

1Q 2018 Earnings Release

HYUNDAI HEAVY INDUSTRIES HOLDINGS



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"Division"

A Year-long Transformation

New leap begins



 **HYUNDAI**
HEAVY INDUSTRIES HOLDINGS

 **HYUNDAI**
HEAVY INDUSTRIES

 **HYUNDAI**
ELECTRIC

 **HYUNDAI**
CONSTRUCTION EQUIPMENT

Hyundai Oilbank 

Chapter 1.

“Division”, A Year-long transformation

1. Establishment of Holding Company
2. Ownership Structure
3. Financial Structure Change
4. Holding company Business Strategy

1. Establishment of Holding Company

With corporate name changed to “Hyundai Heavy Industries Holdings Co., Ltd” on Mar 30th, 2018, holding company was officially established

Business Reformation Progress

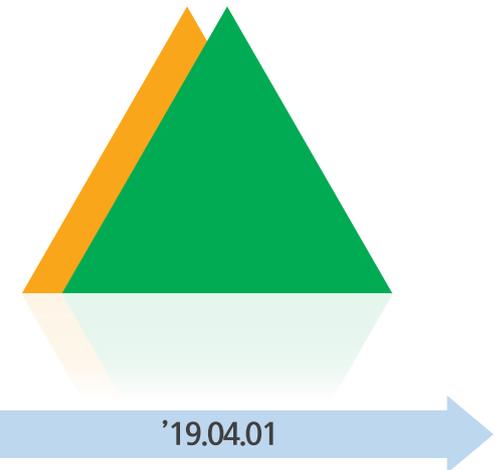
- ('17.06.21) Elimination of new circular shareholding
Sold HRC shares held by HMD
- ('17.07.08) Approval from Fair Trade Commission on holding company
- ('17.08.02) HRC rights offering in return for in-kind contribution
Met the regulatory condition on Holding company
(must hold 20% shares of listed company, 40% shares of unlisted company)
- ('17.08.18) Elimination of existing circular shareholding
Purchased HEE, HCE shares held by HMD
- ('17.11月) Participated rights offering / bonus issue of subsidiaries
HCE, HEE
- ('18.03.16) Participated in rights offering of subsidiaries
HHI

'17.04.01

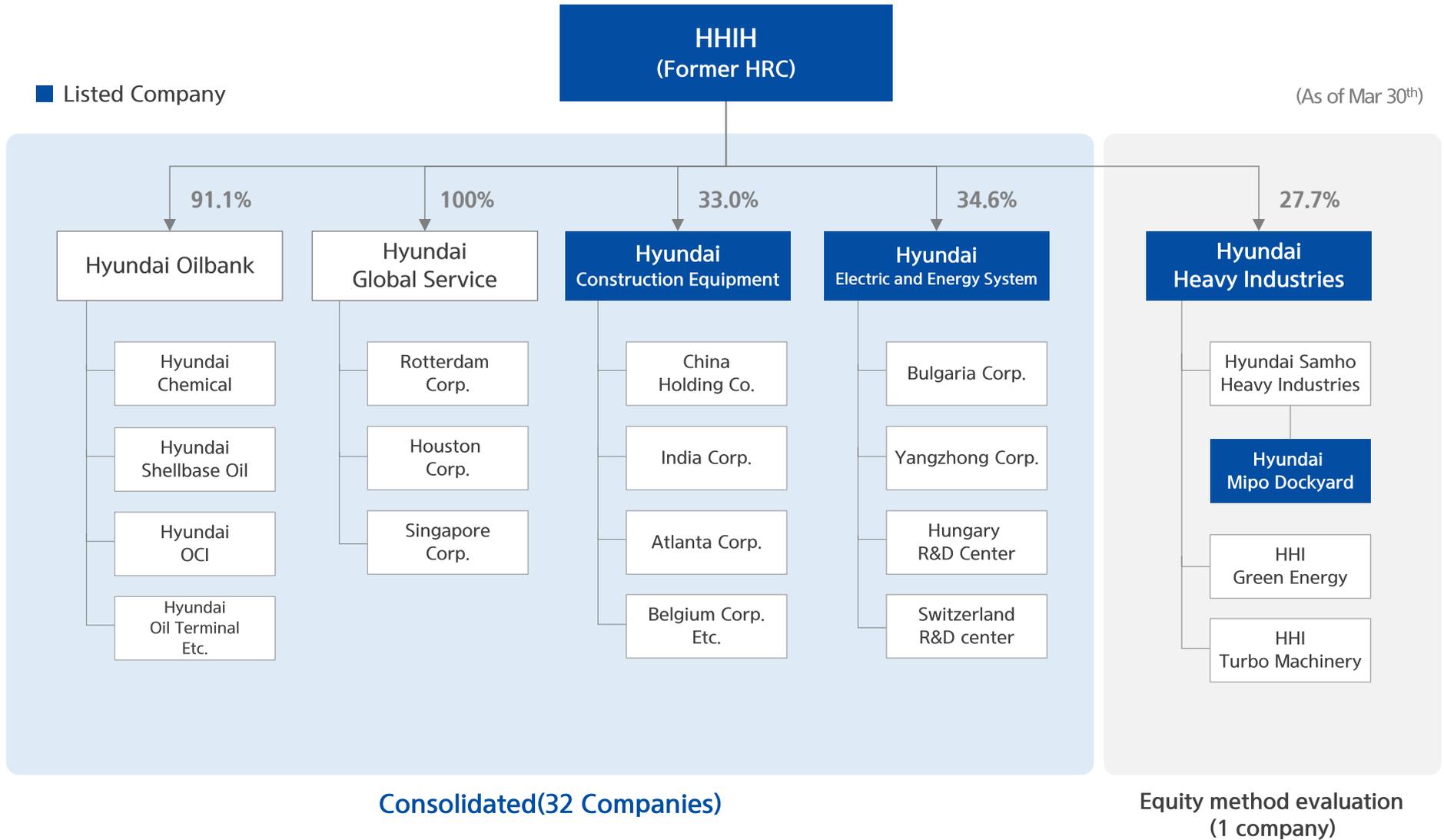
'18.03.30

'19.04.01

- ('18.03.30) Corporate name change
Approval on corporate name change to HHHH from HRC at 1st
Shareholder Regular meeting
- ('18.04.11) Change listing
- (Later) Complete elimination of circular shareholding
(HHI shares held by HMD)
- (Later) Deal with Great-grand child company issue
(HMD shares held by HSHR)



2. Ownership Structure



3. Financial Structure Change

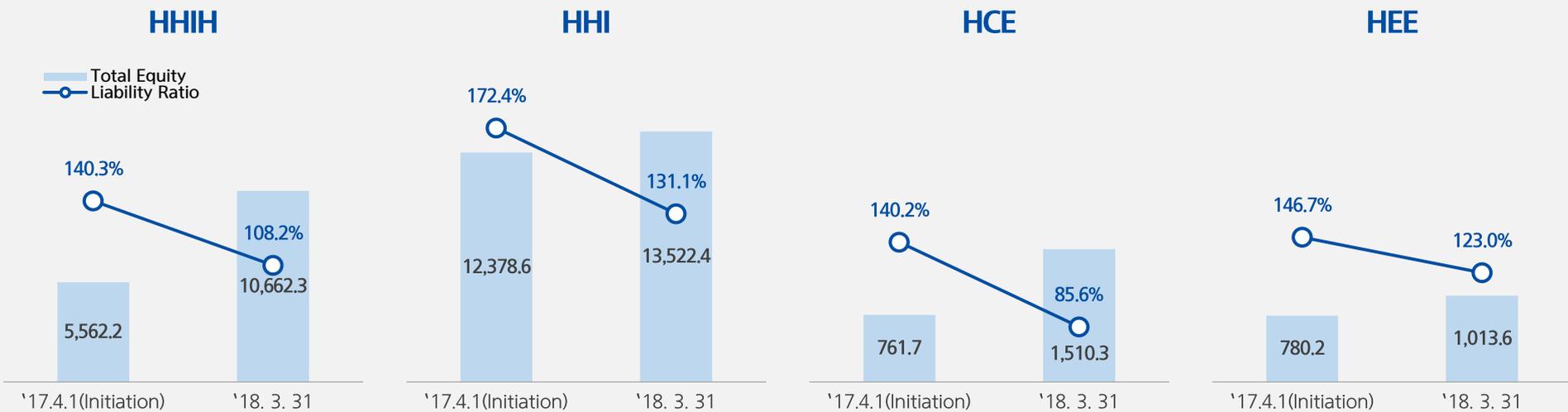
Secured stable financial structure with performance improvement capital increase

(Unit : bil KRW)

	HHIH		HHI		HCE		HEE	
	'17.4.1(Initiation)	'18. 3. 31						
Total Assets	13,367.2	22,201.8	33,713.9	31,250.6	1,829.5	2,803.0	1,924.5	2,260.3
Total Liabilities	7,805.0	11,539.5	21,335.3	17,728.2	1,067.8	1,292.7	1,144.3	1,246.7
Total Equity	5,562.2	10,662.3	12,378.6	13,522.4	761.7	1,510.3	780.2	1,013.6

주1 : 각사 연결기준임

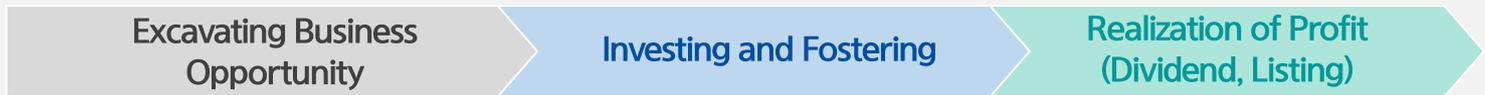
(Unit : bil KRW)



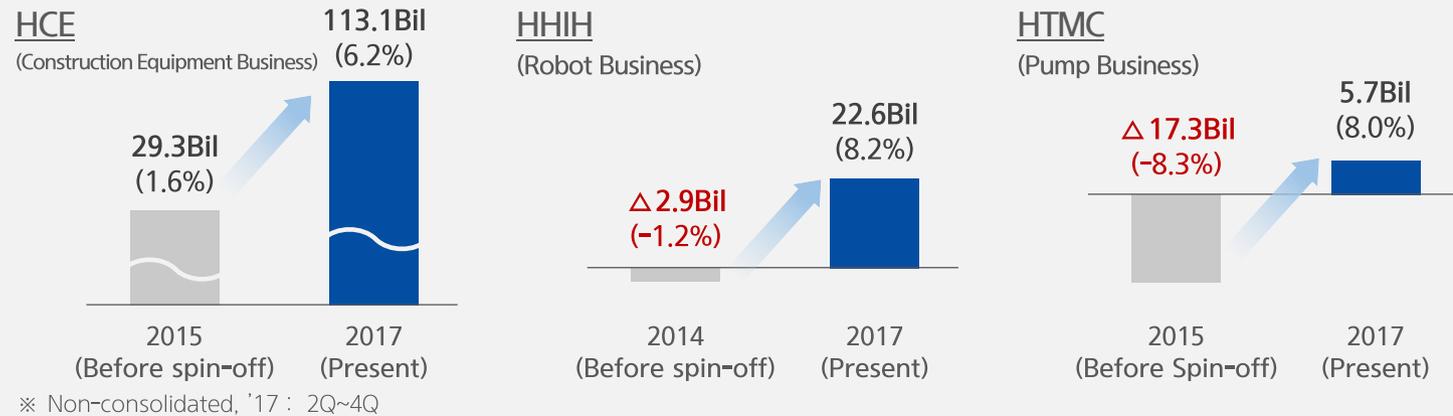
4. Holding Company Business Strategy

Investment Strategy

“ Rather than securing earnings through internal trade within group (Brand loyalty, rent), We pursue enlarging the value through excavating and fostering various business opportunity in adjacent area ”



Investment Performance (Comparing Operating Income)



Future Highlights

- ✔ Pushing forward IPO plan of Hyundai Oilbank in 2018
- ✔ Considering proper chance to list Hyundai Global Service and Robot Business after fostering
- ✔ Identifying and fostering key business innovation opportunities to link with 4th Industrial Revolution

Chapter 2.

1Q 2018 Earnings

1. 1Q 2018 Consolidated Earnings
2. Consolidated Earnings by Companies
 - 1) Hyundai Heavy Industries Holdings
 - 2) Hyundai Oilbank
 - 3) Hyundai Construction Equipment
 - 4) Hyundai Electric and Energy System
 - 5) Hyundai Global Service
3. Net Income & Non-operating Profit & Loss



1. Consolidated Earnings(1/2)

Sales increase in Hyundai Oilbank and improved consolidated operating income

1Q 2018 Consolidated Earnings

(Unit : bil KRW)

	'18.1Q		'17.4Q
		QoQ	
Sales	6,285.8	10.7%	5,676.1
Operating Income	358.3	172.3%	131.6
Margin	5.7%	-	2.3%
Non-Operating Income	-52.1	-	-39.7
Net Income	245.5	Turned to positive	-215.6
Margin	3.9%	Turned to positive	-3.8%

Note1 : K-IFRS Consolidated

Note2 : '17 1Q figures are not provided as spin-off date is Apr 1st.

- **Sales 6,286 bil.**

- +10.7% Q-o-Q

- **Operating Income 358.3 bil.**

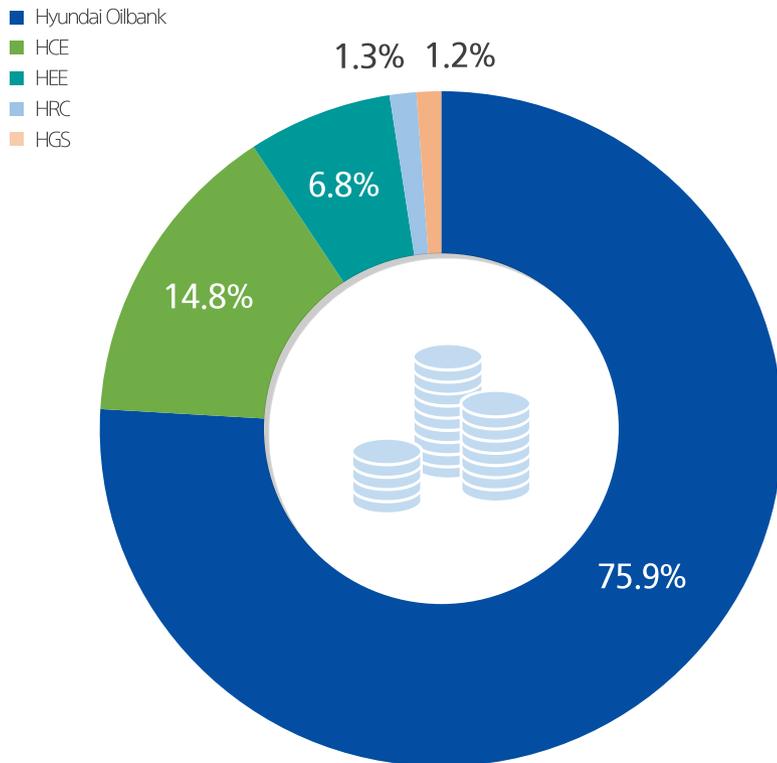
- +172.3% Q-o-Q

- **Analysis**

- Sales growth in refinery on the back of oil price rise
- Sales increase in robotics due to new model by Hyundai Motors
- China and India corps consolidated in HCE
- Sales decline in HEE due to unfavorable market condition
- Sales increase in highly profitable ship parts in HGS
- Gains on equity method evaluation in HHI

1. Consolidated Earnings(2/2)

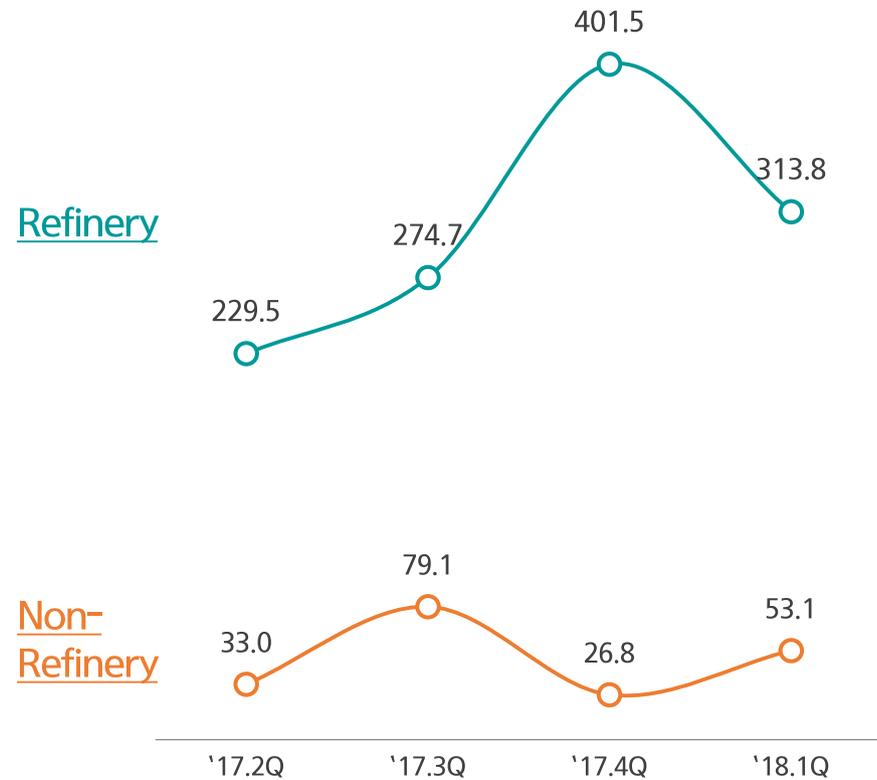
'18 1Q Sales Breakdown



Note 1 : Consolidated sales excluding equity method evaluation

'18 1Q Operating Income

(Unit : bil KRW)



Note 2 : Excluding equity method evaluation and dividend income

2. Consolidated earnings by subsidiaries

'18 1Q Consolidated earnings

(Unit : bil KRW)

		'18.1Q			'17.4Q			
		Sales	Operating Income	Margin	Sales	Operating Income	Margin	
Consolidated	HHIH	392.1	317.6	81.0%	77.2	4.5	5.8%	
	HDO	4,773.0	313.8	6.6%	4,694.6	401.5	8.6%	
	HCE	930.5	61.8	6.6%	590.3	15.2	2.6%	
	HEE	430.1	(30.8)	(7.2%)	489.3	1.5	0.3%	
	HGS	73.0	17.1	23.4%	61.9	7.4	12.0%	
Equity Method	HHI	7.9	7.9	-	(217.6)	(217.6)	-	
	Adjustments	(320.8)	(329.1)	-	(19.6)	(80.9)	-	* '18.1Q : 312.7 bil KRW of dividend income from HDO is adjusted
	Consolidated Total	6,285.8	358.3	5.7%	5,676.1	131.6	2.3%	

Note 1 : HHIH, non-consolidated

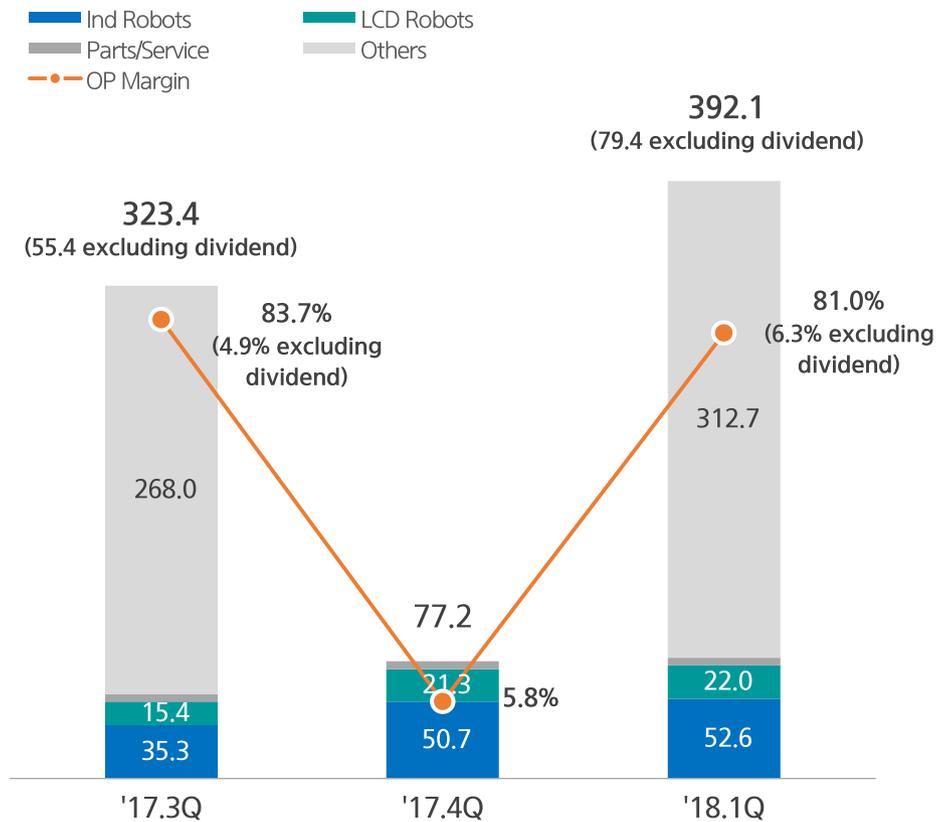
Note 2 : HDO, HEE, HCE, Consolidated

Note 3 : HGS. '17,4Q non-consolidated, '18.1Q Consolidated

2-1) Hyundai Heavy Industries Holdings

'18. 1Q Sales & OP Margin

(Unit : bil. KRW)



- **Sales : 392.1 bil KRW**
(79.4 bil KRW excluding dividend)
- +407.9% Q-o-Q
(+2.8% Q-o-Q excluding dividend)

- **Operating Income : 317.6 bil KRW**
(5.0 bil KRW excluding dividend)
- +6957.8% Q-o-Q
(+1.1% Q-o-Q excluding dividend)

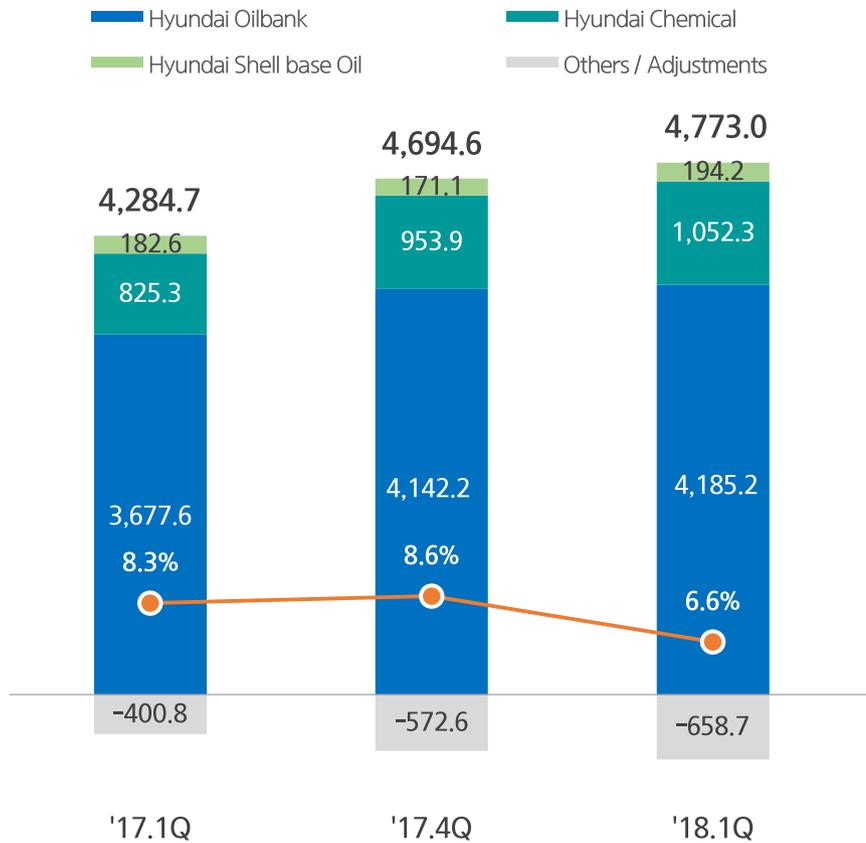
- **Analysis**
 - Dividend income from Hyundai Oilbank in 2017 (312.7 bil KRW)
 - Sales increase in industrial robots due to launching new models of Hyundai Motors

Note 1) non-consolidated

2-2) Hyundai Oilbank

'18. 1Q Sales & OP Margin

Unit: bil. KRW



- **Sales 4,773 bil. KRW**

- +1.7% Q-o-Q
- +11.4% Y-o-Y

- **Operating Profit 313.8 bil. KRW**

- -21.8% Q-o-Q
- -11.6% Y-o-Y

- **Analysis**

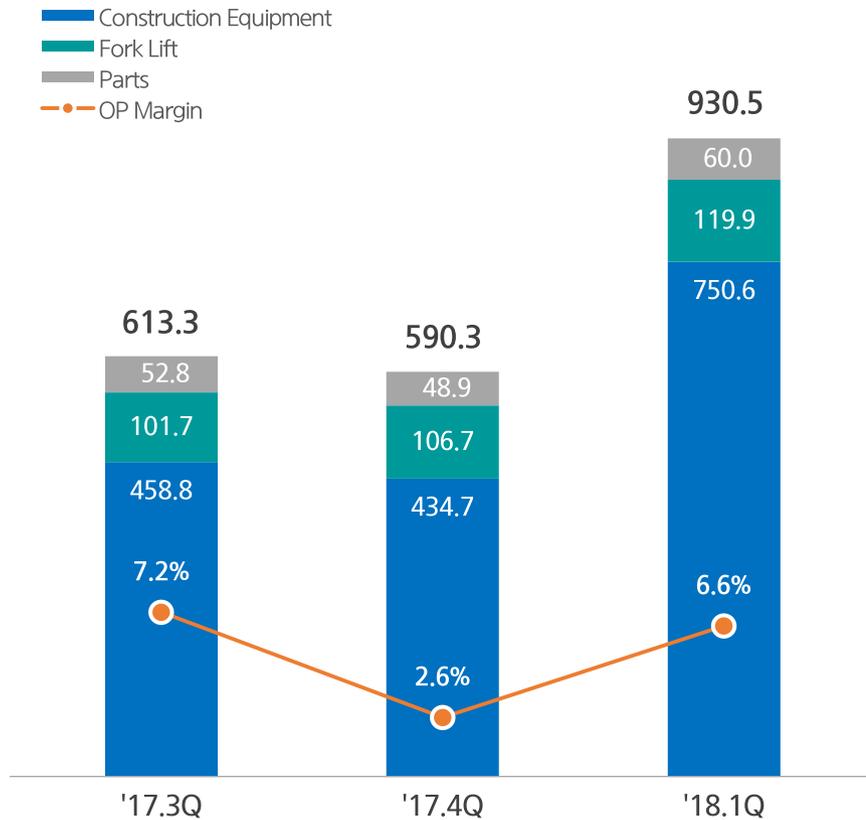
- Sales increased due to rise in oil price
- Crude oil lagging effect diminished resulting from slower increase in oil price
- Fall in refining margin and inventory related gain

Note 1) K-IFRS Consolidated

2-3) Hyundai Construction Equipment

'18. 1Q Sales & OP Margin

Unit : bil KRW



Note 1) K-IFRS consolidated

- **Sales : 930.5 bil. KRW**

- +57.6% Q-o-Q

- **Operating Income : 61.8 bil. KRW**

- +306.6% Q-o-Q

- **Analysis**

- 〈China/India〉

- Sales volume increase by consolidation of overseas corps in China and India
 - Sales growth due to investment in infrastructure by China and India

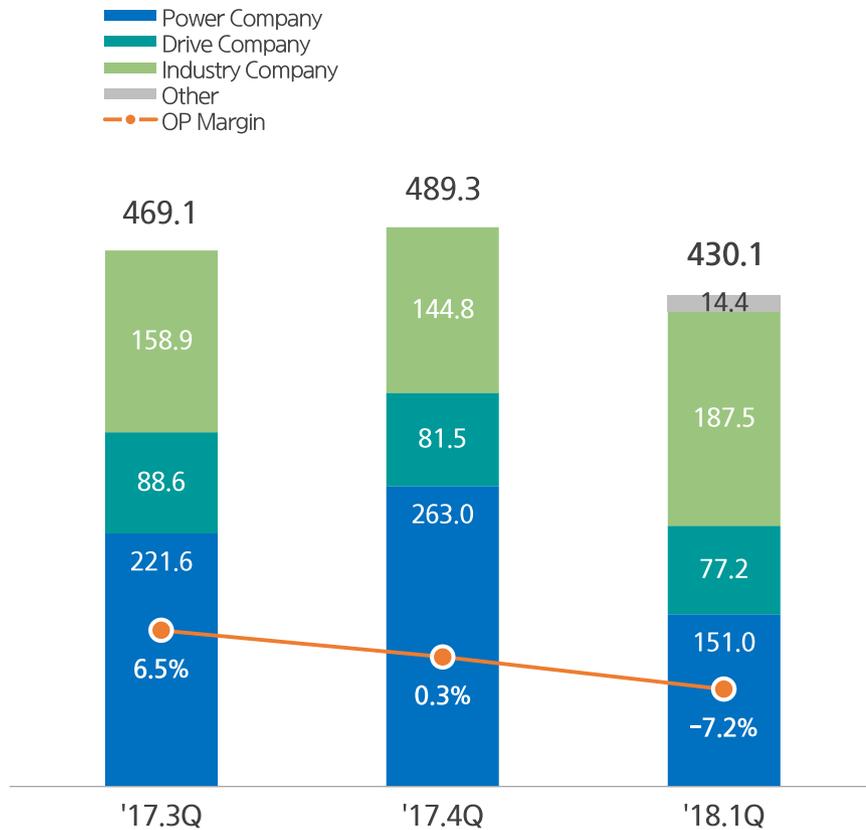
- 〈Emerging Market〉

- Sales growth in highly profitable mid/large excavator for mining due to raw material price hike

2-4) Hyundai Electric & Energy System

'18. 1Q Sales & OP Margin

(Unit : bil KRW)



- **Sales : 430.1 bil. KRW**

- -12.1% Q-o-Q

- **Operating Income : -30.8 bil. KRW**

- Turned to negative

- **Analysis**

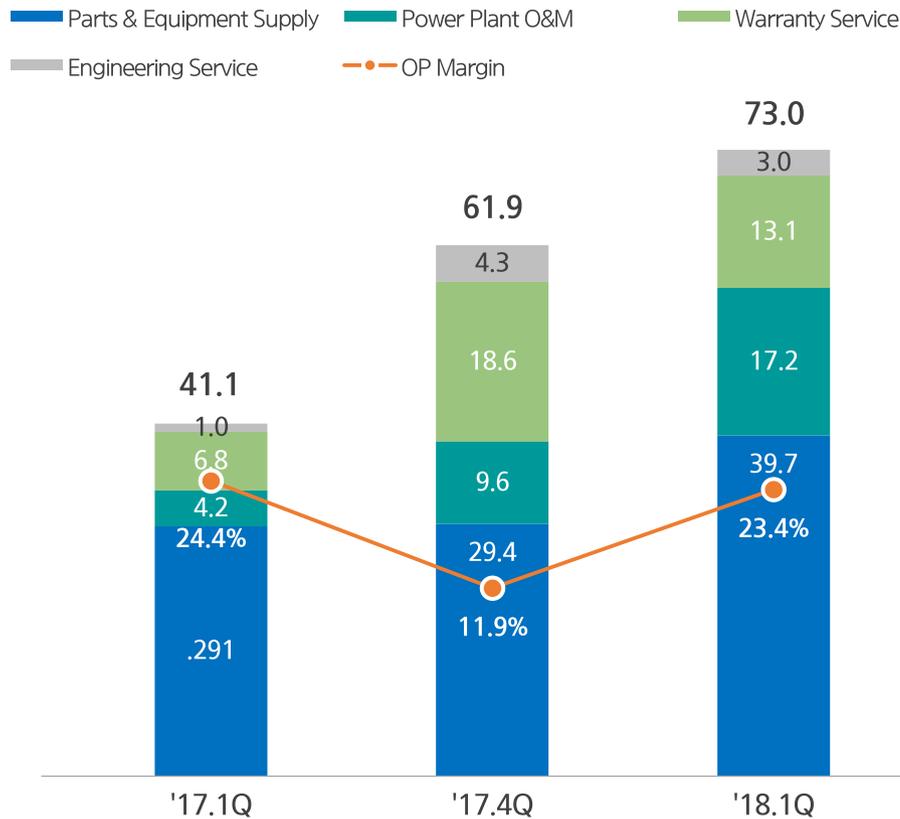
- Slow recovery in Middle East market and Shipbuilding / Offshore industry
- Strengthened tariff barrier on transformer exported to US
- Increased fixed cost burden due to drop in sales

Note 1) K-IFRS consolidated

2-5) Hyundai Global Service

'18. 1Q Sales & OP Margin

(Unit : bil KRW)



- **Sales Revenue : 73 bil. KRW**

- +17.9% Q-o-Q
- +77.6% Y-o-Y

- **Operating Profit : 17 bil. KRW**

- +131.1% Q-o-Q
- +71.0% Y-o-Y

- **Analysis**

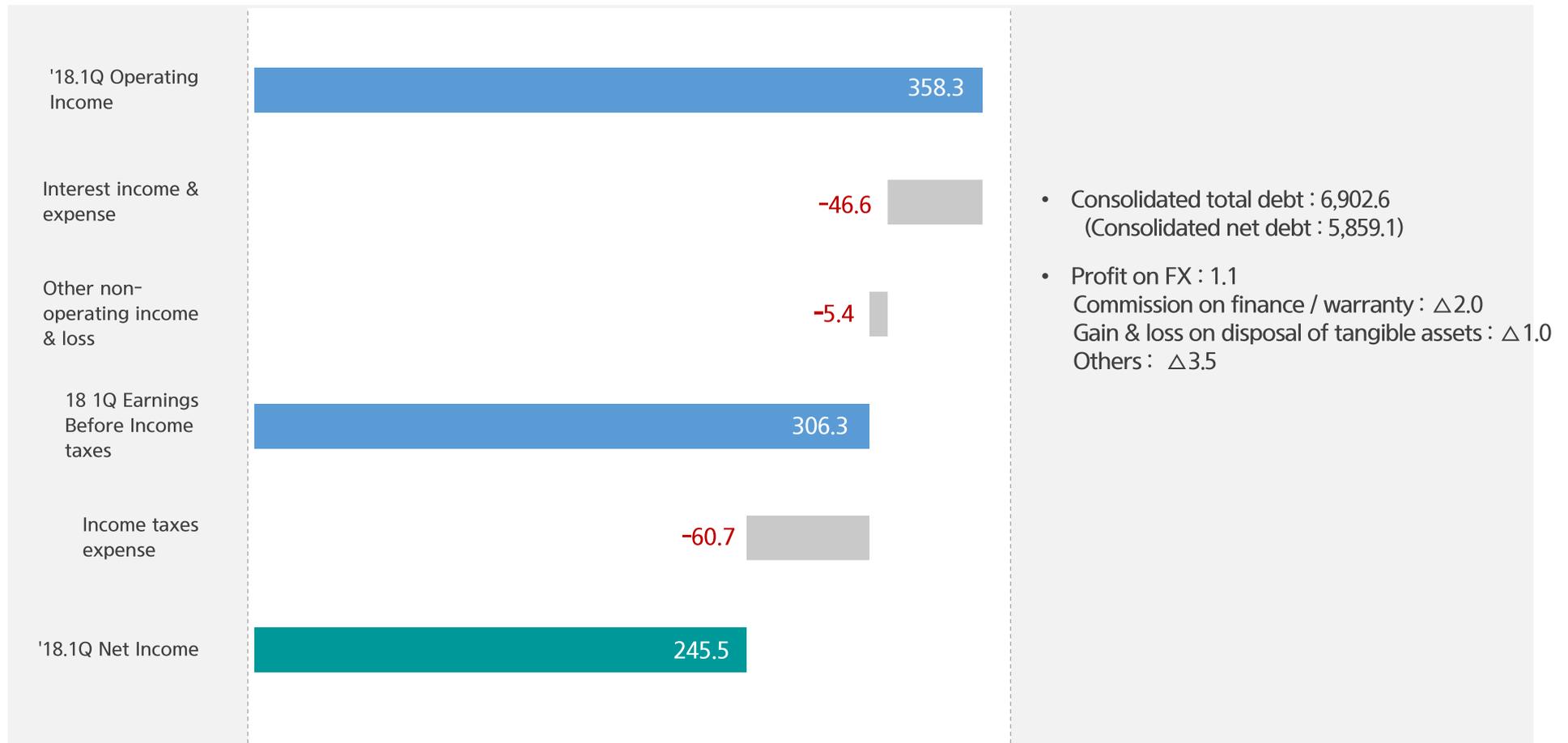
- Increase of Parts & Equipment Supply and Power Plant O&M Business (High Profit Return)
- Improved Sales Performance of Hyundai Global Service Europe (Located in Rotterdam, Netherlands)

Note : '17. 1Q, 4Q Non-consolidated
'18. 1Q Consolidated

3. Net Income / Non-operating income & loss

'18 1Q consolidated earnings

(Unit : bil KRW)



Chapter 3.

Consolidated Financial Statement

1. Consolidated Financial Statement of HHIH
2. Consolidated Financial Statement of HDO
3. Consolidated Financial Statement of HGS

1. Consolidated Financial Statement of HHIH

Consolidated Income Statement

Unit: bil. KRW

	'18.1Q	QoQ	'17.4Q	'17.3Q
Sales	6,285.8	10.7%	5,676.1	4,415.8
Cost of Goods Sold	5,656.8	6.9%	5,291.5	3,655.1
Gross Profit	629.0	63.5%	384.6	760.7
Operating Profit	358.3	172.3%	131.6	552.2
OP margin	5.7%	-	2.3%	12.5%
Non Operating Income & Loss	-52.1	-	-39.7	392.1
Profit before Tax	306.3	233.3%	91.9	944.3
Income Tax	60.7	-80.3%	307.4	80.9
Net Income	245.5	Turned to Positive	-215.6	863.4

Consolidated Balance Sheet

Unit: bil. KRW

	'17.4.1 (Initiation)	'17.4Q	'18.1Q
Current Assets	4,284.0	8,030.2	8,449.9
(Cash & Cash Equivalents)	580.2	1,184.9	1,043.5
Non-current Assets	9,083.2	13,179.9	13,751.9
Total Assets	13,367.2	21,210.1	22,201.8
Current Liabilities	4,942.9	6,554.7	7,355.7
(Short-term borrowings)	2,769.2	2,964.2	3,692.6
Non-current Liabilities	2,862.1	4,429.5	4,183.8
(Long-term borrowings)	2,351.5	3,580.3	3,231.5
Total Liabilities	7,805.0	10,984.2	11,539.5
Paid-in Capital	60.2	81.4	81.4
Others	4,511.5	6,460.8	6,289.4
Retained Earnings	-	945.5	1,243.6
Non-controlling interests	990.5	2,738.2	3,047.9
Total Shareholder's Equity	5,562.2	10,225.9	10,662.3
Total Liabilities & Shareholder's Equity	13,367.2	21,210.1	22,201.8

Note : K-IFRS Consolidated

2. Consolidated Financial Statement of HDO

Consolidated Income Statement

Unit: bil. KRW

	'18.1Q	QoQ	YoY	'17.4Q	'17.1Q
Sales	4,773.0	1.7%	11.4%	4,694.6	4,284.7
Cost of Goods Sold	4,350.8	4.1%	13.8%	4,178.2	3,821.6
Gross Profit	422.2	-18.2%	-8.8%	516.4	463.1
Operating Profit	313.8	-21.8%	-11.6%	401.5	354.8
OP margin	6.6%	-	-	8.6%	8.3%
Non Operating Income & Loss	-11.0	-	-	39.6	29.6
Profit before Tax	302.8	-31.4%	-21.2%	441.1	384.4
Income Tax	73.8	-37.0%	-16.7%	117.2	88.5
Net Income	229.0	-29.3%	-22.6%	323.9	295.9

Consolidated Balance Sheet

Unit: bil. KRW

	'16.4Q	'17.4Q	'18.1Q
Current Assets	3,205.0	4,306.6	4,099.3
(Cash & Cash Equivalents)	300.9	206.8	311.0
Non-current Assets	6,503.1	6,955.4	6,967.3
Total Assets	9,708.1	11,262.0	11,066.6
Current Liabilities	3,088.2	3,823.7	3,668.8
(Short-term borrowings)	1,102.0	1,040.4	970.8
Non-current Liabilities	2,133.6	2,305.0	2,393.3
(Long-term borrowings)	1,885.9	2,029.7	2,120.9
Total Liabilities	5,221.8	6,128.7	6,062.1
Paid-in Capital	1,225.4	1,225.4	1,225.4
Others	406.2	388.8	388.5
Retained Earnings	2,495.2	3,063.0	2,926.5
Non-controlling interests	359.6	456.1	464.1
Total Shareholder's Equity	4,486.3	5,133.3	5,004.5
Total Liabilities & Shareholder's Equity	9,708.1	11,262.0	11,066.6

Note : K-IFRS Consolidated

3. Consolidated Financial Statement of HGS

Consolidated Income Statement

Unit: bil. KRW

	'18.1Q			'17.4Q	'17.1Q
		QoQ	YoY		
Sales	73.0	17.9%	77.6%	61.9	41.1
Cost of Goods Sold	51.4	2.2%	72.5%	50.3	29.8
Gross Profit	21.6	86.2%	91.2%	11.6	11.3
Operating Profit	17.1	131.1%	71.0%	7.4	10.0
OP margin	23.4%	-	-	12.0%	24.4%
Non Operating Income & Loss	0.1	흑자전환	흑자전환	-3.5	-0.1
Profit before Tax	17.2	341.0%	73.7%	3.9	9.9
Income Tax	4.8	152.6%	108.7%	1.9	2.3
Net Income	12.4	520.0%	63.2%	2.0	7.6

Note 1 : '17. 1Q, 4Q Non-consolidated, '18.1Q Consolidated

Consolidated Balance Sheet

Unit: bil. KRW

	'16.4Q	'17.4Q	'18.1Q
Current Assets	142.9	203.6	224.1
(Cash & Cash Equivalents)	57.7	39.1	42.7
Non-current Assets	1.9	5.5	5.7
Total Assets	144.8	209.1	229.8
Current Liabilities	18.9	43.0	51.7
(Short-term borrowings)			
Non-current Liabilities	0.6	0.2	0.8
(Long-term borrowings)			
Total Liabilities	19.5	43.2	52.5
Paid-in Capital	20.0	20.0	20.0
Others	105.2	105.7	104.7
Retained Earnings	0.1	40.2	52.6
Total Shareholder's Equity	125.3	165.9	177.3
Total Liabilities & Shareholder's Equity	144.8	209.1	229.8

주1 : '16 4Q non-consolidated, '17 4Q, '18 1Q Consolidated

Chapter 4.

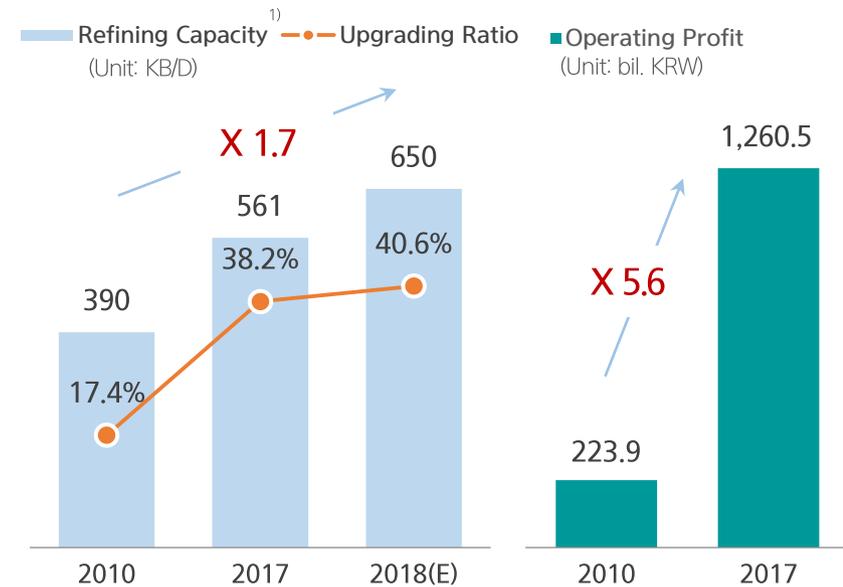
Key Business

1. HDO
2. HGS
3. HRC(Robot Business)

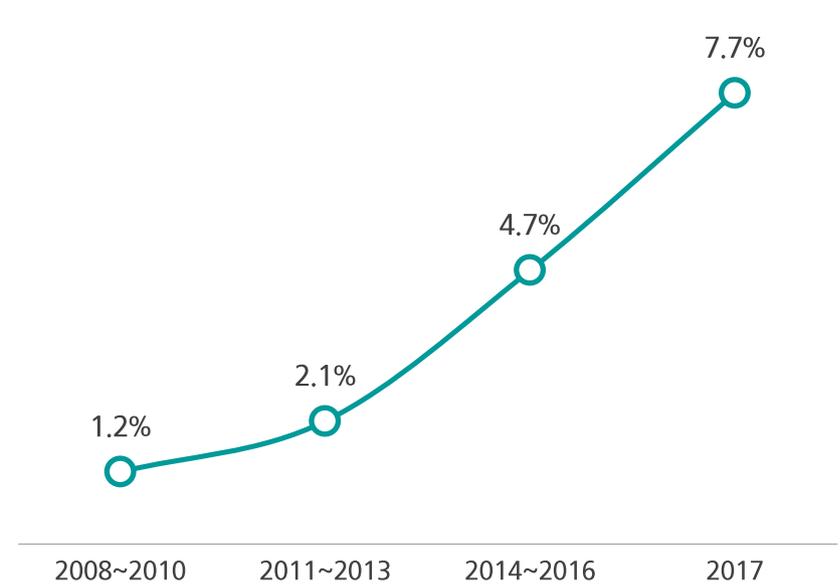


1. Hyundai Oilbank – Core Business of Hyundai Heavy Industries Group

Rapid Growth since Joining the HHI Group

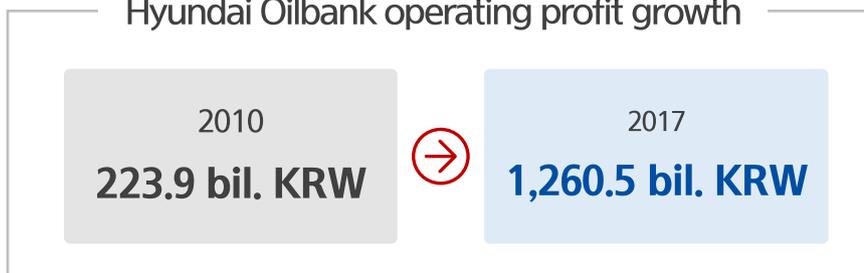


Operating Profit Margin Growth

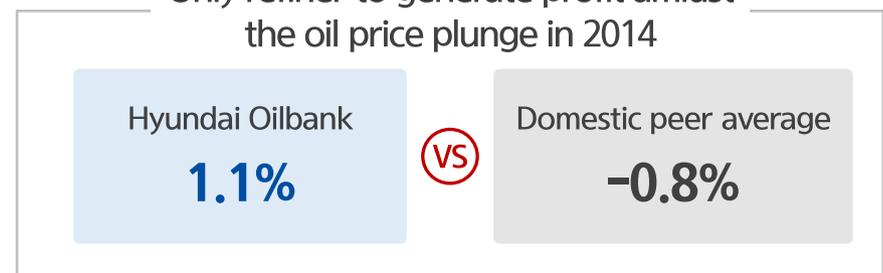


1) Including Hyundai Chemical CSU(Condensate Splitter Unit, 130KB/D)

Hyundai Oilbank operating profit growth



Only refiner to generate profit amidst the oil price plunge in 2014



1. Hyundai Oilbank – Highest Cost Efficiency & Integrated Businesses

Highest Cost Efficiency and Upgrading Ratio

“Production of High Value-added Products from Heavy Crude Oil based on Differentiated Facilities”

Heavy Crude Input Ratio



Production of High Value-added Products via Differentiated Facilities

Unit: KB/D

구 분	Hyundai Oilbank	Company K	Company G	Company O
Refining capacity	520*	840	790	580
Upgrading facilities	211*	199	274	148
Upgrading Ratio	40.6%	23.7%	35.4%	25.5%

Source: Ministry of Trade, Industry and Energy(KOREA), Energy Statistics
 ※ Capacity expansion to be completed in 2018 (Domestic peer as of 2017)

Full Operational Integration of Businesses

“Stable Supply & Profit Maximization”

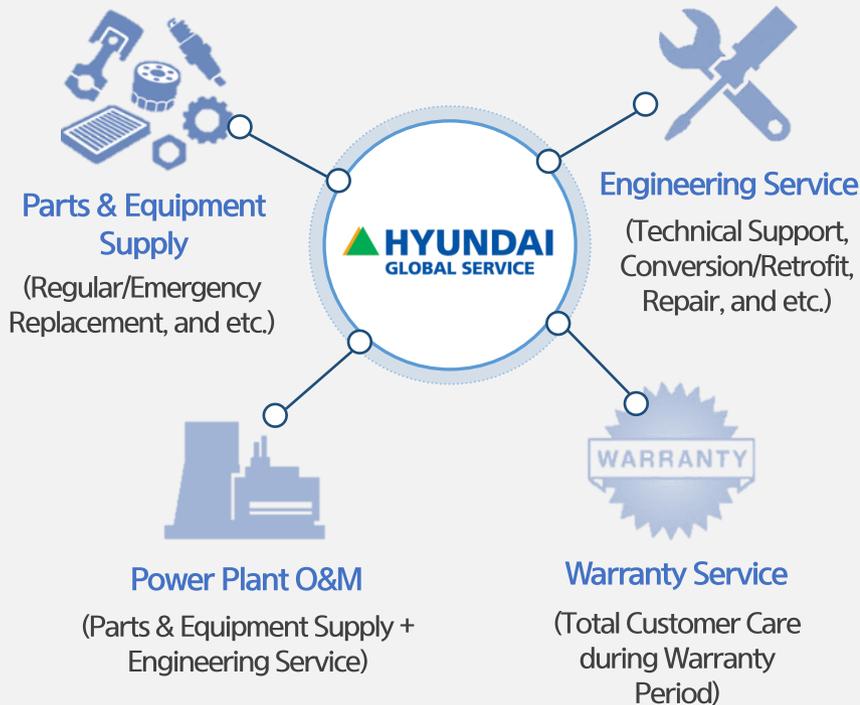


2. Hyundai Global Service – Total Solution Service Provider to Pursue Customer’s Value HYUNDAI HEAVY INDUSTRIES HOLDINGS

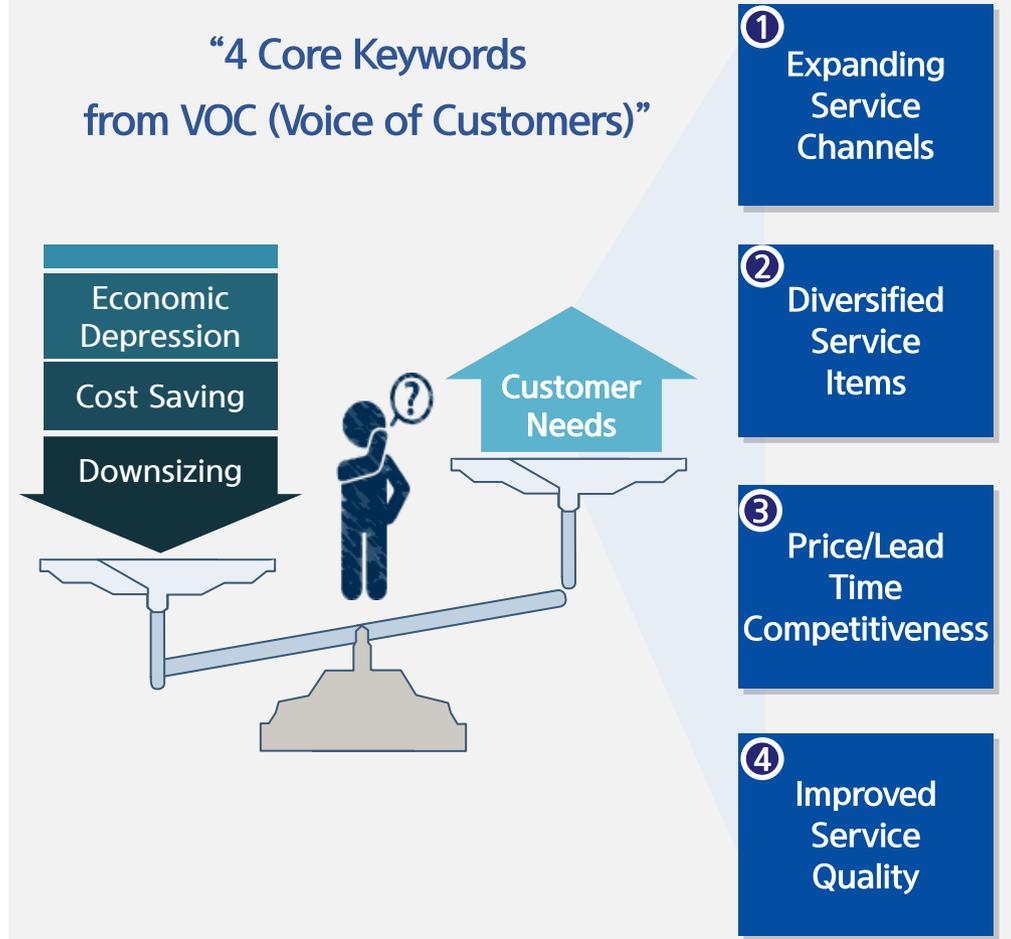
Customer’s Satisfaction by Qualified Service → Additional Business Opportunities (Repurchase)

Improving Core Service Competitiveness to Pursue Customer Values

“Total Solution Service Provision with a Single Point of Contact”



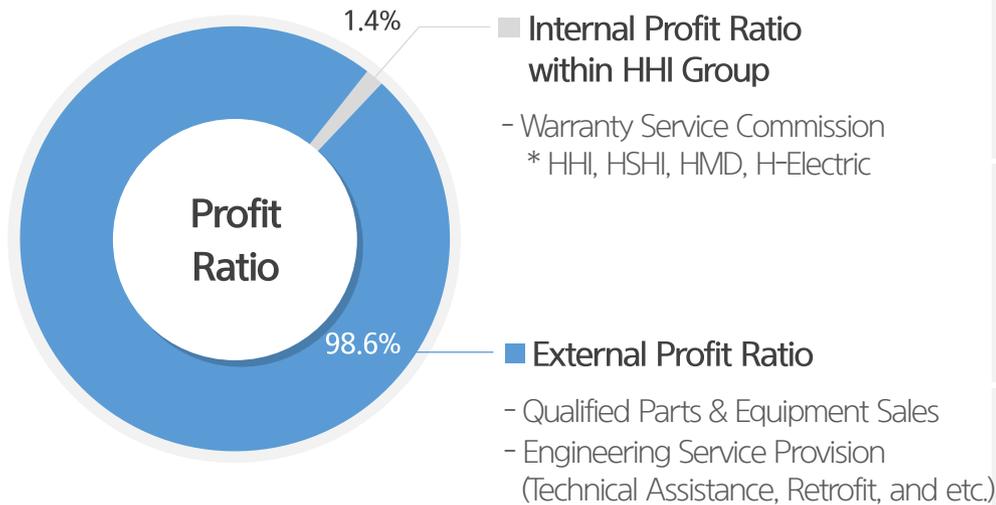
“4 Core Keywords from VOC (Voice of Customers)”



2. Hyundai Global Service – Growing Business Opportunities

Customer-focused Business → High Profit Return

[Profit Ratio of Internal Business vs. External Business]



Wartsila’s Market Capitalization in 2017 : 13.7 Trillion KRW

(Sales Revenue : 6 Trillion KRW, Operating Profit : 0.7 Trillion KRW, PER X 27 Estimated)

Source : 2017 Consolidated Financial Statements of HHI Group Companies

Targeting a Wide Range of HHI Group’s Customers → High Growth Opportunities

HHI Group Built Ships	<p>14% Market Share of Global Operating Ships</p> <p>Customer’s Value Oriented in Hyundai Brand Power</p>
2-Stroke Engines (HHI Produced)	<p>24% Market Share of Global 2-Stroke Engines</p> <p>Aftermarket Business Privilege Given from Licensors by Contract</p>
4-Stroke Engines (HiMSEN, HHI Licensed)	<p>Cumulative Production Records → Total 10,986 Units</p> <p>Sole Provider of Aftermarket Service (Service Parts, Engineering, and etc.)</p>

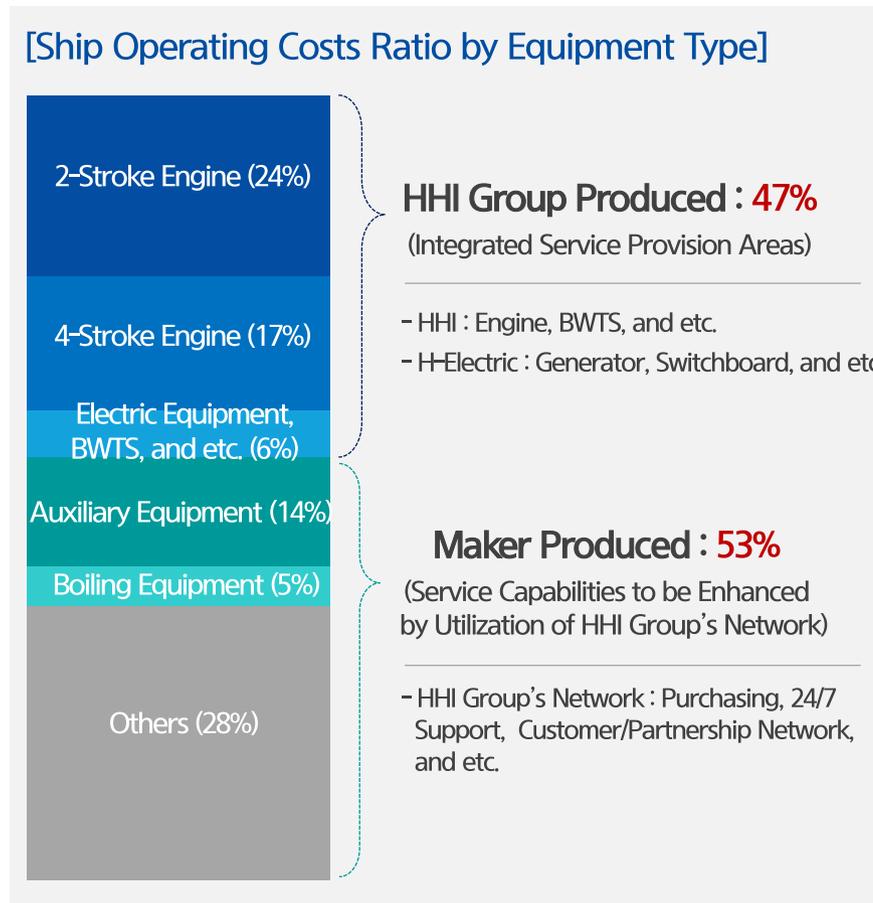


“HGS was Spun off in 2017 from HHI to Exclusively Focus on Service Business Areas (High Growth Expected)”

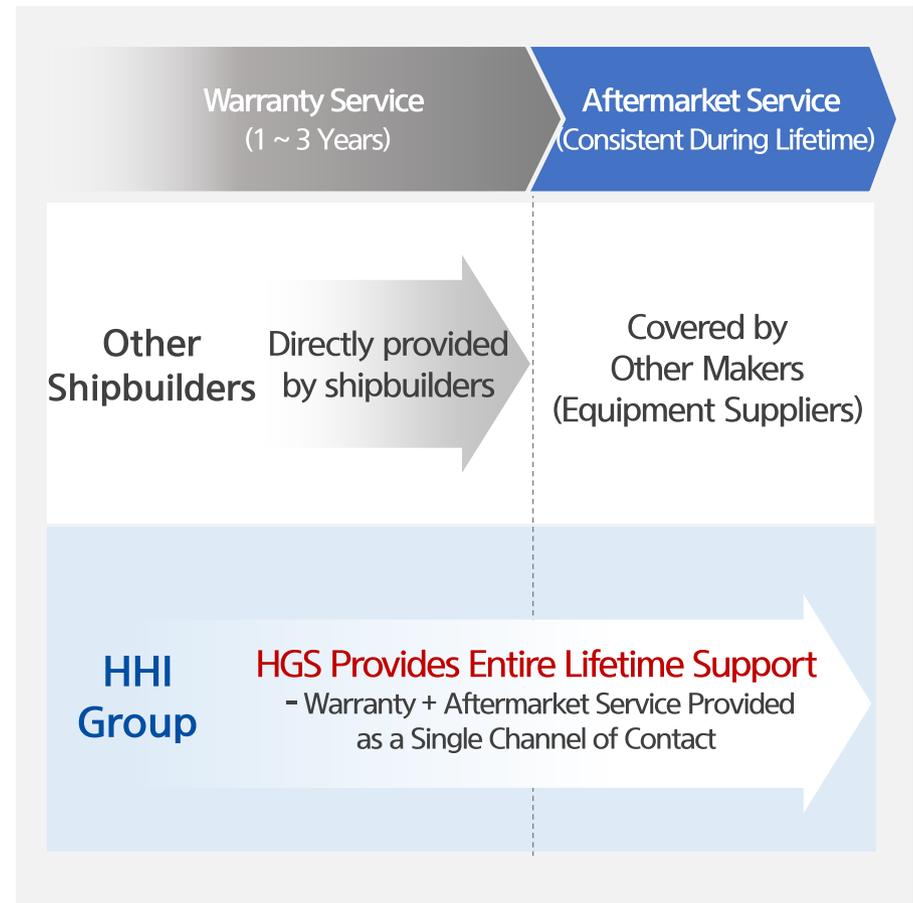
- ※ Cumulative Shipbuilding and Engine Production Records in 2017 (HHI Group)
 - Cumulative Shipbuilding : 3,117 Units
 - Cumulative 2-Stroke Engine Production : 4,030 Units

2. Hyundai Global Service – Integrated Lifetime Support as a Service Professional HYUNDAI HEAVY INDUSTRIES HOLDINGS

Integrated Service Business (Parts & Equipment Supply + Maintenance)



Differentiated Lifetime Support Flow



Source : Ship Operating Costs 2017/18, Drewry Reports

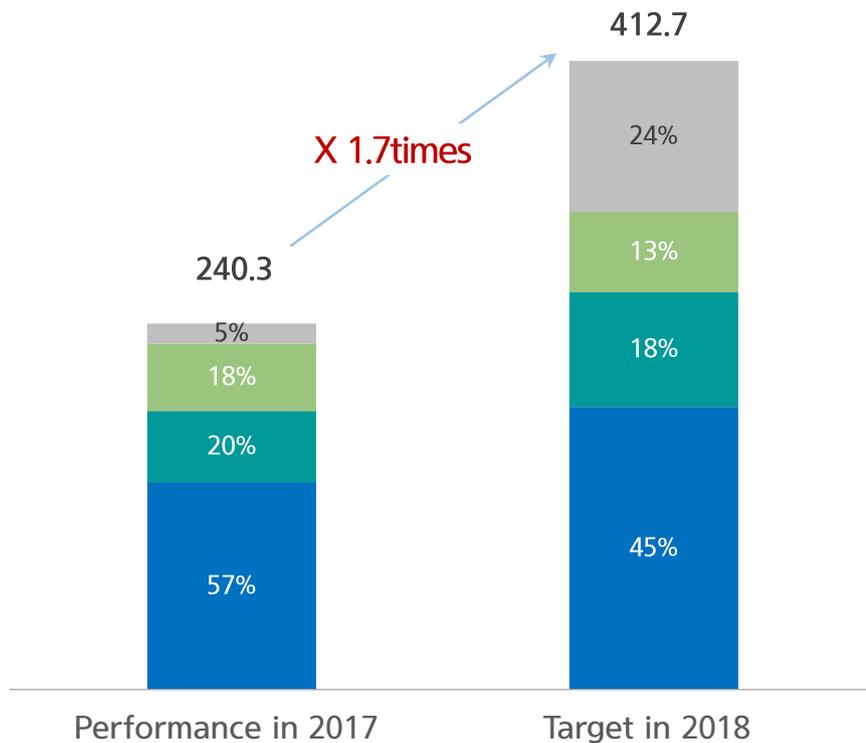
※ Parts & Equipment Supply and Maintenance Costs, VLCC Over 300 DWT)

2. Hyundai Global Service – Key Points of Activity in 2018

Target Sales Revenue in 2018 (Compared with Last Year)

(Unit : bil KRW)

■ Parts & Equipment Supply ■ Power Plant O&M ■ Warranty Service ■ Engineering Service



Note : Based on Consolidated Financial Statements

Key Points to achieve goal in 2018

• Engineering Service

- Establishment of global partnership to expand customer coverage
- Workshop & global academy operation to satisfy customer needs

• Power Plant O&M

- Upgrade service marketing for aging facilities
- O&M coverage expand targeting central and south America

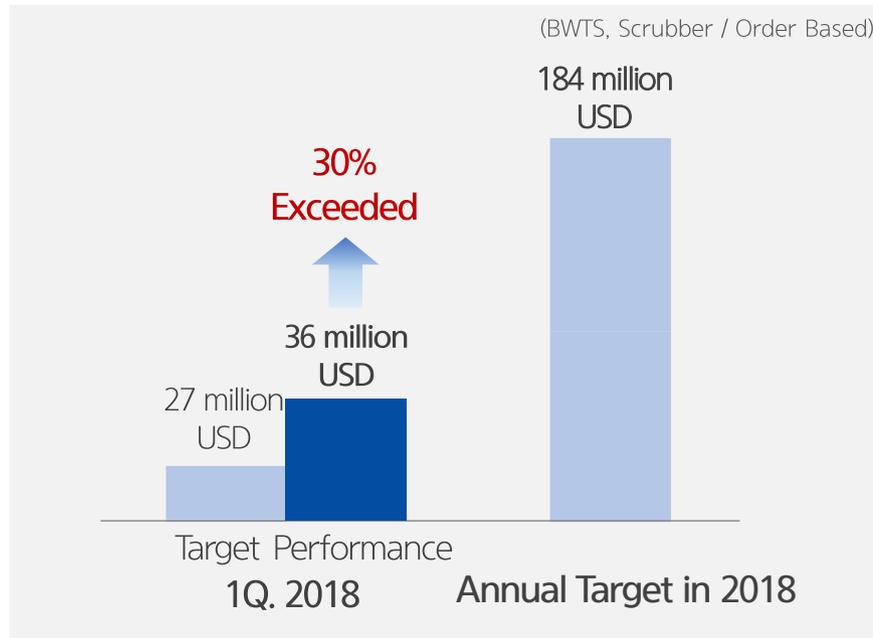
• Parts & Equipment Supply

- Expand sales & Supply channels
- Improve stock availability
- Competitive price proposal by big-data analysis
- PWS business proposal at the end of warranty period

※ PWS : Post Warranty Service

2. Hyundai Global Service – Service Business in the Future

Environmental Equipment Retrofit Business



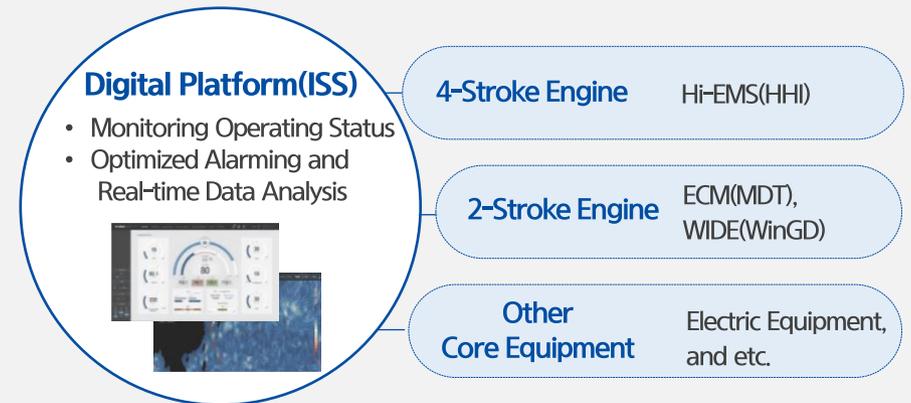
Exclusive Retrofit Provider of HHI's Environmental Equipment

Customer's Valuation in **Hyundai Brand**

Various Engineering Capabilities in HHI Group

Digital Platform & Remote Diagnosis Service

“Interconnection to a Variety Range of Core Equipment”



1) ISS : Integrated Smartship Solution

2) Hi-EMS : Hyundai Intelligent Engine Monitoring System for HIMSSEN

- Investment of Monitoring & Control Center in 2018**

- Fast A/S Response
- Cost Saving for Customers
- Data Analysis to Improve Operating Efficiency

Innovative 35-Year History



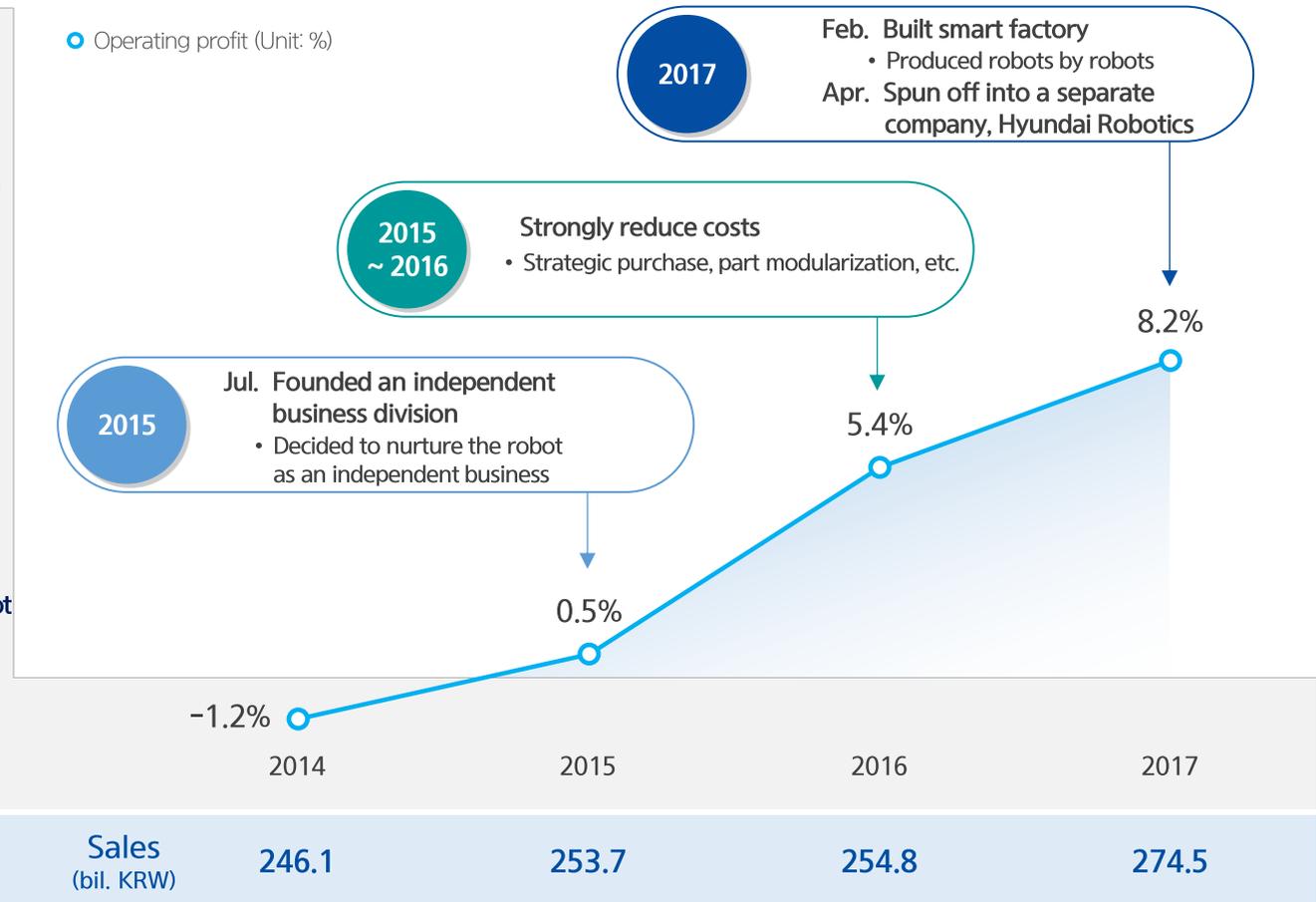
- October 1984
Created the HHI Robot Business Team



- November 1995
Developed own 2 robot models
Internalized a controller



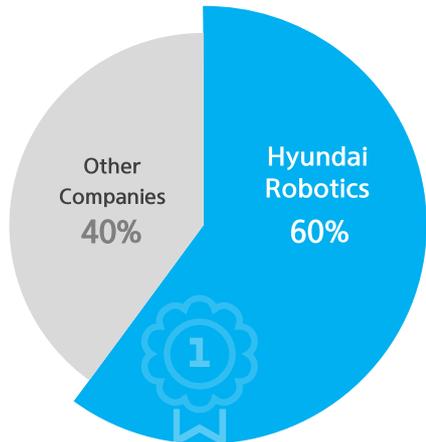
- May 2007
Developed a LCD Robot



3. Hyundai Robotics (Robot Business) – Korea's No.1 Robot Company with Strong Market Power and High Cost Competitiveness HYUNDAI HEAVY INDUSTRIES HOLDINGS

Unrivaled Market Position

- Unrivaled position in the Korean market
 - Entered the market at an early stage and dominated the market



HYUNDAI MOTOR GROUP
 Formed a monopolistic relation through joint development of processes from 1984

LG Display
 Continuously supplied robots for processes after the joint development of robots for LCD in 2007 (50% or more occupied based on accumulated installation)

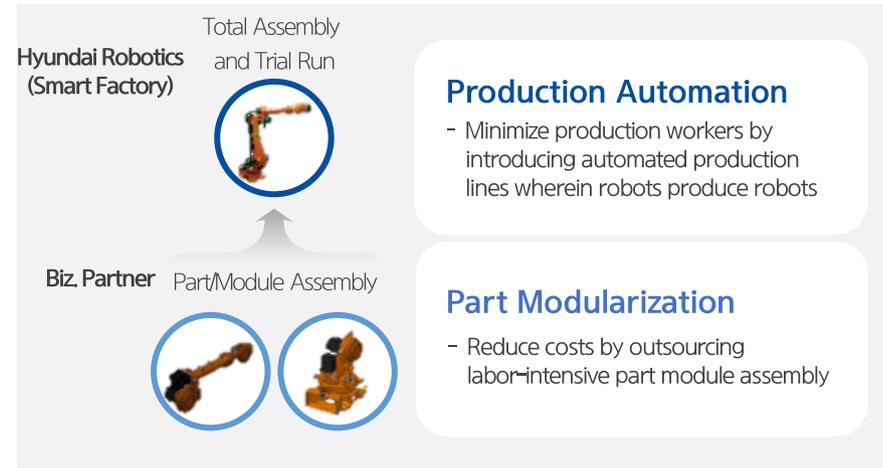
Source) Robot market report released by Fuji Keizai in 2017, Based on the sales amount of the articulated robot market that we are participating in

- Diverse foreign customers secured in the industries led by Korea

Automotive	Home Appliance	LCD

High Cost Competitiveness

- Maximization of production efficiency through production automation and modularization



※ Many global leading companies put their workers for the cell manufacturing system.

- Up to 10% additional structural competitiveness with its production factory
- Compared with global competitors without a domestic production base, Hyundai Robotics has cost competitiveness of $8\% + \alpha$ (customs duty + transportation costs)



3. Hyundai Robotics (Robot Business) – Future Growth Business

Robot System¹⁾ Business

- The demand for automation rises due to the increase in minimum wages and the stress on the importance of worker safety
 - The growth of potential customers who prefer a package that can be directly used in their factories is expected.
- The sales in the robot system business are three times larger than those when robots are just sold, and the robot system business can also secure high profitability.

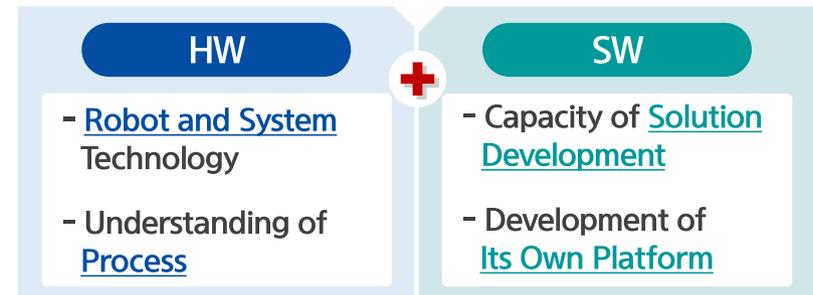


Move the sales base to the capital area,
which has many potential customers

Secure diverse industry customers
such as home appliance, smelting, food, etc

Smart Factory Solution Business

- Provide the differentiated total solution combined with production technology and SW



Business Promotion Stage

1 Stage	2016 - 2017 Build Hyundai Robotics's own smart factory	
2 Stage	2018 - 2020 Spread the smart factory to its affiliates and biz partners in electric and construction equipment sectors, etc	
3 Stage	2021 - Start to conduct external businesses in earnest	

1) Robot system: This system package configures the application (e.g. welding machines), surrounding facility, and control SW for each work together to allow a customer to use them immediately from the beginning of the robot-based automation process.



HYUNDAI
HEAVY INDUSTRIES HOLDINGS