



Governance

Hyundai Motor Company has established a management method that responds to risks both proactively and preemptively by establishing advanced-level governance as a cornerstone towards its sustainable growth. The company is committed to ethics and compliance management, and endeavors to protect the rights and interests of its shareholders under the aegis and leadership of its highly-qualified and very experienced BOD.

#BoardOfDirectors

#EthicalAndComplianceManagement

#RiskManagement





1 Introduction

2 Environmental

3 Social

4 Governance

4.1 Board of Directors

- BOD-centered Management System
- Composition of the BOD
- BOD Subcommittees
- Operation of the BOD
- Evaluation and Compensation of the BOD
- Shareholder Rights

4.2 Ethical and Compliance Management

4.3 Risk Management

5 ESG Factbook

Board of Directors

BOD-centered Management System

The company's Board of Directors, or BOD, is tasked with providing it with a system of checks and balances to ensure its healthy and sustainable growth and guard the interests of its shareholders and other interested parties. Functioning as the company's top decision-making body, as per the dictates of the company's Corporate Governance Charter of 2016, the BOD brings a diversity of perspectives, experience, and expertise to its deliberations. Operated in accordance with transparent standards and procedures, it is dedicated to helping Hyundai maximize the rights and interests of its shareholders and increase its corporate value.

Composition of the BOD

Hyundai's BOD is made up of eleven directors: five internal, and a majority of six non-executive ones. The non-executive directors boast decades of experience and expertise in such areas as corporate management, accounting, law, finance, and future-based technologies. The BOD welcomes all members regardless of gender, race, religion, age, political background, or culture. Its members are selected through a comprehensive review that includes research into their capacity for independent thought, their professionalism, and their diversity. In addition, the appointment of all directors is presented to the general shareholder's meeting as an individual agenda item.

[Corporate Governance Charter_The appointment of all directors](#)

Independence of the BOD

The BOD is composed of non-executive directors with the proven independence of thought needed to oversee the company's operations. All of them must meet the company's qualification requirements as outlined in its rules and regulations, and possess high standards in terms of ethics, values, and integrity. They should also have no major

Composition of the BOD

(As of May 31, 2021)

Classification	Name	Position/Career	Date of Initial Appointment	Remarks	Gender
Internal Directors	Euisun Chung	Chairman	March 12, 2010	Chair of the Board, Recommendation Committee on Candidates for Non-executive Directors	Male
	Eon Tae Ha	President & CEO	March 16, 2018	-	Male
	Jaehoon Chang	President & CEO	March 24, 2021	Recommendation Committee on Candidates for Non-executive Directors, Sustainability Management Committee	Male
	Albert Biermann	President	March 22, 2019	-	Male
	Gang Hyun Seo	Executive Vice President	March 24, 2021	Compensation Committee	Male
Non-executive Directors	Eun Soo Choi	Legal Advisor, DR & AJU Former President, Daejeon High Court and Patent Court	March 17, 2017	Recommendation Committee on Candidates for Non-executive Directors (Chair), Audit Committee, Sustainability Management Committee (Chair)	Male
	Chi-Won Yoon	Former Vice-Chair, UBS Wealth Management Chair, Diginex	March 22, 2019	Compensation Committee (Chair), Audit Committee, Sustainability Management Committee	Male
	Eugene M. Ohr	Former Partner, Capital International Inc.	March 22, 2019	Recommendation Committee on Candidates for Non-executive Directors, Sustainability Management Committee	Male
	Sang-Seung Yi	Professor of Economics, Seoul National University	March 22, 2019	Audit Committee, Recommendation Committee on Candidates for Non-executive Directors, Sustainability Management Committee	Male
	Dal Hoon Shim	Former Director, NTS Jungbu Regional Office President, Representative, Woorin Tax Partners	March 24, 2021	Audit Committee (Chair), Sustainability Management Committee, Compensation Committee	Male
	Ji Yun Lee	Associate Professor of Aerospace Engineering, KAIST	March 24, 2021	Audit Committee, Sustainability Management Committee	Female

conflicts of interest so as to be in a position to make independent decisions. Any potential conflicts of interest are dealt with by the company's requirement that they cannot carry out any transactions in its line of business or become partners with unlimited liability or directors of another company within the same industry without the prior approval of the BOD. In order to ensure the total and absolute independence of its non-executive directors, Hyundai complies with all relevant governmental rules and regulations, and applies world-recognized guidelines to its selections. The BOD and the Recommendation Committee on Candidates for Non-executive Directors also check the independence of current non-executive directors and non-executive director candidates, based on the same requirements.

Diversity and Expertise of the BOD

The size of the BOD was increased from nine to eleven in March 2019 in an attempt to enhance the diversity and expertise of its members. Its composition was widened further by appointing directors possessing expertise in a variety of fields, such as international business, academia, R&D, finance, and future-based technologies. As a result of these changes, two of the members appointed in March 2019 were non-Koreans: Non-executive Directors Albert Biermann and Eugene M. Ohr. Even more noteworthy was the fact that one of the members appointed in March 2021 was a woman, Non-executive Director Ji Yun Lee, a world-recognized authority in studying the safety of intelligent transportation and autonomous driving systems. Ms Lee's expertise and experience in the area of future and industrial technologies have contributed markedly to the company's transition to a SMART MOBILITY SOLUTIONS PROVIDER through her insightful opinions regarding the company's future direction. In her dual roles as a woman and the youngest member of the BOD, she adds to both the gender and age balance within the BOD while also enhancing the company's management transparency due to her independence from it. In addition, non-executive directors are required to participate in training sessions that add to the professionalism of the BOD. They will also be enrolled in training programs about risks in 2021.

Non-executive Director Training in 2020

Dates	Participating Non-executive Directors	Topics
Feb. 19, 2020	Dong Kyu Lee, Byung Kook Lee, Eun Soo Choi, Chi-Won Yoon, Eugene M. Ohr, Sang-Seung Yi	Current status of the automobile industry and its future prospects
Jul. 23, 2020	Dong Kyu Lee, Byung Kook Lee, Eun Soo Choi, Chi-Won Yoon, Eugene M. Ohr, Sang-Seung Yi	Current status of the urban air mobility industry and its future prospects
Jul. 23, 2020	Dong Kyu Lee, Byung Kook Lee, Eun Soo Choi, Chi-Won Yoon, Eugene M. Ohr, Sang-Seung Yi	Current status of Hyundai's compliance system and future plans

Reasons for Disqualifying Potential Non-executive Directors

[BOD diversity and independence guidelines](#)

- Cannot have served as a company executive during the past five years;
- Cannot have family members who were executives of the company or any of its subsidiaries during the past three years;
- Cannot have been employees of companies whose total transactions with the company during the last three business years was 10% or more of the company's total assets or sales, or corporations that entered into a contract with the company equaling 10% or more of the company's total sales during the past three business years;
- Cannot have had a personal business relationship with the company or its management;
- Cannot have been employed by or had a business relationship with non-executive director of the company;
- Cannot have had an interest relating to any matter dealt with by the BOD;
- Cannot be the largest shareholder in the company or a spouse or a direct lineal ascendant or descendant of same.
- Cannot have served as a director, auditor, executive director, or employee of any corporation whose largest shareholder is also a corporation.

1 Introduction

2 Environmental

3 Social

4 Governance

4.1 Board of Directors

- BOD-centered Management System
- Composition of the BOD
- **BOD Subcommittees**
- Operation of the BOD
- Evaluation and Compensation of the BOD
- Shareholder Rights

4.2 Ethical and Compliance Management

4.3 Risk Management

5 ESG Factbook

BOD Subcommittees

The BOD's subcommittees include the Audit Committee, the Recommendation Committee on Candidates for Non-executive Directors, the Sustainability Management Committee, and the Compensation Committee. Their roles and responsibilities are outlined and defined in such a way as to promote professional decision-making and the most efficient operations possible.

Audit Committee

The central government's Commercial Act dictates that an audit committee must be composed of three or more members, and that at least two-thirds of them should be non-executive directors. It should also contain at least one member who is a specialist in accounting and finance. All five members of the Audit Committee at Hyundai are non-executive directors, who stand above the proposed requirements to maintain objectivity in conducting their audits from an independent position from the BOD, the management, and other executive organizations. Three are experts in accounting and/or finance.

Operations of the Audit Committee

The Audit Committee members' attendance rates and details of its agenda items are all fully disclosed. The company's internal accounting manager acts as a full-time registered director, and a separate entity is formed to support him in performing his duties. He is also given whatever training is needed to carry them out. The topic of the training in 2020 was the overview of and trends within the consolidated internal accounting management. All the members of the Audit Committee participated in it as well.

Approval of the Audit Committee and Non-audit services of external audit service company

Hyundai regularly assesses whether any non-audit services that may be performed by its external auditors may affect their independence. Their non-audit services are then restricted to those that have been judged to have no effect on their independence. Details are reported to the BOD and disclosed every quarter.

(Unit: KRW million/hours)

Business Year	Auditor	Content	Compensation	Performance
FY 2020	KPMG Samjong Accounting Corp.	Quarterly and semi-annual reviews and audits of financial statements, Audit of company's internal accounting system	3,050	33,939
FY 2019	KPMG Samjong Accounting Corp.	Quarterly and semi-annual reviews and audits of financial statements, Audit of company's internal accounting system	3,000	36,510

Recommendation Committee on Candidates for Non-executive Directors

The task of the Recommendation Committee on Candidates for Non-executive Directors is to recommend candidates to serve as the BOD's non-executive directors. In accordance with a central government edict stating that a non-executive directors must form a majority of a non-executive director candidate nominating committee, Hyundai's Committee consists of two internal directors and three non-executive directors. Qualified candidates who have been approved to serve as non-executive directors are presented to a general shareholders' meeting by the BOD.

Compensation Committee

The Compensation Committee held its first meeting in 2020, following revisions to the company's Articles of Incorporation in 2019. Composed of one internal director and two non-executive ones, it is also chaired by a non-executive director, ensuring its independence from management.

Sustainability Management Committee

Hyundai established a four-member Corporate Governance & Communication Committee in April 2015, renaming it the Sustainability Management Committee in March 2021. Its membership also grew to seven members, including six non-executive directors and one internal director, to accommodate its expanded duties.

The Committee is required to meet before the BOD does. This assists the company in practicing sustainable management and enhancing the transparency of its internal transactions, promoting ethical and ESG management practices, and protecting shareholders' rights. The Committee also engages in a wide range of activities to increase shareholder rights and make the BOD's operations more transparent. The Committee's non-executive director in charge of shareholder rights is Mr. Chi-Won Yoon. He regularly attends investor events in Korea, as well as non-deal road-shows (NDRs) targeting overseas investors. As such, he functions as a vital communications link between the BOD and the company's shareholders. The Committee also holds seminars on various governance issues, such as responsible investment, to increase all the BOD members' understanding and expertise regarding governance issues. In addition to the roles played by the former Corporate Governance & Communication Committee, it also plans to discuss major ESG-related policies and the company's safety and health improvement plans and how it intends to implement them this year.

Governance Enhancement Activities

The Sustainability Management Committee promotes various governance enhancement activities to improve shareholder value. For instance, it established a Compensation Committee to ensure objectivity and transparency in determining the remuneration of the company's BOD members. In addition, when the company's Governance Charter was revamped in October 2019, its principles underlining the appointment and evaluation of both internal and non-executive directors of BOD were strengthened to reflect improvements in the company's governance policies, as well as changes to the central government's rules and regulations. The guidelines regarding the diversity and independence of the BOD were first made public in March 2021. The company also introduced an electronic voting system to facilitate its shareholders' voting rights. It went into effect in 2020. In addition, the Annual Shareholders Meeting was broadcast both live and online in March 2021.

Name	Composition	Roles and Responsibilities
Audit Committee	five non-executive directors	<ul style="list-style-type: none"> • Carries out audits of the company's operations and finances, including the approval of agenda items for submission to the Annual Shareholders Meeting • Communicates with external auditors about audit plans and results of financial statements • Evaluation of internal accounting management system, etc.
Recommendation Committee on Candidates for Non-executive Directors	three non-executive directors, two internal directors	<ul style="list-style-type: none"> • Recommends candidates for non-executive directors • Evaluates candidates in accordance with Recommendation Committee on Candidates for Non-executive Directors Rules and Regulations
Sustainability Management Committee	six non-executive directors, one internal director	<ul style="list-style-type: none"> • Discusses large-scale internal transactions as outlined in the Monopoly Regulation and Fair Trade Act • Creates policies relating to ethical management and corporate social contributions • Establishes regulations governing ethical behavior (including the company's Code of Ethics) and reviews how well they are being executed • Analyzes the company's management direction by collecting shareholders' and other stakeholders' opinions regarding major management issues • Discusses and formulates major ESG policies and improvement plans • Discusses and establishes plans relating to safety and health, and examines their implementation
Compensation Committee	two non-executive directors, one internal director	<ul style="list-style-type: none"> • Reviews compensation system of internal directors • Discusses matters regarding compensation limits for registered directors

1 Introduction

2 Environmental

3 Social

4 Governance

4.1 Board of Directors

- BOD-centered Management System
- Composition of the BOD
- BOD Subcommittees
- **Operation of the BOD**
- **Evaluation and Compensation of the BOD**
- **Shareholder Rights**

4.2 Ethical and Compliance Management

4.3 Risk Management

5 ESG Factbook

Operation of the BOD

The BOD and its subcommittee meet on a quarterly basis. The BOD may also be convened as and when needed if a BOD resolution or a resolution from one of its committees requires it. It deals with issues set forth in relevant central government rules and regulations, as well as matters in the company’s “Articles of Incorporation” and other topics relating to the company’s management. It also undertakes thorough-going evaluation and supervisory activities. Its non-executive directors are offered every opportunity to participate in the company’s management activities and undertakings by participating in a wealth of monitoring and analyzing operations. A BOD meeting is convened by its Chair or another member appointed by the Board. With the exception of cases outlined within the company’s rules and regulations, a BOD resolution must be passed by a majority of the members in attendance. Non-executive directors are prohibited from serving as directors, executive officers, and/or auditors of two or more other companies other than the company itself. This allows them to faithfully perform their duties as non-executive directors.

[Corporate Governance Charter_Number of other mandates for non-executive directors](#)

All BOD members are strongly encouraged to participate in all meetings and deliberations of the BOD as actively as possible, and to attend all their committee meetings unless faced with an unavoidable situation. As of 2020, the average tenure of the eleven members of the company’s Board of Directors was four years. Non-executive directors are not allowed to serve for more than six years as per the Commercial Act of Korea.

BOD Activities in 2020

Number of meetings	Number of agenda items for resolution	Number of agenda items for report
9	19	16

BOD Participation in 2020

Average participation rate	Participation rate of Internal Directors	Participation rate of Non-executive Director
92.9%	86.7%	98.1%

Evaluation and Compensation of the BOD

An evaluation of the BOD is conducted by the non-executive directors at the end of each year. The results of it are then reported to all the members, and are also reflected in the operations of the BOD and all its committees in the interest of efficiency. The directors’ compensation limit must be contained within the limit approved at the Annual Shareholders Meeting after an objective and transparent review by the Compensation Committee.

Compensation Limit for Directors

(Unit: KRW million, as of 2020)

Classification	Number of Persons	Amount approved	Remarks
Registered Directors	11	13,500	Including non-executive directors

CEO performance and compensation

Hyundai’s CEO’s pay is based on such management data as sales, profit ratios, net cash liquidity, debt ratios, market shares, the company’s stock price, its ESG mechanisms, its brand power, and other considerations, comparing to those of peer companies. His remuneration in 2020 was KRW 1,203 million, 1,367% of the average pay received by each of the company’s employees.

BOD Compensation

(Unit: KRW million, as of 2020)

Classification	CEO	Non-executive Director	Board member	Employee*	Ratio of CEO’s-compensation to an employee’s
Average compensation per person	1,203	141	943	88	1,367%

* Employee: All employees, excluding the CEO but including non-registered executives and employees

** Detailed information is available in our 2020 Business Report. It can be accessed on the Data Analysis, Retrieval and Transfer System of the Financial Supervisory Service

Shareholder Rights

Protecting Shareholder Rights

Hyundai protects its shareholders’ rights in an effort to build a shareholder-centric corporate culture. For example, they are notified about upcoming Annual Shareholders Meeting’s four weeks in advance, rather than the legally required two, so they will have sufficient time to review all the agenda items. This courtesy is even extended to shareholders who own less than 1% of the company’s shares. The need for transparency and speedy information disclosure is met by having the report from the auditors released two weeks prior to an Annual Shareholders Meeting, while a formal report is made at the Annual Shareholders Meeting regarding the company’s decisions concerning the appointment of external auditors, along with details about the Sustainability Management Committee’s activities. Last, but not least, the company initiated a new system in 2019 enabling its general shareholders to recommend candidates for the position of Non-executive Director in Charge of Shareholder Protection.

Hyundai’s all common shares carry equal weight of one vote apiece, and the company constantly increases its dividend rate as a means of enhancing shareholder value. Their size is calculated by taking into account the overall investment level, business performance, and cash flow conditions needed for the company’s continuing and sustainable growth. In addition, the company allows its shareholders to make decisions regarding the approval of its financial statements and the size of its dividend payments at Annual Shareholders Meeting without first delegating them to the BOD.

Finally, information about matters related to the BOD and the compensation levels of the company’s executives are disclosed in its business report, while other vital information of interest to shareholders, such as stock issuances, treasury stock holdings, stock distribution statuses, and dividend payments over the last five years can be found on its website.

[Status of Dividends by Hyundai Motor Company](#)

1 Introduction

2 Environmental

3 Social

4 Governance

4.1 Board of Directors

4.2 Ethical and Compliance Management

- Ethical Management

- Compliance Program (CP)

- Compliance Management

4.3 Risk Management

5 ESG Factbook

Ethical and Compliance Management

Ethical Management

The Hyundai Ethics Charter

Hyundai introduced its Ethics Charter, Employee Code of Conduct, and Guidelines for Ethical Business Conduct in 2001, establishing standards that would allow its employees to make ethical decisions in their workplaces more quickly and easily. The Ethics Charter comprises the basic principles underlying the company's ethical management practices and activities, while the Employee Code of Conduct puts its spirit into practice and the Guidelines for Ethical Business Conduct outline specific procedures and contents that every Hyundai employee must consider when attempting to act ethically and make ethical decisions.

Ethics Charter

Five Guiding Principles of the Hyundai Motor Group Ethics Charter

1. We shall perform our duties based on clear and transparent standards, and do our utmost to fulfill our responsibilities with integrity.
2. We shall compete fairly in the market and conduct business ethically with parties that engage in contractual relationships with us.
3. We shall provide safe products, exceptional services and accurate information, and we rigorously protect personal information to increase customer value.
4. We shall respect our members as independent individuals, and to this end, we provide fair working conditions and safe working environments.
5. We shall contribute to sustainable development by fulfilling our social & environmental responsibilities as a member of society, so that diverse stakeholders may prosper together in harmony.

Code of Conduct

Hyundai includes a Compliance Support Advice Center website as part of its Compliance Management Support System, making it easier to support its compliance operations, receive reports of violations, and analyze how well its employees are putting its Code of Ethics into practice. This analysis is done by investigating complaints and other sources of information regarding employee infractions and violations, hopefully leading to improvements within the system.

Ninety-five reports relating to such actions as the forging of private documents, breaches of the regulations regarding concurrent positions, bribery, information security violations, and workplace harassment were received in 2020, with investigations being initiated on seventy-one of them, excluding false reports. A total of thirty-five cases resulted in disciplinary measures being taken, including outright dismissals, salary reductions, suspensions, and written warnings.

Internalization of the Code of Conduct

Hyundai takes a number of steps to encourage its employees in honoring, accepting, and putting the provisions of its Code of Ethics into practice. They include training sessions, requiring employees to pledge their acceptance of the requirements of the Code, and training and guidelines to educate workers about such topics as combating corruption and dealing with violations of trust, and publishing and distributing e-guidelines dealing with ethical behavior.

Cyber Audit Office

Hyundai is operating a Cyber Audit Office to increase the transparency of its management operations. It receives reports about unfair trade practices, bribery, economic misfeasance, improper solicitations and practices, and violations of the Employee Code of Conduct through various channels.

Reporting Channels



Cyber Audit Office

Reporting



By Phone

+82-2-3464-3500



By Fax

+82-2-3464-8813



By Mail

Hyundai Motor Group Audit Office

Measures to protect whistleblowers

Hyundai's Ethics Charter and its Guidelines for Practice and internal rules relating to workplace ethics regulations contain provisions regarding the protection of whistleblowers. They include guarantees protecting the confidentiality of all informants and ensuring their safety against retaliation and any and all possible disadvantages to their employment. In the event that protection for a whistleblower is violated, such as cases of retaliation against internal whistleblowers, aggravated punishment will be meted out to offenders in accordance with Chapter 3 Article 9 (handling violations of regulations) of the regulations on workplace ethics.

Whistleblower Protections

1. Confidentiality: Prohibition against disclosing the identity of informants without their consent
2. Guarantee of Job Status: Protection against punishment and/or retribution for reporting, making statements, and submitting data
3. Reduction of Liability: In cases where a whistleblower has submitted information either in error or through negligence, any disciplinary action to be taken against him or her will be reduced or put into abeyance

1 Introduction

2 Environmental

3 Social

4 Governance

4.1 Board of Directors

4.2 Ethical and Compliance Management

- Ethical Management
- **Compliance Program (CP)**
- **Compliance Management**

4.3 Risk Management

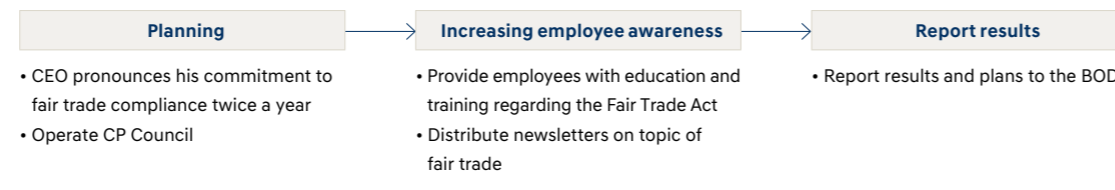
5 ESG Factbook

Compliance Program (CP)

Implementing the compliance program

Hyundai is committed to fair and transparent management. This policy is communicated to all of the company's employees, and guidelines regarding how it is to be implemented are made available to everyone, both through company-wide training on the topic of fair trade and through published reports. The status of the company's compliance program and its future plans for it are reported to the BOD twice a year, continuously strengthening the responsibilities and duties of its each workplace.

CP Implementation Process



Training and education in CP

Hyundai offers training and education on a variety of CP topics every year in a bid to increase its employees' awareness of its scope and importance. Training in fair trade is provided to all new hires as soon as they join the company, while newly-hired executives and staff members whose work will definitely involve work in the area of fair trade receive additional training every year. The company also publishes bimonthly newsletters on the topic of fair trade to assist all its employees in cultivating a "fair trade mindset." It also provides training regarding the importance of protecting technologies owned by its suppliers.

Year	Number of training sessions	Number of participants
2017	12	2,515
2018	13	2,246
2019	8	1,429
2020	3	8,456

* Replaced by online training due to COVID-19 in 2020

Employee Training in Compliance Management



Compliance Management

Compliance guidelines

Hyundai has published a number of guidelines regarding key provisions of various rules and regulations in the area of compliance. They also include the requisite response measures that all its employees are encouraged to be aware of. These steps were taken in a bid to reduce any possible legal risk to the company. Some of the topics discussed in the guidelines include aspects of commercial law both at home and abroad, fair trade law, criminal law, personnel management, labor affairs, and copyrights. In 2020, the company also published a compliance management handbook that encapsulates its compliance support programs and provides information on major legal risks in a number of business areas. This was done in the hope that its employees will be better able to use them in their work.

Compliance training

Hyundai provides compliance training to all its employees to strengthen their compliance capabilities and foster a culture that recognizes its importance. The training is made available to all new hires, newly promoted employees, and any work teams asking for it. In addition, the company offers annual training to all its workers on the topics of corruption and malfeasance, and publishes a newsletter covering such topics as legal trends and risks in the automotive industry, company-wide ethical rules and regulations, and other compliance-related issues.

Fair trade and anti-corruption training for employees and suppliers

Hyundai discusses the ramifications of offering bribes and illegal rebates in its Employee Ethics Charter and its Guidelines for Practice. This is done so that its members and those of its business partners can carry out fair and transparent transactions and prevent such practices from occurring. Any and all possible instances of corruption and other forms of malfeasance must be reported to the BOD's Sustainability Management Committee.

Compliance Officer

Hyundai employs a main compliance officer whose task is to ensure compliance in each department and see that they meet with all applicable laws. Since 2017, all department heads are required to act as compliance officers with their respective departments. They are also tasked with ensuring that all their subordinates are made aware of any and all changes in the corporate legal environment so they can perform their duties in compliance with relevant rules and regulations.

Compliance self-assessment

Hyundai conducts compliance self-assessments in each area of possible risk in order to further prevent any possibility of legal harm coming to it. The assessments that were carried out in 2020 covered such problematical areas as improper solicitations, trade secrets, personal information, EU GDPR (General Data Protection Regulation), misappropriations, and intellectual property open sources. The company provides its employees with comment sheets after they have been completed, allowing them to check work-related risks and make improvements.

1 Introduction

2 Environmental

3 Social

4 Governance

4.1 Board of Directors

4.2 Ethical and Compliance Management

4.3 Risk Management

- World-Wide Risk Management System

- Tax Strategies

5 ESG Factbook

Risk Management

World-Wide Risk Management System

The automotive industry is faced with the greatest challenges in its history, due to such rapidly-emerging trends as the growing popularity of electric and autonomous vehicles and increasing demands for enhanced mobility services and connectivity. This makes the importance of an effective risk response system more important every day. Hyundai has established a company-wide risk management system led by its Business Strategy Planning Division to deal with these challenges and changes. It operates under the direct supervision of the company’s CEO. The Division is tasked with establishing company-wide, mid- to long-term strategies and determining the key tasks to be performed by each operating division to meet them. It does this by analyzing all the risks and opportunities arising from changes in the company’s operating environment and suggesting workable responses to increase the company’s competitiveness. This allows the company to preemptively respond to future risk factors, and use opportunity factors as a leverage for new value creation. The company also discusses major risk factors that might significantly impact its businesses, and establishes company-wide response strategies for them at its Hyundai Management Strategy Meeting.

Apart from the company-wide risk management system, other R&D, procurement, production and sales divisions comprising Hyundai’s value chains also manage their business and operational risks. The sales division is divided into regionally-based, division-level organizations covering Korea, China, North America, Europe, and India, while legal, policy, labor/quality, information security, and safety risk issues are managed by more professionally-oriented units such as the company’s legal office.

Managing emerging risks

Hyundai is always keenly aware of any and all potential risks associated with its automotive and other operations. It is constantly making efforts to respond to all of them proactively.

Examples of Hyundai’s Responses to Emerging Risks

Risk of market change due to Korea’s car tax introduction based on carbon emission levels

Risk Context | Korea’s government presented its target for reducing total greenhouse gas emissions by 24.4% from its 2017 level to raise its NDC (Nationally Determined Contribution) by 2030 in a report to the United Nations last December as a part of its commitment under the Paris Agreement. Most experts expect it to reduce greenhouse gas emissions from transport sector through its tax system, by levying taxes based on a vehicle’s carbon emissions. France and some European countries have already imposed such taxes. After doing so, they have seen dramatic changes and disruptions in customer behavior in their automotive markets. It is particularly expected to give negative impact on the sales of Hyundai’s Genesis brand and its mid- to large-sized SUVs that are very profitable in the Korean market, since both produce relatively high levels of CO₂ emissions.

Hyundai’s Approach | Hyundai is approaching this challenge from two directions. Its first response will be to increase the fuel efficiency levels of its Genesis brand and its medium- to large-sized SUVs to reduce their carbon emission levels. Its second step will be to rapidly add to its number of electric vehicles, which is currently focused on its subcompact vehicle offerings, by including medium- and large-sized cars. In the case of the Genesis brand, it will respond to changes in demand for EVs by building a full lineup of them as soon as possible.

Tax Strategies

Tax compliance and tax risk management are crucial elements governing how Hyundai serves its customers, maximizes its shareholders’ returns, and contributes to government finances. They are also a prerequisite for sustainable management. The company is committed to complying with all of its duties as a faithful business enterprise in response to fair and just taxation principles in a cooperative and collaborative manner.

Managing tax risks

The core principle underlying Hyundai’s tax risk management strategy is strict compliance with the law. It includes maintaining a close, open, and transparent relationship with all tax authorities, and providing them with all the evidence needed to verify what they are asking for. It also means recognizing the differences between the tax laws of each country in which it operates, and striving to prevent tax risks in all of them in advance. In addition, Hyundai does not use tax structures without commercial substance for the purpose of tax avoidance, nor does it transfer its revenues to any of its overseas subsidiaries located in countries known to act as tax havens. The company also recognizes that there are risks of double taxation arising from competition between tax authorities in its transfer pricing operations, and it conducts its transactions within the arm’s length principle in order to address the issue.

Contributing to local communities through taxes

Hyundai makes significant contributions to the economic development of communities in which it operates in its role as a major taxpayer, investor, and job creator. It ensures that all its subsidiaries around the globe pay their fair share of income and other taxes, included VATs and withholding taxes.

Risk of accidents due to hacking

Risk Context | Technologies used in the manufacture of vehicles are becoming more and more complex—especially those used for autonomous driving and state-of-the-art, seamless technologies. This situation has led to the possibility of new types of vehicle accidents caused by hacking. If they were to result in injuries or fatalities, there would doubtless be recalls ordered by the authorities, as well as the possibility of damages and lawsuits, negative impacts on a car manufacturer’s corporate image, and possible fallouts in sales. A company could also become prey to further attacks.

Hyundai’s Approach | Hyundai is responding to the threat of increased cyber attacks by establishing a task force of socially conscious hackers who can identify vulnerabilities in its security systems and suggest how and where improvements can be made. In addition, the company has strengthened its security infrastructure by investing in Upstream Security, an innovative mobility startup and provider. It has also deployed the V2X technology, which encrypts communications between vehicles and between vehicles and their communications infrastructures in a safe and secure manner. It also conducts security drills that include testing the infotainment systems, communications networks, and other infrastructures used in smart cars.