



Letter to LG Chem Shareholders

The Battery Business Split-Off & LG Chem's VISION

October 14, 2020

Dear Esteemed Shareholders,

On September 17th, 2020, LG Chem's Board of Directors approved the resolution to split off the Company's Energy Solutions business and establish a wholly-owned subsidiary under LG Chem. The Company is currently waiting for the final approval by shareholders at the General Meeting of Shareholders to be held on October 30th, 2020.

While the Company expects a massive growth in the battery industry with the full-fledged opening of the EV era, competition is also intensifying with new players entering the market, automotive OEMs capitalizing in the global EV battery production industry.

For the past 25 years, the Company has been steadfastly maintaining its global leadership through leading R&D and successful business operation, which is backed by the EV battery order backlog of more than 150 trillion Won. At the same time, the Company is facing daunting challenges due to the financial burden from growing competition and CAPEX expansion.

As such, the Company decided to split off its Energy Solutions business to establish a structure to solidify competitiveness in the battery business. We believe that a fresh start as an independent company with an optimal organization structure catering to the characteristics of the battery business would lead to faster decision-making and increased operational efficiency. Also, sufficient investment capital would be secured for growth through various financing options.

The improved financial position after the split-off will enable the Company to expand investments in its Petrochemicals, Advanced Materials and Life Sciences businesses as well as strengthen its shareholder return policy. Thus, we believe that the split-off will be conducive to the balanced development of LG Chem's business portfolio and greater shareholder value.

We ask for your strong support in LG Chem's growth as a Top 5 global chemical company.

Thank you.

Shin Hak Cheol, LG Chem CEO



1. High growth potential

The global battery market has a high growth potential, often regarded as the next semiconductor industry, and is forecasted to grow rapidly from a 50-trillion-won industry in 2019 to more than 140-trillion-won in 2024.

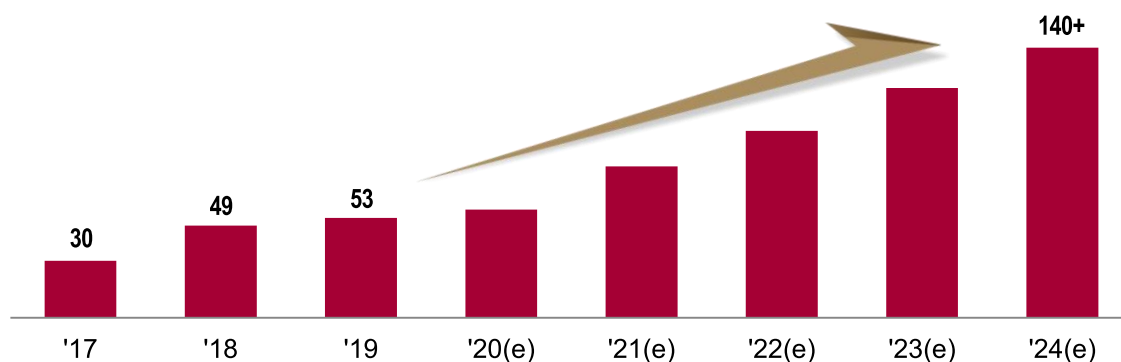
The following factors are expected to continue to accelerate the growth of the industry.

- ① Stronger fuel efficiency and environmental regulations and expanded policy support for eco-friendly automobiles and energy by governments around the world
- ② Price competitiveness through advancements in battery material, process engineering and mass production technology
- ③ Product viability through dramatically improved EV performance and greater charging infrastructure

While having been driven by regulations in the short term, the market will become mainly driven by customers from 2025, thus promising a long-term growth.

Battery Industry Outlook

(Unit: Trillion Won)



(Source: LG Chem's estimate)

2. Intensifying competition

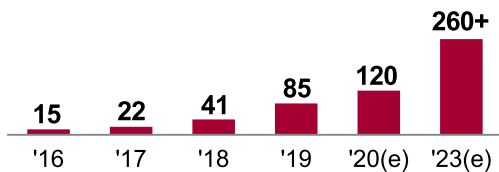
With the rapid growth of the lithium-ion battery market for EVs and growing importance of battery in the downstream industry, competition is expected to become fiercer. Automotive OEMs are attempting to secure technology to internalize battery production capacity. Supported by their respective governments, new battery players are planning to build large-scale production facilities in collaboration with OEMs.

A critical period for the battery business faced with both an opportunity for high growth and a threat of intensifying competition

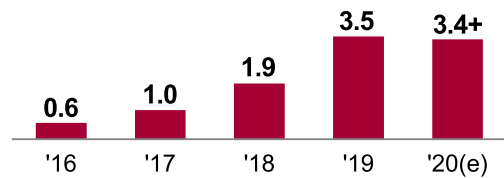
LG Chem started R&D in secondary batteries in 1996 and has successfully built its battery business through leading technological development for the past 25 years.

LG Chem is an industry leader with nearly 22,000 secondary battery patents as of the end of August, 2020, and the global No. 1 player with the highest EV battery M/S(24.6%) as of August, 2020. Also, it has been expanding its global production capacity to deliver the order backlog of 150 trillion Won for EV batteries by global top-tier OEMs.

EV Battery Capacity Trend (Unit: GWh)



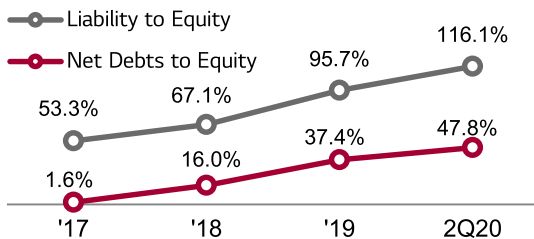
Battery Business Capex (Unit: Trillion Won)



Battery business' CAPEX for capacity expansion has significantly increased since 2018, and the annual CAPEX is expected to be more than 3 trillion Won going forward in order to meet the rapidly growing global demand.

As it takes time to realize profitability after a large CAPEX, the increase in battery business investments has weighed down on LG Chem's financial structure since 2018, which led to the downgrade of its global credit ratings in 2020.

LG Chem's Financial Ratio



LG Chem Credit Rating

Agency	'19	'20
S&P	A-	BBB+
Moody's	A3	Baa1

※ S&P Downgrade (Dec. 2019); Moody's Downgrade (Feb. 2020)
- First downgrade since 2010

While LG Chem has secured a solid leadership in the battery business, CAPEX investment is burdening its financial structure

To respond to the rapidly growing battery market and overcome the CAPEX burden and maintain a solid leadership, the Company decided to split off its Energy Solutions business.

1. Need for faster decision-making and a specialized organization

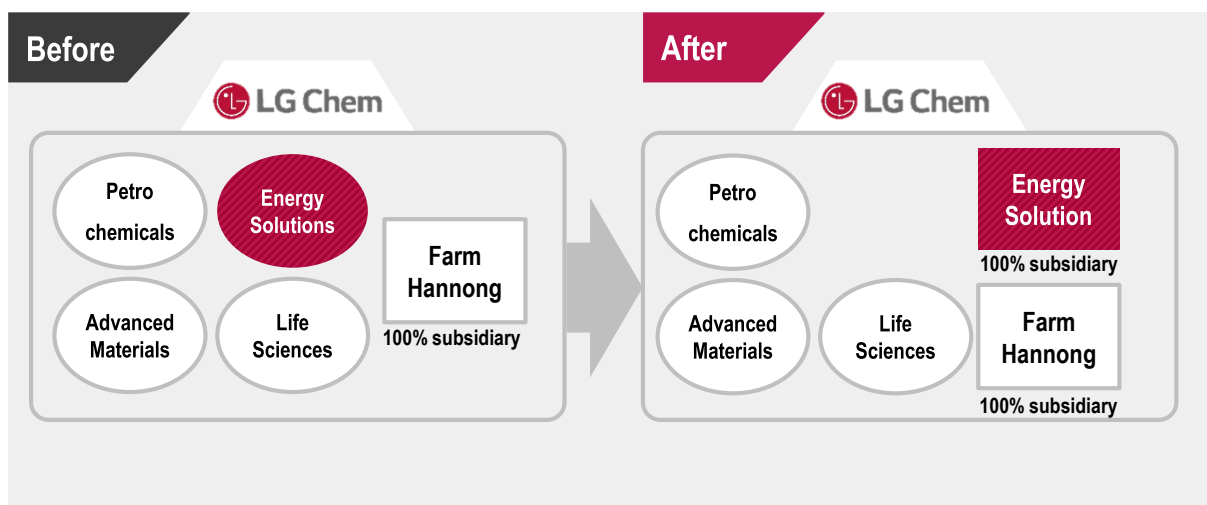
An independent organization specialized for battery business is needed to create an optimal management structure for a swift and flexible decision-making as well as operational efficiency.

In preparation for the growth of the service industry in the entire EV life-time, it intends to establish a professional system to closely examine new businesses and business models in addition to battery manufacturing

2. Need for diverse funding options to fuel business growth

The independent company will be a wholly-owned subsidiary of LG Chem. In line with the strengthening of SRI (Socially Responsible Investment), it will have access to a variety of funding options including green bonds. This will enable the new company to expand investment, which will further widen the gap with competitors.

Snapshot After Split-off



Committed to improving competitiveness as an independent company to better respond to the rapidly changing market environment and maintain its global No. 1 position

The split-off will lay the foundation for quantum leap of the battery business and further enhancement of the value of LG Chem.

1. Accelerating of investment

Currently, the EV battery order backlog is worth 150 trillion Won, and efforts will be made to secure orders from upcoming projects and capture additional opportunities from the growing demand.

In addition, new markets such AGV (Autonomous Guided Vehicle), autonomous driving robots and shuttles are quickly expanding, and opportunities for ESS are growing on the back of green new deals. Timely input of resources is crucial to develop technology for these new markets.

The new company will strengthen its global No. 1 leadership in the EV and new lithium-ion battery markets by making continuous capacity investments, developing new materials and technology, and building strategic partnerships with competitive companies.

2. Developing a leading technology

The new company will continue to develop more cost-competitive and high-performance batteries through the further advancement on the battery related material/process technology as well as dramatic enhancement of mass production technology via smart factory implementation.

The new company will also take the lead in developing future battery technologies, including ASSB (All Solid-State Battery) and Lithium-sulfur battery. Through open innovation and cooperation with partners, it will spearhead future battery technology development.

3. Launching e-Platform business

To prepare for the future with greater use of batteries, the e-Platform service business is planned to be launched to secure new opportunities on top of battery production.

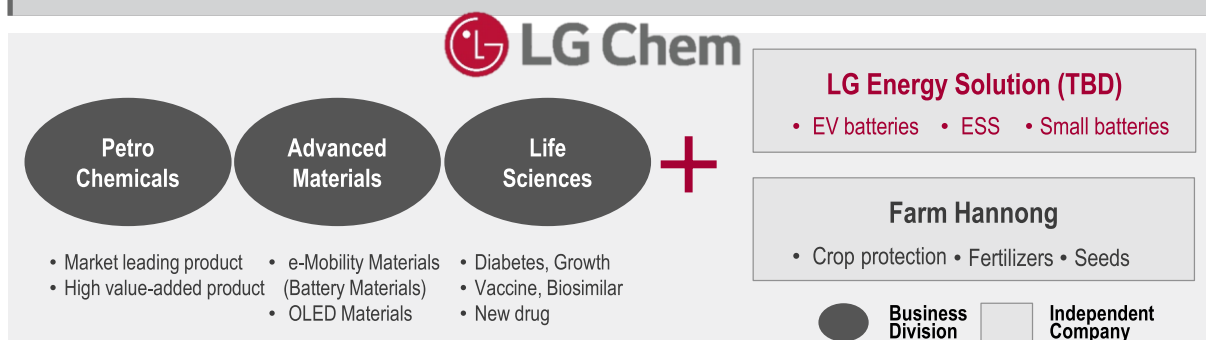
As part of building a virtuous cycle for efficient utilization of resources, information on the status of batteries will be provided for the entire battery lifecycle. Using this information, other business models including leasing, warranty and certification services for used batteries and EVs can be pursued.

Determined to further strengthen its global leadership and widen the gap with competitors by reinforcing competitiveness in the battery business

LG Chem will strengthen its competitiveness in the battery business and maximize the growth potential of the existing businesses. At the same time, it will proactively foster new growth drivers in the emerging industries led by mega-trends, including e-mobility, sustainability materials and Life Sciences. To this end, the Company is actively diversifying business models and exploring inorganic approaches via M&As & J/V.

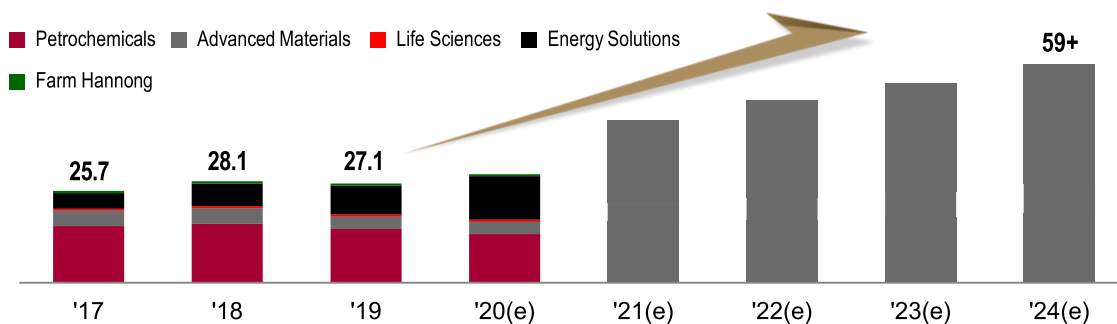
- ① Petrochemicals: Expanding of high value-added products and global business expansion focused on promising markets (Hygiene, Packaging and Sustainability)
- ② Advanced Materials: Portfolio restructuring through active development of e-mobility industry focusing on battery materials and close cooperation with leading players for agile market response
- ③ Life Sciences: Further growth through product and overseas market expansion in diabetes, growth, vaccine, biosimilar business; expansion of network with external partners for rapid new drug development with higher success ratio
- ④ R&D: Resources re-allocated to focus on prospective markets and develop commercialization capabilities

Business Portfolio



Future Outlook

(Unit: Trillion Won)



LG Chem aims to continue to grow as a Global Top 5 chemical company with a balanced business portfolio

A new dividend policy was created to enhance LG Chem's shareholder value after the split-off of the battery business.

1

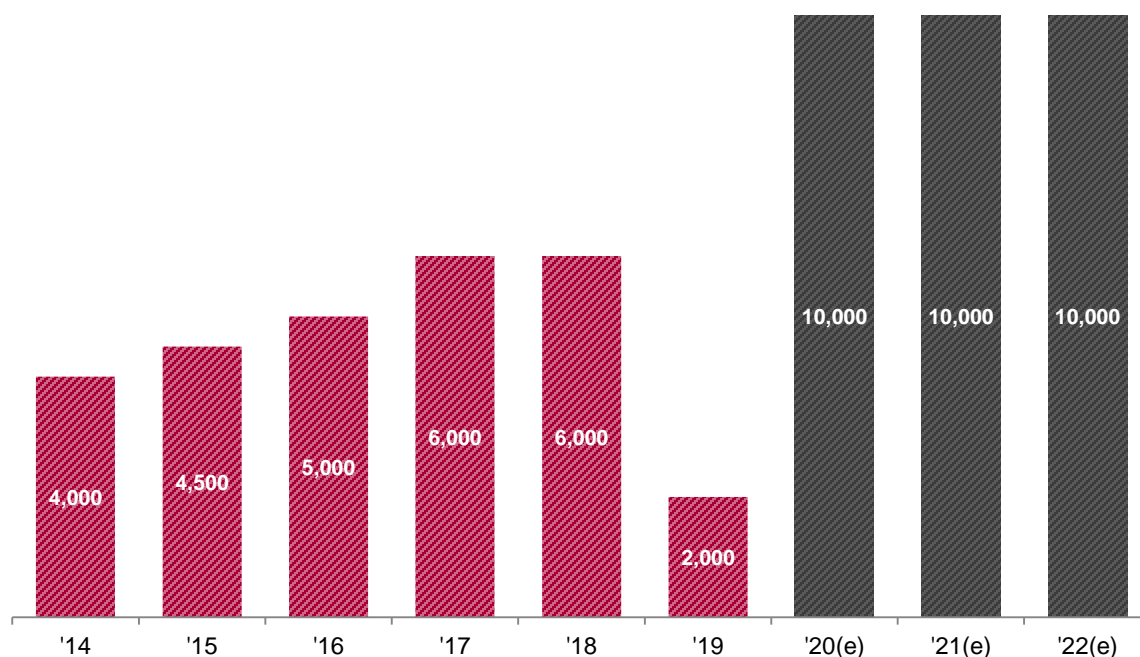
To apply the same criteria on dividend resources before the split-off, the payout ratio of more than 30% is based on the consolidated net income. (Previously separate net income)

2

To remove uncertainties related to the split-off and enhance shareholder value, cash dividend of a minimum 10,000 Won per common share is paid out for the next 3 years (2020-2022).

Dividend Per Share (DPS) Trend

(Unit: Won)



Determined to further raise shareholder value with a new dividend policy and protect shareholders from uncertainties by driving a certain dividend amount for the next three years

After establishing a new company, the following governance structure and communication plans including public disclosures will be implemented to protect LG Chem's shareholder rights and value.

Public Disclosures

Timely disclosure of major matters related to the new company's business activities to ensure management and financial transparency

Classification	Frequency	Remark
Regular reports	Quarterly	- Business report, Audit report
Large-scale internal trading	Upon decision	- Internal transactions among subsidiaries
Key issues of the unlisted company	Immediately	- Changes in management - Changes in the shareholdings of majority shareholder - Acquisition/disposition of shares in other companies - Decision on capital increase with or without consideration, etc.

Governance Structure

To ensure a more transparent governance structure of the unlisted company, the following will be implemented.

- ① More than one LG Chem's inside director approved by LG Chem's to attend as a member of the new company's BOD
- ② The new company to try to appoint the independent director to enhance fairness and expertise in the decision-making process
- ③ LG Chem's Audit Committee to have the right to conduct audit on the business management and financial status of the new company

Communication With LG Chem's Shareholders

While the new company is a non-listed company, as part of LG Chem's core business, the following IR activities will be carried out to ensure communication with LG Chem's shareholders.

- ① The new company to make a report of major business update at LG Chem's GSM
- ② The top-level of the new company to have a direct communication with LG Chem's shareholders and share progress on the overall business operations at least once a year
- ③ A key executive of the new company to participate in LG Chem's earnings presentation to report on its business performance and outlook

We look forward to your strong support.

Thank you

07336 LG Twin Towers 128, Yeoui-daero, Yeongdeungpo-gu, Seoul, Korea
T.+82-2-3777-1114 www.lgchem.com

