



HYUNDAI HEAVY INDUSTRIES GROUP

: Corporate Governance Reform and Dividend Policy

Chapter 1.

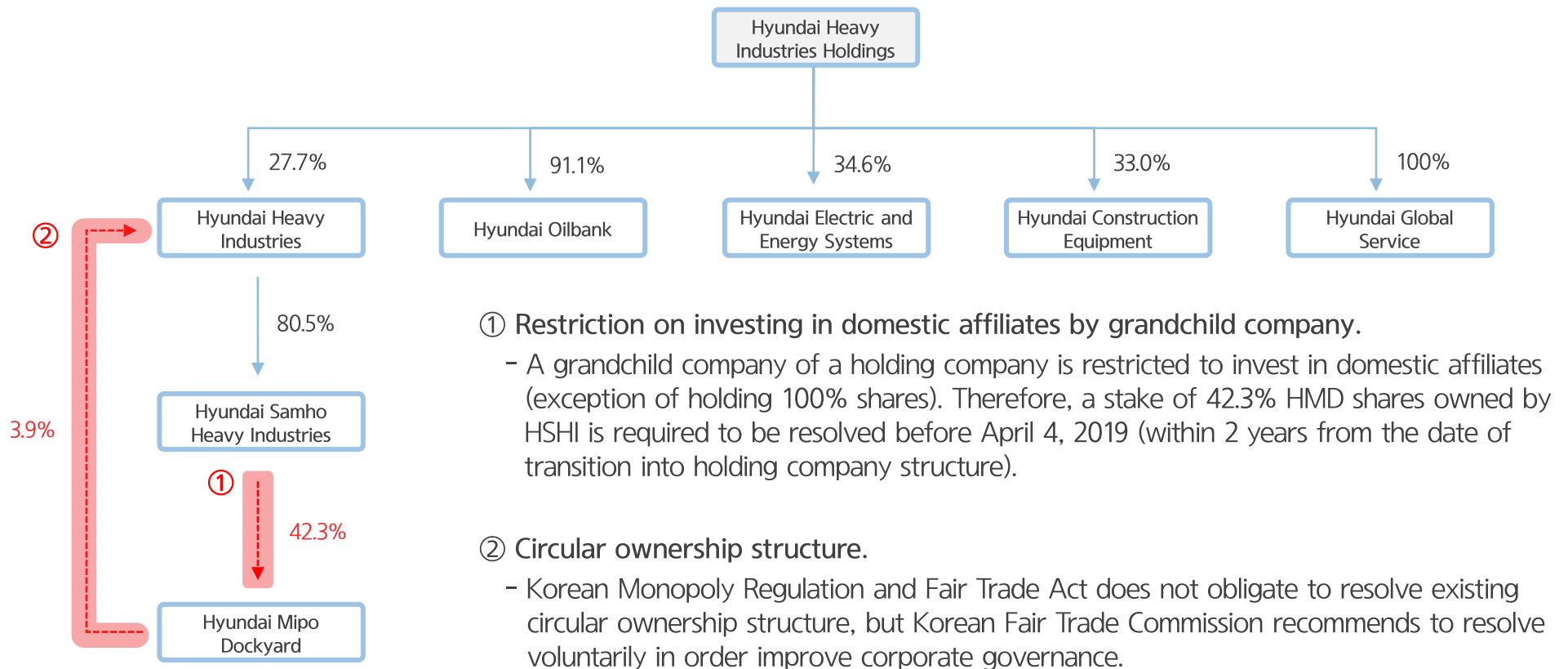
Corporate Governance Reform

1. Summary of Corporate Governance Reform
2. A Proposal Responding to KFTC's Regulation on Holding Company
 - 3-1. Spin-off/Merger and Expected Outcome
 - 3-2. Share Purchase and Expected Outcome
4. HHI Group after Business Restructuring
5. Details of Timeline

1. Summary of Corporate Governance Reform

- Remaining step to remove constraints on holding company → Corporate governance reform.
- Uphold transparent governance structure and eliminate uncertainty → Maximize shareholder value.

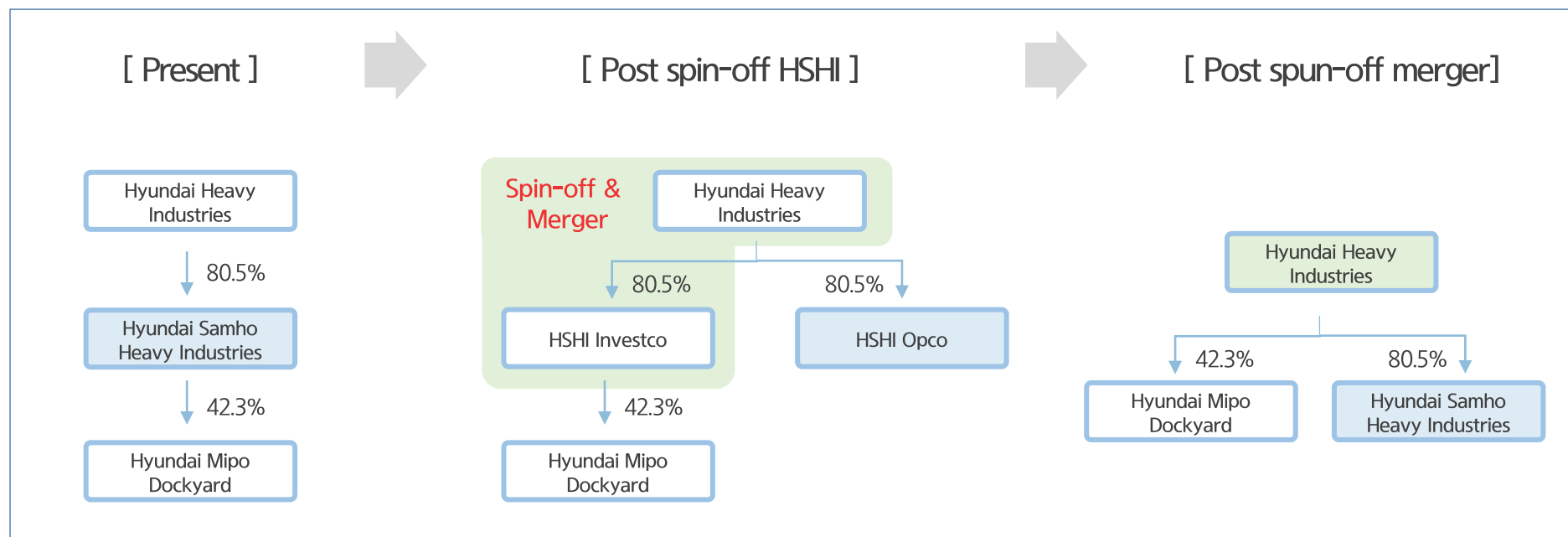
HHI Group Business Restructuring



2. A Proposal Responding to KFTC's Regulation on Holding Company

① Eliminating restriction on investing in domestic affiliates by grandchild company : Spin-off & Merger of HSHI

- HSHI will first be split into operating company and investment company (holding a stake of 42.3% of HMD shares). Then, the investment company will be merged with HHI.
→ Minimize cost (Refer appendix for details of spin-off & merger rate)



② Resolving cross ownership structure : Share Purchase

- HHIH will purchase a stake of 3.9% of HHI shares owned by HMD.

3-1. Spin-off Merger and Expected Outcome

- Uphold transparent corporate governance of holding company and maximize shareholder value of each subsidiaries.

Hyundai Heavy Industries

- Enhance shareholder value by eliminating concerns over capital expenditures.
 - Approx. KRW 800 billion will be required if a stake of 42.3% of HSHI is purchased directly.
 - No additional capital expenditures is required in case of spin-off & merger → No financial burden.
 - Minimize cost of merger.
- Strengthen business competitiveness by creating synergy with shipbuilding affiliates
 - Expand investmentco that manages subsidiaries of HHI
 - Enhanced synergy among subsidiaries.
 - Focus on business of each subsidiaries
 - Strengthen business competitiveness and efficiency.

Hyundai Samho Heavy Industries

- Eliminating accounting loss and relieving tax burden from simple sell-off.
 - Recognition of accounting loss and tax burden are inevitable in case of simple sell-off of shares of HMD despite the pros of having cash inflows.
 - Difference in book value due to different measures between accounting standards and tax regulations.
- Enhance shareholder value
 - No damage to shareholder value since shares will be split according to spin-off ratio.
 - Benefit to shareholder in terms of liquidity since certain portion of shares will be swapped with HHI shares according to merger ratio.

3-2. Share Purchase and Expected Outcome

Hyundai Mipo Dockyard

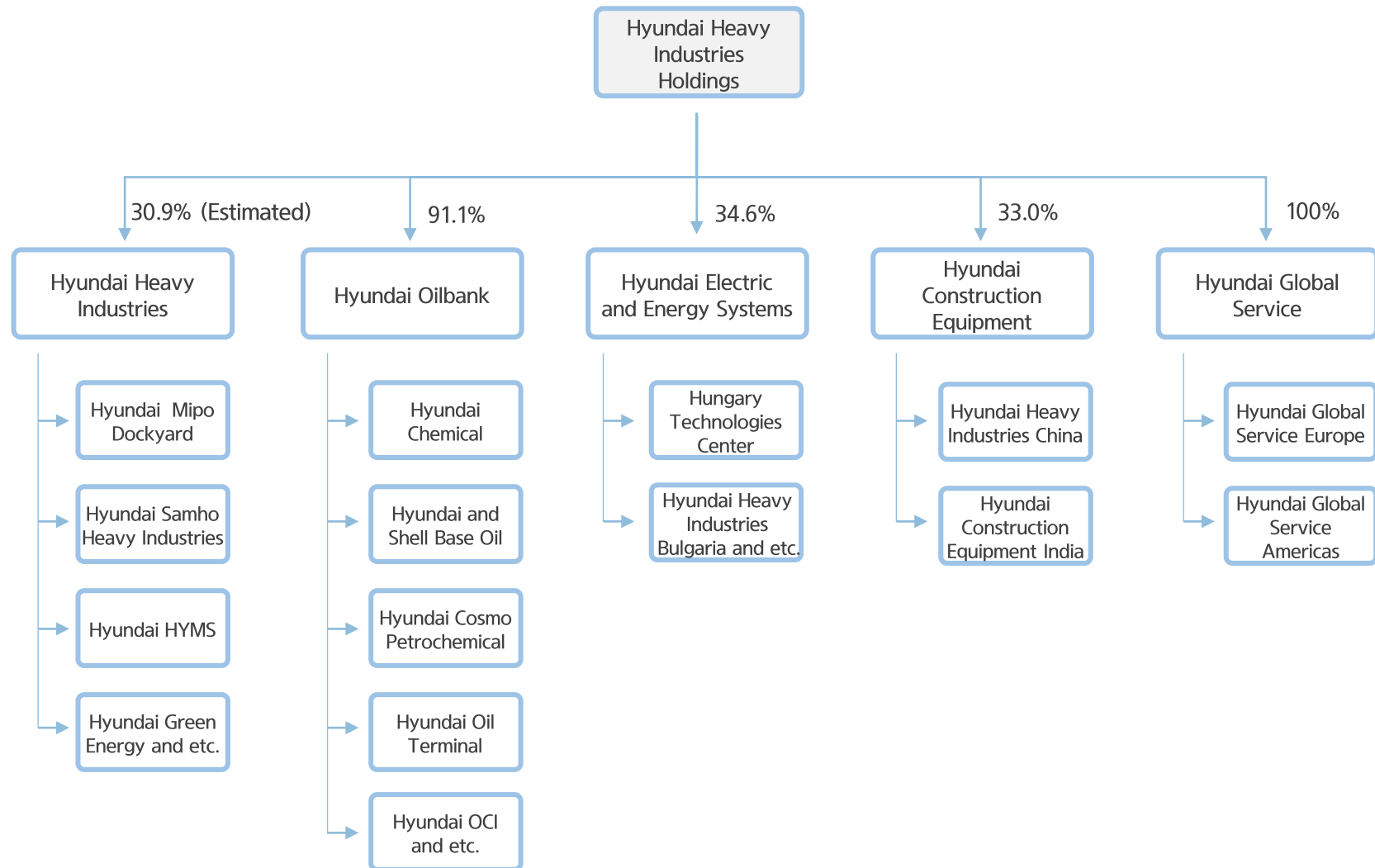
- Share sell-off to eliminate cross ownership structure.
 - After resolving grandchild issue through spin-off merger, a stake of 3.9% of HHI share which is owned by HMD will be sold-off to eliminate cross ownership structure.
- Share can be sold-off without any discount.
 - Approx. 5~7% discount rate will be applied if done as block deal.
 - No discount and market value will be applied if HHH purchases the share in order to avoid tax issues.
- Strengthened financial health due to additional cash-inflow.
 - HMD will become the most financially sound shipbuilder with the additional cash-inflow.

Hyundai Heavy Industries Holdings

- Eliminate uncertainty regarding corporate governance.
 - Fulfill requirement of Korean Monopoly Regulation and Fair Trade Act
 - Restore investment confidence by eliminating uncertainty.
- Preemptive action responding to potential stricter regulation on holding company.
 - Additional acquisition of subsidiary shares.
 - ➔ Minimum requirement of percentage of subsidiary shares is fulfilled in prior to any changes in regulation.
- Enhance management responsibility.
 - Finalization of holding company structure.

4. HHI Group after Business Restructuring

Hyundai Heavy Industries Group



5. Details of Timeline

- August 22, 2018 : Board of Directors Meeting (HSHI and HHI)
- August 24, 2018 : Signing of Spin-off Merger Agreement
- August 29, 2018 : Submission of Securities Registration Statement to FSS
- September 6, 2018 : Record Date
- October 31, 2018 : Shareholder's Meeting (HSHI), Board of Directors Meeting (HHI)
- December 1, 2018 : Spin-off & Merger Cut-off Date
- December 14, 2018 : Listing Date



Chapter 2.

Dividend Policy

Hyundai Heavy Industries Holdings

- Dividend Payout Ratio with more than 70% (Non-consolidated net income basis)
 - Majority of net income will be returned to shareholders as a form of dividend since HHHH will not require capital expenditure such as investment in facilities.

→ Dividend yield rate would be more than 5%
based on the closing market price on August 22, 2018.

(Average dividend payout ratio of 4 major holding companies(SK, LG, GS, CJ) was 59.8% for the past three years, non-consolidated net income basis)

Subsidiaries

- Dividend Payout Ratio with more than 30% (Non-consolidated net income basis)
 - A same policy cannot be applied to all subsidiaries; however, dividend yield ratio with more than 30% will be maintained for each subsidiaries.

Appendix

1. Spin-off Merger Ratio
2. Statement of Financial Position (HHI, HSHI)

1. Spin-off Merger Ratio(1/2)

Assessment of HHI Merger Value

- Merger value per share is determined by the average price of 1) weighted average of 31 days prior to BoD date, 2) weighted average of 7 days prior to BoD date, 3) the closing price of BoD date (Capital Market and Financial Investment Business Act)

	Value per share (KRW)	Value (KRW Trillion)	Remarks
A. Weighted average price of 31 days	106,029		7/22 ~ 8/21
B. Weighted average price of 7 days	109,145		8/15 ~ 8/21
C. The closing price	111,500		8/21
Merger Value per share (Average of A,B,C)	108,891	7.53	* Base Price

Assessment of HSHI Investmentco Merger Value

- Non-publicly traded HSHI Investmentco merger value per share is determined by intrinsic value per share
(* Intrinsic value = Asset value X 40% + Profit value X 60% (Capital Market and Financial Investment Business Act))

	Value (KRW trillion)	Value per share (KRW)	Remarks
Asset value (40%)	1.11	67,091	* Book value of HMD share
Profit value (60%)	0.78	46,941	* HMD share price (Average price of 31 days, 7 days , closing price)
Merger value per share	0.91	55,001	* Intrinsic value

1. Spin-off Merger Ratio(2/2)

Spin-off Merger Ratio

Categories	HHI	HSHI Investmentco	Remarks
Merger value per share	KRW 108,891	KRW 55,001	* HSHI shares excluding HHI shares = 9,175,858 no. of shares Shares of HSHI Investmentco = (9,175,858 x spin-off ratio) = <u>3,205,970</u> no. of shares Allocation of new HHI shares = (3,205,970 x Merger Ratio) = <u>1,619,337</u> no. of shares → 9,175,858 x 0.1764781
Merger ratio	1	0.5051006	
Spin-off ratio		0.3493919	
Spin-off merger ratio (Spin-off ratio x Merger ratio)		0.1764781	
Distribution of merged new shares		1,619,337 no. of shares	

Others

- ① The new shares after spin-off and merger is not allocated to HSHI shares of 80% which is owned by HHI.
- ② The new shares after spin-off and merger obtained by appraisal right is not allocated to HSHI treasury stock.

2. Statement of Financial Position after Spin-off Merger

Hyundai Heavy Industries Group

[HSHI] Financial Statement : Spin-off

(Unit : Bil. KRW, Share)

	Before Spin-off	After Spin-off		Remarks
		Continue-to-exist	Newly Created	
Total Assets	5,287	4,182	1,105	
Cash & Cash Equivalents	588	588	0	
Inventories	215	215	0	
Tangible Assets	1,578	1,578	0	
Investment in Subsidiaries	1,105	0	1,105	
Other Assets	1,801	1,801	0	
Total Liabilities	2,124	2,124	0	
Trade Payable and etc.	464	464	0	
Borrowings	476	476	0	
Other Liabilities	1,183	1,183	0	
Total Equity	3,163	2,058	1,105	
Spin-off Ratio		0.6506081	0.3493919	
No. of issued Stock	47,142,858	30,671,526	16,471,332	

Note) Separate basis as of Jun. 30, 2018

[HHI] Financial Statement : Merger

(Unit : Bil. KRW)

	Before Merger		After Merger	Remarks
	HHI	HSHI (Newly Created)		
Total Assets	19,123	1,105	19,440	
Cash & Cash Equivalents	2,893	0	2,893	
Inventories	3,737	0	3,737	
Tangible Assets	7,210	0	7,210	
Investment in Subsidiaries*	2,828	1,105	3,145	
Other Assets	2,455	0	2,455	
Total Liabilities	7,482	0	7,482	
Trade Payable and etc.	2,003	0	2,003	
Advances Received	1,741	0	1,741	
Borrowings	2,116	0	2,116	
Other Liabilities	1,623	0	1,623	
Total Equity*	11,641	1,105	11,958	
Merger Ratio	1	0.5051006		

Note1) Separate basis as of Jun. 30, 2018

Note2) Investment in Subsidiaries* / Total Equity* : Sum of HHI and HSHI(Newly Created) is not equal to the figures in After Merger due to consolidate adjustment



 **HYUNDAI HEAVY INDUSTRIES GROUP**