Hyundai Settlement with U.S. EPA

Overview

Hyundai has entered into an agreement with the U.S. Environmental Protection Agency (EPA) and California Air Resources Board (CARB) to resolve the government's investigation of its 2012 restatement of fuel economy ratings.

On November 2, 2012, Hyundai announced the voluntary adjustment of fuel economy ratings for approximately one-quarter of its 2011-13 model year vehicles, reducing their combined city/highway fuel economy by 1-2 miles per gallon (mpg), and relabeled affected vehicles still in dealer showrooms. In order to compensate affected customers, Hyundai provided a lifetime reimbursement program to cover the additional fuel costs associated with the rating change plus a 15 percent premium in acknowledgement of the inconvenience. The majority of customers affected by the ratings restatement enrolled in the automaker's reimbursement program and are being compensated based on their actual mileage and the fuel costs for the region in which they live. While customers responded favorably to the reimbursement program, Hyundai through a recent class action settlement offered the option of a single lump sum cash payment for those customers who would rather not return to a dealership to have their mileage verified. So, through either the one-time lump sum payment or the original lifetime reimbursement program, customers have the option of being made fully whole for Hyundai's ratings restatement.

Terms

Hyundai will:

- Pay a $56.8 million civil penalty
- Forgo the use of approximately 2.7 million greenhouse gas (GHG) emissions credits – the credits representing the difference between original and restated emission data
- Continue to implement a series of measures including the formation of an independent certification test group to oversee the automaker's fuel economy testing, training, data management and reporting
- Continue to audit model year 2015-16 vehicles to confirm the accuracy of its fuel economy ratings

Violations

Hyundai: denies the allegations in the government's complaint; maintains it has been and is in compliance with the Clean Air Act and its implementing regulations and with the California Health and Safety Code and its implementing regulations pertaining to the performance of coastdown testing procedures; is not liable for civil penalties or injunctive relief; and does not admit any liability to the United States or CARB arising out of the transactions or occurrences alleged in the complaint.

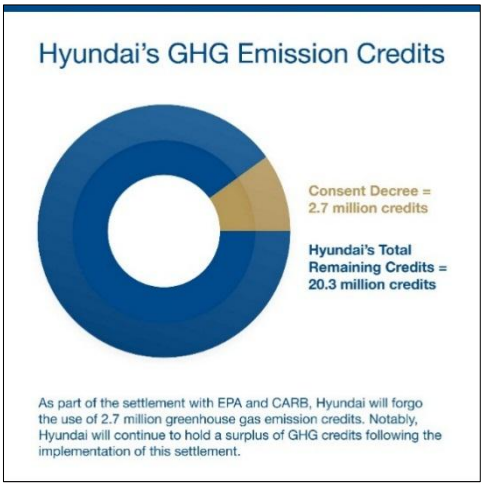
Regulations and Guidance

Hyundai's process for testing the fuel economy of its vehicles was – and is – consistent with government regulations and guidance, which have always afforded broad latitude to vehicle manufacturers in determining test conditions, enabling for example testing anywhere in the temperature range of 41-95 degrees and tires to be broken in without specifying how or on what type of surface beyond "a smooth level road." Outside of a data processing error related to the coastdown testing method by which Hyundai calculated resistance or "road load," it was Hyundai's regulatory interpretation within this broad latitude that was responsible for the ratings restatement. Hyundai has corrected the error, and the EPA in October 2012 approved the automaker's new fuel economy testing program.

Environmental Impact

None. Hyundai will continue to hold a surplus of GHG credits – approximately 20 million – following implementation of the settlement. To compensate the national program to reduce GHG emissions and improve fuel economy, Hyundai will amend the GHG reports it submitted to the EPA before understanding that its interpretation of industry test procedures differed from the government's reading of the same procedures.

According to the EPA *Fuel Economy Trends Report*, Hyundai's adjusted fuel ratings are 27.2 mpg for 2011, 28.3 mpg for 2012 and 29.0 mpg for 2013 model year vehicles.[1] Similarly, the Union of Concerned Scientists recently named Hyundai the "Greenest Automaker" for the 2013 model year based on emissions of nitrogen oxide, non-methane organic gas and CO2.



[1] http://www.epa.gov/fueleconomy/fetrends/1975-2014/420r14023.pdf