Accelerate Hyundai Proposals
Unlocking Value at One of the World’s Leading Automotive Brands
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About Elliott

Founded in 1977, Elliott today manages approximately US $35 billion for institutional and individual investors. As one of the oldest private investment firms of its kind under continuous management, Elliott employs a value-added investment strategy with the objectives of promoting shareholder value and excellent corporate governance.

With its strong understanding of the Korean market and corporate structures, Elliott has been successful in enhancing shareholder value in Korea. One recent example is the Samsung Electronics Value Enhancement Proposal published in October, 2016. Since Elliott’s publication of the Samsung Electronics Value Enhancement Proposal, Samsung Electronics has:

1. increased dividend distribution by 30% to KRW 4.0 trillion for 2016, and more recently decided to increase its dividend distribution again to KRW 5.8 trillion in 2017,

2. committed to improve dividend distribution by 100% for 2018 to KRW 9.6 trillion, and maintain this level for 2019 and 2020 with a policy to return at minimum 50% of free cash flow generated (including a policy change that future M&A investments will not be deducted from FCF) to shareholders during this period,

3. initiated a share repurchase program of KRW 9.3 trillion in January 2017 which was completed in January 2018, and

4. announced cancellation of all outstanding treasury shares (12.9% of common shares and 15.7% of preferred shares), half of which was cancelled upon announcement and the remainder to be cancelled in 2018.

Elliott believes that this improvement resulted from a combination of Elliott’s proactive and creative approach to investments in the Korean market, Samsung Electronics board and shareholders’ collective recognition and implementation of Elliott’s proposal towards unlocking significant value, and phenomenal performance by everyone working at and conducting business with Samsung Electronics. Elliott intends to continue its pursuit of creative and principled investment strategy, and believes that it can make valuable contribution to the Korean market for all stakeholders.

This Proposal is based on Elliott’s belief and efforts towards Hyundai Motor Group over the past year that involved significant time and resources to carefully study the Group, with dedication towards finding similar pathways to unlocking significant value for all stakeholders. Copies of the Letter and this Presentation can be found at: http://www.acceleratehyundai.com.
Executive Summary

Hyundai Motor Group is a leading automotive brand with significant value to be unlocked

- Elliott is a significant shareholder in Hyundai Mobis Co., Ltd. (“Mobis”), as well as other key Hyundai affiliates such as Hyundai Motor Company (“HMC”) and Kia Motors Corporation (“Kia”), collectively the Hyundai Motor Group (“HMG”), holding over 1.5% common shares in each of the companies
- HMG has achieved remarkable growth over the past two decades, surpassing many competing brands to become one of the aspiring automotive brands renowned for quality
- Each of the core HMG companies – Mobis, HMC and Kia – possesses substantial intrinsic value due to the Group’s:
  - Leadership in a diverse set of markets that represent both size and growth,
  - Brand recognition driven by superior craftsmanship and quality, and
  - Cost advantage supported by a streamlined and vertically-integrated supply chain
- HMG recently announced a transaction on 28 March 2018 (“HMG Restructuring Plan”) to restructure its corporate structure by spinning off Mobis’s module manufacturing and after-sales parts businesses and merging them with Hyundai Glovis Co., Ltd. (“Glovis”)
- Elliott is encouraged that the Group has acknowledged the need for an improved ownership structure
- However, the unwinding of the current circular shareholding by itself is not enough for the Group to declare the restructuring a corporate governance improvement, especially as the transaction is not supported by sound business rationale and lacks clear benefits to minority shareholders. The Group must still address the following issues:
  1. The proposed four-layer ownership structure is inefficient in terms of tax and capital structure as compared to a corporate structure that adopts a holding company structure. We estimate that the present value of potential tax leakage on dividends from HMC and Kia totals US $1.7 billion, which is 7% of pre-announcement Mobis market capitalization
     - Similarly, the Plan is devoid of a transparent process to realize fair value for Kia’s stake in Mobis
  2. The proposed terms of the spin-off and the merger ratio do not ascribe fair value to Mobis’s module manufacturing and after-sales parts businesses with questionable business logic behind combining the after-sales parts businesses with a logistics company
  3. The Restructuring Plan is silent on any details that would address HMG’s suboptimal balance sheets and declining shareholder returns
  4. HMG’s overall corporate governance remains below global standards, not in keeping with the Group’s status as a leading global automotive brand
## Executive Summary

Elliott is pleased to share views on potential improvements to the HMG Restructuring Plan to enhance value at Hyundai Motor Group

Elliott believes that an alternative plan based on a holding company structure can better address HMG’s persistent underperformance and significant valuation discounts (50 to 60% for Mobis, c. 25% for HMC, and 60 to 70% for Kia) compared to global peers. The Accelerate Hyundai Proposals include:

<table>
<thead>
<tr>
<th>Structure</th>
<th>Mobis</th>
<th>HMC</th>
<th>Kia</th>
</tr>
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<tbody>
<tr>
<td>A holding company structure achieves a stable and transparent shareholding structure and strengthens the core automotive businesses of the Group to the benefit of all stakeholders, including the Founding Family.</td>
<td>Adopt a holding company structure</td>
<td>Hyundai Motor Holdco</td>
<td>Kay</td>
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<tr>
<td>Regardless of the final transaction structure, a transparent process and fair value must be achieved for Kia’s stake in Mobis.</td>
<td></td>
<td>Hyundai Motor Opco</td>
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<tr>
<td>Balance sheet</td>
<td>1. Reduce excess cash on balance sheet of up to KRW 6.0 trillion via one time capital return</td>
<td>1. Reduce excess cash on balance sheet of up to KRW 6.0 trillion via one time capital return</td>
<td>1. Realize value in stakes in Mobis/Glovis (among other HMG affiliates), which remain an inefficient tie up of capital for Kia, which is undercapitalized vs. peers</td>
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<tr>
<td></td>
<td>2. Cancellation of existing and future treasury shares</td>
<td>2. Cancellation of existing and future treasury shares</td>
<td>2. Cancellation of existing and future treasury shares</td>
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<tr>
<td>Shareholder returns</td>
<td>Clearer shareholder returns policy with commitment to paying 40 – 50% of net income (as opposed to 20-40% of FCF) in cash dividends and buyback</td>
<td>Clearer shareholder returns policy with commitment to paying 40 – 50% of net income (as opposed to 30-50% of FCF) in cash dividends and buyback</td>
<td>Formulate a shareholder returns policy with commitment to paying 40 – 50% of net income (as opposed to current lack of a policy) in cash dividends and buyback</td>
</tr>
<tr>
<td>Board and governance</td>
<td>Make key and necessary improvements to board structure and articles of incorporation to upgrade HMG’s corporate governance to global standards</td>
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</table>

We believe this is truly a unique opportunity to unlock significant value in Hyundai Motor Group by taking the necessary steps to realign its equity value with the top-class business that the Founding Family and the leadership of the Group have built over the decades.
The Hyundai Motor Group
A unique investment opportunity
The Hyundai Motor Group is a leading automotive brand with annual manufacturing capability of 8.5 million vehicles worldwide.

From 2001 to 2017 Hyundai Motor Group\(^1\) has:

- **Doubled** global retail market share from 4% to 8% (8%)
- Achieved unit sales growth representing 7% CAGR to 2017 – more than **double** the industry’s growth rate (7%)
- Grown from **9th to 4th largest** auto OEM by unit sales (4th)
- **4th largest** eco-friendly\(^2\) car manufacturer by production units in 2017 (4th)

Source: Company fillings, IHS Automotive Light Vehicle Sales Forecast – December 2017, IHS Automotive Light Vehicle Alternative Propulsion Forecast – December 2017

Notes: 1. Hyundai Motor Group represents the combined market share of HMC Company (“HMC”) and Kia Corporation (“Kia”) based on annual units sales of passenger vehicles and light trucks.
2. Eco-friendly cars include hybrids and electric vehicles.
Global footprint with leadership in a diverse set of markets

In addition to its dominant position in Korea and a strong footprint in the three largest auto markets – US, Western Europe and China – Hyundai Motor Group is well-positioned to capture further growth opportunities in top three growth markets – India, Russia and Brazil.

Source: IHS Automotive Light Vehicle Sales Forecast – December 2017
Notes: Market share and ranking of Hyundai Motor Group (HMC Company and Kia Corporation) based on 2017 unit sales.
1. Represents 2016 ranking and market share in China (2017 sales were negatively impacted by non-recurring political headwinds in the region).
2. Projected market growth based on 3-year CAGR to 2020E as estimated by IHS.
Workmanship and quality-driven growth and success

The Hyundai Motor Group is a brand recognized for quality: HMC and Kia have consistently outperformed their peers in the J.D. Power Initial Quality Survey (“IQS”), a testament to the superior craftsmanship of their products

Initial Quality Survey

- HMC was the 3rd highest ranked brand in Initial Quality in 2016
- Two of its models ranked highest in their segments, and three of its models ranked in Top 3 in their respective segments
- Kia was the highest ranked brand in Initial Quality in 2017, retaining its top position for the 2nd year running
- Five of its models received awards for quality in their respective categories
- Genesis, HMC’s luxury brand was ranked highest by IQS among premium brands in its debut year in 2017
- Genesis was the highest ranked auto brand in 2018 by Consumer Reports

Source: J.D. Power U.S. Initial Quality Study, HMC and Kia company websites, news
Notes: 1. The study was redesigned in 2006 and 2013 and as such the numbers may not be directly comparable over time.
A streamlined and vertically-integrated supply chain

Hyundai Motor Group’s full vertical integration allows for an efficient and versatile supply chain management, which has been critical to the Group’s success in key auto markets.

Hyundai affiliates account for a majority share of the supply chain value of cars manufactured by Hyundai Motor Group, where Mobis stands out as the largest supplier.

With a vertically integrated supply chain, Hyundai Motor Group is capable of maintaining lower cost of production as compared to peers to remain cost competitive.

Source: Brokers’ estimates, company filings
Notes: 1. Represents total operating cost of the auto segment divided by total units of vehicles sold in 2017 (except Toyota, Nissan and Tata Motors, where data represents FY ending March 2017).
Mobis undeniably stands out within the supply chain

Mobis is the 7th largest auto parts supplier in the world by sales with an extensive distribution network and production facilities strategically located worldwide to support a streamlined manufacturing process not only for the Hyundai Motor Group, but also for its growing global client base

- Mobis’s strong operating margins and cash flows are primarily generated by the highly profitable after-sales services ("A/S") business division, which has topped 25% margin in recent quarters in 2017
- Mobis is also uniquely placed to benefit from Hyundai Motor Group’s increasing production of eco-friendly cars and adoption of advanced driver-assistance systems (ADAS)
- The Company currently supplies c. 30% of Hyundai Motor Group’s ADAS needs, a figure that is likely to rise as the ADAS adoption rate increases in non-premium cars
- Mobis is also the exclusive supplier of Hyundai Motor Group’s four core electric vehicle components (battery management system, driving motor, inverter and converter)

![Graphs showing OP margin and operating cash flow as a % of operating assets for Mobis and Korean peers.](image)

Source: Company website, company fillings, Automotive News Data Center
Notes: 1. Operating cash flow excludes charges in financial assets. Operating assets is defined as: total assets – total cash & equivalents – book value of equity-accounted investments.
The HMG Restructuring Plan is Suboptimal
Elliott welcomes HMG’s restructuring initiative

Elliott welcomes HMG’s first step in its attempt to improve the Group’s ownership structure

- HMG announced a plan for business restructuring after market close on 28 March 2018 in which Mobis would spin off its module manufacturing and after-sales parts businesses and then merge these businesses with Glovis.
- Based on the Samil PwC valuation of the spun-off business, the merger ratio is set such that Mobis shareholders will receive 0.61 new share of Glovis stock for each share of Mobis.
- HMG also announced a series of future share transactions between the Group’s principal shareholders after the completion of the spin-off merger to unwind the circular shareholding, which has been criticized by both the Korean Government and the market as inefficient, outdated and unsustainable in the long run.
- Elliott, as a significant shareholder in Mobis, as well as other key Hyundai affiliates specifically in HMC and Kia, is encouraged that the Group has acknowledged the need for an improved ownership structure.

Achieves the removal of a key circular shareholding but without any more holistic corporate structure simplification.
Yet the HMG Restructuring Plan is inefficient and fails to achieve any meaningful simplification of HMG’s opaque and unsustainable corporate structure. More needs to be done to benefit the companies and all stakeholders.

The unwinding of the current circular shareholding by itself is not enough for the Group to declare this restructuring a corporate governance improvement, especially if the transaction is not supported by sound business rationale and lacks clear benefits to minority shareholders.

Elliott views the HMG Restructuring Plan as suboptimal for the following reasons:

1. The proposed ownership structure is inefficient in terms of tax and capital structure

- HMG’s plan envisages three layers of subsidiaries underneath the Mobis parent company, which will not qualify as “holding company” under applicable law. One horizontal layer of subsidiaries underneath an ultimate holding company would be far more structurally efficient as a holding company benefits from (i) reduced tax leakage on dividends, and (ii) allows for more efficient deployment of capital in the future.

- Unnecessary tax leakage from HMC and Kia could have a total present value of as much as KRW 1.8 trillion or US $1.7 billion which is 7% of pre-announcement Mobis market capitalization.

Under the HMG Restructuring Plan

- HMC
  - 20.8%
  - 2017 HMC dividend: KRW 828 billion
  - Tax @ 24.2% (30% non-inclusion): KRW 140 billion

- Kia
  - 33.9%
  - 2017 Kia dividend: KRW 321 billion
  - Tax @ 24.2% (50% non-inclusion): KRW 39 billion

- Glovis (post merger)
  - 26.2%

Under a holding company structure

- Holdco
  - 2017 HMC dividend: KRW 828 billion
  - Tax @ 24.2% (80% non-inclusion): KRW 40 billion

- HMC
  - 20.8%
  - 2017 HMC dividend: KRW 828 billion
  - Tax @ 24.2% (30% non-inclusion): KRW 140 billion

- Kia
  - 33.9%
  - 2017 Kia dividend: KRW 321 billion
  - Tax @ 24.2% (50% non-inclusion): KRW 39 billion

- Mobis (post spin-off)
  - 26.2%

Total annual tax savings (based on 2017 dividends) of KRW 123 billion representing a total present value of KRW 1.8 trillion.

Source: Company filings and IR materials, market data
Notes: 1. Based on (i) perpetual growth rate of 3% and (ii) discount rate of 10%. Calculation is for illustrative purposes only, based on 2017 dividend information and tax rate.
The proposed merger also lacks clear business logic

We are not convinced by the Company’s explanations provided so far for spinning out Mobis’s module manufacturing and after-sales parts businesses and combining them with a logistics company

- We agree with the Company that the strategic directions of its core parts business and module + after-sales services businesses continue to diverge
- However, we find the business logic presented for combining Glovis and Mobis’s module manufacturing and after-sales parts businesses not convincing
- Most global auto OEMs have kept and maintained their highly profitable after-sale service business, and there are no precedents to suggest that an after-sale service business belongs with a logistics company
- We are also not convinced by (or the lack of) the business rationale provided to support separating the module manufacturing and after-sales parts businesses from the international subsidiaries in the same business lines
- The segregation of the domestic operations from international operations for these two businesses creates a risk of weakening their competitive positioning and resulting diseconomies of scale
- The HMG Restructuring Plan is also devoid of a transparent process to realize fair value for Kia’s stake in Mobis
The proposed terms undervalue Mobis’s spun-off business

Proposed terms of the spin-off and the merger ratio do not ascribe fair value to Mobis’s module manufacturing and after-sales parts businesses

- Although Mobis’s spun-off business represents 54% of pre-tax income in FY17, the implied valuation of the spun-off business at KRW 9.3 trillion only represents 37% of the pre-announcement market value of Mobis.
- The Company has been unable to explain the stark difference in the implied FY17 P/E multiple of 16.4x for the remaining Mobis as compared to 8.5x of the spun-off businesses despite the latter’s higher profitability in FY17.
- While Mobis’s spun-off business (with a pre-tax margin of 10.3% and ROE of 24.0% in FY17) is more profitable than Glovis (with a pre-tax margin of 5.4% and ROE of 16.9% in FY17), the proposed terms value Mobis’s spun-off business at a similar FY17 P/E multiple of 8.5x as compared to Glovis’s 8.6x. On ex-cash basis the terms are even more onerous, valuing Mobis spun-off business at 6.2x P/E.
- No business rationale was provided for KRW 2.5 trillion of cash and equivalents assumed to be in the spun-off entity to be merged with Glovis. Splitting cash and equivalent based on asset split (excluding investment securities) is not a business rationale.

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<td><strong>Transaction terms:</strong></td>
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<tr>
<td>Spin-off ratio of Mobis</td>
<td>1.00</td>
<td>0.79</td>
<td>0.21</td>
<td></td>
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<tr>
<td>Merger ratio</td>
<td></td>
<td></td>
<td>2.92</td>
<td>1.00</td>
<td></td>
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<tr>
<td>Pre-announcement market price (KRW)</td>
<td>261,500</td>
<td></td>
<td></td>
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<tr>
<td>Merger price (KRW)</td>
<td>452,523</td>
<td>154,911</td>
<td></td>
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<tr>
<td>Equity value (excl. treasury)</td>
<td>24,764</td>
<td>15,493</td>
<td>9,271</td>
<td>5,809</td>
<td>15,080</td>
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<tr>
<td></td>
<td>(based on market value)</td>
<td>(market value - merger value)</td>
<td>(based on merger value)</td>
<td>(based on merger value)</td>
<td>(sum of merger value)</td>
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<tr>
<td><strong>2017 net assets:</strong></td>
<td></td>
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<tr>
<td>Net assets</td>
<td>21,233</td>
<td>16,693</td>
<td>4,540</td>
<td>3,990</td>
<td>8,530</td>
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<td><strong>Valuation metrics:</strong></td>
<td></td>
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<td><strong>FY17A financials:</strong></td>
<td></td>
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<tr>
<td>Revenue</td>
<td>35,145</td>
<td>26,770</td>
<td>14,010</td>
<td>16,358</td>
<td>30,368</td>
</tr>
<tr>
<td>Pre-tax profit</td>
<td>2,734</td>
<td>1,250</td>
<td>1,440</td>
<td>889</td>
<td>2,329</td>
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<tr>
<td>Net income (assumes 24.2% tax rate for illustration)</td>
<td>2,073</td>
<td>948</td>
<td>1,092</td>
<td>674</td>
<td>1,766</td>
</tr>
<tr>
<td>% net margin</td>
<td>5.9%</td>
<td>3.5%</td>
<td>7.8%</td>
<td>4.1%</td>
<td>5.8%</td>
</tr>
<tr>
<td>% ROE (based on 2017 net assets)</td>
<td>9.8%</td>
<td>5.7%</td>
<td>24.0%</td>
<td>16.9%</td>
<td>20.7%</td>
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<tr>
<td><strong>FY18E financials:</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Revenue</td>
<td>36,963</td>
<td>28,469</td>
<td>14,421</td>
<td>17,105</td>
<td>31,526</td>
</tr>
<tr>
<td>Net Income</td>
<td>2,539</td>
<td>1,487</td>
<td>1,053</td>
<td>579</td>
<td>1,631</td>
</tr>
<tr>
<td>% net margin</td>
<td>6.9%</td>
<td>5.2%</td>
<td>7.3%</td>
<td>3.4%</td>
<td>5.8%</td>
</tr>
<tr>
<td>% ROE (based on 2017 net assets)</td>
<td>12.0%</td>
<td>8.9%</td>
<td>23.2%</td>
<td>14.5%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Implied FY17 P/E</td>
<td>11.9x</td>
<td>16.4x</td>
<td>8.5x</td>
<td>8.6x</td>
<td>8.5x</td>
</tr>
<tr>
<td>Implied FY18 P/E</td>
<td>9.8x</td>
<td>10.4x</td>
<td>8.8x</td>
<td>10.0x</td>
<td>9.2x</td>
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<tr>
<td></td>
<td>(based on market value)</td>
<td>(market value - merger value)</td>
<td>(based on merger value)</td>
<td>(based on merger value)</td>
<td>(sum of merger value)</td>
</tr>
</tbody>
</table>

Source: Company filings and IR materials, market data
Notes: 1. Based on page 4 of the FAQ materials published by Mobis on 16 April 2018.
2. Based on Mobis’s IR materials published on 28 March 2018 (P.8) and FY17A financials of Glovis.
3. Based on Mobis’s IR materials published on 28 March 2018 (P.6) and FY17A financials of Mobis and Glovis.
4. Based on consensus FY18E estimates of Mobis and Glovis. FY18E intra-segment revenue assume to be the same % of sales as FY17A. FY18E net income of Mobis’s spun-off business based on company’s forecast operating profit after tax, while the remaining income vs. FY18E consensus net income is attributed to the remaining business of Mobis.
There are no commitments to improving shareholder returns...

3 The proposal is silent on any details that would address HMG’s suboptimal balance sheets and declining shareholder returns

HMC and Mobis are overcapitalized as compared to their respective peer sets with excess cash dragging down returns whereas Kia represents the other extreme end with a stretched and undercapitalized balance sheet

All three companies’ shareholder returns policies remain vague and each meaningfully lags behind peers
- Having their payout ratio based on free cash flow (FCF) makes little sense when the Group consolidates financial subsidiaries and does not report FCF

Net cash/(debt) as a % of market cap of HMC & Kia vs peers

<table>
<thead>
<tr>
<th>Year</th>
<th>HMC</th>
<th>Kia</th>
<th>Peers’ average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>0%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>0%</td>
<td>-</td>
<td>-</td>
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<tr>
<td>2015</td>
<td>0%</td>
<td>-</td>
<td>-</td>
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<tr>
<td>2016</td>
<td>0%</td>
<td>-</td>
<td>-</td>
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<tr>
<td>2017</td>
<td>0%</td>
<td>-</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>HMC</th>
<th>Kia</th>
<th>Peers’ average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>-</td>
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<tr>
<td>2013</td>
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<tr>
<td>2017</td>
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</table>

Payout ratio of HMC & Kia vs peers

<table>
<thead>
<tr>
<th>Year</th>
<th>HMC</th>
<th>Kia</th>
<th>Peers’ average</th>
</tr>
</thead>
<tbody>
<tr>
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<td>2017</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>HMC</th>
<th>Kia</th>
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</tr>
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<tbody>
<tr>
<td>2012</td>
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<tr>
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<tr>
<td>2016</td>
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</tr>
<tr>
<td>2017</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Company fillings, IR materials, market data
Notes:
1. Net cash (cash and cash equivalents + short-term financial instruments + marketable securities – short-term and long-term borrowings) as of most recent reported quarter. Market cap based on year-end market cap of common stock of the respective years shown.
2. Payout ratio represents (common cash dividends + share repurchases / net profit for common shareholders). HMC’s peers include Toyota, Nissan, Daimler, BMW, Volkswagen, Renault, Peugeot, GM, and Ford. Mobis’s peers include Mando, Hanon, Denso, Asin Seki, Continental, Brembo, Valeo, Magna, Autoliv, and Tenneco.
3. HMC’s 2017 net income is adjusted for KRW 303 billion of impairment loss on Hyundai E&C in Q4 2017. Kia’s 2017 net income is adjusted for c. KRW 750 billion of one-off wage provision in Q3 2017 (assumed 24.2% of corporate tax rate on pre-tax provision of c. KRW 1.0 trillion) and KRW 216 billion of impairment losses on Hyundai E&C and Hyundai Steel in Q4 2017.
...or much needed governance reforms

HMG has failed to make meaningful progress in governance standards which would be in keeping with its status as a leading global automotive brand and the HMG Restructuring Plan is a reminder of this

- While the adoption of the Corporate Governance Charter at HMC was a positive development, there has been limited evidence of real progress in terms of improved shareholder participation and transparency.
- The current board structure at both companies significantly lag global standards, especially given overlap in top management positions at Mobis, HMC, and Kia, which creates the potential for serious conflicts of interest, especially related to intra-group transactions.

<table>
<thead>
<tr>
<th>Company</th>
<th>Ratio of executive (inside) to non-executive (outside/non-stand)</th>
<th>Ratio of non-independent to independent directors</th>
<th>% of independent directors</th>
<th>Multinational experience</th>
<th>Diversity of non-executive director backgrounds / sector experience</th>
<th>Gender diversity on board</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMC</td>
<td>4 : 5</td>
<td>5 : 4</td>
<td>44%</td>
<td>All-Korean board with limited experience outside of Korea</td>
<td>Most NEDs lack auto experience and have very limited public company experience with overwhelming majority in academia, legal or government backgrounds</td>
<td>✓</td>
</tr>
<tr>
<td>Kia</td>
<td>3 : 6</td>
<td>6 : 3</td>
<td>33%</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Mobis</td>
<td>4 : 5</td>
<td>6 : 3</td>
<td>33%</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Daimler</td>
<td>0 : 10</td>
<td>0 : 10</td>
<td>100%</td>
<td>Diverse multinational backgrounds</td>
<td>Non-employee directors collectively bring extensive experiences from auto, tech, industrial, healthcare, financial services, aviation and other industries</td>
<td>✓</td>
</tr>
<tr>
<td>BMW</td>
<td>0 : 10</td>
<td>4 : 6</td>
<td>60%</td>
<td>Mostly German board members with diverse and multinational backgrounds</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Volkswagen</td>
<td>0 : 10</td>
<td>7 : 3</td>
<td>30%</td>
<td>Diverse multinational backgrounds</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Renault</td>
<td>1 : 14</td>
<td>5 : 10</td>
<td>67%</td>
<td>Diverse multinational backgrounds</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Peugeot</td>
<td>0 : 12</td>
<td>7 : 5</td>
<td>42%</td>
<td>Diverse with French, German and Chinese backgrounds</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>GM</td>
<td>1 : 9</td>
<td>1 : 9</td>
<td>90%</td>
<td>Mostly American board members with diverse and multinational backgrounds</td>
<td>spanning across auto, defense, energy, healthcare, industrial, retail, tech and financial services industries</td>
<td>✓</td>
</tr>
<tr>
<td>Ford</td>
<td>2 : 12</td>
<td>3 : 11</td>
<td>79%</td>
<td>American board members</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Tata Motors</td>
<td>3 : 6</td>
<td>4 : 5</td>
<td>56%</td>
<td>Diverse with German and Indian backgrounds</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Toyota</td>
<td>6 : 3</td>
<td>6 : 3</td>
<td>33%</td>
<td>Diverse with French, British and Japanese backgrounds</td>
<td>Diversity is limited by the number of NEDs on the board</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Company filings

Note: 1. Excludes the recent passing of a director.
2. Represents the Supervisory Board of Daimler, BMW and Volkswagen which is composed of 10 independent directors and 10 employee representatives.
3. Ratio of executive to non-executive directors and ratio of non-independent to independent directors excludes employee representatives.
Media coverage and the research community critiques

Majority of responses to the HMG Restructuring Plan have expressed similar concerns

Shares of Mobis dropped almost 7 percent on Friday, hurt by worries that a proposed restructuring plan would benefit the parent group’s controlling family at the cost of the company’s shareholders... The plan will be put to shareholders for approval on May 29, but worries Mobis could be giving away cheaply what is seen as the more profitable part of its business will pose a challenge... Mobis investors have already said they were not convinced of the deal’s benefits to the auto parts maker.

Reuters, 30 March 2018

Mobis shareholders get a rough deal. The transaction values the divested businesses at 9.3 trillion won ($8.7 billion), or just 8.6 times last year’s earnings. Breakingviews calculates. This is based on Hyundai’s own assessment of “intrinsic value” and assumes a 25 percent tax rate. To be sure, Mobis has long traded at a modest valuation. But this still looks stingy. German parts-maker Continental, for example, fetches roughly 15 times 2017 earnings. This requires approval from two-thirds of shares that are voted. So the plan looks vulnerable.

Breakingviews, 29 March 2018

Shares of Mobis were down 1.7 per cent on Thursday afternoon after sliding by as much as 8 per cent in morning trade on investor concerns that the company may be forced to give its lucrative business to Glovis at a discount.

Financial Times, 29 March 2018

Deal does NOT benefit Mobis: We stand firm on our view, which prompted our recent downgrade of Mobis, that the proposed Mobis/Glovis deal does not benefit Mobis’ existing shareholders. Key reasons are as follows: 1) unfavorable spin-off/merger ratio, 2) limited EPS accretion, 3) weakening of FCF generation, and 4) limited valuation upside potential, based on pro forma financials.

Morgan Stanley, 18 April 2018

Given that the calculation involves value estimation of two new entities, the implication for Mobis is more complicated than for Glovis shareholders. Barraging a re-rating of either of the two companies, we think the net share price impact is slightly negative, given the merger ratio that is unfavorable to spun-off Mobis (vs.Glovis)... Net-net, we think the deal is incrementally negative for existing Mobis shareholders.

JP Morgan, 29 March 2018

We believe this is not a favorable deal for MOBIS shareholders: During the call, company indicated that of its W24-25tr market cap, it is roughly valuing the remaining core parts and investment businesses at ~W14tr while valuing the module manufacturing and after-sales service businesses at ~W9.5tr. However, considering that its module manufacturing and A/S parts businesses generated 2017 pretax profit of W1.44tr and include a cash holding of ~W2.5tr, we believe the company’s ~W9.5tr valuation is too low.

Morgan Stanley, 28 March 2018

On balance, we believe the spin-off/merger is neutral to existing Mobis shareholders. First, the merger ratio may leave existing shareholders somewhat unhappy. The 2017 pretax profit of the spun-off businesses was W1.44tr, which translates into net profit of W1.04tr based on a 27.5% tax rate. For 2018, net profit is expected to grow to W1.2tr. In calculating the merger ratio, the spun-off businesses were valued at W9.27tr, which implies a P/E of 7.7-8.9x. This does look somewhat cheap, considering that half of the cash-generating A/S business is being handed over.

Mira Asset, 29 March 2018

We view management’s decision today as merely a removal of circular ownership structure to cope with the government’s request to enhance operational transparency... The rationale behind the W9tr allocation to its lucrative A/S — an unexpected discount — was driven by the accountants’ formula of weight-averaging net asset and earnings value.

CIMB, 28 March 2018
Market reaction to HMG’s restructuring proposal has been negative

Mobis, HMC and Kia share prices fell **8.4%**, **5.3%**, and **6.1%**, respectively in the two days after the announcement.

HMG share price performance

Source: Market data
Notes: 1. Local currency share price performance indexed to 100.
HMG’s Underperformance Remains Persistent and Significant
HMG continues to trade at substantial discounts

HMG has been trading at substantial discount to its global peers, not only because of its complex ownership structure, but as a result of:

- A history of questionable capital deployment (e.g. KEPCO land purchase, acquisition of Hyundai E&C and Green Cross Life),
- An overcapitalized balance sheets at Mobis and HMC,
- Lagging shareholder returns, and
- An outdated board structure that is not in keeping with the Group’s global presence and standing

The HMG Restructuring Plan does not resolve these longstanding issues, and HMG continues to trade at significant discounts:

- Mobis’s EV/EBITDA\(^1\) is at 2.8x representing 57% discount to peers\(^2\), and ex-cash P/E\(^1\) is at 5.3x representing 51% discount to peers
- HMC’s EV/EBITDA\(^1\) is at 2.0x representing 26% discount to peers\(^3\), and ex-cash P/E\(^1\) is at 2.9x representing 24% discount to peers
- Kia’s EV/EBITDA\(^1\) is at 0.7x representing 73% discount to peers\(^3\), and ex-cash P/E\(^1\) is at 1.4x representing 63% discount to peers

Source: Market data, company filings
Notes: 1. Forward EBITDA and earnings based on brokers’ estimates. For ex-cash P/E, market cap post deduction of cash and cash equivalents, short-term financial instruments, marketable securities.
2. Mobis’s peers include Mando, Hanon, Denso, Aisin Seiki, Continental, Brembo, Valeo, Magna, Autoliv and Tenneco.
3. HMC and Kia’s peers include Toyota, Nissan, Daimler, BMW, Volkswagen, Renault, Peugeot, GM, Ford and Tata Motors.
Mobis has significantly underperformed peers and the KOSPI

**L5Y share price performance**

![Chart showing share price performance from 4/20/2013 to 4/20/2018]

**Relative performance in dollarized total shareholder returns of Mobis vs. peers and KOSPI**

<table>
<thead>
<tr>
<th>1 Year</th>
<th>2 Year</th>
<th>3 Year</th>
<th>4 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobis vs. Peers’ average</td>
<td>(3%)</td>
<td>(30%)</td>
<td>(30%)</td>
<td>(65%)</td>
</tr>
<tr>
<td>Mobis vs. Mando</td>
<td>15%</td>
<td>(32%)</td>
<td>(42%)</td>
<td>(57%)</td>
</tr>
<tr>
<td>Mobis vs. Hanon</td>
<td>(23%)</td>
<td>(25%)</td>
<td>(37%)</td>
<td>(51%)</td>
</tr>
<tr>
<td>Mobis vs. Denso</td>
<td>(12%)</td>
<td>(40%)</td>
<td>(19%)</td>
<td>(46%)</td>
</tr>
<tr>
<td>Mobis vs. Aisin Seiki</td>
<td>(3%)</td>
<td>(43%)</td>
<td>(46%)</td>
<td>(90%)</td>
</tr>
<tr>
<td>Mobis vs. Continental</td>
<td>(10%)</td>
<td>(19%)</td>
<td>(13%)</td>
<td>(42%)</td>
</tr>
<tr>
<td>Mobis vs. Brembo</td>
<td>19%</td>
<td>(42%)</td>
<td>(89%)</td>
<td>(134%)</td>
</tr>
<tr>
<td>Mobis vs. Valeo</td>
<td>10%</td>
<td>(33%)</td>
<td>(34%)</td>
<td>(78%)</td>
</tr>
<tr>
<td>Mobis vs. Magna</td>
<td>(28%)</td>
<td>(36%)</td>
<td>(12%)</td>
<td>(51%)</td>
</tr>
<tr>
<td>Mobis vs. Autoliv</td>
<td>(35%)</td>
<td>(29%)</td>
<td>(23%)</td>
<td>(79%)</td>
</tr>
<tr>
<td>Mobis vs. Tenneco</td>
<td>34%</td>
<td>3%</td>
<td>14%</td>
<td>(7%)</td>
</tr>
<tr>
<td>Mobis vs. KOSPI</td>
<td>(6%)</td>
<td>(28%)</td>
<td>(16%)</td>
<td>(48%)</td>
</tr>
</tbody>
</table>

Source: Market data, company filings
Notes: 1. Local currency share price performance indexed to 100.
2. Peers’ average includes Mando, Hanon, Denso, Aisin Seiki, Continental, Brembo, Valeo, Magna, Autoliv and Tenneco.
Mobis is valued at a significant discount to peers in terms of both EV/EBITDA and P/E

**Forward EV/EBITDA**

- **Mobis Discount vs. peers:** (57%)

**Forward P/E (ex-cash)**

- **Mobis Discount vs. peers:** (51%)

Source: Market data, company filings

Notes:
2. Peers’ average includes Mando, Hanon, Denso, Aisin Seiki, Continental, Brembo, Valeo, Magna, Autoliv and Tenneco.
We see a similar story of underperformance for HMC and Kia

L5Y share price performance

Source: Market data
Notes: 1. Local currency share price performance indexed to 100.
2. Peers’ average includes Toyota, Nissan, Daimler, BMW, Volkswagen, Renault, Peugeot, GM, Ford and Tata Motors.
Underperformance is persistent even on dollarized basis for both HMC and Kia

Relative performance in dollarized total shareholder returns of HMC vs. peers and KOSPI

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>2 Year</th>
<th>3 Year</th>
<th>4 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMC vs. Peers’ average</td>
<td>5%</td>
<td>(5%)</td>
<td>(4%)</td>
<td>(45%)</td>
<td>(76%)</td>
</tr>
<tr>
<td>HMC vs. Toyota</td>
<td>(2%)</td>
<td>(15%)</td>
<td>(1%)</td>
<td>(63%)</td>
<td>(33%)</td>
</tr>
<tr>
<td>HMC vs. Nissan</td>
<td>(7%)</td>
<td>(1%)</td>
<td>(13%)</td>
<td>(71%)</td>
<td>(22%)</td>
</tr>
<tr>
<td>HMC vs. Daimler</td>
<td>0%</td>
<td>(1%)</td>
<td>0%</td>
<td>(33%)</td>
<td>(94%)</td>
</tr>
<tr>
<td>HMC vs. BMW</td>
<td>(6%)</td>
<td>(10%)</td>
<td>(4%)</td>
<td>(31%)</td>
<td>(56%)</td>
</tr>
<tr>
<td>HMC vs. Renault</td>
<td>(13%)</td>
<td>(21%)</td>
<td>12%</td>
<td>(14%)</td>
<td>(26%)</td>
</tr>
<tr>
<td>HMC vs. Peugeot</td>
<td>(10%)</td>
<td>(5%)</td>
<td>(26%)</td>
<td>(56%)</td>
<td>(119%)</td>
</tr>
<tr>
<td>HMC vs. GM</td>
<td>6%</td>
<td>(10%)</td>
<td>(15%)</td>
<td>(61%)</td>
<td>(52%)</td>
</tr>
<tr>
<td>HMC vs. Ford</td>
<td>20%</td>
<td>10%</td>
<td>18%</td>
<td>(15%)</td>
<td>(6%)</td>
</tr>
<tr>
<td>HMC vs. Tata Motors</td>
<td>44%</td>
<td>34%</td>
<td>44%</td>
<td>(3%)</td>
<td>(2%)</td>
</tr>
<tr>
<td>HMC vs. KOSPI</td>
<td>(1%)</td>
<td>(17%)</td>
<td>(22%)</td>
<td>(58%)</td>
<td>(45%)</td>
</tr>
</tbody>
</table>

Relative performance in dollarized total shareholder returns of Kia vs. peers and KOSPI

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>2 Year</th>
<th>3 Year</th>
<th>4 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kia vs. Peers’ average</td>
<td>(21%)</td>
<td>(51%)</td>
<td>(33%)</td>
<td>(58%)</td>
<td>(105%)</td>
</tr>
<tr>
<td>Kia vs. Toyota</td>
<td>(27%)</td>
<td>(60%)</td>
<td>(30%)</td>
<td>(76%)</td>
<td>(62%)</td>
</tr>
<tr>
<td>Kia vs. Nissan</td>
<td>(10%)</td>
<td>(53%)</td>
<td>(42%)</td>
<td>(85%)</td>
<td>(52%)</td>
</tr>
<tr>
<td>Kia vs. Daimler</td>
<td>(21%)</td>
<td>(46%)</td>
<td>(29%)</td>
<td>(47%)</td>
<td>(123%)</td>
</tr>
<tr>
<td>Kia vs. BMW</td>
<td>(31%)</td>
<td>(56%)</td>
<td>(33%)</td>
<td>(45%)</td>
<td>(85%)</td>
</tr>
<tr>
<td>Kia vs. Volkswagen</td>
<td>(38%)</td>
<td>(66%)</td>
<td>(17%)</td>
<td>(27%)</td>
<td>(55%)</td>
</tr>
<tr>
<td>Kia vs. Renault</td>
<td>(40%)</td>
<td>(51%)</td>
<td>(59%)</td>
<td>(71%)</td>
<td>(148%)</td>
</tr>
<tr>
<td>Kia vs. Peugeot</td>
<td>(35%)</td>
<td>(90%)</td>
<td>(76%)</td>
<td>(116%)</td>
<td>(381%)</td>
</tr>
<tr>
<td>Kia vs. GM</td>
<td>(17%)</td>
<td>(55%)</td>
<td>(44%)</td>
<td>(74%)</td>
<td>(81%)</td>
</tr>
<tr>
<td>Kia vs. Ford</td>
<td>(3%)</td>
<td>(18%)</td>
<td>(11%)</td>
<td>(28%)</td>
<td>(36%)</td>
</tr>
<tr>
<td>Kia vs. Tata Motors</td>
<td>24%</td>
<td>(11%)</td>
<td>(11%)</td>
<td>(16%)</td>
<td>(27%)</td>
</tr>
<tr>
<td>Kia vs. KOSPI</td>
<td>(27%)</td>
<td>(63%)</td>
<td>(52%)</td>
<td>(71%)</td>
<td>(74%)</td>
</tr>
</tbody>
</table>

Source: Market data
HMC and Kia also trade at deep discounts to peers based on EV/EBITDA

Forward EV/EBITDA\(^1\)

Source: Market data, company filings
Notes: 1. Forward EBITDA based on brokers’ estimates.
       2. Peers’ average includes Toyota, Nissan, Daimler, BMW, Volkswagen, Renault, Peugeot, GM, Ford and Tata Motors.
Discounts are also substantial on P/E

Forward P/E (ex-cash)¹

Source: Market data, company filings
Notes:  ¹. Forward earnings based on brokers’ estimates. Market cap post deduction of cash and cash equivalents, short-term financial instruments, marketable securities.
        ². Peers’ average includes Toyota, Nissan, Daimler, BMW, Volkswagen, Renault, Peugeot, GM, Ford and Tata Motors. Excludes Peugeot prior to 2015 due to negative or negligible forward earnings.
Accelerate Hyundai Proposals Can Unlock Significant Value
Accelerate Hyundai Proposals

The Accelerate Hyundai Proposals have been designed to supplement and improve the current HMG Restructuring Plan based on Elliott’s careful study of the Group over the past year and based on its close review of the Plan. The Proposals include the following key elements:

1. Recast the HMG Restructuring Plan to achieve a simpler, more efficient and more transparent holding company structure

2. Review and return excess cash on Mobis and HMC’s balance sheets to be in line with peers

3. Commit to improving shareholder returns via a clearly communicated dividend policy

4. Equip across the Group with a best-in-class board structure, articles of incorporation and governance standards
Accelerate Hyundai Proposals
Elliott calls on HMG and all stakeholders to do the following:

Recast the HMG Restructuring Plan to achieve a simpler, more efficient and more transparent holding company structure, and at minimum share the result of any reviews on holding company structure undertaken by the Group.

Our analysis suggests the following steps could be taken to form a holding company structure in a tax efficient manner:

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Merger</td>
<td>A merger between Mobis and HMC to form “Hyundai Mergeco” on fair and transparent terms</td>
</tr>
<tr>
<td>II. Demerger</td>
<td>Demerger of Hyundai Mergeco into a listed holding company (Hyundai Motor Holdco) and a separately listed operating company (Hyundai Motor Opco)</td>
</tr>
<tr>
<td>III. Tender offer</td>
<td>Tender offer by Hyundai Motor Holdco for Hyundai Motor Opco shares in exchange for Hyundai Motor Holdco treasury shares</td>
</tr>
<tr>
<td>IV. Optimization</td>
<td>Hyundai Motor Group to undertake review of Kia’s shareholdings in Hyundai Motor Holdco and Opco</td>
</tr>
</tbody>
</table>

Other key considerations:
- There are different methods to deal with HMG’s interests in financial subsidiaries such as Hyundai Card and Hyundai Capital
  - Setting aside the fact that non-strategic shareholders have stakes in Hyundai Card and Hyundai Capital, HMG could seek an appropriate waiver for the ownership in the leasing business given its integral role in the sale and distribution of Hyundai and Kia branded cars
  - Alternatively, a further demerger within the two-year grace period, following the adoption of the holding company structure can separate financial capital from industrial capital
- Regardless of the final transaction structure, a transparent process and fair value must be achieved for Kia’s stake in Mobis

Source: Company filings.
Notes: 1. Two special purpose companies (Jace C the 3rd Co., Elysia the 6th Co.) own 20% of Hyundai Capital and a private equity consortium owns 24% of Hyundai Card as of 31 December 2017.
2. Subject to Fair Trade Act Articles 8-2(3)(2) and (3).
Accelerate Hyundai Proposals

The Accelerate Hyundai Proposals, if adopted, will result in a truly streamlined holding company structure for the Hyundai Motor Group:

**Final Intended Group Structure:**

- Holding companies have considerable tax benefits over general companies when receiving dividend income
- Holding company structure encourages increases in cash dividend at subsidiaries
- We disagree with the company’s claim that a holding company structure limits opportunities for future business expansion. A holding company structure will, in fact, help Mobis, HMC and Kia focus on pursuing investments that make business sense
- We disagree with the company’s claim that future large scale M&A will require joint investments from Mobis, HMC and Kia. We have seen a poor track record of these companies making joint investments (KEPCO land purchase and Hyundai E&C acquisition), which resulted in shareholder value dilution
- There are different methods to deal with HMG’s interests in financial subsidiaries that are integral to HMG’s core businesses such as seeking appropriate waivers or a further demerger to separate financial capital from industrial capital

*Accelerate Hyundai Proposals do not envision significant changes in other aspects of HMG as it currently stands, for example, key business and operational considerations, labor/work force utilization, key assets including factory and inventory managements*

Source: Company IR materials
Notes: 1. Based on page 11 of the FAQ materials published by Mobis on 18 April 2018.
Step I. Merger between Mobis and HMC to form “Hyundai Mergeco”

- The transaction creates the 7th largest automotive company by total assets\(^1\) with highly profitable after-sales services business in keeping with global peers
- We anticipate margin uplift by 27\% on a pro forma forward basis, resulting in estimated operating margin of 6.7\%

For the purpose of illustrating the merger between Mobis and HMC, we assume:
- A theoretical merger ratio of 1 : 1.52 for HMC to Mobis based on current share prices of HMC and Mobis

Source: Company filings
Notes: These holding structures and percentage equity interests held by shareholders post each stage are being provided for illustrative purposes only. The actual resulting structures and percentage of equity holdings by shareholders will be subject to the terms and execution of multiple steps of restructuring transactions and many other factors including individual shareholders’ choices and various other corporate decisions, which would be achieved on a consensual basis. For that reason, these figures do not, and cannot, reflect our view on any particular term or condition of the HMG Restructuring Plan beyond serving illustrative purposes.
1. Based on total assets as of the latest reported financial quarter of Mobis, HMC, and peers.
2. Founding Family also holds 2.0\% of Hyundai Wia.

\(^{1}\) Based on total assets as of the latest reported financial quarter of Mobis, HMC, and peers.
A Merger between Mobis and HMC can unlock substantial value

We see a compelling case for combining Mobis and HMC’s after-sale service business. In addition to the margin uplift, the after-sale service business would bring further stability to HMC’s profitability and encourage a valuation re-rating for the merged company.

HMC remains one of the few auto companies (if not the only, excluding Kia) in the world not to benefit from the highly profitable after-sale service business. Most other auto manufacturers would be reluctant to give up a business division that generates over 25% OP margin consistently.

Our calculation suggests this element of the Proposals alone could lead to as much as 15% upside in the value of the combined businesses of HMC and Mobis.

Source: Market data, company filings
Notes: 1. Combined market cap excludes the market value of Mobis’s shareholding in HMC
2. Pro forma market cap is based on the implied enterprise value of combined HMC and Mobis’s A/S business assuming the combined forward EV/EBITDA trades in line with global auto peers. Pro forma includes Mobis’s module business, which assumes the module business’s EV/EBITDA trades at 38% discount to peers based on a regression of forward EV/EBITDA and forward OP margin of auto parts peers. Forward EBITDA is based on consensus estimates assuming Mobis’s A/S business’ EBIT margin remains the same as in 2017.
Step II. Demerger of Hyundai Mergeco into Hyundai Motor Holdco and Hyundai Motor Opco

The demerger unlocks the value of existing and newly formed (previously Mobis’s stake in HMC) treasury shares and allows for the consolidation of key HMC affiliates under Hyundai Motor Holdco.

For the purpose of illustrating the demerger of Hyundai Mergeco into Hyundai Motor Holdco and Hyundai Motor Opco, we assume:

- Hyundai Motor Holdco will hold all affiliate companies other than Hyundai Capital, Hyundai Card and the China JV of HMC.

Notes:
- These holding structures and percentage equity interests held by shareholders post each stage are being provided for illustrative purposes only. The actual resulting structures and percentage of equity holdings by shareholders will be subject to the terms and execution of multiple steps of restructuring transactions and many other factors including individual shareholders’ choices and various other corporate decisions, which would be achieved on a consensual basis. For that reason, these figures do not, and cannot, reflect our view on any particular term or condition of the proposed transaction beyond serving illustrative purposes.
- Founding Family also holds 2.0% of Hyundai Wia.
Step III. Tender offer by Hyundai Motor Holdco for Hyundai Motor Opco shares

For the purpose of illustrating the tender offer, we assume:

- The ratio of value of Hyundai Motor Holdco to Hyundai Motor Opco at tender offer is at 0.3 : 0.7 based on the average split ratio in recent precedents of demergers of Korean listed companies.
- Take-up rate of 0 - 10% by shareholders other than Founding Family and Hyundai affiliates based on the average take up rate of minority shares in recent precedents of demergers of Korean listed companies.
- Hyundai Motor Holdco offers treasury shares and additional cash (if needed) to all participating shareholders on a pro rata basis.

Source: Company filings

Notes: These holding structures and percentage equity interests held by shareholders post each stage are being provided for illustrative purposes only. The actual resulting structures and percentage of equity holdings by shareholders will be subject to the terms and execution of multiple steps of restructuring transactions and many other factors including individual shareholders’ choices and various other corporate decisions, which would be achieved on a consensual basis. For that reason, these figures do not, and cannot, reflect our view on any particular term or condition of the HMG Restructuring Plan beyond serving illustrative purposes.

1. Founding Family also holds 2.0% of Hyundai Wia.
Step IV. Strategic review of Kia’s shareholding in Hyundai Motor Holdco and Opco

Disposal of Kia’s stake in Hyundai Motor Holdco and Hyundai Motor Opco further reduces cross shareholdings in the shareholding structure:

As key next steps to untangle key cross-shareholdings in the structure:

- Hyundai Motor Holdco could acquire Kia’s stake in Hyundai Motor Opco funded by debt and Kia could find a strategic buyer for its residual stake in Hyundai Motor Holdco, improving Kia’s current over-leveraged balance sheet, OR
- Kia could demerge into a holding company and operating company, with the former maintaining shares in both Hyundai Motor Holdco and Opco. A subsequent merger between Kia Holdco and Hyundai Motor Holdco (on fair terms) would resolve the existing cross-shareholding
- There is also scope to optimize the group structure in terms of: (i) consolidating shareholdings in other key Hyundai affiliates such as Hyundai Steel under Hyundai Motor Holdco, and (ii) reviewing ownership of domestic financial subsidiaries Hyundai Capital and Hyundai Card to be in compliance with all relevant laws and regulations
- Separating out Mobis’s module and assembly businesses via a distribution in specie could further optimize Hyundai Motor Opco’s automotive business

For the purpose of illustrating the disposal of Kia’s stakes we assume:

- Hyundai Motor Holdco will acquire Kia’s stake in Hyundai Motor Opco for cash
- Founding Family has the option to acquire Kia’s stake in Hyundai Motor Holdco to further increase their stake in Hyundai Motor Holdco

Source: Company filings
Notes: These holding structures and percentage equity interests held by shareholders post each stage are being provided for illustrative purposes only. The actual resulting structures and percentage of equity holdings by shareholders will be subject to the terms and execution of multiple steps of restructuring transactions and many other factors including individual shareholders’ choices and various other corporate decisions, which would be achieved on a consensual basis. For that reason, these figures do not, and cannot, reflect our view on any particular term or condition of the HMG Restructuring Plan beyond serving illustrative purposes.

1. Founding Family also holds 2.0% of Hyundai Wia.
Accelerate Hyundai Proposals

2. Review and return excess cash on Mobis and HMC’s balance sheets to be in line with peers

- Our analysis suggests HMC’s net cash balance of KRW 16.5 trillion is 17.5% of assets as compared to peers’ average of 11.1% of assets. This is equivalent to KRW 6.0 trillion or US $5.6 billion of assets, which is 18% of HMC’s market cap.

- Likewise our analysis suggests Mobis’s net cash balance of KRW 6.0 trillion is 14.3% of assets as compared to peers’ average of 9.0% of assets. Even after conservatively assuming zero leverage, this is equivalent to KRW 6.0 trillion or US $5.6 billion of assets, which is 26% of Mobis’s market cap.

- Kia remains undercapitalized and its stake in Mobis (among other HMG affiliates) remains an inefficient tie-up of capital.

- All existing and future treasury shares should be cancelled regardless of whether a holding company structure is adopted.

**Excess cash of up to KRW 6.0 trillion (18% of HMC market cap) should be reduced from HMC’s balance sheet.**

**Excess cash of up to KRW 6.0 trillion (26% of Mobis market cap) should be reduced from Mobis’s balance sheet.**

Source: Market data, company filings

Notes:
1. Net cash (cash and cash equivalents + short-term financial instruments + marketable securities – short-term and long-term borrowings) as of most recent reported quarter. Assets based on total non-finance segment assets.
2. HMC and Kia’s peers include Toyota, Nissan, Daimler, BMW, Volkswagen, Renault, Peugeot, GM, Ford and Tata Motors.
3. Exchange rate applied: 1 US $ to 1,067 KRW.
4. Mobis’s peers include Mando, Hanon, Denso, Asim Seki, Continental, Brembo, Valeo, Magna, Autoliv and Tenneco.
Accelerate Hyundai Proposals

3. Commit to improving shareholder returns via a clearly communicated dividend policy

- Current mid-to-long term dividend policies at Mobis (20 to 40% of FCF), HMC (30 to 50% of FCF), and Kia (no clear policy) is purposefully vague and falls short of peers
  - Most recent payouts at Mobis, HMC and Kia were equivalent to 21%, 25%, and 17%, respectively
- Capital return (cash dividend + buyback) of 40 to 50% of net income is the minimum level that should be targeted immediately for each of Mobis, HMC and Kia to be comparable to global peers

Payout ratio:

- Kia
- HMC
- Volkswagen
- Renault
- Peugeot
- BMW
- Ford
- Daimler
- Nissan
- Toyota
- GM

L3Y CAGR:

- Hyundai Mobis
- Mando
- Brembo
- Continental
- Valeo
- Denso
- Haron
- Asis Seiki
- Magna
- Autoliv
- Tenneco

Source: Company filings
Notes: 1. HMC’s 2017 net income is adjusted for KRW 303 billion of impairment loss on Hyundai E&C in Q4 2017. Kia’s 2017 net income is adjusted for c. KRW 750 billion of one-off wage provision in Q3 2017 (assumed 24.2% of corporate tax rate on pre-tax provision of c. KRW 1.0 trillion) and KRW 216 billion of impairment losses on Hyundai E&C and Hyundai Steel in Q4 2017.
Accelerate Hyundai Proposals

Revise board structure to adopt the following:

- Increase the ratio of independent board members by the addition of 3 independent directors at each board, with well-suited and exemplary international corporate backgrounds
  - As an example, Samsung Electronics in its most recent AGM added a Korean American tech entrepreneur and a South Korean legal expert (the latter who will be SEC’s second-ever female director)\(^1\)
- HMG should follow suit to diversify and internationalize its board members
- HMG should also shorten the term of directors for more frequent review of the director’s performance
- HMG should establish director eligibility requirements so that the number of outside directors is three at minimum and exceeds the number of inside directors by two, and
- Composition of the Recommendation Committee on Candidates for Outside Director to be outside directors only

Amend current articles of incorporation for each Mobis, HMC, and Kia to include:

- An independent committee composed of non-executive directors to evaluate any corporate actions involving Mobis, HMC, and Kia (given the overlap in the top management)
- Deletion of the provisions excluding cumulative voting
- Adoption of shareholder voting restrictions applicable to related persons of the Company in connection to any major corporate actions (e.g. merger, demerger, share exchanges and transfer, etc.) to the extent permitted by applicable law
- Establishment of a Director Compensation Committee and adoption of Articles of Incorporation providing for and pertaining to the companies’ current Internal Transaction Committees

HMG needs to achieve a group-wide improvement in corporate governance standards that should reflect its status as a multinational and leading automotive group

Source: Company fillings
**Accelerate Hyundai Proposals – Comparison with the HMG Restructuring Plan**

- Accelerate Hyundai Proposals include much needed improvements to the current HMG Restructuring Plan
- Key elements of the Proposals have been shared with many other HMG shareholders, the majority of whom have shown a unified support for these improvements
- Elliott believes the adoption of the Accelerate Hyundai Proposals can benefit all stakeholders across the Hyundai Motor Group

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<tr>
<th></th>
<th>HMG Restructuring Plan</th>
<th>Accelerate Hyundai Proposals</th>
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<tbody>
<tr>
<td><strong>Structure</strong></td>
<td>An ownership structure that attempts to address circular shareholdings by demerging profitable business divisions (at unsupported valuation) holding significant cash and merging them with a logistics company, potentially at significant tax costs to shareholders</td>
<td>Streamlined holding company structure that resolves the current complex shareholding structure efficiently by combining Mobis with HMC to create a truly comparable and global auto OEM (original equipment manufacturer)</td>
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<tr>
<td><strong>Balance sheet</strong></td>
<td>No clear plans to fix bloated balance sheets at Mobis and HMC, or to properly capitalize Kia</td>
<td>1. Reduction of excess cash on balance sheet at Mobis and HMC to minimize drag on returns  2. Cancellation of all existing and future treasury shares  3. Review and realize Kia’s stake in Mobis and / or Glovis at fair value</td>
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<td><strong>Shareholder returns</strong></td>
<td>No firm commitment on improving shareholder returns. Current shareholder return policies are poorly communicated and based on free cash flow (FCF)</td>
<td>A clearly communicated dividend policy that improves payout ratio to 40 – 50% as a percentage of net income, which is comparable to global auto and auto parts peers</td>
</tr>
<tr>
<td><strong>Board and governance</strong></td>
<td>No improvements suggested for the current boards at each Mobis, HMC and Kia, which lack diversity and independent directors have limited experience outside of Korea with overwhelming majority in academia, legal and government backgrounds</td>
<td>1. Addition of three independent board members with well-suited and exemplary international corporate backgrounds to the current board  2. A series of measures to bring HMG’s governance to be in line with global standards in keeping with its status as a leading automotive brand</td>
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