

# **Business & Market Outlook**

May, 2012



# Disclaimer

**The business results for the first quarter of 2012 currently under audit review are presented here for investors' convenience. Hence, please be advised that some of their contents may be altered in the course of audit.**

**From 2012, this material shows business results and related substances by 3 divisions(Petrochemicals, I&E Materials and Energy Solution) and thus past figures are revised to a same basis.**

**Forecasts and projections contained in this material are based on current business environments and management strategies, and they may differ from the actual results upon changes and unaccounted variables.**

**From 2010, the business results are subject to the IFRS(International Financial Reporting Standards).**

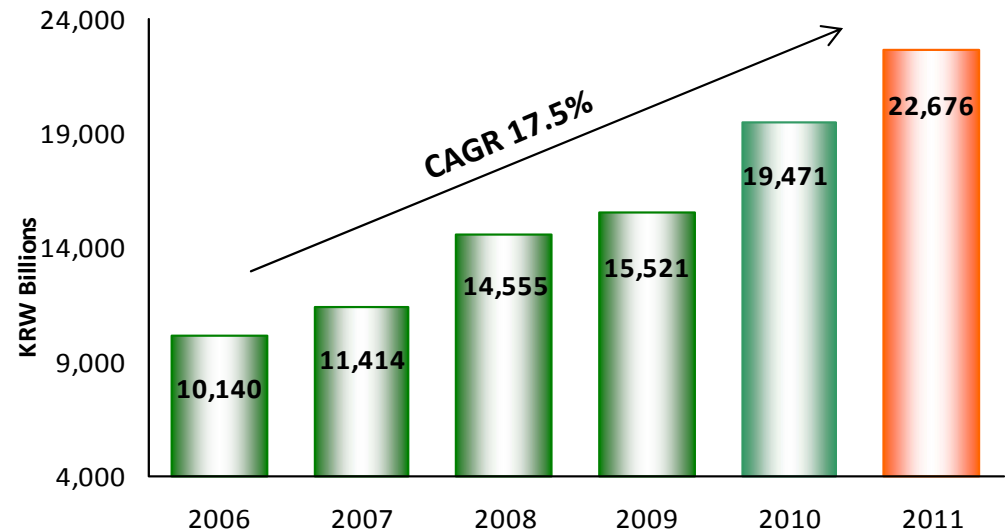
## **Table of Contents**

<b>LG Chem at Glance</b>	<b>1</b>
<b>1Q 2012 Business Results</b>	<b>3</b>
<b>Divisional Results &amp; Outlook</b>	<b>5</b>
<b>Appendix</b>	<b>7</b>

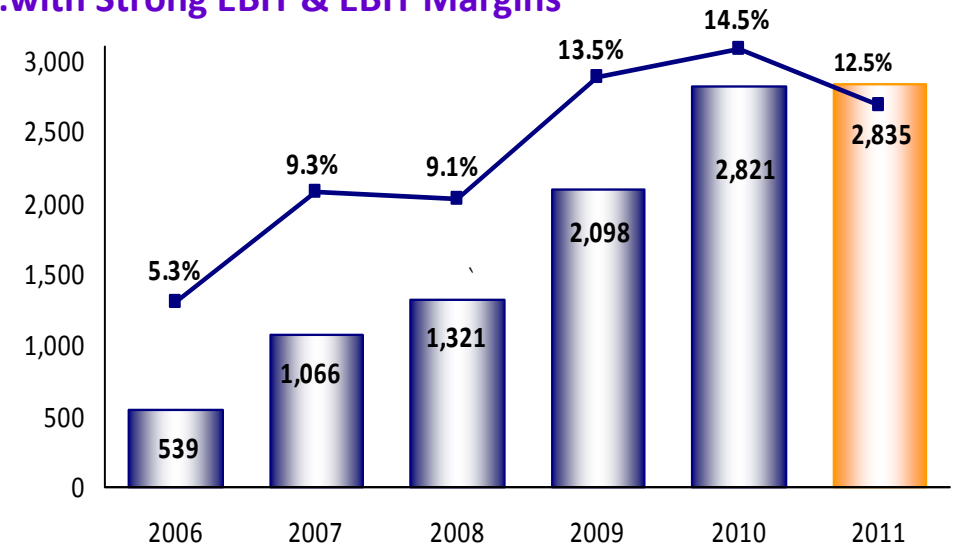
# LG Chem at a Glance

- LG Chem was started in 1947 and is Korea's first and largest chemical company with an established track of over 60 years and annual revenues of KRW 22.7 trillion in 2011.
- LG Chem boasts multiple production facilities and an extensive distribution network that spans 15 countries worldwide in Asia, Europe, North and South America.
- LG Chem currently holds the largest vertically integrated petrochemical production platform in Korea.
- LG Chem was reborn as a specialized and diversified chemical company that focuses on petrochemical goods, rechargeable batteries including HEV/EV purpose, OLED materials, and 3D FPR.
- LG Chem will seek operational excellence in its core business and centralize its resources with new business such as HEV/EV batteries and LCD glass substrates to reinforce the necessary momentum for future growth.
- Despite high uncertainties remaining in the business environment such as a delayed recovery in the global economy, LG Chem recorded historically the highest sales and profits in 2011.

## Impressive Revenue Scale\*



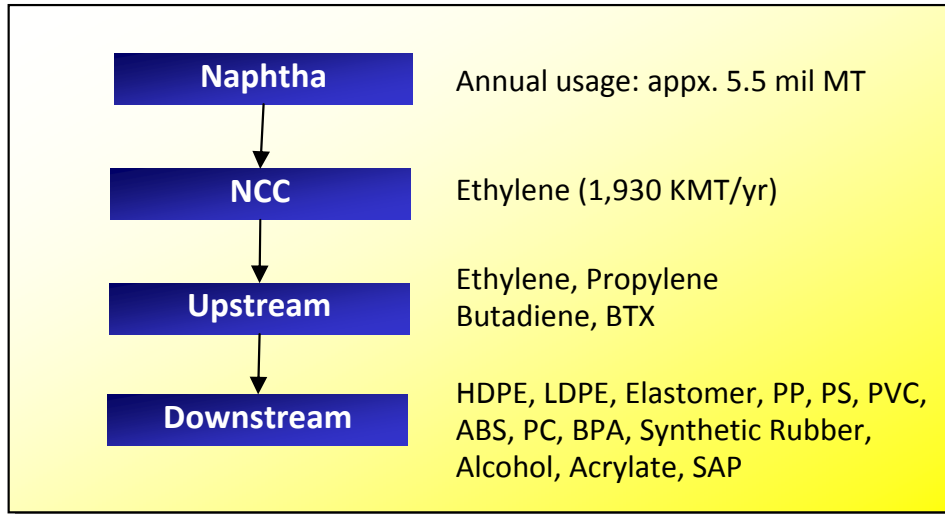
## ...with Strong EBIT & EBIT Margins\*



\* Sales and EBIT are subject to IFRS from 2009. Those prior to 2009 are subject to K-GAAP(consolidated base).

# Differentiated Competitiveness

## Vertical Integration Structure

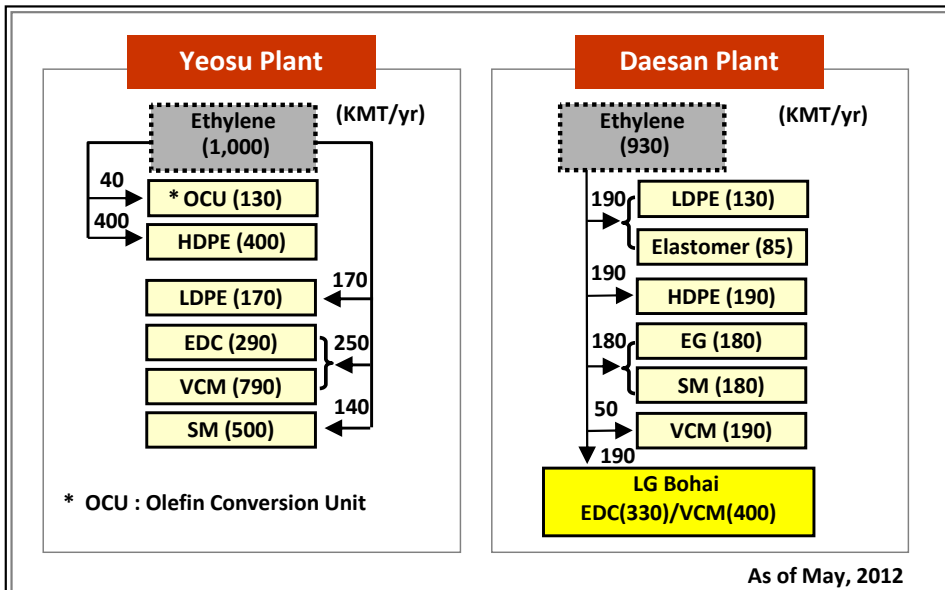


## Co-existence of upstream and downstream products

- One of few petrochemical companies around the globe with vertical integration structure, featuring both upstream and downstream production capability.
- This structural characteristic delivers stable business performance against industry cyclicality.

## Comprehensive downstream product lines

LG Chem's comprehensive downstream product lines of PO, ABS, PVC and other various products have complementary business cycles, enabling the Company to generate stable revenue



**Stabilized revenue generating capability under any market conditions**

(Unit: KRW bn)

Classification	'11.1Q	'11.4Q	'12.1Q	YoY	QoQ
<b>Sales</b>	5,491	5,600	5,753	4.8%	2.8%
<b>Operating Profit</b>	835	500	460	-45.0%	-8.2%
<b>(%)</b>	(15.2)	(8.9)	(8.0)		
<b>Pre-tax Income</b>	841	502	440	-47.7%	-12.3%
<b>(%)</b>	(15.3)	(9.0)	(7.7)		
<b>Net Income</b>	657	377	381	-42.0%	1.0%

### Financial Position

(Unit: KRW bn)

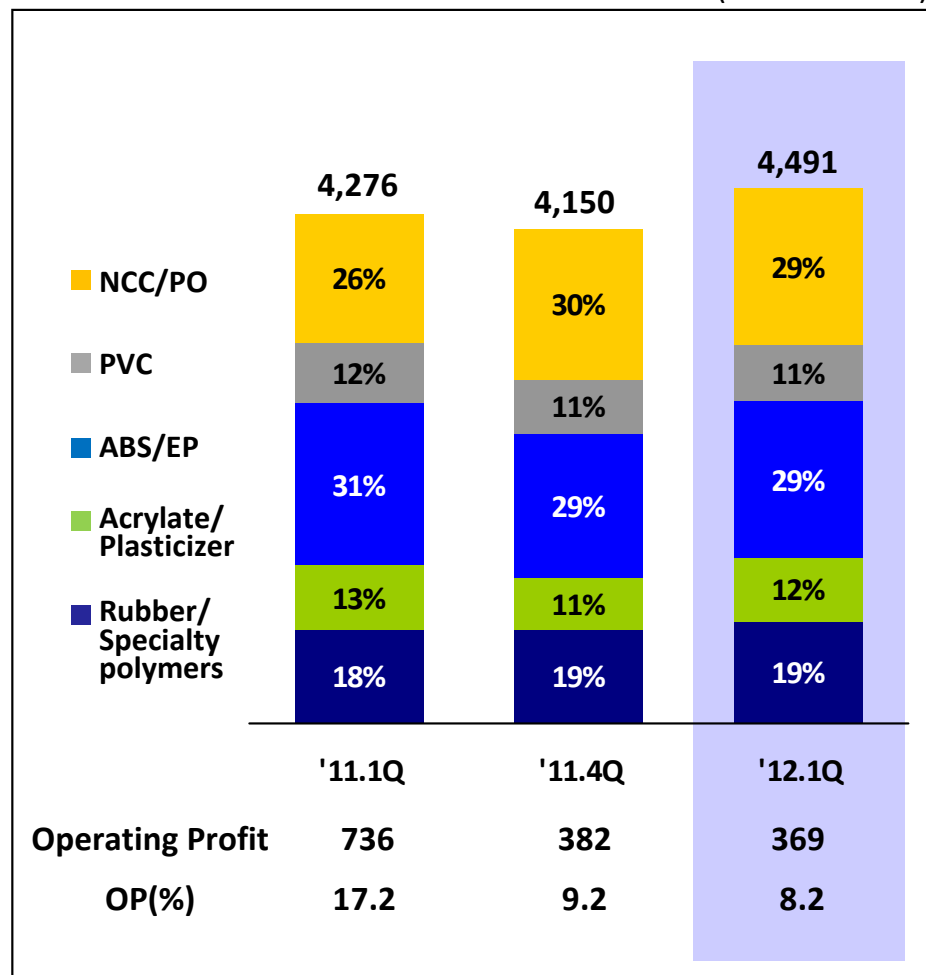
Classification	'11	'12.1Q	Change
<b>Asset</b>	<b>15,286</b>	<b>16,391</b>	7.2%
Cash and equivalents	1,379	1,814	31.5%
<b>Liabilities</b>	<b>5,578</b>	<b>6,605</b>	18.4%
Borrowings	2,527	2,873	13.7%
<b>Shareholder's Equity</b>	<b>9,708</b>	<b>9,786</b>	0.8%
<b>EBITDA</b>	<b>3,592</b>	<b>660</b>	

### Financial Ratios

Classification	'11	'12.1Q	Change
<b>Total Liabilities/ Equity (%)</b>	57.5	67.5	10.0%p
<b>Borrowings / Equity (%)</b>	26.0	29.4	3.4%p
<b>Interest Coverage Ratio (x)</b>	42.3	23.9	-18.4
<b>ROE (%)</b>	24.7	15.6	-9.1%p
<b>ROA (%)</b>	15.5	9.6	-5.9%p

### Business results

(Unit: KRW bn)



### Analysis

#### • Analysis

■ Overall margin declined due to rising feedstock costs and weaker-than-expected China demand

-NCC/PO : PO spreads squeezed by naphtha price hikes

-PVC : Improved margin thanks to supply-demand balance by decreased offshore products volume

-ABS/EP : Demand pickup by gradual recovery of frontline industries such as IT and auto, etc

-Acrylate/Plasticizer : Margin slightly declined by continued weak demand

-Rubber/Specialty Polymers : BD price hikes and price increases delayed due to operation cuts of frontline industries

#### • Outlook

■ Product spreads are expected to rebound thanks to naphtha price stabilization

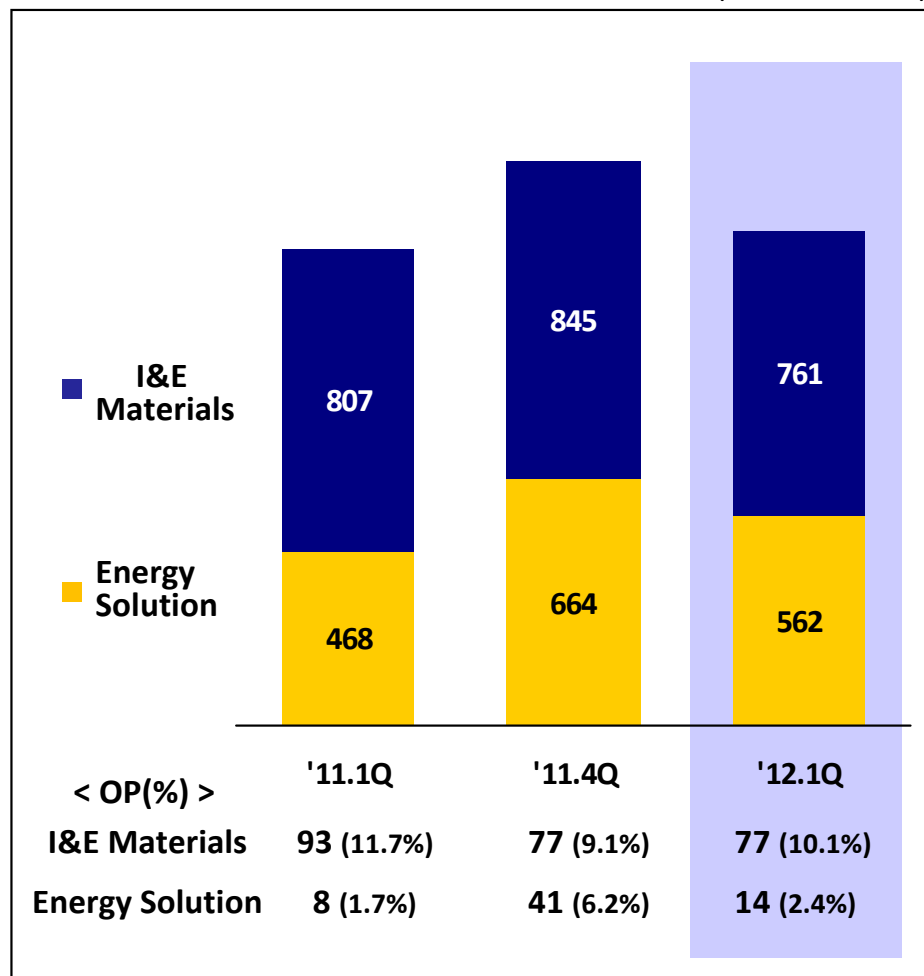
■ Demand recovery is expected based on seasonal upturn



## Business results

## Analysis

(Unit: KRW bn)



### • Analysis

■ Sales and profitability declined slightly due to weak seasonality and sluggish demand

- **I&E Materials** : Maintained stable profitability thanks to continuous cost reduction and favorable electronics materials business in spite of a polarizer sales decrease
- **Energy Solution** : Sales and profitability dropped due to weak IT demand and sluggish GM Chevrolet Volt sales

### • Outlook

■ Expect better sales and profitability based on gradual IT demand recovery and capacity expansion of polymer battery

- **I&E Materials** : Expect polarizer and 3D FPR's sales rise thanks to panel makers' operating rate increase entering the peak season
- **Energy Solution** : Sales increase through capacity additions of polymer battery and automotive battery shipment increase to key customers such as GM and Renault

(Unit: KRW bn)

Classification	2011					2012				
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total
<b>Sales</b>	<b>5,491</b>	<b>5,700</b>	<b>5,886</b>	<b>5,599</b>	<b>22,676</b>	<b>5,753</b>				<b>5,753</b>
<b>Operating Profit</b>	<b>835</b>	<b>775</b>	<b>724</b>	<b>500</b>	<b>2,835</b>	<b>460</b>				<b>460</b>
<b>Petrochemicals</b>	<b>4,276</b>	<b>4,328</b>	<b>4,570</b>	<b>4,150</b>	<b>17,325</b>	<b>4,491</b>				<b>4,491</b>
NCC/PO	1,091	1,136	1,279	1,263	4,770	1,308				1,308
PVC	500	517	502	455	1,974	478				478
ABS/EP	1,347	1,318	1,293	1,208	5,166	1,312				1,312
Acrylate/Plasticizer	549	550	546	441	2,086	530				530
Synthetic Rubber/ Specialty Resin	789	807	950	783	3,330	864				864
<b>Operating Profit</b>	<b>736</b>	<b>642</b>	<b>592</b>	<b>382</b>	<b>2,353</b>	<b>369</b>				<b>369</b>
<b>I&amp;E Materials</b>	<b>807</b>	<b>891</b>	<b>800</b>	<b>845</b>	<b>3,343</b>	<b>761</b>				<b>761</b>
<b>Operating Profit</b>	<b>93</b>	<b>115</b>	<b>92</b>	<b>77</b>	<b>377</b>	<b>77</b>				<b>77</b>
<b>Energy Solution</b>	<b>468</b>	<b>561</b>	<b>576</b>	<b>664</b>	<b>2,269</b>	<b>562</b>				<b>562</b>
<b>Operating Profit</b>	<b>8</b>	<b>19</b>	<b>40</b>	<b>41</b>	<b>108</b>	<b>14</b>				<b>14</b>

## Borrowings

(Unit : KRW bn)

Classification	'11	'12.1Q
<b>Total</b> (Overseas Subsidiaries)	<b>2,527</b> (1,044) 100%	<b>2,873</b> (1,075) 100%
<b>KRW Currency</b>	<b>475</b> 19%	<b>771</b> 27%
<b>C P</b>	449	748
<b>Others</b>	27	24
<b>Foreign Currency</b>	<b>2,052</b> 81%	<b>2,102</b> 73%
<b>Loan</b>	1,124	1,095
<b>Negotiation Borrowings</b>	928	1,007
<b>FRN</b>	-	-
<b>Short-term</b> (Overseas Subsidiaries)	<b>1,838</b> (679) 73%	<b>1,901</b> (719) 66%
<b>Long-term</b> (Overseas Subsidiaries)	<b>689</b> (365) 27%	<b>972</b> (356) 34%

The % is calculated to total borrowings.

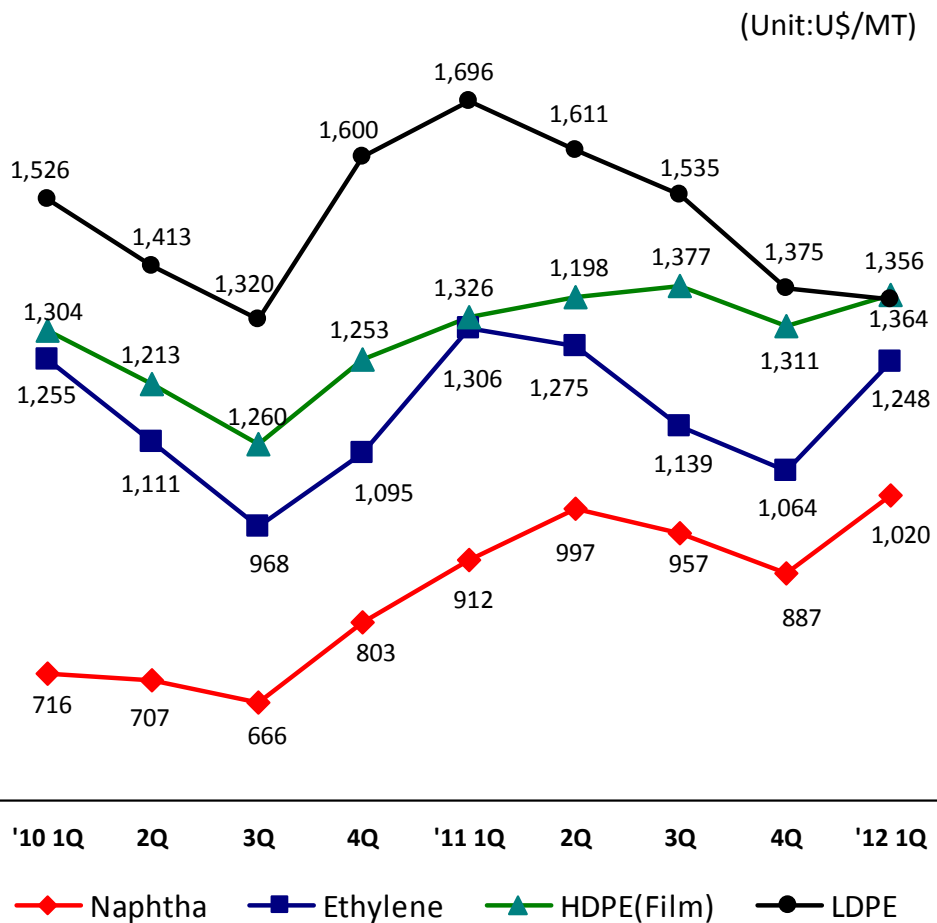
## Cash Flow

(Unit: KRW bn)

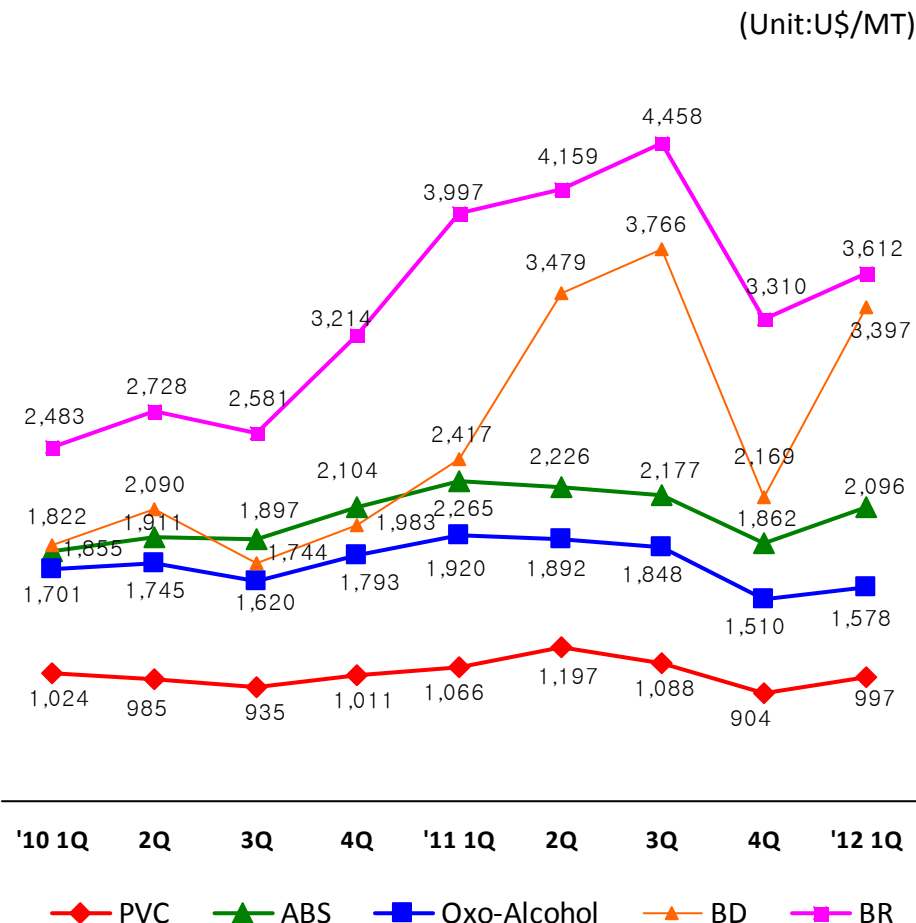
Classification	'11	'12.1Q
<b>Beginning Cash</b>	<b>1,368</b>	<b>1,379</b>
<b>Operating/Investing</b>	<b>-96</b>	<b>88</b>
<b>Net Income</b>	2,170	381
<b>Depreciation</b>	757	200
<b>Working Capital</b>	-680	44
<b>CAPEX</b>	-2,321	-518
<b>Others</b>	-22	-19
<b>Financing</b>	<b>107</b>	<b>346</b>
<b>Borrowings</b>	426	346
<b>Dividends</b>	-319	-
<b>Ending</b>	<b>1,379</b>	<b>1,814</b>

(Unit: KRW bn)

Classification		'10	'11	'12 Plan	'12.1Q
Petrochemicals	New / Expansion	320	664	743	174
	Maintenance	266	296	269	27
	<b>Total</b>	<b>586</b>	<b>960</b>	<b>1,012</b>	<b>201</b>
I & E Materials	New / Expansion	425	330	539	53
	Maintenance	78	100	89	20
	<b>Total</b>	<b>503</b>	<b>430</b>	<b>628</b>	<b>73</b>
Energy Solution	New / Expansion	389	660	473	193
	Maintenance	85	105	139	18
	<b>Total</b>	<b>474</b>	<b>765</b>	<b>612</b>	<b>212</b>
Common Expenses	New / Expansion	-	-	-	-
	Maintenance	139	166	296	33
	<b>Total</b>	<b>139</b>	<b>166</b>	<b>296</b>	<b>33</b>
Total	New / Expansion	1,134	1,654	1,755	420
	Maintenance	568	666	794	98
	<b>Total</b>	<b>1,702</b>	<b>2,321</b>	<b>2,548</b>	<b>518</b>



**NCC/PO**



**PVC**

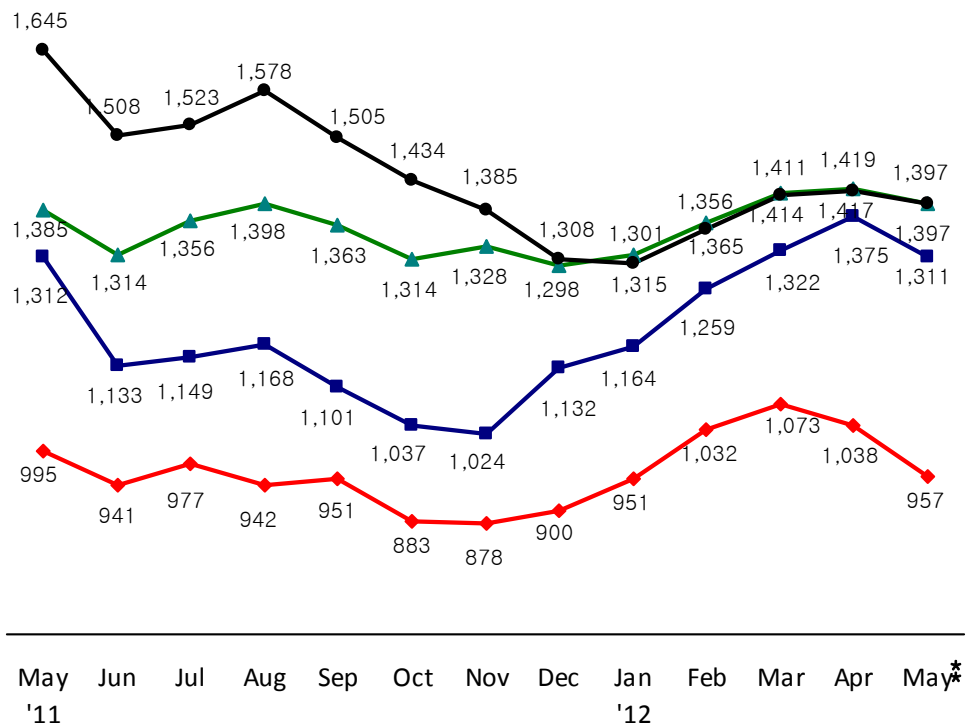
**ABS/EP**

**Acrylate/  
Plasticizer**

**Rubber/  
Specialty Polymers**

• The prices are the average prices of CFR FE Asia for general grade in each product group.

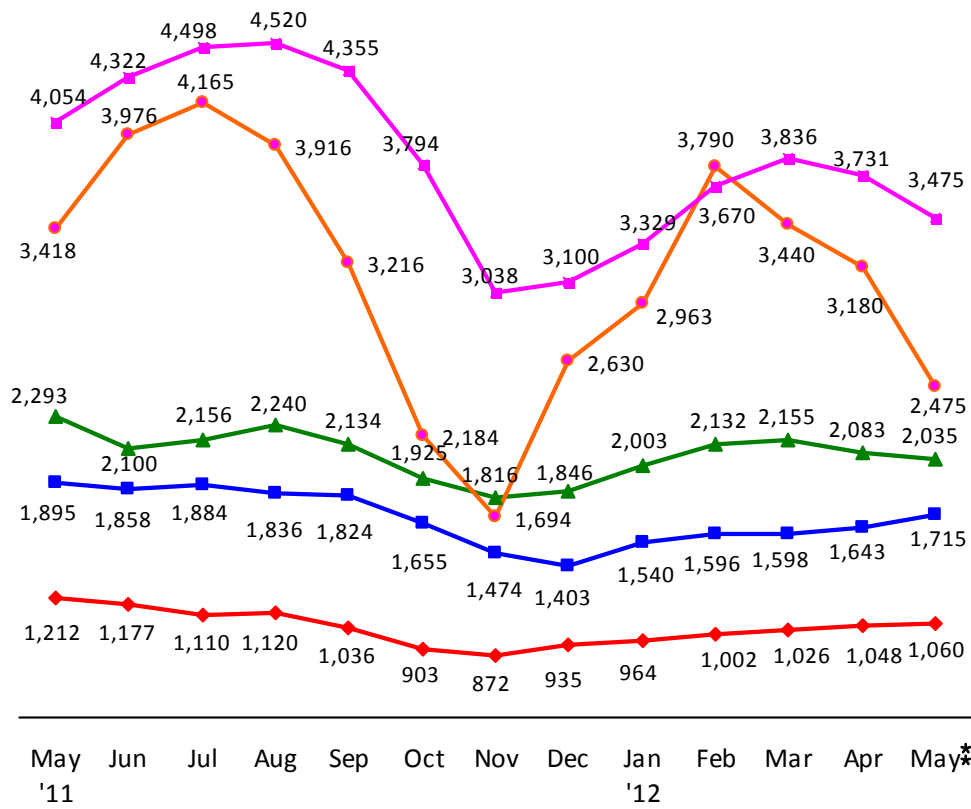
(Unit:U\$/MT)



◆ Naphtha    ■ Ethylene    ▲ HDPE(Film)    ● LDPE

**NCC/PO**

(Unit:U\$/MT)



◆ PVC    ▲ ABS    ■ Oxo-Alcohol    ● BD    ◆ BR

**PVC**

**ABS/EP**

**Acrylate/  
Plasticizer**

**Rubber/  
Specialty Polymers**

• The prices are average price of CFR FE Asia for general grade in each product group.

\* May 2012 prices are the price on May 4th.

As of May, 2012

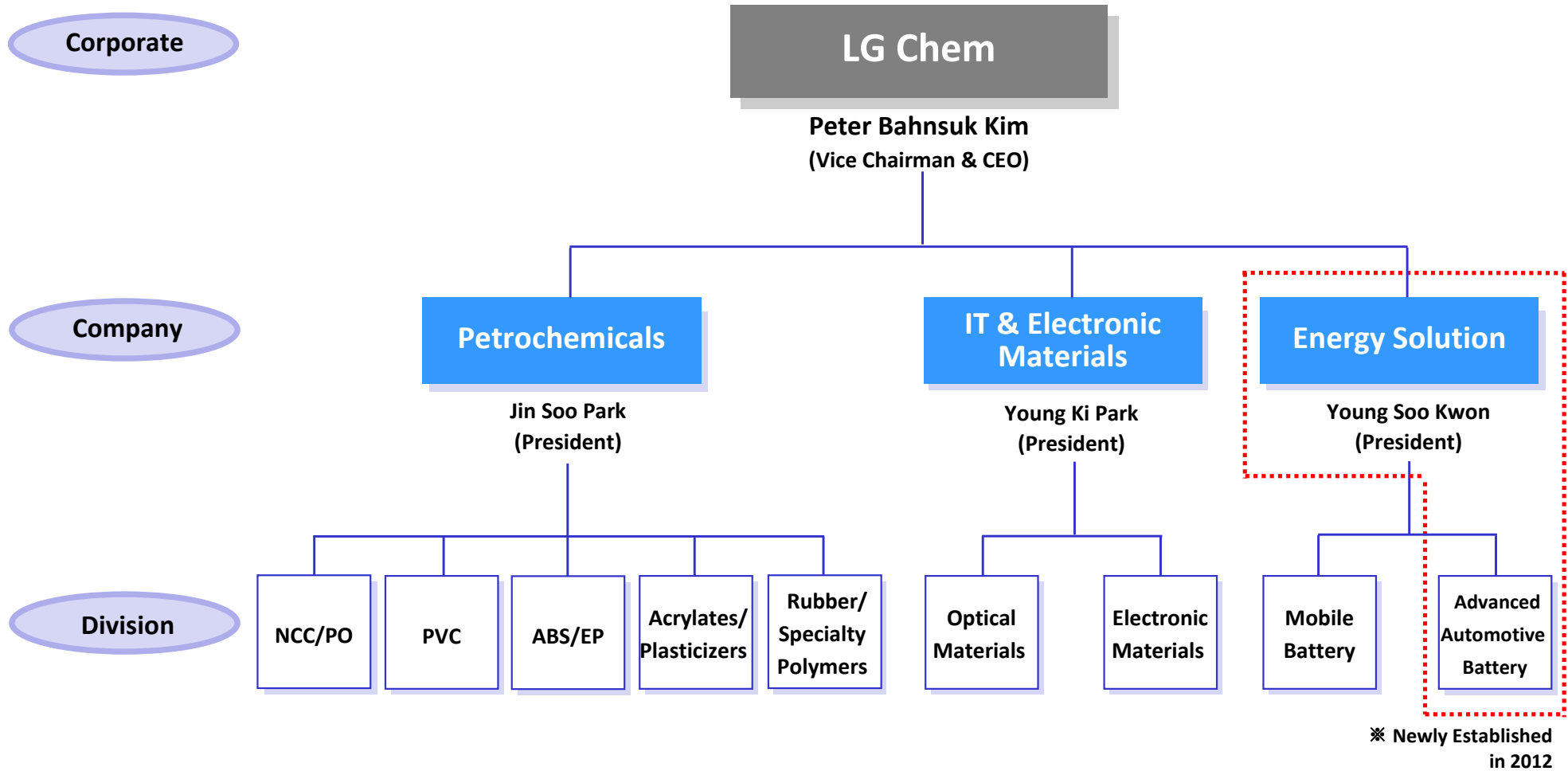
	Item	Location	Capa	Global Rank	Capa Addition('12)
Petro-Chemicals	ABS (Acrylonitrile-Butadiene-Styrene)	Korea, China	1,330 KMT/Yr	1st *	
	PVC (Polyvinyl Chloride)	Korea, China	1,270 KMT/Yr	6th	
	Oxo-Alcohol	Korea (Yeosu, Naju)	299 KMT/Yr	10th	
	AA (Acrylic Acid)	Korea (Yeosu, Naju)	193 KMT/Yr	9th	160 KMT/Yr (June)
	PC (Polycarbonate)	Korea (Yeosu)	170 KMT/Yr	6th	
	BR (Butadiene Rubber)	Korea (Daesan)	180 KMT/Yr	7th	
	Elastomer	Korea (Daesan)	85 KMT/Yr	4th	
	SAP (Super Absorbent Polymer)	Korea (Gimcheon, Yeosu)	108 KMT/Yr	6th	72 KMT/Yr (June)
	MBS (Methacrylate-Butadiene-Styrene)	Korea (Yeosu)	50 KMT/Yr	4th	
	NBL (Acrylonitrile-Butadiene-Latex)	Korea (Yeosu)	100 KMT/Yr	2nd	
	EPA (Bisphenol A)	Korea (Yeosu)	300 KMT/Yr	8th	150 KMT/Yr (Dec)
I & E Materials / Energy Solution	Polarizer	Korea (Ochang)	128 mn m <sup>2</sup> /Yr	1st	
	Consumer Battery (Lithium-ion)	Korea (Ochang)	88 mn cells/Month**	3rd	Variable
	EV/HEV Battery (Lithium-ion)	Korea (Ochang)	100K Units/Yr	1st	100K Units/Yr (~Dec)***
	Color Filter Photoresists	Korea (Ochang)	-	2nd	
	3D FPR	Korea (Ochang)	-	1st	

\* Actual Sales Base

\*\* Cylindrical : 41 mn, Prismatic : 30 mn, Polymer : 17 mn

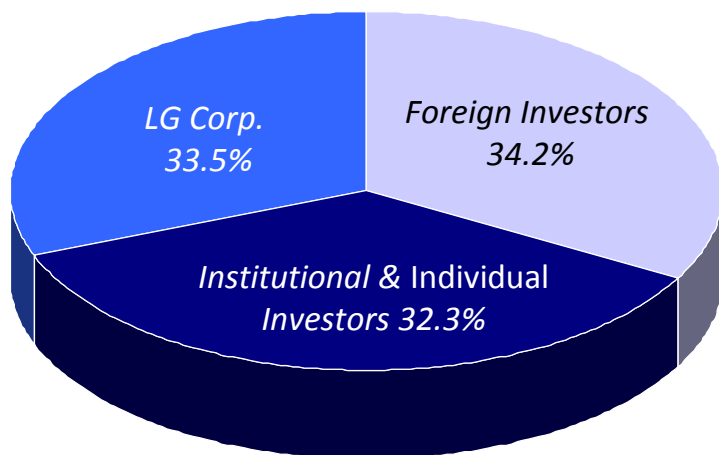
\*\*\* Convert to GM 'VOLT' base

From 2012, Energy Solution Company newly established to strengthen each company's Independent Management System.





## Shareholders & Market Cap



Common Stock as of May 4, 2012

(Unit : KRW)

	No. of Shares	May 04, '12	
		Price	Market Cap
Common	66,271,100	304,000	20.1 tn
Preferred	7,628,921	94,000	0.7 tn
<b>Total</b>	<b>73,900,021</b>		<b>20.8 tn</b>

Par value : KRW 5,000

## Dividends

(Unit: KRW bn)

Classification	'10	'11	Change
Net Income	2,200	2,170	-1.4%
EPS(KRW)	29,345	29,069	-0.9%
Total Dividends	295*	295*	0
Dividend Payout Ratio	14.9%	14.5%	-0.4%p
Common Stock Price at year-end(KRW)	391,000	317,500	-73,500
Dividend Yield Ratio	1.0%	1.3%	0.3%p

\* Dividend of KRW 4,000 per common share