ELLIOTT

ELLIOTT ADVISORS (HK) LIMITED
SUITES 1102-1105, 11TH FLOOR, CHATER HOUSE, 8 CONNAUGHT ROAD CENTRAL, HONG KONG
TEL: +852 3558 1000

OPEN LETTER TO THE SHAREHOLDERS OF HYUNDAI MOTOR COMPANY

28 February 2019

Dear Fellow Shareholders of Hyundai Motor Company,

We write this letter in our capacity as significant shareholders of Hyundai Motor Company ("HMC" or the "Company" 005380:KS). In addition to our investment in HMC, we are also significant shareholders of Hyundai Mobis Co., ("Mobis" 012330:KS), as well as Kia Motors Corporation ("Kia" 000270:KS), which collectively with HMC are referred to herein as "Hyundai Motor Group," "HMG" or "the Group."

Yesterday, we sent a letter to our fellow shareholders of Hyundai Mobis detailing the case for the shareholder resolutions we have put forward for consideration at the Mobis Annual General Meeting ("AGM") on 22 March, 2019.[1] These resolutions aim to address the serious governance and balance-sheet issues at Mobis that have contributed to its persistent and meaningful underperformance.

Today, we write as one of the largest independent shareholders in HMC to make the case for a similar set of resolutions. Like Mobis, HMC has fallen short in its treatment of shareholders due to its retention of substantial excess capital and a lack of independence and accountability on its Board. However, unlike Mobis, and to our significant disappointment, HMC has refused to take even the kinds of small but incrementally positive steps forward taken by Mobis on capital return and governance.

Instead, HMC has offered less than zero. Yesterday, the Company unveiled a plan that fails to include any meaningful steps to remedy its balance-sheet overcapitalization, while at the same time proposing Board changes that appear to exacerbate its governance shortcomings.

For these reasons among others, we believe that the resolutions we put forward for consideration at the HMC Annual General Meeting ("AGM") on 22 March 2019, which are similar to the ones we put forward at Mobis, are more urgently needed than ever. These resolutions are as follows:

- **Shareholder Resolution A (Agenda No. 1-2-2):** The approval of financial statements for FY2018 at HMC that reflect dividends of KRW4.5 trillion for common voting shares of HMC, representing KRW21,967 per share. If passed, shareholders would receive a one-time dividend equivalent to 17% of HMC's current stock price.

[1] Elliott's letter to Mobis shareholders can be read in its entirety at http://www.acceleratehyundai.com

- **Shareholder Resolution B (Agenda No. 2-9):** The establishment of Compensation and Governance Committees at HMC.

- **Shareholder Resolution C (Agenda No. 3-1-4, 3-1-5, and 3-1-6):** The nomination of three (3) highly qualified independent director candidates (the "Independent Shareholder Nominees").

- **Shareholder Resolution D (Agenda No. 4-3, 4-4, and 4-5):** The nomination of the Independent Shareholder Nominees for the Company's Audit Committee.

As HMC shareholders, your support for these resolutions is vital to our shared goal of improving the governance and performance of the Company that we all collectively own.

We are therefore asking today for all shareholders to support these landmark resolutions, which are designed to both **transform governance** and **right-size the Company's overcapitalized balance sheet**.

Background

Nearly a year has passed since HMG withdrew its restructuring plan. Over the past year, along with many of our fellow shareholders, we have expressed publicly and privately the need for a more comprehensive plan that seriously and expeditiously addresses the governance and capital-management issues responsible for the Company's continued share-price underperformance.

The problems facing HMC are well-known but important to highlight in the absence of sufficient corrective action from management. HMC continues to underperform significantly (by 61% vs. the KOSPI and 43% vs. its peers in the last five years), and as a result, has seen a considerable amount of shareholder value destroyed. Company valuation remains meaningfully depressed, trading at a remarkable discount of up to 82% vs. KOSPI and up to 46% vs. peers.

Over the past year, we have sought to enter into constructive dialogue with the Board to find common ground to resolve these issues. Informed by exhaustive research, expert analysis and, importantly, extensive dialogue with other stakeholders, our emphasis has been to advise management at HMG and HMC to take action on the following critical issues to rectify the Company's persistent underperformance:

- **HMG and HMC must return substantial excess capital to shareholders.** As identified in Conway MacKenzie's Independent Analysis, both HMC and Mobis have net cash positions that vastly exceed their respective peers. HMC's net cash balance of KRW 14.3 trillion as of 2018 far exceeds auto peers by KRW 8-10 trillion. Affiliates of HMG have been mismanaging these funds, investing in questionable projects that have only heightened the alarm and frustration of shareholders as well as the markets.

- **Corporate governance at HMG and HMC must be brought in line with international best practices.** New independent directors are needed in HMC's boardroom to provide diversity, depth of experience, and fresh perspectives to the Company's decision-making processes. The Audit Committees in particular are in need of greater independence. At the same time, establishing new Compensation and Governance Committees would improve the alignment between HMC's Board and its shareholders now and into the future, allowing HMC to attract the independent talent befitting a global Company of its stature.

While it has always been our strong preference to engage proactively with the Group's management and advisors in an effort to advance solutions, our efforts at dialogue only recently gave way to constructive exchanges. Although these exchanges did not produce the results we hoped for at HMC, we did work tirelessly in an attempt to build consensus and find pathways forward that would properly address the balance sheet and governance problems preventing HMG and HMC from realizing their full potential.

HMC 2019 Annual General Meeting Agenda

Given the extensive degree of engagement and the progress made with Mobis, we had been hopeful that HMC leadership would seize the opportunity to improve both its governance and its balance-sheet management. Unfortunately, yesterday's announcement was a disappointment on both fronts, given that the Company made no serious effort to address capital return and actually took steps backward on governance.

Absent any proactive shareholder-return policies such as share buyback plans, we believe that the Company's net cash balance of KRW14.3 trillion is excessive and must be reduced. While management proposed an aggressive KRW45 trillion of R&D spend in the next five years, it failed to provide a convincing argument that when it comes to returns on such spending, the future will be different from the past: HMC's poor track record in capital deployment has resulted in an industry-low ROE of 2.2% as of 2018 and a valuation of just 0.4x P/B.

In addition to missed opportunities in the area of capital return, HMC also fell short in addressing its governance problems. HMC's proposed independent directors appear to lack the proper experience and fresh perspectives that are urgently needed at the board level. In fact, the candidates put forward by the Company, with backgrounds primarily in finance and academia, offer significant overlap with the backgrounds of the existing Board members. Furthermore, the Company seems unwilling to increase the ratio of outside to inside directors, capping the number of independent directors at only three. This arbitrary cap will limit progress on improving independence and diversity, and it is not in keeping with international best practices.

Fortunately, shareholders will be able to support superior alternatives when it comes to improving capital allocation and governance at HMC. Elliott's resolution regarding the payment of a special dividend would return excess capital to shareholders, who can allocate it to higher-return opportunities. At the same time, the Independent Shareholder Nominees that Elliott has proposed offer three highly qualified and independent candidates who can significantly enhance HMC's Board with their global and diverse board experiences. Each of these nominees is a business leader with a proven track record in his or her field.

Shareholders have an opportunity at HMC's upcoming AGM to deliver sustainable solutions that fundamentally address the Company's problems. We believe that our proposed shareholder resolutions are essential to restoring shareholder confidence at HMC.

Shareholder Resolutions in Detail

We are urging all HMC shareholders to send a clear and compelling message to the Board, and to help drive the necessary reforms at HMC, by supporting the following resolutions at the AGM planned for 22 March 2019.

Shareholder Resolution A (Agenda No. 1-2-2): The Payment of Dividends

HMC is severely overcapitalized as compared to peers. Maintaining the excess capitalization comes at a real cost to shareholders, with the Company's ROE deteriorating to an industry low of 2.2% in 2018.

HMC's management mistakenly believes liquidity needs can only be met by readily available cash on balance sheet.[2] While we understand the Company's desire to hold some level of reserves for contingency and working capital requirements, we also note that HMC continues to generate meaningful free cash flow. Maintaining trillions of won as cash on balance sheet for future unknown M&A is poor stewardship of capital given the significant opportunity cost. We are also not alone in noting the irony in reserving trillions of won for future shareholder return, given that the Company is refusing to return excess capital to shareholders today.

We also recognize the Company's need to invest in R&D. However, we remain unconvinced that management's investment roadmap detailing KRW45 trillion of spend over the next five years is prudent planning. Given the significant step up in expected R&D spend, shareholders deserve more than the sparse details provided today. We remain skeptical as to whether the incremental investments will offer returns above cost of capital given HMC's poor investment track record, as well as the Group's history of investing in non-core projects.

Elliott therefore proposes that shareholders approve financial statements for FY2018 at HMC that reflect dividends of KRW4.5 trillion for common voting shares of HMC, representing KRW21,967 per share and 17% of the share price.

This plan would still leave **over half** of the excess capital on the balance sheet of HMC while beginning the process to bring its net cash level in line with industry peers. Combined with

[2] Hyundai Motor Company CEO Investor Day presentation, Slide 26: Required Liquidity, February 27, 2019

HMC's strong free cash flow generation, the remaining net cash balance will be more than sufficient for cash reserve and future investment needs.

Absent any proactive return of excess capital to shareholders via buybacks or other means, our shareholder resolution is necessary to optimize HMC's balance sheet.

Shareholder Resolution B (Agenda No. 2-9): The Establishment of Compensation and Governance Committees at HMC

Two new sub-committees will champion shareholder rights and corporate transparency.

We seek to create two sub-committees in the articles of incorporation of HMC: a Director's Compensation Committee and a Corporate Governance & Communication Committee, by amending articles of incorporation of the Company. These are standard sub-committees common already to most Korean and international companies, yet are conspicuously absent from the Company's current corporate constitution.

- *A Director's Compensation Committee* would establish compensation schemes that are transparent and commensurate with directors' experience and performance, aligning with domestic and international best practice. Crucially, the committee would also ensure independent directors were not financially punished, by ensuring their compensation was properly aligned with the market.

- *A Corporate Governance and Communication Committee* already exists, but hasn't yet been formally incorporated into the Company's AOI. The Committee would protect the corporate value of HMC as well as the interests of the shareholders in the long term.

We therefore urge shareholders to join us in supporting the creation of these two sub-committees as an essential step forward in improving corporate governance at HMC. We would envision that the new Independent Shareholder Nominees would also serve on these new committees to ensure independence and accountability.

Shareholder Resolution C (Agenda No. 3-1-4, 3-1-5 and 3-1-6): The Nomination of Highly Qualified Independent Director Candidates

HMC shareholders deserve to be represented by truly independent directors with global board and in-depth industry experiences.

Elliott has nominated three independent directors at HMC with significant and relevant industry experience. The addition of these new directors would grow HMC's Board to 11 from the current 9. These independent directors will represent all shareholders.

The three nominees for HMC we are nominating are *(see Appendix A):*

- **Dr. John Liu**: an accomplished engineer and a global technology executive with extensive experience in executive and board roles for multinational public companies.

- **Randal ("Randy") MacEwen**: President and CEO of Ballard Power Systems, a US- and Canadian-listed developer and manufacturer of innovative fuel cell products for mobile and stationary applications.

- **Margaret ("Peg") Billson**: an engineer and business leader with more than three decades of executive and board experience at large, complex industrial and transportation companies.

We strongly disagree with HMC limiting the number of independent directors to three. Shareholders deserve a fair choice in the board members that will best serve their interests.

Shareholder Resolution D (Agenda No. 4-3, 4-4 and 4-5): The Nomination of the Independent Shareholder Nominees for the Company's Audit Committee

Effective independent leadership is vital in keeping management focused while avoiding further financial mismanagement and irresponsible investment behavior.

HMC's audit committee is required by law to perform key roles in ensuring that the Board fulfills its fiduciary responsibilities. It also oversees the Company's financials and directors' performance of duties, and investigates, where necessary, illicit financial behavior on the Board and within management.

It is therefore extremely important that the audit committee be comprised of truly independent members, dedicated to conducting their roles in an unbiased and transparent manner while remaining faithful to all shareholders.

We therefore urge shareholders to join us in supporting three of the Independent Shareholder Nominees to serve on the audit committee.

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By right-sizing the balance sheet and adding diverse and independent directors to allow for proper shareholder accountability, HMC can fulfill its true potential as an industry leader and financial steward.

As ever, we remain open to ongoing dialogue with the Company, specifically on capital allocation and governance. Should new solutions be offered that adequately address the scale of the balance-sheet and governance issues at HMC, we would consider amending our resolutions. As things stand, however, we strongly believe that these reforms are necessary for the safeguarding of the Company's future prosperity.

We urge our fellow shareholders to support these resolutions, and we remain available to discuss our proposals and approaches in further detail.

Sincerely,

Elliott Advisors (HK) Limited

Appendix A

Biographies of Elliott's Independent Director Nominees

Elliott Proposed Independent Nominee:
Dr. John Liu

Dr. John Liu is an accomplished engineer and global technology executive with extensive experience in executive and non-executive roles for multinational public companies.

- Over the last 10 years, Dr. Liu has served as the Group Vice President of Wanda Group and COO of its Internet Technology Business, was the Chief Business Officer of Qihoo 360 and was the President of Google in China. In these roles, he led the digitation, automation and Internet of Things transformation and partnership strategies with key stakeholders across the Americas, Europe and Asia.
- Prior to that, Dr. Liu was the CEO of SK Telecom China and led the company's investment and joint-venture relationships with key corporate and government stakeholders from 2007 to 2012.
- Dr. Liu has been an Independent Director at the e-commerce company of the Hong Kong-listed China Eastern Airlines (2014 to 2018) and UK-listed ARM Holdings (2014-2016). He is currently an Independent Director and the Chairman of the Remuneration Committee of Hong Kong-listed Digital China Holdings.
- Dr. Liu has a PhD from the Technical University of Denmark and a Bachelor's Degree from Beijing Normal University, where he is currently on the Board of Trustees and the Chairman of the Investment Committee of the Education Fund for Beijing Normal University.

Elliott Proposed Independent Nominee:
Randy MacEwen

Randy is seasoned sustainable energy executive with a deep passion and extensive experience in transformative energy technologies.

- He is currently the President and CEO of Ballard Power Systems, a US- and Canadian-listed developer and manufacturer of innovative fuel cell products for mobile and stationary applications.
- From 2001 to 2014, Randy was the CEO and held senior executive positions at various sustainable energy companies, including Solar Integrated Technologies and Stuart Energy Systems Corporation.
- Randy began his career at Torys, a leading Canadian business law firm and today represents Ballard as a supporting member Hydrogen Council and is a Vice Chairman of the International Hydrogen and Fuel Cell Association, both of which Hyundai is a member.

- Randy has a Bachelor of Law degree from the University of Western Ontario and Bachelor of Arts degree from York University.

Elliott Proposed Independent Nominee:
Margaret ("Peg") Billson

Peg Billson is an engineer and business leader with more than three decades of experience at large, complex industrial and transportation companies.

- From 2009 to 2016, Peg was a senior executive and divisional CEO at BBA Aviation, an aftermarket parts and services business supplying the global aviation industry, where she led 2000 employees across four continents.
- She served as President and COO of a start-up light jet manufacturer from 2005 to 2008 where she oversaw the engineering and design, production, supply chain and flight operations teams.
- From 1993 to 2005, Peg was a leading executive at Honeywell International Inc. and Douglas Aircraft Company.
- Peg previously served as an Independent Director at Skywest Inc., a US-listed aviation company, and currently serves as a member of the Human Resources and Nomination & Governance Committees at CAE Inc., a Canadian-listed aviation training and simulation company serving the civil and defense sectors.
- Peg has a Bachelor's Degree from Embry Riddle Aeronautical University and a Master's Degree in Engineering – Aerospace from California State University Long Beach.