandemic and any possible recurrence of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition." The global financial markets have experienced significant volatility from time to time as a result of, among other things:

- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- increased uncertainties resulting from the United Kingdom's exit from the EU;

- financial and social difficulties affecting many countries worldwide, in particular in Latin America and Europe;
- escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as changes in policy rates by the U.S. Federal Reserve and other central banks; and
- political and social instability in various countries in the Middle East, including Syria, Iraq and Yemen.

In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets, and in turn on the Company's business, financial condition and results of operations.

In addition, slowing growth and recession in Korea and the Company's export markets could adversely affect the demand for automobiles. Because the Company has a high proportion of relatively fixed structural costs like other manufacturers, relatively small changes in industry sales volume can have a substantial effect on the Company's cash flow and profitability. If vehicle sales were to decline to levels significantly below its estimates, particularly in Korea, the United States, Europe or China, the Company's financial condition and results of operations would be substantially adversely affected. The Company's strategy, which includes new product launches and expansion in growing markets such as China, India and Russia, may not be sufficient to mitigate the decrease in demand for its products in established markets, which could have a significant adverse impact on its financial performance.

The automobile industry is subject to changes and strengthening of environmental, tax and other regulatory control.

The Company's operations are subject to laws and regulations relating to various environmental and regulatory requirements and restrictions. Non-compliance with applicable statutes or regulations could result in the suspension or revocation of any license or registration at issue, as well as the imposition of civil fines and criminal penalties, which could have a material adverse effect on the Company's operations and on its reputation generally.

In the domestic market, the Company is subject to regulation under Korean environmental laws by the Ministry of Environment and the provincial environmental authorities where the Company operates production facilities. A change or strengthening of pollution control standards or environmental laws or regulations, including increasing pressure to reduce emission of carbon dioxide ("CO₂") relating to its manufacturing process, may adversely affect the financial condition and the results of operations of the Company.

On November 19, 2009, the President of Korea announced Korea's medium-term target to reduce greenhouse gas ("GHG") emissions nationwide by 30% from the expected business-as-usual level of 2020. Pursuant to the Framework Act on Low Carbon Green Growth, and the Presidential Decree enacted thereunder, both of which came into effect on April 14, 2010, the Korean government requires designated entities whose recent three-year average GHG emissions exceeded 125,000 tons of CO₂ equivalent to report their GHG emissions to the Korean government and impose an emissions target on such companies (the "GHG Target Management System"). The GHG emission criterion for designated entities was lowered to 87,500 tons of CO₂ on January 1, 2012, and further lowered to 50,000 tons of CO₂ on January 1, 2014 pursuant to amendments made to the Framework Act on Low Carbon Green Growth and the Enforcement Decree thereunder. As a result, since 2011, the Company has been required

to report its GHG emissions (which may be subject to disclosure by the government) by the end of March of each year and since 2012, the Company has been subject to a GHG emissions target. In addition to the GHG Target Management System, the Korean government enacted the Act on the Allocation and Trading of Greenhouse Gas Emission Permits in 2012, pursuant to which a cap and trade based emissions trading system (“ETS”) was introduced in 2015. Under the ETS, a certain number of GHG emission credits are allocated to applicable companies, which are required to submit credits equivalent to their actual emissions, and such credits may be traded among companies. Each business subject to allocation of GHG emission credits is required to report emission and reduction activities during each period concerned, measure its emissions and report it to the Korean government after verification by an external agency. A non-complying company will be subject to administrative fines up to three times the average price of the relevant GHG emission credits, but in any case no more than ₩100,000 per ton, multiplied by the number of such credits the non-complying company failed to submit. Since the opening of the GHG emissions trading market through the Korea Exchange in 2015, trading has steadily increased. While it is difficult to forecast the price of future Korean GHG emission credits which companies may need to purchase in order to meet the regulatory requirements, such price may be substantial. Accordingly, the introduction of the GHG emission related targets and ETS and related regulations may have a material adverse impact on the Company’s business and results of operations.

In addition, any change in tax regulations applicable to consumers of automobiles may lead to reduced demand for the Company’s products and accordingly may adversely affect the financial condition and the results of operations of the Company. For example, the Korean government temporarily reduced the individual consumption tax by 30% on non-business automobile purchases for five months in 2015. In January 2016 when the temporary reduction was removed, the automotive sales in Korea were reported to have significantly decreased and the Korean government resumed the temporary reduction of the individual consumption tax to continue until June 30, 2016. The Korean government has again temporarily reduced the individual consumption tax by 30% (up to a maximum of ₩1 million) in order to support the recovery of the domestic economy, which has been impacted by the COVID-19 pandemic. Such temporary reduction is expected to expire on June 30, 2021.

Changes in policies relating to subsidies for purchases of EVs may also have a significant impact on the Company’s sales of its vehicles. As part of its efforts to incentivize purchases of hybrid cars, plug-in hybrid cars, electric cars, hydrogen-powered cars and solar energy cars, the Korean government has allocated a total of ₩1 trillion as an EV subsidy budget for 2021, and currently offers up to ₩19 million in subsidies for the purchase of an EV and up to ₩37.5 million for the purchase of a hydrogen fuel-cell EV. In January 2021, however, the Korean government announced that it would cease to provide any subsidy to EVs that cost more than ₩90 million, with EVs priced between ₩60 million and ₩90 million receiving only half of the full amount of the subsidies, while EVs priced below ₩60 million would continue to be eligible for the full amount of the subsidies. While such policy mainly affects the sales of imported vehicles in Korea that are generally more expensive than the Company’s vehicles, such policy may make it difficult for the Company to raise the prices of its more high-end vehicles in the future. Any changes in policies relating to taxes and subsidies are difficult to predict and may have an adverse impact on the Company’s results of operations and financial condition.

In the international markets, the Company’s overseas plants are subject to local environmental laws and other regulatory controls. In addition, both the marketability of the Company’s products and the profitability of its business in the overseas markets will, to a certain degree, depend on the ability of the Company to comply on an ongoing basis with government regulations applicable to its products in such markets. Regulations and standards relating to emission controls, fuel economy, safety and recalls are applicable to new motor vehicles, engines and equipment manufactured for sale in the United States, Europe and elsewhere. Compliance with new emission control standards will present significant technological challenges to the Company and will likely require significant expenditures. Examples of these challenges include the development of advanced technologies, such as high performance batteries and catalytic converters, as well as the development of alternative fuel technologies. In September 2015,

the U.S. Environmental Protection Agency (“EPA”) discovered that certain diesel vehicles manufactured by an unrelated automotive manufacturer sold in the United States contained a device or software in engines that could detect when they were being tested, changing the performance accordingly to improve emissions results. In response, the United States and other countries, including the United Kingdom, Italy, France, Korea, Canada and Germany, have opened investigations into such unrelated automotive manufacturer and other automotive manufacturers. Although the said unrelated automotive manufacturer entered into a settlement agreement with substantial penalties with the EPA in 2016, related investigations into such manufacturer and other automotive manufacturers, as well as lawsuits stemming from such investigations, are still ongoing and the results of such investigations and lawsuits may result in further tightening of environmental regulations relating to transport policies, air pollution and diesel driving bans, which would affect automotive manufacturers, including the Company. For a description of these regulations, see “Governmental Regulations and Environmental Compliance.” There can be no assurance that the Company will be able to develop the necessary technology required by regulations in time or in a commercially feasible manner.

Risks Relating to the Company

Foreign exchange rate fluctuations can adversely affect the Company’s financial results due to sales and expenses in different currencies.

The Company’s consolidated financial statements are prepared from the local currency-denominated financial results, assets and liabilities of the Company and its subsidiaries around the world, which are then translated into Won. Accordingly, the Company’s consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies, which have fluctuated significantly in recent years, among others due to the ongoing COVID-19 pandemic. See “– The ongoing global COVID-19 pandemic and any possible recurrence of other types of widespread infectious diseases could materially and adversely affect the Company’s business, results of operations or financial condition.” A substantial proportion of the Company’s consolidated financial results, assets and liabilities is accounted for in currencies other than the Won. In 2020, a significant portion of the Company’s sales were in overseas markets outside of Korea and a significant portion of the Company’s expenses were denominated in currencies other than the Won, in particular the U.S. dollar and the Euro.

To the extent that the Company incurs costs in one currency and makes sales in another, its profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect the Company’s results of operations. Appreciation of the Won against major foreign currencies causes:

- the Company’s export products to be less competitive by raising prices of its products in foreign currency terms; and
- a decrease in net sales and accounts receivable in Won from exports sales, which are primarily denominated in the U.S. dollar and the Euro.

Depreciation of the Won, on the other hand, against major foreign currencies causes:

- an increase in Won terms in the operating and non-operating costs of products denominated in a foreign currency, including costs of components, parts and raw materials that the Company purchases from overseas sources as well as expenses relating to labor, equipment and other manufacturing costs of the Company’s overseas manufacturing facilities;
- an increase in the amount of Won required for the Company to make interest and principal payments on its foreign currency-denominated debt; and

- foreign exchange translation losses on liabilities, which lower the Company's earnings for accounting purposes.

The Company strives to naturally offset foreign exchange risk by matching foreign currency receivables with its foreign currency payables, and the Company's overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by hedging their exposure through conducting business transactions in the local currency of the respective market in which the transactions are engaged. Although the impact of exchange rate fluctuations has in the past been partially mitigated by such strategies, the Company's results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be effective in reducing or eliminating the adverse impact of such fluctuations in the future. Because of the larger positive effects of the depreciation of the Won (i.e., the reverse of the negative effects caused by the appreciation of the Won, as discussed above), appreciation of the Won against the major foreign currencies generally has had a net negative impact on the Company's results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risks – Foreign Exchange Rates." Exchange rate fluctuations can also affect the Won value of the Company's equity investments and monetary assets and liabilities denominated in foreign currencies.

The Company enters into derivative transactions to a limited extent in order to hedge its foreign currency exposure. However, fluctuations in exchange rates could materially and adversely affect the Company's results of operations. For movements in exchange rates, see "Exchange Rates." For sensitivity analysis on the impact of certain foreign exchange fluctuations on the Company's pre-tax income, see Note 32 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 32 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

The Company is subject to product liability claims, recalls and other legal claims that may be adverse to its results of operations.

Government safety standards require manufacturers to remedy certain product safety defects through recall campaigns and vehicle repurchases. Under these standards, the Company could be subject to civil or criminal penalties or may incur various costs, including significant costs for repairs. Concerns about the safety of the Company's products, whether raised internally or by regulators or consumer advocates, and whether or not based on scientific evidence or supported by data, can result in production delays, recalls, lost sales, governmental investigations, regulatory action, private claims, lawsuits and settlements and reputational damage, which can also result in substantial damage to brand image, brand equity and consumer trust in the Company's products.

For example, the Company recalled more than 700,000 units of vehicles that had been equipped with the Theta II engine, a gasoline direct injection engine that was first launched in 2007, which is believed to have caused excessive oil consumption, engine failure and non-collision fires, in the United States and other markets in 2017. The Company has also implemented campaigns to ensure the safety of vehicles equipped with the Theta II engine and other engines, such as offering lifetime warranties and installing engine failure detection software. Such recalls and campaigns could require the Company to expend considerable resources in correcting these problems and could influence purchasing decisions of potential purchasers of the Company's vehicles, thereby negatively affecting the future sales, profitability and reputation of the Company. For additional information regarding product warranties, see "Business – Sales, Distribution and After-Sales Services – Warranty and After-Sales Service."

In addition to product recalls, the Company has various legal actions and other claims pending against it, including product liability claims in the United States and other jurisdictions in which it operates. While the Company maintains product liability insurance, the claimants in some of these actions seek or have obtained class action status and may seek substantial damages. For example, in October 2019, as part of an agreement to settle a class action lawsuit in the United States alleging that

engine defects caused vehicles to stall or catch fire, the Company agreed to provide lifetime warranties and other monetary compensation to the owners of vehicles equipped with the Theta II engine, such as the K5, K7, Sorento and Sportage models, in both the United States and Korea. Although to date such claims and recalls have not had a material adverse effect on the operations of the Company and the Company devotes significant R&D expenditures to improve safety and reliability of its products, no assurance can be given that future claims or recalls having a material adverse effect on the Company will not occur. See “Business – Recalls, Product Liability and Legal Proceedings.”

In addition, as is common with most other vehicle distributors in the United States, Kia Motors America, Inc. (“KMA”) is subject, from time to time, to investigations by the National Highway Traffic Safety Administration (“NHTSA”). While the Company and KMA work closely together to address the NHTSA in their investigation process, any adverse determinations from these investigations could materially and adversely affect the Company’s sales in North America and elsewhere.

Strikes, work stoppages and other labor-related issues may materially and adversely affect the operations of the Company.

While labor relations have improved somewhat in recent years, the Company continues to frequently experience strikes and work stoppages. In the past, the Company’s plans relating to wage or workforce reductions and other labor relation issues have led to significant work stoppages and labor unrest, including when annual wage negotiations take place. Deterioration in labor relations or any future labor strikes, work stoppages or labor unrest could materially and adversely affect the Company’s results of operations and financial condition.

The Company’s labor union frequently engages in collective action in the form of strikes and work stoppages upon an impasse in negotiations with the Company’s management over wages and other labor-related issues. Most recently, throughout November and December 2020, the Company’s labor union launched partial strikes that disrupted the Company’s operations spanning parts assembly to sales and maintenance, before agreeing to a freeze in base salary and one-time incentive payouts, among others, under a preliminary deal reached on December 29, 2020. The Company estimates that work stoppages resulted in a delay of production of approximately 39,000 vehicles in 2020 due to work stoppage of 116 hours in addition to overtime work. While the Company believes that such strikes and work stoppages have not had a material impact on its business, there is no assurance that a large-scale strike or other work stoppages will not occur again in the future or that any such labor unrest will be satisfactorily resolved. Labor unrest may adversely affect the Company’s results of operations by severely disrupting its operations.

In addition, the Company has been subject to various lawsuits involving its current and former employees seeking compensation for unpaid wages based on interpretations of relevant labor laws in Korea. For example, under the Labor Standards Act and Labor Severance Payment Security Act of Korea, the amount of compensation to which an employee is legally entitled, such as overtime allowance for night shifts or work performed outside of working hours as well as severance pay, is determined by the definition of “ordinary wage,” and in 2013, the Supreme Court of Korea issued a decision that provided a standard rule for determining what kinds of payments should be included as part of ordinary wage. The Company became subject to a number of lawsuits since 2011 involving a number of its current and former employees for unpaid ordinary wages and related retirement benefits. In March 2019, the Company and its labor union concluded a special agreement on bonuses, ordinary wages and a wage system improvement and agreed to settle some of these lawsuits, for which the Company has made settlement payments amounting to approximately ₩562 billion to date. Subsequently, one of the remaining lawsuits was decided in the plaintiffs’ favor by the Supreme Court of Korea in August 2020. As of the date of this Offering Circular, some of these lawsuits are still pending. There is no assurance that there will not be additional lawsuits in relation to ordinary wages or other labor-related issues, which may strain the Company’s resources and divert its management’s attention. Moreover, court

decisions or labor legislations expanding the definition of ordinary wages may prospectively increase the Company's labor costs, which could have a material adverse effect on the Company's results of operations and financial condition.

The ongoing global COVID-19 pandemic and any possible recurrence of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, was declared a "pandemic" by the World Health Organization in March 2020, and has materially and adversely affected the global economy and financial markets in 2020 and 2021. A prolonged outbreak of COVID-19 and the resulting disruptions or delays related to the Company's business operations, production schedules and labor productivity, among others, have had, and may continue to have, a material adverse effect on the Company's results of operations and financial condition. For example, the Company has experienced whole or partial shutdown or adjustments to production schedules of some of its production facilities in Korea and overseas resulting from a general decline in demand for automobiles caused by COVID-19 and disruptions in the supply of vehicle parts and components due to COVID-19, as well as interruptions in the sales activities of the Company's dealers and distributors domestically and abroad due to travel and economic restrictions imposed by governments in response to COVID-19.

Other risks associated with a prolonged outbreak of COVID-19 may include:

- an increase in unemployment among, and/or a decrease in disposable income of, the Company's customers in Korea and globally, who may choose to decrease their spending levels, which in turn may decrease the demand for the Company's products;
- disruptions in the normal operations of the Company's business resulting from the contraction of the disease by the Company's employees, contractors or dealers, among others, which may necessitate them to be quarantined and/or the Company's production facilities, service centers or dealerships to be temporarily shut down;
- increased volatility in the global and Korean financial markets, which may adversely affect the Company's ability to meet capital funding needs on a timely and cost-effective basis; and
- a decrease in the fair value of the Company's investments in companies that may be adversely affected by the pandemic.

While the exact nature and magnitude of the impact of the COVID-19 pandemic on the Company's business, financial condition and results of operations are continuing to be assessed by its management, the Company believes that the COVID-19 pandemic has had a negative impact on its results of operations for 2020 and the first quarter of 2021.

It is not possible to predict the duration or full magnitude of harm from COVID-19. In the event that COVID-19 or other types of widespread infectious diseases cannot be effectively and timely contained, the Company's business, financial condition and results of operations may be adversely affected.

The future success of the Company depends on its ability to offer innovative and high-quality products and services that meet evolving consumer demand, including through investments and joint ventures, to market and distribute effectively and to further strengthen its brand image.

The ability to meet evolving consumer demand with new and high-quality vehicles developed over increasingly shorter product development cycles is critical to the success of automobile manufacturers. Accordingly, the Company's ability to further strengthen its position within its traditional product and market segments through development of innovative products and services while expanding into

additional market segments, higher margin PV and EV segments in particular, with such new products is crucial to its future success. In response to a general shift in consumer preference toward certain types of vehicles equipped with features that address, among other things, government regulations, environmental concerns and increasing fuel prices, the Company has recently launched a new strategy focused on expanding its EV line-ups and tapping into mobility solutions and services markets, while improving the quality of its products and services by incorporating enhanced features of connectivity and autonomy into the driving experience. See “Business – Strategy.” Inability to continue to improve the quality of its products and services, delays in bringing new vehicles to market, inability to meet defined efficiency targets while suffering from quality losses and lack of market acceptance of new models could adversely affect the financial condition, results of operations and cash flows of the Company.

In some circumstances, the Company may respond to changing technologies, customer demands and competitive pressures by collaborating with established players in the target industry through investments in attractive business opportunities. For example, in recent years, together with HMC, the Company has made, and plans to continue to make, substantial investments in mobility solutions providers, EV manufacturers and autonomous driving solutions providers, among others, with whom the Company has pursued, and will continue to pursue, its mid- to long-term strategy of strengthening its capabilities in EVs and mobility solutions and services. See “Business – Strategy – Investments.” However, the identification of suitable candidates for investment or business partners can be difficult, time-consuming and costly, and the Company may not be able to successfully consummate the identified transactions. In addition, any completed investments may not achieve their intended goals and could be viewed negatively by customers, partners or investors. The Company’s failure to address these risks or problems encountered in connection with such activities could cause the Company to fail to realize the anticipated benefits, cause the Company to incur unanticipated liabilities or could otherwise harm the Company’s business generally.

In the highly competitive automotive industry, it is critical to maintain and develop a positive brand image. As part of its efforts to strengthen its brand image, in January 2021, the Company adopted a new corporate name, “Kia Corporation,” a new slogan, “Movement that inspires,” and a new emblem that symbolizes the Company’s new, dynamic brand image. See “Business – Strategy – Plan S.” The positive effect of such efforts may be diminished, however, by the Company’s failure to further increase customers’ confidence by providing safe, high-quality products that meet increasingly sophisticated customer preferences and demands. If the Company is unable to effectively maintain and develop its brand image as a result of its inability to provide safe, high-quality products or as a result of its failure to promptly implement safety measures such as recalls when necessary, vehicle unit sales and/or sale prices may decrease, and as a result, revenues and profits may not increase as expected or may decrease, adversely affecting the Company’s financial condition and results of operations.

In addition, there is no assurance that the Company will be able to develop sales techniques and distribution networks that effectively adapt to customer preferences or changes in the regulatory environment in the major markets in which it operates. The inability of the Company to maintain well-developed sales techniques and distribution networks may result in decreased sales and market shares and may adversely affect its financial condition and results of operations. The Company’s products are sold and serviced through a network of authorized dealers and service centers across the Korean market, as well as a network of distributors and local dealers in international markets. The Company monitors the performance of its dealers and distributors and provides them with support to enable them to perform to its expectations. There can be no assurance, however, that the Company’s expectations will be met by the Company’s dealers or distributors, which could materially and adversely affect the Company’s sales and results of operations.

The Company is subject to risks normally associated with cross-border business transactions, including cross-border joint ventures.

By virtue of its significant operations outside Korea, the Company is subject to the risks normally associated with cross-border business transactions and activities. In addition, the Company is exposed to the risk of changes in social, legal, political and economic conditions in the countries where it engages in business, including developing countries such as China. In particular, unexpected changes in regulatory requirements, tariffs and other trade barriers and price or exchange controls could limit operations and make the repatriation of profits difficult.

In addition, certain overseas ventures of the Company take the form of 50:50 joint ventures with cross-border partners, such as Dongfeng Yueda Kia Motors Co., Ltd. (“DYK”), and are subject to risks normally associated therewith, including potential disputes and disagreements with joint venture partners. See “Business – Production – Production Facilities – Overseas – China.” Significant deterioration in the future of the Company’s relationship with its joint venture partners could interfere with the Company’s strategic initiatives and competitive position and could materially and adversely affect the Company’s results of operations and financial condition.

Trade imbalances may have an adverse impact on domestic and overseas competition.

Due to the imbalance between the number of cars exported from and those imported into Korea, it is possible that trading relationships between Korea and certain of its major trading countries could deteriorate, which could lead to a further opening of the domestic market or to restrictions on imports into other countries. See “Business – Competition.” For example, the Korea-United States Free Trade Agreement (“Korea-U.S. FTA”), which was re-negotiated in September 2018, increased the cap on the number of vehicles that can be exported to Korea from 25,000 vehicles to 50,000 vehicles annually per each American automobile manufacturer, as part of the U.S. government’s efforts to increase exports of U.S.-made automobiles to Korea. Although the 2.5% tariff levied on Korean-made cars has been eliminated since January 2016 under the Korea-U.S. FTA, the re-negotiated agreement extended expiration of the existing 25.0% import tariff levied on Korean-made trucks exported to the United States from 2021 to 2041. In addition, the United States-Mexico-Canada Agreement (the “USMCA”), the successor to the North American Free Trade Agreement, contains rules that will require at least 75% of a vehicle’s components to be made in North America to qualify for tariff-free access and that 40% of a vehicle’s parts be manufactured at facilities where assembly workers earn at least US\$16 per hour. The Company will be subject to such rules beginning in July 2025, and the implementation of such rules may impact the procurement strategies of the Company. The imposition of significant import duties or other import restrictions in the Company’s principal export markets, as a result of changes to the existing trade agreements or otherwise, could adversely affect its export sales, which could materially and adversely affect the Company’s results of operations and financial condition.

The Company’s transactions with its affiliates may be restricted under Korean fair trade and tax regulations.

The Company’s business operations and transactions with its affiliates, mostly with regard to procurement, are subject to the ongoing scrutiny of the Fair Trade Commission of Korea (the “KFTC”) as to, among other things, whether such transactions may constitute undue financial support among the companies of a same group. The Company’s material business transactions with its affiliates are subject to the approval by its board of directors and a public disclosure requirement.

Under Korean tax law, the Company and HMC are related parties and there is an inherent risk that any transactions of the Company with HMC (or any persons or companies that are related to the Company or HMC) may be challenged by the Korean tax authorities, if such transactions are viewed as having been made on terms that are not on an arms-length basis. Since a “corresponding adjustment” (pursuant to which the taxable income of one party is increased while the taxable income of the other

party is reduced by the same amount) is not allowed among the domestic entities under the Korean tax law, a negative finding by Korean tax authorities may result in double taxation, which would have a negative impact on the Company's results of operations and financial condition.

The Company is subject to a number of risks associated with suppliers.

Any interruption in the supply of raw materials, parts and components from any key suppliers could materially and adversely affect the Company's results of operations and financial condition. The Company obtains a significant proportion of its raw materials from a limited number of suppliers in Korea. For example, POSCO and Hyundai Steel Company together supplied substantially all of the Company's steel plates that the Company purchased in 2020, representing approximately 6.3% of the Company's total manufacturing costs in 2020. In addition, the ongoing outbreak of the COVID-19 pandemic has resulted in a global shortage of automotive semiconductors, which may increase the risk of disruptions in the Company's supply chain and, subsequently, uncertainties in the Company's ability to meet its production targets for some of its models. See “– The ongoing global COVID-19 pandemic and any possible recurrence of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition.” Moreover, certain components used in the Company's vehicles are available only from a single supplier and cannot be quickly or inexpensively re-sourced from another supplier due to long lead times and new contractual commitments that may be required by another supplier in order to provide the relevant components or materials.

Increases in prices for raw materials that the Company and its suppliers use in manufacturing their products or parts and components such as steel, precious metals, non-ferrous alloys including aluminum, and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact the Company's future profitability because the Company may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs. Due to the increasingly competitive market environment, automobile manufacturers may be forced to improve profitability by further reducing costs of their supply of parts which may result in additional cost and pricing pressure on suppliers. Pricing pressure on suppliers, in turn, may negatively affect product quality. As part of its strategy to reduce the cost of parts and supplies, the Company has reduced the number of its suppliers, resulting in increased reliance by the Company on a smaller number of suppliers, which may expose the Company to increased risk relating to such suppliers. See “Business – Components and Parts, Raw Materials and Sources of Supply.”

Affiliates of the Hyundai Motor Group collectively own approximately 35.62% of the Company and their interests may differ from those of the Noteholders.

As of December 31, 2020, certain affiliates of Hyundai Motor Group collectively held 35.62% of the issued shares of the Company. See “Principal Shareholders.” In addition, the Company engages in a variety of related party transactions with affiliates of the Hyundai Motor Group. See “Related Party Transactions.”

When exercising their rights as the Company's shareholders, either alone or in concert, such affiliates of the Hyundai Motor Group may take into account not just the Company's interests, but also their interests and the interests of their respective affiliates, including other member companies of the Hyundai Motor Group. The interests of the Hyundai Motor Group and the Company may not always align, potentially giving rise to various conflicts of interest between the Hyundai Motor Group and the Company in a number of areas relating to the Company's business and relationships, including incurrence of indebtedness, financial commitments, sales and marketing functions, R&D activities, indemnity arrangements, service arrangements and potential acquisitions of businesses or properties. Such conflicts of interest may not be resolved in the Company's favor, which may adversely affect the interests of the Noteholders.

The Company may be unable to adequately protect its intellectual property rights and may be subject to intellectual property infringement claims, either of which may substantially harm its business.

The Company regards its trademarks, patents and other similar intellectual property rights as critical to its success and has obtained or applied for trademarks and patents on various products and technologies. Like other Korean automotive manufacturers, the Company seeks to protect its intellectual property rights by taking certain measures. However, policing unauthorized use of intellectual property rights is difficult and sometimes practically infeasible, and there is no assurance that the steps currently taken by the Company will prevent misappropriation or infringement of intellectual property rights of the Company. Any misappropriation or infringement could materially and adversely affect the Company's results of operations and financial condition.

There is no assurance that a claim from third parties alleging that the Company has infringed such third parties' intellectual property rights will not be initiated, or that the Company would prevail in any litigation arising from such a claim seeking damages for or an injunction against the sale of certain of the products of the Company. In the event that any such claim is upheld, the Company's business and financial condition could be materially and adversely affected. Even if the Company is successful in defending against any such claim, there can be no assurance that the costs and resources required would not materially and adversely affect the Company's results of operations and financial condition.

The Company expects to continue certain business activities in countries and with persons targeted by United States and EU economic sanctions.

The U.S. government, including the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), administers and enforces certain laws and regulations ("U.S. direct sanctions") that impose restrictions upon activities or transactions within U.S. jurisdiction with certain countries, governments, entities and individuals that are the target of U.S. direct sanctions ("U.S. Sanctions Targets"). Non-U.S. persons generally are not automatically bound by U.S. direct sanctions, but to the extent they engage in transactions undertaken at least in part within U.S. jurisdiction, such as in the United States or involving U.S. persons or goods or services obtained from the United States (such as, for example, a U.S. dollar payment that clears through a correspondent account in the United States), they are required to comply with OFAC sanctions. Violations of U.S. direct sanctions can result in substantial civil or criminal penalties. In addition to direct sanctions, the United States also maintains indirect sanctions (collectively, "U.S. secondary sanctions"), which provide authority for the imposition of U.S. sanctions on foreign parties that engage in targeted activities with no connection to U.S. jurisdiction. U.S. secondary sanctions are maintained under a wide and growing range of statutes and executive orders, particularly (but not only) with respect to certain activities relating to Iran, North Korea, Russia and Syria. For example, non-U.S. persons can be sanctioned for engaging in dealings with certain persons on OFAC's Specially Designated Nationals list in those jurisdictions, as well as for engaging in significant transactions involving targeted industries or activities. Non-U.S. persons that engage in sanctionable activities are potentially subject to a number of secondary sanctions, including, among other things, the blocking of any property subject to U.S. jurisdiction in which the sanctioned company has an interest, which would include a prohibition on transactions or dealings within U.S. jurisdiction involving securities of the sanctioned company.

The EU also enforces certain laws and regulations that impose restrictions upon nationals and entities of, and business conducted in, EU member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such laws and regulations ("EU Sanctions Targets" and, together with U.S. Sanctions Targets, "Sanctions Targets"). Other governmental entities (including Korea) also administer and enforce similar sanctions, including United Nations Security Council resolutions. Violations of EU sanctions may also involve civil and criminal penalties.

The Company engages in limited business activities relating to Sanctions Targets, including Cuba, Iran and Syria. The Company does not believe that such activities involve any U.S. or EU jurisdictional nexus, such as U.S.-origin goods or services. For each of 2018, 2019 and 2020, the Company's car sales relating to Sanctions Targets accounted for less than 1% of total retail unit sales (excluding sales of CKDs). In 2018, the Company's CKD sales in Iran accounted for approximately 0.5% of total unit sales (including sales of CKDs). The Company terminated CKD sales in Iran in May 2018. The Company also has a wholly owned Russian subsidiary, Kia Motors Russia, LLC ("KMC Russia"). KMC Russia facilitates the Company's retail sales to consumers in Russia, some of which may potentially include Sanctions Targets. For each of 2018, 2019 and 2020, KMC Russia's sales were ₩4,050 billion, ₩4,340 billion and ₩3,577 billion, accounting for 7.5%, 7.5% and 6.0% of the Company's total sales, respectively. The Company expects to continue to engage in limited business activities relating to certain Sanctions Targets in the foreseeable future.

The Company has implemented policies and procedures designed to ensure compliance with sanctions laws, and it does not believe it has engaged or is currently engaged in any transactions with Sanctions Targets that violate, or have any material likelihood of being sanctionable under, U.S. or EU sanctions. However, given the broad discretion sanctions authorities have in interpreting and enforcing sanctions, there can be no assurances that they will not bring enforcement actions against the Company or impose secondary sanctions on the Company for its ongoing activities. Any such actions could have a material impact on the Company's business and harm its reputation. It is also possible that the U.S. or EU, or other jurisdictions, could impose broader sanctions in the future and that such sanctions could have a material impact on the Company's business activities.

The Company is aware of initiatives by certain U.S. governmental entities and institutional investors, such as pension funds, to adopt or consider adopting laws, regulations, or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with certain sanctioned countries, including those identified as state sponsors of terrorism. Some of the Company's U.S. investors may be required to divest their investments under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to divest such investments, and some U.S. institutional investors may forego the purchase of the Company's securities. There is no assurance that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of the Notes.

The Company's operations may be subject to increasing and continually evolving cybersecurity and other technological risks.

The Company depends on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including sensitive data, and to manage or support a variety of business processes and activities, including manufacturing, R&D, supply chain management, sales and accounting. In addition, the Company's vehicles may rely on various digital and information technologies, including information service and driving assistance functions. Despite security measures, the Company's digital and information technology networks and systems may be vulnerable to risks arising from a variety of cyber incidents, including damage, disruptions or shutdowns due to cyberattacks, computer viruses, breaches due to unauthorized use, errors or malfeasance by employees and others who have or gain access to the networks and systems on which the Company depends, service failures or bankruptcy of third parties such as software developers or cloud computing vendors, power shortages and outages, and utility failures or other catastrophic events like natural disasters. Such instances could materially disrupt the Company's operations and the Company could be subject to, and could be adversely affected by, claims for damages from the customers or parties affected. System failures or other cyber incidents could result in the disclosure of the Company's confidential business, technical or client information, damage to the Company's reputation with its customers and in the market, customer dissatisfaction, additional costs to the Company, regulatory penalties, exposure to litigation and other financial losses to both the Company and its customers, which could have an adverse effect on the Company's business and results of operations.

Risks Relating to Korea

If economic conditions in Korea deteriorate, the Company's customers may face financial problems and the Company's current business and future growth could be materially and adversely affected.

The Company is incorporated in Korea and a significant portion of its assets are located in, and a significant portion of its sales are derived from, Korea. As a result, the Company is subject to political, economic, legal and regulatory risks specific to Korea, and its business, financial condition and results of operations, as well as the successful execution of its operational strategies, are substantially dependent on developments relating to the Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond the Company's control, including developments in the global economy.

In particular, the ongoing COVID-19 pandemic has had an adverse impact on the Korean economy. Following its announcement of the first confirmed case of COVID-19 in Korea in January 2020, the Korean government has implemented a number of measures in order to contain the spread of the COVID-19 disease, including a nationwide order for social distancing, implementation of strict self-isolation and quarantine measures for those who may be infected, and the temporary closure of all schools and other public facilities. In addition, the Korean government has undertaken a series of actions to mitigate the adverse impact of the COVID-19 pandemic on the Korean economy, including (i) lowering of The Bank of Korea's policy rates, (ii) execution of a bilateral currency swap agreement with the U.S. Federal Reserve, (iii) provision of loans, guarantees and maturity extensions to eligible financial institutions, small- and medium business enterprises and self-employed business owners facing liquidity crises, and (iv) offering emergency relief payments for those impacted by the COVID-19 pandemic. However, the impact of the ongoing COVID-19 pandemic on the Korean economy in the remainder of 2021 and for the foreseeable future remains highly uncertain.

In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to the Company as discussed elsewhere in this section, developments that could have an adverse impact on Korea's economy include:

- declines in consumer confidence and a slowdown in consumer spending;
- the occurrence of additional severe health epidemics;
- adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, including as a result of the ongoing COVID-19 pandemic, deteriorating relations between the United States and China and increased uncertainties resulting from the United Kingdom's exit from the EU;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices) or exchange rates;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the removal of Korea from Japan's "white list" of preferred trading nations in August 2019 and the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense System in Korea by the United States in March 2017 and the ensuing economic and other retaliatory measures by China against Korea during the remainder of 2017);
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

- deterioration in the financial condition or performance of small- and medium-sized enterprises and other companies in Korea due to the Government's policies to increase minimum wages and limit working hours of employees;
- investigations of large Korean business groups and their senior management for possible misconduct;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;
- the economic impact of any pending or future free trade agreements or amendments to existing free trade agreements;
- social and labor unrest;
- substantial decreases in the market prices of Korean real estate;
- a substantial decrease in tax revenues and a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs, in particular in light of the Korean government's ongoing efforts to provide emergency relief payments to households and emergency loans to corporations in need of funding in light of COVID-19, which, together, would likely lead to a national budget deficit as well as an increase in the Korean government's debt;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean companies;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geopolitical uncertainty and risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East (including a potential escalation of hostilities between the United States and Iran) and Northern Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Any future deterioration of the Korean and global economies could adversely affect the income, financial conditions and liquidity of Korean consumers in general, including the Company's customers, and in turn those of the Company.

Escalations in tensions with North Korea could have an adverse effect on the Company and the market value of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs and warheads that can be mounted on ballistic missiles. Over the years, North Korea has continued to conduct a series of missile tests, including ballistic missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the EU have also expanded their sanctions applicable to North Korea.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

Although bilateral summit meetings were held between the two Koreas in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on the Company's business, financial condition and results of operations and the price of the Notes, including a downgrade in the Company's credit rating or of the Notes.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Korean government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

You should carefully consider the risk factors listed in this section, together with all of the other information included in this Offering Circular, before you decide to purchase the Notes. As the Company is a Korean company, there are risks associated with investing in its securities, including the Notes, that are not typical for investments in securities of U.S. or European companies. As a Korean company, the Company operates in a business and cultural environment that is different from that of other countries.

Under the Korean Foreign Exchange Transaction Law, if the Korean government determines that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Economy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange.

In addition, the Company prepares and presents its financial statements in accordance with K-IFRS, which differ in many material respects from accounting principles applicable to companies in certain other countries. The Company also makes public disclosures regarding other aspects of its business in accordance with the rules and regulations of the Korea Exchange and accepted practice in Korea. These disclosure rules and practices differ in many material respects from those applicable to companies in certain other countries. There may also be less publicly available information about Korean companies, such as the Company, than is regularly made available by public or non-public companies in other countries. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial information contained in this Offering Circular.

The Company is incorporated in Korea, and it may be more difficult to enforce judgments obtained in courts outside Korea.

The Company is incorporated in Korea. All of its directors are non-U.S. residents, and a significant portion of the personal assets of its directors and executive officers and a substantial majority of its assets are located outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process in the United States upon the Company or to enforce against the Company, its directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal or state securities laws of the United States or similar judgments obtained in other courts outside Korea. There is doubt as to the enforceability in Korean courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the United States.

Risks Relating to the Notes

The Notes are unsecured obligations.

Because the Notes are unsecured obligations, their repayment may be compromised if:

- the Company enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Company's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Company's indebtedness.

If any of these events occurs, the Company's assets may not be sufficient to pay amounts due on the Notes. In addition, any secured indebtedness incurred by the Company would have priority over its unsecured indebtedness to the extent of the assets securing such indebtedness.

The Notes have limited liquidity.

The Notes constitute a new issue of securities for which there is no existing market. Approval in-principle has been received from the SGX-ST for the listing and quotation of each series of the Notes on the SGX-ST. The offer and sale of the Notes is not conditioned on obtaining a listing of each series of the Notes on the SGX-ST or any other securities exchange. Although the Initial Purchasers have advised

the Company that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice in their sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the liquidity and market price of the Notes may be adversely affected. If an active trading market for the Notes were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Company's financial condition, results of operations and future prospects;
- the rate of exchange between the Won and the U.S. dollar;
- political and economic developments in and affecting Korea and other regions; and
- the market conditions for similar securities.

The Notes are not protected by restrictive covenants.

The Fiscal Agency Agreement governing the Notes does not contain various restrictive financial, operating or other covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company or any of its subsidiaries.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to QIBs, as defined in Rule 144A, in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth herein and the Fiscal Agency Agreement, Notes may be transferred only if the principal amount of Notes transferred is at least US\$200,000.

For a further discussion of the transfer restrictions applicable to the Notes, see "Transfer Restrictions" and "Plan of Distribution."

Credit ratings are periodically assigned to the Company and the Notes.

The Company and its debt securities, including the Notes, are subject to periodic review by independent credit rating agencies. Accordingly, increases in the level of the Company's outstanding indebtedness, a deterioration in its operating performance or other events could cause the rating agencies to downgrade its credit ratings generally and the ratings on the Notes, which could adversely impact the trading prices for, or the liquidity of, the Notes. Any such downgrade could also adversely affect the Company's cost of borrowing, limit its access to the capital markets or result in more restrictive covenants in future debt agreements.

The Notes are expected to be rated "Baa1" by Moody's and "BBB+" by S&P. The credit ratings assigned to the Notes are limited in scope, and may not reflect the potential impact of all risks that may affect the value of the Notes. Each agency's rating should be evaluated independently of any other agency's rating. A credit rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. There can be no assurance that these ratings will remain in effect for a given period or that these ratings will not be revised by the rating agencies in the future.

The Notes being issued may not be a suitable investment for all investors seeking exposure to green assets.

An amount equal to the net proceeds from the issue of the Notes will be allocated toward the financing or refinancing, in whole or in part, of new or existing Eligible Projects (as defined in “Use of Proceeds”) in accordance with the Kia Corporation Green Finance Framework, which is in alignment with the GBP, for which the Company has obtained a second party opinion from DNV GL Business Assurance Korea Ltd. (“DNV”), an external consultant, in March 2021. See “Use of Proceeds.” The Notes, however, may not be a suitable investment for all investors seeking exposure to green assets. The description of Eligible Projects provided elsewhere in this Offering Circular is for illustrative purposes only and no assurance can be provided that loans to entities with these specific characteristics will be made by the Company during the term of the Notes.

There is currently no market consensus on what precise attributes are required for a particular loan or series of notes to be defined as “green,” and therefore no assurance can be provided to investors that selected Eligible Projects will meet all investor expectations regarding environmental impact. Although the Eligible Projects will be selected in accordance with the categories recognized under the GBP (as defined in “Use of Proceeds”), and will be developed in accordance with relevant legislation and standards, there can be no guarantee that the loans will deliver the environmental benefits as anticipated, or that adverse environmental impact will not occur during the term of the Notes. In addition, the Company’s use of the proceeds may not comply with all or part of the GBP or any relevant legislation or standards, and where any negative impact is insufficiently mitigated, any loans extended may become controversial and may be criticized by activist groups or other stakeholders.

Moreover, although the Company has agreed to certain reporting and use of proceeds obligations in connection with certain environmental criteria, its failure to comply with such obligations will not constitute a breach or an event of default under the Notes. Any failure by the Company to use an amount equal to the net proceeds from the issuance of the Notes on the Eligible Projects or to meet or continue to meet the investment requirements of certain environmentally-focused investors with respect to the Notes may affect the value of the Notes and may have consequences for certain investors with portfolio mandates to invest in green assets.

No assurance can be provided that the Notes will fulfill the criteria required to qualify as green bonds. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular regarding the use of the net proceeds from the issuance of the Notes and its purchase of the Notes should be based upon such investigation as it deems necessary. Neither the Kia Corporation Green Finance Framework nor the second party opinion issued by DNV is incorporated into, or forms part of, this Offering Circular.

USE OF PROCEEDS

The Company will use an amount equal to the net proceeds (after deduction of commission to the Initial Purchasers but before out-of-pocket expenses related to this offering) from the sale of the Notes, which are estimated to amount to approximately US\$694,761,000, toward the financing or refinancing, in whole or in part, of new or existing projects related to clean transportation (“Eligible Projects”) in accordance with the Kia Corporation Green Finance Framework, which is in alignment with the Green Bond Principles 2018 published by the International Capital Markets Association (the “GBP”).

Examples of Eligible Projects include the following:

- development and production activities of zero emission vehicles (“ZEVs”) such as battery EVs, fuel cell EVs or hydrogen powered vehicles, which may include:
 - o construction of new manufacturing facilities;
 - o upgrading and retrofitting of manufacturing facilities for the purpose of enabling and/or expanding production; and
 - o R&D, including on electrified drivetrain systems, related to sourcing, tooling and testing concepts, products and production process; and
- construction and installing of electric charging infrastructure and facilities.

Project Evaluation and Selection Process

Under the Company’s project evaluation and selection process, Eligible Projects will be identified and assessed using the criteria indicated above by its International Finance Team. The International Finance Team will review and select potential Eligible Projects every 12 months and present them to the Company’s treasurer for approval.

Management of Proceeds

An amount equal to the net proceeds from this offering will be deposited into the Company’s general funding accounts and will be earmarked for allocation to Eligible Projects. The allocation of the net proceeds will be recorded and monitored by a register, which will track key information regarding the relevant Eligible Projects, as well as details regarding allocation of the proceeds and any remaining balance. Pending allocation, the net proceeds may be invested in cash or cash equivalents or used to repay existing borrowings under general credit facilities of the Company.

Reporting

The Company will publish a report on the allocation of net proceeds and associated impact metrics within one year from the date of issuance of the Notes and annually thereafter until the proceeds have been fully allocated, and as necessary in the event of any material development. Such reports will include allocation information, such as the amounts allocated to respective Eligible Projects, qualitative descriptions of such Eligible Projects and the remaining balance of unallocated proceeds. Impact reporting will be disclosed where possible and will include relevant impact indicators for the Eligible Projects.

DNV, an external consultant, has been engaged to provide an external review in the form of a Second Party Opinion on the Kia Corporation Green Finance Framework, and to confirm alignment with the GBP. Such Second Party Opinion and the Kia Corporation Green Finance Framework are publicly available on the Company’s website at <https://pr.kia.com/en/company/ir/financial-information/green-bond.do>.

EXCHANGE RATES

The following table sets forth information concerning the Market Average Exchange Rate. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

	<u>At End of Period</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
	(Won per US\$1.00)			
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
2018	1,118.1	1,100.3	1,142.5	1,057.6
2019	1,157.8	1,165.7	1,218.9	1,111.6
2020	1,088.0	1,180.1	1,280.1	1,082.7
October	1,133.4	1,144.7	1,169.5	1,127.6
November	1,104.4	1,116.8	1,136.5	1,104.4
December	1,088.0	1,095.1	1,108.9	1,082.7
2021 (through April 9)	1,118.5	1,115.2	1,141.1	1,083.1
January	1,114.6	1,097.5	1,114.6	1,083.1
February	1,108.4	1,111.7	1,124.0	1,099.7
March	1,133.5	1,131.0	1,141.1	1,121.3
April (through April 9)	1,118.5	1,125.0	1,132.6	1,116.4

Source: Seoul Money Brokerage Services, Ltd.

Note:

- (1) Represents the average of the Market Average Exchange Rate on the last trading day of each month during the relevant period.

CAPITALIZATION

The following tables set forth the actual consolidated capitalization of the Company as of December 31, 2020 and as adjusted to give effect to the issuance of the Notes. This information has been extracted from the audited consolidated statement of financial position of the Company as of December 31, 2020.

	As of December 31, 2020 ⁽¹⁾	
	Actual	As Adjusted
	(Won in billions)	
Long-term debt (excluding current portion):		
Long-term debt denominated in Won	₩ 700	₩ 700
Long-term debt denominated in foreign currencies	1,476	1,476
Bonds (net of discount)	2,723	2,723
Notes offered hereby ⁽²⁾	—	762
Total long-term debt	4,899	5,660
Equity:		
Capital stock	2,139	2,139
Capital surplus	1,561	1,561
Retained earnings	27,173	27,173
Accumulated other comprehensive loss	(921)	(921)
Other equity	(61)	(61)
Total equity	29,892	29,892
Total capitalization ⁽³⁾	₩ 34,790	₩ 35,552

Notes:

- (1) Except as discussed in this Offering Circular, there has been no material change in the Company's consolidated capitalization since December 31, 2020.
- (2) Translated into Won at the rate of ₩1,088.0 to US\$1.00, the Market Average Exchange Rate in effect on December 31, 2020.
- (3) Represents the sum of long-term debt and equity.

SELECTED FINANCIAL AND OTHER DATA

The following table summarizes certain consolidated financial and other information for the Company as of and for the years ended December 31, 2018, 2019 and 2020. The summary consolidated financial and other information set forth below have been derived from and should be read in conjunction with the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 and the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019, and the notes thereto, which are included elsewhere in this Offering Circular. Such financial statements have been prepared in accordance with K-IFRS and audited by Ernst & Young Han Young.

Consolidated Statements of Income Data

	For the Year Ended December 31,		
	2018	2019	2020
	(Won in billions, except earnings per share information)		
Sales	₩ 54,170	₩ 58,146	₩ 59,168
Cost of sales	46,177	48,767	49,223
Gross profit	7,993	9,379	9,946
Selling expenses	3,905	4,261	4,911
General and administrative expenses	2,930	3,108	2,968
Operating profit	1,157	2,010	2,066
Gain on investments in joint ventures and associates, net	617	507	61
Finance income	254	238	342
Finance costs	317	292	425
Other income	311	708	602
Other expenses	553	639	805
Profit before income taxes	1,469	2,531	1,841
Income tax expense	313	704	354
Profit for the year	<u>₩ 1,156</u>	<u>₩ 1,827</u>	<u>₩ 1,488</u>
Profit attributable to owners of the Company	1,156	1,827	1,488
Basic earnings per share in Won	2,883	4,556	3,710

Consolidated Statements of Financial Position Data

	As of December 31,		
	2018	2019	2020
	(Won in billions)		
Assets			
Cash and cash equivalents	₩ 2,293	₩ 4,269	₩ 10,161
Short-term financial instruments	4,668	3,062	2,913
Other current financial assets	1,627	1,839	1,806
Accounts and notes receivable – trade	2,049	2,155	1,819
Accounts and notes receivable – others	1,423	1,501	1,925
Advanced payments	99	471	123
Inventories	7,234	8,109	7,094
Current tax assets	247	84	147
Other current assets	71	67	105
Total current assets	19,712	21,555	26,093
Long-term financial instruments	₩ 83	₩ 104	₩ 135
Other non-current financial assets	771	802	711
Long-term accounts and notes receivable – trade	2	12	5
Investments in joint ventures and associates	13,348	13,916	14,614
Property, plant and equipment	14,803	15,747	15,580
Investment property	25	25	22
Intangible assets	2,510	2,553	2,666
Deferred tax assets	502	559	536
Other non-current assets	30	71	129
Total non-current assets	32,075	33,789	34,397
Total assets	51,787	55,345	60,490
Liabilities			
Accounts and notes payable – trade	₩ 6,245	₩ 6,767	₩ 7,302
Short-term borrowings	1,367	1,415	4,479
Accounts and notes payable – others	2,297	3,234	2,382
Advances received	544	452	326
Accrued expenses	1,960	1,936	1,975
Income taxes payable	50	176	301
Current portion of long-term debt and bonds	905	1,075	789
Provisions – current	1,367	2,017	3,282
Other current liabilities	100	205	262
Total current liabilities	14,835	17,277	21,098
Bonds	₩ 3,099	₩ 2,667	₩ 2,723
Long-term debt	1,311	1,308	2,176
Long-term advances received	92	103	105
Net defined benefit liabilities	66	208	–
Provision for other long-term employee benefits	283	316	335
Provisions	3,459	1,839	1,409
Deferred tax liabilities	1,115	1,409	1,366
Other non-current liabilities	283	1,241	1,388
Total non-current liabilities	9,708	9,090	9,501
Total liabilities	24,543	26,367	30,599
Equity			
Capital stock	2,139	2,139	2,139
Capital surplus	1,561	1,561	1,561
Retained earnings	24,712	26,056	27,173
Accumulated other comprehensive loss	(1,107)	(717)	(921)
Other equity	(61)	(61)	(61)
Total equity	27,243	28,978	29,892
Total liabilities and equity	₩ 51,787	₩ 55,345	₩ 60,490

Other Financial Data

	For the Year Ended December 31,					
	2018		2019		2020	
	(Won in billions, except ratios)					
Capital expenditures ⁽¹⁾	₩	3,082	₩	2,410	₩	2,320
R&D expenditures ⁽²⁾	₩	1,665	₩	1,768	₩	1,673
Depreciation and amortization ⁽³⁾	₩	1,935	₩	2,129	₩	2,220
Net cash provided by operating activities	₩	4,471	₩	3,611	₩	5,424
Debt-to-equity ratio ⁽⁴⁾		24.5%		22.3%		34.0%
Net debt-to-equity ratio ⁽⁵⁾		(6.7)%		(8.8)%		(15.2)%
Total liabilities-to-equity ratio		90.1%		91.0%		102.4%

Notes:

- (1) Represents cash outflows for acquisition of property, plant and equipment and acquisition of intangible assets.
- (2) R&D expenditures which were expensed when incurred and those which were capitalized for amortization in the subsequent periods. See Note 12(4) of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 12(4) of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.
- (3) See Note 28 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 28 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.
- (4) Total long-term debt, bonds and short-term borrowings over total equity. Long-term debt and bonds (including current portion of long-term debt and bonds) consists of bonds, local currency loans and foreign currency loans. See Note 13 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 13 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.
- (5) (i) Total long-term debt and bonds (including current portion of long-term debt and bonds and consisting of bonds, local currency loans and foreign currency loans) and short-term borrowings less cash and cash equivalents, short-term financial instruments and debt securities included in other current financial assets over (ii) total equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of the Company as of and for the years ended December 31, 2019 and 2020 and the consolidated financial statements of the Company as of and for the years ended December 31, 2018 and 2019, and the notes thereto, which are included elsewhere in this Offering Circular. This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included elsewhere in this Offering Circular. The following discussion of the Company's results of operations and financial condition and all financial information set forth below is presented on a consolidated basis unless otherwise specified.

Overview

The Company's results of operations and financial condition have been and will continue to be affected by trends and developments, many of which are outside its control, including the following:

General Global Economic Conditions

The Company's business is sensitive to worldwide economic conditions and is dependent significantly on demand from retail and commercial customers for its vehicles. Macroeconomic factors that influence consumer confidence and spending behavior include the level of inflation and unemployment, fluctuations in energy prices and conditions in the real estate markets. Uncertainties in the global economy have increased in recent years, with global financial and capital markets experiencing substantial volatility. In particular, the ongoing pandemic of COVID-19 has materially and adversely affected the global economy and financial markets in 2020 and the first quarter of 2021. See "Risk Factors – Risks Relating to the Company – The ongoing global COVID-19 pandemic and any possible recurrence of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition." Any actual or anticipated improvement or deterioration of economic conditions in any of the Company's major markets, including Korea, Europe, the United States, China and other countries, may affect consumer confidence and spending, resulting in a corresponding fluctuation in consumption that would impact the level of demand for the Company's vehicles and prices at which they can be sold.

Changes in Product Portfolio

The Company's operating results depend significantly on its ability to anticipate and respond to emerging customer preferences and demands by ensuring continuing and timely offerings of new, as well as enhancements to existing, products and stimulate customer demand for new and upgraded products. The Company sells a wide range of automobile products consisting of PVs, RVs, CVs and CKDs. The Company continues to refine and expand its product portfolio to offer a wider range of products. In recent years, the Company has expanded its line-up of RVs in response to a shift in customer demand from PVs to RVs.

As part of its overall strategy, the Company has expanded in recent years, and plans to continue to expand, its range of eco-friendly vehicles, such as hybrid vehicles, flex fuel vehicles, fuel-cell vehicles and EVs, in its product portfolio. See "Business – Strategy – Plan S." The Company is currently engaged in R&D efforts in order to facilitate such expansion and to pursue additional growth opportunities in the evolving market for eco-friendly vehicles. Such changes in the Company's product portfolio through continuing and timely development of new, as well as enhancements to existing, products will affect its results of operations and financial condition.

Exchange Rate Volatility

The value of the Won relative to major currencies such as the U.S. dollar has fluctuated significantly in recent years, among others, due to COVID-19, and there is no guarantee that similar currency fluctuation will not occur again in the future. The average Market Average Exchange Rate for the Won against the U.S. dollar was ₩1,100.3, ₩1,165.7 and ₩1,180.1 in 2018, 2019 and 2020, respectively. In general, an appreciation of the Won against the U.S. dollar and the Euro has a net negative impact on the Company's results of operations because it causes the Company's overseas sales revenues to decrease. On the other hand, an appreciation of the Won may also positively affect the Company as some of its costs are incurred in U.S. dollars, Euros, RMB and Japanese Yen. This may have the short-term effect of reducing cost of sales and could positively affect the Company's margins and profitability. In addition, an appreciation of the Won can also have a positive effect on the Company's results of operations because it causes a decrease in the amount of Won required for debt service payments in foreign currencies and a decrease in foreign exchange translation losses on liabilities which increases the Company's earnings for accounting purposes. In general, however, an appreciation of the Won against the U.S. dollar and the Euro has a net negative effect on the Company's results of operations. See "Risk Factors – Risks Relating to the Company – Foreign exchange rate fluctuations can adversely affect the Company's financial results due to sales and expenses in different currencies." Future movements in the exchange rate of the Won against the U.S. dollar and other foreign currencies may adversely affect the Company's results of operations and financial condition. For movements in exchange rates, see "Exchange Rates." The Company enters into derivative transactions to a limited extent in order to hedge its foreign currency exposure. See "– Market Risks – Foreign Exchange Rates."

Government Regulation and Environmental Matters

The worldwide automotive industry is subject to extensive government regulation, which often differs by country and by region. Governmental regulation has been strengthened in recent years, primarily out of concern for the environment (including concerns about the possibility of global climate change and its impact), vehicle safety and energy independence. Laws in various jurisdictions regulate the emission levels, fuel economy, noise and safety of vehicles, as well as the levels of pollutants generated by the plants that produce them. The cost of complying with these regulations can be significant, and additional future regulations (already enacted, adopted or proposed) may adversely affect the Company's results of operations and financial condition. The Company recognizes, however, that leadership in environmental protection is an increasingly important competitive factor in the marketplace and expects to continue to incur significant compliance costs in the future. See "Governmental Regulations and Environmental Compliance."

In addition, the success of the Company's long-term strategy to expand its EV offerings may be impacted by changes to various government regulations and policies relating to the environment or energy, including incentives supporting the development and acceptance of EVs. Currently, such incentives include tax credits or rebates that encourage the purchase of EVs, which may be reduced or eliminated in the future. Any actual or anticipated changes in relevant government regulations or policies may impact the level of demand for the Company's current and future line-up of EVs. See "Risk Factors – Risks Relating to Industry – The automobile industry is subject to changes and strengthening of environmental, tax and other regulatory control."

Labor Relations

The Company continues to frequently experience strikes and work stoppages. In the past, the Company's plans relating to wage or workforce reductions and other labor relation issues have led to significant work stoppages and labor unrest, including when annual wage negotiations take place. In addition, the Company has experienced disputes with its labor unions involving the Company's plans relating to wage or workforce reductions and other labor relation issues, which has led to significant work stoppages and labor unrest in recent years. The Company has also been subject to various lawsuits involving its current and former employees seeking compensation for unpaid wages based on

interpretations of relevant labor laws in Korea. See “Risk Factors – Risks Relating to the Company – Strikes, work stoppages and other labor-related issues may materially and adversely affect the operations of the Company.” and “Business – Recalls, Product Liability and Legal Proceedings – Legal Claims Relating to Labor Relations.” Deterioration in labor relations or any future labor strikes, work stoppages or labor unrest, or any additional lawsuits in relation to ordinary wages or other labor-related issues or court decisions or labor legislations expanding the definition of ordinary wages, could materially and adversely affect the Company’s results of operations and financial condition.

Capital Expenditures and Production Capacity

The Company’s future growth will be dependent on its ability to continue to expand and upgrade its production facilities. The Company commenced the operation of a new plant in India in July 2019. See “Business – Production – Production Facilities.” The Company expects that increases in production capacity will have a significant effect on its results of operations and financial condition, among others, by enabling the Company to lower its per unit manufacturing costs. In addition, the Company expects that its continued efforts to enhance the efficiency and technical capacities of its production facilities will also have a significant effect on its results of operations and financial condition.

The Company reviews its capital expenditure plans on an on-going basis, and the actual amount expended on capital investments may differ based on market conditions and business outlook for the Company’s products, discovery of more attractive investment opportunities, changes in interest rates and other factors beyond its control, including a prolonged outbreak of COVID-19 or other types of widespread infectious diseases. The Company may delay or not implement some of its announced capital expenditure plans based on its assessment of such factors. Production capacity expansion would increase depreciation and amortization expenses as well as financing costs related to capital expenditures. The level of capital expenditures made by the Company, as well as the returns the Company is able to achieve on its capital expenditure investments, will affect its results of operations and financial condition.

Recalls and Product Liability Claims

Government safety standards require manufacturers to remedy certain product safety defects through recall campaigns and vehicle repurchases. Under these standards, the Company could be subject to civil or criminal penalties or may incur various costs, including significant costs for repairs. Concerns about the safety of the Company’s products, whether raised internally or by regulators or consumer advocates, and whether or not based on scientific evidence or supported by data, can result in production delays, recalls, lost sales, governmental investigations, regulatory action, private claims, lawsuits and settlements and reputational damage, which can also result in substantial damage to brand image, brand equity and consumer trust in the Company’s products. In addition, any recalls or related campaigns could require the Company to expend considerable resources in correcting these problems and could influence purchasing decisions of potential purchasers of the Company’s vehicles, thereby negatively affecting the future sales, profitability and reputation of the Company.

In addition to product recalls, the Company has various legal actions and other claims pending against it, including product liability claims in the United States and other jurisdictions in which it operates. While the Company maintains product liability insurance, the claimants in some of these actions seek or have obtained class action status and may seek substantial damages. Although to date such claims and recalls have not had a material adverse effect on the operations of the Company and the Company devotes significant R&D expenditures to improve safety and reliability of its products, no assurance can be given that future claims or recalls having a material adverse effect on the Company will not occur. See “Risk Factors – Risks Relating to the Company – The Company is subject to product liability claims, recalls and other legal claims that may be adverse to its results of operations.” and “Business – Recalls, Product Liability and Legal Proceedings.”

Critical Accounting Policies

The Company’s consolidated financial statements have been prepared in accordance with K-IFRS. Preparation of the Company’s consolidated financial statements requires management to make judgments, involving significant estimates and assumptions, in the application of certain accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available to the Company as of the date of the consolidated financial statements, and changes in this information over time could materially impact amounts reported in the consolidated financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the Company has identified the following significant accounting policies that involve critical accounting estimates. These policies require subjective or complex judgments, and as such could be subject to revision as new information becomes available. For a discussion of the Company’s other significant accounting policies, see Note 3 to the Company’s audited consolidated financial statements of the Company as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

The Company expects that the COVID-19 pandemic and the support measures implemented by various governments will have an impact on the consolidated financial statements of the Company in the future, but the exact impact of COVID-19 cannot be reasonably estimated as of December 31, 2020.

Retirement Benefit Plans – Defined Benefit Liabilities

Under the Company’s defined benefit plan, the Company pays employee benefits to retired employees in the form of a lump sum based on their salaries and years of service at the time of their retirement. Accordingly, the Company is exposed to a variety of actuarial assumption risks, such as risk associated with expected years of service, interest risk and market (investment) risk. Any changes in these assumptions will impact the carrying amount of the defined benefit liabilities. The weighted average rate of the principal actuarial assumptions as of the indicated dates are as follows:

	As of December 31,		
	2018	2019	2020
Discount rate	2.70%	2.30%	2.33%
Expected rate of salary increase	4.00%	4.00%	4.00%

The Company’s net obligation in respect of its defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (loss). The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Recognition and Measurement of Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is significant, provisions are determined at the present value of the expected future cash flows. Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement will be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

The Company generally provides assurance type warranties for repairs of defective products at the point of sale of vehicles and their parts in accordance with relevant laws and regulations and accrues warranty expenses at the time of sale based on the history of actual warranty claims and a weighing of all possible outcomes against their associated probabilities. In addition, the Company records a provision for expenses that may occur due to replacement of parts or voluntary recalls pending as of the end of the reporting period. Other provisions are comprised of provisions related to loss on lawsuits. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. A provision shall be used only for expenditures for which the provision was originally recognized.

Revenue from Contracts with Customers

The Company is engaged in the business of producing and selling vehicles and their parts. In a contract with a customer, the Company recognizes revenue when the control of the goods or services is transferred to the customer at an amount that reflects the consideration expected to be paid for the goods or services. Since the Company controls the goods or services at the stage prior to the delivery of the contracted goods or services to the customers, the Company operates on a contractual principle with all customers. There are commitments other than the provision of goods in a sales contract of vehicles and their parts with the customer by the Company and the Company considers whether the obligations under these other commitments are separate performance obligations to which certain portions of the transaction amounts are required to be allocated. Accordingly, the Company has identified the provision of service type warranties, the provision of additional goods and services and the provision of points for the Company's customer loyalty points program as separate performance obligations from the provision of the vehicles and their parts.

For the provision of service type warranties and additional goods or services, the Company allocates a portion of the transaction price received in providing the vehicles and the parts to each performance obligation and revenues are recognized over the period in which such performance obligation is satisfied. When the Company calculates the transaction price allocated to the performance obligation, it considers the estimated selling price of each service. Because the individual selling prices are not directly observed, the Company considers all available information to a reasonable extent and estimates its individual selling prices in a consistent manner. For the provision of points for the Company's customer loyalty points, part of the sales proceeds of the vehicles is distributed to the points based on the relative individual selling prices and recognized as contract liabilities until the points are used. Revenue is recognized when customers use the points. When estimating the individual selling price of a point, the Company considers the possibility of the customer using the points in the future. The Company makes quarterly adjustments to the estimates of points to be used in the future and adjustments to the contract liabilities are reflected in the revenue. A significant change in the assumptions or facts used by the Company in estimating the individual selling prices may have an impact on its allocation of revenues.

Deferred Tax Assets and Liabilities

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income. The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. Recognition of deferred tax assets and liabilities reflects the Company's best estimates and assumptions regarding, among other things, the level of future taxable income, interpretation of the tax laws and tax planning. Changes in tax laws, changes in projected levels of taxable income and tax planning could affect the deferred tax assets and liabilities recognized by the Company in the future.

Leases

The Company adopted K-IFRS 1116, *Leases*, in the fiscal year beginning on January 1, 2019 by recognizing the cumulative effect of initially applying K-IFRS 16 using the modified retrospective method at the date of initial application. Under K-IFRS 1116, the Company measures a right-of-use asset at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of a lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability recognized and the initial direct costs incurred. If it cannot be reasonably estimated that the lessee will obtain ownership of the underlying asset at the end of the lease term, the right-of-use asset is depreciated on a straight-line basis over the shorter of the period of useful life and lease term.

The Company measures a lease liability at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in underlying assets,

a change in the fixed lease payments (including in-substance fixed lease payments), a change in the lease payment (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the lease term.

The Company applies a lease recognition exemption to: (i) leases that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option and (ii) leases for which the underlying asset is of low value. The lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Sales Volume

The Company's worldwide unit sales volume on a wholesale basis increased by 2.9% from approximately 2,442,000 units in 2018 to approximately 2,513,000 units in 2019, and then decreased by 5.2% to approximately 2,382,000 units in 2020 as compared to 2019. The following table sets forth the unit sales volume by geographic region of the Company on a wholesale basis for the years indicated.

	For the Year Ended December 31,		
	2018	2019	2020
	(Thousand Units)		
Korea	532	520	552
United States	591	613	574
Europe	504	521	432
Other Regions	815	859	824
Total	<u>2,442</u>	<u>2,513</u>	<u>2,382</u>

The sales volume data presented in this section are on a wholesale basis and are different from the retail sales data presented in "Summary" and "Business." The sales volume data on a wholesale basis are:

- for Korea, number of units released to customers at the domestic production plants for the domestic market; and
- for other regions, number of units sold to distributors located in the respective region.

Because DYK is a 50:50 joint venture with local partners, DYK's sales volume in China is not included in the Company's total sales volume in this section and DYK's sales are not included in the Company's sales. The Company's share of DYK's net profit or loss is included as gain or loss on investments in joint ventures and associates, net.

Korea

Unit sales in Korea decreased by 2.3% from approximately 532,000 units in 2018 to approximately 520,000 units in 2019, primarily due to the lack of new models in the first half of 2019 as well as the launch of new models by the Company's competitors in 2019. Unit sales increased by 6.2% to approximately 552,000 units in 2020 as compared to 2019, primarily reflecting the effect of newly-launched models, such as the K5, Sorento and Carnival, in 2019.

United States

Unit sales in the United States increased by 3.7% from approximately 591,000 units in 2018 to approximately 613,000 units in 2019, primarily reflecting the successful launch of Telluride, a new RV model, in 2019. Unit sales decreased by 6.4% to approximately 574,000 units in 2020 as compared to 2019, primarily due to a general decline in demand for automobiles caused by the COVID-19 pandemic.

Europe

Unit sales in Europe increased by 3.4% from approximately 504,000 units in 2018 to approximately 521,000 units in 2019, as demand for the Cee'd model increased and the Company began to expand its EV offerings in Europe in 2019. Unit sales decreased by 17.1% to approximately 432,000 units in 2020 as compared to 2019, primarily due to a general decline in demand for automobiles caused by the COVID-19 pandemic.

Other Regions

Unit sales in other regions increased by 5.4% from approximately 815,000 units in 2018 to approximately 859,000 units in 2019, which primarily reflected the Company's entry into the India market in July 2019 following the opening of the India plant. Unit sales decreased by 4.1% to approximately 824,000 units in 2020 as compared to 2019, primarily due to a decrease in unit sales as a result of a general decline in demand for automobiles caused by the COVID-19 pandemic, which was partially offset by a continued increase in unit sales in India.

Results of Operations

2020 Compared to 2019

The following table sets forth the Company's selected consolidated statement of income information and changes therein for the years ended December 31, 2019 and 2020.

	For the Year Ended December 31,		Change	
	2019	2020	Amount	%
	(Won in billions, except percentages)			
Sales	₩ 58,146	₩ 59,168	₩ 1,022	1.8%
Cost of sales	48,767	49,223	456	0.9
Gross profit	9,379	9,946	566	6.0
Selling expenses	4,261	4,911	649	15.2
General and administrative expenses	3,108	2,968	(140)	(4.5)
Operating profit	2,010	2,066	57	2.8
Gain on investments in joint ventures and associates, net	507	61	(446)	(87.9)
Finance income	238	342	104	43.8
Finance costs	292	425	132	45.3
Other income	708	602	(107)	(15.1)
Other expenses	639	805	166	25.9
Profit before income taxes	2,531	1,841	(690)	(27.3)
Income tax expense	704	354	(351)	(49.8)
Profit for the year	₩ 1,827	₩ 1,488	₩ (339)	(18.6)%

Sales

The Company's sales increased by 1.8% from ₩58,146 billion in 2019 to ₩59,168 billion in 2020 primarily due to an increase in average selling price reflecting an increase in the proportion of RVs sold with higher prices than PVs, as well as the depreciation in the average value of the Won against the U.S. dollar and the Euro in 2020 compared to 2019, which was partially offset by a decrease in unit sales (excluding unit sales in China) from approximately 2,513,000 units in 2019 to approximately 2,382,000 units in 2020 primarily as a result of a general decline in demand for automobiles caused by the COVID-19 pandemic.

Cost of Sales and Gross Profit

Cost of sales increased by 0.9% from ₩48,767 billion in 2019 to ₩49,223 billion in 2020. The increase in cost of sales was primarily due to an increase in the proportion of vehicles sold that require higher raw material costs and have a higher manufacturing cost per unit. Gross profit increased by 6.0% from ₩9,379 billion in 2019 to ₩9,946 billion in 2020. As a result, gross margin (proportion of gross profit to sales) increased from 16.1% in 2019 to 16.8% in 2020.

Selling Expenses and General and Administrative Expenses

The following table presents a breakdown of the Company's selling expenses and general and administrative expenses and the changes therein for the years ended December 31, 2019 and 2020.

	For the Year Ended December 31,		Change	
	2019	2020	Amount	%
	(Won in billions, except percentages)			
Selling expenses:				
Advertising	₩ 1,269	₩ 1,301	₩ 31	2.5%
Sales promotion	1,053	993	(60)	(5.7)
Warranty expenses	1,575	2,291	716	45.5
Freight	55	42	(13)	(24.1)
Overseas marketing and export expenses	309	284	(24)	(7.9)
	<u>₩ 4,261</u>	<u>₩ 4,911</u>	₩ 649	15.2%
General and administrative expenses:				
Salaries	₩ 846	₩ 804	₩ (42)	(5.0)%
Bonus	219	207	(13)	(5.7)
Retirement benefits cost	83	85	1	1.7
Accrual for other long-term employee benefits	13	11	(2)	(17.4)
Other employee benefits	204	197	(7)	(3.6)
Travel	47	23	(24)	(50.8)
Communications	13	13	(0)	(0.4)
Utilities	18	19	1	4.6
Taxes and dues	40	39	(1)	(2.8)
Rent	17	16	(1)	(6.1)
Depreciation	132	136	4	3.3
Amortization	47	43	(4)	(7.8)
Bad debt expenses	1	0	(1)	(78.6)
Repairs and maintenance	30	25	(5)	(17.7)
Insurance premium	26	29	3	12.0
Entertainment expense	4	2	(3)	(58.1)
Maintenance fee for vehicles	40	32	(8)	(20.6)
Supplies and stationery	14	13	(1)	(5.3)
Information fees	3	3	0	5.5
Education and training	24	20	(4)	(17.5)
Commissions and fees	353	332	(22)	(6.1)
Test expenses	914	897	(17)	(1.9)
Others	18	23	5	26.3
	<u>₩ 3,108</u>	<u>₩ 2,968</u>	₩ (140)	(4.5)%

Selling expenses increased by 15.2% from ₩4,261 billion in 2019 to ₩4,911 billion in 2020 primarily due to an increase in warranty expenses, which was partially offset by decreases in sales promotion and overseas marketing and export expenses. Warranty expenses increased by 45.5% from ₩1,575 billion in 2019 to ₩2,291 billion in 2020 primarily due to an increase in provision for sales warranty as a result of revisions to the Company's assumptions regarding replacement rate and vehicle lifecycle in connection with the Theta II and other engines. See "Business – Recalls, Product Liability and Legal Proceedings." Such increase was partially offset by a 5.7% decrease in sales promotion expenses from ₩1,053 billion in 2019 to ₩993 billion in 2020 primarily reflecting a decrease in incentive payments to dealers in the United States, as well as a 7.9% decrease in overseas marketing and export expenses from ₩309 billion in 2019 to ₩284 billion in 2020 primarily due to a decrease in packing expenses in connection with a decline in export volume from Korea, which was mainly as a result of the COVID-19 pandemic.

General and administrative expenses decreased by 4.5% from ₩3,108 billion in 2019 to ₩2,968 billion in 2020 primarily due to decreases in salaries, travel expenses and commissions and fees, which were partially offset by increases in other expenses and depreciation. Salaries decreased by 5.0% from ₩846 billion in 2019 to ₩804 billion in 2020 primarily due to a decrease in wages of our employees in Korea. Travel expenses decreased by 50.8% from ₩47 billion in 2019 to ₩23 billion in 2020 primarily due to travel restrictions in connection with the COVID-19 pandemic. Commissions and fees decreased by 6.1% from ₩353 billion in 2019 to ₩332 billion in 2020 primarily due to a decrease in the Company's share of R&D expenditures that are settled on a Hyundai Motor Group-wide basis. These increases were partially offset by a 26.3% increase in other expenses from ₩18 billion in 2019 to ₩23 billion in 2020 as well as a 3.3% increase in depreciation from ₩132 billion in 2019 to ₩136 billion in 2020 primarily related to certain buildings and right-of-use assets.

Operating Profit

Due to the factors described above, the Company's operating profit increased by 2.8% from ₩2,010 billion in 2019 to ₩2,066 billion in 2020. Operating margin (proportion of operating profit to sales) remained constant at 3.5% in 2019 and 2020.

Gain on Investments in Joint Ventures and Associates, Net

The Company's gain on investments in joint ventures and associates, net, decreased by 87.9% from ₩507 billion in 2019 to ₩61 billion in 2020 primarily due to an increase in loss of DYK and a decrease in profit of Hyundai Mobis Co., Ltd. ("Hyundai Mobis"). The Company's share of DYK's loss increased by 173.4% from ₩148 billion in 2019 to ₩405 billion in 2020 primarily due to a decrease in unit sales from approximately 259,000 units in 2019 to approximately 225,000 units in 2020, which mainly reflected the weak sales performance of key models in China.

Finance Income and Costs

Finance income increased by 43.8% from ₩238 billion in 2019 to ₩342 billion in 2020. Dividend income increased by 20.9% from ₩3 billion in 2019 to ₩4 billion in 2020 primarily related to an increase in dividend payments received from Hyundai WIA Corporation ("Hyundai WIA") and Hyundai Motor Securities Co., Ltd. Finance costs increased by 45.3% from ₩292 billion in 2019 to ₩425 billion in 2020 primarily due to a 24.3% increase in interest expense from ₩189 billion in 2019 to ₩235 billion in 2020 mainly related to capitalized borrowing costs.

Net loss on foreign exchange transactions increased by 389.0% from ₩8 billion in 2019 to ₩38 billion in 2020, primarily due to fluctuations in the value of the Won against the U.S. dollar in 2019 and 2020. The Company recorded a net loss on foreign currency translation of ₩41 billion in 2019 compared to a net gain of ₩1 billion in 2020. The Market Average Exchange Rate for the Won against the U.S. dollar depreciated from ₩1,118.1 as of December 31, 2018 to ₩1,157.8 as of December 31, 2019 and appreciated to ₩1,088.0 as of December 31, 2020. The Company's net loss on valuation and trading of derivatives was ₩10 billion in 2019, whereas it recorded a net gain of ₩15 billion in 2020.

Other Income and Expenses

Other income decreased by 15.1% from ₩708 billion in 2019 to ₩602 billion in 2020 primarily due to a 46.5% decrease in miscellaneous profit from ₩273 billion in 2019 to ₩146 billion in 2020 primarily as a result of a reversal of provisions due to the conclusion of certain lawsuits related to ordinary wage in 2019, compared to no such reversal in 2020. Other expenses increased by 25.9% from ₩639 billion in 2019 to ₩805 billion in 2020, as loss on disposal of property, plant and equipment increased by 13.7% from ₩26 billion in 2019 to ₩30 billion in 2020.

The Company recorded a net gain on foreign exchange transactions of ₩156 billion in 2019 as compared to a net loss of ₩58 billion in 2020. The Company recorded a net gain on foreign currency translation of ₩2 billion in 2019 as compared to a net loss of ₩75 billion in 2020.

Income Tax Expense

The Company's income tax expense decreased by 49.8% from ₩704 billion in 2019 to ₩354 billion in 2020, primarily reflecting a 27.3% decrease in profit before income taxes from ₩2,531 billion in 2019 to ₩1,841 billion in 2020. The Company's effective tax rate decreased from 27.8% in 2019 to 19.2% in 2020.

Profit for the Year

Due to the factors described above, the Company's profit for the year decreased by 18.6% from ₩1,827 billion in 2019 to ₩1,488 billion in 2020.

2019 Compared to 2018

The following table sets forth the Company's selected consolidated statement of income information and changes therein for the years ended December 31, 2018 and 2019.

	For the Year Ended December 31,		Change	
	2018	2019	Amount	%
	(Won in billions, except percentages)			
Sales	₩ 54,170	₩ 58,146	₩ 3,976	7.3%
Cost of sales	46,177	48,767	2,589	5.6
Gross profit	7,993	9,379	1,387	17.4
Selling expenses	3,905	4,261	356	9.1
General and administrative expenses	2,930	3,108	178	6.1
Operating profit	1,157	2,010	852	73.6
Gain on investments in joint ventures and associates, net	617	507	(110)	(17.8)
Finance income	254	238	(16)	(6.3)
Finance costs	317	292	(25)	(7.8)
Other income	311	708	397	127.6
Other expenses	553	639	86	15.5
Profit before income taxes	1,469	2,531	1,062	72.3
Income tax expense	313	704	392	125.3
Profit for the year	<u>₩ 1,156</u>	<u>₩ 1,827</u>	₩ 671	58.0%

Sales

The Company's sales increased by 7.3% from ₩54,170 billion in 2018 to ₩58,146 billion in 2019 primarily due to the depreciation in the average value of the Won against the U.S. dollar in 2019 compared to 2018, an increase in unit sales (excluding unit sales in China) from approximately 2,442,000 units in 2018 to approximately 2,513,000 units in 2019 and an increase in the average selling price, primarily as a result of the launch of new models with higher prices in 2019.

Cost of Sales and Gross Profit

Cost of sales increased by 5.6% from ₩46,177 billion in 2018 to ₩48,767 billion in 2019. The increase in cost of sales was primarily due to the increase in the number of vehicles sold. Gross profit increased by 17.4% from ₩7,993 billion in 2018 to ₩9,379 billion in 2019. As a result, gross margin (proportion of gross profit to sales) increased from 14.8% in 2018 to 16.1% in 2019.

Selling Expenses and General and Administrative Expenses

The following table presents a breakdown of the Company's selling expenses and general and administrative expenses and the changes therein for the years ended December 31, 2018 and 2019.

	For the Year Ended		Change	
	December 31,		Amount	%
	2018	2019		
(Won in billions, except percentages)				
Selling expenses:				
Advertising	₩ 1,223	₩ 1,269	₩ 46	3.8%
Sales promotion	1,062	1,053	(9)	(0.8)
Warranty expenses	1,251	1,575	324	25.9
Freight	47	55	8	17.2
Overseas marketing and export expenses	322	309	(13)	(4.2)
	<u>₩ 3,905</u>	<u>₩ 4,261</u>	₩ 356	9.1%
General and administrative expenses:				
Salaries	₩ 779	₩ 846	₩ 67	8.6%
Bonus	219	219	0	0.0
Retirement benefits cost	82	83	1	1.2
Accrual for other long-term employee benefits	8	13	5	66.2
Other employee benefits	177	204	28	15.6
Travel	45	47	1	2.7
Communications	14	13	(0)	(1.5)
Utilities	18	18	0	1.6
Taxes and dues	34	40	6	18.8
Rent	71	17	(54)	(76.2)
Depreciation	79	132	53	66.8
Amortization	43	47	4	8.2
Bad debt expenses	1	1	(1)	(44.6)
Repairs and maintenance	19	30	11	55.1
Insurance premium	26	26	0	1.6
Entertainment expense	5	4	(0)	(6.1)
Maintenance fee for vehicles	40	40	(1)	(1.3)
Supplies and stationery	9	14	5	61.1
Information fees	3	3	0	13.2
Education and training	24	24	0	1.4
Commissions and fees	346	353	7	2.2
Test expenses	864	914	50	5.8
Others	24	18	(6)	(23.3)
	<u>₩ 2,930</u>	<u>₩ 3,108</u>	₩ 178	6.1%

Selling expenses increased by 9.1% from ₩3,905 billion in 2018 to ₩4,261 billion in 2019 primarily due to increases in warranty expenses and advertising expenses, which were partially offset by a decrease in overseas marketing and export expenses. Warranty expenses increased by 25.9% from ₩1,251 billion in 2018 to ₩1,575 billion in 2019 primarily due to an increase in provision for sales warranty in connection with recalls and other campaigns related to the Theta II and other engines. Advertising expenses increased by 3.8% from ₩1,223 billion in 2018 to ₩1,269 billion in 2019 primarily due to increased advertisement of new vehicle models. These increases were partially offset by a decrease in overseas marketing and export expenses from ₩322 billion in 2018 to ₩309 billion in 2019 primarily due to a decrease in export expenses, including shipping and packing expenses.

General and administrative expenses increased by 6.1% from ₩2,930 billion in 2018 to ₩3,108 billion in 2019 primarily due to increases in salaries and depreciation, which were partially offset by a decrease in rent. Salaries increased by 8.6% from ₩779 billion in 2018 to ₩846 billion in 2019 primarily due to an increase in wages. Depreciation increased by 66.8% from ₩79 billion in 2018 to ₩132 billion in 2019, primarily related to an increase in depreciation of right-of-use assets. These increases were partially offset by a 76.2% decrease in rent expenses from ₩71 billion in 2018 to ₩17 billion in 2019 primarily due to the recognition of payments on certain leased properties as a reduction in lease liabilities instead of as rent expenses pursuant to the adoption of K-IFRS 1116 beginning on January 1, 2019.

Operating Profit

Due to the factors described above, the Company's operating profit increased by 73.6% from ₩1,157 billion in 2018 to ₩2,010 billion in 2019. Operating margin (proportion of operating profit to sales) increased from 2.1% in 2018 to 3.5% in 2019.

Gain on Investments in Joint Ventures and Associates, Net

The Company's gain on investments in joint ventures and associates, net, decreased by 17.8% from ₩617 billion in 2018 to ₩507 billion in 2019 primarily due to an increase in loss of DYK and a decrease in profit of Hyundai Steel Company. The Company's share of DYK's loss increased by 451.9% from ₩27 billion in 2018 to ₩148 billion in 2019 primarily due to a greater decrease in revenue than cost of sales in connection with a decrease in unit sales from approximately 371,000 units in 2018 to approximately 259,000 units in 2019, which was mainly due to the lack of new models in 2019 and the aging of key volume models, such as the K2 and K3, as well as an increase in incentive payments to dealers.

Finance Income and Costs

Finance income decreased by 6.3% from ₩254 billion in 2018 to ₩238 billion in 2019 primarily due to a decrease in interest income as a result of a decrease in the Company's time deposits. Finance costs decreased by 7.8% from ₩317 billion in 2018 to ₩292 billion in 2019 primarily due to a decrease in interest expense as a result of a decrease in the Company's borrowings.

Net loss on foreign exchange transactions decreased by 57.3% from ₩18 billion in 2018 to ₩8 billion in 2019, and net loss on foreign currency translation decreased by 24.6% from ₩54 billion in 2018 to ₩41 billion in 2019, as the Won depreciated against the U.S. dollar in 2018 and 2019. The Market Average Exchange Rate of the Won against the U.S. dollar depreciated from ₩1,071.4 as of December 31, 2017 to ₩1,118.1 as of December 31, 2018 and further depreciated to ₩1,157.8 as of December 31, 2019. The Company's net loss on valuation and trading of derivatives increased by 133.2% from ₩4 billion in 2018 to ₩10 billion in 2019.

Other Income and Expenses

Other income increased by 127.6% from ₩311 billion in 2018 to ₩708 billion in 2019, as miscellaneous profit increased by 144.7% from ₩111 billion in 2018 to ₩273 billion in 2019 primarily as a result of a reversal of provisions due to the conclusion of certain lawsuits related to ordinary wage in 2019. Other expenses increased by 15.5% from ₩553 billion in 2018 to ₩639 billion in 2019 primarily due to an increase in impairment loss on tangible and intangible assets relating to development costs for vehicle models for the Chinese market.

The Company recorded a net gain on foreign exchange transactions of ₩156 billion in 2019 as compared to a net loss of ₩35 billion in 2018. The Company recorded a net gain on foreign currency translation of ₩2 billion in 2019 as compared to a net loss of ₩35 billion in 2018.

Income Tax Expense

The Company's income tax expense increased by 125.3% from ₩313 billion in 2018 to ₩704 billion in 2019, primarily reflecting a 72.3% increase in profit before income taxes from ₩1,469 billion in 2018 to ₩2,531 billion in 2019. The Company's effective tax rate increased from 21.3% in 2018 to 27.8% in 2019.

Profit for the Year

Due to the factors described above, the Company's profit for the year increased by 58.0% from ₩1,156 billion in 2018 to ₩1,827 billion in 2019.

Liquidity and Capital Resources

The following table sets forth a summary of the Company's cash flows for the periods indicated.

	For the Year Ended December 31,		
	2018	2019	2020
		(Won in billions)	
Net cash provided by operating activities	₩ 4,471	₩ 3,611	₩ 5,424
Net cash used in investing activities	(1,155)	(1,104)	(2,865)
Net cash provided by (used in) financing activities	(2,543)	(726)	3,517
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies	(41)	196	(184)
Net increase in cash and cash equivalents	731	1,976	5,892
Cash and cash equivalents at January 1	1,562	2,293	4,269
Cash and cash equivalents at December 31	2,293	4,269	10,161

Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and repayments of outstanding debt.

Net cash used in investing activities was ₩1,155 billion, ₩1,104 billion and ₩2,865 billion in 2018, 2019 and 2020, respectively. Capital expenditures, consisting of cash outflows for acquisition of property, plant and equipment and acquisition of intangible assets, were ₩3,082 billion, ₩2,410 billion and ₩2,320 billion in 2018, 2019 and 2020, respectively. The Company's capital expenditures vary from year to year depending primarily on new investments in overseas manufacturing facilities and acquisition of real estate. Capital expenditures decreased by 3.7% in 2020 as compared to 2019 and by 21.8% in 2019 as compared to 2018, primarily as a result of the completion of construction of the India plant in July 2019.

The Company incurred R&D expenditures (including those expensed in the consolidated statement of income and capitalized development costs) of ₩1,665 billion, ₩1,768 billion and ₩1,673 billion in 2018, 2019 and 2020, respectively. See Note 12(4) to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 12(4) to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular. The 5.4% decrease in R&D expenditures in 2020 compared to 2019 primarily resulted from a decrease in business travel of R&D personnel as a result of the COVID-19 pandemic. The 6.2% increase in R&D expenditures in 2019 compared to 2018 resulted from an increase in investments in eco-friendly vehicle technology and other advanced technology.

The Company used cash of ₩2,507 billion, ₩974 billion and ₩1,203 billion in 2018, 2019 and 2020, respectively, for repayments of short-term borrowings and long-term debt and bonds. The Company also distributes its annual dividends out of the excess of its net assets. The Company paid dividends in the amount of ₩321 billion, ₩361 billion and ₩461 billion in 2018, 2019 and 2020, respectively.

In recent years, the Company has also selectively considered various opportunities to acquire or invest in companies that may complement its businesses. The Company used cash of ₩4 billion, ₩48 billion and ₩779 billion in 2018, 2019 and 2020, respectively, for acquisition of investments in joint ventures and associates. See "Business – Strategy – Investments." The Company may require additional capital for such acquisitions or entering into other strategic relationships. Other than capital required for such activities, the Company anticipates that capital and R&D expenditures, repayments of outstanding debt and payments of cash dividends will represent the most significant uses of funds for the next several years.

The Company anticipates that payments of principal of and interest on indebtedness will continue to require substantial resources. The scheduled maturities of long-term debt and bonds outstanding as of December 31, 2020, on a consolidated basis, for the twelve months ending December 31, 2021, 2022,

2023, 2024 and thereafter were ₩791 billion, ₩1,285 billion, ₩1,734 billion, ₩649 billion and ₩1,293 billion, respectively. As of December 31, 2020, on a consolidated basis, short-term borrowings and the current portion of long-term debt and bonds (net of discount) amounted to ₩5,268 billion.

As of December 31, 2020, on a consolidated basis, the Company and its subsidiaries were contingently liable for guarantees of ₩515 billion for employees related to borrowings to acquire shares of the Company. If drawn upon, these guarantees may have a material adverse effect on the Company's liquidity. For a description of other contingent liabilities of the Company, see Note 17 to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 17 to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

Capital Resources

Historically, the Company has financed, and it intends to continue to finance, its working capital requirements and capital expenditure program through a combination of internally generated funds and external borrowings.

Net cash provided by operating activities increased by 50.2% from ₩3,611 billion in 2019 to ₩5,424 billion in 2020 primarily due to an increase in cash generated from operations, which was partially offset by an increase in income tax paid. The Company's gross cash flow from sales activities decreased as discussed above. However, the Company recorded cash inflow related to efficient management of inventories in 2020, compared to cash outflow related to the buildup of inventories in 2019, which in turn negatively impacted its cash provided by operating activities.

Net cash provided by operating activities decreased by 19.2% from ₩4,471 billion in 2018 to ₩3,611 billion in 2019 primarily due to a decrease in cash generated from operations, which was partially offset by a decrease in income tax paid. The Company's gross cash flow from sales activities increased as discussed above. However, the Company recorded cash outflow related to the buildup of inventories in 2019 as discussed above, compared to cash inflow related to more efficient management of inventories in 2018.

Net cash used in financing activities was ₩2,543 billion and ₩726 billion in 2018 and 2019, respectively, and net cash provided by financing activities was ₩3,517 billion in 2020. The Company made net repayments of short-term borrowings and long-term debt and bonds, after adjusting for cash proceeds from short-term borrowings and long-term debt and bonds, of ₩2,216 billion and ₩312 billion in 2018 and 2019, respectively, and received net proceeds from short-term borrowings and long-term debt and bonds, after adjusting for repayments, of ₩4,041 billion in 2020. Long-term debt and bonds, excluding current portions, were ₩4,410 billion, ₩3,975 billion and ₩4,899 billion as of December 31, 2018, 2019 and 2020, respectively. Short-term borrowings and current portions of long-term debt and bonds were ₩2,272 billion, ₩2,490 billion and ₩5,268 billion as of December 31, 2018, 2019 and 2020, respectively. The increase in short-term borrowings as of December 31, 2020 as compared to December 31, 2019 was primarily due to the increase in trade financing from ₩1,329 billion as of December 31, 2019 to ₩4,380 billion as of December 31, 2020 primarily as a result of the Company's efforts to lessen liquidity risk through extension of maturity. Net debt-to-equity ratio, which is calculated by deducting cash and cash equivalents, short-term financial instruments and debt securities included in other current financial assets from total long-term debt and bonds (including current portions) and short-term borrowings and dividing the net amount by total equity, was (6.7)%, (8.8)% and (15.2)% as of December 31, 2018, 2019 and 2020, respectively.

In common with other companies in Korea, property, plant and equipment and, to a much lesser extent, long-term investment securities are pledged as collateral for certain of the Company's borrowings. Commercial banks in Korea limit the level of their lendings to any one borrower for regulatory and for prudential reasons, and the Company's outstanding bank loan levels are below such limits.

The Company believes that it has adequate sources of funds to meet its ongoing financing requirements and that a variety of alternatives are available to satisfy its financing requirements. The Company's ability to access these sources of funding, however, could be affected by its results of its operations, its financial condition including leverage, the liquidity of the Korean and international financial markets or the Korean government's policies regarding Won currency and foreign currency financings. The Company's liquidity is also affected by exchange rate fluctuations, as described in "– Market Risks – Foreign Exchange Rates," and by payments for capital expenditures and repayments of debt at maturity, as described above.

Liquidity

The Company had working capital (current assets minus current liabilities) of ₩4,877 billion, ₩4,279 billion and ₩4,996 billion as of December 31, 2018, 2019 and 2020, respectively. Cash and cash equivalents, short-term financial instruments and debt securities included in other current financial assets were ₩8,511 billion, ₩9,013 billion and ₩14,716 billion as of December 31, 2018, 2019 and 2020, respectively. See Notes 5 and 6 to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Notes 5 and 6 to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular. As of December 31, 2020, the Company had unused credit lines of ₩1,480 billion out of total available credit lines of ₩2,467 billion.

Market Risks

The following discussion is based on the consolidated financial statements of the Company. Primary market risk exposures of the Company are to fluctuations in foreign exchange rates, interest rates and raw material costs.

Foreign Exchange Rates

The Company is exposed to certain foreign exchange risks due to a mismatch of currencies in terms of sales revenues and costs of sales. For the years ended December 31, 2018, 2019 and 2020, net export sales (including inter-company sales) of the Company from Korea to overseas markets amounted to ₩18,570 billion, ₩20,453 billion and ₩18,871 billion, or 34.3%, 35.2% and 31.9% of the consolidated sales of the Company (including inter-company sales) for the respective periods. In Korea, a majority of the Company's costs are incurred in Won, although it obtains a portion of its raw materials and equipment from sources outside Korea and payments for such raw materials and equipment are made in foreign currencies, generally in U.S. dollars, Euro, RMB and the Japanese Yen. Because of this mismatch of currencies, changes in exchange rates, particularly between the Won, on the one hand, and the U.S. dollar and the Euro, on the other hand, significantly affect the Company on a consolidated basis. In order to reduce the impact of foreign exchange rate fluctuations on its results of operations, the Company, to a certain extent, hedges its U.S. dollar/Won exposure by entering into currency derivatives. The Company's overseas subsidiaries both earn revenues and incur costs in local currencies and are therefore less exposed to this risk.

The Company's policy is to hold or issue derivative financial instruments for cash flow hedging purposes only. The Company often uses the financial markets to hedge, either partially or fully, its foreign currency assets or liabilities. Derivative financial instruments are stated at fair value. Any valuation gain or loss is classified as either effective or ineffective for hedging purposes. The portion that is classified as effective is reflected in the Company's equity at the time of valuation and in sales at the time of realization. The portion that is classified as ineffective is recorded as gain or loss, as applicable, immediately. The Company's derivative financial instruments are entered into with major financial institutions, thereby minimizing the risk of credit loss. The Company does not trade in foreign exchange markets for speculative purposes.

Exchange rate fluctuations can also affect the Won value of the Company's equity investments and monetary assets and liabilities denominated in foreign currencies. In addition, fluctuations in foreign exchange rates also affect demand for the Company's products abroad, and consequently, the pricing policies of the Company.

For sensitivity analysis on the impact of certain foreign exchange fluctuations on the Company's pre-tax income, see Note 32 of the Company's audited consolidated financial statements of the Company as of and for the years ended December 31, 2018 and 2019 and Note 32 of the Company's audited consolidated financial statements of the Company as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

Interest Rates

The Company is exposed to certain interest rate risk due to outstanding amounts of short-term borrowings and long-term debt. Upward fluctuations in interest rates increase the cost of additional debt and the interest cost of outstanding floating rate borrowings. As of December 31, 2020, 96.4% of the short-term borrowings and 32.4% of the long-term debt (including current portions) of the Company carried floating interest rates. As of December 31, 2020, the Company's non-consolidated borrowings, which accounted for approximately 72.9% of its consolidated borrowings, had a weighted average interest rate of approximately 1.51%.

For sensitivity analysis on the impact of change of interest rate on the Company's interest expenses and interest income, see Note 32 of the Company's audited consolidated financial statements of the Company as of and for the years ended December 31, 2018 and 2019 and Note 32 of the Company's audited consolidated financial statements of the Company as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

Raw Material Costs

The Company is also exposed to fluctuations in prices of raw materials and components, which include steel plates. The Company has historically been able to purchase raw materials and components in sufficient quantity at prices acceptable to it. However, there can be no assurance that fluctuations in prices of the Company's key raw materials and components will not have an adverse effect on the Company's business, financial condition and results of operations. See "Business – Components and Parts, Raw Materials and Sources of Supply."

The Company does not enter into derivative financial instruments in order to hedge market risk resulting from fluctuations in prices of raw materials.

Inflation

The effects of inflation in Korea on the financial condition and results of operations of the Company are reflected primarily in cost of sales as well as in labor expenses. Inflation in Korea has not had a significant impact on the results of operations of the Company in recent years. It is possible that inflation in the future may have an adverse effect on the financial condition or results of operations of the Company. See "Risk Factors – Risks Relating to Industry – Uncertain prospects for the global and Korean economies have adversely affected, and could continue to adversely affect, the sales and results of operations of the Company."

BUSINESS

Overview

The Company engages in the design, manufacture, assembly and sale of vehicles and their parts. The Company, together with HMC and their respective consolidated subsidiaries, ranked fifth in global vehicle sales in 2020 with a global market share of 9.0%, according to IHS Global Insight, a global information company, and other data compiled by the Company. The Company manufactures a wide range of automotive products consisting of PVs, RVs (including MPVs, CUVs and SUVs), CVs and CKDs for sale in Korea and overseas markets.

In Korea, the Company was the second largest automobile manufacturer in Korea as of December 31, 2020 in terms of sales volume and revenues after HMC, the largest shareholder of the Company. The Company estimates that its market share in Korea in terms of unit sales (including imported units) was approximately 29.3% in 2018, 29.2% in 2019 and 29.9% in 2020, based on the public filings of domestic automotive manufacturers and industry data published by the Korea Automobile Importers and Distributors Association. The Company believes that it has strong brand recognition in Korea with a reputation for attractive and innovative designs and high quality.

Internationally, the Company is one of the fastest growing manufacturers in the global auto industry and sold vehicles in over 170 countries worldwide through 18 sales subsidiaries and a global network of 4,719 dealers as of December 31, 2020. The Company believes that its strengths in the international markets include enhanced brand recognition, improved quality, innovative models and increased local production and distribution networks.

The following table sets forth the unit sales volume by vehicle categories of the Company on a worldwide retail sales basis, for the years indicated.

	For the Year Ended December 31,		
	2018	2019	2020
	(Units)		
PVs.....	1,459,414	1,368,600	1,049,265
RVs.....	1,257,594	1,395,225	1,505,166
CVs.....	98,283	105,627	107,727
Total.....	2,815,291	2,869,452	2,662,158

The following table sets forth the unit sales volume by vehicle categories and by regions, on a worldwide retail sales basis for the year ended December 31, 2020.

	Korea	United States	Europe	China	Others	Total
	(Units)					
PVs.....	227,687	203,190	158,816	83,808	375,764	1,049,265
RVs.....	260,648	382,915	258,331	139,758	463,514	1,505,166
CVs.....	64,065	-	-	-	43,662	107,727
Total.....	552,400	586,105	417,147	223,566	882,940	2,662,158

The sales volume data presented above are on a retail sales basis and are different from the wholesale data presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The sales volume data presented above are:

- for Korea, the number of units released to customers at the domestic production plants for the domestic market; and
- for other regions, number of units sold to customers located in the respective region by distributors.

The Company currently owns and operates three principal automobile production plants in Korea. In order to enhance cost-competitiveness, reduce market risks resulting from foreign exchange fluctuations and address its capacity concerns, the Company has established, on a selective basis, manufacturing facilities overseas either through operating subsidiaries or by investing in joint venture companies. The Company currently manufactures vehicles at five overseas automobile plants in China, Slovakia, the United States, Mexico and India.

In recent years, the Company has focused its strategy on the expansion of its EV line-ups and the creation of mobility solutions and services, while promoting a more sustainable production process through the use of clean energy and recyclable materials at its facilities worldwide. See “– Strategy.”

In 2018, 2019 and 2020, the Company had sales of ₩54,170 billion, ₩58,146 billion and ₩59,168 billion, respectively, and profit for the year of ₩1,156 billion, ₩1,827 billion and ₩1,488 billion, respectively.

The Company was incorporated under the laws of Korea for an unlimited duration. The registered address of the Company is 12, Heolleung-ro, Seocho-gu, Seoul, Korea.

Strategy

Plan S

In January 2021, the Company announced a new brand strategy focused on an accelerated expansion of EV line-ups and the creation of sustainable mobility solutions and services for its customers, supported by a new corporate name, “Kia Corporation” (formerly, “Kia Motors Corporation”), a new slogan, “Movement that inspires,” and a new emblem that symbolizes the Company’s new brand image. This strategy aims to actively implement the Company’s “Plan S,” originally announced in January 2020, which embodies the Company’s mid- to long-term strategy of transitioning from a business focused on internal combustion engine vehicles to one centered on EVs and customized mobility solutions, as well as the incorporation of connectivity and autonomy into the driving experience, while promoting more sustainable production processes through the use of clean energy and recyclable materials at its facilities worldwide. The Company believes that such efforts will enable it to respond more effectively to increasingly sophisticated and evolving customer demands for environmentally-conscious, flexible and future-oriented products and services.

Mobility Solutions and Services

In recent years, the Company has established a number of mobility services and has invested in, or entered into partnerships with, various global mobility solutions businesses in order to strengthen its position in the mobility services market in globally strategic locations. In September 2018, the Company launched WiBLE, a car-sharing service, through a joint venture with Repsol, one of Spain’s major energy corporations, in Madrid. As of December 31, 2020, WiBLE had over 130,000 registered members, and operated 500 Kia Niro plug-in hybrid EVs through a free-floating system that allows users to freely rent and return vehicles within the designated service area. In September 2020, the Company launched KiaMobility, a mobility service that allows customers to rent vehicles from dealers for a single day or up to a year on a special platform that provides personalized services for customers to reserve the vehicles of their choice, pay via a mobile app and visit the dealer for pick-up and drop-off. The Company launched KiaMobility at 16 locations through dealerships in Italy and Russia, and it plans to expand its operations in Europe, Africa and Asia. In Korea, the Company currently operates the Kia Flex vehicle subscription program with a fleet of up to 200 vehicles available for use by its customers.

Investments

From time to time, the Company selectively invests in, or enters into strategic partnerships with, other companies and service providers in order to launch new products or to explore opportunities for possible synergies. Notable investments made in light of Plan S by the Company, together with HMC, in recent years, include the following:

- investment in Grab Holdings Inc., Southeast Asia’s largest ride-hailing service, food delivery and payment solutions company, in furtherance of a Southeast Asia-wide EV partnership aimed at promoting the adoption of EVs in the region, in November 2018;
- investment in Ola, an Indian provider of peer-to-peer ridesharing, ride-service hailing, taxi, food delivery and other mobility services, in order to develop EVs, mobility solutions and charging infrastructure customized for the Indian market, in March 2019;
- investment in Rimac Automobili, a Croatian high-performance EV manufacturer, focusing on collaborative research to secure capabilities to expand into the high-performance EV market, in May 2019;
- 50:50 joint venture between HMC (including the Company) and Aptiv Technologies Limited, an enterprise specializing in the development of autonomous driving solutions, pursuant to which the joint venture aims to advance the design, development and commercialization of the Society of Automotive Engineers International Level 4 and Level 5 autonomous driving technologies, among others, in September 2019; and
- strategic investment in a partnership with Arrival, a U.K.-based EV startup, through which the Company plans to introduce competitively-priced small- and medium-sized electric vans and other products for logistics, on-demand ride-hailing and shuttle service companies, as well as a wide range of purpose-built vehicles (“PBVs”) using Arrival’s scalable electric platform that can be adapted for multiple vehicle categories and types, in January 2020.

For further information on the Company’s investments in joint ventures and associates, see Note 8 of the notes to the Company’s audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 8 of the notes to the Company’s audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

Products

The Company manufactures and sells a wide range of automotive products as follows in the domestic and the overseas markets. As of December 31, 2020, the Company sold 34 PV, RV and CV models globally.

- **PVs.** The Company manufactures PVs, including mini cars, sub-compact cars, compact cars, midsize cars, mid-large size cars and large-sized luxury sedans. These PVs are manufactured in gasoline, diesel and liquefied petroleum gas injection engine versions. The K3, K5, K7 and Cee’d models are available in electric/hybrid (plug-in or self-charging) versions.
- **RVs.** The Company manufactures a number of RVs, including MPVs, CUVs and SUVs. These RVs are manufactured in gasoline and diesel engine versions except for the Soul, Niro and KX3 models, which are also available in electric/hybrid (plug-in or self-charging) versions.
- **CVs.** The Company manufactures light CVs and large-sized CVs such as light-duty cargo trucks and large-sized buses. These CVs are manufactured in gasoline and diesel engine versions except for Bongo III, which is also available in an electric version.
- **CKDs.** The Company has entered into a series of agreements with overseas manufacturers to export CKD parts, or unassembled vehicle components other than engine and transmission, for assembly. CKD operation is principally for export from Korea to countries with government regulations or high import tariffs which restrict the import of fully assembled cars.

The following table sets forth the Company’s vehicle models sold as of December 31, 2020 in terms of product groups.

Category	Size	Models
PVs.	Sub-Compact	Morning (Picanto) ⁽¹⁾
	Sub-Compact	Ray
	Sub-Compact	K2 (Rio) ⁽¹⁾
	Compact	K3 (Forte) ⁽¹⁾
	Compact	Cee’d ⁽³⁾
	Compact	K4 ⁽²⁾
	Mid-Size	K5 (Optima) ⁽¹⁾
	Mid-Size	K7 (Cadenza) ⁽¹⁾
	Mid-Size	Stinger
RVs.	Large	K9 (K900) ⁽¹⁾
	Sub-Compact SUV	KX1 ⁽²⁾
	Sub-Compact SUV	Soul
	Sub-Compact SUV	KX3 ⁽²⁾
	Sub-Compact SUV	KX5 ⁽²⁾
	Sub-Compact SUV	Seltos
	Sub-Compact SUV	Niro
	Compact SUV	Stonic
	Compact SUV	Sportage
	Compact SUV	Sonet ⁽⁴⁾
	Mid-Size SUV	KX7 ⁽²⁾
	Mid-Size SUV	Sorento
	Mid-Size SUV	Telluride
	Large-Size SUV	Mohave (Borrego) ⁽¹⁾
Compact MPV	Carens (Rondo) ⁽¹⁾	
Mid-Size MPV	Carnival (Sedona) ⁽¹⁾	
CVs.	Light-Duty Truck	Bongo III
	Commercial Truck	K2500, K2700, K3000S, K4000G
	Large Bus	Granbird
	Military Vehicle	Military Vehicle ⁽⁵⁾

Notes:
(1) Models sold overseas under different names (examples in parenthesis).
(2) Models sold only in the Chinese market.
(3) Models sold only in the European market.
(4) Models sold only in the Indian market.
(5) Includes various models produced for the Korean military.

Production

Production Process and System

Production processes vary for different categories of motor vehicles. However, production of motor vehicles generally involves the following main steps:

- *stamping (pressing)*, during which steel plates are stamped into body parts of vehicles;
- *welding*, during which vehicle body parts are welded to form vehicle bodies;
- *painting*, which involves middle electrophoresis painting, layer painting and surface coating to withstand corrosion;

- *final assembly*, during which the complete chassis, complete engine unit and other auto parts (including auto parts purchased from suppliers) are assembled into a complete motor vehicle; and
- *pre-delivery inspection*, during which all finished products are put to quality testing before delivery to ensure consistent and high quality standards.

Production Facilities

Korea

The Company owns and operates three principal automobile production (manufacturing and assembly) plants in Korea: the Hwaseong plant, the Sohari plant and the Gwangju plant. The following table sets forth the location of these production plants and certain other information for each plant as of and for the year ended December 31, 2020.

<u>Location</u>	<u>Production Commenced</u>	<u>Square Meters</u>	<u>Annual Maximum Capacity (Units)⁽¹⁾</u>	<u>Actual Production (Units)</u>
Hwaseong	1990	3,199,636	522,000	487,350
Sohari	1973	498,908	315,000	214,033
Gwangju	1969	1,014,941	479,000	441,556
Seosan (OEM) ⁽²⁾	2004	52,288	216,000	164,400
Total		<u>4,765,773</u>	<u>1,532,000</u>	<u>1,307,339</u>

Notes:

- (1) Represents maximum designed capacity.
- (2) Seosan plant is operated by Donghee Auto Industries under an OEM arrangement.

In order to manufacture certain models on a cost-efficient basis, the Company manufactures those models, including Morning and Ray, under an OEM arrangement with Donghee Auto Industries (“Donghee”), a third party supplier of automobile parts. The Company supplies raw materials to Donghee by taking advantage of its economies of scale in securing materials. The Company had a 35.1% equity interest in Donghee as of December 31, 2020.

Most of the assembly line equipment at the Company’s domestic production plants has been supplied by domestic manufacturers. The production facilities are currently operated in two eight-hour shifts, five days per week. Currently, a substantial part of the Company’s domestic production plants is automated.

In 2018, 2019 and 2020, the Company’s domestic production plants operated at a utilization ratio of 94.2%, 94.7% and 85.3%, respectively.

Overseas

Through its Chinese joint venture company, DYK, its wholly-owned Slovakian subsidiary, KMS, its wholly-owned U.S. manufacturing subsidiary, Kia Motors Manufacturing Georgia, Inc. (“KMMG”), its wholly-owned Mexican subsidiary, Kia Motors Mexico S.A. de C.V. (“KMM”) and its wholly-owned Indian subsidiary, Kia Motors India Private Limited (“KMI”), the Company manufactures vehicles at five principal automobile production plants overseas: the China plants, the Slovakia plant, the Georgia plant, the Mexico plant and the India plant, respectively. The following table sets forth the location of these production plants and certain other information of each plant as of and for the year ended December 31, 2020:

<u>Location</u>	<u>Production Commenced</u>	<u>Square Meters</u>	<u>Annual Maximum Capacity (Units)⁽¹⁾</u>	<u>Actual Production (Units)</u>
Yancheng, Jiangsu Province, China (“Second China Plant”) ⁽²⁾	2007	1,467,753	300,000	107,664
Yancheng, Jiangsu Province, China (“Third China Plant”)	2014	1,936,311	450,000	124,336
Zilina, Slovakia	2006	1,915,711	330,000	268,200
West Point, Georgia, United States	2009	8,910,000	340,000	224,200
Pesqueria, Nuevo Leon, Mexico	2016	3,339,000	400,000	206,800
Andhra Pradesh, India	2019	2,167,000	329,000	177,538
Total		<u>19,735,775</u>	<u>2,149,000</u>	<u>1,108,738</u>

Note:

- (1) Represents maximum designed capacity.
- (2) DYK is currently in the process of selling the Second China Plant to the Yueda Group to be leased back to DYK for a term of ten years.

The following table sets forth unit sales of vehicles produced at overseas manufacturing plants for the years indicated.

	<u>For the Year Ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(Thousand Units)		
DYK (China)	362	293	232
KMS (Slovakia)	333	344	268
KMMG (United States)	240	271	224
KMM (Mexico)	295	287	207
KMI (India)	–	65	178
Total ⁽¹⁾	<u>1,230</u>	<u>1,260</u>	<u>1,109</u>

Note:

- (1) In 2018, 2019 and 2020, units sold to overseas sales subsidiaries of HMC consisted of approximately 5.8%, 3.5% and 1.9% of the Company’s overseas annual production volume, respectively.

In 2018, 2019 and 2020, the Company’s overseas production plants operated at a utilization ratio of 45.6%, 46.5% and 45.9%, respectively.

China. In 1999, the Company established DYK as a joint venture company with local partners. DYK constructed in Yancheng, Jiangsu Province, the First China Plant in 2002, the Second China Plant in December 2007, the Third-1 China Plant in June 2014 and the Third-2 China Plant in February 2016, each plant being in close vicinity of one another. In June 2019, the Company terminated production of its vehicles at the First China Plant due to sharp declines in car sales in China, and the facilities have since been leased to the Yueda Group, a shareholder of DYK, for a term of ten years for production of Yueda Group brand vehicles, after which title to the First China Plant will be transferred to the Yueda Group. In 2020, approximately 96.3% of the total units sold in China were manufactured at the China plants. From the Second China Plant, DYK produces Forte, KX1, Zhipao and KX7. From the Third China Plant, DYK produces Pegas, K3, K5, KX3 and KX5. DYK is currently in the process of selling the Second China Plant to the Yueda Group to be leased back to DYK for a term of ten years.

Slovakia. The Slovakia plant commenced production in December 2006. The Slovakia plant currently produces Cee’d, Cee’d CUV and Sportage. In 2020, KMS produced approximately 268,200 units, approximately 12.0% of which were sold in Russia. The Slovakia plant also manufactures engines,

including a 1.6-liter diesel engine for use in the Cee'd and Sportage models and 1.5- and 1.6-liter gasoline engines. In 2020, approximately 73.5% of the total units sold in Europe (excluding Russia) were manufactured at the Slovakia plant.

United States. The Georgia plant commenced production in November 2009. In 2020, the Georgia plant manufactured 82,634 Telluride units, 68,947 Sorento units and 72,619 K5 units. Most of the vehicles manufactured at the Georgia plant are sold in the North America market.

Mexico. The Mexico plant commenced production in May 2016. In 2020, the Mexico plant manufactured 70,286 K2 units and 114,895 K3 units. The Mexico plant produces small-size PVs for the markets in North America and Latin America. In 2020, the Mexico plant also manufactured 21,619 Accent units, an HMC model, for sale to Hyundai Motor America and Hyundai Auto Canada Corp.

India. The India plant commenced production in July 2019. In 2020, the India plant manufactured 127,508 Seltos units, 44,008 Sonet units and 6,022 Carnival units, most which were sold in India.

CKD Production

The Company has entered into a series of technical alliance agreements with overseas manufacturers or distributors to sell CKD parts for assembly. The following table sets forth certain information relating to the Company's CKD sale operation as of December 31, 2020.

Country	Production Commenced	Annual Maximum Capacity (Units)⁽¹⁾	Production Models
Vietnam	2000	71,000	Morning, Soluto, Cerato, Optima, Seltos, Sorento, Sedona, Rondo, K2500
Ecuador	2001	21,600	Sportage, Soluto
Malaysia	2001	13,000	Carnival, Seltos, Sportage
Russia	2001	50,000	Forte, Sorento, Soul, Seltos
Uruguay	2010	5,000	Bongo
Egypt	2018	10,000	Sorento
Pakistan	2019	40,000	Morning, Sportage
Total		<u>210,600</u>	

Note:

(1) Represents maximum designed capacity.

Cost Reduction

The Company continues to focus on reducing costs and improving efficiencies through various measures. The Company focuses on: (i) collaborating with its parts manufacturers and suppliers to simplify the design and manufacturing processes of automotive parts and to make the design and processes more cost efficient; and (ii) minimizing the lead time in implementing cost-saving ideas to commercial production by actively involving all relevant personnel and departments (including R&D and procurement) from the initial stages of developing a new model.

The Company's other cost reduction measures take advantage of its relationship with HMC. One of these measures is achieving economies of scale through joint procurement with HMC. Another such measure is the reduction in the number of platforms used in vehicle production through platform sharing with HMC. Platforms are the essential structures that form the base of different vehicle models. By using a common platform for the production of a greater number of models, the Company believes that it will be able to decrease the substantial expenditures required to design and develop multiple platforms. To achieve greater operational efficiencies, the Company and HMC currently build over 90% of their models on six integrated platforms. In December 2020, the Company and HMC revealed a new Electric-Global Modular Platform ("E-GMP"), a dedicated battery EV platform on which the Company and HMC will build a range of EV models. On an integrated platform, models typically share a common transmission, engine and suspension, but different models can have their own distinct interior and

exterior designs. In addition, the Company believes that, together with HMC, it is able to achieve the scale benefits of producing larger volumes of vehicles per platform, thereby reducing manufacturing cost per vehicle.

The Company's ability to achieve these cost reductions is subject to a number of factors, some of which are beyond its control. These factors include the business and financial conditions of the Company's suppliers and the general economic and political conditions in the Korean and global markets.

Inventory Control

In order to meet potential customers' demands to shorten the lead times for the delivery of the relevant vehicles, the Company maintains inventory control to promote efficient production and cost reduction. The Company generally aims to maintain 3 to 3.5 months' inventory for its vehicles in the overseas markets. However, the Company also adjusts its planned inventory levels according to its estimate of the demand in the coming months and existing inventory levels. The Company's global inventory level as of December 31, 2020 was approximately 2.5 months based on average monthly unit sales.

Sales, Distribution and After-Sales Services

Domestic Sales

As of December 31, 2020, the Company operated a sales network of 19 regional headquarters, 331 regional sales offices, 377 commission-based dealerships and 9 shipping offices throughout Korea. As of December 31, 2020, the Company's sales force was comprised of approximately 2,830 employees of the Company and approximately 4,320 sales representatives of the Company's dealerships. With respect to its employee sales force, the Company offers various incentives, including bonuses based on target sales.

International Sales

The Company sells vehicles, CKDs and related automotive parts and accessories in over 170 countries worldwide. International sales of the Company's vehicles and products are generally conducted either through exclusive distribution arrangements entered into with the Company's wholly-owned, overseas subsidiaries, sales subsidiaries or independent distributors in particular countries or by direct sales to foreign dealers. As of December 31, 2020, the Company had 6 regional headquarters, 23 overseas subsidiaries, 168 distributors and 4,719 dealers worldwide, promoting the Company's international sales. For further information on the Company's consolidated subsidiaries overseas, see Note 1 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 1 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

The Company has been upgrading its sales and distribution network by selectively franchising its dealerships. The Company expects to continue these efforts in order to establish an international sales and distribution network that is capable of achieving the Company's sales and various operating targets. The Company requires each country's distributors to provide servicing facilities for vehicles sold by them for the period of their dealership.

The Company is not aware of any significant import duties imposed on its products in any of its main export markets, other than duties imposed on finished automobiles in markets where the Company's exports consist principally of CKD parts.

United States

Currently, the Company's largest overseas market is the United States. In early 1994, the Company began to award its dealerships in the United States. Sales of the Company's vehicles and products in the United States are made through franchise dealerships under the direction of KMA, the Company's wholly-owned U.S. distribution subsidiary. The Company sells Forte, Optima, Rio, Soul, Sportage, Sorento and Telluride in the United States, as well as other models.

For PVs manufactured in Korea, all imports to the United States by KMA were previously subject to an import tariff of 2.5%. The Korea-U.S. FTA eliminated such import tariff in January 2016. The Company supplies vehicles to KMA on a deferred payment basis (to be settled within 150 days) using non-guaranteed trade documents. KMA sales are made through a network of 763 dealers throughout the United States. Sales to dealers are made at a discount to the Company's suggested retail price and the discounted price is paid to KMA on delivery.

Europe

The Company sells completed vehicles in Europe through established independent import and distribution networks. The Company sells its vehicles in Europe through its network of 1,692 dealers on terms which vary from country to country. European sales occur principally in Germany, France, Italy, the United Kingdom and Spain and include sales of Picanto, Rio, Cee'd, Stonic, Niro, Sportage and Sorento, as well as other models. The Company's European distribution is primarily managed by Kia Motors Europe GmbH ("KME"), the Company's wholly-owned subsidiary. KME has subsidiaries in major European markets that act as local distributors.

The Company's exports to the EU countries were previously subject to an import tariff of 10%. In accordance with the Korea-EU Free Trade Agreement (the "Korea-EU FTA") which took effect in July 2011, the import tariff levied on Korean-made cars was phased out over the years, with complete elimination in July 2016. The Korea-U.K. Free Trade Agreement (the "Korea-U.K. FTA"), which was executed in light of the United Kingdom's exit from the EU and took effect in January 2021, also eliminated all import tariffs on Korean-made cars exported to the United Kingdom.

Substantially all of European importers, excluding the Company's overseas subsidiaries, pay for sales of finished goods with an irrevocable letter of credit issued by a commercial bank in the importer's country, under which the Company receives payment on delivery of shipping documents in Korea. Payments from the Company's overseas subsidiaries to the Company are made on a deferred payment basis (to be settled within 120 days) using trade documents not guaranteed by commercial banks.

China

The Company's sales in China are made through DYK, a 50:50 joint venture. In 2020, vehicles manufactured at the China plants accounted for approximately 96.3% of the total Kia vehicles sold in China, and as of December 31, 2020, the Company had 432 dealers throughout China. The Company delivers products to the dealers only after cash payments are made in full or upon receipt of a promissory note from the dealers. In 2020, DYK sold 223,566 vehicles.

Rest of the World

In addition to the United States, Europe and China, the Company also sells vehicles and CKDs in many countries in the Americas, the Middle East, Africa and the Asia Pacific region including Australia, primarily through local subsidiaries and independent distributors. In July 2019, the Company entered the India market following the opening of the India plant. As of December 31, 2020, the Company sold its products in these markets through its network of importers and dealers on terms which vary from country to country.

Marketing and Promotion

The Company believes that advertising and promotion is the key to acquiring strong brand recognition in the markets in which it operates. To this end, the Company continually seeks ways to improve its brand and reputation, including through the introduction of new brand slogans and emblems, most recently in January 2021. See “– Strategy – Plan S.” In addition, in order to emphasize the Company’s youthful and dynamic brand image in the overseas markets, the Company is committed to forming lasting relationships with major global sporting events. For example, the Company is currently a major sponsor of the Australian Open, the official automotive partner of FIFA and the official partner of the Union of European Football Associations (UEFA) Europa League. In Korea, the Company intends to engage in various marketing campaigns not only to maintain the current market dominance but also to stay ahead in the competition with imported cars. The Company intends to further develop its product mix to respond to the varying needs of consumers, offer test drives of import cars for comparison purposes to customers and use different marketing approaches in different geographic markets within Korea.

Warranty and After-Sales Service

In the domestic market, depending on the vehicle model, the Company offers standard warranties of “five-year/100,000 kilometers” or “five-year/120,000 kilometers” for powertrains and “three-year/60,000 kilometers” or “five-year/120,000 kilometers” for body and accessory against defect or malfunction. For EVs, the Company currently offers standard warranties of “ten-year/160,000 kilometers” for EV parts.

In the overseas markets, the warranties differ depending on market demands, sales conditions and legal requirements of the applicable jurisdiction. The following table sets forth the warranties provided in various overseas markets as of December 31, 2020.

Region	Warranty Offered	
	General body and accessory	Powertrain
United States	Five-year/60,000 miles Ten-year/100,000 miles for EVs	Ten-year/100,000 miles (for first-time owners only)
Canada	Five-year/100,000 kilometers Eight-year/150,000 kilometers for EVs	Five-year/100,000 kilometers
Western Europe	Seven-year/150,000 kilometers	Seven-year/150,000 kilometers
Eastern Europe	Five-year/150,000 kilometers	Five-year/150,000 kilometers
China	Three-year/100,000 kilometers or Five-year/100,000 kilometers	Five-year/100,000 kilometers
India	Three-year/unlimited mileage	Three-year/unlimited mileage
Others	Three-year/100,000 kilometers or Five-year/100,000 kilometers depending on country	Three-year/100,000 kilometers or Five-year/100,000 kilometers depending on country

The Company’s provision for sales warranty made during 2018, 2019 and 2020 amounted to ₩1,601 billion, ₩1,693 billion and ₩2,908 billion, respectively. See Note 16 of the notes to the Company’s audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 16 of the notes to the Company’s audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

As of December 31, 2020, the Company had 18 regional service centers operated directly by the Company and 804 service centers (AUTO-Q) operated by partner companies of the Company, throughout Korea. In order to improve the quality of its after-sales service, the Company operates customer service tele-centers that survey the quality of after-sales service provided to its customers within seven days of receipt of service.

The Company strives continually to enhance its quality control, after-sales service and replacement part supply arrangements to increase customer satisfaction in overseas markets as well. After-sales service in overseas markets is provided through the Company’s overseas dealers, while the Company

seeks to ensure that its foreign distributors coordinate after-sales repair and maintenance services of its vehicles in the countries where its vehicles are distributed. The Company provides assistance to its foreign distributors in providing such repair and maintenance services. See “– Quality Control.”

Components and Parts, Raw Materials and Sources of Supply

The Company and HMC have integrated the procurement of certain components and parts, mainly as a result of sharing platforms. With respect to major components for its vehicles, the Company either manufactures them or purchases them from HMC. In 2020, steel plates accounted for approximately 6.3% of the total manufacturing costs of the Company. The Company purchases most of its steel plate requirements from two sources, POSCO and Hyundai Steel Company. The Company purchases most of its requirements for chassis modules, cockpit modules and front-end modules from Hyundai Mobis and Hyundai WIA. The Company also purchases a majority of its transmission requirements from Hyundai Transys Inc.

Payments for components, parts and raw materials are settled primarily through cash payment for small- and medium-size suppliers with annual revenue below ₩500 billion. For large-size suppliers with annual revenue over ₩500 billion or subcontractors, payments are settled primarily through the issuance of notes payable with maturities of 60 days. For suppliers affiliated with the Company, payments are settled primarily through issuance of notes payable with maturities of 120 days. Beginning in June 2021, such maturities will be reduced to 90 days as a result of an amendment to applicable law. Payment for components, parts and raw materials used for manufacturing vehicles to be exported from Korea is settled with cash payment. In order to take advantage of bulk purchases, the Company purchases raw materials necessary for a number of its suppliers to produce components and parts and resell them to each of its suppliers.

Design and Research and Development

Design

The Company aims to harmonize innovative technologies with design in order to provide differentiated experience to its customers. To this end and to further differentiate its product portfolio from HMC and the Company’s competitors, the Company maintains and individually operates its own design centers in Korea, the United States and Europe. In 2021, the Company adopted a new design philosophy, “Opposites United,” which takes inspiration from the contrasts found in nature and humanity. At the center of the design philosophy is a new visual identity evoking positive forces and natural energy, with contrasting combinations of sharp stylistic elements and sculptural shapes.

Research and Development

As part of its long-term strategy to maximize its technological competitiveness through R&D activities, the Company operates a number of domestic and overseas R&D centers. As of December 31, 2020, the Company’s principal R&D centers, some of which are jointly operated with HMC, were as follows.

Name	Principal Areas of Focus
Korea	
Hyundai Motor Group	
Technology Research Institute	Design and engineering, powertrain, performance and test driving, aero-acoustic wind tunnel and environmental
Eco-Technology Research Institute	Development of environmentally-friendly vehicles (such as hydrogen fuel-cell vehicles), vehicle recycling and clean manufacturing technology
Uiwang Technology Research Institute	Environmental, energy, intelligent safety, human engineering and cutting-edge materials

Name	Principal Areas of Focus
Overseas	
Europe Engineering Center	Development of high-quality automobiles and engines that meet environment regulations
Kia Europe Design Center	Vehicle design
California Proving Ground	Performance and endurance testing
America Technical Center	Engineering design, powertrain and performance testing
Kia USA Design Center	Vehicle design and remodeling
Japan Technical Center	Advanced technologies, including cutting-edge electronics and hybrid technologies
China Technical Center	Development of vehicles tailored to the Chinese market
India Technical Center	Design of strategic vehicles focused on the Indian market and back-end operations support

Korea is the global R&D hub for the Company. The Hyundai Motor Group Technology Research Institute (except for the design department which is individually maintained and operated by the Company) and certain other R&D centers are jointly operated by the Company and HMC to develop platforms, transmissions and engines. By agreement, the costs associated with joint R&D projects are allocated between the Company and HMC pursuant to a formula based on several factors, including the ownership of research projects, sales, cost of sales and/or margin rates. This formula takes into account compliance with the Korean fair trade laws and Korean tax laws.

The Company intends to devote particular attention to its ongoing program to develop and produce a broad range of engines and transmission systems. In addition, the Company continues to give high priority to R&D in the areas of environment, autonomous driving and product development as follows:

- **Environment:** With increasing environmental concerns and stringent government regulations concerning the environment globally, the Company aims to develop more fuel-efficient engines, transmissions and alternative fuel powering systems for commercial use, with a focus on EVs (including battery EVs). The Company plans to launch 11 EVs by 2026, including seven dedicated EV models based on the E-GMP. The Company also engages in efforts to establish mobility hubs in cities with stricter environmental regulations.
- **Autonomous Driving:** In response to growing demand for autonomous vehicles, the Company pursues various R&D initiatives related to autonomous driving technology. For example, in 2019, the Company became the world’s first automaker to develop a Smart Cruise Control-Machine Learning technology, which learns and incorporates the driver’s patterns into its self-driving behavior and exceeds the requirements of Level 2 autonomous driving. The Company plans to implement phase-in and test driving of various autonomous driving technologies with the aim to roll out a full line-up of autonomous-driving vehicles by 2030.
- **Product Development:** The Company has focused on the development of a wide range of new products that meet continually evolving customer demands. For example, the Company is implementing its strategy of transitioning from a business focused on internal combustion engine vehicles to one centered on EVs. The Company also expects the demand for PBVs, such as car-sharing vehicles, low-floor logistics vehicles and delivery vehicles, to grow significantly due to a rapid and sustained growth in e-commerce and car-sharing services. In terms of productivity, the Company’s product development program uses a series of methods which are generally intended to promote shorter development times and lower development costs. These methods include reducing the number of platforms, sharing parts and components among multiple vehicles and combining the design and production engineering phases of the production process.

The following table sets out the R&D expenditure and the percentage of such expenditure relative to the sales for the years indicated on a consolidated basis.

	For the Year Ended December 31,		
	2018	2019	2020
	(Won in billions, except percentages)		
R&D expenditures ⁽¹⁾	₩ 1,665	₩ 1,768	₩ 1,673
Sales	₩ 54,170	₩ 58,146	₩ 59,168
Percentage of sales (%)	3.1%	3.0%	2.8%

Note:

- (1) Includes R&D expenditures which were expensed when incurred and those which were capitalized for amortization in the subsequent periods.

Patents, Trademarks and Licenses

In June 2000, the Company and HMC entered into a memorandum of understanding under which both companies agreed in principle to jointly own or share the results and by-products of the joint R&D operations, including, among other things, patents, technical developments, know-how, any publications and vehicles or platforms developed jointly.

As of December 31, 2020, the Company, either by itself or jointly with HMC, had 4,254 patents, 1,338 trademarks and 2,068 registered designs in Korea while it, either by itself or jointly with HMC, owned 5,667 patents, 8,230 trademarks and 2,774 registered designs overseas. Substantially all of the technology necessary for the production of the Company's products is developed internally.

Quality Control

The Company and HMC have integrated their quality assurance functions. The Company maintains several quality control systems to ensure high quality for its products. As a part of the quality management system, the Company and HMC jointly operate a Global Command & Control Center where all domestic and overseas operations are constantly monitored. Quality issues are reported immediately, and relevant departments are notified with the information so that a response can be devised as soon as possible.

The Company's Global Quality Management System ensures that quality is monitored during all phases of the value chain, including the new car development phase and the subsequent phases of production, sale and after-sales service. Information relating to quality is widely shared by all employees who exercise influence over quality, such as the employees in R&D, production, purchasing and after-sales service. Such flow of information enables the Company to perform a comprehensive analysis from various perspectives and to reduce the time it takes to respond to issues.

In addition, the Company and HMC jointly operate a Pilot Production Center, where a test model is produced and evaluated before it enters full production at the assembly plant. Pilot production enables R&D personnel to identify and fix any problem that may arise during the actual assembly. The quality of new models' design, parts and construction must pass the joint standard, and the training of line workers must be completed before any new model is transferred to the assembly plant for full production. Pilot production ensures that quality issues can be resolved during the development phase before launching the model.

The Company places significant emphasis on quality control for its products, as quality competitiveness translates to positive brand image. In order to obtain quality competitiveness for its products, the Company has been implementing comprehensive quality improvement programs including the Drive Defects to Zero ("DDTZ") program since March 2006 and SQ-Cluster program since 2010. The DDTZ is a quality control program, the goal of which is to produce vehicles that earn top-level marks in consumer studies in every market in which the Company competes. The participants in the

DDTZ program are not only the employees and management of the Company, but also its module and parts suppliers. These various participants work together to identify areas for quality improvement in various phases of their operations, including design, production and after service. When such areas are identified, all parties involved collaborate to achieve quality improvement. The quality control procedures are formulated and disseminated to the various quality control teams within the various participants through detailed instruction manuals, which are revised and updated to take into account the special requirements of individual products, specialized production processes, feedback from quality control staff on the ground and consumer feedback. The goal of the SQ-Cluster program is to identify factors that adversely affect safety or quality. During the development stage, all relevant departments are involved in identifying potential quality defects. This process involves real-time feedback among R&D centers, module and parts suppliers, the Company's plants as well as examination of resulting improvements. During the production stage, the Company's plants are equipped with re-examination systems that identify any safety or quality defects. In order to improve after-sales service, the Company also seeks to identify defects or implement improvements in advance.

Insurance

As of December 31, 2020, the Company's inventories, work in progress, property, plant and equipment of its domestic operations were insured for ₩5,917 billion against risks on a depreciated cost basis with Hyundai Marine & Fire Insurance Co., Ltd. and Korea Fire Protection Association. The Company carries general insurance for vehicles and retirement insurance, worker's compensation and casualty insurance for employees. In addition, to insure against product liability with respect to its global operations, the Company has insurance to cover potential liability arising from its product liability claims (excluding any liability arising from class action suits). The Company does not have business interruption insurance.

Competition

Domestic

The Company and HMC have been enjoying sizable market shares in the domestic market. The Company primarily competes with HMC, Renault Samsung, GM Korea and SsangYong Motor and with foreign imports in the domestic market. HMC and the Company are the dominant automakers in the domestic market. The Company has been strengthening its competitive position by offering differentiated products and striving to increase its market share by pursuing various strategies focused on addressing evolving customer preferences relating to the environment, safety and flexibility, among others.

Import tariffs on imported cars have been reduced or removed completely under free trade agreements that Korea has entered into. Under the Korea-EU FTA, which took effect in July 2011, the import tariff of 8.0% on PVs imported from any EU country were phased out over a period of five years, depending on the engine size. In July 2016, the import tariff on PVs imported from the EU countries was eliminated.

In June 2007, Korea and the United States signed the Korea-U.S. FTA, the terms of which were renegotiated in December 2010. The Korea-U.S. FTA initially reduced the import tariff of 8.0% on U.S.-built PVs to 4.0%, and in January 2016, eliminated such import tariff on U.S.-built PVs. However, the Korea-U.S. FTA, which was again renegotiated in September 2018, increased the cap on the number of vehicles meeting U.S. safety standards (in lieu of Korean standards) that can be exported to Korea without further modification from 25,000 vehicles to 50,000 vehicles annually per each American automobile manufacturer, as part of the U.S. government's efforts to increase exports of U.S.-made automobiles to Korea.

Overseas

The Company competes with major automobile companies, in particular Japanese automakers, in its key overseas markets, such as the United States, Europe and China. Depreciation of the Won against the U.S. dollar and the Japanese Yen causes the Company's export products to be more competitive by reducing its prices in U.S. dollar and Japanese Yen terms. Depreciation of the Won also has the short-term effect of increasing the Company's sales revenues and decreasing the cost of sales as a percentage of total sales, thereby positively affecting its margins and profitability. The Company plans to compete in these markets by introducing high quality vehicles with the latest and distinctive designs while maintaining competitive pricing, enhancing its brand power, offering generous warranties and tailoring its products to specific markets. The Company also believes localized production will reduce its exposure to foreign exchange risk and allow the Company to continue to offer products at competitive prices on a sustainable basis.

With respect to the export of Korean-made cars to the U.S. and European markets, the Company believes that the Korea-U.S. FTA and the Korea-EU FTA will have generally positive effects by making its Korean-made automobiles more cost-competitive. Under the Korea-U.S. FTA, the 2.5% tariff levied on Korean-made cars has been eliminated since January 2016, although a re-negotiation of such agreement extended the expiration of the existing 25.0% import tariff levied on Korean-made trucks exported to the United States from 2021 to 2041. Under the Korea-EU FTA, the 10% tariff levied on Korean-made cars imported to the EU countries gradually decreased since July 2011, depending on the engine size of the vehicle. The remaining tariff on Korean-made cars imported to any EU country was eliminated in July 2016. While the U.S. and European markets remain two of the most competitive markets in the world, the Company believes the implementation of these free trade agreements will have positive effects on Korean automobile manufacturers, although increased production at its Georgia and Slovakia plants and possible future amendments to the Korea-U.S. FTA may reduce any such effects. See "Risk Factors – Risks Relating to the Company – Trade imbalances may have an adverse impact on domestic and overseas competition." On the contrary, the EU-Japan Economic Partnership Agreement (the "EU-Japan EPA"), which entered into force on February 1, 2019, has had an adverse effect on Korean automobile manufacturers as the EU-Japan EPA eliminated a vast majority of import tariffs levied on automobiles exported from Japan to the EU and removed long-standing non-tariff barriers relating to product safety standards and dispute settlement procedures, thereby enhancing the competitiveness of Japanese automobile manufacturers in the EU markets.

Furthermore, in October 2015, twelve countries including the United States, Japan and Mexico entered into the Trans-Pacific Partnership (the "TPP") which aimed to reduce tariffs and boost free trade among countries surrounding the Asia-Pacific region. The United States withdrew from the TPP in January 2017, as a result of which the agreement could not be ratified as required and did not enter into force. The remaining countries negotiated a new trade agreement called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the "CPTPP"), which incorporates most of the provisions of the TPP and entered into force in December 2018. The main provisions of the CPTPP include a phased-out elimination of all tariffs on automobiles and automobile parts as well as broad commitments to remove non-tariff barriers and increase transparency and regulatory coherence among the participating member countries, which the Company believes would lead to enhanced competitiveness of Japanese automotive manufacturers, among others.

Employees and Labor Relations

As of December 31, 2020, the Company had 35,424 employees, consisting of 34,980 full-time employees and 444 contract-based employees. The Company provides a wide range of fringe benefits to its employees, including housing, transportation, education, medical assistance and recreational facilities.

In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, the Company has adopted a retirement pension plan for its employees in Korea. Contributions under the retirement pension plan are deposited annually into a financial institution, and an employee may elect to receive a

monthly pension or a lump-sum amount upon retirement. The Company's retirement pension plan is in the form of a defined benefit plan, which guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. Under Korean law, the Company may not terminate the employment of full-time employees except under certain circumstances. As of December 31, 2020, defined benefit obligations were funded at 101.3% through plan assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Retirement Benefit Plans – Defined Benefit Liabilities" and Note 15 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular. Subsequent accrued severance benefits, however, are funded at the discretion of the Company. In addition, in accordance with the National Pension Act, the Company and the employees must each pay 4.5% of employees' wages to the Korean National Pension Fund.

The Company is insured against any personal injury liability which it may have in respect of its employees.

While labor relations have improved somewhat in recent years, the Company has frequently experienced strikes and work stoppages in recent years. In the past, the Company's plans relating to wage or workforce reductions and other labor relation issues have led to work stoppages and labor unrest. The Company estimates that work stoppages resulted in a delay of production of approximately 39,000 vehicles in 2020 due to work stoppage of 116 hours in addition to overtime work. As of December 31, 2020, approximately 83.5% of the Company's employees were members of its labor union.

Every two years, the management and the labor union negotiate and enter into a new collective bargaining agreement that generally has a two-year duration. Annual wage adjustments are negotiated every year, usually in June. In January 2017, the Company and its labor union agreed to implement two eight-hour shifts per day, and the Company complies with the Korean regulation implementing 52-hour work week effective as of July 2018. See "Risk Factors – Risks Relating to the Company – Strikes, work stoppages and other labor-related issues may materially and adversely affect the operations of the Company." and "– Recalls, Product Liability and Legal Proceedings – Legal Claims Relating to Labor Relations" below.

Recalls, Product Liability and Legal Proceedings

Recalls

Under most government safety standards, including the Automobile Management Act of Korea, automobile manufacturers, upon finding of defects, such as failure to satisfy safety standards or defects which impede safe operations, are required to disclose such defects to the owners of the automobiles without delay and engage in corrective measures, including voluntary recall programs. If automobile manufacturers do not take voluntary corrective measures, the relevant regulatory authorities may order such automobile manufacturer to take the necessary corrective measures. Substantially all of the Company's recalls were conducted on a voluntary basis. For example, the Company recalled more than 700,000 units of vehicles that had been equipped with the Theta II engine, a gasoline direct injection engine that was first launched in 2007, which is believed to have caused excessive oil consumption, engine failure and non-collision fires, in the United States and other markets in 2017. The Company has also implemented campaigns to ensure the safety of vehicles equipped with the Theta II engine and other engines, such as offering lifetime warranties and installing engine failure detection software. As of December 31, 2018, 2019 and 2020, the Company's provision for sales warranty, which includes provisions made in connection with such recalls and campaigns, amounted to ₩3,684 billion, ₩3,619 billion and ₩4,557 billion, respectively. See Note 16 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 16 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular. Except as described above,

the Company is not, and has not been, engaged in any product recalls where the related liabilities or expenses would have, or have had, a material adverse effect on the Company. See “Risk Factors – Risks Relating to the Company – The Company is subject to product liability claims, recalls and other legal claims that may be adverse to its results of operations.”

Class Action Lawsuits and Other Legal Claims

The Company has various legal actions and other claims pending against it, including product liability claims in jurisdictions in which it operates. The claimants in some of these actions seek class action status and some of the actions have resulted in, and may lead to, further damages. The Company is involved in various class actions in the United States, Canada and Israel claiming defects related to engines, panoramic sunroofs and airbags, among others. The Company recorded a provision in the amount of ₩23 billion in connection with legal proceedings related to product liability as of December 31, 2020. In October 2019, as part of an agreement to settle a class action lawsuit in the United States alleging that engine defects caused vehicles to stall or catch fire, the Company agreed to provide lifetime warranties and other monetary compensation to the owners of vehicles equipped with the Theta II engine, such as the K5, K7, Sorento and Sportage models, in both the United States and Korea. See “– Recalls, Product Liability and Legal Proceedings – Recalls.”

In November 2020, KMA, together with Hyundai Motor America, Inc. (“HMA”), agreed to consent orders issued by the NHTSA relating to recalls for vehicles equipped with the Theta II GDI engine since 2015 to administratively resolve NHTSA’s assertion that HMA and KMA conducted untimely recalls of over 1.6 million vehicles in the United States equipped with the faulty Theta II GDI engines and inaccurately reported certain information regarding the recalls to the NHTSA. In addition to imposing monetary measures consisting of a total civil penalty of US\$70 million (including an upfront payment of US\$27 million, an obligation to expend an additional US\$16 million on specified safety performance measures and an additional US\$27 million deferred penalty that may become payable only if specified conditions are not satisfied) on KMA, the consent orders imposed a number of requirements designed to enhance the Company’s safety practices, including substantial organizational improvements relating to safety recall responsibilities. The Company is also under investigations from other governmental authorities related to the recall of the Theta II engine. See “Risk Factors – Risks Relating to the Company – The Company is subject to product liability claims, recalls and other legal claims that may be adverse to its results of operations.” and “– Recalls, Product Liability and Legal Proceedings – Recalls.”

In addition, the Company and HMC have been subject to claims of inflated fuel economy in the United States. In September 2014, the Company and HMC agreed to settle with the EPA and the U.S. Department of Justice by paying an aggregate amount of US\$100 million in fine, forfeiting an estimated aggregate amount of US\$200 million in GHG emissions credits and spending an aggregate amount of US\$50 million on measures to prevent future violations. The Company and HMC proposed a settlement for a class action suit regarding the related claims of inflated fuel economy, and the proposed settlement was affirmed by the United States Court of Appeals for the Ninth Circuit in June 2019. The Company paid US\$35 million in settlement payment.

Legal Claims Relating to Labor Relations

The Company has been subject to various lawsuits involving its current and former employees seeking compensation for unpaid wages based on interpretations of relevant labor laws in Korea. For example, under the Labor Standards Act and Labor Severance Payment Security Act of Korea, the amount of compensation to which an employee is legally entitled, such as overtime allowance for night shifts or work performed outside of working hours as well as severance pay, is determined by the definition of “ordinary wage,” and in 2013, the Supreme Court of Korea issued a decision that provided a standard rule for determining what kinds of payments should be included as part of ordinary wage. The Company became subject to a number of lawsuits since 2011 involving a number of its current and former employees for unpaid ordinary wages and related retirement benefits. In March 2019, the

Company and its labor union concluded a special agreement on bonuses, ordinary wages and a wage system improvement and agreed to settle some of these lawsuits, for which the Company has made settlement payments amounting to approximately ₩562 billion to date. Subsequently, one of the remaining lawsuits was decided in the plaintiffs' favor by the Supreme Court of Korea in August 2020. As of the date of this Offering Circular, some of these lawsuits are still pending. As of December 31, 2020, the Company recognized a provision of ₩84 billion in connection with the pending lawsuits related to ordinary wage. See Note 16 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular and "Risk Factors – Risks Relating to the Company – Strikes, work stoppages and other labor-related issues may materially and adversely affect the operations of the Company."

Under the Dispatched Worker Protection Act (the "DWPA") of Korea, if workers dispatched by a third party contractor to a company meet certain requirements, including direct supervision by such company of the dispatched workers and the performance of work for a period exceeding two years, such company will be obligated to hire them as full-time direct employees under the same conditions as existing employees of such company who perform the same or substantially similar work to that of the dispatched workers and will not be allowed to terminate the employment without a justifiable cause. In July 2010, the Supreme Court of Korea held that a worker employed by a third party contractor and dispatched to an automotive company who had performed tasks in an automobile assembly line under direct supervision of the automotive company together with the automotive company's full-time employees was in a direct employment relationship under the DWPA if the automotive company had used that worker's services for more than two years. In July 2011, certain dispatched workers filed a lawsuit against the Company, claiming that they should be treated as full-time regular workers of the Company rather than full-time employees of the relevant third-party contractors. In September 2014, the Seoul Central District Court ruled that 468 plaintiffs are entitled to demand full-time regular worker status with the Company and awarded approximately ₩1.6 billion in damages to the plaintiffs. In February 2017, the Seoul High Court upheld the ruling of the District Court and acknowledged that the plaintiffs should be treated as full-time regular workers of the Company. The court also ordered the Company to pay the difference between the wages that the workers would have received as full-time regular workers and the wages that they actually received from the in-house subcontractor. The Company appealed the ruling and the appeal is currently pending at the Supreme Court of Korea. There are five other similar lawsuits brought against the Company by certain dispatched workers demanding treatment as full-time regular workers of the Company or claiming additional wages that are also currently pending at various stages. The final outcome of these lawsuits may restrict the Company's ability to manage its labor force flexibly and thereby increase its labor-related costs.

Litigation in Brazil

In mid-1997, Asia Motors Co., Inc. ("AMC"), the Company's predecessor company which was merged into the Company in June 1999, entered into a joint venture agreement in Brazil with the owners of Asia Motors do Brasil S.A. ("AMB"), the then Brazilian distributor of Asia Motors vehicles. Under that joint venture agreement, AMC acquired 51% of the outstanding shares of AMB. Shortly after the joint venture was formed, AMB defaulted on its payment obligations to AMC under the distributorship agreement. In late 1998, due to the default and other conflicts between the parties, AMC stopped exporting vehicles to AMB. In March 1999, a derivative claim action seeking for damages was filed by owners of AMB in Brazil against AMC, alleging that AMC is liable to AMB for all of the losses that AMB had incurred and will incur. The alleged losses included any liabilities that AMB may incur to vehicle dealers within Brazil, all losses of profit and goodwill, and any penalties and tax obligations that AMB may have as a result of its failure to build a vehicle assembly plant in accordance with commitments that AMB had made with the Brazilian government prior to mid-1997. Although precise damages are not quantified, the claimants allegedly asserted that AMB's goodwill exceeded US\$200 million. The Company estimates that the aggregate claim amount reached approximately US\$500 million. As of the date of this Offering Circular, these lawsuits are still pending.

In addition, taxes in the amount of approximately R\$316 million were imposed against the Company by the Brazilian government, alleging the Company's joint liability for penalties and tax obligations resulting from AMB's failure to satisfy its commitments made with the Brazilian government. The Brazilian government filed a number of claims against the Company in 2015 and 2016 to enforce such tax obligations of the Company. The Company has appealed such tax claims, two of which were concluded in the Company's favor and the remaining seven of which are still pending. The remaining tax claims amount to approximately R\$350 million, inclusive of interest.

One of the most important allegations by claimants concerning the above claim was the Company's non-fulfillment of the promise to contribute US\$200 million to AMB in order to increase AMB's capital. In June 2000, the Company filed an action in Brazil against AMB seeking nullification of the decision of AMB's board for AMB's capital increase, alleging that the Company is not obliged to pay US\$200 million to AMB. The Supreme Court of Brazil held in favor of the Company in the nullification action in June 2006. The Constitution Court of Brazil also confirmed the decision of the Supreme Court of Brazil in October 2009. In addition, in August 2013, ICC International Court of Arbitration ruled in favor of the Company against the owners of AMB relating to claims which are similar to the pending cases and the Company believes such arbitration ruling will have a favorable effect on the pending cases described above. The management of the Company believes that these lawsuits will not have a material adverse effect on the Company but there can be no assurance that such lawsuit will not have an adverse effect.

KFTC Proceedings

Under the Monopoly Regulation and Fair Trade Act (the "Fair Trade Act"), the Company is deemed to have a market-dominant position, considering economies of scale and capital needed for an early stage entry into the automobile industry and the fact that the Company, together with HMC, account for 71.6% in market share in the local auto sales market as of December 31, 2020, which meets the requirements for the presumption of a market-dominant position. Accordingly, the Company is subject to the Fair Trade Act which restrains certain acts of abusing the market-dominant position such as improperly interfering with other companies' business activities. See "Risk Factors – Risks Relating to the Company – The Company's transactions with its affiliates may be restricted under Korean fair trade and tax regulations."

Other than as set forth above, the Company is not a party to any legal or administrative proceedings and no proceedings are known by the Company to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on the Company's consolidated financial condition or results of operations.

GOVERNMENTAL REGULATIONS AND ENVIRONMENTAL COMPLIANCE

The manufacturing facilities of the Company comply with all major relevant health and safety and environmental protection standards in all material respects. The Company is subject to stringent standards and regulations in various jurisdictions relating to air emissions, water discharges, the handling of disposal of hazardous substances, fuel economy, noise and safety of its products. The Company has incurred significant costs in complying with these regulations to date and expects to incur significant compliance costs in the future. The Company's management views leadership in environmental protection as an increasingly important competitive factor in the marketplace. Notably, the Company is not aware of any proposed new standards which are likely to be introduced and which would likely require significant expenditure with respect to compliance costs by the Company or any of its subsidiaries in the short term. Below is a summary of environmental and other regulations in effect in Korea and the Company's major overseas markets.

Changes in Korean Taxes

Individual Consumption Tax

According to the Individual Consumption Tax Act, the individual consumption taxes applicable to purchase of PVs in Korea are classified into four categories in terms of the size of the engine equipped in a vehicle: (i) a 5% tax for vehicles with an engine size above 2.0 liters and camping cars; (ii) a 5% tax for vehicles with an engine size of 2.0 liters or below (except mini-cars with an engine size of 1.0 liters or below); (iii) a 5% tax for electric cars (except mini-cars); and (iv) no tax for mini-cars, which are vehicles with an engine size of 1.0 liters or below and electric cars with a vehicle body width of 1.6 meters or less and a body length of 3.6 meters or less. The Individual Consumption Tax Act further prescribes that the government may adjust the tax rates within a range of 30% for purposes of efficient operation of the national economy, pursuant to which the individual consumption taxes for all PVs in categories (i) through (iii) is prescribed to be 3.5% under the Enforcement Decree of the Individual Consumption Tax Act. In addition, education tax is imposed on the vehicle purchase price, which is 30% surtax on the individual consumption taxes.

A hybrid vehicle using an internal combustion engine and an electric motor, which meets certain standards relating to fuel economy, lower emissions and performance, among other things, is eligible for exemption from individual consumption taxes of up to ₩1 million per vehicle (up to ₩1.3 million per vehicle including education tax), if the vehicle is delivered from a manufacturing plant or bonded area between July 1, 2009 and December 31, 2021. In addition, an EV using electric energy charged from an electric source as its motor source which meets certain standards relating to fuel economy, lower emissions and performance, among other things, is eligible for exemption from the individual consumption taxes of up to ₩3 million per vehicle (up to ₩3.9 million per vehicle including education tax), if the vehicle is delivered from a manufacturing plant or bonded area between January 1, 2012 and December 31, 2022. Furthermore, a fuel cell vehicle using electric energy generated by using hydrogen as its power source which meets certain standards relating to fuel economy, lower emissions and performance, among other things, is eligible for exemption from individual consumption taxes, up to ₩4 million per vehicle (up to ₩5.2 million per vehicle including education tax), if the vehicle is delivered from a manufacturing plant or bonded area between January 1, 2017 and December 31, 2022.

Automotive Emissions Control

Korea

The Air Environment Preservation Law classifies gasoline automobiles released on or after January 1, 2016, into two categories: (i) light automobiles, small passenger and cargo automobiles, and medium sized passenger and cargo automobiles, and (ii) large passenger and cargo automobiles and extra-large passenger and cargo automobiles. With respect to (i) described above, one of the seven emission standards and with respect to (ii) described above, a uniform emission standard will be applicable as determined by the automobile manufacturer. The Air Environment Preservation Law adopted California's Fleet Average System under which each automobile manufacturer is required to fix the average of pipe

gases for all manufactured automobiles. If an automobile manufacturer achieves the emission level within the fixed average, the automobile manufacturer may use the difference between the emission level and the fixed average in subsequent years in accordance with certain proportion and if an automobile manufacturer achieves the emission level in excess of the fixed average, the automobile manufacturer is required to return the portion in excess of the fixed average in the subsequent year. In addition, for diesel automobiles released on or after January 1, 2014, a more stringent emission standard, Euro 6, rather than Euro 5, is generally applied, which requires a significant reduction of NO_x, HC and PM. With respect to emission control of the vehicles using gasoline and LPG manufactured after January 1, 2016, an automobile manufacturer is obligated to maintain the emission level in accordance with the above standard for a period of fifteen years or up to 240,000 kilometers, except for large and extra-large automobiles and two wheeled vehicles. The obligation of an automobile manufacturer to attach an on-board diagnostic (“OBD”) system from 2005 has expanded gradually, and currently, this obligation is applicable to virtually all vehicles. An automobile manufacturer is obligated to obtain certification from the Minister of Environment that the exhaust emissions from an automobile will be maintained to meet the permissible emission levels for an automobile within the warranty period of exhaust emissions and to put a mark of certification on such automobile after November 29, 2018.

The United States and Canada

The U.S. federal government imposes stringent exhaust and evaporative emission control requirements administered by the EPA on vehicles sold in the United States. Under authority granted by the U.S. Clean Air Act, the California Air Resources Board (“CARB”) also imposes generally more stringent emission control requirements for vehicles sold in California and in other states (currently 14 states and the District of Columbia) that have adopted the California requirements. The applicable EPA and CARB emission control requirements have become more stringent in more recent model years and have also increased the time and mileage periods over which automobile manufacturers are responsible for a vehicle’s emission performance. Canada’s federal government vehicle emission requirements are generally aligned with the EPA requirements. For each model year, the Company must obtain certification for each test group that its vehicles will meet emission requirements from the EPA before the Company can sell vehicles in the United States and Canada and from the CARB before the Company can sell vehicles in California and other states that have adopted the California emissions requirements.

CARB’s requirements include a phased increase over time in volumes of ZEVs that must be offered for sale in California and the 11 other states that have adopted the California ZEV requirements. The EPA’s regulations do not currently include ZEV requirements.

CARB is currently considering adoption of more stringent emission control regulations, and it is likely that the emission control requirements applicable in the United States and Canada will continue to become more stringent in the future.

The EU

Emissions are regulated by the European Commission (the “EC”) and by governmental authorities in each EU Member State. The EC imposes emission control requirements on vehicles sold in all 27 EU Member States. The Company must demonstrate that vehicles will meet emission requirements from an approval authority in one EU Member State before the Company can sell vehicles in any EU Member State. The regulatory requirements include random testing of newly assembled vehicles and an automobile manufacturer in-use surveillance program. The EU requirements are equivalent in terms of stringency and implementation to the framework of the United Nations Economic Commission for Europe.

Euro 6 became effective in 2014 for new vehicle approvals and 2015 for new vehicle registrations. The primary focus of Euro 6 is to limit further emissions of diesel powered vehicles and bring them down to a level equivalent to gasoline-powered vehicles. In addition, Euro 6 is being implemented in two stages, and beginning with the second stage (September 2017 for PVs and September 2018 for CVs), the EU is implementing the Real Driving Emissions (“RDE”) regulations, which require

automobile manufacturers to conduct on-road emissions tests using portable emissions testers. Since September 2017, automobile manufacturers have been required to reduce the divergence between the regulatory limit tested in laboratory conditions and the values of RDE tests. The EU has also decided to implement the Worldwide Harmonized Light Vehicles Test Procedure (“WLTP”), which was introduced in September 2017 and became mandatory for all new cars powered by an internal combustion engine starting in September 2019. The OBD regulations have also been tightened in terms of both subject parts and regulatory values. Effective January 1, 2020, the EU implemented an improved WLTP procedure that aims to eliminate test flexibilities and introduces on-board fuel and energy consumption monitoring devices.

These technologies place additional cost pressures on the already challenging EU market for small and mid-size diesel vehicles. Declines in diesel penetration may make fleet CO₂ compliance more challenging. Gasoline engines are also affected by the new requirements. The potential implementation of technology into gasoline vehicles to reduce exhaust pollutant emissions may further increase the cost of gasoline engines and could have adverse effects on vehicle fuel economy.

In addition, increased scrutiny of compliance with emissions standards may result in changes to these standards, as well as stricter interpretations or redefinition of these standards and more rigorous enforcement. This may lead to increased costs, penalties, lack of certainty with respect to product portfolio planning, negative publicity or reputation impact for the Company. See “Risk Factors – Risks Relating to Industry – The automobile industry is subject to changes and strengthening of environmental, tax and other regulatory control.” for further discussion of these risks.

In the long term, the Company expects that the EC will continue devising regulatory requirements on the emission test cycle, RDE, low temperature testing, fuel evaporation and OBD system requirements.

China

In July 2019, China began implementing the China 6 emission standard requirements for light duty gasoline vehicles in certain areas within China. The China 6 standards combine elements of both EU and U.S. standards to include more stringent emission requirements and increase the time and mileage periods over which automobile manufacturers are responsible for a vehicle’s emission performance. The China 6 standards will be implemented in two phases. Nationwide implementation of the China 6a standard for new registrations occurred in January 2021, and the more stringent China 6b standard is expected to be implemented in July 2023.

Automotive Fuel Economy and Greenhouse Gas Standards

Korea

The Law Concerning Rationalization of Energy Usage requires automobile manufacturers to improve their vehicles to meet specified fuel economy standards. Under the Law Concerning Rationalization of Energy Usage, the average energy consumption rate policy was adopted to manage the fuel economy which is calculated by dividing the aggregate fuel economy of total PVs sold in Korea for one year by the total sales volume. The Ministry of Trade, Industry and Energy may choose not to issue an improvement order of fuel economy consumption rate to an automobile manufacturer whose average energy consumption rate is the same or improved compared to the previous year. Automobile manufacturers are currently required to either meet certain fuel economy standards or CO₂ emission standards which vary depending on the vehicle type and capacities.

The United States and Canada

U.S. Federal law requires that light duty vehicles meet minimum corporate average fuel economy (“CAFE”) standards set by the NHTSA. Automobile manufacturers are subject to substantial civil penalties if they fail to meet the CAFE standard in any model year, after taking into account all available credits for the preceding five model years and expected credits for the three succeeding model

years. The law requires the NHTSA to promulgate and enforce separate CAFE standards applicable to each automobile manufacturer's fleet of domestic PVs and imported PVs. The EPA also regulates vehicle GHG emissions under the Clean Air Act. Because the vast majority of GHGs emitted by a vehicle are the result of fuel combustion, GHG emission standards effectively are fuel economy standards. Thus, it is necessary for the NHTSA and the EPA to coordinate with each other on their fuel economy and GHG standards, respectively, to avoid potential inconsistencies.

The currently applicable standards were established in March 2020 under the prior administration of the United States, when the EPA and NHTSA jointly issued a final rule phasing in a light duty fleet average fuel economy standard of approximately 40.4 miles per gallon by the 2026 model year, representing a considerably less stringent standard from that previously established by the EPA and NHTSA in 2012. In addition, in a related action in September 2019, the EPA and NHTSA issued a so-called "One National Program" rule to revoke the waiver authority of California and other states to adopt fuel economy standards, including ZEV requirements, that are more stringent than the federal standards.

Both actions by the prior administration are subject to pending challenges in the U.S. Court of Appeals. In addition, on January 20, 2021, President Biden signed an Executive Order requiring the EPA and NHTSA to review, and potentially suspend, revise or rescind, both the One National Program rule and the prior administration's less stringent fuel economy standards rule by April 2021 and July 2021, respectively.

The uncertainty in the CAFE and GHG standards that will apply in future years creates challenges for future product planning. Any more stringent fuel economy standards adopted by the new administration could be difficult to meet if fuel prices remain relatively low and market conditions do not drive consumers to purchase EVs and other highly fuel-efficient vehicles in large numbers. In addition, should California and other states become authorized to renew their efforts to adopt and enforce state-specific motor vehicle GHG standards, there may be different fuel economy standards in different states in the future, which could impose significant costs on automobile manufacturers.

If the agencies seek to impose and enforce fuel economy and GHG standards that are misaligned with market conditions, the Company would likely be forced to take various actions that could have substantial adverse effects on the Company's sales volume and profits. Such actions likely would include restricting offerings of selected engines and popular options, increasing market support programs for the Company's most fuel-efficient cars and ultimately curtailing the production and sale of certain vehicles such as high-performance cars and/or utilities, in order to maintain compliance.

Canada's GHG regulations currently track the EPA standards. However, Canada is considering adoption of more stringent GHG standards for the 2022 to 2025 model years, and some Canadian provinces have adopted or are considering adopting ZEV requirements.

The EU

Unlike other jurisdictions, the EU's climate change policy framework focuses on fleet average CO₂ emissions rather than fuel economy. The EU has implemented legislation regulating fleet average CO₂ emissions in Europe. EU regulations governing PV and light CV fleet average CO₂ emissions became significantly more stringent in 2020 and impose material penalties if targets are exceeded. Requirements must be met through the introduction of CO₂ reducing technologies on conventional gasoline and diesel engines or through ultra-low CO₂ vehicles. In April 2019, the European Parliament and the Council adopted new CO₂ standards that apply to cars and light CVs after 2025. Average emissions of the EU fleet of new cars and light CVs in 2025 must be 15% lower than in 2021, and by 2030, emissions must be reduced further to 37.5% and 31% of 2021 levels for cars and light CVs, respectively. Starting from 2021, the emissions targets will be tested using the WLTP procedures. From 2025, a crediting system

will be introduced to relax an automobile manufacturer's specific CO₂ emissions targets where the automobile manufacturer produces quantities of "zero and low-emission vehicles" above specified benchmarks.

Adopted in December 2019, the European Green Deal (the "Green Deal") is the main strategy adopted by the EC to promote growth in the EU and define a path allowing climate neutrality to be met by 2050. The Green Deal is a fundamental element in European industrial strategy and economic recovery, and it will include numerous policy measures intended to initiate a transition to a more sustainable economy. One strategic component of the Green Deal is the new Circular Economy Action Plan ("CEAP") adopted in December 2020, which offers a renewed strategic framework for structuring circularity in the EU's economic development. One component of the CEAP is a new regulatory framework to enhance the sustainability of batteries and boost their potential in the circular economy. Framed as a Sustainable Batteries Regulation that would be immediately applicable at the EU level (and replacing the current EU Batteries Directive (2006/66/EC), which required transposition at the level of the EU Member States), the proposed framework includes a mechanism for repurposing batteries from EVs so as to give them a second life, as well as due diligence requirements and a battery passport to enable repurposing. In addition, the proposed Regulation would provide for certain sustainability milestones for EV batteries, including a declaration as to carbon footprint by 2024, a declaration as to content of recycled cobalt, lead, lithium and nickel by 2027 and minimum levels of recycled content, initially by 2030, with more rigorous requirements to be introduced in 2035. Automobile manufacturers would also be required to design vehicles in such a way as to facilitate battery removal. Existing restrictions on the use of cadmium and mercury would be maintained. The proposal is fully in line with the EU's existing environmental and waste legislation.

China

China has implemented a Phase 5 fleet fuel consumption standard effective beginning in 2021 with full compliance to 4.0L/100 km required by 2025. China has continued subsidies for plug-in hybrid, battery electric and fuel cell vehicles.

Chemical Regulations

The Company continually monitors the implementation of chemical regulations to maintain compliance and evaluate their effect on the Company's business, suppliers and the automotive industry.

Korea

The Act on Management of Chemical Materials requires any person engaged in the business of producing, importing, exporting, storing, keeping, transporting or using chemical materials, including hazardous chemical materials such as formaldehyde, methanol or benzene, to take any necessary measures to maintain appropriate facilities, educate employees, develop technologies and exchange information to protect public health and to prevent any environmental damage.

The United States and Canada

Governmental agencies in both the United States and Canada continue to introduce new regulations and legislation related to the selection and use of chemicals or substances of concern by mandating broad prohibitions, green chemistry, life cycle analysis and product stewardship initiatives. These initiatives give broad regulatory authority to ban or restrict the use of certain chemical substances and potentially affect automobile manufacturers' responsibilities for vehicle components at the end of a vehicle's life, as well as chemical selection for product development and manufacturing. Chemical restrictions in Canada are progressing rapidly as a result of Environment Canada's Chemical Management Plan to assess existing substances and implement risk management controls on any chemical deemed toxic. In 2016, the U.S. enacted the Chemical Safety for the 21st Century Act that grants the EPA more authority to regulate and ban chemicals from use in the United States. The EPA

has gradually exercised its new authorities for chemical risk analysis and management, which could increase regulation of chemicals used in the manufacture of vehicles and potentially lead to increases in costs and supply chain complexity. Various states also have adopted their own chemical restrictions.

China

There are various regulations in China stipulating the requirements for chemical management. Among other things, these regulations catalogue and restrict the use and the import and export of various chemical substances. The failure of the Company's joint venture or its suppliers to comply with these regulations could disrupt production in China or prevent the Company's joint venture from selling the affected products in the China market.

The EU

In 2007, the EU implemented its regulatory requirements, the EU REACH regulation among others, to register, evaluate, authorize and restrict the use of chemical substances. Under this regulation, "substances of very high concern" may either require authorization for further use or may be restricted in the future. This could potentially impose restrictions or onerous conditions on the availability or the use of raw materials that automobile manufacturers need for their manufacturing process, increase the cost of certain alternative substances that are used to manufacture vehicles and parts, or result in a supply chain disruption when a substance is no longer available to meet production timelines. The Company's research and development initiatives may be used to address future requirements.

Safety

Korea

The Vehicle Management Act of Korea prohibits operation of any vehicle if the structure and device attached to the vehicle or any part, device or safety equipment attached to, or used for, the vehicle fails to comply with the automobile safety standard and/or parts safety standard in accordance with the Rule on Automobile and Auto-Part Performance and Standards of the Ministry of Land, Infrastructure and Transport (the "Safety Rule"). The Safety Rule requires automobile manufacturers to equip their vehicles with safety features for partial head-on (excluding automobiles that weigh in excess of 2.5 tons), solid concrete wall head-on (applicable to automobiles that weigh 3.5 tons or less) and side collisions occurring at speeds of up to 56.0, 50.0 and 50.0 kilometers per hour, respectively. From July 5, 2022, automobile manufacturers will be required to equip their vehicles with safety features for side pole collisions (applicable to automobiles that weigh 3.5 tons or less). On June 10, 2014, performance and safety standards regarding automobiles and auto-parts, such as fuel cell automobiles and lighting systems, were adopted and/or supplemented in order to reconcile the domestic safety standards to international safety standards and to improve automobile safety. This amendment has come into force from January 1, 2016. An automobile manufacturer is also required to self-authenticate that its vehicles comply with the Safety Rule.

If a vehicle fails to comply with the Safety Rule or presents difficulty in safe operation of such vehicle due to a defect, the automobile manufacturer is required to disclose such defect and its plan for corrective measure to the owner of the vehicle. If the automobile manufacturer fails to so disclose or take the corrective measure, the Ministry of Land, Transport and Maritime Affairs will issue a corrective order to the automobile manufacturer. Further, the automobile manufacturer is required to compensate (i) any costs or expenses incurred by the owner to correct the defect after the earlier of (A) the date one year prior to the disclosure of such defect and (B) the date when investigations into such defect has been initiated or (ii) any costs or expenses incurred by the owner to correct the defect after the disclosure of such defect.

From February 5, 2021, if recurrent fires caused by the operation of defective vehicles are likely to pose a serious hazard to public safety, the Minister of Land, Infrastructure and Transport may order restrictions on the operation of the relevant vehicles and issue an order to suspend the manufacture, assembly, import or sale of the relevant vehicles. When the Minister of Land, Infrastructure and

Transport orders such restrictions, the automobile manufacturer is obligated to prepare measures to protect the owner and disclose such measures to the owner by mail, text message or otherwise and implement such measures.

The United States and Others

In the United States, the National Traffic and Motor Vehicle Safety Act of 1966 prohibits the sale of any new vehicle or equipment in the United States that does not conform to applicable vehicle safety standards established by the NHTSA. If the Company or the NHTSA determines that either a vehicle or vehicle equipment does not comply with a safety standard or if a vehicle defect creates an unreasonable safety risk, the automobile manufacturer is required to notify owners of the affected vehicles and provide a remedy. The Company is required to report certain information relating to certain customer complaints, warranty claims, field reports and notices and claims involving property damage, injuries and fatalities in the United States and claims involving fatalities outside the United States. The Company is also required to report certain information concerning safety recalls and other safety campaigns outside the United States.

Outside the United States, safety standards and recall regulations often have the same purpose as the U.S. standards but may differ in their requirements and test procedures, adding complexity to regulatory compliance. See “Risk Factors – Risks Relating to the Company – The Company is subject to product liability claims, recalls and other legal claims that may be adverse to its results of operations.” for additional information on significant recent recall activities.

MANAGEMENT

Directors and Executive Officers

Directors

The Company's board of directors has the ultimate responsibility for the management of the affairs of the Company. The Company's articles of incorporation (the "Articles of Incorporation") require the election of at least seven directors and up to eleven directors. According to the Articles of Incorporation, the number of outside directors must be three or more and must constitute at least one-half of the total number of directors. The directors are elected at a general meeting of shareholders by a majority vote of the shares represented, provided, however, that such shares also represent at least one-fourth of all the shares having voting rights. The term of office for directors is three years but is extended to the close of the annual general shareholders' meeting convened in respect of the last financial year of the term.

In addition, the Company must appoint independent certified public accountants whose primary statutory duty is to examine the financial statements of the Company proposed to be submitted by the board of directors to general meetings of shareholders and to report their opinion thereon to the Audit Committee, the directors and the shareholders. Examination and audit by certified public accountants of the financial statements of the Company is also required for the purpose of the report which companies listed on the KRX KOSPI Market of the Korea Exchange (the "KRX KOSPI Market") must file annually, semi-annually and quarterly with the Financial Services Commission of Korea and the KRX KOSPI Market, respectively, for public inspection in accordance with the FSCMA.

The Company's directors as of the date of this Offering Circular were as follows:

<u>Name</u>	<u>Title and Position</u>	<u>First Elected</u>	<u>End of Current Term</u>
Ho-Sung Song	President, Chief Executive Officer and Representative Director	June 2020	March 2022
Jun-Young Choi	Executive Vice President and Representative Director	March 2018	March 2024
Euisun Chung	Director	March 2003	March 2022
Woo-Jeong Joo	Senior Vice President, Chief Financial Officer and Director	March 2019	March 2023
Sang-Koo Nam	Outside Director	March 2013	March 2022
Dong-One Kim	Outside Director	March 2017	March 2023
Duk-Joong Kim	Outside Director	March 2017	March 2023
Chol-Su Han	Outside Director	March 2018	March 2024
Wha-Sun Jho	Outside Director	March 2021	March 2024

Of the Company's current directors, Ho-Sung Song, Jun-Young Choi, Euisun Chung and Woo-Jeong Joo are employed by the Company on a full-time basis.

Ho-Sung Song is the president, chief executive officer and representative director of the Company. Mr. Song previously served as the head of the Company's Global Operations Division and the president and chief executive officer of KME. Mr. Song received a bachelor's degree in French language & literature from Yonsei University.

Jun-Young Choi is an executive vice president and representative director of the Company. Mr. Choi previously served as the head of the Company's Human Resources and Administration Division. Mr. Choi received a bachelor's degree in business administration from Korea University.

Euisun Chung has been a director of the Company since 2003 and currently serves as the Chairman of the Hyundai Motor Group and the representative director of HMC and Hyundai Mobis. Mr. Chung previously served as the vice chairman of HMC, president of the Company, the deputy head of Hyundai-Kia Planning Division and the head of the Company's Planning Office. Mr. Chung received a bachelor's degree in business administration from Korea University and a master's degree from the University of San Francisco.

Woo-Jeong Joo is currently a senior vice president, chief financial officer and a director of the Company. Mr. Joo previously served as the head of the Company's Finance Office. Prior to joining the Company, he served in various roles at Hyundai Steel, including as head of the business management, cost management and finance management offices. Mr. Joo received a bachelor's degree in economics from Sogang University.

Sang-Koo Nam was appointed as an outside director in 2013. Mr. Nam was previously an endowed professor at Gachon University College of Business & Economics and a professor emeritus at Korea University, and he headed the Creditor Financial Institutions Restructuring Council. Mr. Nam received a bachelor's degree in civil engineering and a master's degree in business administration from Seoul National University and a master's degree and a doctorate in business administration from the University of Pennsylvania.

Dong-One Kim was appointed as an outside director in 2017. Mr. Kim is currently a professor at Korea University. He previously served as the president of Korea University Business School and Graduate School of Business Administration and as the president of the International Industrial Relations Association. Mr. Kim received a bachelor's degree in business administration from Korea University and a master's degree and a doctorate degree in labor relations from the University of Wisconsin-Madison.

Duk-Joong Kim was appointed as an outside director in 2017. Mr. Kim is currently a senior advisor at Yoon & Yang. He previously served as the director of the National Tax Service. Mr. Kim received a bachelor's degree in economics from Chung-Ang University and a master's degree in public administration from the Seoul National University Graduate School of Public Administration.

Chol-Su Han was appointed as an outside director in 2018. Mr. Han is currently a senior advisor at Yoon & Yang. Previously, Mr. Han served as secretary general of the Korea Fair Trade Commission. Mr. Han received a bachelor's degree in business administration from Jeonbuk National University and a juris doctor degree from Syracuse University College of Law.

Wha-Sun Jho was appointed as an outside director in 2021. Ms. Jho is currently a professor of political science and international studies at Yonsei University as well as a fellow of policy research of The Korean Academy of Science and Technology. Previously, she was a non-standing director of The Korean Industrial Technology Research Institute. Ms. Jho received a bachelor's degree in political science and international studies and a master's degree in political science from Yonsei University and a doctorate in political science from Northwestern University.

The business address of each of the directors of the Company is 12, Heolleung-ro, Seocho-gu, Seoul, Korea.

The maximum amount of remuneration payable to the Company's directors in their capacity as such is fixed by resolution of the general meeting of shareholders. Such maximum amount and the aggregate amount of remuneration paid and benefits in kind granted for the year ended December 31, 2020 was ₩8 billion and ₩7 billion, respectively.

As of December 31, 2020, the Company believes that the directors of the Company, other than Mr. Euisun Chung, including any connected person, the existence of which is known to, or could with reasonable diligence be ascertained by, such directors, owned less than 0.1% of the total issued common stock of the Company. Mr. Euisun Chung owned approximately 1.74% of the total issued common stock of the Company as of December 31, 2020. Options or warrants to purchase the Company's common stock have not been issued to any of the directors. The Company maintains directors and officers' insurance up to ₩100 billion, subject to renewal on an annual basis. The Company does not have any outstanding loans or guarantees granted to its directors.

Executive Officers

As of the date of this Offering Circular, the Company's senior management included nine executive vice presidents, 16 senior vice presidents and 124 vice presidents.

Committees of the Board of Directors

The Articles of Incorporation provide for the establishment of an Audit Committee and other committees required by applicable law, as well as other committees under the board of directors that the Company's directors deem necessary. The Company currently has the following committees under its board of directors:

- Audit Committee;
- Outside Director Recommendation Committee;
- Sustainability Management Committee; and
- Compensation Committee.

Audit Committee

Under the Articles of Incorporation, the Company's Audit Committee must consist of at least three directors, and at least two-thirds of the members of the Audit Committee must be outside directors. The Audit Committee is required to:

- examine the agenda for the general meeting of shareholders to be submitted by the directors;
- examine the performance of the directors' duties;
- examine the accounting and operation of the Company; and
- prepare the audit report with respect to financial statements and report to the general meeting of shareholders.

The election or dismissal of the members of the Audit Committee can be made only through a meeting of shareholders. In addition, the Company, which is a listed company in Korea with total assets of ₩2 trillion or more as of the end of the latest fiscal year, in principle, must appoint the members of the Audit Committee among the directors who have been duly elected at the meeting of shareholders; provided that at least one director to be appointed as a member of the Audit Committee must be appointed at the meeting of shareholders separately from the meeting of shareholders where the other directors are appointed, subject to the voting right restrictions applicable to appointment of a member of the Audit Committee. For the purpose of electing or dismissing the members of the Audit Committee who are not outside directors, if the voting shares of the majority shareholder and its specially related parties exceed three hundredth (3/100) of the Company's total issued shares after excluding non-voting shares, then the shares in excess thereof cannot be exercised to appoint or dismiss a member of the Audit Committee. Moreover, any shareholder holding shares in excess of three hundredth (3/100) of the Company's total issued shares after excluding non-voting shares cannot exercise voting shares in excess thereof in appointing an outside director as a member of the Audit Committee.

The current members of the Company's Audit Committee are Sang-Koo Nam, Duk-Joong Kim and Wha-Sun Jho.

Outside Director Recommendation Committee

Under the Articles of Incorporation, the Outside Director Recommendation Committee must consist of at least two directors, and at least half of the members of this committee must be outside directors. The Outside Director Recommendation Committee is responsible for reviewing and recommending candidates for outside directors at the general meeting of shareholders. The current members of the Outside Director Recommendation Committee are Dong-One Kim, Sang-Koo Nam, Chol-Su Han, Ho-Sung Song and Euisun Chung.

Sustainability Management Committee

Under the committee charter, the Sustainability Management Committee must consist of at least two directors. The Sustainability Management Committee was established to monitor the transparency of internal transactions and supervise the ethics management of the Company. The primary function of the Sustainability Management Committee is to review the formulation and revision of ethics regulations and their implementation, ensure compliance with internal transaction regulations as set forth in the Fair Trade Act and commercial laws and establish key policies related to corporate social responsibility, as well as protect shareholders' interests. The Sustainability Management Committee currently consists of Ho-Sung Song and all five of the Company's outside directors.

Compensation Committee

Under the committee charter, the Compensation Committee must consist of at least two directors, and at least half of the members of this committee must be outside directors. The Compensation Committee is responsible for reviewing the maximum amount of remuneration payable to the Company's directors, the compensation system for inside directors and other matters related to director remuneration as delegated by the Company's board of directors. The current members of the Compensation Committee are Chol-Su Han, Duk-Joong Kim and Jun-Young Choi.

PRINCIPAL SHAREHOLDERS

The following table sets out certain information relating to the ownership of the issued shares of common stock of the Company, as of December 31, 2020, the most recent date for which such information is available. The Company does not have any shares of preferred stock issued as of December 31, 2020.

<u>Name of Shareholder</u>	<u>As of December 31, 2020</u>	
	Number of Shares	Percentage of Total Issued Shares
HMC	137,318,251	33.88%
National Pension Service	36,038,665	8.89
Euisun Chung	7,061,331	1.74
Others	224,945,100	55.49
	405,363,347	100.00%

THE HYUNDAI MOTOR GROUP

The information in this section is based on information obtained by the Company from the individual companies of the Hyundai Motor Group and other sources and has not been independently verified by the Company or the Initial Purchasers.

The Hyundai Motor Group is a diversified automotive group and one of the largest conglomerates in Korea in terms of asset size. The Company, together with HMC, is a flagship company of the Hyundai Motor Group. The Company is vital to the Hyundai Motor Group because it is a crucial link in the Hyundai Motor Group's interlocking shareholding structure. The Company's largest shareholder is HMC, which directly owns 33.88% of the Company's issued capital. Together with HMC, the Company had an approximately 71.6% market share of the domestic automobile industry (including imported cars) in terms of the number of units sold in 2020, of which the Company contributed approximately 29.9%, according to the public filings of the five domestic automotive manufacturers and the industry data published by the Korea Automobile Importers and Distributors Association.

On April 1, 2002, the Hyundai Motor Group was designated by the Fair Trade Commission as a business group headed by HMC. As a member of the Hyundai Motor Group, the Company is subject to the following restrictions under the Korean fair trade laws: (i) the Company may not provide guarantees to any other domestic companies of Hyundai Motor Group for their financing from domestic financial institutions; and (ii) cross shareholding between any companies within the Hyundai Motor Group is prohibited.

In addition, the Fair Trade Commission has overall authority to scrutinize any act which may constitute "undue financial support" by the Company to other companies of the Hyundai Motor Group. Any material business transaction with Hyundai Motor Group companies is subject to the approval by the Company's board of directors, public disclosure requirements and heightened scrutiny by the Fair Trade Commission.

As of December 31, 2020, the Company's share ownership in Hyundai Motor Group companies included the following, among others: 17.28% in Hyundai Mobis, 17.27% in Hyundai Steel Company and 5.24% in Hyundai Engineering & Construction Co., Ltd.

The Hyundai Motor Group, as of December 31, 2020, consisted of 12 listed companies and 43 unlisted companies. The following chart shows select member companies of the Hyundai Motor Group, organized into six sub-categories, as of December 31, 2020:

<u>Automobile</u>	<u>Construction</u>	<u>Construction</u>	<u>Parts</u>	<u>Finance</u>	<u>Others</u>
Hyundai Motor Company	Hyundai Steel	Hyundai Engineering & Construction	Hyundai MOBIS	Hyundai Capital	Hyundai GLOVIS
Kia Corporation	Hyundai BNG STEEL	Hyundai Engineering	Hyundai MNSOFT	Hyundai Card	Hyundai AutoEver
	Hyundai Special Steel	Hyundai Engineering & Steel Industries	Hyundai WIA	Hyundai Commercial	Hyundai Rotem
		Hyundai Architects & Engineers Associates	Hyundai MSEAT	Hyundai Motor Securities	Hyundai NGV
		Hyundai City Corporation	Hyundai TRANSYS		INNOCEAN
			Hyundai KEFICO		WORLDWIDE
			Hyundai IHL		Haevichi Hotel & Resort
			Hyundai AUTRON		Hyundai Farm Land & Development
			Hyundai PARTECS		GIT
					G-Marine Service

RELATED PARTY TRANSACTIONS

The Company, in the ordinary course of its business, enters into a variety of transactions with its consolidated subsidiaries, including KMA, and other affiliates. The Company's policy on transactions with related parties is that such transactions will be conducted on terms substantially as favorable to the Company as the Company could obtain at the time in a comparable arm's-length transaction with an independent third party. The Company's material business transactions with its affiliated companies are subject to the approval by the Company's board of directors and a public disclosure requirement.

For further information on the Company's transactions with its related parties, see Note 33 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 and Note 33 of the notes to the Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 included elsewhere in this Offering Circular.

TERMS AND CONDITIONS OF THE NOTES

The following terms and conditions will be printed on the back of the Certificates issued in respect of the Notes:

The US\$300,000,000 1.000% Notes due 2024 (the “2024 Notes”) and the US\$400,000,000 1.750% Notes due 2026 (the “2026 Notes,” and together with the 2024 Notes, the “Notes”) of Kia Corporation (the “Company”) are being issued pursuant to a fiscal agency agreement (the “Fiscal Agency Agreement”) to be dated as of April 16, 2021 (the “Issue Date”) between the Company and Citicorp International Limited, as fiscal agent (the “Fiscal Agent,” which term shall, where the context so permits, include all other persons or companies acting as fiscal agent or fiscal agents under the Fiscal Agency Agreement). The statements in these Terms and Conditions of the Notes (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement. In the event of any inconsistency between the terms of the Fiscal Agency Agreement and these Conditions, the terms of the Fiscal Agency Agreement shall govern. In acting under the Fiscal Agency Agreement, the agents appointed by the Company (the “Agents”) thereunder are acting solely as agents for the Company and do not assume any obligation or relationship of agency or trust for or with the Noteholders except as specifically described below or in the Fiscal Agency Agreement with respect to the Fiscal Agent. Copies of the Fiscal Agency Agreement are available for inspection at the principal corporate trust office of the Fiscal Agent being at the date hereof at 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong and will also be available at the offices of Citibank, N.A. London, as the principal paying agent, at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland.

In these Conditions, “Noteholder” and (in relation to a Note) “holder” mean the persons in whose name a Note is registered on the Note Register (as defined below). “Certificate” means a certificate issued in respect of the Global Notes (as defined in Condition 2(A)) or individual definitive Notes. “Restricted Note” means the Restricted Global Note and any individual definitive Notes issued in respect thereof, and “Unrestricted Note” means the Unrestricted Global Note and any individual definitive Notes issued in respect thereof.

“Affiliate” of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, “control” when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Attributable Debt” means, with respect to any Sale/Leaseback Transaction, the lesser of (x) the fair market value of the property or asset subject to such transaction and (y) the present value (discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with International Financial Reporting Standards as adopted in Korea (“K-IFRS”)) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments and similar charges) during the term of the lease.

“External Debt” means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of the Republic of Korea (“Korea”).

“Long-Term Debt” means any note, bond or other similar evidence of indebtedness for money borrowed having a maturity of more than one year from the date such indebtedness was incurred or having a maturity of less than or equal to one year but by its terms being renewable or extendible, at the option of the borrower, beyond one year from the date such indebtedness was incurred.

“Net Tangible Assets” means, at any date, the total amount of assets of the Company and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (a) all current liabilities (excluding any current liabilities constituting Long-Term Debt by reason of their being renewable or extendible at the option of the Company or the consolidated Subsidiary in question, as the case may be), (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets and (c) all write-ups of fixed assets, net of accumulated depreciation thereon, after December 31, 2020, all as set forth on the most recent statement of financial position of the Company and its consolidated Subsidiaries and computed in accordance with K-IFRS.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political sub-division thereof.

“Principal Subsidiary” means any Subsidiary of the Company (a) whose consolidated sales or revenues are at least 15% of the sales or revenues, as the case may be, of the Company and its consolidated Subsidiaries or (b) whose consolidated assets are at least 15% of the assets of the Company and its consolidated Subsidiaries, in each case as set forth on the most recent audited financial statements of such Subsidiary and of the Company and its consolidated Subsidiaries and computed in accordance with K-IFRS.

“Redemption Amount” means the principal amount of the Notes, together with any interest on the Notes accrued but unpaid to (but excluding) the Maturity Date (or the redemption date, if applicable).

“Subsidiary” means, in relation to any Person, any other Person (whether or not now existing) which is controlled directly or indirectly by, or more than 50% of whose issued equity share capital (or equivalent) is then held or beneficially owned by, the first Person and/or any one or more of the first Person’s Subsidiaries, and “control” means the power to appoint the majority of the members of the board of directors or other governing body or management of, or otherwise to control the affairs and policies of, that Person.

“Sale/Leaseback Transaction” means any arrangement with any Person which provides for the leasing by the Company or any Principal Subsidiary, for an initial term of three years or more, of any property or asset, whether owned at the date of issuance of the Notes or thereafter acquired, which is to be sold or transferred by the Company or any Principal Subsidiary after the date of issuance of the Notes to such Person for a sale price of US\$15,000,000 (or the equivalent thereof) or more where rental payments are denominated in a currency other than the currency of Korea.

“Taxing Jurisdiction” means Korea or any political subdivision or governmental authority thereof or therein or any other jurisdiction in which the Company is organized or maintains a principal place of business or is resident for tax purposes or from or through which payment on the Notes is made.

1. Status

Each series of the Notes constitute direct, unconditional, unsubordinated in right of payment and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves and at least equally with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

2. Form, Denomination and Title

(A) Form and Denomination: Each series of the Notes shall initially be issued in book-entry form represented by one or more global notes (each a “Global Note”) and only under the limited circumstances set forth in the Fiscal Agency Agreement shall individual definitive Certificates be issued to holders of Notes in respect of their individual holdings. The Notes will be issued in fully registered

form, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof, without interest coupons. A Certificate will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will have an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders (the “Note Register”) which the Company will procure to be kept by the registrar (the “Registrar”).

(B) Title: The Notes will be registered instruments, title to which will pass only by registration in the Note Register. The registered holder of any Note will be treated as the owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and none of the Company, the Fiscal Agent, the paying agent or any agent thereof shall be affected by notice to the contrary.

3. Certain Covenants

(A) Limitation on Liens: So long as any of the Notes are outstanding, the Company will not itself, and will not permit any Principal Subsidiary to, create, incur, issue or assume or guarantee any External Debt secured by any mortgage, charge, pledge, encumbrance or other security interest (a “Lien”) on any property or asset (including any document or instrument in respect of goods or accounts receivable) of the Company or such Principal Subsidiary, whether owned at the date of issuance of the Notes or thereafter acquired, or any income or profits therefrom, without in any such case effectively providing that the Notes (together with, if the Company shall so determine, any other indebtedness of the Company or such Principal Subsidiary then existing or thereafter created which is not subordinate to the Notes) shall be secured equally and ratably with or prior to such secured External Debt, unless, after giving effect thereto, the aggregate principal amount of all such secured External Debt then outstanding (*provided* that for this purpose, the amount of all such secured External Debt shall not exceed the fair market value of the property or asset securing such External Debt, determined in good faith by the Board of Directors of the Company) plus Attributable Debt of the Company and its Principal Subsidiaries in respect of Sale/Leaseback Transactions as described in Condition 3(B) (other than such Sale/Leaseback Transactions as are permitted by paragraph (b) of Condition 3(B)) would not exceed an amount equal to 10% of Net Tangible Assets. For the avoidance of doubt, a “Lien” shall not include any mortgage, charge, pledge, encumbrance or other security interest on any property or asset (including any document or instrument in respect of goods or accounts receivable) which is granted or created in connection with (i) a public or private placement of any certificate or debt instrument issued in connection with securitized or asset backed notes or drafts of evidence of indebtedness, including accounts receivable from customers or dealers of the Company or any Principal Subsidiary for the purchase by the customers or dealers (as the case may be) and sale by the Company or such Principal Subsidiary of its respective goods and products, or (ii) a discounting of accounts receivable or trade bills (in each case, with a maturity of less than one year) with financial institutions in the ordinary course of business of the Company or any Principal Subsidiary, as the case may be.

The foregoing restriction will not apply to External Debt secured by:

- (a) any Lien existing on the date of the Fiscal Agency Agreement or any Lien existing on any real property or tangible personal property prior to the acquisition thereof by the Company or any of its Principal Subsidiaries, which Lien was not granted in contemplation of such acquisition;
- (b) any Lien securing External Debt incurred or assumed for the purpose of financing the purchase price of any real property or tangible personal property or the cost of construction, improvement or repair of all or any part thereof, *provided* that (A) such Lien attaches thereto concurrently with or within 360 days after the acquisition thereof or completion of construction, improvement or repair thereof, (B) such Lien is limited to such acquired or constructed real or tangible personal property or improvements and (C) the principal amount

of the External Debt secured by such Lien, together with the amount of all other External Debt secured by Liens on such property, shall not exceed the cost of such property to the Company or any Principal Subsidiary;

- (c) any Lien with respect to External Debt of a Person prior to the time (A) such Person became a Principal Subsidiary of the Company, (B) such Person merges into or consolidates with a Principal Subsidiary of the Company or (C) another Principal Subsidiary of the Company merges into or consolidates with such Person (in a transaction in which such Person becomes a Principal Subsidiary of the Company), which External Debt was not incurred or issued in anticipation of such transaction and was outstanding prior to such transaction;
- (d) any Lien securing External Debt owing to the Company or to a Subsidiary; or
- (e) any Lien arising out of the refinancing, extension, renewal or refunding of any External Debt secured by any Lien permitted by any of the foregoing clauses, to the extent of the amount of such External Debt, *provided* that such External Debt is not secured by any additional property or assets.

For the purposes of Conditions 3(A) and 3(B), the giving of a guarantee which is secured by a Lien on any property or asset, and the creation of a Lien on any property or asset to secure External Debt which existed prior to the creation of such Lien, will be deemed to involve the creation of External Debt in an amount equal to the principal amount guaranteed or secured by such Lien; but the amount of External Debt secured by Liens shall be computed without cumulating the underlying External Debt with any guarantee thereof or Lien securing the same.

(B) Limitation on Sale and Leaseback Transactions: So long as the Notes are outstanding, neither the Company nor any Principal Subsidiary may enter into any Sale/Leaseback Transaction after the date of the Fiscal Agency Agreement, unless either:

- (a) the Attributable Debt of the Company and its Principal Subsidiaries in respect of such Sale/Leaseback Transaction and all other Sale/Leaseback Transactions entered into after the date of the Fiscal Agency Agreement (other than such Sale/Leaseback Transactions as are permitted by paragraph (b) below), plus the aggregate principal amount of External Debt secured by Liens then outstanding (excluding any such External Debt secured by Liens described in clauses (a) through (e) of Condition 3(A)) without equally and ratably securing the Notes, would not exceed 10% of Net Tangible Assets; or
- (b) the Company, within twelve months after such Sale/Leaseback Transaction, applies or causes a Principal Subsidiary, as the case may be, to apply an amount equal to the net proceeds of such sale or transfer of the property or asset which is the subject of such Sale/Leaseback Transaction to the retirement of External Debt of the Company or a Principal Subsidiary, as the case may be, which is not subordinate to the Notes; *provided* that the amount to be so applied shall be reduced by (i) the Redemption Amount paid within twelve months after such Sale/Leaseback Transaction to the Noteholders for retirement and cancellation of the Notes, and (ii) the principal amount of External Debt of the Company or a Principal Subsidiary, other than the Notes, voluntarily retired by the Company or a Principal Subsidiary within twelve months after such Sale/Leaseback Transaction. Notwithstanding the foregoing, no retirement referred to in this clause may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision.

The foregoing restrictions will not apply to any Sale/Leaseback Transaction with respect to any real property or tangible personal property acquired or constructed after the date of issuance of the Notes; *provided* that such Sale/Leaseback Transaction is entered concurrently with or within 360 days after the acquisition or construction thereof for the purpose of financing such acquisition or construction.

The foregoing restrictions will also not apply to any transaction between the Company and a Principal Subsidiary.

(C) Limitation on Mergers and Consolidations: The Company, without the unanimous consent of all holders of the Notes then outstanding, may not consolidate with, or merge into, or sell, transfer, lease or convey its assets as an entirety or substantially as an entirety to any Person, unless (a) any such successor Person expressly assumes the Company's obligations under the Notes and the Fiscal Agency Agreement, (b) after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, and (c) the Company has delivered to the Fiscal Agent a certificate executed by a duly authorized officer of the Company stating that such consolidation, merger, sale, transfer, lease or conveyance and, if a supplemental agreement is required in connection with such transaction, such supplemental agreement comply with the Fiscal Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with.

4. Transfers of Notes; Issue of Certificates

(A) Transfers: A Note may be transferred by delivering the Certificate issued in respect of that Note duly endorsed, or accompanied by a form of transfer duly completed and executed, to the specified office of the Registrar or any of the other transfer agents appointed pursuant to the Fiscal Agency Agreement. Such form of transfer is attached as an exhibit to the Fiscal Agency Agreement. The Registrar and any transfer agent may decline to effect any transfer of any Note during the period of 15 days ending on (and including) the due date for any payment of the Redemption Amount (if any) on such Note.

(B) Delivery of New Certificates: Each new Certificate to be issued on transfer of Notes will, within three Business Days (as defined in the Fiscal Agency Agreement) of receipt by the Registrar or the relevant transfer agent of the original Certificate and the duly signed and completed form of transfer, be delivered to the transferee at the specified office of the Registrar or such transfer agent or, at the written request of the transferee, be mailed by uninsured mail at the risk of the transferee to the address specified by the transferee. Where some but not all the Notes in respect of which a Certificate is issued are to be transferred, exchanged or redeemed, a new Certificate in respect of the Notes not so transferred, exchanged or redeemed will, within three Business Days of deposit or surrender of the original Certificate with or to the Registrar or the relevant transfer agent, be delivered to the holder of the Notes not so transferred, exchanged or redeemed at the specified office of the Registrar or such transfer agent or, at the written request of such holder, be mailed by uninsured mail at the risk of such holder to the address specified by such holder.

(C) Formalities Free of Charge: No service charge shall be made for any registration of transfer or exchange of Notes but the Company or any transfer agent may require payment of a sum sufficient to cover any tax or other governmental charges that may be imposed.

(D) Regulations: All transfers of Notes and entries on the Note Register will be made subject to the detailed regulations concerning transfer of Notes attached as an exhibit to the Fiscal Agency Agreement. The regulations may be changed by the Company with the prior written approval of the Fiscal Agent and the Registrar. A copy of the current regulations will be mailed by the Registrar to any Noteholder upon request.

5. Interest

The 2024 Notes will bear interest from and including April 16, 2021 up to but excluding April 16, 2024 (the "2024 Notes Maturity Date") at the rate of 1.000% per annum and will be payable semi-annually in arrears on April 16 and October 16 of each year (each a "2024 Notes Interest Payment Date"), commencing October 16, 2021, to the holders of record at the close of business the fifteenth day (whether or not a Business Day) immediately preceding such 2024 Notes Interest Payment Date.

The 2026 Notes will bear interest from and including April 16, 2021 up to but excluding October 16, 2026 (the “2026 Notes Maturity Date,” and together with the 2024 Notes Maturity Date, the “Maturity Date”) at the rate of 1.750% per annum and will be payable semi-annually in arrears on April 16 and October 16 of each year (each a “2026 Notes Interest Payment Date”), commencing October 16, 2021, to the holders of record at the close of business the fifteenth day (whether or not a Business Day) immediately preceding such 2026 Notes Interest Payment Date.

Each Note will cease to bear interest (i) when such Note has been repaid or cancelled in accordance with these Conditions; or (ii) from the date that claims on such Note have been prescribed. Interest on the Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the number of days elapsed.

6. Payments

(A) Redemption Amount: Payment of the Redemption Amount will be in U.S. dollars and will be made (i) with respect to a holder of a Global Note, by transfer to the registered account of the holder of such Global Note, (ii) with respect to a holder of individual definitive Certificates in an aggregate amount equal to or greater than US\$250,000, at its option, by transfer to its registered account upon application of such holder to a paying agent to whom such Certificates shall be presented for payment on or prior to the relevant payment date with appropriate wire transfer instructions or (iii) in all other cases, by check drawn on a bank in New York City mailed to the registered address of the Noteholder. Payments of the Redemption Amount will only be made against surrender of the relevant Certificate at the specified office of any paying agent.

(B) Interest: Interest on the Notes will be paid in U.S. dollars and will be made (i) with respect to a holder of a Global Note, by transfer to the registered account of the holder of such Global Note, (ii) with respect to a holder of individual definitive Certificates in an aggregate amount equal to or greater than US\$250,000, at its option, by transfer to its registered account upon application of such holder to the paying agent on or before the relevant record date for such payment with appropriate wire transfer instructions or (iii) in all other cases, by check drawn on a bank in New York City mailed to the registered address of the Noteholder.

(C) Registered Accounts: A Noteholder’s registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Note Register at the close of business on the second business day (as defined in Condition 6(G) below for uses in this Condition 6) before the due date for payment and a Noteholder’s registered address means its address appearing on the Note Register at that time.

(D) Payment Instruction: Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day, for value on the next succeeding business day) will be initiated and, where payment is to be made by check, the check will be mailed on the day preceding the due date for payment or, in the case of a payment of the Redemption Amount, if later, on the business day on which the relevant Certificate is surrendered at the specified office of a paying agent.

(E) Delay in Payment: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date at the place of payment (or, in the case of the surrender of a Certificate, the place where the Certificate is surrendered) is not a business day (*provided* the amount is duly provided for on or before the due date), if the Noteholder is late in surrendering its Certificate (if required to do so) or if a check mailed in accordance with this Condition 6 arrives after the due date for payment.

(F) Legal Holidays: In any case where any redemption date, Interest Payment Date or the Maturity Date of any Note shall not be a business day in the applicable place or, in the case of an Interest Payment Date, New York City, then (notwithstanding any other provision of these Conditions) payment

of the Redemption Amount or interest on the Notes need not be made on such date, but may be made on the next succeeding business day in such place with the same force and effect as if made on the redemption date, Interest Payment Date or the Maturity Date, as the case may be, and no interest will accrue for the period after such date.

(G) Business Day: In this Condition 6 only, “business day” means, in any place, a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, New York City and Seoul and, in the case of the surrender of a Certificate, in London, New York City and Seoul and in the place where the Certificate is surrendered.

(H) Partial Payment: If the Redemption Amount is not paid in full, the Registrar will annotate the Note Register with a record of the amount of the Redemption Amount in fact paid.

7. Redemption, Purchase and Cancellation

(A) Redemption at Maturity: Unless previously redeemed or purchased and cancelled as herein provided, the Company will redeem the Notes at their Redemption Amount on the Maturity Date of such series of the Notes. The Notes may be redeemed prior to the Maturity Date only as provided in Condition 7(B) below.

(B) Redemption for Taxation Reasons: At any time, the Company may, having given not less than 30 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable and shall be published in accordance with Condition 13), redeem in U.S. dollars all but not part of any series of the Notes (subject to the following paragraph) at their Redemption Amount, if (i) the Company provides to the Fiscal Agent prior to the giving of such notice an Opinion of Counsel (as defined in the Fiscal Agency Agreement) to the effect that the Company has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 in respect of any Taxes (as defined in Condition 8) in respect of any payments on the Notes as a result of any change in or amendment to the laws or regulations of Korea or any political subdivision or any authority thereof, or with respect thereto having power to tax, or any change in the general application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date and (ii) such obligation cannot be avoided by the Company using all reasonable measures available to it, *provided* that no such notice of redemption shall be given earlier than 90 days before the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 7(B), the Company shall deliver to the Fiscal Agent an officer’s certificate signed by a duly authorized officer of the Company stating that the obligation referred to above cannot be avoided by the Company taking reasonable measures available to it and the Fiscal Agent shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

(C) Purchases: The Company or any Subsidiary or Affiliate of the Company may at any time and from time to time purchase Notes at any price in the open market or otherwise. Any such Notes purchased shall be surrendered to any paying agent for cancellation. The Notes so purchased, while held by or on behalf of the Company or any of its Subsidiaries or Affiliates, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purpose of calculating the quorum at a meeting of the Noteholders or for the purpose of Conditions 9, 11 and 12. If purchases are made by tenders, tenders must be available to all Noteholders alike.

(D) Cancellation: All Notes redeemed by the Company or purchased and surrendered to the Fiscal Agent for cancellation as provided in Condition 7(C) above will forthwith be cancelled and all Certificates in respect of cancelled Notes will be forwarded to the Registrar and shall be promptly cancelled by it, and such Notes may not be reissued or resold.

(E) Redemption Notices: All redemption notices to Noteholders given by or on behalf of the Company pursuant to Condition 7(B) will specify (i) the redemption date, (ii) the redemption price, (iii) that on the redemption date the redemption price of any Note of such series to be redeemed will become due and payable, (iv) the place where Certificates are to be surrendered, and (v) the CUSIP or other identifying numbers of the Notes and/or Certificates to be redeemed. The Company shall send a written notice to the Fiscal Agent at least 15 days prior to sending a redemption notice to Noteholders pursuant to Condition 7(B).

8. Taxation

All payments by the Company in respect of the Notes will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any Taxing Jurisdiction (“Taxes”), unless any such deduction or withholding is required by law. If any deduction or withholding is required by law, the Company will withhold such Taxes and pay them to the relevant government authority and the Company will pay such additional amounts (the “Additional Amounts”) in respect of Taxes as will result in the payment to Noteholders of the amounts that would otherwise have been receivable by them in respect of payments on such Notes in the absence of such deduction or withholding, except that no such Additional Amounts shall be payable in respect of any Note:

- (i) to or on behalf of a holder or beneficial owner who is subject to such Taxes in respect of such Note by reason of such holder or beneficial owner having a present or former connection with the Taxing Jurisdiction, otherwise than merely by holding or beneficially owning such Note or by the receipt of the payments in respect of any Note or the enforcement of a Note;
- (ii) to or on behalf of a holder or beneficial owner to the extent that such holder or beneficial owner would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption or deduction to the relevant tax authorities if such holder or beneficial owner is eligible to make such declaration or other claim and, after having been requested to make such a declaration or claim, such holder or beneficial owner fails to do so;
- (iii) in circumstances where the surrender of a Note is required under the Fiscal Agency Agreement, if the Certificate in respect of such Note is surrendered more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30 day period;
- (iv) to or on behalf of a holder or beneficial owner to the extent that such holder or beneficial owner would not have been liable for or subject to such deduction or withholding but for the failure of such holder or beneficial owner (or any financial institution through which such holder or beneficial owner holds any Notes or through which payment on the Notes is made) to comply with any certification, information, identification, documentation or other reporting requirements (including entering into and complying with an agreement with the Internal Revenue Service) imposed under Sections 1471 through 1474 of the U.S. Internal Revenue Code as in effect as of the issue date of the Notes or any successor or amended version of these provisions, to the extent such successor or amended version is not materially more onerous than these provisions as enacted on such date, or any intergovernmental agreement or legislation enacted pursuant thereto to implement such provisions; or
- (v) any combination of the items listed above.

For this purpose the “relevant date” in relation to any Note means (a) the due date for payment in respect thereof which is a Business Day or (b) if the full amount of the monies payable on such due date has not been received by the Fiscal Agent or the principal paying agent on or prior to such due date, the date on which notice is duly given to the Noteholders that such monies have been so received.

Additionally, the obligation of the Company to pay such Additional Amounts shall not apply with respect to (i) any estate, inheritance, gift, sales, transfer or personal property tax or any similar taxes, duties, assessments or other governmental charges or (ii) any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Notes.

The Company will provide the Fiscal Agent with documentation evidencing the payment of Taxes, if any, that are withheld from payments on the Notes. Copies of such documentation will be made available to any holder or any paying agent, as applicable, upon request therefor.

References in these Conditions to any amounts payable on the Notes shall be deemed also to refer to any Additional Amounts which may be payable in respect thereof under this Condition 8.

9. Events of Default

The occurrence and continuance of any one of the following events will constitute an event of default (an “Event of Default”) with respect to any series of the Notes:

- (a) default by the Company in the payment of any installment of interest upon any of the Notes of such series as and when the same shall become due and payable, and continuance of such default for a period of 30 days;
- (b) default by the Company in the payment of all or any part of the Redemption Amount of any of the Notes of such series as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise;
- (c) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company contained in the Notes of such series or in the Fiscal Agency Agreement for a period of 60 days after the date on which written notice specifying such failure, stating that such notice is a “Notice of Default” under the Notes of such series and demanding that the Company remedy the same, shall have been given to the Company by the Fiscal Agent or to the Company, with a copy to the Fiscal Agent, by the holders of at least 10% in aggregate principal amount of the Notes of such series at the time outstanding;
- (d) any External Debt of the Company or any Principal Subsidiary in the aggregate outstanding principal amount of US\$30,000,000 or more either (i) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Company or such Principal Subsidiary or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Company or such Principal Subsidiary in respect of External Debt of any other person in the aggregate outstanding principal amount of US\$30,000,000 or more not being honored when, and remaining dishonored after becoming, due and called, provided that, if any such default under any such External Debt shall be cured or waived, then the default under the Fiscal Agency Agreement by reason thereof shall be deemed to have been cured and waived;
- (e) a court or administrative or other governmental agency or body having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law in effect on the date of the Notes of such series or thereafter, or appointing

a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property or ordering the winding up, dissolution or liquidation of its affairs, or shall otherwise adjudicate or find the Company to be bankrupt or insolvent, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

- (f) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law in effect on the date of the Notes of such series or thereafter, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property, or cease to carry on the whole or substantially the whole of its business, or make any general assignment for the benefit of creditors, or enter into any composition with its creditors, or take corporate action in furtherance of any such action.

In each such case, the holders of not less than 25% in aggregate principal amount of the Notes of such series then outstanding, by notice in writing to the Company and the Fiscal Agent, may declare the principal amount of, and all accrued but unpaid interest on the Notes of such series (together with all Additional Amounts thereon, if any) to be due and payable immediately. If, at any time after such amounts shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered, the Company shall pay or deposit with the Fiscal Agent a sum sufficient to pay all monies then due with respect to the Notes of such series (other than amounts due solely because of such declaration) and cures all other Events of Default with respect to the Notes of such series, then the holders of more than 50% in aggregate outstanding principal amount of the Notes of such series may waive all defaults in writing and rescind and annul such declaration and its consequences.

10. Prescription

Funds deposited with the Fiscal Agent or any paying agent in trust for the payment of the Redemption Amount, interest and all Additional Amounts (if any) on, any Note and remaining unclaimed for two years after such Redemption Amount or interest, as the case may be, has become due and payable shall be repaid to the Company, upon its request, or (if then held by the Company) shall be discharged from such trust, and the Noteholder shall then look only to the Company for such payment.

11. Meetings of Noteholders; Modification and Amendments to the Fiscal Agency Agreement

The Company may at any time, and the Fiscal Agent shall at any time after the Notes of any series shall have become immediately due and payable due to a default, upon a request in writing made by Noteholders holding not less than 10% of the aggregate outstanding principal amount of the Notes of such series, convene a meeting of the Noteholders of such series. Any such request in writing by the Noteholders of such series shall be delivered to the Fiscal Agent. Further provisions concerning meetings of the Noteholders are set forth in the Fiscal Agency Agreement.

The Fiscal Agency Agreement may be amended by the Fiscal Agent and the Company without the consent of the holders of any Notes for the purpose, among other things, of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained therein, or in any manner necessary or desirable and which shall not adversely affect the interests of the Noteholders, to all of which each Noteholder shall, by acceptance of the Notes, or beneficial interests in the Global Notes, consent. Modifications and amendments to the Fiscal Agency Agreement or to the Notes of any series may be made with the consent of the holders of at least a majority in aggregate principal amount of the Notes of such series at the time outstanding (or of such lesser percentage as may act at a meeting of Noteholders, as permitted by the Fiscal Agency Agreement); *provided, however*, that no such modification or amendment may, without the unanimous consent of the holders of all Notes of such series, make any “fundamental” change to the terms of the Notes of such series. For purposes hereof,

“fundamental” changes are defined as (i) a change in the stated maturity of the principal of or the dates on which interest is payable in respect of the Notes of such series; (ii) a reduction in or cancellation of the principal amount of or interest on the Notes of such series or a change in the obligation of the Company to pay Additional Amounts; (iii) a change in the currency or place of payment of the Redemption Amount or interest (including Additional Amounts) on the Notes of such series; (iv) a reduction in the above-stated percentage of aggregate principal amount of Notes outstanding of such series necessary to modify or amend the Fiscal Agency Agreement or the provisions of the Notes of such series or a reduction in the quorum requirements or the percentages of votes required for the adoption of any action at a meeting of Noteholders of such series; (v) change in any manner adverse to the interests of the Noteholders the terms and provisions of the Notes of such series in respect of the due and punctual payment of the Redemption Amount and interest on the Notes of such series; or (vi) any impairment of the right to institute any proceedings for the enforcement of any payment on or with respect to any Note of such series.

The holders of a majority in aggregate principal amount of the outstanding Notes of such series may waive compliance by the Company with certain restrictive provisions of the Notes of such series and the Fiscal Agency Agreement, and may waive any past default under the Notes of such series and the Fiscal Agency Agreement except (i) a default in the payment of the Redemption Amount or interest and (ii) a default or compliance in respect of a covenant or provision of these Conditions or the Fiscal Agency Agreement which cannot be modified or amended without the unanimous consent of the holders of all Notes then outstanding of such series.

In determining whether the Noteholders of the requisite aggregate principal amount of the Notes have concurred in any request, consent or waiver under the Fiscal Agency Agreement, Notes that are owned by the Company or any of its Subsidiaries or Affiliates or any other obligor on the Notes with respect to which such determination is being made or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Notes with respect to which such determination is being made will be disregarded and deemed not to be outstanding for the purpose of any determination, except that for the purpose of determining whether the Fiscal Agent shall be protected in relying on any such request, consent or waiver, only Notes that the Fiscal Agent knows are so owned shall be so disregarded.

12. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar and at the specified office of any paying agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and the Registrar may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

In the event any such mutilated, defaced, destroyed, lost or stolen Certificate has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Certificate, pay such Note.

13. Notices

All notices to Noteholders shall be validly given if in writing and mailed by first class mail to them at their respective addresses in the Note Register maintained by the Registrar, and published in a leading English language daily newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Notwithstanding the foregoing, so long as the Notes are represented by the Global Notes and the Global Notes are held on behalf of DTC or an alternative clearing system appointed in accordance with the terms of the Notes and the Fiscal Agency Agreement, notices to Noteholders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders.

14. Agents

The names of the Fiscal Agent, the initial principal paying agent, the initial transfer agent and the initial Registrar and their specified offices are set out in the Fiscal Agency Agreement. The Company reserves the right to appoint, vary or terminate any transfer agent or paying agent, *provided* that the Company will at all times maintain in London a transfer agent and a paying agent where, subject to any applicable laws or regulations, Certificates may be presented and surrendered for payment, mutilated, destroyed, lost or stolen Certificates may be replaced, Certificates may be surrendered for registration of transfer or exchange, Certificates may be surrendered for exchange and where demands upon the Company in respect of these Conditions may be made. Notice of any such termination or appointment, of any changes in the specified offices of the transfer agent or the paying agents and of any change in the identity of the Registrar will be given promptly by the Company to the Noteholders and the Fiscal Agent.

For so long as the Notes of any series are listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”) and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for definitive Notes, the Company will appoint and maintain a paying agent in Singapore, where the definitive Notes of such series may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

15. Further Issues

The Company may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes of any series in all respects; *provided* that any notes so issued shall be issued under a separate CUSIP or ISIN number as the Notes of such series unless such notes are issued pursuant to a “qualified reopening” of the Notes of such series, are otherwise treated as part of the same “issue” of debt instruments as the Notes of such series or are issued with no more than a de minimis amount of original issue discount, in each case for U.S. federal income tax purposes. Such further issue shall be consolidated and form a single series with the Notes of such series.

16. Governing Law and Jurisdiction

The Notes and the Fiscal Agency Agreement are governed by, and shall be construed in accordance with, the laws of the State of New York.

In relation to any legal action or proceedings arising out of or in connection with the Fiscal Agency Agreement and the Notes, the Company will in the Fiscal Agency Agreement and the Notes irrevocably submit to the jurisdiction of the New York State and United States Federal courts sitting in the Borough of Manhattan, the New York City. The Company will appoint Kia Motors America, Inc. as its agent for service of process.

FORM OF THE NOTES

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Notes.”

Upon issuance, each series of the Notes are expected to be represented by Global Notes in fully registered form. The Global Notes will be deposited with or on behalf of DTC and registered in the name of a nominee of DTC. A Global Note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of or a nominee of such successor.

Upon the issuance of the Global Notes, DTC will credit, on its book-entry registration and transfer system, the respective principal amounts of the Notes represented by such Global Notes to the accounts of persons that have accounts with DTC (“participants”), including depositaries for Euroclear and Clearstream. The accounts to be initially credited shall be designated by the Initial Purchasers participating in the initial offer and sale of the Notes. Ownership of beneficial interests in the Global Notes will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in such Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC for such Global Notes (with respect to interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants).

DTC or its nominee, as the case may be, as registered Holder of the Global Notes will be considered the sole owner or holder of the Notes represented by each Global Note for all purposes under the Notes and the Fiscal Agency Agreement.

Principal and interest payments on Notes represented by the Global Notes registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of such Global Notes. None of the Company, the Fiscal Agent or any paying agent for such Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in such Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC, upon receipt of any payment of principal or interest, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Notes as shown on the records of DTC. The Company also expects that payments by participants to owners of beneficial interests in such Global Notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the account of customers registered in “street names,” and will be the responsibility of such participants.

If (i) at any time DTC notifies the Company in writing that it is unwilling or unable to continue as depositary or ceases to be a “clearing agency” under the Exchange Act, and a successor depositary is not appointed by the Company within 90 days after the Company is notified by DTC or becomes aware of such condition, or (ii) the Notes have become immediately due and payable pursuant to Condition 9, the Company will issue Notes in definitive registered form in exchange for the Global Notes representing such Notes. The Notes will be issued only in fully registered form without coupons in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. If the Notes are issued in definitive registered form, the Company will make payments of principal of and interest on the Notes, and transfers and exchanges of the Notes will be affected, subject to the terms of the Fiscal Agency Agreement and the Notes (without any service charge) upon surrender of the Notes.

For so long as the Notes of any series are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for definitive Notes, the Company will appoint and maintain a paying agent in Singapore, where the definitive Notes may be presented or surrendered for

payment or redemption. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

TAXATION

Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations (“Non-Residents”) depends on whether they have a “permanent establishment” (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest on the Notes paid to Non-Residents, the Notes being foreign currency denominated bonds issued outside Korea, is exempt from individual income tax and corporate income tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the “STTCL”).

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of individual income tax or corporate income tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called local income tax would be imposed at the rate of 10% of the individual income tax or corporate income tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer or the Company. As the duty to withhold the tax is on the payer or the Company, Korean law does not automatically entitle the person who has suffered the withholding of Korean tax to recover from the Korean government any part of the Korean tax withheld even if he subsequently produces evidence that he was entitled to have his tax withheld at a lower rate or be exempted, although in certain circumstances it may be possible to claim withheld tax from the payer or the Company. A Non-Resident that was subject to withholding of Korean tax on interest is entitled to claim refund of over-withheld tax directly from the Korean tax authorities. The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

In order to obtain a reduction or exemption of withholding tax under an applicable tax treaty with respect to any income to which Korean withholding tax applies, a Non-Resident should submit either an application for tax exemption or an application for treaty-reduced tax rates to either the payer or the Company prior to the date upon which such income is to be paid to the Non-Resident.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Notes are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable tax treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such

evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of notes issued by Korean companies. The purchaser or any other designated withholding agent of the Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% (including local income tax) of the gross realization proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, from a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In order to obtain a reduction or exemption of withholding tax under an applicable tax treaty with respect to any income to which a Korean withholding tax applies, a Non-Resident should submit either an application for tax exemption or an application for treaty-reduced tax rates to either the payer or the Company prior to the date upon which such income is to be paid to the Non-Resident.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least 183 days immediately prior to his death and (b) all property located in Korea that passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% depending on the price of the assets and the nature of the relationship between the parties. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift.

Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Noteholders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by the Company. No securities transaction tax will be imposed upon the transfer of the Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Malaysia, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 10% and 15% (including local income tax), and the tax on capital gains is often eliminated.

Each Noteholder should inquire whether he is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Company a certificate as to his residence. In the absence of sufficient proof, the payer or the Company must withhold taxes in accordance with the above discussion.

In order for a Non-Resident to obtain the benefit of a tax exemption on certain Korean source income (e.g., interest and capital gains) under an applicable tax treaty, Korean tax law requires such Non-Resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such Non-Resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to exemptions under Korean tax law such as the STTCL.

Further, for a Non-Resident to obtain the benefit of treaty-reduced tax rates on certain Korean source income, such as interest and capital gains, under an applicable tax treaty, Korean tax law generally requires such Non-Resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to the Non-Resident's receipt of such Korean source income. If the Korean source income is paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for treaty-reduced tax rates from each Non-Resident, who are the beneficial owners of such investment vehicle, and submit to the payer of such Korean source income an overseas investment vehicle report, together with the applications for treaty-reduced tax rates prepared by the Non-Resident beneficial owners. An application for treaty-reduced tax rates submitted by a Non-Resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted.

The special withholding tax system took effect July 1, 2006. Under the system, there is a special procedure to apply the Korea-Malaysia tax treaty on certain Korean source income. Payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4% for interest and the lower of 11% of the gross realization proceeds or 22% of the gain made for capital gain (including local income tax)) rather than the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to get a refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and a real resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "NTS") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

Withholding and Gross Up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the Company is required by law to make any withholding or deduction for or on account of any Korean taxes the Company has agreed to pay such Additional Amounts (subject to certain exceptions) as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts which would have been received by such Noteholder in the absence of such withholding or deduction.

United States Federal Income Taxation

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a U.S. Holder (as defined below) of a Note. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury regulations, laws, rulings and decisions currently in effect, all of which are subject to change, possibly with retroactive effect. This summary deals only with beneficial owners of Notes that will hold Notes as capital assets and that

acquired the Notes upon original issuance at their original issue price. It does not address particular tax considerations that may be applicable to investors that are subject to special tax rules, such as banks and other financial institutions, tax-exempt entities, insurance companies, individual retirement accounts and other tax-deferred accounts, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Notes as a position in a “straddle,” hedging, or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, entities or arrangements taxed as partnerships for U.S. federal income tax purposes or the partners therein, U.S. expatriates, nonresident alien individuals present in the United States for more than 182 days in a taxable year, or persons that have a “functional currency” other than the U.S. dollar.

This summary addresses only U.S. federal income tax consequences and does not address consequences arising under state, local, non-U.S. tax laws, the alternative minimum tax, the Medicare tax on net investment income, special timing rules prescribed under section 451(b) of the Code or from the possible applicability of U.S. federal gift or estate tax laws. Investors should consult their own tax advisors in determining the tax consequences to them of holding Notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

As used herein, a “U.S. Holder” is a beneficial owner of a Note that is, for U.S. federal income tax purposes, a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income taxation on a net income basis in respect of the Note. A “non-U.S. Holder” is a beneficial owner of a Note that, for U.S. federal income tax purposes, is an individual, corporation, foreign estate, or foreign trust that is not a U.S. Holder.

Investors should consult their tax advisors concerning the particular U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, as well as the consequences under the laws of any other taxing jurisdiction.

Payments of Interest and Additional Amounts

The gross amount of stated interest and any Additional Amounts (i.e., without reduction for Korean withholding taxes, if any, determined utilizing the appropriate Korean withholding tax rate applicable to the U.S. Holder), excluding any pre-issuance accrued interest, will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is actually or constructively received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes. It is expected, and this discussion assumes, that the Notes will be issued without original issue discount for U.S. federal income tax purposes (“OID”). In general, however, if the Notes are issued with OID at or above a de minimis threshold, a U.S. Holder will be required to include OID in gross income, as ordinary income, under a “constant-yield method” before the receipt of cash attributable to such income, regardless of the U.S. Holder’s regular method of accounting for U.S. federal income tax purposes. Prospective investors should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules attributable to the Notes.

As discussed in “– Korean Taxation – Tax on Interest,” interest paid on the Notes to a U.S. Holder is expected to be exempt from Korean taxes. If, however, that tax exemption were to cease to apply, then, subject to generally applicable restrictions and conditions under U.S. tax law, Korean withholding tax paid at the appropriate rate applicable to the U.S. Holder would be expected to be treated as foreign income tax eligible (i) for credit against the U.S. Holder’s U.S. federal income tax liability, or (ii) if the U.S. Holder so elects, for deduction in computing the U.S. Holder’s taxable income (provided that the U.S. Holder elects to deduct, rather than credit, all foreign income taxes paid or accrued for the relevant taxable year). Interest and Additional Amounts will constitute income from sources without the United States for foreign tax credit purposes. Such income generally will constitute “passive category income” or, in the case of certain U.S. Holders, “general category income.” The calculation of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign taxes, the

availability of such deduction, involves the application of rules that depend on a U.S. Holder's particular circumstances. Investors should consult their tax advisors regarding the availability of foreign tax credits or deductions in their particular situation.

Sale, Exchange and Retirement of Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which will be taxable as such) and the U.S. Holder's tax basis in such Note. A U.S. Holder's tax basis in a Note will generally equal the cost of the Note to the U.S. Holder. Gain or loss recognized upon a sale, exchange or retirement of a Note generally will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

As discussed in “– Korean Taxation – Tax on Capital Gains,” no Korean tax is currently expected to be imposed in respect of a sale or other disposition of Notes by a U.S. Holder (excluding sale or disposition to a Korean resident). If Korean tax were to be imposed on such a disposition of Notes, however, a U.S. Holder may not be able to credit the tax against the U.S. Holder's U.S. federal income tax liability, unless the credit can be applied (subject to applicable conditions and limitations) against tax due on other income treated as derived from foreign sources, because capital gains recognized by a U.S. Holder generally will be U.S.-source gains. Investors should consult their tax advisors as to the foreign tax credit implications of a disposition of the Notes.

Specified Foreign Financial Assets

U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Information Reporting and Backup Withholding

Information returns will be filed with the IRS in connection with payments on the Notes made to, and the proceeds of sales or other dispositions of Notes effected by, certain U.S. Holders. In addition, a U.S. Holder may be subject to backup withholding in respect of such amounts unless the U.S. Holder (i) is exempt and demonstrates this fact, or (ii) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Holders who are not U.S. persons may be required to comply with applicable certification procedures to establish that they are not U.S. persons in order to avoid the application of such information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a U.S. or non-U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS. Investors should consult their tax advisors about these rules and any other reporting obligations that may apply to their ownership or disposition of Notes.

Proposed Financial Transaction Tax (“FTT”)

On February 14, 2013, the EC published a proposal (the “Commission’s Proposal”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “Participating Member States”), which, if enacted, could apply under certain circumstances, to transactions involving the Notes. The issuance and subscription of Notes should be exempt. Estonia has officially announced its withdrawal from the negotiations.

The mechanism by which the tax would be applied and collected is not yet known, but if the proposed directive or any similar tax is adopted, transactions in the Notes would be subject to higher costs, and the liquidity of the market for the Notes may be diminished.

Following the lack of consensus in the negotiations on the Commission’s Proposal, the Participating Member States (excluding Estonia which withdrew) have agreed to continue negotiations on a new proposal based on the French model of the tax which would only concern listed shares of EU companies whose market capitalization exceeds €1 billion as of December 1 of the year preceding the taxation year. According to this new proposal, the applicable tax rate would be at least 0.2%. Primary market transactions should be exempt. However, this new proposal could be subject to changes before any implementation, the timing of which remains unclear.

Additional EU Member States may decide to participate and/or certain of the Participating Member States may decide to withdraw (in addition to Estonia which already withdrew).

Prospective holders of the Notes are advised to seek their own professional advice in relation to the consequences of the FTT that could be associated with subscribing for, purchasing, holding and disposing of the Notes.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch International and Standard Chartered Bank (the “Initial Purchasers”) are acting as joint bookrunners and lead managers in this offering. Subject to the terms and conditions set forth in a purchase agreement (the “Purchase Agreement”) among the Company and the Initial Purchasers, the Company has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Company, the principal amount of Notes of each series set forth opposite its name below.

Initial Purchasers	Principal Amount of	
	2024 Notes	2026 Notes
Citigroup Global Markets Inc.	US\$ 75,000,000	US\$100,000,000
The Hongkong and Shanghai Banking Corporation Limited	75,000,000	100,000,000
Merrill Lynch International	75,000,000	100,000,000
Standard Chartered Bank	75,000,000	100,000,000
Total	<u>US\$300,000,000</u>	<u>US\$400,000,000</u>

Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the Purchase Agreement if any of the Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the Purchase Agreement may be terminated.

The Company has agreed to indemnify the Initial Purchasers against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer’s certificates and legal opinions.

Commissions and Discounts

The purchase price for the Notes of each series will be the offering price set forth on the cover page of this Offering Circular net of underwriting and management commissions. After the initial offering, the offering price or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be QIBs or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

New Issue of Notes

The Notes are a new issue of securities with no established trading market. The Initial Purchasers have advised that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Company cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the operating performance and financial condition of the Company, general economic conditions and other factors.

Settlement

Delivery of the Notes is expected on or about April 16, 2021, which will be the fourth business day following the date of this Offering Circular (such settlement being referred to as “T+4”). Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+4, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

The Company has agreed that it will not, and will not announce its intention to, for a period of 30 days after the date of the offering of the Notes, without first obtaining the prior written consent of the Initial Purchasers, (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to, any non-Korean Won-denominated debt securities issued or guaranteed by the Company and having a maturity of more than one year from the date of issue or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Notes, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of Notes or such other securities, in cash or otherwise.

Short Positions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Company and the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Company and the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company or its affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

The Initial Purchasers or certain of their affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. The Initial Purchasers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Company at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). The Company has been advised by the Initial Purchasers that they may offer and sell the Notes to or through any of their respective affiliates and any such affiliate may offer and sell the Notes purchased by it to or through any Initial Purchaser.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any amendment or supplement to this Offering Circular, in any country or jurisdiction where action for any such purposes is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with applicable laws and regulations.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Company in such jurisdiction.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by an Initial Purchaser (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Initial Purchasers, through their respective affiliates, acting as selling agents where applicable, propose to offer the Notes to certain non-U.S. persons in offshore transactions in reliance on Regulation S and in accordance with applicable law and propose to offer the Notes to QIBs in the United States pursuant to Rule 144A. Each of the Initial Purchasers has agreed with the Company that, except as permitted under the Purchase Agreement, it will not offer, sell or deliver the Notes within the United States or to U.S. persons. Any offer or sale of the Notes in the United States in reliance on Rule 144A will be made by broker-Initial Purchasers who are registered as such under the Exchange Act. Terms used in this paragraph have the meanings given to them by Regulation S. Transfer of the Notes will be restricted as described under "Transfer Restrictions."

United Kingdom

This Offering Circular is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Korea

The Notes have not been and will not be registered under the FSCMA. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transaction Law of Korea and its Enforcement Decree), for a period of one year from the date of issuance of the Notes, except (i) where relevant requirements are satisfied, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of professional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure promulgated thereunder, or (ii) as otherwise permitted under applicable Korean laws and regulations.

Japan

The Notes have not been, and will not be, registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Hong Kong

Each Initial Purchaser has represented and agreed that:

- (a) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong), other than with respect to Notes which are, or are intended to be, disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Notification under Section 309B(1)(c) of the SFA: The Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered pursuant to this Offering Circular.

Korea

A registration statement for the offering and sale of the Notes has not been filed under the FSCMA.

Each purchaser of the Notes hereunder will be deemed to have represented and agreed as follows:

1. the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transaction Law and Regulation of Korea and its Enforcement Decree), for a period of one year from the date of issuance of the Notes, except (i) where relevant requirements are satisfied, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of professional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure promulgated thereunder, or (ii) as otherwise permitted under applicable Korean laws and regulations.
2. it understands that the Notes will, unless otherwise agreed by the Company, bear a legend substantially to the following effect:

A REGISTRATION STATEMENT FOR THE OFFERING AND SALE OF THE NOTES HAS NOT BEEN FILED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT (THE "FSCMA"). ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW AND REGULATION OF KOREA AND ITS ENFORCEMENT DECREE), FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE NOTES, EXCEPT (I) WHERE RELEVANT REQUIREMENTS ARE SATISFIED, THE NOTES MAY BE OFFERED, SOLD OR DELIVERED TO OR FOR THE ACCOUNT OR BENEFIT OF A KOREAN RESIDENT WHICH FALLS WITHIN CERTAIN CATEGORIES OF PROFESSIONAL INVESTORS AS SPECIFIED IN THE FSCMA, ITS ENFORCEMENT DECREE AND THE REGULATION ON SECURITIES ISSUANCE AND DISCLOSURE PROMULGATED THEREUNDER, OR (II) AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or the securities laws of any other jurisdiction. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except in reliance on Rule 144A to QIBs. The Notes may also be offered and sold to non-U.S. persons in offshore transactions in reliance on Regulation S.

Each purchaser of the Notes hereunder will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulations S under the Securities Act are used in this Offering Circular as defined in the Securities Act):

- (1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion, and it and any such account (i) is a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (ii) is outside the United States and is not a U.S. person;
- (2) it acknowledges that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;
- (3) it understands and agrees that if in the future it decides to sell, pledge or otherwise transfer any Notes or any beneficial interest in any Notes, such Notes may be offered, resold, pledged or transferred only (A)(i) to the Company, (ii) to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) to a non-U.S. person in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) or (v) pursuant to another exemption from the Securities Act, provided that, as a condition to the registration of the transfer thereof, the Company or the Fiscal Agent may require the delivery of any documents, including an opinion of counsel that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption, or (B) pursuant to an effective registration statement under the Securities Act, and, in each of such cases in accordance with any applicable securities laws of any state of the United States;
- (4) it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause (3)(A) above, if then applicable;
- (5) it understands and agrees that Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Notes and that Notes initially offered to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Notes;
- (6) it understands that the Restricted Global Notes will, unless otherwise agreed by the Company, bear a legend substantially to the following effect:

“THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF KIA CORPORATION (THE “COMPANY”) THAT THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(i) TO THE COMPANY, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (iii) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (iv) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (v) PURSUANT TO ANOTHER EXEMPTION FROM THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE COMPANY OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO

EVIDENCE COMPLIANCE WITH SUCH EXEMPTION, OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND, IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.”

- (7) it understands that the offer or sale of Notes represented by the Unrestricted Global Notes may not be made to a U.S. person or for the account or benefit of a U.S. person (other than a distributor) until the 40th day following the later of the commencement of the offering and the original issue date of the Notes and that the Unrestricted Global Notes will bear a legend to the following effect unless otherwise agreed to by the Company:

“THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.”

- (8) it acknowledges that prior to any proposed transfer of the Notes in certificated form or of beneficial interests in the Global Notes (other than pursuant to an effective registration statement), the holder of the Notes or the holder of beneficial interests in the Global Notes, as the case may be, may be required to provide certificates and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Fiscal Agency Agreement; and
- (9) it acknowledges that the Company, the Initial Purchasers, the Fiscal Agent and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of the Notes are no longer accurate, it shall promptly notify the Company; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for the Initial Purchasers by Cleary Gottlieb Steen & Hamilton LLP as to matters of New York law. Certain legal matters will be passed upon for the Company by Yulchon LLC as to matters of Korean law. Cleary Gottlieb Steen & Hamilton LLP may rely as to all matters of Korean law on the opinion of Yulchon LLC, and Yulchon LLC may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP.

INDEPENDENT AUDITORS

The Company's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 and the Company's audited consolidated financial statements as of and for the years ended December 31, 2018 and 2019 included elsewhere in this Offering Circular have been prepared in accordance with K-IFRS and have been audited by Ernst & Young Han Young.

INDEX TO FINANCIAL STATEMENTS

	Pages
Audited Consolidated Financial Statements as of and for the years ended December 31, 2020 and 2019	
Independent Auditors' Report	F-2
Consolidated Statements of Financial Position as of December 31, 2020 and 2019	F-6
Consolidated Statements of Income for the years ended December 31, 2020 and 2019	F-8
Consolidated Statements of Comprehensive Income for the years ended December 31, 2020 and 2019	F-9
Consolidated Statements of Changes in Equity for the years ended December 31, 2020 and 2019	F-10
Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019 ...	F-12
Notes to the Consolidated Financial Statements	F-13
Audited Consolidated Financial Statements as of and for the years ended December 31, 2019 and 2018	
Independent Auditors' Report	F-89
Consolidated Statements of Financial Position as of December 31, 2019 and 2018	F-93
Consolidated Statements of Income for the years ended December 31, 2019 and 2018	F-95
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019 and 2018	F-96
Consolidated Statements of Changes in Equity for the years ended December 31, 2019 and 2018	F-97
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018 ...	F-99
Notes to the Consolidated Financial Statements	F-100

Independent auditor's report

English Translation of Independent Auditor's Report Originally Issued in Korean on March 5, 2021

To the Shareholders and the Board of Directors of Kia Motors Corporation

Opinion

We have audited the consolidated financial statements of Kia Motors Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("KIFRS").

Basis for opinion

We conducted our audit in accordance with Korean Auditing Standards ("KGAAS"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(Key audit matter 1) Classification of the performance obligation of warranty for the vehicles sold and measurement of the related amount:

As described in Note 3 to the consolidated financial statements, the Group provides free warranties for the customers for a period of time after the vehicles were sold, and these warranties are divided into assurance type warranties and service type warranties. In the case of service type warranties, certain portion of sales proceeds received at the time of the vehicle sale is allocated to the warranty obligation and recognized as revenue when the performance obligation for the service type warranties is fulfilled; accordingly, contract liabilities were recognized on the consolidated financial statements as of December 31, 2020. In the case of assurance type warranties, the amount expected to be liable by the Group in the future should be recognized as provision at the end of the reporting period, and the sales warranty provisions of ₩4,556,643 million has been recognized on the consolidated financial statements as of December 31, 2020.

The performance obligation of the warranty is calculated by using various assumptions and warranty policies of the Group, including the duration of the warranty, the estimated warranty costs to be incurred in the future, and the discount rate. Also, these assumptions are determined by the nature and range of the free warranty provided by the Group. We have selected the topic as our key audit matter, taking into account the materiality of the related liability amount, the uncertainty of the estimates used by management, the complexity of the assumptions, and possible errors that may arise in classifying the types of warranty.

The main audit procedures that we have conducted related to the considerations described above are as follows:

- Reviewed whether the classification of warranty types defined in the Group's accounting policies is in accordance with KIFRS
- Assessed whether relevant controls for recognizing and measuring sales warranty provisions are effectively designed and operated.
- Involved an IT specialist to assess whether IT general controls for IT system that is being used for warranty transaction and relevant automated controls are effectively designed and operated.
- Compared internal and external information with the underlying data of the major accounting estimates by management
- Performed an analytical review of the basis of management's assumptions used in the measurement of related liabilities with the historical data
- Performed an independent recalculation of the related liabilities balance at the end of the reporting period
- Compared the actual warranty provided in the current year with the forecasted warranty provision from the previous year by car models

(Key audit matter 2) Complete and accurate measurement of the amount of incentive-related liabilities provided to dealers:

The Group provides a variety of incentive programs to dealers to facilitate vehicle sales. The Group reflects the forecasted amount expected to be incurred from dealer incentives as accrued expenses in the consolidated financial statements.

Kia Motors America, Inc. ("KMA"), a subsidiary in the United States, accounts for the significant proportion of the total incentive amount of the Group, and due to various terms and conditions of incentive programs, accounting estimates and complex calculations are performed when measuring related liabilities. We have selected this topic as our key audit matter, taking into account the importance of the incentive amount of KMA and the risk that the related liabilities are difficult to be measured accurately and completely due to the complexity of the estimates and calculations used by management for each incentive programs.

The main audit procedures that we have conducted related to the considerations described above are as follows:

- Reviewed whether the incentive program accounting defined in the Group's accounting policies complies with the KIFRS
- Involved the component auditors to perform the following procedures for the components that account for the significant proportion of incentive-related liabilities
 - Understanding the underlying data aggregation process of key estimates used in the measurement of incentive-related liabilities
 - Comparison of internal and external information with the underlying data and estimates used by management
 - Analysis of the assumptions used by management when comparing related liabilities to historical performance
 - Independent recalculation of the related liability balance as of December 31, 2020
 - Comparison of the forecasted liability recognized as of the end of the previous reporting period with the actual amount incurred for the current period

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 KGAAS 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Do Hun, Han.

Signature

/s/ Ernst & Young Han Young

March 5, 2021

This audit report is effective as of March 5, 2021 the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditor's report date to the time this report is used. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2020 and 2019

(In millions of Korean won)

	<i>Note</i>	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents	5,32	₩ 10,160,697	₩ 4,268,716
Short-term financial instruments	5,32	2,912,700	3,061,687
Other current financial assets	6,32	1,806,427	1,838,821
Accounts and notes receivable – trade	23,32,33	1,819,008	2,154,695
Accounts and notes receivable – others	32,33	1,925,008	1,501,242
Advanced payments	33	123,106	471,015
Inventories	7	7,093,959	8,108,681
Current tax assets		147,444	83,628
Other current assets		105,033	66,931
Total current assets		26,093,382	21,555,416
Long-term financial instruments	5,32	134,736	103,984
Other non-current financial assets	6,32	710,580	802,277
Long-term accounts and notes receivable – trade	23,32,33	5,377	12,440
Investments in joint ventures and associates	8	14,613,560	13,916,493
Property, plant and equipment	4,9	15,579,715	15,746,675
Investment property	4,10	22,412	25,004
Intangible assets	4,11,12	2,665,571	2,552,786
Deferred tax assets	27	535,834	558,930
Other non-current assets	15	129,276	70,793
Total non-current assets		34,397,061	33,789,382
Total assets		₩ 60,490,443	₩ 55,344,798

(Continued)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2020 and 2019, Continued

(In millions of Korean won)

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Liabilities			
Accounts and notes payable – trade	32,33	₩ 7,302,405	₩ 6,766,756
Short-term borrowings	13,32	4,479,452	1,414,756
Accounts and notes payable – others	32,33	2,382,260	3,233,632
Advances received	23	325,701	452,222
Accrued expenses	32	1,975,242	1,936,010
Income taxes payable		300,531	175,989
Current portion of long-term debt and bonds	13,17,32	788,542	1,075,465
Provisions – current	16	3,281,621	2,016,700
Other current liabilities	14,18,29,32	261,835	205,116
Total current liabilities		<u>21,097,589</u>	<u>17,276,646</u>
Bonds	13,17,32	2,722,994	2,667,128
Long-term debt	13,17,32	2,175,728	1,307,808
Long-term advances received	23	105,372	102,743
Net defined benefit liabilities	15	-	207,561
Provision for other long-term employee benefits		334,933	315,748
Provisions	16,17	1,408,745	1,839,440
Deferred tax liabilities	27	1,365,533	1,408,941
Other non-current liabilities	14,18,29,32,33	1,387,877	1,240,645
Total non-current liabilities		<u>9,501,182</u>	<u>9,090,014</u>
Total liabilities		<u>30,598,771</u>	<u>26,366,660</u>
Equity			
Owners of the Company			
Capital stock	19	2,139,317	2,139,317
Capital surplus		1,560,650	1,560,650
Retained earnings	20	27,173,417	26,056,216
Accumulated other comprehensive loss	19	(920,638)	(716,971)
Other equity	19	(61,074)	(61,074)
		<u>29,891,672</u>	<u>28,978,138</u>
Non-controlling interests		-	-
Total equity		<u>29,891,672</u>	<u>28,978,138</u>
Total liabilities and equity		<u>₩ 60,490,443</u>	<u>₩ 55,344,798</u>

See accompanying notes to the consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Income

For the years ended December 31, 2020 and 2019

(In millions of Korean won, except earnings per share)

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Sales	4,23,33	₩ 59,168,096	₩ 58,145,959
Cost of sales	28,33	49,222,564	48,766,570
Gross profit		<u>9,945,532</u>	<u>9,379,389</u>
Selling expenses	24,28,33	4,910,714	4,261,276
General and administrative expenses	24,28,33	2,968,361	3,108,433
Operating profit		<u>2,066,457</u>	<u>2,009,680</u>
Gain on investments in joint ventures and associates, net	8	61,399	507,105
Finance income	25,32,33	341,844	237,802
Finance costs	25,32,33	424,756	292,273
Other income	26,33	601,545	708,224
Other expenses	26,33	805,131	639,434
Profit before income taxes		<u>1,841,358</u>	<u>2,531,104</u>
Income tax expense	27	353,773	704,445
Profit for the year		<u>₩ 1,487,585</u>	<u>₩ 1,826,659</u>
Profit attributable to:			
Owners of the Company		1,487,585	1,826,659
Non-controlling interests		-	-
Earnings per share	21		
Basic earnings per share in Korean won		<u>₩ 3,710</u>	<u>₩ 4,556</u>

See accompanying notes to the consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Profit for the year	₩ 1,487,585	₩ 1,826,659
Other comprehensive income(loss) for the year:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit plans	17,767	(66,023)
Remeasurements of associates, net	(15,350)	(55,023)
Change in fair value of financial assets measured at fair value through other comprehensive income	96,489	43,103
	<u>98,906</u>	<u>(77,943)</u>
Items that may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	15,414	20,868
Change in capital adjustments – increase(decrease) in gain of equity method accounted investment	117,673	20,273
Change in capital adjustments – decrease(increase) in loss of equity method accounted investment	(201,507)	173,404
Exchange differences on translating foreign operations, net	(143,466)	132,251
	<u>(211,886)</u>	<u>346,796</u>
Other comprehensive income(loss) for the year	(112,980)	268,853
Total comprehensive income for the year	<u>₩ 1,374,605</u>	<u>₩ 2,095,512</u>
Comprehensive income attributable to:		
Owners of the Company	1,374,605	2,095,512
Non-controlling interests	-	-

See accompanying notes to the consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(In millions of Korean won)

	Attributable to owners of the Company					Total
	Capital stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Other equity	
Balance at January 1, 2019	₩ 2,139,317	₩ 1,560,650	₩ 24,711,681	₩ (1,107,110)	₩ (61,074)	₩ 27,243,464
Comprehensive income:						
Profit for the year	-	-	1,826,659	-	-	1,826,659
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	43,103	-	43,103
Derecognition of financial assets measured at fair value through other comprehensive income	-	-	(240)	240	-	-
Effective portion of changes in fair value of cash flow hedges	-	-	-	20,868	-	20,868
Changes in capital adjustments – increase in gain of equity method accounted investment	-	-	-	20,273	-	20,273
Changes in capital adjustments – decrease in loss of equity method accounted investment	-	-	-	173,404	-	173,404
Remeasurements of defined benefit plans	-	-	(66,023)	-	-	(66,023)
Remeasurements of associates, net	-	-	(55,023)	-	-	(55,023)
Foreign exchange differences on translating foreign operations, net	-	-	-	132,251	-	132,251
Total comprehensive income	-	-	1,705,373	390,139	-	2,095,512
Transactions with owners and other, recorded directly in equity:						
Payment of dividends	-	-	(360,838)	-	-	(360,838)
Balance at December 31, 2019	<u>₩ 2,139,317</u>	<u>₩ 1,560,650</u>	<u>₩ 26,056,216</u>	<u>₩ (716,971)</u>	<u>₩ (61,074)</u>	<u>₩ 28,978,138</u>

(Continued)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019, Continued

(In millions of Korean won)

	Attributable to owners of the Company					
	Capital stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Other equity	Total
Balance at January 1, 2020	₩ 2,139,317	₩ 1,560,650	₩ 26,056,216	₩ (716,971)	₩ (61,074)	₩ 28,978,138
Comprehensive income:						
Profit for the year	-	-	1,487,585	-	-	1,487,585
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	96,489	-	96,489
Derecognition of financial assets measured at fair value through other comprehensive income	-	-	88,270	(88,270)	-	-
Effective portion of changes in fair value of cash flow hedges	-	-	-	15,414	-	15,414
Changes in capital adjustments – increase in gain of equity method accounted investment	-	-	-	117,673	-	117,673
Changes in capital adjustments – increase in loss of equity method accounted investment	-	-	-	(201,507)	-	(201,507)
Remeasurements of defined benefit plans	-	-	17,767	-	-	17,767
Remeasurements of associates, net	-	-	(15,350)	-	-	(15,350)
Foreign exchange differences on translating foreign operations, net	-	-	-	(143,466)	-	(143,466)
Total comprehensive income	-	-	1,578,272	(203,667)	-	1,374,605
Transactions with owners and other, recorded directly in equity:						
Payment of dividends	-	-	(461,071)	-	-	(461,071)
Balance at December 31, 2020	<u>₩ 2,139,317</u>	<u>₩ 1,560,650</u>	<u>₩ 27,173,417</u>	<u>₩ (920,638)</u>	<u>₩ (61,074)</u>	<u>₩ 29,891,672</u>

See accompanying notes to the consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(In millions of Korean won)

	Note	2020	2019
Cash flows from operating activities			
Cash generated from operations	30	₩ 5,651,369	₩ 3,584,190
Interest received		162,751	216,999
Interest paid		(224,197)	(153,768)
Dividends received		116,621	140,543
Income tax paid		(282,648)	(177,306)
Net cash provided by operating activities		<u>5,423,896</u>	<u>3,610,658</u>
Cash flows from investing activities			
Net decrease in short-term financial instruments		149,046	1,606,620
Net decrease in other current financial assets		23,954	-
Decrease in other non-current financial assets		37,008	15,444
Proceeds from disposal of investments in joint ventures and associates		-	21,636
Proceeds from disposal of property, plant and equipment		58,584	77,337
Proceeds from disposal of intangible assets		885	885
Net increase in long-term financial instruments		(30,937)	(20,729)
Net increase in other current financial assets		-	(330,041)
Increase in other non-current financial assets		(4,865)	(17,390)
Acquisition of investments in joint ventures and associates		(778,707)	(48,094)
Acquisition of property, plant and equipment		(1,661,898)	(1,736,486)
Acquisition of intangible assets		(657,923)	(673,372)
Net cash used in investing activities		<u>(2,864,853)</u>	<u>(1,104,190)</u>
Cash flows from financing activities			
Cash proceeds from short-term borrowings and long-term debt		4,643,610	661,889
Cash proceeds from bonds		600,000	-
Cash proceeds from other financing activities		318	1,893
Repayment of short-term borrowings and long-term debt		(702,588)	(974,224)
Repayment of bonds		(500,000)	-
Payment of dividends		(461,071)	(360,838)
Cash payments to other financing activities		(62,986)	(55,023)
Net cash provided by (used in) financing activities		<u>3,517,283</u>	<u>(726,303)</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies			
		(184,345)	195,892
Net increase in cash and cash equivalents		5,891,981	1,976,057
Cash and cash equivalents at January 1		<u>4,268,716</u>	<u>2,292,659</u>
Cash and cash equivalents at December 31		<u>₩ 10,160,697</u>	<u>₩ 4,268,716</u>

See accompanying notes to the consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

1. General description of the Company and its subsidiaries

(1) General description of the Parent Company

Kia Motors Corporation (the "Company") was established in December 1944 under the laws of the Republic of Korea to manufacture and sell a range of passenger cars, recreational vehicles and other commercial vehicles in domestic and international markets. The Company owns and operates three principal automobile production sites: the Sohari factory, the Hwasung factory and the Kwangju factory.

The shares of the Company have been listed on the Korea Exchange since 1973. As of December 31, 2020, the Company's largest shareholder is Hyundai Motor Company, which holds 33.88% of the Company's stock issued and outstanding.

The consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") comprise the Group and its interests in associates and joint ventures.

(2) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2020, are summarized as follows:

Subsidiaries	Country of domicile	Main business	Year-end reporting date	Percentage of ownership
Kia Motors America, Inc. (KMA)	U.S.A.	Exclusive importer and distributor of motor vehicles and parts	December 31	100.00%
Kia Motors Manufacturing Georgia, Inc. (KMMG)(*1)	U.S.A.	Manufacturing and sale of vehicles and parts	December 31	100.00%
Kia Canada Inc. (KCI)(*2)	Canada	Exclusive importer and distributor of motor vehicles and parts	December 31	100.00%
Kia Motors Deutschland GmbH (KMD)	Germany	"	December 31	100.00%
Kia Motors Europe GmbH (KME)	Germany	Holding company	December 31	100.00%
Kia Motors Polska Sp.zo.o. (KMP)(*3)	Poland	Exclusive importer and distributor of motor vehicles and parts	December 31	100.00%
Kia Motors Slovakia s.r.o. (KMS)	Slovakia	Manufacturing and sale of vehicles and parts	December 31	100.00%
Kia Motors Sales Slovensko s.r.o. (KMSs)(*4)	Slovakia	Exclusive importer and distributor of motor vehicles and parts	December 31	100.00%
Kia Motors Belgium N.V. (KMB)(*4)	Belgium	"	December 31	100.00%
Kia Motors Czech s.r.o. (KMCZ)(*4)	Czech	"	December 31	100.00%
Kia Motors UK Ltd. (KMUK)(*4)	United Kingdom	"	December 31	100.00%
Kia Motors Austria GmbH (KMAS)(*4)	Austria	"	December 31	100.00%
Kia Motors Hungary Kft. (KMH)(*5)	Hungary	"	December 31	100.00%
Kia Motors Iberia S.L. (KMIB)(*4)	Spain	"	December 31	100.00%
Kia Motors Sweden AB (KMSW)(*4)	Sweden	"	December 31	100.00%
Kia Motors France SAS (KMF)(*4)	France	"	December 31	100.00%
Kia Motors Netherlands B.V. (KMNL)(*4)	Netherlands	"	December 31	100.00%

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

1. General description of the Company and its subsidiaries, Continued

(2) Consolidated subsidiaries, Continued

Subsidiaries	Country of domicile	Main business	Year-end reporting date	Percentage of ownership
Kia Motors Company Italy S.r.l (KMIT)(*4)	Italy	"	December 31	100.00%
Kia Motors Russia LLC (KMR)(*6)	Russia	"	December 31	100.00%
Kia Motors Australia Pty Ltd. (KMAU)	Australia	"	December 31	100.00%
Kia Motors New Zealand Pty Ltd. (KMNZ)(*7)	New Zealand	"	December 31	100.00%
Kia Motors Mexico S.A de C.V. (KMM)(*8)	Mexico	Manufacturing and sale of vehicles and parts	December 31	100.00%
KIA Motors India Private Limited (KMI)	India	"	March 31	99.99%

(*1) 100.00% owned by KMA

(*2) 17.47% owned by KMA

(*3) 100.00% owned by KMD

(*4) 100.00% owned by KME

(*5) 100.00% owned by KMAS

(*6) 80.00% owned by KME and 20.00% owned by KMD

(*7) 100.00% owned by KMAU

(*8) 0.01% owned by KMA

In addition to entities stated in the note above, the Group consolidates 15 standalone investment trusts as they are under the control of the Group.

(3) Financial information of subsidiaries

Financial information of significant subsidiaries (before eliminating intra-group transaction) as of and for the years ended December 31, 2020 and 2019, are summarized as follows:

(i) Financial information as of and for the year ended December 31, 2020

(In millions of Korean won)

Company	Total assets	Total liabilities	Sales	Net income (loss)
KMA	₩ 6,163,475	₩ 5,235,435	₩ 16,826,412	₩ 722,394
KMMG	3,081,693	2,996,317	6,376,092	(615,683)
KMS	3,399,978	1,515,082	6,158,492	142,532
KMM	2,042,857	1,647,003	3,843,432	1,957
KMI	2,538,205	1,907,285	2,953,154	73,721
KMR	829,454	399,853	3,576,957	99,914

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

1. General description of the Company and its subsidiaries, Continued

(3) Financial information of subsidiaries, Continued

(ii) Financial information as of and for the year ended December 31, 2019

(In millions of Korean won)

<u>Company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
KMA	₩ 4,815,597	₩ 4,579,436	₩ 15,993,131	₩ 25,643
KMMG	2,462,894	1,767,968	7,077,471	(161,371)
KMS	2,959,753	1,269,728	7,298,349	415,729
KMM	2,055,643	1,636,393	5,094,206	31,290
KMI	2,066,177	1,452,100	913,943	(51,909)
KMR	942,282	507,338	4,339,887	115,971

2. Basis of Preparation

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("KIFRS"), as prescribed in the *Act on External Audit of Stock Companies* in the Republic of Korea. The accompanying consolidated financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

- Financial assets at fair value through profit or loss are measured at fair value
- Financial assets at fair value through other comprehensive income are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of total present value of defined benefit obligations less the fair value of planned assets

(3) Functional and presentation currency

The consolidated financial statements are presented in Korean won, which is the Group's functional currency and the currency of the primary economic environment in which the Group operates.

(4) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with KIFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

2. Basis of Preparation, Continued

(4) Use of estimates and judgments, Continued

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following notes:

- Note 15 : Retirement benefits plan
- Note 16 : Provisions
- Note 17 : Commitments and contingencies
- Note 23 : Revenue from contracts with customers
- Note 27 : Income tax expense
- Note 29 : Leases

The Group expects that the COVID-19 pandemic that started in early 2020 and the government support measures of each country will have a certain impact on the consolidated financial statements of the consolidated entity in the future, but the impact cannot be reasonably estimated as of December 31, 2020.

(5) Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of KIFRS, including the level in the fair value hierarchy in which such valuations should be classified.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The consolidated financial statements for the years ended December 31, 2020 and 2019 are based on the same accounting policies except for the newly applied standards.

(1) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(1) Basis of consolidation, Continued

Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the Company's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the Company and non-controlling interest holders even when the allocation reduces the non-controlling interest balance below zero.

Changes in the Company's ownership interest in a subsidiary

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Company.

(2) Business combination

Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Contingent liabilities that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with KIFRS 1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with KIFRS 1019 *Employee Benefits*

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquire and the equity interests issued by the acquirer.

Acquisition-related costs are costs the acquirer incurs to affect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized as expenses during the period in which the costs incurred and the services rendered except for the issuance costs of debt or equity securities recognized in accordance with KIFRS 1032 *Financial Instruments: Presentation* and KIFRS 1109 *Financial Instruments*.

Goodwill

Goodwill derived from business combinations occurred is measured at fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquire, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, bargain purchase gain is immediately recognized in the consolidated statements of income for the period. Goodwill is subsequently measured at cost, less accumulated impairment losses.

Acquisition of non-controlling interests is accounted for intercompany transaction, and related goodwill is not recognized.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(3) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate and joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of profit or loss and changes in equity of the associate and joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate and joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(4) Cash and cash equivalents

Cash and cash equivalents composed of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(5) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined based on the specific identification method for materials-in-transit and moving-average method for all other inventories and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

When inventories are sold, the carrying amount of those inventories is recognized as cost of goods sold in same period as the related revenue. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(6) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value, less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(7) Non-derivative financial assets

Financial assets are measured at fair value at initial recognition. If financial assets are not classified as financial assets at fair value through profit or loss, the transaction cost, which directly associated with the acquisition of financial assets, is added to the fair value at initial recognition. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Accounts receivable that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under KIFRS 1115.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(7) Non-derivative financial assets, Continued

Financial assets at fair value through OCI with recycling of cumulative gains and losses

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For financial assets at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 *Financial Instruments: Presentation*.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as finance income/costs in the consolidated statements of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(7) Non-derivative financial assets, Continued

Derecognition

A financial asset is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(8) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the financial liability.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value, minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires).

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(9) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(a) Hedge accounting

The Group holds derivative contracts to manage foreign exchange and interest rate risk. The Group designated derivatives as hedging instruments to hedge the foreign currency risk of highly probable forecasted transactions and interest rate fluctuation risk (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship, as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment.

(b) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(10) Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For accounts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For financial assets at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

If the Group's financial assets at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category, they are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(11) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as consolidated items, if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The transferred amount is derecognized, and the costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its consolidated useful life.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	<u>Estimated useful lives (years)</u>
Buildings and structures	20–40
Machinery and equipment	15
Dies, molds and tools	5
Vehicles	5
Other equipment	5

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in other income or expenses.

(12) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(13) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost, less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for intended use. The residual value of intangible assets except for goodwill is zero. However, as useful lives of intangible assets are not foreseeable to the periods over which memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

	<u>Estimated useful lives (years)</u>
Development costs	(*)
Industrial property rights	5, 10
Software	5
Membership	Indefinite
Others	9–25

(*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products.

The amortization periods and amortization methods of intangible assets with finite useful lives are reviewed at the end of each reporting period. The amortization methods and the useful lives of intangible asset as indefinite are reviewed and assessed at the end of each reporting period. If an indefinite useful life is not supported no longer, the change from indefinite to finite life is accounted for as a change in accounting estimate. Intangible assets with indefinite useful lives(e.g. membership) are not amortized; instead, the assets are tested for impairment annually.

Research and development

Expenditures on research activities are recognized as expense in the period in which they incur. Expenditures on development activities are capitalized as intangible assets (development costs) and amortized on a straight-line basis over the economic life when the assets become available for sale or use.

The Group's product development process consists of four stages which comprise prior research, development approval, product development and mass production. The product to be developed is decided based on discussions of product concepts and market researches which take place in the prior research stage, and the product development is commenced upon management's approval. In general, the Group recognizes intangible assets when development activities take place upon management's approval which confirms product specifications, release schedules and sales plans. Prior expenditures are considered as research activities and are recognized as expense in the period in which they incurred.

Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(14) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost, less any accumulated impairment losses.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(15) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value, less costs to sell. The value in use is estimated by applying appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or a CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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.

(16) Government grants

Government grants are not recognized, unless there is a reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received. Government grants whose primary condition is that the Group's purchases, constructs or otherwise acquires long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Other government grants that are intended to compensate the Group for expenses incurred are deducted from related costs over the periods in which the Group recognizes the related costs as expenses. Government grants, which are intended to give immediate financial support to the Group with no future related costs, are recognized as government grant income in profit or loss.

(17) Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds with similar maturing as the expected benefit payment date. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

Retirement benefits

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (loss). The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

In addition, employees of KMA are eligible to participate, upon meeting certain service requirement, in the profit sharing retirement plan under the Internal Revenue Code 401(k) in the United States. KMA and employees of KMA paid each contribution during the period in which the employees render the related service.

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is significant, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A provision shall be used only for expenditures for which the provision was originally recognized.

(19) Emission rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the *Act on Allocation and Trading of Greenhouse Gas Emission*.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(19) Emission rights, Continued

Greenhouse gases emission right

Greenhouse gases emission right consists of emission allowances that are allocated from the government free of charge or purchased from the market. The cost includes any cost directly attributable to bringing the asset and condition necessary for it to be capable of operating in the manner intended by management.

Emission right held for the purpose of performing the obligation is classified as intangible asset. The intangible asset is initially measured at cost and after initial recognition, is carried at cost, less accumulated impairment losses.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period. The Group derecognizes emission liability when it submits emission rights to the government.

The Group recognized the emission liability of ₩152,002 million as of December 31, 2020

(20) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Also, foreign currency differences arising on settlement of monetary assets and liabilities are recognized in profit or loss.

(21) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group or an entity in Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(22) Revenue from contracts with customers

The Group is engaged in the business of producing and selling passenger cars, recreational vehicles and other commercial vehicles (hereinafter referred to as "vehicles") and its parts. In a contract with a customer, the Group recognizes revenue when the control of the goods or services is transferred to the customer, at an amount that reflects the consideration expected to be paid for the goods or services. Since the Group controls the goods or services at the stage prior to the delivery of the contracted goods or services to the customers, the Group operates on a contractual principle with all customers.

There are other commitments other than the provision of goods on the sales contract of the vehicles and its parts with the customer by the Group, and the Group considers whether the obligations under these other commitments are separate performance obligations that requires certain portion of the transaction amount to be allocated. Accordingly, the Group is required to separately identify the provision of service type warranties that exists in the sales contract of the vehicles and its parts, the provision of the additional service goods and services, and the provision of points for the customer loyalty points program from the provision of the vehicles and its parts as separate performance obligations.

The major performance obligations of the Group for contracts with customers are as follows:

① Provision of vehicles and its parts

Revenue of the vehicles and its parts is recognized at the time of delivery of the asset, at which control of the asset is transferred to the customer, the general collecting terms being within 90 days of delivery.

When calculating the transaction price allocated to the obligation to provide vehicles and its parts, the Group considers the following:

A. Variable consideration

The transaction price allocated to the performance obligation to deliver the vehicles and its parts is based on the individual selling price of the goods and takes into account the estimated value of the transaction discount and the variable consideration due to return or refund obligations. When the uncertainty related to the variable consideration is resolved at a later date, only estimate the variable consideration at contract inception and reflect in the transaction price to the extent that it is highly probable that a significant proportion of the cumulative revenue already recognized will not be refunded.

B. Significant financing component

The Group is receiving short-term advances from certain customers, depending on the terms in the contract with customers. Applying the simplified approach of KIFRS 1115, if it is expected that the duration between the transfer of the goods to the customer and the payment of the consideration by the customer will be within one year at the time the contract is initiated, the Group does not reflect the impact of significant financing components in calculating the transaction price.

C. Provision of assurance type warranties

The Group provides warranties for repairs of defective products at the point of sale of vehicles and its parts in accordance with relevant laws and regulations. The Group determines that the majority of these guarantees are assurance type warranties as per KIFRS 1115, and accordingly, it accounts for the warranties in accordance with KIFRS 1037: *Provisions, contingent liabilities and contingent assets* (Note 16).

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(22) Revenue from contracts with customers, Continued

② Provision of service type warranties

In addition to the defects repair warranty at the time of the sale of the vehicles and its parts, the Group provides different additional warranties depending on the type of goods. The Group distinguishes these additional warranties as separate performance obligations under KIFRS 1115 and allocates a portion of the transaction price received in providing the goods to the performance obligations, and revenues are recognized over the period when the performance obligation is fulfilled.

When the Group calculates the transaction price allocated to the obligation to provide the service type warranty, the Group considers the following:

A. Estimating selling price of each service

In the case of a service type warranty provided by the Group, the individual selling price is not directly observed, and the Group considers all available information to a reasonable extent and estimates its individual selling prices in a consistent manner.

B. Significant financing component

The Group generally receives the total transaction amount from the customer, including the consideration of the service type warranty, within 90 days from the delivery of vehicles and its parts. In general, as there is a significant difference between the point at which the Group receives the consideration for the provision of the service type warranty and the time at which the obligation is actually fulfilled, the Group reviews whether significant financing components exist. The Group determines that the difference arises due to a reason other than providing financial services to the customer or the Group, and therefore, there is no significant financing component in the transaction price.

③ Provision of additional goods or services

The Group pledges to provide customers with additional goods and services in addition to the sale of the vehicles and its parts. The Group classifies these additional goods and services as separate performance obligations under KIFRS 1115 and allocates a portion of the transaction proceeds received in providing the vehicles and its parts to the performance obligation; revenues are recognized over the period when the performance obligation is satisfied.

When the Group calculates the transaction price allocated to the performance obligation, the Group considers the following:

A. Estimating selling price of each service

In case of additional goods and services provided by the Group, the individual selling prices are not directly observed, and the Group considers all available information to a reasonable extent and estimates its individual selling prices in a consistent manner.

B. Significant financing component

The Group generally receives the total transaction amount from the customer, including the consideration for the provision of additional goods and services within 90 days from the delivery of the vehicles and its parts. In general, as there is a significant difference between the point when the Group receives the consideration for the provision of additional goods and services and when it actually performs the obligation, the Group considers the existence of significant financing components. The Group determines that the difference arises due to a reason other than providing financial services to the customer or the Group, and therefore, there is no significant financing components in the transaction price.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(22) Revenue from contracts with customers, Continued

④ Customer loyalty points program

The Group operates 'Red Point', a customer loyalty point program, and customers are able to earn points for use in future purchases of the Group's goods under this program. Customer loyalty point program are a separate performance obligation because they provide significant rights to the customer. Accordingly, part of the sales proceeds of the vehicles are distributed to the points based on the relative individual selling prices and are recognized as contract liabilities until the point is used. Revenue is recognized when customers use points. When estimating the individual selling price of a point, the Group considers the possibility of the customer using the points in the future. The Group makes quarterly adjustments to the estimates of points to be used in the future, and adjustments to contract liabilities are reflected in revenue.

(23) Finance income and finance costs

Finance income comprises interest income from the fair value measurement of financial assets at fair value through profit or loss and financial assets measured at amortized cost, income from disposal of financial assets at fair value through profit or loss and financial assets measured at amortized cost, changes in fair value of financial assets at fair value through profit or loss, gain on hedging instruments recognized in profit or loss, and dividend income from entities excluding joint ventures and associates. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, losses from the disposal of financial assets at fair value through profit or loss and financial assets measured at amortized cost, changes in fair value of financial assets, and loss on the hedging instrument recognized in profit or loss. Interest expense of borrowings is recognized as it accrues in profit or loss, using the effective interest method.

(24) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(24) Income taxes, Continued

Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, joint ventures and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(25) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all potential dilutive ordinary shares.

(26) Operating segments

The Group distinguishes segments based on internal reporting data reviewed periodically by top management to make decisions about the resources to be allocated to the segment and to assess the performance of the segment. As described in Note 4, the Group is a single reporting entity.

(27) Cash dividend

The Group recognizes dividends payable after approval of distribution to pay cash dividends. The distribution to shareholders requires approval by shareholders. Corresponding amounts are directly reflected in equity.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(28) Leases

A. Right-of-use asset

At the commencement date, the Group recognizes a right-of-use asset. The right-of-use asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of a lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability recognized, initial direct costs incurred and etc. If it is not reasonably estimable that the lessee will obtain ownership of the underlying asset at the end of the lease term, the right-of-use asset is depreciated on a straight-line basis over the shorter of the period of useful life and lease term.

B. Lease liability

At the commencement date, the Group measures a lease liability at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a change in underlying assets, a change in the fixed lease payments (including in-substance fixed lease payments), a change in the lease payment (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments), or a change in the lease term.

C. Short-term leases and leases of low-value assets

The Group applies a lease recognition exemption to: (a) leases that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option and (b) leases for which the underlying asset is of low value. The lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

(29) New and amended standards that have been applied

Newly applied KIFRS and related changes in accounting policies during the current period are as follows:

- Amendments to KIFRS 1103 Business Combinations - Definition of a Business

The amendment to KIFRS 1103 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

- Amendments to KIFRS 1107, KIFRS 1109 and KIFRS 1039: Interest Rate Benchmark Reform

The amendments to KIFRS 1109 and KIFRS 1039 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no material impact on the consolidated financial statements of the Group.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(29) New and amended standards that have been applied, Continued

- Amendments to KIFRS 1001 and KIFRS 1008 - Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

(30) Standard issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- KIFRS 1116 - COVID-19 related Rent Concession

The amendments provide relief to lessees from applying KIFRS 1116 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under KIFRS 1116 if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

- KIFRS 1001 - Classification of Liabilities as Current or Non-current

The amendments to paragraphs 69 to 76 of KIFRS 1001 are intended to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(30) Standard issued but not yet effective

- KIFRS 1103 - Reference to the Conceptual Framework

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of KIFRS 1103 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of KIFRS 1037 or KIFRS 2121 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in KIFRS 1103 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- KIFRS 1016 - Property, Plant and Equipment: Proceeds before Intended Use

The amendments are intended to prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

3. Significant Accounting Policies, Continued

(30) Standard issued but not yet effective, Continued

- KIFRS 1037 - Onerous Contracts – Costs of Fulfilling a Contract

The amendments are intended to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Annual Improvements 2018-2020 Cycle

These improvements include:

- KIFRS 1101 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(1) of KIFRS 1101 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to KIFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(1) of KIFRS 1101.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

- KIFRS 1109 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

4. Geographic and Segment Information

The Group is engaged in manufacturing and sales of vehicles and parts, leasing of vehicles and rendering vehicle maintenance services. Due to the insignificant portion of leasing income and maintenance services compared to total sales, the revenue from leasing and maintenance services are not disclosed.

(1) The following table provides information of sales and non-current assets by geographic locations where the Group's entities are located as of and for the year ended December 31, 2020:

(In millions of Korean won)

	<u>Domestic</u>	<u>America</u>	<u>Europe</u>	<u>Other</u>	<u>Consolidation adjustment</u>	<u>Consolidated amount</u>
Total sales	₩ 34,362,327	₩ 28,755,395	₩ 29,260,704	₩ 4,302,137	₩ (37,512,467)	₩ 59,168,096
Intercompany sales	(15,371,485)	(8,415,115)	(13,406,777)	(319,090)	37,512,467	-
Net sales	18,990,842	20,340,280	15,853,927	3,983,047	-	59,168,096
Property, plant and equipment, intangible assets and other	13,935,381	1,839,878	1,213,751	1,246,135	32,553	18,267,698

(2) The following table provides information of sales and non-current assets by geographic locations where the Group's entities are located as of and for the year ended December 31, 2019:

(In millions of Korean won)

	<u>Domestic</u>	<u>America</u>	<u>Europe</u>	<u>Other</u>	<u>Consolidation adjustment</u>	<u>Consolidated amount</u>
Total sales	₩ 33,857,781	₩ 29,972,882	₩ 31,819,296	₩ 2,300,989	₩ (39,804,989)	₩ 58,145,959
Intercompany sales	(15,930,216)	(9,250,071)	(14,531,151)	(93,551)	39,804,989	-
Net sales	17,927,565	20,722,811	17,288,145	2,207,438	-	58,145,959
Property, plant and equipment, intangible assets and other	13,786,641	2,002,729	1,236,692	1,265,850	32,553	18,324,465

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

5. Cash, Cash Equivalents and Restricted Financial Instrument

(1) Cash and cash equivalents as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Cash on hand	₩ 102	₩ 104
Deposits with financial institutions	<u>10,160,595</u>	<u>4,268,612</u>
	<u>₩ 10,160,697</u>	<u>₩ 4,268,716</u>

(2) Financial instruments which are restricted in use as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>Description</u>
Short-term financial instruments	₩ 5,326	₩ 1,663	Short-term security deposit and deposit for transactions
Long term financial instruments	78,000	52,000	Win-Win cooperation deposits
	20,000	20,000	Win-Win mold facility fund
	33,200	23,200	Win-Win loan fund
	9	9	Deposit for a checking account
	<u>941</u>	<u>6,162</u>	Long-term security deposit
	<u>₩ 137,476</u>	<u>₩ 103,034</u>	

6. Other Financial Assets

(1) Other current financial assets as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Accrued income	₩ 44,410	₩ 36,873
Current derivatives assets	-	9,491
Deposits provided	119,719	109,469
Debt securities	1,642,289	1,682,976
Others	<u>9</u>	<u>12</u>
	<u>₩ 1,806,427</u>	<u>₩ 1,838,821</u>

(2) Other non-current financial assets as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Long-term accounts and notes receivable - other	₩ 193,217	₩ 196,527
Non-current derivatives assets	-	20,542
Guarantee deposits	54,526	62,671
Equity securities	336,619	378,004
Debt securities	<u>126,218</u>	<u>144,533</u>
	<u>₩ 710,580</u>	<u>₩ 802,277</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

6. Other Financial Assets, Continued

(3) Equity securities as of December 31, 2020 and 2019, are summarized as follows.

(In millions of Korean won)

	Percentage of Ownership (%)	December 31, 2020		December 31, 2019
		Acquisition cost	Carrying amount	Carrying amount
Marketable securities(FVOCI):				
Hyundai WIA Corporation	13.44	₩ 237,510	₩ 195,489	₩ 183,431
Hyundai Motor Securities Co., Ltd.	4.90	29,574	18,124	14,456
SeAH Besteel Corp.	0.00	20	19	27
		<u>267,104</u>	<u>213,632</u>	<u>197,914</u>
Non-marketable securities(FVOCI):				
Hyundai WIA Automotive Engine (Shandong) Co., Ltd (WAE) (*)	-	-	-	61,089
ANI Technologies Pvt. Ltd.	0.93	69,736	69,736	69,736
Others		<u>42,954</u>	<u>53,251</u>	<u>49,265</u>
		<u>112,690</u>	<u>122,987</u>	<u>180,090</u>
		<u>₩ 379,794</u>	<u>₩ 336,619</u>	<u>₩ 378,004</u>

(*) The Group has classified the entity as an associate since the Group has obtained significant influence over the entity through additional stock acquisitions made for the year ended December 31, 2020.

(4) Debt securities as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020		December 31, 2019
	Acquisition Cost	Carrying amount	Carrying amount
Debt securities (AC):			
National housing bond and others	₩ 19,909	₩ 19,909	₩ 38,223
Debt securities (FVPL):			
Grab Holdings INC.	85,134	85,134	85,134
Rimac Automobili d.o.o.	21,176	21,176	21,176
Industrial finance bond and others	<u>1,642,289</u>	<u>1,642,289</u>	<u>1,682,976</u>
	<u>₩ 1,768,508</u>	<u>₩ 1,768,508</u>	<u>₩ 1,827,509</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

6. Other Financial Assets, Continued

(5) Changes in accumulated balance of valuation gain or loss recognized in other comprehensive income from equity securities for the years ended December 31, 2020 and 2019, are as follows:

(In millions of Korean won)

	2020		2019	
Balance at January 1	₩	(54,127)	₩	(113,734)
Changes in the fair value		104,395		59,367
Reclassification		(88,270)		240
Balance at December 31 before taxes		(38,002)		(54,127)
Income tax effect		2,884		10,790
Balance at December 31 after taxes	₩	(35,118)	₩	(43,337)

7. Inventories

Inventories as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020		December 31, 2019	
Finished goods	₩	5,324,265	₩	6,206,080
Merchandise		13,691		13,213
Semi-finished goods		303,130		366,129
Work-in-process		216,972		214,096
Raw materials		660,422		619,244
Supplies		203,266		194,081
Materials-in-transit		372,213		495,838
	₩	7,093,959	₩	8,108,681

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

8. Investments in Joint Ventures and Associates

(1) Details of investments in joint ventures and associates as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

Company	Location	December 31, 2020		December 31, 2019	
		Percentage of ownership(%)	Carrying amount	Percentage of ownership(%)	Carrying amount
Hyundai Mobis Co., Ltd.(*1)	Korea	17.28	₩ 5,608,117	17.24	₩ 5,435,344
Hyundai Steel Co., Ltd.(*1)	"	17.27	2,734,788	17.27	2,767,215
Hyundai Engineering & Construction Co., Ltd.(*1)	"	5.23	708,869	5.23	714,810
Hyundai Card Co., Ltd.(*1)	"	11.48	362,344	11.48	346,879
Hyundai Capital Services, Inc.	"	20.10	912,841	20.10	855,555
Hyundai Transys Inc.	"	40.43	991,352	40.43	994,163
EUKOR Car Carriers, Inc.(*1)	"	8.00	100,160	8.00	115,300
Hyundai Engineering Co., Ltd.(*1)	"	9.35	329,395	9.35	321,352
Hyundai Autoever Systems Co., Ltd.(*1)	"	19.05	105,734	19.05	97,052
Haevichi Hotel&Resorts Co., Ltd.	"	23.24	40,135	23.24	41,539
Hyundai Autron Co., Ltd.	"	20.00	30,767	20.00	27,543
Beijing Transys Transmission Co., Ltd.	China	24.08	40,515	24.08	45,291
China Millennium Corporations	"	30.30	44,369	30.30	41,049
Hyundai Motor Group China, Ltd.	"	30.00	58,002	30.00	58,816
Hyundai Transys (Shandong) Co., Ltd.	"	25.00	64,457	25.00	62,692
Dongfeng Yueda Kia Motors Co., Ltd.(*2)	"	50.00	163,579	50.00	554,499
Hyundai Motor Manufacturing Rus LLC	Russia	30.00	236,151	30.00	264,167
Hyundai Capital America, Inc.	U.S.A	20.00	1,004,743	20.00	968,185
	United Kingdom				
Hyundai Capital Services UK Ltd.(*2)	Kingdom	10.00	36,513	10.00	31,206
Hyundai Capital Canada, Inc.	Canada	30.00	66,923	30.00	63,240
Motional AD LLC (*1,3)	U.S.A	14.00	581,252	-	-
Hyundai Wia Automotive Engine (Shandong) Co., Ltd. (WAE) (*4)	China	25.70	217,406	-	-
Hyundai Motor Group Innovation Center in Singapore PTE. LTD. (*5)	Singapore	30.00	37,777	-	-
Others		-	137,371	-	110,596
			₩ 14,613,560		₩ 13,916,493

(*1) Although the Group's ownership in the investee is below 20%, the Group has significant influence over the investee's financial and operating policy decisions.

(*2) The Group has classified the investee as a joint venture since the investee holds the rights to net assets under the joint venture agreement. In addition, the Group is in charge of providing technical assistance and research and development to the joint venture in accordance with the joint venture agreement with Dongfeng Yueda Kia Motors Co., Ltd.

(*3) During the year ended December 31, 2020, the Group made an equity investment in the investee, Motional AD LLC, for the main purpose to sell and develop self-driving Level 4/5 solutions with Hyundai Motor Company and Hyundai Mobis Co., Ltd.

(*4) The Group has classified the investee as an associate since the Group has significant influence over the investee through additional stock acquisitions made for the year ended December 31, 2020.

(*5) It has been newly established for the year ended December 31, 2020.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

8. Investments in Joint Ventures and Associates, Continued

(2) Fair value of marketable securities of associates as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

Company	December 31, 2020	December 31, 2019
Hyundai Mobis Co., Ltd.	₩ 4,197,117	₩ 4,205,331
Hyundai Steel Co., Ltd.	912,747	724,896
Hyundai Engineering & Construction Co., Ltd.	218,403	246,687
Hyundai Autoever Co., Ltd.	494,000	201,600

(3) Changes in investments in joint ventures and associates for the year ended December 31, 2020, are summarized as follows:

(In millions of Korean won)

Company	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Changes in equity	Dividends received	Others	Ending balance
Hyundai Mobis Co., Ltd.	₩ 5,435,344	₩ -	₩ 282,391	₩ (49,638)	₩ (49,281)	₩ (10,699)	₩ 5,608,117
Hyundai Steel Co., Ltd.	2,767,215	-	(64,651)	54,738	(17,287)	(5,227)	2,734,788
Hyundai Engineering & Construction Co., Ltd.	714,810	-	819	(483)	(3,499)	(2,778)	708,869
Hyundai Card Co., Ltd.	346,879	-	26,456	560	(11,551)	-	362,344
Hyundai Capital Services, Inc.	855,555	-	70,953	4,318	(17,985)	-	912,841
Hyundai Transys Inc.	994,163	-	2,679	(7,157)	-	1,667	991,352
EUKOR Car Carriers, Inc.	115,300	-	(8,867)	(6,273)	-	-	100,160
Hyundai Engineering Co., Ltd.	321,352	-	18,452	(594)	(10,650)	835	329,395
Hyundai Autoever Systems Co., Ltd.	97,052	-	11,232	(674)	(2,840)	964	105,734
Haevichi Hotel&Resorts Co., Ltd.	41,539	-	(1,277)	10	-	(137)	40,135
Hyundai Autron Co., Ltd.	27,543	-	3,187	-	-	37	30,767
Beijing Transys Transmission Co., Ltd.	45,291	-	(5,244)	453	-	15	40,515
China Millennium Corporations	41,049	-	3,120	231	-	(31)	44,369
Hyundai Motor Group China, Ltd.	58,816	-	1,129	(1,943)	-	-	58,002
Hyundai Transys (Shandong) Co., Ltd.	62,692	-	4,414	(2,649)	-	-	64,457
Dongfeng Yueda Kia Motors Co., Ltd.	554,499	-	(404,526)	13,606	-	-	163,579
Hyundai Motor Manufacturing Rus LLC	264,167	-	29,216	(57,232)	-	-	236,151
Hyundai Capital America, Inc.	968,185	-	102,958	-	-	(66,400)	1,004,743
Hyundai Capital Services UK Ltd.	31,206	-	6,178	-	-	(871)	36,513
Hyundai Capital Canada, Inc.	63,240	-	6,215	(2,532)	-	-	66,923
Motional AD LLC	-	696,970	(37,446)	(78,272)	-	-	581,252
Hyundai Wia Automotive Engine (Shandong) Co., Ltd. (WAE)	-	62,762	9,555	(1,105)	-	146,194	217,406
Hyundai Motor Group Innovation Center in Singapore PTE. LTD	-	37,777	-	-	-	-	37,777
Others	110,596	26,389	4,456	(521)	(2,756)	(793)	137,371
	<u>₩ 13,916,493</u>	<u>₩ 823,898</u>	<u>₩ 61,399</u>	<u>₩ (135,157)</u>	<u>₩ (115,849)</u>	<u>₩ 62,776</u>	<u>₩ 14,613,560</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

8. Investments in Joint Ventures and Associates, Continued

Changes in investments in joint ventures and associates for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

Company	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Changes in equity	Dividends received	Others (*1)	Ending balance
Hyundai Mobis Co., Ltd.	₩ 5,109,812	₩ -	₩ 384,495	₩ 77,258	₩ (82,135)	₩ (54,086)	₩ 5,435,344
Hyundai Steel Co., Ltd.	2,729,056	-	7,095	48,269	(17,287)	82	2,767,215
Hyundai Engineering & Construction Co., Ltd.	700,271	-	15,345	2,653	(2,916)	(543)	714,810
Hyundai Powertech Co., Ltd.	559,993	(559,993)	-	-	-	-	-
Hyundai Card Co., Ltd.	332,787	-	18,455	(826)	(3,537)	-	346,879
Hyundai Capital Services, Inc.	797,646	-	62,747	12,708	(17,546)	-	855,555
Hyundai Transys Inc.	407,995	560,321	22,813	3,034	-	-	994,163
EUKOR Car Carriers, Inc.	106,291	-	4,821	4,188	-	-	115,300
Hyundai Engineering Co., Ltd.	312,254	-	27,331	(8,723)	(8,520)	(990)	321,352
Hyundai Autoever Systems Co., Ltd.	86,403	-	12,402	347	(2,760)	660	97,052
Haevichi Hotel&Resorts Co., Ltd.	41,208	-	385	(1)	-	(53)	41,539
Hyundai Autron Co., Ltd.	26,480	-	1,156	-	-	(93)	27,543
Beijing Transys Transmission Co., Ltd.	45,470	-	(1,030)	851	-	-	45,291
China Millennium Corporations	36,852	-	3,583	614	-	-	41,049
Hyundai Motor Group China, Ltd.	56,845	-	360	1,611	-	-	58,816
Hyundai Transys (Shandong) Co., Ltd.	86,074	-	(15,459)	2,594	-	(10,517)	62,692
Dongfeng Yueda Kia Motors Co., Ltd.	686,985	-	(147,981)	15,495	-	-	554,499
Hyundai Motor Manufacturing Rus LLC	183,590	-	51,538	29,039	-	-	264,167
Hyundai Capital America, Inc.	889,356	-	47,571	-	-	31,258	968,185
Hyundai Capital Services UK Ltd.	24,285	-	5,133	-	-	1,788	31,206
Hyundai Capital Canada, Inc.	50,914	-	7,685	4,641	-	-	63,240
Others	77,887	32,990	2,025	216	(2,944)	422	110,596
	<u>₩ 13,348,454</u>	<u>₩ 33,318</u>	<u>₩ 510,470</u>	<u>₩ 193,968</u>	<u>₩ (137,645)</u>	<u>₩ (32,072)</u>	<u>₩ 13,916,493</u>

(*1) Others include the amount of impairment loss for the year ended December 31, 2019.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

8. Investments in Joint Ventures and Associates, Continued

(4) Financial information of joint ventures and associates as of and for the year ended December 31, 2020, is summarized as follows:

(In millions of Korean won)

<u>Company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Operating profit (loss)</u>	<u>Net income (loss)</u>	<u>Total comprehensive income (loss)</u>
Hyundai Mobis Co., Ltd.	₩ 48,233,728	₩ 14,878,152	₩ 36,626,504	₩ 1,830,292	₩ 1,554,301	₩ 1,447,730
Hyundai Steel Co., Ltd.	34,846,161	18,149,080	18,023,398	73,032	(440,120)	(466,713)
Hyundai Engineering & Construction Co., Ltd.	17,882,018	9,115,640	16,970,859	548,972	227,697	137,010
Hyundai Card Co., Ltd.	19,941,847	16,500,527	2,526,126	328,414	244,538	249,405
Hyundai Capital Services, Inc.	33,683,340	28,951,217	3,225,352	386,597	348,824	348,824
Hyundai Transys Inc.	5,948,554	3,513,935	7,256,405	53,950	(4,824)	(24,998)
EUKOR Car Carriers, Inc.	3,167,471	1,915,466	1,292,324	3,270	(110,202)	(187,892)
Hyundai Engineering Co., Ltd.	5,883,340	2,321,359	7,188,429	258,737	173,810	169,080
Hyundai Autoever Systems Co., Ltd.	1,077,084	514,696	1,562,593	86,823	60,722	62,287
Haevichi Hotel & Resorts Co., Ltd.	450,767	279,035	91,765	(7,311)	(5,679)	(6,223)
Hyundai Autron Co., Ltd.	368,380	214,642	941,724	9,385	12,080	12,265
Beijing Transys Transmission Co., Ltd.	421,315	253,063	286,839	(3,439)	(21,779)	(21,779)
China Millennium Corporations	157,952	11,519	29,567	10,136	10,297	10,297
Hyundai Motor Group China, Ltd.	769,461	561,742	385,951	18,078	6,210	3,109
Hyundai Transys (Shandong) Co., Ltd.	796,020	495,498	684,330	3,025	6,338	6,338
Dongfeng Yueda Kia Motors Co., Ltd. (*)	2,692,870	2,350,918	3,588,706	(649,897)	(835,521)	(835,521)
Hyundai Motor Manufacturing Rus LLC	1,676,120	941,181	2,829,969	139,101	93,127	93,127
Hyundai Capital America Inc.	45,365,827	40,336,259	1,200,473	608,196	514,792	514,792
Hyundai Capital Services UK Ltd. (*)	3,747,574	3,747,574	285,730	82,357	77,345	61,778
Hyundai Capital Canada, Inc.	2,707,456	2,484,379	72,619	(32,450)	20,716	17,792
Motional AD LLC	4,300,304	147,074	645	(245,635)	(231,530)	(231,530)
Hyundai Wia Automotive Engine (Shandong) Co., Ltd. (WAE)	1,261,961	554,090	994,131	1,255	2,144	2,144
Hyundai Motor Group Innovation Center in Singapore PTE. LTD	122,285	5	-	(2,890)	(2,890)	(2,890)

(*) Additional financial information of joint ventures is summarized as follows:

(In millions of Korean won)

<u>Company</u>	<u>Cash and cash equivalents</u>	<u>Financial liabilities</u>	<u>Depreciation</u>	<u>Interest income</u>	<u>Interest expense</u>	<u>Income tax expense (benefit)</u>
Dongfeng Yueda Kia Motors Co., Ltd.	₩ 216,936	₩ 715,657	₩ 172,999	₩ 6,190	₩ 20,609	₩ (14,927)
Hyundai Capital Services UK Ltd.	19,066	209,964	-	-	-	(1,758)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

8. Investments in Joint Ventures and Associates, Continued

Financial information of joint ventures and associates as of and for the year ended December 31, 2019, is summarized as follows:

(In millions of Korean won)

Company	Total assets	Total liabilities	Sales	Operating profit (loss)	Net income (loss)	Total comprehensive income (loss)
Hyundai Mobis Co., Ltd.	₩ 46,606,065	₩ 14,196,442	₩ 38,048,768	₩ 2,359,257	₩ 2,294,311	₩ 2,489,942
Hyundai Steel Co., Ltd.	34,366,332	17,132,592	20,512,590	331,298	25,613	309,963
Hyundai Engineering & Construction Co., Ltd.	18,144,197	9,443,262	17,299,777	882,066	555,852	526,119
Hyundai Card Co., Ltd.	17,447,386	14,140,768	2,357,896	217,233	167,612	160,420
Hyundai Capital Services, Inc.	32,160,948	27,709,655	3,068,880	372,370	350,614	298,722
Hyundai Transys Inc.	5,722,675	3,262,861	7,753,017	183,507	138,982	152,568
EUKOR Car Carriers, Inc.	3,457,750	2,016,502	1,747,310	151,655	64,695	112,419
Hyundai Engineering Co., Ltd.	6,322,516	2,820,486	6,801,060	408,107	298,471	207,168
Hyundai Autoever Systems Co., Ltd.	1,026,697	511,683	1,571,818	80,212	56,876	62,072
Haevichi Hotel & Resorts Co., Ltd.	462,177	284,404	126,935	2,124	1,893	1,658
Hyundai Autron Co., Ltd.	300,595	162,980	859,771	9,014	5,825	5,358
Beijing Transys Transmission Co., Ltd.	493,636	305,552	419,890	2,112	(4,276)	(4,276)
China Millennium Corporations	147,458	11,982	31,935	12,291	11,944	11,944
Hyundai Motor Group China, Ltd.	793,681	590,373	414,175	14,818	2,334	2,334
Hyundai Transys (Shandong) Co., Ltd.	894,342	613,143	919,557	(48,320)	(61,836)	(61,836)
Dongfeng Yueda Kia Motors Co., Ltd.(*)	3,136,703	1,997,426	3,763,666	(311,992)	(304,455)	(304,455)
Hyundai Motor Manufacturing Rus LLC	1,578,910	746,323	3,264,093	138,519	172,960	172,960
Hyundai Capital America Inc.	41,744,129	36,905,351	927,862	270,027	237,856	237,856
Hyundai Capital Services UK Ltd.(*)	3,757,036	3,407,235	318	6,724	63,157	51,328
Hyundai Capital Canada, Inc.	1,970,909	1,760,110	52,518	(30,376)	25,617	27,140

(*) Additional financial information of joint ventures is summarized as follows:

(In millions of Korean won)

Company	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense (benefit)
Dongfeng Yueda Kia Motors Co., Ltd.	₩ 220,254	₩ 688,491	₩ 181,682	₩ 8,398	₩ 56,537	₩ (8,351)
Hyundai Capital Services UK Ltd.	141,571	3,414,837	-	-	-	(11,830)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

8. Investments in Joint Ventures and Associates, Continued

(5) Financial information of significant joint ventures and associates reconciled from the proportionate share in investees' net assets to the balance in the Group's consolidated financial statements as of and for the year ended December 31, 2020, is summarized as follows:

(In millions of Korean won)

Company	Group's share of net assets	Goodwill	Intra-Group transaction and others	Carrying amount
Hyundai Mobis Co., Ltd.	₩ 5,644,358	₩ 29,519	₩ (65,760)	₩ 5,608,117
Hyundai Steel Co., Ltd.	2,931,868	8,277	(205,357)	2,734,788
Hyundai Engineering & Construction Co., Ltd.	348,353	284,338	76,178	708,869
Hyundai Transys Inc.	986,208	-	5,144	991,352
Dongfeng Yueda Kia Motors Co., Ltd.	172,482	-	(8,903)	163,579
Motional AD LLC	581,452	-	(200)	581,252

(6) Unrecognized share of loss in investments in associates due to discontinuing the use of the equity method as of and for the year ended December 31, 2020, is summarized as follows:

(In millions of Korean won)

	2020	Accumulated
Kia Tigers Co., Ltd.	₩ 259	₩ 2,450
ZF Automotive Korea Co., Ltd.	663	2,737

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

9. Property, Plant and Equipment

(1) Details of property, plant and equipment as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020			December 31, 2019		
	Acquisition cost	Accumulated depreciation & impairment loss	Carrying amount	Acquisition cost	Accumulated depreciation & impairment loss	Carrying amount
Land	₩ 4,939,660	₩ -	₩ 4,939,660	₩ 4,919,924	₩ -	₩ 4,919,924
Buildings	4,041,713	(1,532,430)	2,509,283	4,012,103	(1,422,585)	2,589,518
Structures	801,846	(466,003)	335,843	787,354	(441,719)	345,635
Machinery & equipment	9,402,749	(5,378,904)	4,023,845	8,845,934	(4,948,047)	3,897,887
Dies, molds & tools	7,194,853	(5,058,668)	2,136,185	6,341,539	(4,483,482)	1,858,057
Vehicles	392,928	(163,390)	229,538	370,536	(150,458)	220,078
Other equipment	831,066	(549,665)	281,401	804,747	(493,920)	310,827
Construction in progress	866,665	-	866,665	1,366,230	-	1,366,230
	<u>28,471,480</u>	<u>(13,149,060)</u>	<u>15,322,420</u>	<u>27,448,367</u>	<u>(11,940,211)</u>	<u>15,508,156</u>
Right-of-use assets:						
Land	1,460	(742)	718	1,317	(331)	986
Buildings	364,954	(108,427)	256,527	292,267	(54,975)	237,292
Other equipment	432	(382)	50	432	(191)	241
	<u>366,846</u>	<u>(109,551)</u>	<u>257,295</u>	<u>294,016</u>	<u>(55,497)</u>	<u>238,519</u>
	<u>₩ 28,838,326</u>	<u>₩ (13,258,611)</u>	<u>₩ 15,579,715</u>	<u>₩ 27,742,383</u>	<u>₩ (11,995,708)</u>	<u>₩ 15,746,675</u>

(2) Changes in property, plant and equipment for the year ended December 31, 2020, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Acquisition (capital expenditure included)	Disposal	Depreciation	Transfer	Other	Ending balance
Land	₩ 4,919,924	₩ -	₩ (1,105)	₩ -	₩ 29,521	₩ (8,680)	₩ 4,939,660
Buildings	2,589,518	1,146	(1,723)	(120,223)	87,218	(46,653)	2,509,283
Structures	345,635	1,573	(230)	(26,146)	22,441	(7,430)	335,843
Machinery & equipment	3,897,887	53,651	(28,789)	(564,637)	743,032	(77,299)	4,023,845
Dies, molds & tools	1,858,057	36,100	(3,475)	(755,310)	1,039,023	(38,210)	2,136,185
Vehicles	220,078	10,861	(43,953)	(64,470)	110,786	(3,764)	229,538
Other equipment	310,827	13,522	(1,175)	(85,842)	60,029	(15,960)	281,401
Construction in progress	<u>1,366,230</u>	<u>1,493,460</u>	<u>(41)</u>	<u>-</u>	<u>(1,985,477)</u>	<u>(7,507)</u>	<u>866,665</u>
	<u>15,508,156</u>	<u>1,610,313</u>	<u>(80,491)</u>	<u>(1,616,628)</u>	<u>106,573</u>	<u>(205,503)</u>	<u>15,322,420</u>
Right-of-use assets:							
Land	986	149	(3)	(414)	-	-	718
Buildings	237,292	83,950	(1,342)	(57,249)	-	(6,124)	256,527
Other equipment	241	-	-	(191)	-	-	50
	<u>238,519</u>	<u>84,099</u>	<u>(1,345)</u>	<u>(57,854)</u>	<u>-</u>	<u>(6,124)</u>	<u>257,295</u>
	<u>₩ 15,746,675</u>	<u>₩ 1,694,412</u>	<u>₩ (81,836)</u>	<u>₩ (1,674,482)</u>	<u>₩ 106,573</u>	<u>₩ (211,627)</u>	<u>₩ 15,579,715</u>

The amounts of gain and loss on disposals of property, plant and equipment are ₩6,483 million and ₩29,737 million, respectively, for the year ended December 31, 2020.

The Group received government grants through investment agreement with Slovakia government and others. The grants, amounting to ₩157,318 million, are presented as deduction of property, plant and equipment.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

9. Property, Plant and Equipment, Continued

(3) Changes in property, plant and equipment for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Acquisition (capital expenditure included)(*)	Disposal	Depreciation	Transfer	Other	Ending balance
Land	₩ 4,888,344	₩ 1,656	₩ (8)	₩ -	₩ 23,904	₩ 6,028	₩ 4,919,924
Buildings	2,305,456	27,273	(350)	(112,644)	350,621	19,162	2,589,518
Structures	317,105	4,812	(250)	(25,373)	46,623	2,718	345,635
Machinery & equipment	3,327,832	98,967	(18,586)	(507,820)	1,107,394	(109,900)	3,897,887
Dies, molds & tools	1,689,047	146,978	(13,199)	(689,644)	738,587	(13,712)	1,858,057
Vehicles	225,543	14,586	(60,348)	(65,733)	105,301	729	220,078
Other equipment	166,937	33,740	(3,807)	(73,511)	187,076	392	310,827
Construction in progress	1,883,036	1,922,430	(70)	-	(2,470,520)	31,354	1,366,230
	<u>14,803,300</u>	<u>2,250,442</u>	<u>(96,618)</u>	<u>(1,474,725)</u>	<u>88,986</u>	<u>(63,229)</u>	<u>15,508,156</u>
Right-of-use assets:							
Land	-	1,317	-	(331)	-	-	986
Building	-	292,198	(1,105)	(55,724)	-	1,923	237,292
Other equipment	-	432	-	(191)	-	-	241
	-	<u>293,947</u>	<u>(1,105)</u>	<u>(56,246)</u>	-	<u>1,923</u>	<u>238,519</u>
	<u>₩ 14,803,300</u>	<u>₩ 2,544,389</u>	<u>₩ (97,723)</u>	<u>₩ (1,530,971)</u>	<u>₩ 88,986</u>	<u>₩ (61,306)</u>	<u>₩ 15,746,675</u>

(*) It includes the effect of initial application of KIFRS 1116 Leases.

The amounts of gain and loss on disposals of property, plant and equipment are ₩5,759 million and ₩26,165 million, respectively, for the year ended December 31, 2019.

(4) The capitalized borrowing costs and capitalization interest rate for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	2020	2019
Capitalized borrowing costs(*)	₩ 17,644	₩ 46,376
Capitalization interest rates (%)	0.88	2.59

(*) It includes borrowing costs that were capitalized in respect of development costs of ₩3,444 million and ₩15,706 million for the years ended December 31, 2020 and 2019, respectively.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

10. Investment property

(1) Details of investment property as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020			December 31, 2019		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Buildings	₩ 35,503	₩ (13,091)	₩ 22,412	₩ 37,780	₩ (12,776)	₩ 25,004

(2) Changes in investment property for the year ended December 31, 2020, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Depreciation	Other	Ending balance
	Buildings	₩ 25,004	₩ (1,176)	₩ (1,416)

(3) Changes in investment property for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Depreciation	Other	Ending balance
	Buildings	₩ 25,262	₩ (1,162)	₩ 904

(4) The amount recognized in profit or loss from investment property for the years ended December 31, 2020 and 2019, is summarized as follows:

(In millions of Korean won)

	2020	2019
Rental income	₩ 4,880	₩ 3,453
Operating expenses & maintenance expenses	1,622	945

(5) Buildings held for earning rentals are classified as investment property. In addition, the fair value of investment property does not differ from its book value significantly as of December 31, 2020.

11. Goodwill

(1) Changes in goodwill for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	2020	2019
Balance at January 1	₩ 37,094	₩ 37,030
Other change	142	64
Balance at December 31	₩ 37,236	₩ 37,094

(2) Impairment test of goodwill

Goodwill is allocated to each CGU (Cash Generating Unit) that is expected to benefit from each operating unit. The Group estimated the recoverable amount of CGU as its value in use calculated by discounting the future cash flows to be generated on the basis of business plan approved by management in five years. Cash flows expected to be generated

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

after five years were estimated to the extent not exceeding the long-term average growth rate of the industry. No impairment loss was recognized as a result of the impairment tests in 2020 and 2019.

12. Intangible assets

(1) Details of intangible assets except for goodwill as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020				December 31, 2019			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount
Development costs	₩ 4,835,497	₩ (2,200,638)	₩ (301,517)	₩ 2,333,342	₩ 5,294,298	₩ (2,785,706)	₩ (276,006)	₩ 2,232,586
Industrial property rights	73,119	(28,088)	-	45,031	58,003	(21,295)	-	36,708
Software	527,353	(385,984)	-	141,369	491,790	(360,721)	-	131,069
Membership (*)	75,172	-	(8,464)	66,708	74,201	-	(8,225)	65,976
Other	61,399	(19,514)	-	41,885	64,195	(14,842)	-	49,353
	<u>₩ 5,572,540</u>	<u>₩ (2,634,224)</u>	<u>₩ (309,981)</u>	<u>₩ 2,628,335</u>	<u>₩ 5,982,487</u>	<u>₩ (3,182,564)</u>	<u>₩ (284,231)</u>	<u>₩ 2,515,692</u>

(*) Membership has indefinite useful life and has been tested for impairment annually by comparing its recoverable amount to its carrying amount.

(2) Changes in intangible assets for the year ended December 31, 2020, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Transfer	Other	Ending balance
	Development costs (*)	₩ 2,232,586	₩ 595,146	₩ (27)	₩ (467,937)	₩ (25,512)	₩ -	₩ (914)
Industrial property rights	36,708	15,870	(74)	(7,473)	-	-	-	45,031
Software	131,069	64,643	(59)	(63,269)	-	11,519	(2,534)	141,369
Membership	65,976	1,474	(483)	-	(259)	-	-	66,708
Other	49,353	7,200	(299)	(5,185)	-	(10,649)	1,465	41,885
	<u>₩ 2,515,692</u>	<u>₩ 684,333</u>	<u>₩ (942)</u>	<u>₩ (543,864)</u>	<u>₩ (25,771)</u>	<u>₩ 870</u>	<u>₩ (1,983)</u>	<u>₩ 2,628,335</u>

(*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products. All acquisitions are internally generated.

(3) Changes in intangible assets for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Transfer	Other	Ending balance
	Development costs	₩ 2,213,911	₩ 657,702	₩ -	₩ (525,074)	₩ (120,820)	₩ 6,490	₩ 377
Industrial property rights	30,684	12,658	(482)	(6,152)	-	-	-	36,708
Software	115,226	61,499	(2)	(61,743)	-	14,601	1,488	131,069
Membership	67,164	716	(1,432)	-	(472)	-	-	65,976
Other	46,377	21,706	-	(4,352)	-	(15,192)	814	49,353
	<u>₩ 2,473,362</u>	<u>₩ 754,281</u>	<u>₩ (1,916)</u>	<u>₩ (597,321)</u>	<u>₩ (121,292)</u>	<u>₩ 5,899</u>	<u>₩ 2,679</u>	<u>₩ 2,515,692</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

12. Intangible assets, Continued

(4) Details of research and development expenditures for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Development costs	₩ 595,146	₩ 664,192
Test expenses (manufacturing costs)	181,305	189,988
Test expenses (selling and administrative expenses)	<u>896,570</u>	<u>914,011</u>
	<u>₩ 1,673,021</u>	<u>₩ 1,768,191</u>

(5) Details of impairment loss recognized for development costs for the year ended December 31, 2020 are as follows:

(In millions of Korean won)

	<u>Development costs</u>	<u>Impairment loss</u>		<u>Valuation method</u>
		<u>2020</u>	<u>Accumulated amounts</u>	
Sedans(*)	₩ 860,435	₩ (3,862)	₩ (116,051)	Value-in-use
RVs(*)	<u>1,200,423</u>	<u>(21,650)</u>	<u>(185,466)</u>	Value-in-use
	<u>₩ 2,060,858</u>	<u>₩ (25,512)</u>	<u>₩ (301,517)</u>	

(*) The recoverable amount has been estimated using the estimated future cash flow reflecting the changes in business environment and each product's previous operating results, discounted at the rate of 9.7% for the year ended December 31, 2020.

(6) Details of development costs as of December 31, 2020 are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>Residual amortization period</u>
Sedans(*1)	₩ 860,435	1~7 years
RVs(*2)	1,200,423	1~8 years
Power train(*3)	205,163	1~8 years
Others	<u>67,321</u>	-
	<u>₩ 2,333,342</u>	

(*1) K3, K5, K7, K9, Stinger and others

(*2) Sportage, Sorento, Carnival, Telluride and others

(*3) Engines and transmissions

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

13. Borrowings and Bonds

(1) Details of borrowings as of December 31, 2020 and 2019, are summarized as follows:

(i) Short-term borrowings

(In millions of Korean won)

	Lender	Annual interest rate(%)	Amount	
			December 31, 2020	December 31, 2019
Usance	Hana Bank and others	0.20~0.55	₩ 99,681	₩ 85,345
Trade financing(*)	Korea Development Bank and others	0.0000001~7.2	4,379,771	1,329,411
			₩ 4,479,452	₩ 1,414,756

(*) The Group is continuously recognizing the carrying amount of the outstanding receivables, which it provided a credit guarantee of, among the receivables sold to financial institutes, and cash received for transfer is recognized as collateral.

(ii) Long-term debt in Korean won

(In millions of Korean won)

	Lender	Annual interest rate(%)	Amount	
			December 31, 2020	December 31, 2019
	Nong Hyup Bank	1.59	50,000	50,000
	Woori Bank	1.84	50,000	50,000
Facility loans	Kookmin Bank	1.61	300,000	-
	Shinhan Bank	1.68	200,000	-
	Korea Development Bank	1.73	200,000	-
			800,000	100,000
Less : current portion of long-term debt			(100,000)	(100,000)
			₩ 700,000	₩ -

(iii) Long-term debt in foreign currencies

(In millions of Korean won)

	Lender	Annual interest rate(%)	Amount	
			December 31, 2020	December 31, 2019
General loans	Sumitomo Mitsui Banking Corporation and others	-	₩ -	₩ 173,670
Facility loans and others	Korea Development Bank and others	1.03~3.31	1,457,376	1,307,052
Overseas investment loans	The Export-Import Bank of Korea	1.57	272,000	85,677
	Korea Development Bank	-	-	217,088
			1,729,376	1,783,487
Less : current portion of long-term debt			(253,648)	(475,679)
			₩ 1,475,728	₩ 1,307,808

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

13. Borrowings and others, Continued

(2) Details of bonds as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	Maturity date	Annual interest rate(%)	Amount	
		December 31, 2020	December 31, 2020	December 31, 2019
Unsecured public bonds	2022.6.4~2022.11.5	2.23~2.57	₩ 380,000	₩ 830,000
	2022.2.15~2024.2.15	2.15~2.41	450,000	500,000
	2023.4.21~2027.4.22	2.02~2.19	600,000	-
Foreign public bonds	2021.4.21~2026.4.21	2.63~3.25	761,600	810,460
	2023.4.25~2027.10.25	3.00~3.50	979,200	1,042,020
Less: discounts on bonds			(12,912)	(15,566)
			3,157,888	3,166,914
Less : current portion of bonds			(434,894)	(499,786)
			<u>₩ 2,722,994</u>	<u>₩ 2,667,128</u>

14. Other Liabilities

(1) Details of other current liabilities as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Unearned income	₩ 190,052	₩ 125,955
Dividends payable	23	23
Guarantee deposits received	6,583	7,667
Current portion of derivatives liabilities	2,839	2,836
Current portion of lease liabilities	47,536	50,577
Others	14,802	18,058
	<u>₩ 261,835</u>	<u>₩ 205,116</u>

(2) Details of other non-current liabilities as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Deposits received	₩ 12,158	₩ 11,863
Long-term unearned income	520,416	392,984
Long-term accounts and notes payable – others	285,252	316,812
Derivatives liabilities	53,681	22,536
Lease liabilities	213,031	183,719
Liabilities for financial guarantee	1,270	338
Long-term accrued expenses	302,069	312,393
	<u>₩ 1,387,877</u>	<u>₩ 1,240,645</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

15. Retirement Benefits Plan

(1) Details of net defined benefit liabilities (assets) as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Present value of defined benefit obligations	₩ 3,092,342	₩ 2,911,152
Fair value of plan assets	<u>(3,132,580)</u>	<u>(2,703,591)</u>
Net defined benefit liabilities (assets)	<u>₩ (40,238)</u>	<u>₩ 207,561</u>

(2) The components of plan assets as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Time deposits and others	₩ 3,132,580	₩ 2,703,591

(3) The components of retirement benefit costs for the years ended December 31, 2020 and 2019 are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Current service costs	₩ 324,902	₩ 314,735
Past service costs	-	17,929
Interest costs, net	<u>3,726</u>	<u>2,985</u>
	<u>₩ 328,628</u>	<u>₩ 335,649</u>

(4) The principal actuarial assumptions weighted-average rate used to defined benefit plans as of December 31, 2020 and 2019 are summarized as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Discount rate (%)	2.33	2.30
Expected rate of salary increase (%)	4.00	4.00

(5) Changes in defined benefit obligations for the years ended December 31, 2020 and 2019 are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Balance at January 1	₩ 2,911,152	₩ 2,586,521
Current service costs	324,902	314,735
Past service costs	-	17,929
Interest costs	64,470	65,561
Remeasurements(*)	(31,454)	80,774
Transfer in, net	333	572
Benefits paid	<u>(177,061)</u>	<u>(154,940)</u>
Balance at December 31	<u>₩ 3,092,342</u>	<u>₩ 2,911,152</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

15. Retirement Benefits Plan, Continued

(*) Details of remeasurements as of December 31, 2020 and December 31, 2019, are summarized as follows:

(In millions of Korean won)

	2020		2019	
Actuarial loss(gain) arising from changes in demographic assumptions	₩	-	₩	182
Actuarial loss(gain) arising from changes in financial assumptions		(9,885)		112,744
Others		(21,569)		(32,152)
	₩	(31,454)	₩	80,774

(6) Changes in plan assets for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	2020		2019	
Balance at January 1	₩	2,703,591	₩	2,520,772
Return on plan assets		60,744		62,576
Remeasurements		(6,843)		(10,292)
Contributions		520,000		250,000
Transfer in, net		702		400
Benefits paid		(145,614)		(119,865)
Balance at December 31	₩	3,132,580	₩	2,703,591

(7) Sensitivity analysis of defined benefit obligations from changes in assumptions for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020		December 31, 2019	
	1% Up	1% Down	1% Up	1% Down
Discount rate	₩ (269,340)	₩ 312,785	₩ (270,153)	₩ 315,032
Rate of salary increase	309,579	(271,838)	311,686	(272,570)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

16. Provisions

The Group generally provides assurance type warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on the history of actual claims. Also, the Group records a provision for expenses that may occur due to replacement of parts or voluntary recalls pending as of the end of the reporting period. Other provision is comprised of provision related to loss on lawsuits.

Changes in provisions for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	2020			2019		
	Sales warranty(*1)	Other(*2)	Total	Sales warranty	Other	Total
Balance at January 1	₩ 3,619,302	₩ 236,838	₩ 3,856,140	₩ 3,684,438	₩ 1,142,044	₩ 4,826,482
Provisions (reversal) made	2,908,121	756	2,908,877	1,692,633	(408,894)	1,283,739
Provisions used	(1,864,595)	(95,368)	(1,959,963)	(1,809,840)	(476,651)	(2,286,491)
Other increase (decrease)	(106,185)	(8,503)	(114,688)	52,071	(19,661)	32,410
Balance at December 31	₩ 4,556,643	₩ 133,723	₩ 4,690,366	₩ 3,619,302	₩ 236,838	₩ 3,856,140
Current	3,253,790	27,831	3,281,621	1,974,403	42,297	2,016,700
Non-current	1,302,853	105,892	1,408,745	1,644,899	194,541	1,839,440

(*1) During the year ended December 31, 2020, the Group reflected the effects of changes in accounting estimates, of which derived from the new information and recall experiences (i.e. Seta 2 engine), in sales warranty provisions.

(*2) As of December 31, 2020, the Group has recorded a loss of ₩83,730 million as other provisions in its consolidated financial statements in relation to the litigation on ordinary wages (1st trial of the second and third cases are in progress). Meanwhile, a portion of the provisions were reversed due to the final defeat of the 3rd trial of the first case during the year ended December 31, 2020.

17. Commitments and Contingencies

(1) As of December 31, 2020, one certificate of deposit valued at ₩ 1,551 million has been provided as collateral to the Korea Defense Industry Association (KDIA) as a performance guarantee on the contract. The Group has provided 1,500 units (carrying amount: ₩646 million) of KDIA as a performance guarantee on the contract.

(2) The Group provides guarantees for employees relating to borrowings to acquire shares of the Group. The outstanding amount for which the Group has provided collective guarantees to the Korea Securities Finance Corporation is ₩515,230 million as of December 31, 2020. Management is of the opinion that aforementioned guarantees will not have a significant adverse effect on the Group's credit risk since the Group has pledged its acquired shares as collateral for the borrowings.

(3) As of December 31, 2020, the Group has pending litigations, in which the Group is a defendant, such as claims for alleged damages and product liabilities. Management of the Group predicts that the outcome of such litigations cannot be reasonably determined; the amount and timing of the outflow of resources are uncertain; the impact on the consolidated financial statements would not be material. Additionally, the Group is under investigations from domestic and overseas authorities related to the recall of the Seta 2 engines, and the outcome and effect of these investigations cannot be reliably estimated as of December 31, 2020.

(4) As of December 31, 2020, KMMG has an agreement with the West Point Development Authority and Troup Country Development Authority with a limit of USD 2,700,000 thousand to purchase building, machinery and equipment for tax incentives.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

17. Commitments and Contingencies, Continued

- (5) As of December 31, 2020, in regard to the factory expansion, KMS has an agreement with suppliers to acquire property, plant and equipment, for which outstanding balance is EUR 8,715 thousand.
- (6) As of December 31, 2020, KMM has an investment agreement with the Government of the State of Nuevo Leon for at least USD 1,054 million for tax incentives.
- (7) As of December 31, 2020, in relation to the factory expansion and others, KMI entered into a purchase agreement with suppliers to acquire property, plant and equipment amounting to INR 1,569,972 thousands.
- (8) The Group has agreed to invest ₩512,080 million in connection with the construction of Global Business Center (GBC). In addition, the Group has recognized ₩342,441 million of related liabilities as of December 2020 in accordance with the agreement with the Seoul Metropolitan Government to implement public contributions under the new construction project in December 2019.
- (9) As of December 31, 2020, the Group has overdrafts, general loans, trade-financing agreements, and loans collateralized by accounts receivable with numerous financial institutions including Hana bank with a combined limit of up to USD 9,904 million, EUR 1,049 million, and ₩2,467,486 million.

18. Derivative financial instruments and hedge

- (1) Details of derivative financial instruments as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

Type	Fair value and Book value		Note
	December 31, 2020	December 31, 2019	
Total Return Swap	₩ (12,843)	₩ (22,536)	
Currency Option	-	820	
Interest Rate Swap	(2,787)	-	(*)
Currency Swap	(40,890)	26,377	(*)

(*) Derivative financial instruments designated as cash flow hedges

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

18. Derivative financial instruments and hedge, Continued

(2) Risk management strategies and applied approach for risk management

The Group is exposed to certain risks with ongoing business operations. The main risks managed by derivatives are interest rate risk and foreign exchange risk. The approach of the Group's risk management strategies and risk management is described in Note 31.

The Group entered into the interest swap contract with nominal value of ₩500,000 million and the currency swap contract with nominal value of USD 1,150 million. These currency swaps are used to hedge exposures to changes in cash flows of long-term debt and bonds.

Because the terms of interest rate swaps and currency swaps are in line with terms of long-term debt (borrowings and bonds) denominated in dollar, there is an economic relationship between the hedged item and the hedging instrument. Because the underlying risk of interest rate swaps and currency swaps is the same as the hedged risk components, the Group set a 1:1 risk-averting ratio for the hedging relationship. To assess the hedging effectiveness, the Group uses a major condition matching method, for example, to compare the changes in the fair value of the hedging instrument and the changes in the cash flow of the hedged item due to the hedged risk.

The ineffective portion of risk aversion could be generated as follows:

- Different interest rate curves applied to discount hedged items and hedging instruments
- Difference in the timing of the cash flow of the hedged item and the hedging instrument
- In case of the counterparty's credit risk having a different effect on the fair value movement of the hedging instrument and the hedged item

(3) Information on the future cash flows of derivatives designated as cash flow hedges as of December 31, 2020 is as follows:

(In millions of Korean won, except for average contract rate)

Type	Within 1 year	1-5 years	More than 5 years	Total
Interest swap:				
Nominal cash flow	₩ -	₩ 500,000	₩ -	₩ 500,000
Currency swap:				
Nominal cash flow	326,400	924,800	-	1,251,200
Average contract rate	1,105	1,145	-	-

(4) The effect on the consolidated financial statements of derivatives designated as cash flow hedges as of December 31, 2020 is as follows:

(In millions of Korean won)

	Contractual nominal amount	Derivatives assets	Derivatives liabilities	Accounts of the hedging instrument	Changes in the fair value used to calculate the ineffective portion of the hedge
Cash flow hedge:					
Interest rate swap	₩ 500,000	₩ -	₩ 2,786	Other financial assets/ Other liabilities	₩ (2,786)
Currency swap	1,251,200	-	40,891		(67,202)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

18. Derivative financial instruments and hedge, Continued

(5) The effect on the consolidated financial statements of financial instruments eligible for the cash flow hedges as of December 31, 2020 is as follows:

(In millions of Korean won)

	<u>Carrying amount of the hedged item</u>		<u>Accounts of the hedged items</u>	<u>Changes in the fair value used to calculate the ineffective portion of the hedge</u>	<u>Cash flow hedge reserve</u>
	<u>Assets</u>	<u>Liabilities</u>			
Cash flow hedge:					
Borrowings	₩	- ₩	772,000 Long-term debt	₩ (27,488)	₩ 471
Bonds		-	1,083,155 Bonds	(42,500)	14,862

(6) The effect of the Group's risk management activities on the consolidated statements of income and comprehensive income as of December 31, 2020 is as follows:

<u>Hedged items</u>	<u>Effective portion of hedge accounting recognized in other comprehensive income(*)</u>	<u>Ineffective portion of hedge accounting recognized in profit or loss</u>	<u>Reclassification from cash flow hedge reserve to profit or loss</u>	<u>Accounts that affect profit or loss by reclassification</u>
Borrowings	₩ 468	₩ -	₩ (28,287)	Interest expenses & Gains(Loss)on foreign currency translation
Bonds	14,946	-	(63,115)	

(*) The amount reflected the effect of income taxes

19. Equity

(1) The number of shares to issue, the number of shares issued and the par value of the share of the Group are 820,000,000 shares, 405,363,347 shares and ₩5,000 as of December 31, 2020, respectively. The Group retired 22,500,000 shares of treasury stock on July 2, 2003 and on May 28, 2004. Due to these stock retirements, the aggregate par value of issued shares differs from capital stock amount.

(2) Accumulated other comprehensive loss as of December 31, 2020 and 2019, is summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Changes in fair value of financial assets measured at FVOCI	₩ (35,119)	₩ (43,337)
Effective portion of changes in fair value of cash flow hedges	15,332	(82)
Change in capital adjustments - gain of equity method accounted investment	161,882	44,209
Change in capital adjustments - loss of equity method accounted investment	(469,814)	(268,307)
Exchange differences on translation foreign operations	(592,919)	(449,454)
	<u>₩ (920,638)</u>	<u>₩ (716,971)</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

19. Equity, continued

(3) Other equity as of December 31, 2020 and 2019, is summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Gain on capital reduction	₩ 119,859	₩ 119,859
Other capital surplus	35,256	35,256
Treasury stock	<u>(216,189)</u>	<u>(216,189)</u>
	<u>₩ (61,074)</u>	<u>₩ (61,074)</u>

20. Retained Earnings

(1) Retained earnings as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Legal reserve	₩ 408,024	₩ 357,011
Discretionary reserve	19,593,861	18,584,098
Unappropriated retained earnings	<u>7,171,532</u>	<u>7,115,107</u>
	<u>₩ 27,173,417</u>	<u>₩ 26,056,216</u>

(2) Changes in retained earnings for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Balance at January 1	₩ 26,056,216	₩ 24,711,681
Profit attributable to owners of the Company	1,487,585	1,826,659
Dividends paid	(461,071)	(360,838)
Remeasurements of defined benefit plans	17,767	(66,023)
Remeasurements of associates	(15,350)	(55,023)
Derecognition of financial assets measured at FVOCI	<u>88,270</u>	<u>(240)</u>
Balance at December 31	<u>₩ 27,173,417</u>	<u>₩ 26,056,216</u>

21. Earnings per share

(1) Details of the basic earnings per share calculation for the years ended December 31, 2020 and 2019, are summarized as follows:

(In Korean won, except for number of shares)

	<u>2020</u>	<u>2019</u>
Profit attributable to owners of the Company	₩ 1,487,584,943,568	₩ 1,826,659,085,358
Weighted-average number of ordinary shares outstanding(*)	400,931,263	400,931,263
Basic earnings per share	₩ 3,710	₩ 4,556

(*) The weighted-average number of ordinary shares outstanding is calculated by averaging outstanding period, and treasury stock is not included in the number of ordinary shares outstanding.

(2) The Group did not compute diluted earnings per ordinary share for the years ended December 31, 2020 and 2019 since there are no dilutive items during the years.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

22. Dividends

(1) Details of dividends for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won, except for shares, par value and ratio)

	2020		2019	
Number of shares issued		405,363,347		405,363,347
Number of treasury shares		(4,432,084)		(4,432,084)
Number of dividend shares		400,931,263		400,931,263
Par value per share	₩	5,000	₩	5,000
Dividend rate		20%		23%
Dividend amount	₩	400,931	₩	461,071

(2) Dividend payout ratio for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won, except for ratio)

	2020		2019	
Dividends	₩	400,931	₩	461,071
Profit for the year		1,487,585		1,826,659
Dividend payout ratio		26.95%		25.24%

(3) Dividend yield ratio for the years ended December 31, 2020 and 2019, are summarized as follows:

(In Korean won, except for ratio)

	2020		2019	
Dividend per share	₩	1,000	₩	1,150
Market price as of year-end		62,400		44,300
Dividend yield ratio		1.60%		2.60%

23. Revenue from contracts with customers

(1) Detail of revenues from contract with customers of the Group for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020		2019	
Types of goods or services				
Sales of vehicles	₩	53,332,585	₩	51,868,875
Others		5,835,511		6,277,084
	₩	59,168,096	₩	58,145,959

(*) The geographical market segmentation in which the Group is located is described in Note 4.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

23. Revenue from contracts with customers, Continued

(2) Receivables, contract assets, and contract liabilities from contracts with customers as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Accounts and notes receivable - trade	₩ 1,824,385	₩ 2,167,135
Prepaid expenses	9,850	4,088
Advances received	109,029	106,413
Unearned income	639,733	440,752
Accrued expenses	883,775	1,032,916

(3) Details of impairment loss on receivables and contract assets from contracts with customers recognized by the Group for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Impairment of accounts receivable	₩ 166	₩ 774

(4) The amounts allocated to performance obligations that are not satisfied (or partially not satisfied) of the transaction prices in major contracts entered into as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Provision of additional services and others (*)	₩ 748,762	₩ 547,213

(*) The transaction prices for unsatisfied performance obligations will be recognized as revenue in the period when such supplementary services are provided.

(5) The amounts recognized as assets from costs to obtain or fulfill a contract as of December 31, 2020 and 2019 are as follows.

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Costs of additional services and others (*)	₩ 9,850	₩ 4,088

(*) The costs from unsatisfied performance obligation will be recognized as expenses in the period when such supplementary services are provided.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

24. Selling, general and administrative expenses

(1) Details of selling expenses for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>		<u>2019</u>
Advertising	₩ 1,300,680	₩	1,269,398
Sales promotion	993,351		1,053,251
Warranty expenses	2,290,517		1,574,701
Freight	42,020		55,396
Overseas marketing and export expenses	284,146		308,530
	<u>₩ 4,910,714</u>	₩	<u>4,261,276</u>

(2) Details of general and administrative expenses for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>		<u>2019</u>
Salaries	₩ 803,885	₩	846,151
Bonus	206,871		219,378
Retirement benefits cost	84,759		83,303
Accrual for other long-term employee benefits	10,987		13,296
Other employee benefits	196,924		204,284
Travel	22,966		46,676
Communications	13,375		13,430
Utilities	19,107		18,267
Taxes and dues	39,115		40,236
Rent	15,837		16,867
Depreciation	136,330		132,026
Amortization	43,082		46,704
Bad debt expenses	166		774
Repairs and maintenance	24,608		29,912
Insurance premium	29,290		26,145
Entertainment expense	1,866		4,449
Maintenance fee for vehicles	31,544		39,751
Supplies and stationery	13,095		13,822
Information fees	3,277		3,106
Education and training	20,073		24,322
Commissions and fees	331,593		353,283
Test expenses	896,570		914,011
Others	23,041		18,240
	<u>₩ 2,968,361</u>	₩	<u>3,108,433</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

25. Finance Income and Finance Costs

(1) Details of finance income for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Interest income	₩ 170,133	₩ 190,070
Gain on foreign exchange transactions	6,326	7,336
Gain on foreign currency translation	110,971	25,218
Dividend income	3,503	2,898
Gain on valuation and trading of derivatives	50,911	12,280
	<u>₩ 341,844</u>	<u>₩ 237,802</u>

(2) Details of finance costs for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Interest expense	₩ 234,524	₩ 188,711
Loss on foreign exchange transactions	43,850	15,010
Loss on foreign currency translation	110,147	65,900
Loss on valuation and trading of derivatives	36,235	22,652
	<u>₩ 424,756</u>	<u>₩ 292,273</u>

26. Other Income and Other Expenses

(1) Other income for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Rent	₩ 9,780	₩ 8,884
Gain on foreign exchange transactions	313,101	376,702
Gain on foreign currency translation	125,294	44,182
Gain on disposal of property, plant and equipment	6,483	5,759
Gain on disposal of intangible assets	96	-
Reversal of allowance for doubtful accounts	1,087	104
Miscellaneous profit	145,704	272,593
	<u>₩ 601,545</u>	<u>₩ 708,224</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

26. Other Income and Other Expenses, Continued

(2) Other expenses for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Loss on foreign exchange transactions	₩ 370,942	₩ 220,718
Loss on foreign currency translation	199,944	42,659
Loss on disposal of accounts and notes receivable – trade	423	477
Donation	27,891	26,071
Loss on disposal of property, plant and equipment	29,737	26,165
Loss on disposal of intangible assets	153	516
Impairment loss on intangible assets	25,771	121,292
Miscellaneous losses	150,270	201,536
	<u>₩ 805,131</u>	<u>₩ 639,434</u>

27. Income Tax Expense

(1) The components of income tax expense for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Current tax payable	₩ 343,374	₩ 467,153
Changes in deferred taxes due to temporary differences	(20,312)	236,537
Income taxes directly charged to equity	30,711	755
Income tax expense	<u>₩ 353,773</u>	<u>₩ 704,445</u>

(2) Current tax and deferred taxes related to items directly charged to equity for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Current tax:		
Remeasurements of defined benefit plans	₩ (6,861)	₩ 24,934
Deferred taxes:		
Change in fair value of financial assets measured at FVOCI	(7,906)	(16,264)
Effective portion of changes in fair value of cash flow hedges	(5,847)	(7,915)
Change in capital adjustments – gain/loss of equity method accounted investment	51,325	-
	<u>37,572</u>	<u>(24,179)</u>
Income taxes directly charged to equity	<u>₩ 30,711</u>	<u>₩ 755</u>

Income tax related to remeasurements of defined benefit plans, change in fair value of financial assets measured at FVOCI and effective portion of changes in fair value of cash flow hedges were recognized in other comprehensive income (loss).

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

27. Income Tax Expense, Continued

(3) Reconciliation from profit before income tax to income tax expense for the years ended December 31, 2020 and 2019, is as follows:

(In millions of Korean won, except for ratio)

	<u>2020</u>	<u>2019</u>
Profit before income tax	₩ 1,841,358	₩ 2,531,104
Income tax calculated at statutory tax rates (*)	417,368	721,803
Adjustments:		
Non-taxable income	(33,310)	(52,291)
Non-deductible expense	94,686	103,612
Tax credits	(42,808)	(56,273)
Tax effect of gains/losses on investments in subsidiaries, joint ventures and associates	(52,496)	85,894
Others	<u>(29,665)</u>	<u>(98,300)</u>
Income tax expense	<u>₩ 353,773</u>	<u>₩ 704,445</u>
Average effective tax rate	19.21%	27.83%

(*) Calculated by multiplying each nation's statutory tax rate and profit before income tax on each separate financial statements.

(4) The Group will set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(5) Changes in deferred tax assets and liabilities for the year ended December 31, 2020, are as follows:

(In millions of Korean won)

	<u>Beginning balance</u>	<u>Profit or loss</u>	<u>Other comprehensive income</u>	<u>Ending balance</u>
Allowance for doubtful accounts	₩ 13,271	₩ (5,719)	₩ -	₩ 7,552
Bad debts write-off	9,533	-	-	9,533
Accrued expenses	411,674	(139,326)	-	272,348
Sales warranty provisions	836,727	142,281	-	979,008
Provision for other long-term employee benefits	85,065	5,008	-	90,073
Annual leaves	32,540	(787)	-	31,753
Revaluated land	(398,522)	-	-	(398,522)
Depreciation	(157,195)	(65,728)	-	(222,923)
Investments in subsidiaries, joint ventures and associates	(2,001,166)	1,171	51,325	(1,948,670)
Gains/losses on valuation of derivatives	6,003	2,955	(5,847)	3,111
Gains/losses on valuation of equity securities	10,790	-	(7,906)	2,884
Accumulated deficit carryforward	60,710	(27,128)	-	33,582
Others	240,559	70,013	-	310,572
	<u>₩ (850,011)</u>	<u>₩ (17,260)</u>	<u>₩ 37,572</u>	<u>₩ (829,699)</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

27. Income Tax Expense, Continued

Changes in deferred tax assets and liabilities for the year ended December 31, 2019, are as follows:

(In millions of Korean won)

	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Allowance for doubtful accounts	₩ 13,926	₩ (655)	₩ -	₩ 13,271
Bad debts write-off	9,533	-	-	9,533
Accrued expenses	653,981	(242,307)	-	411,674
Sales warranty provisions	820,504	16,223	-	836,727
Provision for other long-term employee benefits	76,196	8,869	-	85,065
Annual leaves	32,497	43	-	32,540
Revaluated land	(398,522)	-	-	(398,522)
Depreciation	(254,000)	96,805	-	(157,195)
Investments in subsidiaries, joint ventures and associates	(1,915,272)	(85,894)	-	(2,001,166)
Gains/losses on valuation of derivatives	9,367	4,551	(7,915)	6,003
Gains/losses on valuation of equity securities	27,054	-	(16,264)	10,790
Accumulated deficit carryforward	156,862	(96,152)	-	60,710
Others	154,401	86,158	-	240,559
	<u>₩ (613,473)</u>	<u>₩ (212,359)</u>	<u>₩ (24,179)</u>	<u>₩ (850,011)</u>

(6) As of December 31, 2020, total temporary differences related to investments in subsidiaries, associates and joint ventures, where deferred tax assets and liabilities were not recognized, amount to ₩1,146,067 million and ₩37,432 million, respectively.

28. Classification of Expenses by Nature

Details of expenses by nature for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	2020	2019
Change in inventories	₩ 891,097	₩ (744,105)
Raw material and merchandise consumed	40,342,883	41,843,567
Employee benefits	4,872,459	4,682,909
Depreciation	1,675,658	1,532,133
Amortization	543,864	597,321
Others	8,775,678	8,224,454
	<u>₩ 57,101,639</u>	<u>₩ 56,136,279</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

29. Leases

(1) Description of leases

The Group uses and provides leases in connection with its operations, and the main leases consist of real estate leases, etc. The effect of future cash outflows that are potentially exposed to the use of leases but are not reflected in the measurement of lease liabilities has no significant impact on consolidated financial statements of the Group.

For the year ended December 31, 2020, the weighted-average of the incremental borrowing interest rates used by the Group in order to discount lease liabilities is in between 2.05% and 9.65%, and changes in right-of-use assets are included in Note 9.

(2) Changes in lease liabilities for the year ended December 31, 2020 and 2019 are as follows:

In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Balance at January 1	₩ 234,296	₩ 1,916
Effect of changes in accounting standards(*)	-	229,796
Increase	85,992	41,514
Payments	(62,964)	(54,998)
Interest expense	7,496	7,169
Others (exchange difference)	(4,253)	8,899
Balance at December 31	<u>₩ 260,567</u>	<u>₩ 234,296</u>

(*) Effect of the initial adoption of KIFRS 1116 *Leases*

(3) Income and expenses recognized in lease contracts for the year ended December 31, 2020 and 2019 are as follows:

In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Income recognized in lease contracts		
Interest income	₩ 4,856	₩ 4,576
Others(*)	35	16
	<u>₩ 4,891</u>	<u>₩ 4,592</u>
Expenses recognized in lease contracts		
Depreciation of right-of-use assets	₩ 57,854	₩ 56,246
Expenses from the lease agreements that are not recognized as lease liabilities	605	230
Interest expenses	7,496	7,169
Others(*)	188	939
	<u>₩ 66,143</u>	<u>₩ 64,584</u>

(*) Profit or loss from disposal of the right-of-use assets due to changes in the lease agreements and termination of the lease contracts are included.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

29. Leases, Continued

(4) Fixed lease payments and variable lease payments recognized in lease contracts for the year December 31, 2020 are summarized as follows:

(In millions of Korean won)

	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
Fixed payments	₩ 62,443	₩ 632	₩ 63,075
Variable payments with minimum payments	<u>197</u>	<u>138</u>	<u>335</u>
	<u>₩ 62,640</u>	<u>₩ 770</u>	<u>₩ 63,410</u>

Fixed lease payments and variable lease payments recognized in lease contracts for the year December 31, 2019 are summarized as follows:

(In millions of Korean won)

	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
Fixed payments	₩ 59,010	₩ -	₩ 59,010
Variable payments with minimum payments	<u>191</u>	<u>146</u>	<u>337</u>
	<u>₩ 59,201</u>	<u>₩ 146</u>	<u>₩ 59,347</u>

(5) Exercise of termination and renewal option has no significant impact on the consolidated financial statements of the Group.

(6) Future minimum lease receivables to arise from lease provided by the Group as of December 31, 2020 are as follows:

(In millions of Korean won)

	<u>Within 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Lease receivables	₩ 8,740	₩ 18,369	₩ 10,200	₩ 37,309

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

30. Supplement of Cash Flows

(1) Details of cash generated from operations for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Profit for the year	₩ 1,487,585	₩ 1,826,659
Adjustments:		
Salaries	₩ (484)	₩ (245,669)
Retirement benefits costs	328,627	306,066
Depreciation	1,675,658	1,532,115
Amortization	543,864	597,321
Sales warranty expenses	2,796,680	1,576,456
Income tax expense	353,773	704,445
Gain on investment in joint ventures and associates, net	(61,399)	(507,105)
Interest expenses (income), net	65,120	(347)
Dividend income	(3,503)	(2,898)
Loss on foreign currency translations, net	73,826	39,159
Loss on disposal of property, plant and equipment, net	23,254	20,406
Impairment loss on intangible assets	25,771	121,335
Others	140,307	(33,080)
	<u>₩ 5,961,494</u>	<u>₩ 4,108,204</u>
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and notes receivable - trade	₩ 246,647	₩ (125,959)
Decrease (increase) in accounts and notes receivable – other	(364,919)	87,615
Decrease (increase) in inventories	841,828	(1,041,745)
Increase in accounts and notes payable - trade	530,154	519,770
Decrease in advances received	(126,522)	(91,770)
Increase (decrease) in accounts and notes payable - other	(792,893)	768,914
Increase (decrease) in accrued expenses	(109,999)	(91,527)
Payment of retirement benefits	(177,061)	(154,940)
Changes in net defined benefit liabilities (assets)	(374,416)	(129,963)
Changes in sales warranty provisions	(1,864,595)	(1,809,840)
Payment of other provision	(95,368)	(475,627)
Others	489,434	194,399
	<u>₩ (1,797,710)</u>	<u>₩ (2,350,673)</u>
Cash generated from operations	<u>₩ 5,651,369</u>	<u>₩ 3,584,190</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

30. Supplement of Cash Flows, Continued

(2) Significant non-cash transactions from investing and financing activities for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Change in accounts and notes payable - others in connection with acquisition of property, plant and equipment	₩ (5,112)	₩ (24,837)
Change in accounts and notes payable - others in connection with acquisition of intangible assets	(48,069)	2,105
Change in inventories in connection with acquisition of property, plant and equipment	160,652	158,219
Increase in short and long-term accounts and notes payable – others	-	345,725

(3) Changes in liabilities arising from financing activities for the year ended December 31, 2020 are as follows:

(In millions of Korean won)

			<u>Non-cash changes</u>			<u>December 31</u>
	<u>January 1</u>	<u>Cash flow</u>	<u>Exchange rate changes</u>	<u>Transferred in/to current portion</u>	<u>Others (*1)</u>	
Short-term borrowings	₩ 1,414,756	₩ 3,142,911	₩ (78,215)	₩ -	₩ -	₩ 4,479,452
Current portion of long-term debt and bonds(*2)	1,075,465	(979,757)	(23,842)	716,676	-	788,542
Bonds	2,667,128	600,000	(83,760)	(463,028)	2,654	2,722,994
Long-term debt	1,307,808	1,277,868	(156,300)	(253,648)	-	2,175,728
Deposits received	11,863	295	-	-	-	12,158
Lease liabilities	<u>234,296</u>	<u>(62,964)</u>	<u>(4,252)</u>	<u>-</u>	<u>93,488</u>	<u>260,568</u>
	<u>₩ 6,711,316</u>	<u>₩ 3,978,353</u>	<u>₩ (346,369)</u>	<u>₩ -</u>	<u>₩ 96,142</u>	<u>₩ 10,439,442</u>

(*1) It includes acquisition of new lease, amortization of present value discounts and others.

(*2) It includes the current portion of bonds transferred.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

30. Supplement of Cash Flows, Continued

Changes in liabilities arising from financing activities for the year ended December 31, 2019 are as follows:

(In millions of Korean won)

	January 1			Cash flow	Non-cash changes			December 31
	January 1 (Before changes in accounting policy)	Changes in accounting policy (*1)	January 1 (After changes in accounting policy)		Exchange rate changes	Transferred in/to current portion	Others (*2)	
Short-term borrowings	₩ 1,366,649	-	₩ 1,366,649	₩ 65,519	₩ (17,412)	₩ -	₩ -	₩ 1,414,756
Current portion of long-term debt and bonds(*3)	904,989	-	904,989	(974,224)	9,267	1,120,434	14,999	1,075,465
Bonds	3,098,975	-	3,098,975	-	63,520	(499,786)	4,419	2,667,128
Long-term debt	1,311,185	-	1,311,185	596,370	20,901	(620,648)	-	1,307,808
Deposits received	9,984	-	9,984	1,867	12	-	-	11,863
Lease liabilities	1,916	229,796	231,712	(54,998)	8,899	-	48,683	234,296
	<u>₩ 6,693,698</u>	<u>₩ 229,796</u>	<u>₩ 6,923,494</u>	<u>₩ (365,466)</u>	<u>₩ 85,187</u>	<u>₩ -</u>	<u>₩ 68,101</u>	<u>₩ 6,711,316</u>

(*1) Effect of the initial adoption of KIFRS 1116 *Leases*, which is entirely non-cash changes.

(*2) It includes acquisition of new lease, amortization of present value discounts and others.

(*3) It includes the current portion of bonds transferred.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

31. Finance Risk Management

The Group's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk (composed of foreign exchange risk and interest rate risk). The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the Board of Directors.

(1) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has transacted with customers after evaluating on their credit rating graded by the independent credit rating agencies and has their collaterals to control customers on default. If those grades are not available, customers' credit is evaluated upon their other transaction information. The Group regularly monitors customers' credit ratings.

(2) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group manages liquidity risk by reviewing and forecasting regular cash flows. The Group has a certain level of current account to prepare unexpected payment of short-term financial liabilities and others.

(3) Market risk

Market risk is the risk of fluctuations in fair value of financial instrument and future cash flow by changes of market price. The purpose for managing market price is to optimize profits, while managing and controlling on exposure to market risk within acceptable limits.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various foreign currencies including the US dollar and Euro, which relates to primarily to the Group's global operating activities. The Group periodically measures and assesses the exposure to primary currencies to minimize the fluctuation of business performance and financial risk on fluctuations in foreign exchange and establish its own guidelines and manage foreign exchange risk.

[Risk]

- Risk of changes in presentation amount in Korean won due to foreign exchange fluctuation in future sales amounts denominated in foreign currency
- Risk of changes in presentation amount in Korean won due to foreign exchange fluctuation in assets and liabilities denominated in foreign currency
- Foreign exchange risk until the time of collecting accounts and notes receivable and paying of accounts and notes payable

[Strategy]

- The Group is on the principle that it minimizes the exposure to currencies by matching inflows and outflows of foreign currencies, size, and maturity.
- The Group reduces the exposure period of foreign currencies by trade financing instruments such as negotiation in order to manage the risk arising from accounts and notes receivable and accounts and notes payable from operating activities.
- The Group hedges its foreign currency risk arising from future cash flow that are expected to occur within a maximum 12-month period by making use of derivative financial instruments such as currency forwards, currency options, etc.
- Derivative financial instruments such as currency swaps, etc. are used to hedge the foreign exchange risk until maturities for borrowings in foreign currencies, whose maturity exceeds 12 months
- The Group enters into derivative financial instrument contracts based on its internal guideline and procedures for foreign exchange risk, and speculative transactions are strictly limited.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

31. Finance Risk Management, Continued

(ii) Interest rate risk

The Group is exposed to the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. To minimize uncertainty and net interest expense due to interest rate fluctuations, the Group monitors the market movements of interest rate and forecasts and thus maintains appropriate financial instruments.

[Risk]

- Risk of volatility in net interest expenses on financial instruments such as deposits due to changes in market interest rate
- Risk of future cash flows volatility of borrowings due to changes in market interest rate
- Risk of changes in interest rates on accounts and notes receivable due to changes in market interest rate

[Strategy]

- The Group manages interest rate risk with a balanced portfolio of fixed and variable rate borrowings, The Group enters into derivative financial instruments such as interest rate swaps and currency swaps to hedge the risk of cash flow fluctuations arising from changes in interest rates.
- The Group is on the principle that the contracts of derivative financial instruments are limited to hedging instruments for long-term borrowings and bonds, and it matches the key terms of the hedged items such as the maturity, size and interest payment date, etc. and keeps them until maturity.

(4) Capital management

The fundamental goal of capital management is to maintain on sound financial structure. As for this to be maintained, the Group uses debt ratio as indicator of capital management. The debt ratio is calculated as total liability divided by total equity.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments

(1) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets means maximum exposure in respect of credit risk. The maximum exposure as of December 31, 2020 and 2019, is as follows:

(In millions of Korean won)

	December 31, 2020		December 31, 2019	
Cash and cash equivalents(*)	₩	10,160,595	₩	4,268,612
Short-term financial instruments		2,912,700		3,061,687
Other current financial assets		1,806,427		1,838,821
Accounts and notes receivable – trade		1,819,008		2,154,695
Accounts and notes receivable – others		1,925,008		1,501,242
Long-term financial instruments		134,736		103,984
Other non-current financial assets		710,580		802,277
Long-term accounts and notes receivable - trade		5,377		12,440
	<u>₩</u>	<u>19,474,431</u>	<u>₩</u>	<u>13,743,758</u>

(*) Cash on hand is excluded.

(ii) Impairment

The aging information based on carrying amount of trade accounts and notes receivable and other receivables as of December 31, 2020 and 2019 is as follows:

(In millions of Korean won)

	December 31, 2020		December 31, 2019	
	Accounts and notes receivable -trade	Other receivables(*)	Accounts and notes receivable -trade	Other receivables(*)
Not overdue	₩ 1,618,242	₩ 1,484,786	₩ 2,109,321	₩ 1,860,687
Past due less than 3 months	204,693	90,821	46,747	13,188
Past due 4–6 months	1,351	23,605	2,446	33,113
Past due 7–12 months	21	153,085	520	2,389
Past due for more than 12 months	95,432	588,004	104,033	2,708
	<u>₩ 1,919,739</u>	<u>₩ 2,340,301</u>	<u>₩ 2,263,067</u>	<u>₩ 1,912,085</u>

(*) Other receivables are composed of accounts and notes receivables - other, long-term accounts and notes receivables - other, accrued income, deposits provided and guarantee deposits.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(1) Credit risk, Continued

(ii) Impairment, Continued

Changes in allowance for doubtful accounts of trade accounts and notes receivable and other receivables for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	2020		2019	
	Accounts and notes receivable -trade	Other receivables	Accounts and notes receivable -trade	Other receivables
Balance at January 1	₩ 95,932	₩ 5,304	₩ 94,872	₩ 2,991
Collection of write-off	-	-	31	-
Write-off	(1)	(491)	(3)	-
Allowance for doubtful accounts	166	(753)	774	1,050
Others	(743)	(638)	258	1,263
Balance at December 31	₩ 95,354	₩ 3,422	₩ 95,932	₩ 5,304

(2) Liquidity risk

Aggregate maturities of the Group's financial liabilities, including estimated interest, as of December 31, 2020, are summarized as follows:

(In millions of Korean won)

	Within 1 year	1-5 years	More than 5 years	Total
Non-interest-bearing liabilities:				
Accounts and notes payable – trade	₩ 7,302,405	₩ -	₩ -	₩ 7,302,405
Accounts and notes payable – others	2,133,442	-	-	2,133,442
Accrued expenses	1,595,488	-	-	1,595,488
Other current liabilities	24,246	-	-	24,246
Other non-current liabilities	-	653,159	-	653,159
Interest-bearing liabilities:				
Bonds	512,197	2,170,573	748,782	3,431,552
Borrowings	4,820,730	2,180,928	183,017	7,184,675
Lease liabilities	48,736	120,722	137,955	307,413
Financial guarantee:	272,912	405,518	-	678,430
	₩ 16,710,156	₩ 5,530,900	₩ 1,069,754	₩ 23,310,810

(*) The maturity analysis was based on the earliest expiration date when the Group would have to pay based on the undiscounted cash flows of the financial liabilities.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(2) Liquidity risk, Continued

Aggregate maturities of the Group's financial liabilities, including estimated interest, as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	<u>Within 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Non-interest-bearing liabilities:				
Accounts and notes payable – trade	₩ 6,766,756	₩ -	₩ -	₩ 6,766,756
Accounts and notes payable – others	2,641,091	-	-	2,641,091
Accrued expenses	1,751,652	-	-	1,751,652
Other current liabilities	28,584	-	-	28,584
Other non-current liabilities	-	663,603	-	663,603
Interest-bearing liabilities:				
Bonds	582,467	2,167,506	743,641	3,493,614
Borrowings	2,064,060	1,136,158	302,453	3,502,671
Lease liabilities	51,977	110,958	108,550	271,485
Financial guarantee:	<u>249,503</u>	<u>57,890</u>	<u>-</u>	<u>307,393</u>
	<u>₩ 14,136,090</u>	<u>₩ 4,136,115</u>	<u>₩ 1,154,644</u>	<u>₩ 19,426,849</u>

(*) The maturity analysis was based on the earliest expiration date when the Group would have to pay based on the undiscounted cash flows of the financial liabilities.

(3) Foreign exchange risk

The Group's equity and profit or loss would have been increased or decreased if the foreign exchange rates against USD and EUR were fluctuant. The Group assumes that interest rate fluctuates 10% as of December 31, 2020 and 2019. Also, the Group assumes that other variables, such as interest rate, are not changed by sensitive analysis. The Group analyzed by the same method that was used for the last period and details for the effect on profit before income taxes are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>10% up</u>	<u>10% down</u>	<u>10% up</u>	<u>10% down</u>
USD	₩ (219,294)	₩ 219,294	₩ (147,957)	₩ 147,957
EUR	(146,957)	146,957	(72,936)	72,936

(4) Interest rate risk

Sensitivity analysis of interest income/expenses from changes in interest rate as of December 31, 2020 and 2019, is summarized as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>100 bp up</u>	<u>100 bp down</u>	<u>100 bp up</u>	<u>100 bp down</u>
Interest income	₩ 101,606	₩ (101,606)	₩ 47,697	₩ (47,697)
Interest expenses	28,350	(28,350)	18,837	(18,837)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(5) Fair value

(i) Fair value and carrying amount

Details of fair value and carrying amount of financial assets and liabilities by category as of December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	December 31, 2020	
	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss:		
Other current financial assets	₩ 1,642,289	₩ 1,642,289
Other non-current financial assets	106,309	106,309
Derivative assets	-	-
	<u>₩ 1,748,598</u>	<u>₩ 1,748,598</u>
Financial assets measured at fair value through other comprehensive income:		
Long-term equity securities	₩ 336,619	₩ 336,619
Financial assets measured at amortized cost:		
Cash and cash equivalents	₩ 10,160,697	₩ 10,160,697
Short-term financial instruments	2,912,700	2,912,700
Accounts and notes receivable – trade	1,819,008	1,819,008
Accounts and notes receivable – others	1,925,008	1,925,008
Other current financial assets	164,137	164,137
Long-term financial instruments	134,736	134,736
Long-term accounts and notes receivable – trade	5,377	5,377
Other non-current financial assets	267,651	267,651
	<u>₩ 17,389,314</u>	<u>₩ 17,389,314</u>
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	₩ 12,843	₩ 12,843
Financial liabilities measured at amortized cost:		
Accounts and notes payable – trade	₩ 7,302,405	₩ 7,302,405
Accounts and notes payable – others	2,133,442	2,133,442
Bonds	3,157,888	3,185,515
Borrowings	7,008,828	7,021,472
Others	2,478,210	2,478,210
	<u>₩ 22,080,773</u>	<u>₩ 22,121,044</u>
Financial instruments designated as cash flow hedges:		
Derivative assets	₩ -	₩ -
Derivative liabilities	43,677	43,677
	<u>₩ (43,677)</u>	<u>₩ (43,677)</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

(i) Fair value and carrying amount, Continued

Details of fair value and carrying amount of financial assets and liabilities by category as of December 31, 2019 is summarized as follows:

(In millions of Korean won)

	December 31, 2019	
	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss:		
Other current financial assets	₩ 1,682,976	₩ 1,682,976
Other non-current financial assets	106,310	106,310
Derivative assets	821	821
	<u>₩ 1,790,107</u>	<u>₩ 1,790,107</u>
Financial assets measured at fair value through other comprehensive income:		
Long-term equity securities	₩ 378,004	₩ 378,004
Financial assets measured at amortized cost:		
Cash and cash equivalents	₩ 4,268,716	₩ 4,268,716
Short-term financial instruments	3,061,687	3,061,687
Accounts and notes receivable – trade	2,154,695	2,154,695
Accounts and notes receivable – others	1,501,242	1,501,242
Other current financial assets	146,354	146,354
Long-term financial instruments	103,984	103,984
Long-term accounts and notes receivable – trade	12,440	12,440
Other non-current financial assets	297,422	297,422
	<u>₩ 11,546,540</u>	<u>₩ 11,546,540</u>
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	₩ 22,536	₩ 22,536
Financial liabilities measured at amortized cost:		
Accounts and notes payable – trade	₩ 6,766,756	₩ 6,766,756
Accounts and notes payable – others	2,641,091	2,641,091
Bonds	3,166,914	3,201,728
Borrowings	3,298,243	3,318,943
Others	2,653,101	2,653,101
	<u>₩ 18,526,105</u>	<u>₩ 18,581,619</u>
Financial instruments designated as cash flow hedges:		
Derivative assets	₩ 29,212	₩ 29,212
Derivative liabilities	(2,836)	(2,836)
	<u>₩ 26,376</u>	<u>₩ 26,376</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

(i) Fair value and carrying amount, Continued

The Group measured the fair value of financial instruments as follows:

- The fair value of financial assets traded within the market is measured at the closing bid price quoted at the end of the reporting period.
- The fair value of the derivatives is measured at the present value of the difference between contractual forward price and future forward price at the end of the reporting period discounted for the remaining period of the contract.

Except for the financial assets and liabilities above, the fair value of accounts receivable and others classified as current assets is close to their carrying amounts. In addition, the fair value of other financial instruments is determined as the present value of estimated future cash flows discounted at the current market interest rate. As of December 31, 2020, there are no significant business climate and economic environment changes affecting the fair value of financial assets and liabilities.

(ii) Fair value hierarchy

Fair value measurements classified by fair value hierarchy as of December 31, 2020, are summarized as follows:

(In millions of Korean won)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Other current financial assets	₩ -	₩ 1,642,289	₩ -	₩ 1,642,289
Other non-current financial assets	-	106,309	-	106,309
Marketable equity securities	213,632	-	-	213,632
Non-marketable equity securities	-	-	122,987	122,987
	<u>₩ 213,632</u>	<u>₩ 1,748,598</u>	<u>₩ 122,987</u>	<u>₩ 2,085,217</u>
Financial liabilities				
Derivatives liabilities	₩ -	₩ 56,520	₩ -	₩ 56,520

There were no significant transfers between levels 1, 2 and 3.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

The valuation techniques and the unobservable inputs used in measuring Level 2 and 3 fair values as of December 31, 2020, are summarized as follows:

(In millions of Korean won)

	<u>Fair value</u>	<u>Valuation methods</u>	<u>Inputs</u>
Financial assets at fair value through profit or loss	₩ 1,748,598		
Financial assets at fair value through other comprehensive income	122,987		
Financial liabilities at fair value through profit or loss	12,843	DCF model and others	Discount rate and others(*)
Derivative liabilities designated as cash flow hedges	43,677		

(*) When discounting the expected cash flow, the Group used the interest rate that added the credit spread to the government bond yield as of December 31, 2020 and the weighted average capital cost of the entities to be evaluated

(iii) Financial instruments not measured at fair value and for which fair value is disclosed

Financial instruments recognized by amortized cost, but presented as fair value classified by fair value hierarchy as of December 31, 2020, are summarized as follows:

(In millions of Korean won)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds and borrowings	₩ -	₩ -	₩ 10,206,987	₩ 10,206,987

The Group has not disclosed the fair value hierarchy for financial instruments because their carrying amounts are a reasonable approximation of the fair values.

The valuation techniques and the significant but not unobservable input variables used in measuring the fair value of financial instruments classified as Level 3 of financial instruments measured at amortized cost but disclosed at fair value are as follows:

(In millions of Korean won)

	<u>Fair value</u>	<u>Valuation methods</u>	<u>Significant unobservable input</u>
Bonds and borrowings	₩ 10,206,987	DCF model	Discount rate considering credit risk

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(6) Income and expenses by financial instruments category

Income and expenses by financial instruments category for the year ended December 31, 2020 are summarized as follows:

(In millions of Korean won)

	<u>Finance income</u>	<u>Finance costs</u>	<u>Other comprehensive income</u>
Financial assets at fair value through profit or loss	₩ 38,731	₩ -	₩ -
Financial assets at fair value through other comprehensive income	3,503	-	96,489
Financial assets measured at amortized cost	137,728	43,850	-
Financial liabilities measured at amortized cost	110,971	344,671	-
Derivative instruments	50,911	36,235	15,414
	<u>₩ 341,844</u>	<u>₩ 424,756</u>	<u>₩ 111,903</u>

Income and expenses by financial instruments category for the year ended December 31, 2019 are summarized as follows:

(In millions of Korean won)

	<u>Finance income</u>	<u>Finance costs</u>	<u>Other comprehensive income</u>
Financial assets at fair value through profit or loss	₩ 37,777	₩ -	₩ -
Financial assets at fair value through other comprehensive income	2,898	-	43,103
Financial assets measured at amortized cost	159,629	6,970	-
Financial liabilities measured at amortized cost	25,218	262,651	-
Derivative instruments	12,280	22,652	20,868
	<u>₩ 237,802</u>	<u>₩ 292,273</u>	<u>₩ 63,971</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

32. Risk Management of Financial Instruments, Continued

(7) Offsetting financial assets and financial liabilities

(i) Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2020, are summarized as follows:

(In millions of Korean won)

	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial liabilities set off	Net amounts of financial assets/liabilities	Related amounts not set off	Net amount
Financial assets:					
Accounts and notes receivable - trade, and others	₩ 436,067	₩ (301,234)	₩ 134,833	₩ (30,953)	₩ 103,880
Financial liabilities:					
Short-term borrowings	4,379,771	-	4,379,771	(4,379,771)	-
Accounts and notes payables- trade, and others	<u>1,938,199</u>	<u>(300,126)</u>	<u>1,638,073</u>	<u>(30,953)</u>	<u>1,607,120</u>
	<u>₩ 6,317,970</u>	<u>₩ (300,126)</u>	<u>₩ 6,017,844</u>	<u>₩ (4,410,724)</u>	<u>₩ 1,607,120</u>

(ii) Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial liabilities set off	Net amounts of financial assets/liabilities	Related amounts not set off	Net amount
Financial assets:					
Accounts and notes receivable - trade, and others	₩ 475,864	₩ (319,723)	₩ 156,141	₩ (12,502)	₩ 143,639
Financial liabilities:					
Short-term borrowings	1,329,410	-	1,329,410	(1,329,410)	-
Accounts and notes payable - trade, and others	<u>2,146,011</u>	<u>(319,723)</u>	<u>1,826,288</u>	<u>(12,502)</u>	<u>1,813,786</u>
	<u>₩ 3,475,421</u>	<u>₩ (319,723)</u>	<u>₩ 3,155,698</u>	<u>₩ (1,341,912)</u>	<u>₩ 1,813,786</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

33. Related party transactions

(1) Significant transactions

Significant transactions arising from operation between the Group and related parties or affiliates by the Monopoly Regulation and Fair Trade Act of the Republic of Korea (the "Act") for the year ended December 31, 2020, are summarized as follows:

(In millions of Korean won)

Relation	Company	Revenue			Expenses		
		Sales	Other	Total	Purchases	Other	Total
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 348,143	₩ 10,909	₩ 359,052	₩ 458,493	₩ 618,413	₩ 1,076,906
	Hyundai Motor America	219,251	-	219,251	4,274	90,377	94,651
	Hyundai Motor Manufacturing Czech, s.r.o.	380,587	246	380,833	60,517	4,267	64,784
	Hyundai Motor Manufacturing Alabama, LLC	-	38,289	38,289	343,465	-	343,465
	Hyundai Auto Canada Corp.	17,506	-	17,506	646	40,230	40,876
	Hyundai Kefico Corporation	4	3,812	3,816	292,606	22	292,628
	Others	358,395	4,608	363,003	274,181	156,696	430,877
Joint ventures and associates	Hyundai Mobis Co., Ltd.	70,653	3,720	74,373	6,074,544	2,352	6,076,896
	EUKOR Car Carriers, Inc.	-	395	395	-	179,316	179,316
	Hyundai Transys Inc.	62,428	34	62,462	1,051,338	4,329	1,055,667
	Hyundai Capital Services, Inc.	668,832	58	668,890	948	99,420	100,368
	Donghee Auto Co., Ltd.	392	-	392	127,420	1,754	129,174
	Hyundai Engineering Co., Ltd.	264	733	997	9,177	108,155	117,332
	Hyundai Steel Co., Ltd.	9,357	13	9,370	76,924	-	76,924
	Mobis Alabama, LLC	4,729	9,625	14,354	1,631,186	23,300	1,654,486
	Mobis Slovakia s.r.o.	30,749	4,016	34,765	1,461,658	2,368	1,464,026
	Hyundai Motor Manufacturing Rus LLC	15,721	-	15,721	961,651	39	961,690
	Hyundai Motor Group China, Ltd.	-	-	-	-	12,473	12,473
	Hyundai Transys Georgia Powertrain, Inc. (formerly, Powertech America Inc)	-	3,159	3,159	317,324	849	318,173
	Mobis Parts America, LLC	-	296	296	733,124	-	733,124
	Dongfeng Yueda Kia Motors Co., Ltd.	75,427	20,319	95,746	288,922	1,127	290,049
	Sewon America, Inc.	-	1	1	170,876	14,934	185,810
Others	35,548	25,316	60,864	2,803,573	1,712,323	4,515,896	
Other related parties	4,145	11,431	15,576	392	4,909	5,301	
Affiliates by the Act	68,061	35,667	103,728	6,724,786	954,112	7,678,898	

For the year ended December 31, 2020, the Group received dividends of ₩119,269 million from related parties and paid dividends of ₩166,155 million to related parties. In addition, the Group receives royalties for production of products in accordance with contracts with production entities domiciled in foreign countries and others.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

33. Related party transactions, Continued

(1) Significant transactions, Continued

Significant transactions arising from operation between the Group and related parties or affiliates by the Act for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

Relation	Company	Revenue			Expenses		
		Sales	Other	Total	Purchases	Other	Total
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 129,984	₩ 50,476	₩ 180,460	₩ 562,499	₩ 627,610	₩1,190,109
	Hyundai Motor America	291,411	-	291,411	2,190	130,607	132,797
	Hyundai Motor Manufacturing Czech, s.r.o.	544,535	480	545,015	89,255	1,156	90,411
	Hyundai Motor Manufacturing Alabama, LLC	-	91,407	91,407	359,158	1,183	360,341
	Hyundai Auto Canada Corp.	90,248	-	90,248	1,290	37,387	38,677
	Hyundai Kefico Corporation	28	8	36	291,939	22	291,961
	Others	191,861	6,138	197,999	7,427	209,513	216,940
Joint ventures and associates	Hyundai Mobis Co., Ltd.	115,852	2,988	118,840	5,249,303	1,075	5,250,378
	EUKOR Car Carriers, Inc.	-	432	432	-	223,653	223,653
	Hyundai Transys Inc.	22,932	173	23,105	1,117,347	1,649	1,118,996
	Hyundai Capital Services, Inc.	667,431	217	667,648	470	84,940	85,410
	Donghee Auto Co., Ltd.	38	-	38	152,302	83	152,385
	Hyundai Engineering Co., Ltd.	51	302	353	10,282	97,676	107,958
	Hyundai Steel Co., Ltd.	12,820	1,152	13,972	104,331	-	104,331
	Mobis Alabama, LLC	6,921	11,865	18,786	1,735,514	18,340	1,753,854
	Mobis Slovakia s.r.o.	43,064	16,861	59,925	1,652,023	33,460	1,685,483
	Hyundai Motor Manufacturing Rus LLC	18,048	-	18,048	1,136,314	38	1,136,352
	Hyundai Motor Group China, Ltd.	-	-	-	-	10,027	10,027
	Powertech America, Inc.	-	5,770	5,770	362,212	-	362,212
	Mobis Parts America, LLC	-	-	-	727,950	-	727,950
	Dongfeng Yueda Kia Motors Co., Ltd.	102,004	5,950	107,954	271,887	1,172	273,059
Sewon America, Inc.	-	1	1	202,724	15,790	218,514	
Others	36,114	16,022	52,136	2,986,682	2,256,365	5,243,047	
Other related parties	8,426	-	8,426	726	4,092	4,818	
Affiliates by the Act	75,568	37,770	113,338	6,525,813	1,379,924	7,905,737	

For the year ended December 31, 2019, the Group received dividends of ₩140,485 million from related parties and paid dividends of ₩130,035 million to related parties. In addition, the Group receives royalties for production of products in accordance with contracts with production entities domiciled in foreign countries and others.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

33. Related party transactions, Continued

(2) Account balances

Significant account balances with related parties or affiliates by the Act as of December 31, 2020, are summarized as follows:

(In millions of Korean won)

Relation	Company	Receivables			Payables		
		Trade	Other	Total	Trade	Other	Total
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 102,897	₩ 53,426	₩ 156,323	₩ 156,309	₩ 212,837	₩ 369,146
	Hyundai Motor America	50,454	-	50,454	922	67,067	67,989
	Hyundai Motor Manufacturing Czech, s.r.o.	50,004	13	50,017	-	495	495
	Hyundai Motor Manufacturing Alabama, LLC	-	2,360	2,360	55,654	-	55,654
	Hyundai Auto Canada Corp.	-	-	-	98	28,186	28,284
	Hyundai Kefico Corporation	-	10	10	62,379	-	62,379
	Others	75,584	18,559	94,143	42,803	18,527	61,330
Joint ventures and associates	Hyundai Mobis Co., Ltd.	25,433	1,606	27,039	1,436,887	527	1,437,414
	EUKOR Car Carriers, Inc.	-	32	32	10,608	30	10,638
	Hyundai Transys Inc.	12,009	1,010	13,019	279,431	2,209	281,640
	Hyundai Capital Services, Inc.	40,826	22	40,848	-	192,178	192,178
	Donghee Auto Co., Ltd.	-	-	-	9,221	-	9,221
	Hyundai Engineering Co., Ltd.	-	29	29	3,743	13,027	16,770
	Hyundai Steel Co., Ltd.	1,040	395	1,435	15,891	-	15,891
	Mobis Alabama, LLC	183	1,686	1,869	295,574	-	295,574
	Mobis Slovakia s.r.o.	-	3	3	109,009	5,231	114,240
	Hyundai Motor Manufacturing Rus LLC	6,728	-	6,728	136,195	-	136,195
	Hyundai Motor Group China, Ltd.	-	-	-	-	5,960	5,960
	Hyundai Transys Georgia Powertrain, Inc. (formerly, Powertech America, Inc.)	-	450	450	58,014	-	58,014
	Mobis Parts America, LLC	-	-	-	60,165	-	60,165
	Dongfeng Yueda Kia Motors Co., Ltd.	69,041	125	69,166	16,438	686	17,124
	Sewon America, Inc.	-	-	-	13,560	-	13,560
Others	20,297	13,455	33,752	608,700	66,953	675,653	
Other related parties		1,725	8	1,733	41	531	572
Affiliates by the Act		8,682	19,045	27,727	1,253,406	86,373	1,339,779

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

33. Related party transactions, Continued

(2) Account balances, Continued

Significant account balances with related parties or affiliates by the Act as of December 31, 2019, are summarized as follows:

millions of Korean won)

Relation	Company	Receivables			Payables		
		Sales	Other	Total	Purchases	Other	Total
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 59,279	₩ 37,511	₩ 96,790	₩ 147,431	₩ 324,099	₩ 471,530
	Hyundai Motor America	59,299	-	59,299	426	26,015	26,441
	Hyundai Motor Manufacturing Czech, s.r.o.	22,531	36	22,567	-	1,034	1,034
	Hyundai Motor Manufacturing Alabama, LLC	-	-	-	23,417	599	24,016
	Hyundai Auto Canada Corp.	5,232	-	5,232	417	1,358	1,775
	Hyundai Kefico Corporation	-	6	6	60,139	-	60,139
	Others	25,675	20,301	45,976	460	22,738	23,198
Joint ventures and associates	Hyundai Mobis Co., Ltd.	35,144	321	35,465	1,183,039	12,777	1,195,816
	EUKOR Car Carriers, Inc.	-	20	20	-	15,281	15,281
	Hyundai Transys Inc.	-	9,885	9,885	263,773	299	264,072
	Hyundai Capital Services, Inc.	67,857	9	67,866	-	218,394	218,394
	Donghee Auto Co., Ltd.	2	-	2	9,907	-	9,907
	Hyundai Engineering Co., Ltd.	-	17	17	8,568	11,365	19,933
	Hyundai Steel Co., Ltd.	6,028	63	6,091	19,408	1,422	20,830
	Mobis Alabama, LLC	499	3,035	3,534	270,888	55	270,943
	Mobis Slovakia s.r.o.	-	-	-	125,420	5,379	130,799
	Hyundai Motor Manufacturing Rus LLC	361	7,000	7,361	145,459	-	145,459
	Hyundai Motor Group China, Ltd.	-	-	-	-	5,496	5,496
	Powertech America, Inc.	-	969	969	56,286	-	56,286
	Dongfeng Yueda Kia Motors Co., Ltd.	12,818	23,764	36,582	25,984	1,514	27,498
Sewon America, Inc.	-	-	-	14,223	-	14,223	
Others	28,340	14,673	43,013	648,795	81,541	730,336	
Other related parties		3,287	13	3,300	191	551	742
Affiliates by the Act		8,912	17,543	26,455	1,170,274	117,100	1,287,374

The Group has money market trust of ₩ 320,000 million in Hyundai Motor Securities Co., Ltd. as of December 31, 2020 (2019: ₩ 450,000 million). The Group contributed ₩ 1,050,000 million to the trust during the year ended December 31, 2020 (2019: ₩ 750,000 million) and withdrew ₩ 1,180,000 million from the trust during the year ended December 31, 2020 (2019: ₩ 750,000 million).

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

33. Related party transactions, Continued

(3) Significant capital transactions with related parties

Significant capital transactions with related parties for the years ended December 31, 2020 and 2019, are summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Investment in capital for associates	₩ 778,676	₩ 48,094

(4) Key management personnel compensation

Key management personnel compensations in total and for each of the following categories for the years ended December 31, 2020 and 2019, is summarized as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Salaries	₩ 48,082	₩ 53,001
Retirement benefits cost	13,635	13,735
	<u>₩ 61,717</u>	<u>₩ 66,736</u>

(5) Details of guarantees given to the related parties

Details of guarantees given to the related parties as of December 31, 2020 are summarized as follows:

(In thousands of US dollar)

<u>Relation</u>	<u>Company</u>	<u>Purpose</u>	<u>Financial institution</u>	<u>Period of guarantees</u>	<u>Guarantee amount</u>
Joint venture	Dongfeng Yueda Kia Motors Co., Ltd.	Construction investment and others	China Construction Bank Corporation and others	2018.04.02~ 2023.04.19	USD 150,000

34. Date of Authorization for Issuance of the consolidated financial statements

The consolidated financial statements as of and for the year ended on December 31, 2020 to be submitted at the shareholders' meeting were authorized for issuance at the Board of Directors' meeting held on February 19, 2021.

Independent auditor's report

English Translation of Independent Auditor's Report Originally Issued in Korean on March 6, 2020

To the Shareholders and the Board of Directors of Kia Motors Corporation

Opinion

We have audited the consolidated financial statements of Kia Motors Corporation and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards("KIFRS").

Basis of opinion

We conducted our audit in accordance with Korean Auditing Standards("KGAAS"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Korea, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(Key audit matter 1) Classification of the performance obligation of warranty for the vehicles sold and measurement of the related amount:

As described in Note 3, the Group provides free warranties for the customers for a period of time after the vehicles were sold, and these warranties are divided into assurance type warranties and service type warranties. In the case of service type warranties, certain portion of sales proceeds received at the time of the vehicle sale is allocated to the warranty obligation and recognized as revenue when the obligation to perform the service is fulfilled and in accordance with that, contract liabilities were recognized on the consolidated financial statements as of December 31, 2019. In the case of assurance type warranties, the amount expected to be liable by the Group in the future should be recognized as provision at the end of the reporting period and the warranty provision amounting to ₩3,619,302million has been recognized on the consolidated financial statements as of December 31, 2019.

The performance obligation of the warranty is calculated by using various assumptions and warranty policies of the Group including the duration of the warranty, the estimated warranty costs to be incurred in the future, and the discount rate. Also, these assumptions are determined by the nature and range of the free warranty provided by the Group. We have selected the topic as our 'key audit matter', taking into account the materiality of the related liability amount, the uncertainty of the estimates by the management, the complexity of the assumptions, and possible errors that may arise in classifying the types of warranty.

The main audit procedures that we have conducted related to the considerations described above are as follows:

- Reviewed whether the classification of warranty types defined in the Group's accounting policies is in accordance with KIFRS
- Assessed whether relevant controls for recognizing and measuring warranty provision are effectively designed and operated.
- Involved IT specialists to assess whether IT general controls for IT system that is being used for warranty transaction and relevant automated controls are effectively designed and operated.
- Performed a comparison of internal and external information with the baseline data of the major accounting estimates by management
- Performed an analytical review of the basis of management's assumptions used in the measurement of related liabilities with the historical data
- Performed an independent recalculation of the related liabilities balance at the end of the reporting period
- Performed a comparison of the actual warranty provided in the current year with the forecasted warranty provision from the previous year by car models

(Key audit matter 2) Complete and accurate measurement of the amount of incentive-related liabilities provided to dealers:

The Group provides a variety of incentive programs to dealers to facilitate vehicle sales. The Group reflects the forecasted amount expected to be incurred from dealer incentives as accrued expenses in the consolidated financial statements.

Kia Motors America, Inc. (KMA), a subsidiary in the U.S, and Dongfeng Yueda Kia Motors Co., Ltd. (DYK), a joint venture in China, account for the significant proportion of the total incentive amount of the Group and due to various terms and conditions of incentive programs, accounting estimates and complex calculations are performed when measuring related liabilities. We have selected this topic as a key audit matter, taking into account the importance of the incentive amount of KMA and DYK and the risk that the related liabilities are difficult to be measured accurately and completely due to the complexity of the estimates and calculations used by management for each incentive programs.

The main audit procedures that we have conducted related to the considerations described above are as follows:

- Reviewed whether the incentive program accounting defined in the Group's accounting policies corresponds to the KIFRS
- Involved the component auditors to perform the following procedures for the components that account for the significant proportion of incentive-related liabilities
 - Understanding the process for the baseline data aggregation process of key estimates used in the measurement of incentive-related liabilities
 - Comparison of internal and external information with the baseline data and estimates used by management
 - Analysis of the assumptions used by management when comparing related liabilities to historical performance
 - Performed an independent recalculation of the related liability balance as of December 31, 2019
 - Comparison of the forecasted liability recognized at the previous reporting period with the actual amount recognized as of December 31, 2019

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 KGAAS 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Do Hun, Han.

March 6, 2020

/s/ Ernst & Young Han Young

This audit report is effective as of March 6, 2020, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2019 and 2018

(In millions of Korean won)

	<i>Note</i>	December 31, 2019	December 31, 2018
Assets			
Cash and cash equivalents	5,32	₩ 4,268,716	₩ 2,292,659
Short-term financial instruments	5,32	3,061,687	4,668,305
Other current financial assets	6,32	1,838,821	1,627,041
Accounts and notes receivable – trade	23,32,33	2,154,695	2,049,248
Accounts and notes receivable – others	32,33	1,501,242	1,423,002
Advanced payments	33	471,015	99,228
Inventories	7	8,108,681	7,233,947
Current tax assets		83,628	247,414
Other current assets		66,931	70,947
Total current assets		<u>21,555,416</u>	<u>19,711,791</u>
Long-term financial instruments	5,32	103,984	82,863
Other non-current financial assets	6,32	802,277	770,841
Long-term accounts and notes receivable – trade	23,32	12,440	2,364
Investments in associates and joint ventures	8	13,916,493	13,348,454
Property, plant and equipment	4,9	15,746,675	14,803,300
Investment property	4,10	25,004	25,262
Intangible assets	4,11,12	2,552,786	2,510,391
Deferred tax assets	27	558,930	501,791
Other non-current assets		70,793	29,548
Total non-current assets		<u>33,789,382</u>	<u>32,074,814</u>
Total assets		<u>₩ 55,344,798</u>	<u>₩ 51,786,605</u>

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Financial Position, Continued

As of December 31, 2019 and 2018

(In millions of Korean won)

	<i>Note</i>	December 31, 2019	December 31, 2018
Liabilities			
Accounts and notes payable – trade	32,33	₩ 6,766,756	₩ 6,244,942
Short-term borrowings	13,32	1,414,756	1,366,649
Accounts and notes payable – others	32,33	3,233,632	2,297,229
Advances received	23	452,222	543,992
Accrued expenses	32	1,936,010	1,959,511
Income taxes payable		175,989	49,928
Current portion of long-term debt and bonds	13,17,32	1,075,465	904,989
Provisions – current	16	2,016,700	1,367,425
Other current liabilities	14,18,32	205,116	100,074
Total current liabilities		17,276,646	14,834,739
Bonds	13,17,32	2,667,128	3,098,975
Long-term debt	13,17,32	1,307,808	1,311,185
Long-term advances received	23	102,743	92,345
Net defined benefit liabilities	15	207,561	65,749
Provision for other long-term employee benefits		315,748	282,727
Provisions	16,17	1,839,440	3,459,058
Deferred tax liabilities	27	1,408,941	1,115,264
Other non-current liabilities	14,18,32	1,240,645	283,099
Total non-current liabilities		9,090,014	9,708,402
Total liabilities		26,366,660	24,543,141
Equity			
Common stock	19	2,139,317	2,139,317
Capital surplus		1,560,650	1,560,650
Retained earnings	20	26,056,216	24,711,681
Accumulated other comprehensive loss	19	(716,971)	(1,107,110)
Other equity	19	(61,074)	(61,074)
Total equity		28,978,138	27,243,464
Total liabilities and equity		₩ 55,344,798	₩ 51,786,605

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

(In millions of Korean won, except earnings per share information)

	<i>Notes</i>	2019	2018
Sales	4,23,33	₩ 58,145,959	₩ 54,169,813
Cost of sales	28,33	48,766,570	46,177,283
Gross profit		<u>9,379,389</u>	<u>7,992,530</u>
Selling expenses	24,28,33	4,261,276	3,904,977
General and administrative expenses	24,28,33	3,108,433	2,930,078
Operating profit		<u>2,009,680</u>	<u>1,157,475</u>
Gain on investments in associates and joint ventures, net	8	507,105	616,829
Finance income	25,32,33	237,802	253,691
Finance expenses	25,32,33	292,273	317,096
Other income	26,33	708,224	311,205
Other expenses	26,33	639,434	553,460
Profit before income taxes		<u>2,531,104</u>	<u>1,468,644</u>
Income tax expense	27	704,445	312,701
Profit for the year		<u>₩ 1,826,659</u>	<u>₩ 1,155,943</u>
Profit attributable to:			
Shareholders of the Company		1,826,659	1,155,943
Non-controlling interests		-	-
Earnings per share	21		
Basic earnings per share in Korean won		<u>₩ 4,556</u>	<u>₩ 2,883</u>

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Profit for the year	₩ 1,826,659	₩ 1,155,943
Other comprehensive income(loss) for the year:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit plans	(66,023)	(124,527)
Remeasurements of associates, net	(55,023)	(88,667)
Change in fair value of financial assets measured at fair value through other comprehensive income	43,103	(72,405)
	<u>(77,943)</u>	<u>(285,599)</u>
Items that may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	20,868	(22,753)
Change in capital adjustments – increase(decrease) in gain of equity method accounted investment	20,273	(6,951)
Change in capital adjustments – decrease(increase) in loss of equity method accounted investment	173,404	(121,409)
Exchange differences on translating foreign operations, net	132,251	(16,199)
	<u>346,796</u>	<u>(167,312)</u>
Other comprehensive income(loss) for the year	<u>268,853</u>	<u>(452,911)</u>
Total comprehensive income for the year	₩ 2,095,512	₩ 703,032
Comprehensive income attributable to :		
Shareholders of the Company	2,095,512	703,032
Non-controlling interests	-	-

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(In millions of Korean won)

	<i>Attributable to owners of the Company</i>					Total
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Other equity	
Balance at January 1, 2018	2,139,317	1,560,650	24,074,322	(852,038)	(61,074)	26,861,177
Effects of changes in accounting standards	-	-	15,355	(15,355)	-	-
Comprehensive income:						
Profit for the year	-	-	1,155,943	-	-	1,155,943
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(72,405)	-	(72,405)
Effective portion of changes in fair value of cash flow hedges	-	-	-	(22,753)	-	(22,753)
Changes in capital adjustments – decrease in gain of equity method accounted investment	-	-	-	(6,951)	-	(6,951)
Changes in capital adjustments – increase in loss of equity method accounted investment	-	-	-	(121,409)	-	(121,409)
Remeasurements of defined benefit plans	-	-	(124,527)	-	-	(124,527)
Remeasurements of associates, net	-	-	(88,667)	-	-	(88,667)
Foreign exchange differences on translating foreign operations, net	-	-	-	(16,199)	-	(16,199)
Total comprehensive income	-	-	942,749	(239,717)	-	703,032
Transactions with owners and other, recorded directly in equity:						
Payment of dividends	-	-	(320,745)	-	-	(320,745)
Balance at December 31, 2018	2,139,317	1,560,650	24,711,681	(1,107,110)	(61,074)	27,243,464

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018, Continued

(In millions of Korean won)

	Attributable to owners of the Company					Total
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Other equity	
Balance at January 1, 2019	2,139,317	1,560,650	24,711,681	(1,107,110)	(61,074)	27,243,464
Comprehensive income:						
Profit for the year	-	-	1,826,659	-	-	1,826,659
Change in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	43,103	-	43,103
Derecognition of financial assets measured at fair value through other comprehensive income	-	-	(240)	240	-	-
Effective portion of changes in fair value of cash flow hedges	-	-	-	20,868	-	20,868
Changes in capital adjustments – increase in gain of equity method accounted investment	-	-	-	20,273	-	20,273
Changes in capital adjustments – decrease in loss of equity method accounted investment	-	-	-	173,404	-	173,404
Remeasurements of defined benefit plans	-	-	(66,023)	-	-	(66,023)
Remeasurements of associates, net	-	-	(55,023)	-	-	(55,023)
Foreign exchange differences on translating foreign operations, net	-	-	-	132,251	-	132,251
Total comprehensive income	-	-	1,705,373	390,139	-	2,095,512
Transactions with owners and other, recorded directly in equity:						
Payment of dividends	-	-	(360,838)	-	-	(360,838)
Balance at December 31, 2019	2,139,317	1,560,650	26,056,216	(716,971)	(61,074)	28,978,138

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(In millions of Korean won)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Cash generated from operations	30	₩ 3,584,190	₩ 4,858,208
Interest received		216,999	203,714
Interest paid		(153,768)	(153,476)
Dividends received		140,543	119,169
Income tax paid		(177,306)	(556,851)
Net cash provided by operating activities		<u>3,610,658</u>	<u>4,470,764</u>
Cash flows from investing activities			
Net decrease in short-term financial instruments		1,606,620	629,982
Decrease in other current financial assets		-	1,226,697
Decrease in other non-current financial assets		15,444	-
Proceeds from disposal of investments in associates and joint ventures		21,636	-
Proceeds from disposal of property, plant and equipment		77,337	78,935
Proceeds from disposal of intangible assets		885	2,706
Net increase in long-term financial instruments		(20,729)	(1,262)
Increase in other current financial assets		(330,041)	(4,685)
Increase in other non-current financial assets		(17,390)	(2,469)
Acquisition of investments in associates and joint ventures		(48,094)	(3,638)
Acquisition of property, plant and equipment		(1,736,486)	(2,376,265)
Acquisition of intangible assets		(673,372)	(705,445)
Net cash used in investing activities		<u>(1,104,190)</u>	<u>(1,155,444)</u>
Cash flows from financing activities			
Cash proceeds from short-term borrowings and long-term debts		661,889	291,010
Cash proceeds from other financing activities		1,893	89
Repayment of short-term borrowings and long-term debts		(974,224)	(2,506,959)
Payment of dividends		(360,838)	(320,745)
Payment of lease liabilities		(54,998)	(1,366)
Cash payments to other financing activities		(25)	(5,028)
Net cash used in financing activities		<u>(726,303)</u>	<u>(2,542,999)</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currencies			
		195,892	(41,400)
Net increase in cash and cash equivalents		1,976,057	730,921
Cash and cash equivalents at January 1		<u>2,292,659</u>	<u>1,561,738</u>
Cash and cash equivalents at December 31		<u>₩ 4,268,716</u>	<u>₩ 2,292,659</u>

See accompanying notes to consolidated financial statements

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

1. General description of the Company and its subsidiaries

(1) General description of the Parent Company

Kia Motors Corporation (the “Company”) was established in December 1944 under the laws of the Republic of Korea to manufacture and sell a range of passenger cars, recreational vehicles and other commercial vehicles in domestic and international markets. The Company owns and operates three principal automobile production sites: the Sohari factory, the Hwasung factory and the Kwangju factory.

The shares of the Company have been listed on the Korea Exchange since 1973. As of December 31, 2019, the Company’s largest shareholder is Hyundai Motor Company, which holds 33.88% of the Company’s stock issued and outstanding.

The consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) comprise the Group and its interests in associates and joint ventures.

(2) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2019, are summarized as follows:

Subsidiaries	Country	Main business	Percentage of ownership
Kia Motors America, Inc. (KMA)	U.S.A.	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Manufacturing Georgia, Inc. (KMMG)(*1)	U.S.A.	Manufacturing and sale of vehicles and parts	100.00%
Kia Canada Inc. (KCI)(*2)	Canada	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Deutschland GmbH (KMD)	Germany	"	100.00%
Kia Motors Europe GmbH (KME)	Germany	Holding company	100.00%
Kia Motors Polska Sp.zo.o. (KMP)(*3)	Poland	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Slovakia s.r.o. (KMS)	Slovakia	Manufacturing and sale of vehicles and parts	100.00%
Kia Motors Sales Slovensko s.r.o. (KMSs)(*4)	Slovakia	Exclusive importer and distributor of motor vehicles and parts	100.00%
Kia Motors Belgium N.V. (KMB)(*4)	Belgium	"	100.00%
Kia Motors Czech s.r.o. (KMCZ)(*4)	Czech	"	100.00%
Kia Motors UK Ltd. (KMUK)(*4)	United Kingdom	"	100.00%
Kia Motors Austria GmbH (KMAS)(*4)	Austria	"	100.00%
Kia Motors Hungary Kft. (KMH)(*5)	Hungary	"	100.00%
Kia Motors Iberia S.L. (KMIB)(*4)	Spain	"	100.00%
Kia Motors Sweden AB (KMSW)(*4)	Sweden	"	100.00%
Kia Motors France SAS (KMF)(*4)	France	"	100.00%
Kia Motors Nederland B.V. (KMNL)(*4)	Netherlands	"	100.00%
Kia Motors Company Italy S.r.l (KMIT)(*4)	Italy	"	100.00%
Kia Motors Russia LLC (KMR)(*6)	Russia	"	100.00%
Kia Motors Australia Pty Ltd. (KMAU)	Australia	"	100.00%
Kia Motors New Zealand Pty Ltd. (KMNZ)(*7)	New Zealand	"	100.00%
Kia Motors Mexico S.A de C.V. (KMM)(*8)	Mexico	Manufacturing and sale of vehicles and parts	100.00%
Kia Motors India Private Limited (KMI)	India	"	99.99%

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

1. General description of the Company and its subsidiaries, Continued

(2) Consolidated subsidiaries, Continued

- (*1) 100.00% owned by KMA
- (*2) 17.47% owned by KMA
- (*3) 100.00% owned by KMD
- (*4) 100.00% owned by KME
- (*5) 100.00% owned by KMAS
- (*6) 80.00% owned by KME and 20.00% owned by KMD
- (*7) 100.00% owned by KMAU
- (*8) 0.01% owned by KMA

In addition to entities stated in the note above, the Group consolidates 13 standalone investment trust as they are under the control of the Group.

(3) Financial information of subsidiaries

Financial information of significant subsidiaries (before eliminating intra-group transaction) as of and for the years ended December 31, 2019 and 2018, are summarized as follows:

(i) Financial information as of and for the year ended December 31, 2019

(In millions of Korean won)

<u>Company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
KMA	₩ 4,815,597	₩ 4,579,436	₩ 15,993,131	₩ 25,643
KMMG	2,462,894	1,767,968	7,077,471	(161,371)
KMS	2,959,753	1,269,728	7,298,349	415,729
KMM	2,055,643	1,636,393	5,094,206	31,290
KMI	2,066,177	1,452,100	913,943	(51,909)
KMR	942,282	507,338	4,339,887	115,971

(ii) Financial information as of and for the year ended December 31, 2018

(In millions of Korean won)

<u>Company</u>	<u>Total assets</u>	<u>Total liabilities</u>	<u>Sales</u>	<u>Net income (loss)</u>
KMA	₩ 4,753,158	₩ 4,533,341	₩ 13,910,269	₩ (232,519)
KMMG	2,298,225	1,472,340	5,660,675	(541)
KMS	2,767,759	1,435,898	6,734,243	312,557
KMM	2,193,332	1,818,197	4,884,656	20,213
KMR	600,153	328,978	4,050,118	233,735

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Basis of Preparation

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“KIFRS”), as prescribed in the *Act on External Audit of Stock Companies* in the Republic of Korea.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statements of financial position:

- Financial assets at fair value through profit or loss are measured at fair value
- Financial assets at fair value through other comprehensive income are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of total present value of defined benefit obligations less the fair value of planned assets

(3) Functional and presentation currency

The consolidated financial statements are presented in Korean won, which is the Group’s functional currency and the currency of the primary economic environment in which the Group operates.

(4) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with KIFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following notes:

- Note 15 : Retirement benefits plan
- Note 16 : Provisions
- Note 17 : Commitments and contingencies
- Note 23 : Revenue from contracts with customers
- Note 27 : Income tax expense
- Note 29 : Leases

(5) Measurement of fair value

A number of the Group’s accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of KIFRS, including the level in the fair value hierarchy in which such valuations should be classified.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The consolidated financial statements for the years ended December 31, 2019 and 2018 are based on the same accounting policies except for the newly applied standards (*KIFRS 1116: 'Lease'*).

(1) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the Company's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the Company and non-controlling interest holders even when the allocation reduces the non-controlling interest balance below zero.

Changes in the Company's ownership interest in a subsidiary

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the Company.

(2) Business combination

Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Contingent liabilities that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with KIFRS 1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with KIFRS 1019 *Employee Benefits*

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant accounting policies, Continued

(2) Business combination, Continued

Acquisition-related costs are costs the acquirer incurs to affect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized as expenses during the period in which the costs incurred and the services rendered except for the issuance costs of debt or equity securities recognized in accordance with KIFRS 1032 *Financial Instruments: Presentation* and KIFRS 1109 *Financial Instruments*.

Goodwill

Goodwill derived from business combinations occurred is measured at fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquire, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, bargain purchase gain is immediately recognized in statements of income for the period. Goodwill is subsequently measured at cost, less accumulated impairment losses.

Acquisition of non-controlling interests is accounted for intercompany transaction, and related goodwill is not recognized.

(3) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate and joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate and joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(4) Cash and cash equivalents

Cash and cash equivalents composed of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(5) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined based on the specific identification method for materials-in-transit and moving-average method for all other inventories, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

When inventories are sold, the carrying amount of those inventories is recognized as cost of goods sold in same period as the related revenue. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(6) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value, less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(7) Non-derivative financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under KIFRS 1115.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(7) Non-derivative financial assets, Continued

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through OCI with recycling of cumulative gains and losses

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For financial assets at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 *Financial Instruments: Presentation*.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as finance income/expense in the consolidated statements of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(7) Non-derivative financial assets, Continued

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset.

Derecognition

A financial asset is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(8) Non-derivative financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value, minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statements of financial position when it is extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires).

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(9) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(a) Hedge accounting

The Group holds derivative contracts to manage foreign exchange and interest rate risk. The Group designated derivatives as hedging instruments to hedge the foreign currency risk of highly probable forecasted transactions and interest rate fluctuation risk (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship, as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(9) Derivative financial instruments, including hedge accounting, Continued

Cash flow hedge, Continued

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment.

(b) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(10) Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For financial assets at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

If the Group's financial assets at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category, they are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(11) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as consolidated items, if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The transferred amount is derecognized and the costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its consolidated useful life.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	<u>Estimated useful lives (years)</u>
Buildings and structures	20–40
Machinery and equipment	3–15
Dies, molds and tools	3–5
Vehicles	3–5
Other equipment	3–5

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in another income or expenses.

(12) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(13) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost, less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for intended use. The residual value of intangible assets is zero. However, as useful lives of intangible assets are not foreseeable to the periods over which memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

	<u>Estimated useful lives (years)</u>
Development costs	(*)
Industrial property rights	5, 10
Software	2–5
Membership	Indefinite
Others	9–25

(*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products.

The amortization periods and amortization methods of intangible assets with finite useful lives are reviewed at the end of each reporting period. The amortization methods and the useful lives of intangible asset as indefinite are reviewed and validated at the end of each reporting period. If an indefinite useful life is not supported no longer, the change from indefinite to finite life is accounted for as a change in accounting estimate. Intangible assets with indefinite useful lives(e.g. membership) are not amortized, instead the assets are tested for impairment annually.

Research and development

Expenditures on research activities are recognized as expense in the period in which they incur. Expenditures on development activities are capitalized as intangible assets (development costs) and amortized on a straight-line basis over the economic life when the assets become available for sale or use.

The Group's product development process consists of four stages which comprise prior research, development approval, product development and mass production. The product to be developed is decided based on discussions of product concepts and market researches which take place in the prior research stage, and the product development is commenced upon management's approval. In general, the Group recognizes intangible assets when development activities take place upon management's approval which confirms product specifications, release schedules and sales plans. Prior expenditures are considered as research activities and are recognized as expense in the period in which they incurred.

Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(14) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost, less any accumulated impairment losses.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(15) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories and deferred tax assets, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value, less costs to sell. The value in use is estimated by applying appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or a CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

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.

(16) Government grants

Government grants are not recognized, unless there is a reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received. Government grants whose primary condition is that the Group's purchases, constructs or otherwise acquires long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

Other government grants that are intended to compensate the Group for expenses incurred are deducted from related costs over the periods in which the Group recognizes the related costs as expenses. Government grants, which are intended to give immediate financial support to the Group with no future related costs, are recognized as government grant income in profit or loss.

(17) Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds with similar maturing as the expected benefit payment date. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

Retirement benefits

The Group's net obligation in respect of defined benefit plans is calculated consolidatedly for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income (loss). The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

In addition, employees of KMA are eligible to participate, upon meeting certain service requirement, in the profit sharing retirement plan under the Internal Revenue Code 401(k) in the United States. KMA and employees of KMA paid each contribution during the period in which the employees render the related service.

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is significant, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A provision shall be used only for expenditures for which the provision was originally recognized.

(19) Emission rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(19) Emission rights, Continued

Greenhouse Gases Emission Right

Greenhouse Gases Emission Right consists of emission allowances that are allocated from the government free of charge or purchased from the market. The cost includes any cost directly attributable to bringing the asset and condition necessary for it to be capable of operating in the manner intended by management.

Emission Right held for the purpose of performing the obligation is classified as intangible asset. The intangible asset is initially measured at cost and after initial recognition, is carried at cost, less accumulated impairment losses.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period. The Group derecognizes emission liability when it submits emission rights to the government.

(20) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Also, foreign currency differences arising on settlement of monetary assets and liabilities are recognized in profit or loss.

(21) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group or an entity in Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(22) Revenue from contracts with customers

The Group is engaged in the business of producing and selling passenger cars, recreational vehicles and other commercial vehicles (hereinafter referred to as "vehicles") and its parts. In a contract with a customer, the Group recognizes revenue when the control of the goods or services is transferred to the customer, at an amount that reflects the consideration expected to be paid for the goods or services. Since the Group controls the goods or services at the stage prior to the delivery of the contracted goods or services to the customers, the Group operates on a contractual principle with all customers.

There are other commitments other than the provision of goods on the sales contract of the vehicles and its parts with the customer by the Group and the Group considers whether the obligations under these other commitments are separate performance obligations that requires certain portion of the transaction amount to be allocated. Accordingly, the Group is required to separately identify the provision of service type warranties that exists in the sales contract of the vehicles and its parts, the provision of the additional service goods and services, and the provision of points for the customer loyalty points program from the provision of the vehicles and its parts as separate performance obligations.

The major performance obligations of the Group for contracts with customers are as follows:

① Provision of vehicles and its parts

Revenue of the vehicles and its parts is recognized at the time of delivery of the asset, at which control of the asset is transferred to the customer, the general collecting terms being within 30 days of delivery.

When calculating the transaction price allocated to the obligation to provide vehicles and its parts, the Group considers the following:

A. Variable consideration

The transaction price allocated to the performance obligation to deliver the vehicles and its parts is based on the individual selling price of the goods and takes into account the estimated value of the transaction discount and the variable consideration due to return or refund obligations. When the uncertainty related to the variable consideration is resolved at a later date, only estimate the variable consideration at contract inception and reflect in the transaction price to the extent that it is highly probable that a significant proportion of the cumulative revenue already recognized will not be refunded.

B. Significant financing component

The Group is receiving short-term advances from certain customers, depending on the terms in the contract with customers. Applying the simplified approach of KIFRS 1115, if it is expected that the duration between the transfer of the goods to the customer and the payment of the consideration by the customer will be within one year at the time the contract is initiated, the Group does not reflect the impact of significant financing components in calculating the transaction price.

C. Provision of assurance type warranties

The Group provides warranties for repairs of defective products at the point of sale of vehicles and its parts in accordance with relevant laws and regulations. The Group determines that the majority of these guarantees are assurance type warranties as per KIFRS 1115, and accordingly the entity accounts for the guarantees in accordance with KIFRS 1037: *Provisions, contingent liabilities and contingent assets* (Note 16).

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(22) Revenue from contracts with customers, Continued

② Provision of service type warranties

In addition to the defects repair warranty at the time of the sale of the vehicles and its parts, the Group provides different additional warranties depending on the type of goods. The Group distinguishes these additional warranties as separate performance obligations under KIFRS 1115, and allocates a portion of the transaction price received in providing the goods to the performance obligations and revenues are recognized over the period when the performance obligation is fulfilled.

When the Group calculate the transaction price allocated to the obligation to provide the service type warranty, the Group considers the following:

A. Forecasting selling price of each service

In the case of a service type warranty provided by the Group, the individual selling price is not directly observed and the Group considers all available information to a reasonable extent and estimates its individual selling prices in a consistent manners.

B. Significant financing component

The Group generally receives the total transaction amount from the customer, including the consideration of the service type warranty, within 90 days from the delivery of vehicles and its parts. In general, as there is a significant difference between the point at which the Group receives the consideration for the provision of the service type guarantee and the time at which the obligation is actually fulfilled, the Group reviews whether significant financing components exist. The Group determines that the difference arises due to a reason other than providing financial services to the customer or the Group and therefore there is no significant financing component in the transaction price.

③ Provision of additional goods or services

The Group pledges to provide customers with additional goods and services in addition to the sale of the vehicles and its parts. The Group classifies these additional goods and services as separate performance obligations under KIFRS 1115 and allocates a portion of the transaction proceeds received in providing the vehicles and its parts to the performance obligation and revenues are recognized over the period when the performance obligation is implemented.

When the Group calculates the transaction price allocated to the performance obligation, the Group considers the following:

A. Forecasting selling price of each service

In case of additional goods and services provided by the Group, the individual selling prices are not directly observed, and the Group considers all available information to a reasonable extent and estimates its individual selling prices in a consistent manner.

B. Significant financing component

The Group generally receives the total transaction amount from the customer, including the consideration for the provision of additional service goods and services within 90 days from the delivery of the vehicles and its parts. In general, as there is a significant difference between the point when the Group receives the consideration for the provision of additional goods and services and when it actually performs the obligation, the Group considers the existence of significant financing components. The Group determines that the difference arises due to a reason other than providing financial services to the customer or the Group and therefore there is no significant financing components in the transaction price.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(22) Revenue from contracts with customers, Continued

④ Customer loyalty points program

The Group operates 'Red Point', a customer loyalty point program and customers are able to earn points for use in future purchases of the Group's goods under this program. Customer loyalty point program are a separate performance obligation because they provide significant rights to the customer. Accordingly, part of the sales proceeds of the vehicles are distributed to the points based on the relative individual selling prices and are recognized as contract liabilities until the point is used. Revenue is recognized when customers use points. When estimating the individual selling price of a point, the Group considers the possibility of the customer using the points in the future. The Group makes quarterly adjustments to the estimates of points to be used in the future and adjustments to the contract liabilities are reflected in the revenue.

(23) Finance income and finance costs

Financial income comprises interest income from the fair value measurement of financial assets at fair value through profit or loss and financial assets measured at amortized cost, income from disposal of financial assets at fair value through profit or loss and financial assets measured at amortized cost, changes in fair value of financial assets at fair value through profit or loss, gain on hedging instruments recognized in profit or loss, and dividend income from entities excluding associates and joint ventures. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, losses from the disposal of financial assets at fair value through profit or loss and financial assets at amortized cost, changes in fair value of financial assets, and loss on the hedging instrument recognized in profit or loss. Interest expense of borrowings is recognized as it accrues in profit or loss, using the effective interest method.

(24) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(24) Income taxes, Continued

Deferred tax, Continued

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(25) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all potential dilutive ordinary shares.

(26) Operating segments

The Group distinguishes segments based on internal reporting data reviewed periodically by top management to make decisions about the resources to be allocated to the segment and to assess the performance of the segment. As described in note 4, the Group is a single reporting entity.

(27) Cash dividend

The Group recognizes dividends payable after approval of distribution to pay cash dividends. The distribution to shareholders requires approval by shareholders. Corresponding amounts are directly reflected in equity.

(28) Leases

A. Right-of-use asset

At the commencement date, the Group recognizes a right-of-use asset. The right-of-use asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of a lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability recognized, initial direct costs incurred and etc. If it is not reasonably estimable that the lessee will obtain ownership of the underlying asset at the end of the lease term, the right-of-use asset is depreciated on a straight-line basis over the shorter of the period of useful life and lease term.

B. Lease liability

At the commencement date, the Group measures a lease liability at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(28) Leases, continued

B. Leased liability, Continued

In addition, the carrying amount of lease liabilities is remeasured if there is a change in underlying assets, a change in the fixed lease payments (including in-substance fixed lease payments), a change in the lease payment (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments), or a change in the lease term.

C. Short-term leases and leases of low-value assets

The Group applies a lease recognition exemption to: (a) leases that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option and (b) leases for which the underlying asset is of low value. The lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

(29) New and amended standards that have been applied

KIFRS newly applied and related changes in accounting policies during the current period are as follows:

- KIFRS 1116: Leases

KIFRS 1116 replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. KIFRS 1116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under KIFRS 1017.

Lessor accounting under KIFRS 1116 is not significantly changed from accounting under KIFRS 1017. A lease, in which the Group is the lessor, will continue to classify all leases using the same classification principle as in KIFRS 1017 and distinguish between two types of leases: operating and finance leases. These amendments have no significant impact on the consolidated financial statements of the Group.

The Group recognized the cumulative effect of initially applying this Standard by modified retrospective method at the date of initial application, January 1, 2019. The Group applies the practical expedient to contracts that were previously identified as containing a lease based on KIFRS 1017 and KIFRS 2104. Also, the Group elected to apply a lease recognition exemption to (a) leases that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option and (b) leases for which the underlying asset is of low value.

Under the application of KIFRS 1116, the effect of changes on the Group's consolidated statement of financial position as of January 1, 2019, is as follows:

(In millions of Korean won)

Account	Book Value		Adjustment	Book Value		
	Under KIFRS 1017			Under KIFRS 1116		
Current assets	₩	19,711,791	₩	36,397	₩	19,748,188
Other current financial assets		1,627,041		36,397		1,663,438
Non-current assets		32,074,814		193,399		32,268,213
Other non-current financial assets		770,841		(42,796)		728,045
Property, plant and equipment		<u>14,803,300</u>		<u>236,195</u>		<u>15,039,495</u>
Total assets	₩	<u>51,786,605</u>	₩	<u>229,796</u>	₩	<u>52,016,401</u>
Current liabilities	₩	14,834,739	₩	28,504	₩	14,863,243
Other current liabilities		100,074		28,504		128,578
Non-current liabilities		9,708,402		201,292		9,909,694
Other non-current liabilities		<u>283,099</u>		<u>201,292</u>		<u>484,391</u>
Total liabilities	₩	<u>24,543,141</u>	₩	<u>229,796</u>	₩	<u>24,772,937</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(29) New and amended standards that have been applied, continued

- KIFRS 1116: Leases, Continued

As of December 31, 2018, the effective lease agreement for the Group was ₩269,917 million, and the weighted average incremental borrowing rate of 3.08 percent were applied to recognize ₩229,796 million of the discounted lease liabilities as of January 1, 2019. The effect of agreements for short-term leases and leases of low-value assets is not significant on the Group's consolidated financial statements as of December 31, 2018.

- Amendments to KIFRS 1109: Prepayment Features with Negative Compensation

Under KIFRS 1109, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to KIFRS 1109 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have a significant impact on the Group's consolidated financial statements.

- Amendments to KIFRS 1019: Plan Amendment, Curtailment or Settlement

The amendments to KIFRS 1019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to KIFRS 1028: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies KIFRS 1109 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in KIFRS 1109 applies to such long-term interests.

The amendments also clarified that, in applying KIFRS 1109, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying KIFRS 1028 *Investments in Associates and Joint Ventures*.

The amendments will not have a significant impact on the Group's consolidated financial statements.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(29) New and amended standards that have been applied, continued

- *IFRIC Interpretation 2123: Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of KIFRS 1012 and does not apply to taxes or levies outside the scope of KIFRS 1012, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing, and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing documents, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have a significant impact on the consolidated financial statements of the Group.

Annual Improvements 2015-2017 Cycle

These improvements include:

- *KIFRS 1103 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. These amendments will apply on future business combinations of the Group.

- *KIFRS 1111 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in KIFRS 1103. The amendments clarify that the previously held interests in that joint operation are not remeasured.

These amendments are currently not applicable to the Group but may apply to future transactions.

- *KIFRS 1012 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments will not have a significant impact on the Group's consolidated financial statements.

- *KIFRS 1023 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The amendments will not have a significant impact on the Group's consolidated financial statements.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(30) Standard issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- KIFRS 1103 Business Combinations - Definition of a business

In October 2018, the International Accounting Standards Board (IASB) amended the definition of a business in K-IFRS 1103 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business and remove the assessment of whether market participants are capable of replacing any missing elements. In addition, they add guidance to help entities assess whether an acquired 'process' is substantive, narrow the definitions of business and of outputs, and introduce an optional concentration test. New illustrative examples were provided along with the amendments. Because the amendments apply prospectively to transactions or events that occur on or after the date of initial application, it is not expected that these amendments will have a significant effect on the consolidated financial statements of the Group at the date of transition.

- KIFRS 1001 and KIFRS 1008 - Definition of a material

In October 2018, IASB issued amendments to KIFRS 1001 *Presentation of Financial Statements* and KIFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant effect on the Group's consolidated financial statements.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

4. Geographic and Segment Information

The Group is engaged in manufacturing and sales of vehicles and parts, leasing of vehicles and rendering vehicle maintenance services. Due to the insignificant portion of leasing income and maintenance services compared to total sales, the revenue from leasing and maintenance services are not disclosed.

(1) The following table provides information of sales and non-current assets by geographic locations where the Group's entities are located as of and for the year ended December 31, 2019:

(In millions of Korean won)

	<u>Domestic</u>	<u>America</u>	<u>Europe</u>	<u>Other</u>	<u>Consolidation adjustment</u>	<u>Consolidated amount</u>
Total sales	₩ 33,857,781	₩ 29,972,882	₩ 31,819,296	₩ 2,300,989	₩ (39,804,989)	₩ 58,145,959
Intercompany sales	(15,930,216)	(9,250,071)	(14,531,151)	(93,551)	39,804,989	-
Net sales	17,927,565	20,722,811	17,288,145	2,207,438	-	58,145,959
Property, plant and equipment, intangible assets and other	13,786,641	2,002,729	1,236,692	1,265,850	32,553	18,324,465

(2) The following table provides information of sales and non-current assets by geographic locations where the Group's entities are located as of and for the year ended December 31, 2018:

(In millions of Korean won)

	<u>Domestic</u>	<u>America</u>	<u>Europe</u>	<u>Other</u>	<u>Consolidation adjustment</u>	<u>Consolidated amount</u>
Total sales	₩ 31,912,189	₩ 26,061,944	₩ 29,097,935	₩ 1,334,960	₩ (34,237,215)	₩ 54,169,813
Intercompany sales	(13,972,046)	(7,208,668)	(13,056,348)	(153)	34,237,215	-
Net sales	17,940,143	18,853,276	16,041,587	1,334,807	-	54,169,813
Property, plant and equipment, intangible assets and other	13,358,703	2,069,967	1,030,483	847,247	32,553	17,338,953

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

5. Cash, Cash Equivalents and Restricted Financial Instrument

(1) Cash and cash equivalents as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Cash on hand	₩	104	₩	276
Deposits with financial institutions		4,268,612		2,292,383
	₩	4,268,716	₩	2,292,659

(2) Financial instruments, which are restricted in use as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018		Description
Short-term financial instruments	₩	1,663	₩	35	Short-term security deposit and deposit for transactions
Long term financial instruments		52,000		31,000	Win-Win cooperation deposits
		20,000		20,000	Win-Win mold facility fund
		23,200		23,200	Win-Win loan fund
		9		9	Deposit for a checking account
		6,162		1,844	Long-term security deposit
	₩	103,034	₩	76,088	

6. Other Financial Assets

(1) Other current financial assets as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Accrued income		36,873		69,407
Current derivatives assets		9,491		6,760
Deposits provided		109,469		833
Debt securities		1,682,976		1,550,038
Others		12		3
	₩	1,838,821	₩	1,627,041

(2) Other non-current financial assets as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Long-term accounts and notes receivable - other	₩	196,527	₩	328,194
Non-current derivatives assets		20,542		-
Guarantee deposits		62,671		171,301
Equity securities		378,004		231,185
Debt securities		144,533		34,608
Others		-		5,553
	₩	802,277	₩	770,841

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

6. Other Financial Assets, Continued

(3) Equity securities as of December 31, 2019 and 2018, are summarized as follows.

(In millions of Korean won)

	Percentage of Ownership (%)	December 31, 2019		December 31, 2018	
		Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Marketable securities(FVOCI):					
Hyundai WIA Corporation	13.44	₩ 237,510	₩ 183,431	₩ 132,458	
Hyundai Motor Securities Co., Ltd.	4.90	29,574	14,456	12,414	
SeAH Besteel Corp.	0.00	20	27	31	
		<u>267,104</u>	<u>197,914</u>	<u>144,903</u>	
Non-marketable securities(FVOCI):					
Hyundai WIA Automotive Engine (Shandong) Company	18.00	54,487	61,089	57,213	
ANI Technologies Pvt. Ltd.(*)	0.93	69,736	69,736	-	
Others		40,843	49,265	29,069	
		<u>165,066</u>	<u>180,090</u>	<u>86,282</u>	
		<u>₩ 432,170</u>	<u>₩ 378,004</u>	<u>₩ 231,185</u>	

(*) The Group acquired 201,148 shares of convertible preferred stocks of ANI Technologies Pvt. Ltd., and classified as equity securities with fixed conversion conditions.

(4) Debt securities as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
	Acquisition Cost	Carrying amount	Acquisition Cost	Carrying amount
Debt securities (AC):				
National housing bond and others	₩ 38,223	₩ 38,223	₩ 34,608	
Debt securities (FVPL):				
Grab Holdings INC.(*1)	85,134	85,134	-	
Rimac Automobili d.o.o.(*2)	21,176	21,176	-	
Industrial finance bond and others	<u>1,682,976</u>	<u>1,682,976</u>	<u>1,550,038</u>	
	<u>₩ 1,827,509</u>	<u>₩ 1,827,509</u>	<u>₩ 1,584,646</u>	

(*1) The Group acquired 12,169,595 redeemable convertible preferred stocks of Grab Holdings INC., and classified as debt instruments including a hybrid contract.

(*2) The Group acquired 2,381,300 redeemable convertible preferred stocks of Rimac Automobili d.o.o. and classified as debt instruments including a hybrid contract.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

6. Other Financial Assets, Continued

(5) Changes in accumulated balance of valuation gain or loss recognized in other comprehensive income from equity securities for the years ended December 31, 2019 and 2018, are as follows:

(In millions of Korean won)

	<u>2019</u>		<u>2018</u>
Balance at January 1	₩ (113,734)	₩	1,490
Effect of changes in accounting standards	-		(15,355)
Changes in the fair value	59,367		(99,869)
Reclassification	240		-
Balance at December 31 before taxes	(54,127)		(113,734)
Income tax effect	10,790		27,054
Balance at December 31 after taxes	<u>₩ (43,337)</u>	<u>₩</u>	<u>(86,680)</u>

7. Inventories

Inventories as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>		<u>December 31, 2018</u>
Finished goods	₩ 6,206,080	₩	5,744,398
Merchandise	13,213		16,812
Semi-finished goods	366,129		284,941
Work-in-process	214,096		230,672
Raw materials	619,244		419,898
Supplies	194,081		172,018
Materials-in-transit	495,838		365,208
	<u>₩ 8,108,681</u>	<u>₩</u>	<u>7,233,947</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures

(1) Details of investments in associates and joint ventures as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

Company	Location	December 31, 2019		December 31, 2018	
		Percentage of ownership(%)	Carrying amount	Percentage of ownership(%)	Carrying amount
Hyundai Mobis Co., Ltd.(*1,2)	Korea	17.24	₩ 5,435,344	16.88	₩ 5,109,812
Hyundai Steel Co., Ltd.(*1)	"	17.27	2,767,215	17.27	2,729,056
Hyundai Engineering & Construction Co., Ltd.(*1)	"	5.23	714,810	5.23	700,271
Hyundai Powertech Co., Ltd.(*3)	"	-	-	37.58	559,993
Hyundai Card Co., Ltd.(*1)	"	11.48	346,879	11.48	332,787
Hyundai Capital Services, Inc.	"	20.10	855,555	20.10	797,646
Hyundai Transys Inc.(*3)	"	40.43	994,163	45.37	407,995
EUKOR Car Carriers, Inc.(*1)	"	8.00	115,300	8.00	106,291
Hyundai Engineering Co., Ltd.(*1)	"	9.35	321,352	9.35	312,254
Hyundai Partecs Co., Ltd.	"	31.00	25,323	31.00	24,497
Hyundai Autoever Systems Co., Ltd.(*1,4)	"	19.05	97,052	19.37	86,403
Donghee Auto Co., Ltd.	"	35.10	20,786	35.10	21,094
ZF Automotive Korea Co., Ltd. (Formerly, T.R.W Steering Co., Ltd)	"	29.00	-	29.00	-
Kia Tigers Co., Ltd.(*5)	"	100.00	-	100.00	-
Hyundai NGV Co., Ltd.	"	24.39	4,445	24.39	4,102
Haevichi Hotel&Resorts Co., Ltd.	"	23.24	41,539	23.24	41,208
Hyundai Autron Co., Ltd.	"	20.00	27,543	20.00	26,480
Code 42 Inc.(*1,6)	"	16.67	15,027	-	-
KST Mobility Co., Ltd.(*1,6)	"	2.17	1,000	-	-
Motion Co., Ltd.(*6)	"	20.00	3,778	-	-
Beijing Transys Transmission Co., Ltd.	China	24.08	45,291	24.08	45,470
China Millennium Corporations	"	30.30	41,049	30.30	36,852
Hyundai Motor Group China, Ltd.	"	30.00	58,816	30.00	56,845
Yanji Kia Automobile Service Co., Ltd.(*5)	"	100.00	2,115	100.00	2,236
Hyundai Transys (Shandong) Co., Ltd.(*7)	"	25.00	62,692	25.00	86,074
Dongfeng Yueda Kia Motors Co., Ltd.(*8)	"	50.00	554,499	50.00	686,985
Hyundai Motor Manufacturing Rus LLC	Russia	30.00	264,167	30.00	183,590
Innocean Worldwide Americas, LLC	U.S.A	20.00	1,685	20.00	1671
Hyundai Autoever America, LLC	"	20.00	2,827	20.00	2,902
Sewon America, Inc.	"	40.00	7,536	40.00	6,219
Hyundai Capital America, Inc.	"	20.00	968,185	20.00	889,356
Hyundai Capital Services UK Ltd.(*1,8)	United kingdom	10.00	31,206	10.00	24,285
Hyundai Capital Canada, Inc.	Canada	30.00	63,240	30.00	50,914
Hyundai Capital Bank Europe GmbH(*9)	Germany	-	-	15.00	14,775
Kia UVO Connected(*5,6)	"	100.00	125	-	-
WIB Advance Mobility S.L.(*8)	Spain	50.00	-	50.00	391
ARRIVAL S.A.R.L.(*1,6)	Luxembourg	0.65	25,949	-	-
			<u>₩ 13,916,493</u>		<u>₩ 13,348,454</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures, Continued

(1) Details of investments in associates and joint ventures, Continued

- (*1) Although the Group's ownership in the investee is below 20%, the Group has significant influence over the investee's financial and operating policy decisions.
- (*2) The ownership ratio for Hyundai Mobis Co., Ltd. increased due to retirement of treasury shares during the year ended December 31, 2019
- (*3) Hyundai Dymos Inc. merged with Hyundai Powertech Co., Ltd. and changed its name to Hyundai Transys Inc. during the year ended December 31, 2019. Accordingly, the Group received 0.5653558 shares of common stock of Hyundai Transys Inc. per one common stock of Hyundai Powertech Co., Ltd. and recognized a loss on disposal of investment securities of ₩4,107 million.
- (*4) The ownership ratio for Hyundai Autoever Systems Co., Ltd. decreased due to the non-proportionate capital increase during the year ended December 31, 2019.
- (*5) Although the Group has 100% ownership, the investee is classified as an associate, and equity method is applied as the impact of changes in net assets of the investee is immaterial to the Group.
- (*6) It has been established newly during the year ended December 31, 2019.
- (*7) The Group performed an impairment test on the investment in Hyundai Transys (Shangdong) Co., Ltd. as there has been a continuous decrease in the fair value of its shares which may serve as an indicator that the asset may be impaired. As a result, an impairment loss of ₩10,517 million has been recognized during the year ended December 31, 2019. The recoverable amount as of December 31, 2019 was determined based on the value in use which has been discounted at a rate of 7.3%
- (*8) The Group has categorized the investee as a joint venture because it holds the rights to the net assets of the entity under the joint venture agreement. In addition, the Group is in charge of providing technical assistance and research and development to the joint venture in accordance with the joint venture agreement with Dongfeng Yueda Kia Motors Co., Ltd.
- (*9) The Group sold its shares in Hyundai Capital Bank Europe GmbH and recognized a gain on disposal of ₩7,151 million during the year ended December 31, 2019.

(2) Fair value of marketable securities of associates as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

<u>Company</u>	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
Hyundai Mobis Co., Ltd.	₩	4,205,331	₩	3,121,144
Hyundai Steel Co., Ltd.		724,896		1,042,974
Hyundai Engineering & Construction Co., Ltd.		246,687		318,419
Hyundai Autoever Co., Ltd (*)		201,600		-

(*) It was listed on the Korea Exchange during the year ended December 31, 2019.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures, Continued

(3) Changes in investments in associates and joint ventures for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

Company	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Changes in equity	Dividends received	Others (*2)	Ending balance
Hyundai Mobis Co., Ltd.	₩ 5,109,812	₩ -	₩ 384,495	₩ 77,258	₩ (82,135)	₩ (54,086)	₩ 5,435,344
Hyundai Steel Co., Ltd.	2,729,056	-	7,095	48,269	(17,287)	82	2,767,215
Hyundai Engineering & Construction Co., Ltd.	700,271	-	15,345	2,653	(2,916)	(543)	714,810
Hyundai Powertech Co., Ltd.	559,993	(559,993)	-	-	-	-	-
Hyundai Card Co., Ltd.	332,787	-	18,455	(826)	(3,537)	-	346,879
Hyundai Capital Services, Inc.	797,646	-	62,747	12,708	(17,546)	-	855,555
Hyundai Transys Inc.	407,995	560,321	22,813	3,034	-	-	994,163
EUKOR Car Carriers, Inc.	106,291	-	4,821	4,188	-	-	115,300
Hyundai Engineering Co., Ltd.	312,254	-	27,331	(8,723)	(8,520)	(990)	321,352
Hyundai Partecs Co., Ltd.	24,497	-	826	-	-	-	25,323
Hyundai Autoever Systems Co., Ltd.	86,403	-	12,402	347	(2,760)	660	97,052
Donghee Auto Co., Ltd.	21,094	-	(308)	-	-	-	20,786
ZF Automotive Korea Co., Ltd.(*1)	-	-	-	-	-	-	-
Kia Tigers Co., Ltd.(*1)	-	-	-	-	-	-	-
Hyundai NGV Co., Ltd.	4,102	-	368	-	(25)	-	4,445
Haevichi Hotel&Resorts Co., Ltd.	41,208	-	385	(1)	-	(53)	41,539
Hyundai Autron Co., Ltd.	26,480	-	1,156	-	-	(93)	27,543
Code 42 Inc.	-	15,027	-	-	-	-	15,027
KST Mobility Co., Ltd	-	1,000	-	-	-	-	1,000
Motion Co., Ltd.	-	3,820	(42)	-	-	-	3,778
Beijing Transys Transmission Co., Ltd.	45,470	-	(1,030)	851	-	-	45,291
China Millennium Corporations	36,852	-	3,583	614	-	-	41,049
Hyundai Motor Group China, Ltd.	56,845	-	360	1,611	-	-	58,816
Yanji Kia Automobile Service Co., Ltd.	2,236	-	(165)	44	-	-	2,115
Hyundai Transys (Shandong) Co., Ltd.	86,074	-	(15,459)	2,594	-	(10,517)	62,692
Dongfeng Yueda Kia Motors Co., Ltd.	686,985	-	(147,981)	15,495	-	-	554,499
Hyundai Motor Manufacturing Rus LLC	183,590	-	51,538	29,039	-	-	264,167
Innocean Worldwide Americas, LLC	1,671	-	2,144	-	(2,189)	59	1,685
Hyundai Autoever America, LLC	2,902	-	552	-	(730)	103	2,827
Sewon America, Inc.	6,219	-	1,103	-	-	214	7,536
Hyundai Capital America, Inc.	889,356	-	47,571	-	-	31,258	968,185
Hyundai Capital Services UK Ltd.	24,285	-	5,133	-	-	1,788	31,206
Hyundai Capital Canada, Inc.	50,914	-	7,685	4,641	-	-	63,240
Hyundai Capital Bank Europe GmbH	14,775	(14,775)	-	-	-	-	-
WIB Advance Mobility S.L. (*1)	391	2,012	(2,449)	-	-	46	-
Kia UVO Connected	-	130	(4)	-	-	(1)	125
ARRIVAL S.A.R.L.	-	25,776	-	172	-	1	25,949
	<u>₩ 13,348,454</u>	<u>₩ 33,318</u>	<u>₩ 510,470</u>	<u>₩ 193,968</u>	<u>₩ (137,645)</u>	<u>₩ (32,072)</u>	<u>₩ 13,916,493</u>

(*1) The Group discontinued the use of the equity method for investment in associates due to the carrying amount of the Group's share being reduced to zero as of December 31, 2019.

(*2) Others include the amount of impairment loss for the year ended December 31, 2019.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures, Continued

Changes in investments in associates and joint ventures for the year ended December 31, 2018, are summarized as follows:

(In millions of Korean won)

Company	Beginning balance	Acquisition (Disposal)	Share of profit or loss	Changes in equity	Dividends received	Others (*2)	Ending balance
Hyundai Mobis Co., Ltd.	₩ 4,863,504	₩ -	₩ 375,339	₩ (23,521)	₩ (57,495)	₩ (48,016)	₩ 5,109,812
Hyundai Steel Co., Ltd.	2,719,428	-	86,073	(50,071)	(17,287)	(9,087)	2,729,056
Hyundai Engineering & Construction Co., Ltd.	739,978	-	14,546	(17,480)	(2,916)	(33,857)	700,271
Hyundai Powertech Co., Ltd.	541,754	-	18,857	2,307	-	(2,925)	559,993
Hyundai Card Co., Ltd.	329,532	-	16,543	(1,325)	(2,229)	(9,734)	332,787
Hyundai Capital Services, Inc.	790,009	-	52,781	(21,549)	(17,106)	(6,489)	797,646
Hyundai Dymos Inc.	377,935	-	23,767	7,344	-	(1,050)	407,995
EUKOR Car Carriers, Inc.	106,662	-	2,006	3,607	(5,984)	-	106,291
Hyundai Engineering Co., Ltd.	297,090	-	27,853	2,740	(8,520)	(6,908)	312,254
Hyundai Partec Co., Ltd.	23,689	-	808	-	-	-	24,497
Hyundai Autoever Systems Co., Ltd.	79,708	-	10,452	131	(2,760)	(1,127)	86,403
Donghee Auto Co., Ltd.	19,663	-	1,431	-	-	-	21,094
T.R.W Steering Co., Ltd.(*1)	445	-	(444)	(1)	-	-	-
Kia Tigers Co., Ltd.(*1)	-	-	-	-	-	-	-
Hyundai NGV Co., Ltd.	3,640	-	487	-	(25)	-	4,102
Haevichi Hotel&Resorts Co., Ltd.	40,928	-	328	(32)	-	(16)	41,208
Hyundai Autron Co., Ltd.	26,248	-	597	-	-	(366)	26,480
Beijing Dymos Transmission Co., Ltd.	55,775	-	(10,225)	(80)	-	-	45,470
China Millennium Corporations	33,821	-	3,320	(255)	-	(34)	36,852
Hyundai Motor Group China, Ltd.	54,170	-	1,422	1,252	-	-	56,845
Yanji Kia Automobile Service Co., Ltd.	2,404	-	(159)	(10)	-	-	2,236
Hyundai Powertech (Shandong) Co., Ltd.	103,651	-	(16,058)	(1,518)	-	-	86,074
Dongfeng Yueda Kia Motors Co., Ltd.	717,375	-	(26,814)	(3,577)	-	-	686,985
Hyundai Motor Manufacturing Rus LLC	173,789	-	34,175	(24,374)	-	-	183,590
Innocean Worldwide Americas, LLC	1,544	-	2,066	-	(2,008)	68	1,671
Hyundai Autoever America, LLC	2,110	-	689	-	-	103	2,902
Sewon America, Inc.	11,588	-	(5,781)	-	-	412	6,219
Hyundai Capital America, Inc.	820,497	-	32,568	-	-	36,290	889,356
Hyundai Capital Services UK Ltd.	19,944	-	4,763	-	-	(422)	24,285
Hyundai Capital Canada, Inc.	50,410	-	2,500	(1,996)	-	-	50,914
Hyundai Capital Bank Europe GmbH	17,608	-	(2,882)	48	-	-	14,775
WIB Advance Mobility S.L.	-	3,638	(3,239)	-	-	(6)	391
	<u>₩ 13,024,899</u>	<u>₩ 3,638</u>	<u>₩ 647,769</u>	<u>₩ (128,360)</u>	<u>₩ (116,330)</u>	<u>₩ (83,164)</u>	<u>₩ 13,348,454</u>

(*1) The Group discontinued the use of the equity method for investment in associates due to the carrying amount of the Group's share being reduced to zero as of December 31, 2018.

(*2) Others include the amount of impairment loss for the year ended December 31, 2018.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures, Continued

(4) Financial information of associates and joint ventures as of and for the year ended December 31, 2019, is summarized as follows:

(In millions of Korean won)

Company	Total assets	Total liabilities	Sales	Operating profit (loss)	Net income (loss)	Total comprehensive income (loss)
Hyundai Mobis Co., Ltd.	₩ 46,606,065	₩ 14,196,442	₩ 38,048,768	₩ 2,359,257	₩ 2,294,311	₩ 2,489,942
Hyundai Steel Co., Ltd.	34,366,332	17,132,592	20,512,590	331,298	25,613	309,963
Hyundai Engineering & Construction Co., Ltd.	18,144,197	9,443,262	17,299,777	882,066	555,852	526,119
Hyundai Card Co., Ltd.	17,447,386	14,140,768	2,357,896	217,233	167,612	160,420
Hyundai Capital Services, Inc.	32,160,948	27,709,655	3,068,880	372,370	350,614	298,722
Hyundai Transys Inc.	5,722,675	3,262,861	7,753,017	183,507	138,982	152,568
EUKOR Car Carriers Inc.	3,457,750	2,016,502	1,747,310	151,655	64,695	112,419
Hyundai Engineering Co., Ltd.	6,322,516	2,820,486	6,801,060	408,107	298,471	207,168
Hyundai Partecs Co., Ltd.	148,343	66,656	72,335	4,415	2,663	2,663
Hyundai Autoever Systems Co., Ltd.	1,026,697	511,683	1,571,818	80,212	56,876	62,072
Donghee Auto Co., Ltd.	135,380	76,160	152,302	585	330	330
ZF Automotive Korea Co., Ltd.	34,298	41,450	92,545	(4,003)	(3,880)	(3,880)
Kia Tigers Co., Ltd.	5,984	8,175	41,641	(377)	910	910
Hyundai NGV Co., Ltd.	29,523	11,299	51,064	1,919	1,510	1,510
Haevichi Hotel & Resorts Co., Ltd.	462,177	284,404	126,935	2,124	1,893	1,658
Hyundai Autron Co., Ltd.	300,595	162,980	859,771	9,014	5,825	5,358
Code 42 Inc.	28,659	224	-	(4,243)	(4,355)	(4,355)
KST Moblity Co., Ltd	13,723	775	1,142	(5,338)	(5,271)	(5,271)
Motion Co., Ltd.	19,121	233	-	(214)	(212)	(212)
Beijing Transys Transmission Co., Ltd.	493,636	305,552	419,890	2,112	(4,276)	(4,276)
China Millennium Corporations	147,458	11,982	31,935	12,291	11,944	11,944
Hyundai Motor Group China, Ltd.	793,681	590,373	414,175	14,818	2,334	2,334
Yanji Kia Automobile Service Co., Ltd.	2,613	499	3,435	(164)	(173)	(173)
Hyundai Transys (Shandong) Co., Ltd.	894,342	613,143	919,557	(48,320)	(61,836)	(61,836)
Dongfeng Yueda Kia Motors Co., Ltd.(*)	3,136,703	1,997,426	3,763,666	(311,992)	(304,455)	(304,455)
Hyundai Motor Manufacturing Rus LLC	1,578,910	746,323	3,264,093	138,519	172,960	172,960
Innocean Worldwide Americas, LLC	353,527	317,648	382,347	33,163	33,791	33,791
Hyundai Autoever America, LLC	87,081	57,151	229,176	4,074	3,599	3,599
Sewon America, Inc.	200,302	181,504	327,693	9,828	2,758	2,758
Hyundai Capital America Inc.	41,744,129	36,905,351	927,862	270,027	237,856	237,856
Hyundai Capital Services UK Ltd.(*)	3,757,036	3,407,235	318	6,724	63,157	51,328
Hyundai Capital Canada Inc.	1,970,909	1,760,110	52,518	(30,376)	25,617	27,140
WIB Advance Mobility S.L.(*)	5,477	3,296	7,273	(5,525)	(4,315)	(4,315)
Kia UVO Connected	146	21	100	-	2	2
ARRIVAL S.A.R.L.	379,143	45,444	-	(71,883)	(62,993)	(62,993)

(*) Additional financial information of joint ventures is summarized as follows:

(In millions of Korean won)

Company	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense (benefit)
Dongfeng Yueda Kia Motors Co., Ltd.	₩ 220,254	₩ 688,491	₩ 181,682	₩ 8,398	₩ 56,537	₩ (8,351)
Hyundai Capital Services UK Ltd.	141,571	3,414,837	-	-	-	(11,830)
WIB Advance Mobility S.L	1,038	3,296	226	-	-	(1,209)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures, Continued

Financial information of associates and joint ventures as of and for the year ended December 31, 2018, is summarized as follows:

(In millions of Korean won)

Company	Total assets	Total liabilities	Sales	Operating profit (loss)	Net income (loss)	Total comprehensive income (loss)
Hyundai Mobis Co., Ltd.	₩ 43,071,132	₩ 12,367,703	₩ 35,149,219	₩ 2,024,957	₩ 1,888,206	₩ 1,676,936
Hyundai Steel Co., Ltd.	33,302,172	16,283,761	20,780,846	1,026,108	407,496	105,832
Hyundai Engineering & Construction Co., Ltd.	18,054,609	9,762,753	16,730,894	839,989	535,303	328,166
Hyundai Powertech Co., Ltd.	2,948,238	1,451,028	2,953,199	24,416	28,645	27,018
Hyundai Card Co., Ltd.	15,945,780	12,754,672	2,989,728	202,313	149,822	149,822
Hyundai Capital Services, Inc.	30,528,329	26,371,421	3,086,811	347,436	311,318	204,287
Hyundai Dymos Inc.	2,636,455	1,714,689	4,274,510	142,799	58,835	62,908
EUKOR Car Carriers Inc.	2,915,900	1,587,260	1,736,826	74,110	19,412	69,262
Hyundai Engineering Co., Ltd.	6,246,893	2,863,611	6,286,224	453,692	279,092	196,066
Hyundai Partec Co., Ltd.	148,332	69,308	70,804	4,679	2,608	2,608
Hyundai Autoever Systems Co., Ltd.	829,070	377,503	1,424,859	70,156	55,202	50,250
Donghee Auto Co., Ltd.	143,320	83,223	172,612	5,696	5,180	5,180
TRW Steering Co., Ltd.	22,270	23,114	42,357	(2,980)	(2,583)	(2,583)
Kia Tigers Co., Ltd.	4,742	7,798	47,076	(176)	(156)	(156)
Hyundai NGV Co., Ltd.	29,883	13,066	48,755	2,546	1,995	1,995
Haevichi Hotel & Resorts Co., Ltd.	454,698	278,347	117,248	1,426	1,814	1,590
Hyundai Autron Co., Ltd.	252,649	120,349	742,382	1,540	3,027	1,199
Beijing Dymos Transmission Co., Ltd.	453,275	264,445	393,582	(22,191)	(42,463)	(42,463)
China Millennium Corporations	133,253	11,630	31,241	11,704	11,176	11,176
Hyundai Motor Group China, Ltd.	742,943	545,299	317,282	7,411	5,166	5,166
Yanji Kia Automobile Service Co., Ltd.	2,905	669	2,785	(93)	(142)	(142)
Hyundai Powertech (Shandong) Co., Ltd.	979,903	644,058	1,108,875	(64,107)	(64,233)	(64,233)
Dongfeng Yueda Kia Motors Co., Ltd.(*)	3,837,503	2,424,761	4,648,146	(63,484)	(120,046)	(120,046)
Hyundai Motor Manufacturing Rus LLC	1,415,554	852,727	2,954,780	201,283	120,979	120,979
Innocean Worldwide Americas, LLC	343,079	315,026	343,108	25,314	25,407	25,407
Hyundai Autoever America, LLC	46,852	30,255	177,070	4,477	4,395	4,395
Sewon America, Inc.	208,391	192,640	290,846	6,943	(14,453)	(14,453)
Hyundai Capital America Inc.	37,413,803	32,982,390	4,642,382	194,100	162,842	162,842
Hyundai Capital Services UK Ltd.(*)	3,123,570	2,881,012	802,849	72,439	58,784	47,626
Hyundai Capital Canada Inc.	1,385,284	1,215,570	86,641	(32,866)	8,339	8,339
Hyundai Capital Bank Europe GmbH	851,347	752,850	53,908	(31,425)	(20,928)	(20,928)
WIB Advance Mobility S.L.(*)	2,659	1,874	1,646	(6,479)	(6,479)	(6,479)

(*) Additional financial information of joint ventures is summarized as follows:

(In millions of Korean won)

Company	Cash and cash equivalents	Financial liabilities	Depreciation	Interest income	Interest expense	Income tax expense (benefit)
Dongfeng Yueda Kia Motors Co., Ltd.	₩ 241,875	₩ 865,751	₩ 123,464	₩ 3,082	₩ 75,078	₩ (12,722)
Hyundai Capital Services UK Ltd.	99,780	2,817,969	-	-	-	(3,761)
WIB Advance Mobility S.L.	609	1,854	(110)	-	-	-

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Investments in associates and joint ventures, Continued

(5) Financial information of significant associates and joint ventures reconciled from the proportionate share in investees' net assets to the balance in the Group's consolidated financial statements as of and for the year ended December 31, 2019, is summarized as follows:

(In millions of Korean won)

Company	Group's share of net assets	Goodwill	Intra-Group transaction and others	Carrying amount
Hyundai Mobis Co., Ltd.	₩ 5,441,404	₩ 29,519	₩ (35,579)	₩ 5,435,344
Hyundai Steel Co., Ltd.	2,968,283	8,277	(209,345)	2,767,215
Hyundai Engineering & Construction Co., Ltd.	348,708	284,338	81,764	714,810
Hyundai Transys Co., Ltd.	992,862	-	1,301	994,163
Dongfeng Yueda Kia Motors Co., Ltd.	569,638	-	(15,139)	554,499

(6) Unrecognized share of loss in investments in associates due to discontinuing the use of the equity method as of and for the year ended December 31, 2019, is summarized as follows:

(In millions of Korean won)

	2019	Accumulated
Kia Tigers Co., Ltd.	₩ (865)	₩ 2,191
ZF Automotive Korea Co., Ltd.	1,829	2,074

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

9. Property, Plant and Equipment

(1) Details of property, plant and equipment as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019			December 31, 2018		
	Acquisition cost	Accumulated depreciation & impairment loss	Carrying amount	Acquisition cost	Accumulated depreciation & impairment loss	Carrying amount
Land	₩ 4,919,924	₩ -	₩ 4,919,924	₩ 4,888,344	₩ -	₩ 4,888,344
Buildings	4,012,103	(1,422,585)	2,589,518	3,598,690	(1,293,234)	2,305,456
Structures	787,354	(441,719)	345,635	733,157	(416,052)	317,105
Machinery & equipment	8,845,934	(4,948,047)	3,897,887	7,792,611	(4,464,779)	3,327,832
Dies, molds & tools	6,341,539	(4,483,482)	1,858,057	5,517,103	(3,828,056)	1,689,047
Vehicles	370,536	(150,458)	220,078	350,813	(125,270)	225,543
Other equipment	804,747	(493,920)	310,827	601,483	(434,546)	166,937
Right-of-use assets	294,016	(55,497)	238,519	-	-	-
Construction in progress	1,366,230	-	1,366,230	1,883,036	-	1,883,036
	<u>₩ 27,742,383</u>	<u>₩ (11,995,708)</u>	<u>₩ 15,746,675</u>	<u>₩ 25,365,237</u>	<u>₩ (10,561,937)</u>	<u>₩ 14,803,300</u>

(2) Details of changes in property, plant and equipment for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Acquisition (capital expenditure included)(*)	Disposal	Depreciation	Transfer	Other	Ending balance
Land	₩ 4,888,344	₩ 1,656	₩ (8)	₩ -	₩ 23,904	₩ 6,028	₩ 4,919,924
Buildings	2,305,456	27,273	(350)	(112,644)	350,621	19,162	2,589,518
Structures	317,105	4,812	(250)	(25,373)	46,623	2,718	345,635
Machinery & equipment	3,327,832	98,967	(18,586)	(507,820)	1,107,394	(109,900)	3,897,887
Dies, molds & tools	1,689,047	146,978	(13,199)	(689,644)	738,587	(13,712)	1,858,057
Vehicles	225,543	14,586	(60,348)	(65,733)	105,301	729	220,078
Other equipment	166,937	33,740	(3,807)	(73,511)	187,076	392	310,827
Right-of-use assets	-	293,947	(1,105)	(56,246)	-	1,923	238,519
Construction in progress	1,883,036	1,922,430	(70)	-	(2,470,520)	31,354	1,366,230
	<u>₩ 14,803,300</u>	<u>₩ 2,544,389</u>	<u>₩ (97,723)</u>	<u>₩ (1,530,971)</u>	<u>₩ 88,986</u>	<u>₩ (61,306)</u>	<u>₩ 15,746,675</u>

(*) The effect of initial application of KIFRS 1116 is included.

Gain and loss on disposals of property, plant and equipment is ₩5,759 million and ₩26,165 million, respectively, for the year ended December 31, 2019.

The Group received government grants through investment agreement with Slovakia government and others. The grants, amounting to ₩176,891 million, are presented as deduction of property, plant and equipment.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

9. Property, Plant and Equipment, Continued

(3) Details of changes in property, plant and equipment for the year ended December 31, 2018, are summarized as follows:

(In millions of Korean won)

	<u>Beginning balance</u>	<u>Acquisition (capital expenditure included)</u>	<u>Disposal</u>	<u>Depreciation</u>	<u>Transfer</u>	<u>Other</u>	<u>Ending balance</u>
Land	₩ 4,888,324	₩ 2,771	₩ (9,550)	₩ -	₩ 643	₩ 6,156	₩ 4,888,344
Buildings	2,296,373	3,100	(4,042)	(113,501)	98,962	24,564	2,305,456
Structures	328,392	998	(203)	(24,632)	9,222	3,328	317,105
Machinery & equipment	3,467,020	22,154	(56,921)	(479,483)	351,408	23,654	3,327,832
Dies, molds & tools	1,420,638	174,676	(2,376)	(561,245)	641,714	15,640	1,689,047
Vehicles	182,338	36,237	(54,980)	(57,622)	121,068	(1,498)	225,543
Other equipment	182,220	20,037	(723)	(65,051)	29,720	734	166,937
Construction in progress	887,598	2,154,277	(103)	-	(1,146,986)	(11,750)	1,883,036
	<u>₩ 13,652,903</u>	<u>₩ 2,414,250</u>	<u>₩ (128,898)</u>	<u>₩ (1,301,534)</u>	<u>₩ 105,751</u>	<u>₩ 60,828</u>	<u>₩ 14,803,300</u>

(4) The capitalized borrowing costs and capitalization interest rate for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Capitalized borrowing costs(*)	₩ 46,376	₩ 32,370
Capitalization interest rate (%)	2.59	2.75

(*) It includes borrowing costs that were capitalized in respect of development costs of ₩15,706 million and ₩15,091 million, for the years ended December 31, 2019 and 2018, respectively.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

10. Investment property

(1) Details of investment property as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019			December 31, 2018		
	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Buildings	₩ 37,780	₩ (12,776)	₩ 25,004	₩ 36,485	₩ (11,223)	₩ 25,262

(2) Details of changes in investment property for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Depreciation	Other	Ending balance
	Buildings	₩ 25,262	₩ (1,162)	₩ 904

(3) Details of changes in investment property for the year ended December 31, 2018, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Depreciation	Other	Ending balance
	Buildings	₩ 25,275	₩ (1,097)	₩ 1,084

(4) The amount recognized in profit or loss from investment property for the years ended December 31, 2019 and 2018, is summarized as follows:

(In millions of Korean won)

	2019	2018
Rental income	₩ 3,453	₩ 2,814
Operating expenses & maintenance expenses	945	583

(5) Buildings held for earning rentals are classified as investment property. In addition, the fair value of investment property does not differ from its book value significantly as of December 31, 2019.

11. Goodwill

(1) Changes in goodwill for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	2019	2018
Balance at January 1	₩ 37,030	₩ 37,030
Other change	64	-
Balance at December 31	₩ 37,094	₩ 37,030

(2) Impairment test of goodwill

Goodwill is allocated to each CGU (Cash Generating Unit) that is expected to benefit from each operating unit. The Group estimated the recoverable amount of CGU as its value in use calculated by discounting the future cash flows to be generated on the basis of business plan approved by management in five years. Cash flows expected to be generated after five years were estimated to the extent not exceeding the long-term average growth rate of the industry. No impairment loss was recognized as a result of the impairment tests in 2019 and 2018.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

12. Intangible assets

(1) Details of intangible assets except for goodwill as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019				December 31, 2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Carrying amount
Development costs	₩ 5,294,298	₩ (2,785,706)	₩ (276,006)	₩ 2,232,586	₩ 4,629,046	₩ (2,259,950)	₩ (155,185)	₩ 2,213,911
Industrial property rights	58,003	(21,295)	-	36,708	47,104	(16,420)	-	30,684
Software	491,790	(360,721)	-	131,069	420,453	(305,227)	-	115,226
Membership (*)	74,201	(95)	(8,130)	65,976	74,823	-	(7,659)	67,164
Other	64,195	(14,842)	-	49,353	56,752	(10,375)	-	46,377
	<u>₩ 5,982,487</u>	<u>₩ (3,182,659)</u>	<u>₩ (284,136)</u>	<u>₩ 2,515,692</u>	<u>₩ 5,228,178</u>	<u>₩ (2,591,972)</u>	<u>₩ (162,844)</u>	<u>₩ 2,473,362</u>

(*) Membership has indefinite useful life and it has been tested for impairment annually by comparing its recoverable amount to its carrying amount.

(2) Details of changes in intangible assets for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Beginning balance	Acquisition	Disposal	Amortization	Impairment loss	Transfer	Other	Ending balance
Development costs (*)	₩ 2,213,911	₩ 657,702	₩ -	₩ (525,074)	₩ (120,820)	₩ 6,490	₩ 377	₩ 2,232,586
Industrial property rights	30,684	12,658	(482)	(6,152)	-	-	-	36,708
Software	115,226	61,499	(2)	(61,743)	-	14,601	1,488	131,069
Membership	67,164	716	(1,432)	-	(472)	-	-	65,976
Other	46,377	21,706	-	(4,352)	-	(15,192)	814	49,353
	<u>₩ 2,473,362</u>	<u>₩ 754,281</u>	<u>₩ (1,916)</u>	<u>₩ (597,321)</u>	<u>₩ (121,292)</u>	<u>₩ 5,899</u>	<u>₩ 2,679</u>	<u>₩ 2,515,692</u>

(*) Capitalized development costs are amortized over the useful life considering the life cycle of the developed products. All acquisitions are internally generated.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

12. Intangible assets, Continued

(3) Details of changes in intangible assets for the year ended December 31, 2018, are summarized as follows:

(In millions of Korean won)

	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Amortization</u>	<u>Impairment loss</u>	<u>Transfer</u>	<u>Other</u>	<u>Ending balance</u>
Development costs	₩ 2,181,009	₩ 622,680	₩ -	₩ (570,788)	₩ (20,782)	₩ 1,184	₩ 608	₩ 2,213,911
Industrial property rights	19,103	17,359	(874)	(4,904)	-	-	-	30,684
Software	125,758	35,323	(1)	(55,251)	-	8,190	1,205	115,224
Membership	63,782	5,062	(2,336)	-	656	-	-	67,164
Other	43,785	14,182	(2)	(1,303)	-	(8,213)	(2,070)	46,379
	<u>₩ 2,433,437</u>	<u>₩ 694,606</u>	<u>₩ (3,213)</u>	<u>₩ (632,246)</u>	<u>₩ (20,126)</u>	<u>₩ 1,161</u>	<u>₩ (257)</u>	<u>₩ 2,473,362</u>

(4) Details of research and development expenditures for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Development costs	₩ 664,192	₩ 622,680
Test expenses (manufacturing costs)	189,988	178,233
Test expenses (selling and administrative expenses)	914,011	864,012
	<u>₩ 1,768,191</u>	<u>₩ 1,664,925</u>

(5) Details of impairment loss recognized for development costs for the year ended December 31, 2019 are as follows:

(In millions of Korean won)

	<u>Development costs</u>	<u>Impairment loss</u>		<u>Valuation method</u>
		<u>2019</u>	<u>Accumulated amounts</u>	
Sedans(*)	₩ 968,517	₩ (82,451)	₩ (112,188)	Value-in-use
RVs(*)	987,066	(38,369)	(163,818)	Value-in-use
	<u>₩ 1,955,583</u>	<u>₩ (120,820)</u>	<u>₩ (276,006)</u>	

(*) The recoverable amount has been estimated using the estimated future cash flow reflecting the changes in business environment and each product's previous operating results, discounted at the rate of 8.3% for the year ended December 31, 2019.

(6) Details of development costs as of December 31, 2019 are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>	<u>Residual amortization period</u>
Sedans(*1)	₩ 968,517	1~6 years
RVs(*2)	987,066	1~7 years
Power train(*3)	222,567	1~6 years
Others	54,436	
	<u>₩ 2,232,586</u>	

(*1) K3, K5, K7 and others

(*2) Sportage, Sorento, Carnival, Telluride and others

(*3) Engines and transmissions

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

13. Borrowings and Bonds

(1) Details of borrowings as of December 31, 2019 and 2018, are summarized as follows:

(i) Short-term borrowings

(In millions of Korean won)

	Lender	Annual interest rate(%)	Amount	
		December 31, 2019	December 31, 2019	December 31, 2018
Usance	Woori Bank and others	0.15~2.47	₩ 85,345	₩ 136,360
Trade financing(*)	Korea Development Bank and others	0.0000001~2.31	1,329,411	1,230,289
			₩ 1,414,756	₩ 1,366,649

(*) The Group is continuously recognizing the carrying amount of the outstanding receivables, which it provided a credit guarantee of, among the receivables sold to financial institutes, and cash received for transfer is recognized as collateral.

(ii) Long-term debt in Korean won

(In millions of Korean won)

	Lender	Annual interest rate(%)	Amount	
		December 31, 2019	December 31, 2019	December 31, 2018
Facility loans	Nong Hyup Bank	2.55	50,000	50,000
	Woori Bank	2.36	50,000	50,000
	Kookmin Bank	2.70~2.84	-	200,000
	Shinhan Bank	2.70	-	70,000
	KEB Hana Bank	2.98	-	50,000
			100,000	420,000
Less : current portion of long-term debt			(100,000)	(270,000)
			₩ -	₩ 150,000

(iii) Long-term debt in foreign currencies

(In millions of Korean won)

	Lender	Annual interest rate(%)	Amount	
		December 31, 2019	December 31, 2019	December 31, 2018
General loans	Sumitomo Mitsui Banking Corporation and others	2.66~3.06	₩ 173,670	₩ 335,430
Facility loans and others	Korea Development Bank and others	0.23~3.31	1,307,052	990,770
Overseas investment loans	The Export-Import Bank of Korea	3.04	85,677	171,814
	Korea Development Bank	3.01	217,088	298,160
			1,783,487	1,796,174
Less : current portion of long-term debt			(475,679)	(634,989)
			₩ 1,307,808	₩ 1,161,185

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

13. Borrowings and others, Continued

(iv) As of December 31, 2019, the Group has pledged its land and buildings in the amount of ₩ 39,212 million as collateral for long-term debt in foreign currencies.

(2) Details of bonds as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	Maturity date	Annual interest rate(%)	Amount	
		December 31, 2019	December 31, 2019	December 31, 2018
Unsecured public bonds	2020.6.4~2022.11.05	2.23~2.57	₩ 830,000	₩ 830,000
	2020.2.15~2024.2.15	1.85~2.41	500,000	500,000
Foreign public bonds	2021.4.21~2026.4.21	2.63~3.25	810,460	782,670
	2023.4.25~2027.10.25	3.00~3.50	1,042,020	1,006,290
Less: discounts on bonds			(15,566)	(19,985)
			3,166,914	3,098,975
Less : current portion of bonds			(499,786)	-
			₩ 2,667,128	₩ 3,098,975

14. Other Liabilities

(1) Details of other current liabilities as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019	December 31, 2018
Unearned income	₩ 125,955	₩ 71,060
Dividends payable	23	23
Guarantee received	7,667	5,255
Current portion of lease liabilities	50,577	1,426
Current portion of derivatives liabilities	2,836	6,933
Others	18,058	15,377
	₩ 205,116	₩ 100,074

(2) Details of other non-current liabilities as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019	December 31, 2018
Deposits received	₩ 11,863	₩ 9,984
Long-term unearned income	392,984	169,034
Long-term accounts and notes payable – others	316,812	2,012
Liabilities for financial guarantee	338	362
Lease liabilities	183,719	490
Long-term accrued expenses	312,393	45,932
Derivatives liabilities	22,536	55,285
	₩ 1,240,645	₩ 283,099

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

15. Retirement Benefits Plan

(1) Details of net defined benefit liabilities as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	₩ 2,911,152	₩ 2,586,521
Fair value of plan assets	<u>(2,703,591)</u>	<u>(2,520,772)</u>
Net defined benefit liabilities	<u>₩ 207,561</u>	<u>₩ 65,749</u>

(2) The components of plan assets as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Time deposits and others	₩ 2,703,591	₩ 2,520,772

(3) The components of retirement benefit costs for the years ended December 31, 2019 and 2018 are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Current service costs	₩ 314,735	₩ 285,090
Past service costs	17,929	-
Interest costs, net	<u>2,985</u>	<u>841</u>
	<u>₩ 335,649</u>	<u>₩ 285,931</u>

(4) The principal actuarial assumptions weighted-average rate used to defined benefit plans as of December 31, 2019 and 2018 are summarized as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate (%)	2.30	2.70
Expected rate of salary increase (%)	4.00	4.00

(5) Changes in defined benefit obligations for the years ended December 31, 2019 and 2018 are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Balance at January 1	₩ 2,586,521	₩ 2,252,036
Current service costs	314,735	285,090
Past service costs	17,929	-
Interest costs	65,561	70,738
Remeasurements(*)	80,774	130,774
Transfer in, net	572	1,729
Benefits paid	<u>(154,940)</u>	<u>(153,846)</u>
Balance at December 31	<u>₩ 2,911,152</u>	<u>₩ 2,586,521</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

15. Retirement Benefits Plan, Continued

(*) Details of remeasurements as of December 31, 2019, and December 31, 2018, are summarized as follows:

(In millions of Korean won)

	2019		2018	
Actuarial loss(gain) arising from changes in demographic assumptions	₩	182	₩	(8,155)
Actuarial loss arising from changes in financial assumptions		112,744		132,680
Others		(32,152)		6,249
	₩	80,774	₩	130,774

(6) Changes in plan assets for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	2019		2018	
Balance at January 1	₩	2,520,772	₩	2,213,350
Return on plan assets		62,576		69,897
Remeasurements		(10,292)		(31,818)
Contributions		250,000		375,000
Transfer in, net		400		1,205
Benefits paid		(119,865)		(106,862)
Balance at December 31	₩	2,703,591	₩	2,520,772

(7) Sensitivity analysis of defined benefit obligations from changes in assumptions for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019				December 31, 2018			
	1% Up		1% Down		1% Up		1% Down	
Discount rate	₩	(270,153)	₩	315,032	₩	(245,255)	₩	286,665
Rate of salary increase		311,686		(272,570)		284,897		(248,412)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

16. Provisions

The Group generally provides assurance type warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on the history of actual claims. Also, the Group records a provision for expenses that may occur due to replacement of parts or voluntary recalls pending as of the end of the reporting period. Other provision is comprised of provision related to loss on lawsuits.

Changes in provisions for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	2019			2018		
	Warranty	Other(*)	Total	Warranty	Other	Total
Balance at January 1	₩ 3,684,438	₩ 1,142,044	₩ 4,826,482	₩ 3,574,847	₩ 1,058,484	₩ 4,633,331
Provisions made(reversal)	1,692,633	(408,894)	1,283,739	1,601,455	113,070	1,714,525
Provisions used	(1,809,840)	(476,651)	(2,286,491)	(1,522,532)	(22,869)	(1,545,401)
Other increase(decrease)	52,071	(19,661)	32,410	30,668	(6,640)	24,028
Balance at December 31	₩ 3,619,302	₩ 236,838	₩ 3,856,140	₩ 3,684,438	₩ 1,142,045	₩ 4,826,483
Current	1,974,403	42,297	2,016,700	1,315,552	51,873	1,367,425
Non-current	1,644,899	194,541	1,839,440	2,368,886	1,090,172	3,459,058

(*) As of December 31, 2019, the Group recognized an expected loss amounting to ₩174,707 million as other provisions in its consolidated financial statements in relation to the ongoing litigation on ordinary wages which is under the third trial. In addition, part of the provisions were reversed due to a settlement agreement entered into with the plaintiff in 2019.

17. Commitments and Contingencies

- (1) As of December 31, 2019, one certificate of deposit valued at ₩ 1,493 million has been provided as collateral to the Korea Defense Industry Association (KDIA) as a performance guarantee on the contract. The Group has provided 1,500 units (carrying amount: ₩646 million) of KDIA as a performance guarantee on the contract.
- (2) The Group provides guarantees for employees relating to borrowings to acquire shares of the Group. The outstanding amount for which the Group has provided collective guarantees to the Korea Securities Finance Corporation is ₩249,503 million as of December 31, 2019. Management is of the opinion that aforementioned guarantees will not have a significant adverse effect on the Group's credit risk since the Group has pledged its acquired shares as collateral for the borrowings.
- (3) The Group is involved in claims and litigations for alleged damages and product liabilities, which arose in the ordinary course of business, as of December 31, 2019. Management of the Group is of the opinion that the outcome of such litigation cannot be reasonably determined and the amount and timing of the outflow of resources are uncertain and the effect of the results on the consolidated financial statements is expected to be insignificant. Additionally, the Group is undergoing investigations from domestic and overseas authorities regarding the recall of the Seta 2 engines. The outcome and effect of these investigations could not be determined as of December 31, 2019.
- (4) As of December 31, 2019, KMMG has an agreement with the West Point Development Authority and Troup Country Development Authority with a limit of USD 2,700,000 thousand to purchase building, machinery and equipment for tax incentives.
- (5) As of December 31, 2019, in regard to the factory expansion, KMS has an agreement with suppliers to acquire property, plant and equipment, for which outstanding balance is EUR 32,662 thousand.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

17. Commitments and Contingencies, Continued

- (6) As of December 31, 2019, KMM has an investment agreement with the Government of the State of Nuevo Leon for at least USD 1,054 million for tax incentives.
- (7) As of December 31, 2019, in relation to the factory expansion and others, KMI entered into a purchase agreement with suppliers to acquire property, plant and equipment amounting to INR 4,940 million.
- (8) In 2019, the Group with Hyundai Motor Company and Hyundai Mobis Co., Ltd. entered into an agreement with Aptiv Technologies Limited to establish and invest in a joint venture which will primarily engage in the development and sale of 4 and 5 level of autonomous driving solutions for the growth of its mobility service business.
- (9) The Group has agreed to invest ₩512,080 million in connection with the construction of Global Business Center (GBC). In addition, the Group has recognized ₩345,725 million of related liabilities as of December 31, 2019 in accordance with the agreement with the Seoul Metropolitan Government to implement public contributions under the new construction project in December 2019.
- (10) As of December 31, 2019, the Group has overdrafts, general loans, trade-financing agreements, and loans collateralized by account receivables with numerous financial institutions including KEB Hana bank with a combined limit of up to USD 9,858 million, EUR 915 million, and ₩1,668,488 million

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

18. Derivative financial instruments and hedge

(1) Details of derivative financial instruments as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

Type	Fair value and Book value		Note
	December 31, 2019	December 31, 2018	
Total Return Swap	₩ (22,536)	₩ (6,125)	
Currency Option	820	706	
Interest Rate Swap	-	393	(*)
Currency Swap	26,377	(50,432)	(*)

(*) Derivative financial instruments designated as cash flow hedges.

(2) Risk management strategies and applied approach for risk management

The Group is exposed to certain risks with ongoing business operations. The main risks managed by derivatives are interest rate risk and foreign exchange risk. The approach of the Group's risk management strategies and risk management is described in Note 31.

The Group entered into currency swap contracts with nominal value of USD 1,050 million. These currency swaps are used to hedge exposures to changes in cash flows of long-term borrowings and bonds.

Because the terms of interest rate swaps and currency swaps are in line with terms of long-term debt (borrowings and bonds) denominated in dollar, there is an economic relationship between the hedged item and the hedging instrument. Because the underlying risk of interest rate swaps and currency swaps is the same as the hedged risk components, the Group set a 1:1 risk-averting ratio for the hedging relationship. To assess the hedging effectiveness, the Group uses a major condition matching method, for example, to compare the changes in the fair value of the hedging instrument and the changes in the cash flow of the hedged item due to the hedged risk.

The ineffective portion of risk aversion could be generated as follows:

- Different interest rate curves applied to discount hedged items and hedging instruments
- Difference in the timing of the cash flow of the hedged item and the hedging instrument
- In case of the counterparty's credit risk having a different effect on the fair value movement of the hedging instrument and the hedged item

(3) Information on the future cash flows of derivatives designated as cash flow hedges as of December 31, 2019 is as follows:

(In millions of Korean won, except for average contract rate)

Type	Within 1 year	1-5 years	More than 5 years	Total
Currency swap:				
Nominal cash flow	₩ 173,670	₩ 1,042,020	-	₩ 1,215,690
Average contract rate	1,160.00	1,116.77	-	-

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

18. Derivative financial instruments and hedge, Continued

(4) The effect on the consolidated financial statements of derivatives designated as cash flow hedges as of December 31, 2019 is as follows:

(In millions of Korean won)

	<u>Contractual nominal amount</u>		<u>Derivatives assets</u>		<u>Derivatives liabilities</u>		<u>Accounts of the hedging instrument</u>	<u>Changes in the fair value used to calculate the ineffective portion of the hedge</u>
Cash flow hedge:								
Interest rate swap	₩	-	₩	-	₩	-	Other financial assets/liabilities	₩ (394)
Currency swap	₩	1,215,690	₩	29,213	₩	2,836		₩ 76,810

(5) The effect on the consolidated financial statements of financial instruments eligible for the cash flow hedges as of December 31, 2019 is as follows:

(In millions of Korean won)

	<u>Carrying amount of the hedged item</u>		<u>Accounts of the hedged items</u>		<u>Changes in the fair value used to calculate the ineffective portion of the hedge</u>	<u>Cash flow hedge reserve</u>
	<u>Assets</u>	<u>Liabilities</u>				
Cash flow hedge:						
Borrowings	₩	-	₩ 173,670	Long-term debt	₩ 12,220	₩ 3
Bonds		-	1,150,111	Bonds	64,196	(84)

(6) The effect of the Group's risk management activities on the consolidated financial statements of profit or loss and other comprehensive income as of December 31, 2019 is as follows:

<u>Hedged items</u>	<u>Effective portion of hedge accounting recognized in other comprehensive income(*)</u>	<u>Ineffective portion of hedge accounting recognized in profit or loss</u>	<u>Reclassification from cash flow hedge reserve to profit or loss</u>	<u>Accounts that affect profit or loss by reclassification</u>
Borrowings	₩ 349	₩ -	₩ 5,814	Interest expenses & Gains(Loss)on foreign currency translation
Bonds	20,519	-	35,893	

(*) The amount reflected the effect of income taxes.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

19. Equity

(1) The number of shares to issue, the number of shares issued and the par value of the share of the Group are 820,000,000 shares, 405,363,347 shares and ₩5,000 as of December 31, 2019, respectively. The Group retired 22,500,000 shares of treasury stock on July 2, 2003, and on May 28, 2004. Due to these stock retirements, the aggregate par value of issued shares differs from the common stock amount.

(2) Accumulated other comprehensive loss as of December 31, 2019 and 2018, is summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Changes in fair value of financial assets measured at FVOCI	₩ (43,337)	₩ (86,680)
Effective portion of changes in fair value of cash flow hedges	(81)	(20,949)
Change in capital adjustments - gain of equity method accounted investment	44,209	23,936
Change in capital adjustments - loss of equity method accounted investment	(268,307)	(441,711)
Exchange differences on translation foreign operations	<u>(449,455)</u>	<u>(581,706)</u>
	<u>₩ (716,971)</u>	<u>₩ (1,107,110)</u>

(3) Other equity as of December 31, 2019 and 2018, is summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Gain on retirement of capital stock	₩ 119,859	₩ 119,859
Other capital surplus	35,256	35,256
Treasury stock	<u>(216,189)</u>	<u>(216,189)</u>
	<u>₩ (61,074)</u>	<u>₩ (61,074)</u>

20. Retained Earnings

(1) Retained earnings as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Legal reserve	₩ 357,011	₩ 320,911
Discretionary reserve	18,584,098	18,689,649
Unappropriated retained earnings	<u>7,115,107</u>	<u>5,701,121</u>
	<u>₩ 26,056,216</u>	<u>₩ 24,711,681</u>

(2) Changes in retained earnings for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Balance at January 1	₩ 24,711,681	₩ 24,074,322
Effects of changes in accounting standards	-	15,355
Profit attributable to shareholders of the Company	1,826,659	1,155,943
Dividends	(360,838)	(320,745)
Remeasurements of defined benefit plans	(66,023)	(124,527)
Remeasurements of defined benefit plans of associates	(55,023)	(88,667)
Derecognition of financial assets measured at FVOCI	(240)	-
Balance at December 31	<u>₩ 26,056,216</u>	<u>₩ 24,711,681</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

21. Earnings per share

(1) Details of the basic earnings per share calculation for the years ended December 31, 2019 and 2018, are summarized as follows:

(In Korean won, except for number of shares)

	<u>2019</u>	<u>2018</u>
Profit attributable to shareholders of the Company	₩ 1,826,659,085,358	₩ 1,155,943,031,668
Weighted-average number of common shares outstanding(*)	400,931,263	400,931,263
Basic earnings per share	₩ 4,556	₩ 2,883

(*) The weighted-average number of common shares outstanding is calculated by averaging outstanding period, and treasury stock is not included in the number of common shares outstanding.

(2) The Group did not compute diluted earnings per common share for the years ended December 31, 2019 and 2018, since there are no dilutive items during the years.

22. Dividends

(1) Details of dividends for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won, except for shares, par value and ratio)

	<u>2019</u>	<u>2018</u>
Number of shares issued	405,363,347	405,363,347
Number of treasury shares	(4,432,084)	(4,432,084)
Number of dividend shares	400,931,263	400,931,263
Par value per share	₩ 5,000	₩ 5,000
Dividend rate	23%	18%
Dividend amount	₩ 461,071	₩ 360,838

(2) Details of the dividend payout ratio for the years ended December 31, 2019 and 2018 are as follows:

(In millions of Korean won, except for ratio)

	<u>2019</u>	<u>2018</u>
Dividends	₩ 461,071	₩ 360,838
Profit for the year	1,826,659	1,155,943
Dividend payout ratio	25.24%	31.22%

(3) Dividend yield ratio for the years ended December 31, 2019 and 2018, are summarized as follows:

(In Korean won, except for ratio)

	<u>2019</u>	<u>2018</u>
Dividend per share	₩ 1,150	₩ 900
Market price as of year-end	44,300	33,700
Dividend yield ratio	2.60%	2.67%

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

23. Revenue from contracts with customers

(1) Details of revenues from contract with customers of the Group for the year ended December 31, 2019 and 2018 are as follows:

(In millions of Korean won)

	2019		2018	
Types of goods or services				
Sales of vehicles	₩	51,868,875	₩	48,019,543
Others		6,277,084		6,150,270
	₩	58,145,959	₩	54,169,813

(*) The geographical market segmentation in which the Group is located is described in Note 4.

(2) Receivables, contract assets, and contract liabilities from contracts with customers as of December 31, 2019 and 2018 are as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Accounts and notes receivable - trade	₩	2,167,135	₩	2,051,611
Prepaid expenses		4,088		-
Advances received		106,413		95,644
Unearned revenue		440,752		193,602
Accrued expenses		1,032,916		1,265,351

(3) Details of impairment loss on receivables and contract assets from contracts with customers recognized by the Group for the years ended December 31, 2019 and 2018 are as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Impairment of trade receivables	₩	774	₩	1,396

(4) The amounts allocated to performance obligations that are not satisfied(or partially not satisfied) of the transaction prices in major contracts entered into as of December 31, 2019 and 2018 are as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Provision of additional services and others (*)	₩	547,213	₩	289,246

(*) The transaction prices for unsatisfied performance obligations will be recognized as revenue in the period when such supplementary services are provided.

(5) The amounts recognized as assets from costs to obtain or fulfill a contract as of December 31, 2019 and 2018 are as follows.

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Provision of additional services and others (*)	₩	4,088	₩	-

(*) The costs from unsatisfied performance obligation will be recognized as expenses in the period when such supplementary services are provided.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

24. Selling, general and administrative expense

(1) Details of selling expenses for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Advertising	₩ 1,269,398	₩ 1,223,258
Sales promotion	1,053,251	1,061,911
Warranty expenses	1,574,701	1,250,613
Freight	55,396	47,250
Overseas marketing and export expenses	<u>308,530</u>	<u>321,945</u>
	<u>₩ 4,261,276</u>	<u>₩ 3,904,977</u>

(2) Details of general and administrative expenses for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Salaries	₩ 846,151	₩ 779,379
Bonus	219,378	219,342
Retirement benefits cost	83,303	82,347
Accrual for other long-term employee benefits	13,296	8,000
Other employee benefits	204,284	176,662
Travel	46,676	45,438
Communications	13,430	13,629
Utilities	18,267	17,982
Taxes and dues	40,236	33,856
Rent	16,867	70,755
Depreciation	132,026	79,153
Amortization	46,704	43,161
Bad debt expenses	774	1,396
Repairs and maintenance	29,912	19,281
Insurance premium	26,145	25,729
Entertainment expense	4,449	4,738
Maintenance fee for vehicles	39,751	40,293
Supplies and stationery	13,822	8,580
Information fees	3,106	2,745
Education and training	24,322	23,984
Commissions and fees	353,283	345,837
Test expenses	914,011	864,012
Others	<u>18,240</u>	<u>23,779</u>
	<u>₩ 3,108,433</u>	<u>₩ 2,930,078</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

25. Finance Income and Finance Expenses

(1) Details of finance income for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>		<u>2018</u>
Interest income	₩ 190,070	₩	213,901
Gain on foreign exchange transactions	7,336		5,982
Gain on foreign currency translation	25,218		5,360
Dividend income	2,898		2,838
Gain on valuation and trading of derivatives	12,280		25,610
	<u>₩ 237,802</u>	₩	<u>253,691</u>

(2) Details of finance expenses for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>		<u>2018</u>
Interest expense	₩ 188,711	₩	203,747
Loss on foreign exchange transactions	15,010		23,948
Loss on foreign currency translation	65,900		59,325
Loss on disposal of equity securities	-		19
Loss on valuation and trading of derivatives	22,652		30,057
	<u>₩ 292,273</u>	₩	<u>317,096</u>

26. Other Income and Expenses

(1) Other income for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>		<u>2018</u>
Rent	₩ 8,884	₩	8,805
Gain on foreign exchange transactions	376,702		124,490
Gain on foreign currency translation	44,182		48,581
Gain on disposal of property, plant and equipment	5,759		17,710
Gain on disposal of intangible assets	-		229
Reversal of allowance for doubtful accounts	104		-
Miscellaneous profit	272,593		111,390
	<u>₩ 708,224</u>	₩	<u>311,205</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

26. Other Income and Expenses, Continued

(2) Other expenses for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Loss on foreign exchange transactions	₩ 220,718	₩ 159,800
Loss on foreign currency translation	42,659	83,227
Loss on disposal of accounts and notes receivable – trade	477	655
Donation	26,071	33,704
Loss on disposal of property, plant and equipment	26,165	67,674
Loss on disposal of intangible assets	516	875
Impairment loss on tangible and intangible assets	121,335	20,165
Miscellaneous losses	<u>201,493</u>	<u>187,360</u>
	<u>₩ 639,434</u>	<u>₩ 553,460</u>

27. Income Tax Expense

(1) The components of income tax expense for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Income tax payable	₩ 467,153	₩ 302,819
Changes in deferred taxes due to temporary differences	236,537	(73,447)
Changes in income tax due to items directly charged to equity	<u>755</u>	<u>83,329</u>
Income tax expense	<u>₩ 704,445</u>	<u>₩ 312,701</u>

(2) The components of items directly charged to equity for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Current tax:		
Remeasurements of defined benefit plans	₩ 24,934	₩ 47,235
	<u>₩ 24,934</u>	<u>₩ 47,235</u>
Deferred income tax:		
Changes in fair value of financial assets measured at FVOCI	₩ (16,264)	₩ 27,464
Effective portion of changes in fair value of cash flow hedges	<u>(7,915)</u>	<u>8,630</u>
	<u>₩ (24,179)</u>	<u>₩ 36,094</u>
Changes in income tax due to items directly charged to equity	<u>₩ 755</u>	<u>₩ 83,329</u>

Income tax related to gain/loss on remeasurements of defined benefit plans, gain/loss on valuation of financial assets measured at FVOCI and derivative instruments as cash flow hedge were recognized in other comprehensive income/loss.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

27. Income Tax Expense, Continued

(3) Reconciliation from profit before income tax to income tax expense for the years ended December 31, 2019 and 2018, is as follows:

(In millions of Korean won, except for ratio)

	<u>2019</u>	<u>2018</u>
Profit before income tax	₩ 2,531,104	₩ 1,468,644
Income tax calculated at statutory tax rates (*)	721,803	255,966
Adjustments:		
Non-taxable income	(52,291)	(40,022)
Non-deductible expense	103,612	85,997
Tax credits	(56,273)	(77,177)
Tax effect of gains/loss on investments in subsidiaries, associates and joint ventures	85,894	145,326
Others	<u>(98,300)</u>	<u>(57,389)</u>
Income tax expense	₩ <u>704,445</u>	₩ <u>312,701</u>
Effective average tax rate	27.83%	21.29%

(*) Calculated by multiplying each nation's statutory tax rate and profit before income tax on each separate financial statements.

(4) The Group will set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

(5) Details of changes in deferred tax assets and liabilities for the year ended December 31, 2019, are as follows:

(In millions of Korean won)

	<u>Beginning balance</u>	<u>Profit or loss</u>	<u>Other comprehensive income</u>	<u>Ending balance</u>
Allowance for doubtful accounts	₩ 13,926	₩ (654)	₩ -	₩ 13,271
Bad debts write-off	9,533	-	-	9,533
Accrued expenses	653,981	(242,307)	-	411,674
Provision of warranty	820,504	16,223	-	836,727
Provision of other long-term employee benefits	76,196	8,869	-	85,065
Annual leaves	32,497	43	-	32,540
Revaluated land	(398,522)	-	-	(398,522)
Depreciation	(254,000)	96,805	-	(157,195)
Investments in subsidiaries, associates and joint ventures	(1,915,272)	(85,894)	-	(2,001,166)
Gains/losses on disposal of investment assets and others	(46,708)	55	-	(46,653)
Gains/losses on valuation of derivatives	9,367	4,551	(7,915)	6,003
Gains/losses on valuation of equity securities	27,054	-	(16,264)	10,790
Accumulated deficit carryforward	156,862	(96,152)	-	60,710
Others	201,109	86,103	-	287,212
	<u>₩ (613,473)</u>	<u>₩ (212,358)</u>	<u>₩ (24,179)</u>	<u>₩ (850,011)</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

27. Income Tax Expense, Continued

Details of changes in deferred tax assets and liabilities for the year ended December 31, 2018, are as follows:

(In millions of Korean won)

	<u>Beginning balance</u>	<u>Profit or loss</u>	<u>Other comprehensive income</u>	<u>Ending balance</u>
Allowance for doubtful accounts	₩ 11,513	₩ 2,413	₩ -	₩ 13,926
Bad debts write-off	9,533	-	-	9,533
Accrued expenses	595,680	58,301	-	653,981
Provision of warranty	785,207	35,297	-	820,504
Provision of other long-term employee benefits	70,499	5,697	-	76,196
Annual leaves	32,834	(337)	-	32,497
Revaluated land	(399,204)	682	-	(398,522)
Depreciation	(256,693)	2,693	-	(254,000)
Investments in subsidiaries, associates and joint ventures	(1,769,946)	(145,326)	-	(1,915,272)
Gains/losses on disposal of investment assets and others	(48,753)	2,045	-	(46,708)
Gains/losses on valuation of derivatives	(6,682)	7,419	8,630	9,367
Gains/losses on valuation of equity securities	(410)	-	27,464	27,054
Accumulated deficit carryforward	107,551	49,311	-	156,862
Others	181,951	19,158	-	201,109
	<u>₩ (686,920)</u>	<u>₩ 37,353</u>	<u>₩ 36,094</u>	<u>₩ (613,473)</u>

(6) As of December 31, 2019, total temporary differences related to investments in subsidiaries, associates and joint ventures, where deferred tax assets and liabilities were not recognized, amount to ₩651,494 million and ₩3,685,053 million, respectively.

28. Classification of Expenses by Nature

Details of expenses by nature for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Change in inventories	₩ (744,105)	₩ 1,378,345
Raw material and merchandise consumed	41,843,567	37,652,650
Employee benefits	4,682,909	4,805,805
Depreciation	1,532,133	1,302,631
Amortization	597,321	632,246
Others	8,224,454	7,240,661
	<u>₩ 56,136,279</u>	<u>₩ 53,012,338</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

29. Leases

(1) Description of leases

The Group uses and provides leases in connection with its operations, and the main leases consist of real estate leases, etc. The effect of future cash outflows that are potentially exposed to the use of leases but are not reflected in the measurement of lease liabilities has no significant impact on consolidated financial statements of the Group.

Changes in right-of-use assets related to leases are included in Note 9

(2) Changes in lease liabilities for the year ended December 31, 2019 are as follows:

In millions of Korean won

	<u>2019</u>
Balance at January 1	₩ 1,916
Effects of changes in accounting standards(*)	229,796
Increase	41,514
Payments	(54,998)
Interest expense	7,169
Others (exchange difference)	8,899
Balance at December 31	<u>₩ 234,296</u>

(*) Effect of the initial adoption of KIFRS 1116 'Leases'

(3) Income and expenses recognized in lease contracts for the year ended December 31, 2019 are as follows:

In millions of Korean won

	<u>December 31, 2019</u>
Income in recognized in lease contracts	
Interest income	₩ 4,576
Others(*)	16
	<u>₩ 4,592</u>
Expenses in recognized in lease contracts	
Depreciation of right-of-use assets	₩ 56,246
Expenses from the lease agreements that are not recognized as lease liabilities	230
Interest expense	7,169
Others(*)	939
	<u>₩ 64,584</u>

(*) Profit or loss from disposal of the right-of-use assets due to changes in the lease agreements and termination of the lease contracts are included.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

29. Leases, Continued

(4) Fixed lease payments and variable lease payments recognized in lease contracts for the year December 31, 2019, are summarized as follows:

(In millions of Korean won)

	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
Fixed payments	₩ 59,010	₩ -	₩ 59,010
Variable payments with minimum	191	146	337
	<u>₩ 59,201</u>	<u>₩ 146</u>	<u>₩ 59,347</u>

(5) Exercise of termination and renewal option has no significant impact on the consolidated financial statements of the Group.

(6) Future minimum lease receivables to arise from lease provided by the Group for the year ended December 31, 2019 are as follows:

(In millions of Korean won)

	<u>Within 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Lease receivables	₩ 7,383	₩ 15,101	₩ 14,112	₩ 36,596

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

30. Cash Flows

(1) Details of cash generated from operations for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Profit for the year	₩ 1,826,659	₩ 1,155,943
Adjustments:		
Salaries	₩ (245,669)	₩ 30,580
Retirement benefits costs	306,066	291,172
Depreciation	1,532,115	1,302,631
Amortization	597,321	632,246
Warranty expenses	1,576,456	1,517,465
Income tax expense	704,445	312,701
Gain on investment in associates and joint ventures, net	(507,105)	(616,829)
Interest income, net	(347)	(8,040)
Dividend income	(2,898)	(2,838)
Loss on foreign currency translations, net	39,159	88,610
Loss on disposal of property, plant and equipment, net	20,406	49,963
Impairment loss on intangible assets	121,335	20,165
Others	<u>(33,080)</u>	<u>113,986</u>
	<u>₩ 4,108,204</u>	<u>₩ 3,731,812</u>
Changes in operating assets and liabilities:		
Increase in accounts and notes receivable - trade	₩ (125,959)	₩ (10,132)
Decrease (increase) in accounts and notes receivable – other	87,615	(385,663)
Decrease (increase) in inventories	(1,041,745)	1,161,933
Increase in accounts and notes payable - trade	519,770	1,132,180
Decrease in advances received	(91,770)	(75,223)
Increase (decrease) in accounts and notes payable - other	768,914	(128,396)
Increase (decrease) in accrued expenses	(91,527)	37,716
Payment of retirement benefits	(154,940)	(153,846)
Changes in net defined benefit liabilities	(129,963)	(267,615)
Changes in warranty provision	(1,809,840)	(1,544,896)
Payment of other provision	(475,627)	-
Others	<u>194,399</u>	<u>204,395</u>
	<u>₩ (2,350,673)</u>	<u>₩ (29,547)</u>
Cash generated from operations	<u>₩ 3,584,190</u>	<u>₩ 4,858,208</u>

(2) Significant non-cash transactions from investing and financing activities for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Change in accounts and notes payable - others in connection to acquisition of property, plant and equipment	₩ (24,837)	₩ 19,450
Change in accounts and notes payable - others in connection to acquisition of intangible assets	2,105	(66,482)
Change in inventories in connection to acquisition of property, plant and equipment	158,219	148,719
Change in current and non-current accounts and notes payable - others	345,725	-

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

30. Cash Flows, Continued

(3) Changes in liabilities arising from financing activities for the year ended December 31, 2019 are as follows:

(In millions of Korean won)

	January 1, 2019			Cash flow	Changes in non-cash			December 31, 2019
	January 1, 2019 (Before changes in accounting policy)	Changes in accounting policy (*1)	January 1, 2019 (After changes in accounting policy)		Exchange rate changes	Transferred in/to current portion	Others (*2)	
Short-term borrowings	₩ 1,366,649	-	₩ 1,366,649	₩ 65,519	₩ (17,412)	₩ -	₩ -	₩ 1,414,756
Current portion of long-term debts and bonds	904,989	-	904,989	(974,224)	9,267	1,120,434	14,999	1,075,465
Bonds	3,098,975	-	3,098,975	-	63,520	(499,786)	4,419	2,667,128
Long-term debts	1,311,185	-	1,311,185	596,370	20,901	(620,648)	-	1,307,808
Deposits received	9,984	-	9,984	1,867	12	-	-	11,863
Lease liabilities	1,916	229,796	231,712	(54,998)	8,899	-	48,683	234,296
	<u>₩ 6,693,698</u>	<u>₩ 229,796</u>	<u>₩ 6,923,494</u>	<u>₩ (365,466)</u>	<u>₩ 85,187</u>	<u>₩ -</u>	<u>₩ 68,101</u>	<u>₩ 6,711,316</u>

(*1) Effect of the initial adoption of KIFRS 1116 'Leases', which is entirely non-cash changes.

(*2) It includes acquisition of new lease, amortization of present value discounts and others.

Changes in liabilities arising from financing activities for the year ended December 31, 2018 are as follows:

(In millions of Korean won)

	December 31, 2017	Cash flow	Changes in non-cash			December 31, 2018
			Exchange rate changes	Transferred in/to current portion	Amortization of present value discounts	
Short-term borrowings	₩ 2,993,712	₩ (1,629,422)	₩ 2,359	₩ -	₩ -	₩ 1,366,649
Current portion of long-term debts and bonds	861,421	(760,607)	27,985	776,190	-	904,989
Current portion of finance lease liabilities	1,305	63	58	-	-	1,426
Bonds	3,019,968	-	74,720	-	4,287	3,098,975
Long-term debts	1,874,732	174,080	38,563	(776,190)	-	1,311,185
Finance lease liabilities	1,836	(1,366)	20	-	-	490
Others	14,987	(5,000)	(3)	-	-	9,984
	<u>₩ 8,767,961</u>	<u>₩ (2,222,252)</u>	<u>₩ 143,702</u>	<u>₩ -</u>	<u>₩ 4,287</u>	<u>₩ 6,693,698</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

31. Finance Risk Management

The Group's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk (composed of foreign exchange risk and interest rate risk). The treasury department monitors and manages the financial risk arising from the Group's underlying operations in accordance with the risk management policies and procedures authorized by the board of directors.

(1) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has transacted with customers after evaluating on their credit rating graded by the independent credit rating agencies and has their collaterals to control customers on default. If those grades are not available, customers' credit is evaluated upon their other transaction information. The Group regularly monitors customers' credit ratings.

(2) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group manages liquidity risk by reviewing and forecasting regular cash flows. The Group has a certain level of current account to prepare unexpected payment of short-term financial liabilities and others.

(3) Market risk

Market risk is the risk of fluctuations in fair value of financial instrument and future cash flow by changes of market price. The purpose for managing market price is to optimize profits, while managing and controlling on exposure to market risk within acceptable limits.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various foreign currencies including the US dollar and Euro, which relates to primarily to the Group's global operating activities. The Group periodically measures and assesses the exposure to primary currencies to minimize the fluctuation of business performance and financial risk on fluctuations in foreign exchange and establish its own guidelines and manage foreign exchange risk.

[Risk]

- Risk of changes in presentation amount in Korean won due to foreign exchange fluctuation in future sales amounts denominated in foreign currency
- Risk of changes in presentation amount in Korean won due to foreign exchange fluctuation in assets and liabilities denominated in foreign currency
- Foreign exchange risk until the time of collecting accounts and notes receivable and paying of accounts and notes payable

[Strategy]

- The Group is on the principle that it minimizes the exposure to currencies by matching inflows and outflows of foreign currencies, size, and maturity.
- The Group reduces the exposure period of foreign currencies by trade financing instruments such as negotiation in order to manage the risk arising from accounts and notes receivable and accounts and notes payable from operating activities.
- The Group hedges its foreign currency risk arising from future cash flow that are expected to occur within a maximum 12-month period by making use of derivative financial instruments such as currency forwards, currency options, etc.
- Derivative financial instruments such as currency swaps, etc. are used to hedge the foreign exchange risk until maturities for borrowings in foreign currencies, whose maturity exceeds 12 months
- The Group enters into derivative financial instrument contracts based on its internal guideline and procedures for foreign exchange risk, and speculative transactions are strictly limited.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

31. Finance Risk Management, Continued

(3) Market risk, Continued

(ii) Interest rate risk

The Group is exposed to the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. To minimize uncertainty and net interest expense due to interest rate fluctuations, the Group monitors the market movements of interest rate and forecasts and thus maintains appropriate financial instruments.

[Risk]

- Risk of volatility in net interest expenses on financial instruments such as deposits due to changes in market interest rate
- Risk of future cash flows volatility of borrowings due to changes in market interest rate
- Risk of changes in interest rates on accounts and notes receivable due to changes in market interest rate

[Strategy]

- The Group manages interest rate risk with a balanced portfolio of fixed and variable rate borrowings, The Group enters into derivative financial instruments such as interest rate swaps and currency swaps to hedge the risk of cash flow fluctuations arising from changes in interest rates.
- The Group is on the principle that the contracts of derivative financial instruments are limited to hedging instruments for long-term borrowings and bonds, and it matches the key terms of the hedged items such as the maturity, size and interest payment date, etc. and keeps them until maturity

(4) Capital management

The fundamental goal of capital management is to maintain on sound financial structure. As for this to be maintained, the Group uses debt ratio as indicator of capital management. The debt ratio is calculated as total liability divided by total equity.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments

(1) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets means maximum exposure in respect of credit risk. The maximum exposure as of December 31, 2019 and 2018, is as follows:

(In millions of Korean won)

	December 31, 2019		December 31, 2018	
Cash and cash equivalents(*)	₩	4,268,612	₩	2,292,383
Short-term financial instruments		3,061,687		4,668,305
Other current financial assets		1,838,821		1,627,041
Accounts and notes receivable – trade		2,154,695		2,049,248
Accounts and notes receivable – others		1,501,242		1,423,002
Long-term financial instruments		103,984		82,863
Other non-current financial assets		802,277		770,841
Long-term accounts and notes receivable - trade		12,440		2,364
	₩	13,743,758	₩	12,916,047

(*) Cash on hand is excluded.

(ii) Impairment

The aging information based on carrying amount of trade account and notes receivable and other receivables as of December 31, 2019 and 2018 is as follows:

(In millions of Korean won)

	December 31, 2019				December 31, 2018			
	Accounts and Notes receivable		Other		Accounts and Notes receivable		Other	
	-trade	receivables(*)			-trade	receivables(*)		
Not overdue	₩	2,109,321	₩	1,860,687	₩	1,975,273	₩	1,954,012
Past due less than 3 months		46,747		13,188		47,537		22,935
Past due 4–6 months		2,446		33,113		28,941		7,848
Past due 7–12 months		520		2,389		463		7,698
Past due for more than 12 months		104,033		2,708		94,270		8,788
	₩	2,263,067	₩	1,912,085	₩	2,146,484	₩	2,001,281

(*) Other receivables are composed of accounts and notes receivables - other, long-term accounts and notes receivables - other, accrued income, deposits provided and guarantee deposits.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(1) Credit risk, Continued

(ii) Impairment, Continued

Changes in allowance for doubtful accounts of trade accounts and notes receivable and other receivables for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	2019		2018	
	Accounts and notes receivable -trade	Other receivables	Accounts and notes receivable -trade	Other receivables
Balance at January 1	₩ 94,872	₩ 2,991	₩ 94,239	₩ 3,238
Collection of write-off	31	-	21	-
Write-off	(3)	-	(353)	(152)
Allowance for doubtful accounts	774	1,050	1,396	(498)
Others	258	1,263	(431)	403
Balance at December 31	<u>₩ 95,932</u>	<u>₩ 5,304</u>	<u>₩ 94,872</u>	<u>₩ 2,991</u>

(2) Liquidity risk

Aggregate maturities of the Group's financial liabilities, including estimated interest, as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Within 1 year	1-5 years	More than 5 years	Total
Non-interest-bearing liabilities:				
Accounts and notes payable – trade	₩ 6,766,756	₩ -	₩ -	₩ 6,766,756
Accounts and notes payable – others	2,641,091	-	-	2,641,091
Accrued expenses	1,751,652	-	-	1,751,652
Other current liabilities	28,584	-	-	28,584
Other non-current liabilities	-	663,603	-	663,603
Interest-bearing liabilities:				
Bonds	₩ 582,467	₩ 2,167,506	₩ 743,641	₩ 3,493,614
Borrowings	2,064,060	1,136,158	302,453	3,502,671
Finance lease liabilities	51,977	110,958	108,550	271,485
Financial guarantee:	<u>₩ 249,503</u>	<u>₩ 57,890</u>	<u>₩ -</u>	<u>₩ 307,393</u>
	<u>₩ 14,136,090</u>	<u>₩ 4,136,115</u>	<u>₩ 1,154,644</u>	<u>₩ 19,426,849</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(2) Liquidity risk, Continued

Aggregate maturities of the Group's financial liabilities, including estimated interest, as of December 31, 2018, are summarized as follows:

(In millions of Korean won)

	<u>Within 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Non-interest-bearing liabilities:				
Accounts and notes payable – trade	₩ 6,244,942	₩ -	₩ -	₩ 6,244,942
Accounts and notes payable – others	2,050,764	-	-	2,050,764
Accrued expenses	1,796,546	-	-	1,796,546
Other current liabilities	12,211	-	-	12,211
Other non-current liabilities	-	113,213	-	113,213
Interest-bearing liabilities:				
Bonds	₩ 85,348	₩ 2,520,212	₩ 901,270	₩ 3,506,830
Borrowings	2,366,682	1,309,200	82,153	3,758,035
Finance lease liabilities	1,426	490	-	1,916
Financial guarantee:	<u>₩ 268,586</u>	<u>₩ 55,905</u>	<u>₩ -</u>	<u>₩ 324,491</u>
	<u>₩ 12,826,505</u>	<u>₩ 3,999,020</u>	<u>₩ 983,423</u>	<u>₩ 17,808,948</u>

(*) The maturity analysis was based on the earliest expiration date when the Group would have to pay based on the undiscounted cash flows of the financial liabilities.

(3) Foreign exchange risk

The Group's capital and income/loss would have been increased or decreased if the foreign exchange rates against USD and EUR were fluctuant. The Group assumes that interest rate fluctuates 10% as of December 31, 2019 and 2018. Also, the Group assumes that other variables, such as interest rate, are not changed by sensitive analysis. The Group analyzed by the same method that was used for the last period and details for the effect on income before taxes are summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>10% up</u>	<u>10% down</u>	<u>10% up</u>	<u>10% down</u>
USD	₩ (147,957)	₩ 147,957	₩ (176,430)	₩ 176,430
EUR	(72,936)	72,936	(28,696)	28,696

(4) Interest rate risk

Sensitivity analysis of interest income/expenses from changes in interest rate as of December 31, 2019 and 2018, is summarized as follows:

(In millions of Korean won)

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>100 bp up</u>	<u>100 bp down</u>	<u>100 bp up</u>	<u>100 bp down</u>
Interest income	₩ 47,697	₩ (47,697)	₩ 22,924	₩ (22,924)
Interest expenses	18,837	(18,837)	20,489	(20,489)

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(5) Fair value

(i) Fair value and carrying amount

Details of fair value and carrying amount of financial assets and liabilities by category as of December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	December 31, 2019	
	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss :		
Other current financial assets	₩ 1,682,976	₩ 1,682,976
Other non-current financial assets	106,310	106,310
Financial derivative assets	821	821
	<u>₩ 1,790,107</u>	<u>₩ 1,790,107</u>
Financial assets measured at fair value through other comprehensive income :		
Long-term equity securities	<u>₩ 378,004</u>	<u>₩ 378,004</u>
Financial assets measured at amortized cost :		
Cash and cash equivalents	₩ 4,268,716	₩ 4,268,716
Short-term financial instruments	3,061,687	3,061,687
Accounts and notes receivable – trade	2,154,695	2,154,695
Accounts and notes receivable – others	1,501,242	1,501,242
Other current financial assets	146,354	146,354
Long-term financial instruments	103,984	103,984
Long-term accounts and notes receivable – trade	12,440	12,440
Other non-current financial assets	297,422	297,422
	<u>₩ 11,546,540</u>	<u>₩ 11,546,540</u>
Financial liabilities measured at fair value through profit of loss :		
Financial derivative liabilities	<u>₩ 22,536</u>	<u>₩ 22,536</u>
Financial liabilities measured at amortized cost :		
Accounts and notes payable – trade	₩ 6,766,756	₩ 6,766,756
Accounts and notes payable – others	2,641,091	2,641,091
Bonds	3,166,914	3,201,728
Borrowings	3,298,243	3,318,943
Others	2,653,101	2,653,101
	<u>₩ 18,526,105</u>	<u>₩ 18,581,619</u>
Financial instruments designated as cash flow hedges :		
Financial derivative assets	₩ 29,212	₩ 29,212
Financial derivative liabilities	(2,836)	(2,836)
	<u>₩ 26,376</u>	<u>₩ 26,376</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

(i) Fair value and carrying amount, Continued

Details of fair value and carrying amount of financial assets and liabilities by category as of December 31, 2018 is summarized as follows:

(In millions of Korean won)

	December 31, 2018	
	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss :		
Other current financial assets	₩ 1,550,041	₩ 1,550,041
Short-term financial instruments	1,068,802	1,068,802
Financial derivative assets	706	706
	<u>₩ 2,619,549</u>	<u>₩ 2,619,549</u>
Financial assets measured at fair value through other comprehensive income :		
Long-term equity securities	<u>₩ 231,185</u>	<u>₩ 231,185</u>
Financial assets measured at amortized cost :		
Cash and cash equivalents	₩ 2,292,659	₩ 2,292,659
Short-term financial instruments	3,599,503	3,599,503
Accounts and notes receivable – trade	2,049,248	2,049,248
Accounts and notes receivable – others	1,423,002	1,423,002
Other current financial assets	70,240	70,240
Long-term financial instruments	82,863	82,863
Long-term accounts and notes receivable – trade	2,364	2,364
Other non-current financial assets	539,656	539,657
	<u>₩ 10,059,535</u>	<u>₩ 10,059,536</u>
Financial liabilities measured at fair value through profit of loss :		
Financial derivative liabilities	<u>₩ 6,125</u>	<u>₩ 6,125</u>
Financial liabilities measured at amortized cost :		
Accounts and notes payable – trade	₩ 6,244,942	₩ 6,244,942
Accounts and notes payable – others	2,050,764	2,050,764
Bonds	3,098,975	3,114,698
Borrowings	3,582,823	3,599,230
Others	1,862,031	1,862,031
	<u>₩ 16,839,535</u>	<u>₩ 16,871,665</u>
Financial instruments designated as cash flow hedges :		
Financial derivative assets	₩ 6,054	₩ 6,054
Financial derivative liabilities	<u>₩ 56,093</u>	<u>₩ 56,093</u>
	<u>₩ (50,039)</u>	<u>₩ (50,039)</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

(i) Fair value and carrying amount, Continued

The Group measured the fair value of financial instruments as follows:

- The fair value of financial assets traded within the market is measured at the closing bid price quoted at the end of the reporting period.
- The fair value of the derivatives is measured at the present value of the difference between contractual forward price and future forward price at the end of the reporting period discounted for the remaining period of the contract.

Except for the financial assets and liabilities above, the fair value of current receivables is close to their carrying amounts. In addition, the fair value of other financial instruments is determined as the present value of estimated future cash flows discounted at the current market interest rate. As of December 31, 2019, there are no significant business climate and economic environment changes affecting the fair value of financial assets and liabilities.

(ii) Fair value hierarchy

Fair value measurements classified by fair value hierarchy as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Other current financial assets	₩ -	₩ 1,682,976	₩ -	₩ 1,682,976
Other non-current financial assets	-	106,310	-	106,310
Marketable equity securities	197,914	-	-	197,914
Non-marketable equity securities	-	-	180,090	180,090
Financial derivatives assets	-	30,033	-	30,033
	<u>₩ 197,914</u>	<u>₩ 1,819,319</u>	<u>₩ 180,090</u>	<u>₩ 2,197,323</u>
Financial liabilities				
Financial derivatives liabilities	<u>₩ -</u>	<u>₩ 25,372</u>	<u>₩ -</u>	<u>₩ 25,372</u>

There were no significant transfers between levels 1, 2 and 3.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

(ii) Fair value hierarchy, Continued

The valuation techniques and the unobservable inputs used in measuring Level 2 and 3 fair values as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	<u>Fair value</u>	<u>Valuation methods</u>	<u>Inputs</u>
Financial assets at fair value through profit or loss	₩ 1,790,107		
Financial assets at fair value through other comprehensive income	180,090		
Financial liabilities at fair value through profit or loss	22,536	DCF model and others	Discount rate and others(*)
Derivative financial assets designated as cash flow hedges	29,212		
Derivative financial liabilities designated as cash flow hedges	2,836		

(*) When discounting the expected cash flow, the Group used the interest rate that added the credit spread to the government bond yield as of December 31, 2019 and the weighted average capital cost of the entities to be evaluated

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(5) Fair value, Continued

(iii) Financial instruments not measured at fair value and for which fair value is disclosed

Financial instruments recognized by amortized cost, but presented as fair value classified by fair value hierarchy as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>
Bonds and borrowings	₩	-	₩	-	₩	6,520,671	₩ 6,520,671

The Group has not disclosed the fair value hierarchy for financial instruments because their carrying amounts are a reasonable approximation of the fair values.

The valuation techniques and the significant but not unobservable input variables used in measuring the fair value of financial instruments classified as Level 3 of financial instruments measured at amortized cost but disclosed at fair value are as follows:

(In millions of Korean won)

	<u>Fair value</u>	<u>Valuation methods</u>	<u>Significant unobservable input</u>
Bonds and borrowings	₩ 6,520,671	DCF model	Discount rate considering credit risk

(6) Income and expenses by financial instruments category

Income and expenses by financial instruments category for the year ended December 31, 2019 are summarized as follows:

(In millions of Korean won)

	<u>Finance income</u>		<u>Finance expenses</u>		<u>Other comprehensive income</u>
Financial assets at fair value through profit or loss	₩	37,777	₩	-	₩ -
Financial assets at fair value through other comprehensive income		2,898		-	43,103
Financial assets measured at amortized cost		159,629		6,970	-
Financial liabilities measured at amortized cost		25,218		262,651	-
Derivatives financial instrument		12,280		22,652	20,868
	<u>₩</u>	<u>237,802</u>	<u>₩</u>	<u>292,273</u>	<u>₩ 63,971</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

32. Risk Management of Financial Instruments, Continued

(6) Income and expenses by financial instruments category, Continued

Income and expenses by financial instruments category for the year ended December 31, 2018 are summarized as follows:

(In millions of Korean won)

	Finance income		Finance expenses		Other comprehensive income(loss)	
Financial assets at fair value through profit or loss	₩	1,633	₩	-	₩	-
Financial assets at fair value through other comprehensive income		2,838		19		(72,405)
Financial assets measured at amortized cost		218,139		9,161		-
Financial liabilities measured at amortized cost		5,471		277,859		-
Derivatives financial instrument		25,610		30,057		(22,753)
	₩	<u>253,691</u>	₩	<u>317,096</u>	₩	<u>(95,158)</u>

(7) Offsetting financial assets and financial liabilities

(i) Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

	Gross amounts of recognized financial assets/liabilities		Gross amounts of recognized financial liabilities set off		Net amounts of financial assets/liabilities		Related amounts not set off		Net amount	
Financial assets:										
Accounts and notes receivables - trade, and others	₩	475,864	₩	(319,723)	₩	156,141	₩	(12,502)	₩	143,639
Financial liabilities:										
Short-term borrowings		1,329,410		-		1,329,410		(1,329,410)		-
Accounts and notes payables - trade, and others		2,146,011		(319,723)		1,826,288		(12,502)		1,813,786
	₩	<u>3,475,421</u>	₩	<u>(319,723)</u>	₩	<u>3,155,698</u>	₩	<u>(1,341,912)</u>	₩	<u>1,813,786</u>

(ii) Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018, are summarized as follows:

(In millions of Korean won)

	Gross amounts of recognized financial assets/liabilities		Gross amounts of recognized financial liabilities set off		Net amounts of financial assets/liabilities		Related amounts not set off		Net amount	
Financial assets:										
Accounts and notes receivables - trade, and others	₩	460,802	₩	(350,622)	₩	110,180	₩	(8,296)	₩	101,884
Financial liabilities:										
Short-term borrowings		1,230,289		-		1,230,289		(1,230,289)		-
Accounts and notes payables - trade, and others		2,248,725		(350,622)		1,898,103		(8,296)		1,889,807
	₩	<u>3,479,014</u>	₩	<u>(350,622)</u>	₩	<u>3,128,392</u>	₩	<u>(1,238,585)</u>	₩	<u>1,889,807</u>

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

33. Transactions and Balances with Related Companies

(1) Significant transactions

Significant transactions arising from operation between the Group and related parties or affiliates by the Monopoly Regulation and Fair Trade Act of the Republic of Korea (the "Act") for the year ended December 31, 2019, are summarized as follows:

(In millions of Korean won)

Relation	Company	Revenue			Expenses		
		Sales	Other	Total	Purchases	Other	Total
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 129,984	₩ 50,476	₩ 180,460	₩ 562,499	₩ 627,610	₩ 1,190,109
	Hyundai Motor America	291,411	-	291,411	2,190	130,607	132,797
	Hyundai Motor Manufacturing Czech, s.r.o.	544,535	480	545,015	89,255	1,156	90,411
	Hyundai Motor Manufacturing Alabama, LLC	-	91,407	91,407	359,158	1,183	360,341
	Hyundai Auto Canada Corp.	90,248	-	90,248	1,290	37,387	38,677
	Hyundai Kefico Corporation	28	8	36	291,939	22	291,961
	Others	191,861	6,138	197,999	7,427	209,513	216,940
	Associates and joint ventures	Hyundai Mobis Co., Ltd.	115,852	2,988	118,840	5,249,303	1,075
Hyundai Transys Inc.		22,932	173	23,105	1,117,347	1,649	1,118,996
Hyundai Engineering Co., Ltd.		51	302	353	10,282	97,676	107,958
Hyundai Steel Co., Ltd.		12,820	1,152	13,972	104,331	-	104,331
Hyundai Capital Services Inc.		667,431	217	667,648	470	84,940	85,410
EUKOR Car Carriers, Inc.		-	432	432	-	223,653	223,653
Donghee Auto Co., Ltd.		38	-	38	152,302	83	152,385
Hyundai Motor Group China., Ltd.		-	-	-	-	10,027	10,027
Dongfeng Yueda Kia Motors Co., Ltd.		102,004	5,950	107,954	271,887	1,172	273,059
Hyundai Motor Manufacturing Rus LLC		18,048	-	18,048	1,136,314	38	1,136,352
Mobis Alabama, LLC		6,921	11,865	18,786	1,735,514	18,340	1,753,854
Mobis Parts America, LLC		-	-	-	727,950	-	727,950
Mobis Slovakia s.r.o.		43,064	16,861	59,925	1,652,023	33,460	1,685,483
Powertech America, Inc.		-	5,770	5,770	362,212	-	362,212
Sewon America, Inc.	-	1	1	202,724	15,790	218,514	
Others	36,114	16,022	52,136	2,986,682	2,256,365	5,243,047	
Other related parties	8,426	-	8,426	726	4,092	4,818	
Affiliates by the Act	75,568	37,770	113,338	6,525,813	1,379,924	7,905,737	

For the year ended December 31, 2019, the Group received dividends of ₩140,485 million from related parties and paid dividends of ₩130,035 million to related parties. In addition, the Group receives royalties for production of products in accordance with contracts with production entities domiciled in foreign countries and others.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

33. Transactions and Balances with Related Companies, Continued

(1) Significant transactions, Continued

Significant transactions arising from operation between the Group and related parties or affiliates by the Act for the year ended December 31, 2018, are summarized as follows:

(In millions of Korean won)

Relation	Company	Revenue			Expenses		
		Sales	Other	Total	Purchases	Other	Total
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 156,989	₩ 40,867	₩ 197,856	₩ 779,743	₩ 604,347	₩ 1,384,090
	Hyundai Motor America	776,767	-	776,767	378	90,497	90,875
	Hyundai Motor Manufacturing Czech, s.r.o.	541,959	2,209	544,168	88,832	1,150	89,982
	Hyundai Motor Manufacturing Alabama, LLC	4,790	59,210	64,000	392,289	1,123	393,412
	Hyundai Auto Canada Corp.	74,206	-	74,206	-	28,921	28,921
	Hyundai Kefico Corporation	19	16	35	244,258	11	244,269
	Others	200,493	5,863	206,356	27,745	167,992	195,737
Associates and joint ventures	Hyundai Mobis Co., Ltd.	75,481	2,858	78,339	4,790,646	1,647	4,792,293
	Hyundai Powertech Co., Ltd.	6,925	6	6,931	337,541	1,005	338,546
	Hyundai Dymos Inc.	12,239	17	12,256	649,788	280	650,068
	Hyundai Engineering Co., Ltd.	55	166	221	45,871	106,479	152,350
	Hyundai Steel Co., Ltd.	4,199	2,580	6,779	98,310	-	98,310
	Hyundai Capital Services Inc.	483,615	230	483,845	670	70,568	71,238
	EUKOR Car Carriers, Inc.	-	406	406	-	206,361	206,361
	Donghee Auto Co., Ltd.	35	-	35	172,612	124	172,736
	Hyundai Motor Group China., Ltd.	12,004	-	12,004	-	5,967	5,967
	Dongfeng Yueda Kia Motors Co., Ltd.	95,226	356	95,582	46,212	17	46,229
	Hyundai Motor Manufacturing Rus LLC	13,638	-	13,638	1,064,503	-	1,064,503
	Mobis Alabama, LLC	3,569	14,828	18,397	1,349,663	6,602	1,356,265
	Mobis Parts America, LLC	1,853	-	1,853	605,750	-	605,750
	Mobis Slovakia s.r.o.	42,861	16,849	59,710	1,644,208	33,300	1,677,508
Powertech America, Inc.	-	8,523	8,523	290,293	388	290,681	
Sewon America, Inc.	-	2	2	182,853	8,698	191,551	
Others	25,507	14,145	39,652	2,963,188	531,992	3,495,180	
Other related parties	9,460	-	9,460	821	-	821	
Affiliates by the Act	109,558	40,278	149,836	6,567,226	1,033,413	7,600,639	

For the year ended December 31, 2018, the Group received dividends of ₩119,098 million from related parties and paid dividends of ₩115,575 million to related parties.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

33. Transactions and Balances with Related Companies, Continued

(2) Account balances

Significant account balances with related parties or affiliates by the Act as of December 31, 2019, are summarized as follows:

(In millions of Korean won)

Relation	Company	Receivables			Payables			
		Trade	Other	Total	Trade	Other	Total	
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 59,279	₩ 37,511	₩ 96,790	₩ 147,431	₩ 324,099	₩ 471,530	
	Hyundai Motor America	59,299	-	59,299	426	26,015	26,441	
	Hyundai Motor Manufacturing Czech, s.r.o.	22,531	36	22,567	-	1,034	1,034	
	Hyundai Motor Manufacturing Alabama, LLC	-	-	-	23,417	599	24,016	
	Hyundai Auto Canada Corp.	5,232	-	5,232	417	1,358	1,775	
	Hyundai Kefico Corporation	-	6	6	60,139	-	60,139	
	Others	25,675	20,301	45,976	460	22,738	23,198	
	Associates and joint ventures	Hyundai Mobis Co., Ltd.	35,144	321	35,465	1,183,039	12,777	1,195,816
		Hyundai Transys Inc.	-	9,885	9,885	263,773	299	264,072
		Hyundai Engineering Co., Ltd.	-	17	17	8,568	11,365	19,933
Hyundai Steel Co., Ltd.		6,028	63	6,091	19,408	1,422	20,830	
Hyundai Capital Services Inc.		67,857	9	67,866	-	218,394	218,394	
EUKOR Car Carriers, Inc.		-	20	20	-	15,281	15,281	
Donghee Auto Co., Ltd.		2	-	2	9,907	-	9,907	
Hyundai Motor Group China., Ltd.		-	-	-	-	5,496	5,496	
Dongfeng Yueda Kia Motors Co., Ltd.		12,818	23,764	36,582	25,984	1,514	27,498	
Hyundai Motor Manufacturing Rus LLC		361	7,000	7,361	145,459	-	145,459	
Mobis Alabama, LLC	499	3,035	3,534	270,888	55	270,943		
Mobis Slovakia s.r.o.	-	-	-	125,420	5,379	130,799		
Powertech America, Inc.	-	969	969	56,286	-	56,286		
Sewon America, Inc.	-	-	-	14,223	-	14,223		
Others	28,340	14,673	43,013	648,795	81,541	730,336		
Other related parties		3,287	13	3,300	191	551	742	
Affiliates by the Act		8,912	17,543	26,455	1,170,274	117,100	1,287,374	

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

33. Transactions and Balances with Related Companies, Continued

(2) Account balances, Continued

Significant account balances with related parties or affiliates by the Act as of December 31, 2018, are summarized as follows:

(In millions of Korean won)

Relation	Company	Receivables			Payables			
		Trade	Other	Total	Trade	Other	Total	
Entity with significant influence over the Company and its subsidiaries	Hyundai Motor Company	₩ 51,537	₩ 38,910	₩ 90,447	₩ 265,517	₩ 306,304	₩ 571,821	
	Hyundai Motor America	107,801	-	107,801	59	9,017	9,076	
	Hyundai Motor Manufacturing Czech, s.r.o.	13,384	105	13,489	-	6	6	
	Hyundai Motor Manufacturing Alabama, LLC	-	6,055	6,055	26,496	282	26,778	
	Hyundai Auto Canada Corp.	2,940	-	2,940	-	1,847	1,847	
	Hyundai Kefico Corporation	-	12	12	55,591	1,100	56,691	
	Others	32,231	19,360	51,591	18,578	21,458	40,036	
	Associates and joint ventures	Hyundai Mobis Co., Ltd.	2,200	12,944	15,144	1,004,545	1,987	1,006,532
		Hyundai Powertech Co., Ltd.	-	1,778	1,778	69,566	-	69,566
		Hyundai Dymos Inc.	-	5,117	5,117	104,650	-	104,650
Hyundai Engineering Co., Ltd.		-	55	55	17,095	28,093	45,188	
Hyundai Steel Co., Ltd.		3,865	132	3,997	15,464	513	15,977	
Hyundai Capital Services Inc.		70,698	20	70,718	30	6,556	6,586	
EUKOR Car Carriers, Inc.		-	22	22	-	17,303	17,303	
Donghee Auto Co., Ltd.		-	-	-	10,581	6	10,587	
Hyundai Motor Group China., Ltd.		-	-	-	-	686	686	
Dongfeng Yueda Kia Motors Co., Ltd.		5,067	41,914	46,981	1,659	609	2,268	
Other related parties	Hyundai Motor Manufacturing Rus LLC	278	-	278	104,433	-	104,433	
	Mobis Alabama, LLC	206	1,278	1,484	83,826	333	84,159	
	Mobis Parts America, LLC	159	-	159	52,144	-	52,144	
	Mobis Slovakia s.r.o.	-	-	-	86,708	-	86,708	
	Powertech America, Inc.	-	497	497	18,255	-	18,255	
	Sewon America, Inc.	-	-	-	11,345	-	11,345	
	Others	20,670	25,072	45,742	571,083	176,676	747,759	
	Other related parties	1,915	-	1,915	79	-	79	
	Affiliates by the Act	9,501	29,783	39,284	1,146,240	132,072	1,278,312	

The Group holds money market trust of ₩ 450,000 million as of December 31, 2019 and 2018 in Hyundai Motor Securities Co., Ltd. The Group made an additional contribution of ₩ 750,000 million and ₩ 650,000 million to the trust during the years ended December 31, 2019 and 2018, respectively.

KIA MOTORS CORPORATION AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

33. Transactions and Balances with Related Companies, Continued

(3) Significant capital transactions with related parties

Significant capital transactions with related parties for the years ended December 31, 2019 and 2018, are summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Investment in capital for associates	₩ 48,094	₩ 3,638

(4) Key management personnel compensation

Key management personnel compensations in total and for each of the following categories for the years ended December 31, 2019 and 2018, is summarized as follows:

(In millions of Korean won)

	<u>2019</u>	<u>2018</u>
Salaries	₩ 53,001	₩ 51,959
Retirement benefits	13,735	14,493
	<u>₩ 66,736</u>	<u>₩ 66,452</u>

(5) Details of guarantees given to the related parties

Details of guarantees given to the related parties as of December 31, 2019 are summarized as follows:

(In thousands of US dollar)

<u>Relation</u>	<u>Company</u>	<u>Purpose</u>	<u>Financial institution</u>	<u>Period of guarantees</u>	<u>Guarantee amount</u>
Joint venture	Dongfeng Yueda Kia Motors Co., Ltd.	Construction investment and others	China Construction Bank Corporation and others	2018.04.02~ 2021.04.15	USD 50,000

34. Date of Authorization for Issuance of financial statements

The consolidated financial statements as of and for the year ended on December 31, 2019, to be submitted at the shareholders' meeting were authorized for issuance at the Board of Director's meeting on February 19, 2020.

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