

Business Market & Outlook

August 2014



Disclaimer

The business results are subject to the IFRS(International Financial Reporting Standards) from 2010. In addition, operating profits are amended to reflect revisions of “K-IFRS, No. 1001” decided on 19th regular Financial Services Commission’s meeting on October 17th 2012 and “Guidance for public announcements of business results” reported by KAI(Korea Accounting Institute) on Feb 18th 2013.

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

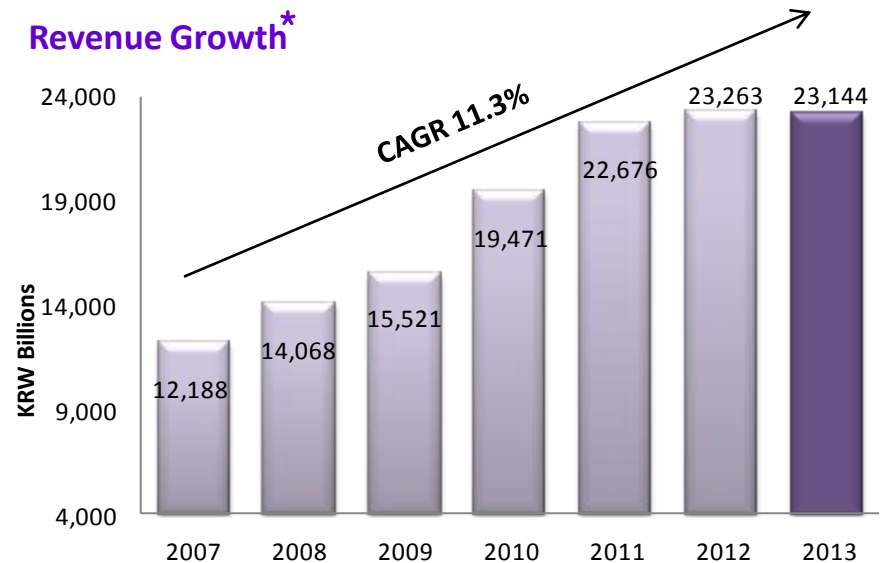
Table of Contents

| | |
|---|----------|
| LG Chem at a Glance | 1 |
| 2Q 2014 Business Results | 3 |
| Divisional Results & Outlook | 5 |
| Appendix | 7 |

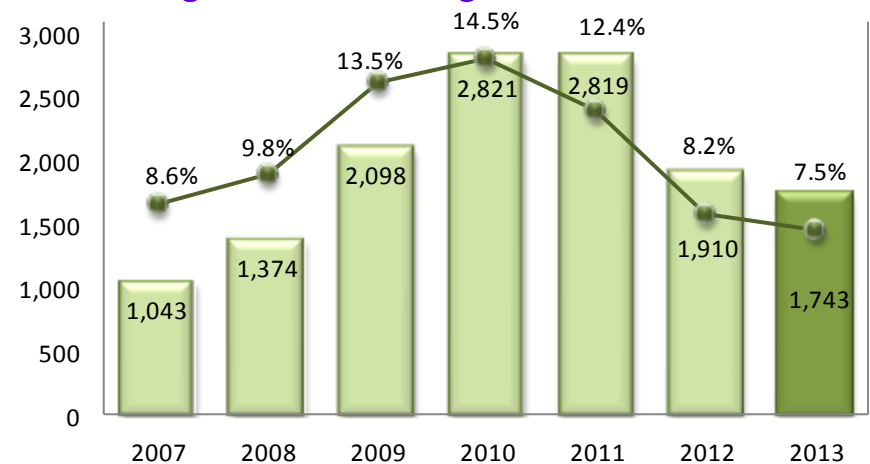
LG Chem at a Glance

- 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 23.1 trillion in 2013.
- 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 xEV batteries and LCD glass substrates to reinforce the necessary momentum for future growth.
- Despite high uncertainties remaining in the business environment such as delayed recovery in the global economy, LG Chem is recording robust profitability compared to peers.

Revenue Growth*



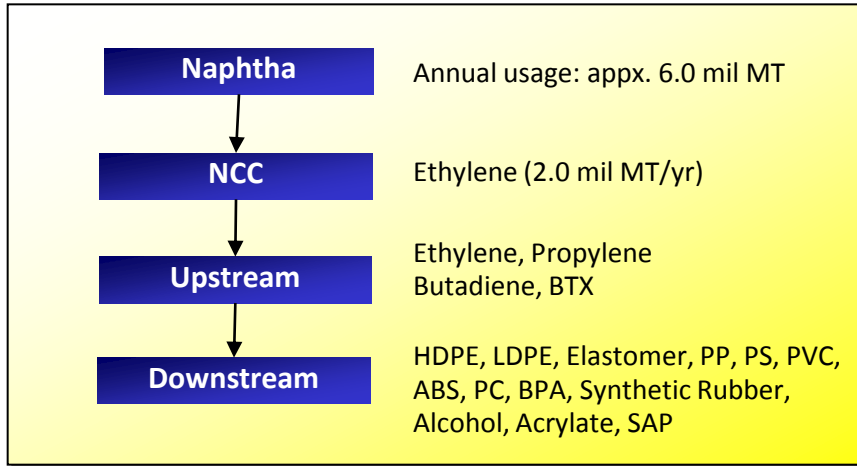
...with Strong EBIT & EBIT Margins*



* 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

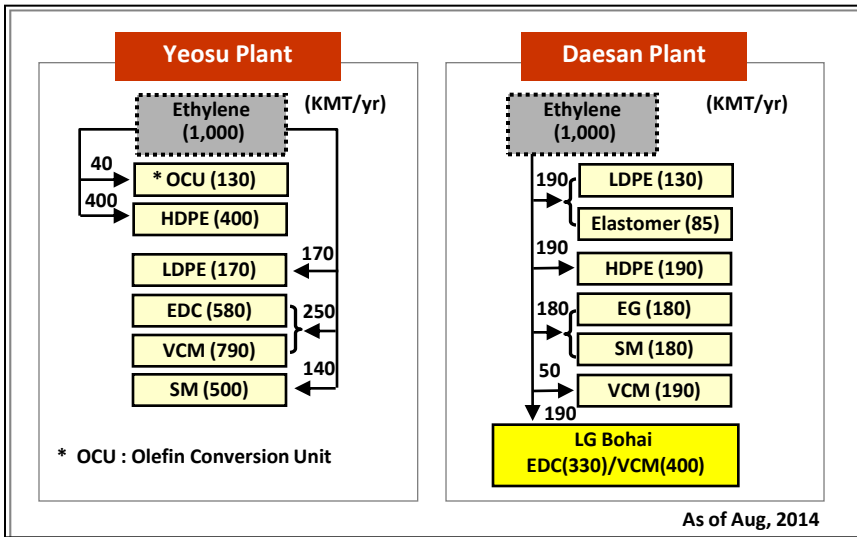
- One of few petrochemical companies around the globe with vertical integration structure, featuring both upstream and downstream production capability.
- This structural characteristic delivers stable business performance against industry cyclicality.

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 | '13.2Q | '14.1Q | '14.2Q | YoY | QoQ |
|-------------------------|--------------|--------------|--------------|--------|--------|
| Sales | 5,917 | 5,673 | 5,869 | -0.8% | 3.5% |
| Operating Profit | 502 | 362 | 360 | -28.3% | -0.7% |
| (%) | (8.5) | (6.4) | (6.1) | | |
| Pre-tax Income | 510 | 354 | 290 | -43.1% | -18.1% |
| (%) | (8.6) | (6.2) | (4.9) | | |
| Net Income | 401 | 286 | 227 | -43.4% | -20.7% |

Financial Position

(Unit: KRW bn)

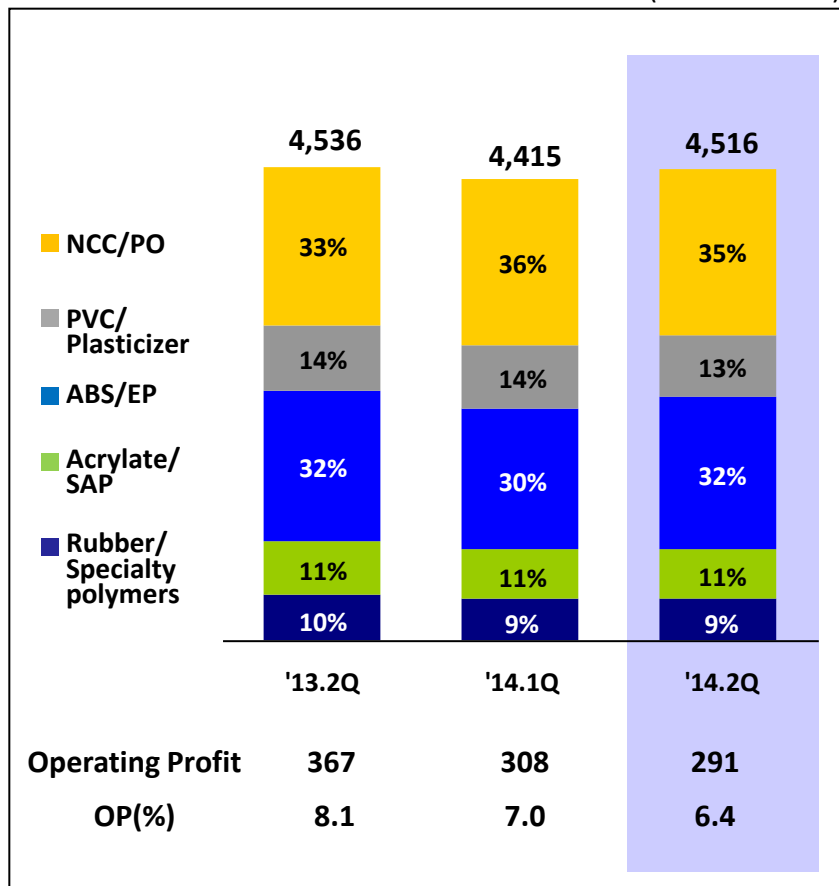
| Classification | '13 | '14.2Q | Change |
|-----------------------------|---------------|---------------|--------|
| Asset | 17,447 | 17,664 | 1.2% |
| Cash and equivalents | 1,909 | 1,859 | -2.6% |
| Liabilities | 5,721 | 5,830 | 1.9% |
| Borrowings | 3,011 | 3,077 | 2.2% |
| Shareholder's Equity | 11,726 | 11,834 | 0.9% |
| EBITDA | 2,788 | 1,264 | |

Financial Ratios

| Classification | '13 | '14.2Q | Change |
|--------------------------------------|------|--------|--------|
| Total Liabilities/ Equity (%) | 48.8 | 49.3 | 0.5%p |
| Borrowings / Equity (%) | 25.7 | 26.0 | 0.3%p |
| Interest Coverage Ratio (x) | 26.7 | 17.3 | -9.4 |
| ROE (%) | 11.3 | 8.7 | -2.6%p |
| ROA (%) | 7.5 | 5.8 | -1.7%p |

Business results

(Unit: KRW bn)



Analysis

• Analysis

- **Earnings declined due to delayed market recovery and strong Korean won**

-NCC/PO : Maintained sound profitability thanks to tight supply of ethylene and seasonal demand increase

-PVC/Plasticizer : Delayed recovery of product price because of sluggish demand in China

-ABS/EP : Continued stable performance backed by increases in HA demand and premium product sales

-Acrylate/SAP : Continued solid earnings with capacity expansion of SAP and sales increase to strategic customers

-Rubber/Specialty Polymers : Margin declined by price weakness due to excess supply

• Outlook

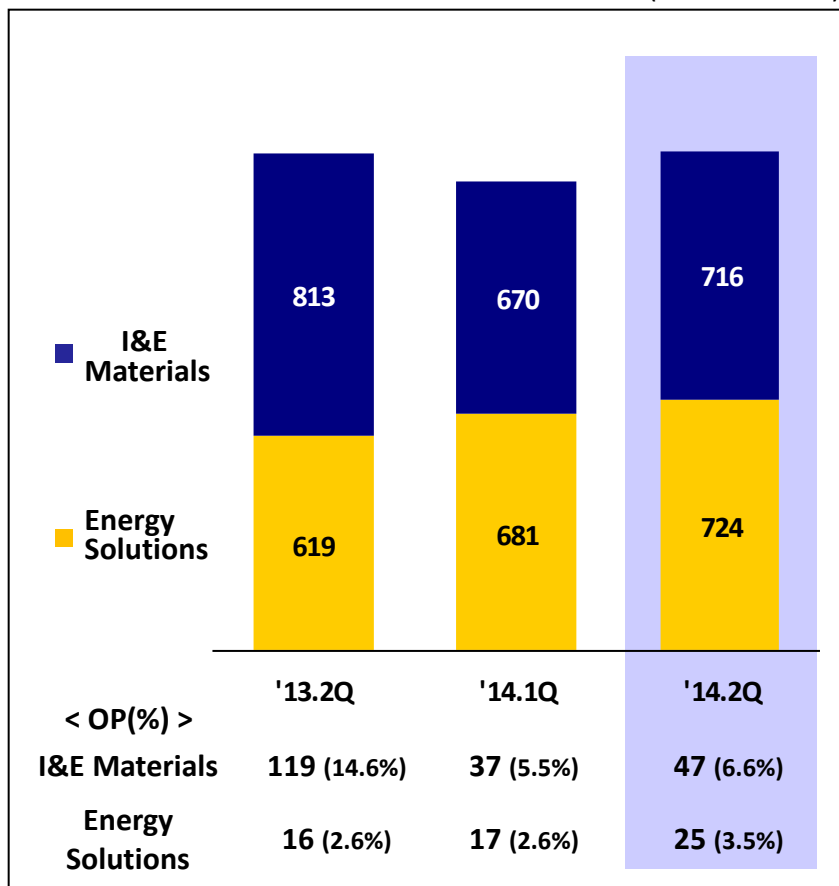
- **Expect gradual market recovery with seasonal demand despite rises in naphtha costs**

- **Enhance competitive edge through high margin products and differentiated product portfolio**

Business results

Analysis

(Unit: KRW bn)



• Analysis

- **I&E Materials** : Shipments increased with seasonal demand and expanded high-profit products sales such as 3D-pol, acrylic polarizers
- **Energy Solutions** : Earnings improved by well-balanced supply and demand and rise of utilization rate with increased battery shipments ; Cylindrical for Power Banks, Wide prismatic for Slim PCs, and Polymer for Smart Phones

• Outlook

- **I&E Materials** : Expect earning improvement by ramping up new polarizer line in Nanjing & cost reduction
- **Energy Solutions** : Expand proportion of high-profit products such as stepped battery and increase shipments with customers' new product launch & continue to secure new customers of automotive battery

(Unit: KRW bn)

| Classification | 2013 | | | | | 2014 | | | | |
|------------------------------|-------|-------|-------|-------|--------|-------|-------|----|----|--------|
| | 1Q | 2Q | 3Q | 4Q | Total | 1Q | 2Q | 3Q | 4Q | Total |
| Sales | 5,721 | 5,917 | 5,865 | 5,641 | 23,144 | 5,673 | 5,869 | | | 11,542 |
| Operating Profit | 409 | 502 | 516 | 316 | 1,743 | 362 | 360 | | | 722 |
| Petrochemicals | 4,353 | 4,536 | 4,426 | 4,300 | 17,614 | 4,415 | 4,516 | | | 8,931 |
| NCC/PO | 1,470 | 1,509 | 1,517 | 1,540 | 6,036 | 1,586 | 1,583 | | | 3,169 |
| PVC/Plasticizer | 598 | 620 | 611 | 580 | 2,409 | 601 | 595 | | | 1,196 |
| ABS | 1,082 | 1,165 | 1,099 | 1,051 | 4,396 | 1,066 | 1,148 | | | 2,215 |
| EP | 265 | 282 | 284 | 271 | 1,102 | 282 | 298 | | | 581 |
| Acrylate/SAP | 492 | 511 | 504 | 460 | 1,966 | 474 | 485 | | | 958 |
| Rubber/ Specialty Polymer | 446 | 450 | 412 | 398 | 1,706 | 406 | 407 | | | 813 |
| Operating Profit | 324 | 367 | 380 | 262 | 1,332 | 308 | 291 | | | 599 |
| I&E Materials | 827 | 813 | 788 | 737 | 3,166 | 670 | 716 | | | 1,386 |
| Operating Profit | 97 | 119 | 102 | 61 | 379 | 37 | 47 | | | 84 |
| Energy Solutions | 592 | 619 | 708 | 665 | 2,583 | 681 | 724 | | | 1,405 |
| Operating Profit | -12 | 16 | 34 | -6 | 32 | 17 | 25 | | | 42 |

※ 2013 Petrochemicals business results are amended to reflect reorganization of the division.

Borrowings

(Unit : KRW bn)

| Classification | '13 | '14.1H |
|--|---------------------------------|---------------------------------|
| Total (Overseas Subsidiaries) | 3,011 (1,172) 100% | 3,077 (1,112) 100% |
| KRW Currency | 803 27% | 803 26% |
| C P | 599 | 599 |
| Others | 205 | 204 |
| Foreign Currency | 2,207 73% | 2,274 74% |
| Loan | 1,272 | 1,208 |
| Negotiation Borrowings | 935 | 1,066 |
| Short-term (Overseas Subsidiaries) | 2,207 (1,074) 73% | 2,190 (827) 71% |
| Long-term (Overseas Subsidiaries) | 803 (98) 27% | 887 (285) 29% |

* The % is calculated to total borrowings.

Cash Flow

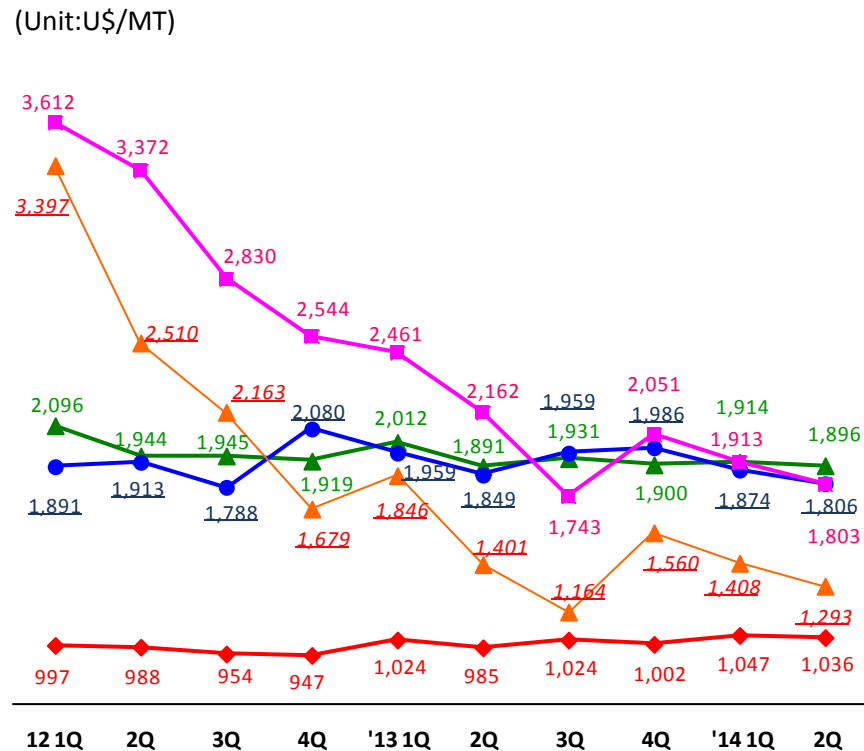
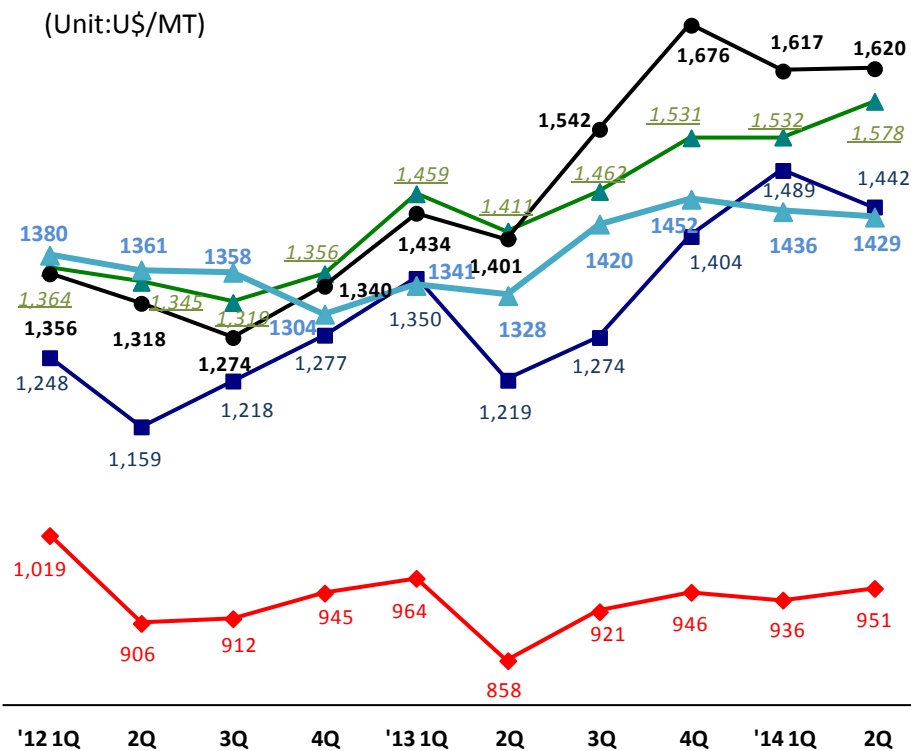
(Unit: KRW bn)

| Classification | '13 | '14.1H |
|----------------------------|--------------|--------------|
| Beginning Cash | 1,341 | 1,909 |
| Operating/Investing | 813 | 178 |
| Net Income | 1,271 | 513 |
| Depreciation | 1,045 | 542 |
| Working Capital | -280 | -73 |
| CAPEX | -1,380 | -732 |
| Others | 157 | -72 |
| Financing | -245 | -228 |
| Borrowings | 64 | 66 |
| Dividends | -308 | -295 |
| Ending | 1,909 | 1,859 |

(Unit: KRW bn)

| Classification | | '12 | '13 | '14 Plan | '14.1H |
|---------------------|-----------------|--------------|--------------|--------------|------------|
| Petrochemicals | New / Expansion | 791 | 416 | 499 | 143 |
| | Maintenance | 177 | 213 | 394 | 105 |
| | Total | 969 | 629 | 894 | 249 |
| I & E Materials | New / Expansion | 253 | 269 | 454 | 67 |
| | Maintenance | 71 | 94 | 132 | 69 |
| | Total | 324 | 363 | 586 | 136 |
| Energy Solutions | New / Expansion | 431 | 104 | 76 | 77 |
| | Maintenance | 106 | 106 | 125 | 62 |
| | Total | 537 | 209 | 200 | 139 |
| Common Expenses | New / Expansion | 162 | 116 | 181 | 184 |
| | Maintenance | 105 | 64 | 91 | 25 |
| | Total | 267 | 180 | 271 | 209 |
| Total | New / Expansion | 1,615 | 904 | 1,210 | 471 |
| | Maintenance | 460 | 476 | 741 | 261 |
| | Total | 2,075 | 1,380 | 1,951 | 732 |

※ "New/Expansion" includes R&D investments.



◆ Naphtha ■ Ethylene ▲ HDPE(Film) ● LDPE ▲ Propylene

◆ PVC ▲ ABS ● B.Acrylate ▲ BD ■ BR

NCC/PO

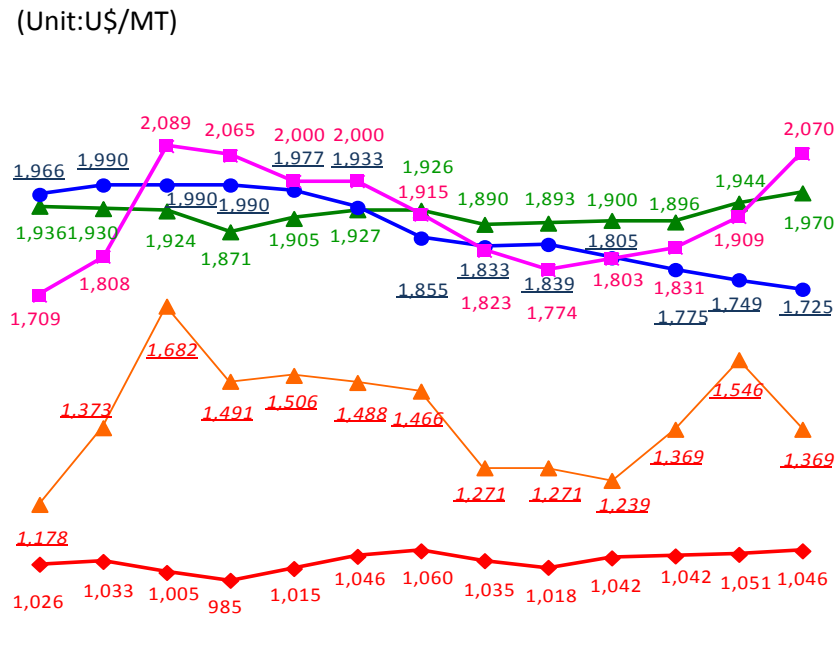
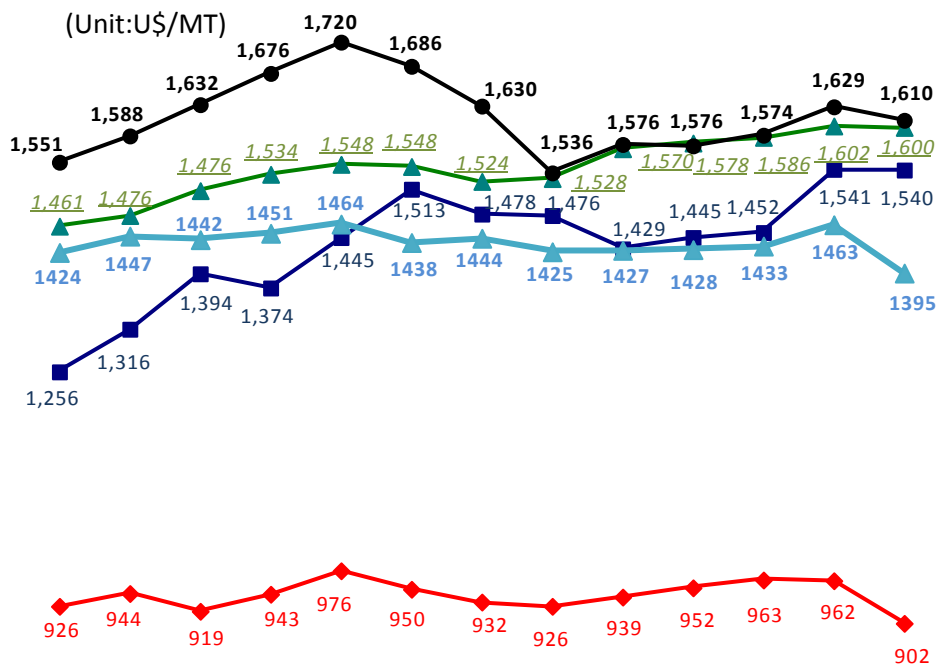
PVC/
Plasticizer

ABS/EP

Acrylate/
SAP

Rubber/
Specialty Polymers

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



◆ Naphtha ■ Ethylene ▲ HDPE(Film) ● LDPE ▲ Propylene

◆ PVC ▲ ABS ● B.Acrylate ▲ BD ■ BR

NCC/PO

PVC/
Plasticizer

ABS/EP

Acrylate/
SAP

Rubber/
Specialty Polymers

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

* Shows the prices on August 15, 2014