

# MANAGEMENT'S DISCUSSION & ANALYSIS

## 2010 OVERVIEW

LG Chem has grown into the nation's leading petrochemical corporation since its founding in 1947. In 2010, new businesses that the company has long been preparing as future growth engines began taking shape in meaningful ways.

To begin, LG Chem is expanding its IT & Electronic Materials Division to include clean energy businesses, while furthering profitability and growth of its traditional core business, the Petrochemicals Division. Consequently, LG Chem was able to achieve its highest net income ever, more than KRW 2 trillion, in 2010.

Despite aggressive expansionary measures taken by nations around the world to revive economies in the wake of the 2009 financial crisis, global economic recovery was slower than expected in 2010 due mostly to financial instability in Europe.

Although faced with these and other market challenges, LG Chem was still able to greatly improve profitability in the Petrochemicals Division as a result of growing demand in emerging markets like China and India, a stable petrochemical market that saw a steady rise in the price of oil, and differentiated premium products which the company's competition could not offer.

While the IT & Electronic Materials Division experienced sagging demand in the second half of 2010 due to declining utilization rate that was a result of an inventory adjustment of major products that included LCDs, the Division did see brisk demand in the first half of 2010, in part because of the Winter Olympics and the FIFA World Cup in South Africa.

Even with all these challenges, LG Chem achieved solid growth and maintained strong relationships with major clients. Indeed, the company saw its highest performance ever in sales and operating profit, posting 25.5 and 34.5 percent growth rates, respectively, to reach KRW 19,471.4 billion and KRW 2,821.3 billion on an IFRS basis. Also, net income increased 42.9 percent, reaching KRW 2,199.8 billion.

By division, the Petrochemicals Division enjoyed favorable market conditions, with rising demand in emerging markets such as China and India.

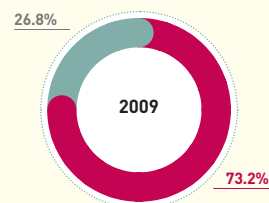
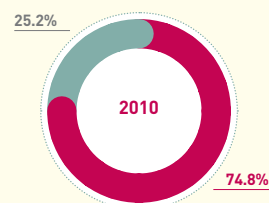
Through an increase in the proportion of premium products and a wide range of innovative business solutions, Petrochemicals Division continued to strengthen cost competitiveness and enhance customer value. As a result, it witnessed a 28.2 percent growth in sales, reaching KRW 14,525.5 billion, and a 41.7 percent rise in operating profit, reaching KRW 2,278.9 billion.

All five businesses in LG Chem's Petrochemicals Division recorded remarkable growth in profitability throughout 2010. In particular, its acryl and plasticizer business continued to enjoy high profit levels, while the synthetic rubber & specialty polymer business witnessed significant improvements in profitability due in part to the rise of natural rubber prices.

Despite the decrease in utilization rate as a result of weak IT demand in the second half of 2010, the IT & Electronic Materials Division saw an increase in sales and operating profit, posting 18.1 and 18.4 percent rises in growth rates, respectively, to reach KRW 4,903.0 billion

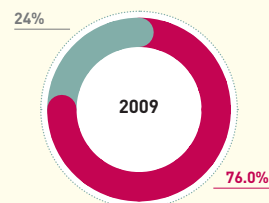
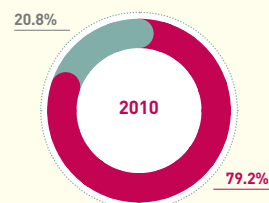
### DIVISIONAL SALES

● Petrochemicals  
● IT & Electronic Materials



### DIVISIONAL OPERATING PROFIT

● Petrochemicals  
● IT & Electronic Materials



and KRW 600.1 billion in 2010 due to the addition of super-wide lines for polarizer plates, operational excellence, and strengthened cost leadership.

With its polarizing business, LG Chem became the world's leader both in name and substance, leaving Japanese competitors behind in terms of sales and profits. This was made possible because of constant cost leadership activities, which included innovating the work process and materials after achieving the industry's top line speed and establishing a super-wide line.

LG Chem's battery business market share rose significantly as its stake in strategic customers such as Nokia, HP, and Apple increased. This was accomplished through an aggressive production capacity increase and enhanced communication with strategic customers.

In addition, LG Chem was able to sign deals with 10 leading auto manufacturers that included GM, Renault, Volvo, and Ford in the automotive battery business, one of the company's future growth engines. In fact, LG Chem began providing batteries for GM's Chevrolet Volt from the third quarter of 2010, and expects sales in its automotive battery business to soar as some of the company's biggest clients, including Hyundai and Renault, prepare for the release of new cars that make use of its automotive batteries.

Furthermore, things have been going well with the LCD glass business ever since LG Chem started its full-scale investment into the business. The first line, which was established after an initial investment of KRW 430 billion, is scheduled to be finished in the first half of 2011. Commercial production will start in 2012 after all the necessary tests and client's spec-in process take place.

Moreover, LG Chem will continue to pursue Speed Management to respond to changing market trends, while developing new products such as 3D retarders and OLED materials before any other company.

In 2010, LG Chem made a total of KRW 1.7 trillion, out of which KRW 560 billion was invested in the Petrochemicals Division, KRW 948 billion in the IT & Electronic Materials Division, and KRW 193.1 billion for common expenses. In 2011, LG Chem will continue investments such as these in order to strengthen competitiveness in traditional businesses and secure future growth engines.

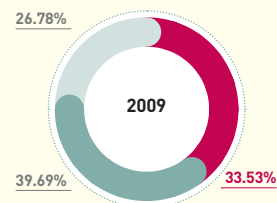
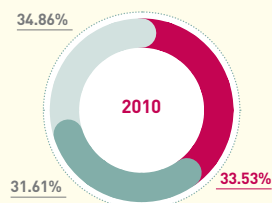
Additionally, LG Chem acquired the remaining residual equity in LG-Dow Polycarbonate on October 1, 2010 and completed the merger on April 1, 2011. This was carried out with the aim of securing more cost leadership and increasing market dominance by maximizing synergy between businesses and completing the company's vertical integration, which will ultimately maximize shareholder value.

Through continuous innovation based on superb production infrastructure that is based around its operational excellence, LG Chem will continue working hard to realize its vision of becoming a leading global company that is centered on petrochemicals, consumer and automotive batteries, and information technology & electronic materials.

### SHAREHOLDER COMPOSITION

(Common stock)

- LG Corp.
- Korean Individuals & Institutions
- Foreign Shareholders



# MANAGEMENT'S DISCUSSION & ANALYSIS

## FINANCIAL INFORMATION

### FINANCIAL STRUCTURE

As cash flow improved due to significantly better achievements than the previous year, consolidated debt-to-equity ratio and leverage ratio were reduced 16.1 percentage points and 13.9 percentage points, respectively, over the year, to 61.6 percent and 26.8 percent as of the end of 2010.

In 2011, LG Chem plans to invest mostly into result-oriented and highly profitable businesses, such as LCD glass substrates, HEV/EV batteries, 3D retarders, and polymer batteries, all of which will help secure future engines for constant growth.

LG Chem will make prudent investment decisions, restructure less profitable businesses, and manage working capital more efficiently by not investing past the amount of internal cash flow and making continuous efforts to improve the company's financial structure.

### MAJOR FINANCIAL INDICATORS

	2010	2009
Debt to equity (%)	26.8	40.7
Interest coverage multiple (X)	46.2	20.2
Return on assets (%)	19.0	14.8
Return on equity (%)	31.9	27.3

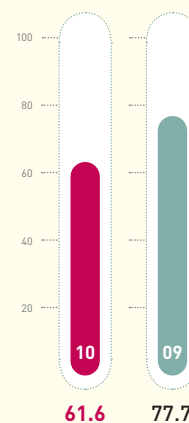
### EQUITY

As of December 31, 2010, the LG Corp. held 33.53 percent of LG Chem's outstanding shares, with foreign investors holding 34.86 percent and domestic institutional and individual investors holding 31.61 percent.

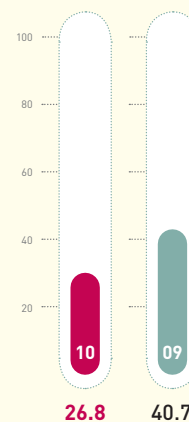
### STOCK INFORMATION (as of Dec. 31, 2010)

	Total Shares Issued	Paid-in Capital (in KRW billions)	Foreign Investor Holdings (%)
Common stock	66,271,100	331.4	34.86
Preferred stock	7,628,921	38.1	25.87
<b>Total</b>	<b>73,900,021</b>	<b>369.5</b>	<b>33.93</b>

### TOTAL LIABILITY TO EQUITY RATIO (%)



### DEBT TO EQUITY RATIO (%)



## FUNDING STRATEGY

### Liquidity Risk Management

In principle, LG Chem raises funds for capital expenditures from long-term loans and for working capital from short-term loans.

### Interest Rate Risk Management

An appropriate mix of fixed and variable rate loans is used to flexibly respond to fluctuating interest rates. By using interest derivatives, the company is partially hedging any risk associated with interest rates.

### Foreign Exchange Risk Management

LG Chem maintains an optimal level of foreign currency loans, which serves as a natural hedge against foreign currency exposure. In 2010, it had a net exposure surplus estimated at U.S. \$5.2 billion, while maintaining its foreign currency loans at U.S. \$1.2 billion as a hedge (including export receivable financing).

## INTEREST EXPENSE (in KRW billions)

	2010	2009
Interest expense	72.4	92.4
Interest rate	2.73%	4.03%

## BORROWING BY CURRENCY (in KRW billions)

	2010	2009
Korean won	162.0	266.5
Foreign currency	1,939.8	2,145.0
<b>Total</b>	<b>2,101.8</b>	<b>2,411.5</b>

\* Bond issue discount is excluded. Foreign capital influx via currency swap agreement is listed in KRW.

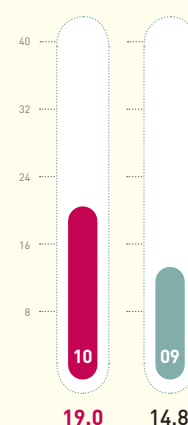
## DIVIDEND & DIVIDEND POLICY

LG Chem considers dividends to be the foremost means of returning profits to its shareholders, and so takes various factors into account when determining its dividends policy, including profit returns, sufficiency of capital resources for securing future growth, and financial soundness.

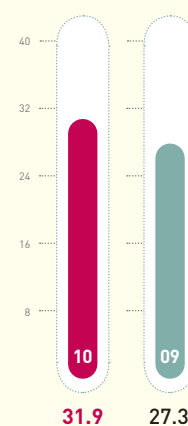
In fiscal 2010, the company paid an annual cash dividend on its common stock of KRW 4,000 (80 percent of face value) per share, up KRW 500, or 14.3 percent year-on-year, as well as KRW 4,050 (81 percent of face value) per share on its preferred stock, a KRW 500, or 14.1 percent, increase year on year.

Based on its 2010 earnings, the determinants of dividend payouts included investments for fostering its business competitiveness and future growth.

## RETURN ON ASSET (%)



## RETURN ON EQUITY (%)



# MANAGEMENT'S DISCUSSION & ANALYSIS

LG Chem is committed to enhancing shareholder value by enhancing the competitiveness of its core businesses and generating solid profits at a steady pace, while also maintaining dividends at a substantial level that can ensure the financial soundness of the company and meet shareholder expectations.

## DIVIDEND SUMMARY

	2010	2009
Net income (in KRW million)	2,199,765	1,539,197
EPS (in KRW)	29,345	19,846
Total dividends (in KRW million)	279,988	210,584
Dividend payout ratio (%)	13.7	17.1
DPO at face, common (%)	80	70
DPO at face, preferred (%)	81	71
Dividend yield ratio, common (%)	1.02	1.53
Dividend yield ratio, preferred (%)	2.55	4.30

## CAPITAL EXPENDITURES

In 2010, LG Chem's total investments amounted to KRW 1.7 trillion on a consolidated basis. The company continued readjusting its business portfolio to focus on specialty products in the Petrochemicals Division, with major investments including the 100 thousand-ton expansion of its Yeosu NCC, the takeover of the remaining shares in LG-Dow PC, as well as smaller though still new investments in SBS and debottlenecking. Including its investment in LCD glass and its automotive batteries businesses, LG Chem invested a total of KRW 820 billion into battery production in the IT & Electronic Materials Division.

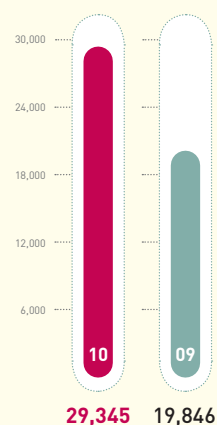
In 2011, LG Chem will channel all its available resources into expanding its existing businesses and securing future growth engines to follow through on its goal of becoming a leading global company. Investments in the petrochemicals business will focus on the expansion of facilities, such as the 15 thousand-ton expansion of its Daesan NCC, as well as its BR and SAP facilities. In the IT & Electronic Materials Division, the company will increase its investments in LCD glass, automotive batteries, and 3D retarders.

Although total investment has increased greatly over the previous year, LG Chem always ensures that this number never exceeds the cash flow generated from operating activity going in the past several years, while at the same time helping bring about its vision of becoming a leading global company.

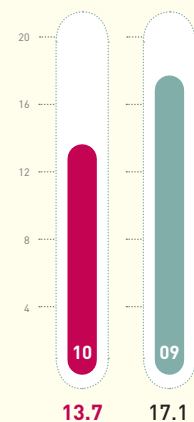
## 2011 OUTLOOK

With the likelihood of interest rate hikes, the appreciation of the Korean won, and continued instability in the Middle East in 2011, the global economy seems to be highly volatile. Amid the uncertainties forecast to abound in the business environment, LG Chem will continue to hone its

EPS (in KRW)



DIVIDEND PAYOUT RATIO (%)



competitiveness in its traditional businesses in an effort to expand overall profit and keep promoting new businesses.

Although there are still concerns about weak demand of polyolefin products in the Petrochemicals Division, LG Chem continues to expand its proportion of PO specialty products based on its unique competitiveness.

Supply and demand remains steady for downstream product lines, including acrylate/plasticizers, synthetic rubber, and ABS/EP. Furthermore, the company is improving its cost leadership by carrying on with its cost competitiveness enhancement initiatives, as well as diversifying its product portfolio and ensuring the highest operational excellence at all its facilities to maximize its profit structure.

With the IT & Electronics Division, LG Chem is concentrating on enhancing its market dominance in existing businesses and normalizing its future growth engine businesses early on.

In 2010, its battery business enjoyed significant growth in its global market share, with more than a 50 percent increase in output due to the expansion of certain facilities and a stable customer base. Sales volume is also expected to grow based on an increased capacity of polymer batteries, a stable customer base, and increased demand of tablet PCs.

The automotive battery business is expecting a substantial amount of sales with major automakers such as GM, Renault, Hyundai, and Kia. In 2011, the Division plans to increase its research and development personnel and its investment into the sector to maintain its leading position as the market grows. In addition, the company secured market leadership by reaching out to customers that its competitors have not approached.

With the optical & display materials business, the company will maintain higher profitability than its competitors and strengthen its leading position in its global market share by operating new items such as the 3D retarder, super-wide line of polarizers, while also carrying out cost-cutting measures that include internalizing raw materials and enhancing productivity.

In terms of its investment in the LCD glass business, which is currently taking place, LG Chem will take every necessary step to achieve its goal, with its first unit slated to be completed in the first half of 2011 and to begin commercial production in 2012. LG Chem plans to attain visible results in a short period of time by accelerating the business process.

LG Chem will seek operational excellence in its core businesses and centralize its resources with new businesses to reinforce the necessary momentum for future growth. In addition, it will continue to adhere to Speed Management in 2011 in order to grow as a leading global company.

Based on its accumulated experience over the years, LG Chem will spare no effort in realizing the very best performance results through its three-pronged mission of Speed Management:

- Pursuing excellence in core businesses
- Innovating customer value
- Reinforcing the organization's global competencies

