Background of the Merger with LG Life Sciences and Future Plan

Sep. 26, 2016
Disclaimer

This Material is prepared for information purpose only with respect to the merger between LG Chem, Ltd. (the “Company”) and LG Life Sciences, Ltd. This Material does not constitute or will not be construed as constituting a public offering, a public sale, an offer to sell, or the solicitation of an offer to buy the securities. No part of this Material shall be relied upon in connection with any contract, commitment, or investment decision whatsoever. All investment decisions with regard to the securities shall be based on the information contained in the securities registration statement and other documents submitted to the Financial Supervisory Commission pursuant to the relevant laws.

The “forward-looking statements” contained herein relate to the Company’s anticipated business and financial performance in the future. Such forward-looking statements are subject to various uncertainties, such as changes in the operating environment; and actual results may differ from those in the forward-looking statements as a result of such uncertainties. Furthermore, the forecasts contained herein are based on the Company’s current business environment and strategy; and the actual results may differ from those in the forecasts as a result of certain uncertainties, such as changes in the Company’s business environment and strategy in the future. The forecasts contained herein are subject to change without notice.

The Company does not provide any representations or warranties, expressed or implied, for accuracy, completeness or reliability of the information contained herein. Furthermore, neither the Company nor any of its affiliates, directors, officers, employees, advisors or agents should not be liable for any damages and losses incurred as a result of any reliance on this Material.
1. LG Chem’s Strategic Direction

LG Chem has dedicated to building a balanced business portfolio by exploring new growth engines to recoup a volatility of its core petrochemical business and to continue to grow.

**Petrochemical is a “Cycle Business”**

![Graph showing the volatility of the petrochemical business]

**LG Chem’s Business Portfolio Strategy**

- **Next Growth Engine?**
  - Batteries: Reinforce global no.1 position in EV batteries
  - I&E Materials: Focus on core materials and improve profitability
  - Petrochemical: Increase a proportion of high-value specialty items

Source: Capital IQ, 1) Information & Electronic
2. LG Chem’s New Growth Engines

LG Chem is pursuing Energy/ Water/ Bio business as growth engines for the next generation.

Three growth engines

**Energy**
- Focus on EV batteries and ESS
- **Awarded EV battery projects:** KRW 36 tn (as of Sep 2016)
- Reinforce the global no.1 market position by developing the next generation technologies such as innovative batteries

**Water**
- Secured core technology for water treatment filter via the acquisition of NanoH2O (‘14)
- Product commercialization (‘15) and won orders from customers

**Bio**
- Established a bridgehead for Green-bio business via the acquisition of Dongbu Farm Hannong (‘16)
- Entering into Red-Bio business by merging with LG Life Sciences (LGLS)

‘Turning-into-a-core-business Stage’
Looking forward to full-scale growth and profits

‘Early Business Stage’
Looking for business expansion opportunities

‘Market Entry Stage’
Establishing a foundation for development into core business
3. Attractiveness of Bio Market

Whilst Bio sector forms a huge market and allows continuous growth/high profitability, many new entrants have shown meaningful successes in this sector.

### Market Size and Growth Potential

<table>
<thead>
<tr>
<th></th>
<th>'14</th>
<th>'20F</th>
<th>CAGR ('14-'20F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrochemical</td>
<td>1,350</td>
<td>1,800</td>
<td>3%</td>
</tr>
<tr>
<td>Green-Bio</td>
<td>1,100</td>
<td>1,400</td>
<td>8%</td>
</tr>
<tr>
<td>Red-Bio</td>
<td>1,100</td>
<td>1,400</td>
<td>5%</td>
</tr>
<tr>
<td>White-Bio</td>
<td>1,100</td>
<td>1,400</td>
<td>4%</td>
</tr>
</tbody>
</table>

### Market Profitability

<table>
<thead>
<tr>
<th></th>
<th>'15 average EBITDA Margin 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red-Bio</td>
<td>25~30%</td>
</tr>
<tr>
<td>Green-Bio</td>
<td>15~20%</td>
</tr>
<tr>
<td>Petrochemical</td>
<td>10~15%</td>
</tr>
</tbody>
</table>

---

1) Global top 10 players in each industry (based on revenue)

Source: Evaluate Pharma, IHS, IMS Health, Frost & Sullivan, Philips McDougall, Capital IQ, Each company’s Annual Report
4. Leading Chemical Companies’ Expansion into the Bio Sector

Major global chemical players are actively expanding Green/Red-Bio business

- **[Green-Bio] Securing global business Platform through a series of mid-sized M&As**
  - Acquired Cyanamid (‘00)

- **[Red-Bio] Pursuing organic and Inorganic growths in parallel**
  - Acquired Roche (‘05) and Merck’s (‘14) consumer care division

- **[Green-Bio] Full-range expansion in crop protection/seeds**
  - Working on acquiring world’s biggest Green-Bio company Monsanto (‘16)

- **[Red-Bio] Expansion in domestic/global market**
  - Merged with Dainippon Pharma (‘05)

- **[Green-Bio] Global expansion based on stake acquisition/alliance**
  - Acquired Nufarm’s stake (‘10)
5. Overview of LG Life Sciences

LG Life Sciences is an attractive merger target making stable growth with R&D capabilities for bio and chemical drugs.

### Company Overview
- **Established**
  - Aug 2002.

- **# of employees**
  - 1,356 (as of Jan ‘16)

- **Business**
  - 3 areas of business
    - Bio pharmaceuticals (Growth hormone, filler, etc.)
    - Chemical drugs (New diabetes drug)
    - Vaccines

- **Market Cap**
  - KRW 1.1T (as of Sep ‘16)

- **History**
  - 1st Korean new drug approved by US FDA (‘03, Factive)
  - Launched the 1st Korean hyaluronic acid filler (‘11, Yvoire)
  - Launched the 1st Korean new diabetes drug (‘12, Zemiglo)

### Key Financial Performance
- **Revenue (KRW tn)**
  - CAGR ~8%
  - ’10: 0.34, ’12: 0.41, ’15: 0.45, ’16E1): ~0.53

- **Operating Profit Margin**
  - ’10: 5.9%, ’12: 3.8%, ’15: 5.6%, >7%

---
1) Estimates based on the market consensus of recent 2 months
Continuous growth can be achieved with already developed products such as Zemiglo, filler and vaccines for the next several years, but expansion of the new pipeline is necessary for a long-term and full-scale growth.

**LGLS's Performance Outlook**

- **Revenue (KRW tn)**
  - 2016: 0.53
  - 2018: 1.0
  - 2020: ~1.0

  - **CAGR ~17%**

**Operating Profit Margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 (E)</td>
<td>&gt;7%</td>
</tr>
<tr>
<td>2018 (F)</td>
<td>&gt;9%</td>
</tr>
<tr>
<td>2020 (F)</td>
<td>&gt;12%</td>
</tr>
</tbody>
</table>

**Major Growth Drivers**

- “Development of ethical drugs\(^2\) and expansion into emerging markets for further growth”

  - **New drug, Diabetes**
    - Better in lowering blood sugar level and less hypoglycemia side effect than drugs in the same class (DPP4 inhibitor)
    - Distribution via major local/global pharmas' sales networks (To be launched in 37 countries by '18)
    - Revenue of KRW 140 bn in '20

  - **Aesthetic Filler**
    - Better drug persistence with filler cross-linking technology
    - Increase in demand from emerging market including China
      - Annual growth rate > 200% and No.2 M/S in China
    - Revenue of KRW 110 bn in '20

  - **Combination Vaccines, etc.**
    - Secure stable supply of vaccines and expedite development process through improvement of clinical trials
    - Entry into UN public market ('16~)
    - Revenue of KRW 160 bn in '20

\(^{1)}\) Estimates based on the market consensus of recent 2 months

\(^{2)}\) Ethical drug (ETC): A drug which is only available legally with a doctor’s prescription
LG Life Sciences’ Growth Potential

LGLS’ strong R&D capabilities can ensure the high level of growth with expanded pipelines of new drug development projects.

**Key Issues**
- Focusing on short-term projects due to pressure on financial performance
- Limit in new drug development as investment and capabilities are dispersed

**LGLS R&D Pipeline**

<table>
<thead>
<tr>
<th>Field</th>
<th>Target Area</th>
<th>Projects</th>
<th>Research</th>
<th>Pre-clinical</th>
<th>Clinical trial Phase 1</th>
<th>Clinical trial Phase 2</th>
<th>Clinical trial Phase 3</th>
<th>Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bio</td>
<td>Similar</td>
<td>Enbrel similar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Humira similar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aesthetic Filler</td>
<td>Next-gen filler</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cell therapy</td>
<td>Osteoarthritis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>CAR-T1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Synthetic</td>
<td>Diabetes</td>
<td>Zemiglo/Zemimet (global)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>ZemiStatin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Diabetes (New)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Autoimmune</td>
<td>Ulcerative colitis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Myocardial infarction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Arthritis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vaccine</td>
<td>For UN supply</td>
<td>Pentavalent (5-in-1 combo)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hexavalent (6-in-1 combo)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Polio (IPV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Premium</td>
<td>Pneumonia 13-valent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improved pneumonia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Improved combination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1) Chimeric antigen receptor-T cell

**Case: Korean Firm “H”**

- High level of growth can be driven by increased investment and focused approach to new drug development

**Graph**

- Revenue (KRW tn)
- Market Cap (KRW tn)
8. Post-Merger Management Plan

Focus on new drug development targeting global market with re-aligned strategic direction

- **Focus on new drug development targeting global market**
  - Target areas to be determined through detailed review after merger (Diabetes, immunity, vaccines, cell therapy, etc)
  - To strengthen open innovation
  - To add core talents with expertise (R&D, biz development)

- **Maximize cash generation from existing products**
  - To intensify sales activities rather than additional R&D

- **Strengthen core competence through synergy between LG Chem & LGLS**

- **Do not pursue large-scale M&As for volume growth**
  - Proactively explore strategic alliance and open innovation opportunities

---

**Investment in R&D and Manufacturing Facility**

- Gradual increase up to KRW 300-500 bn a year - expand the project pipelines to 10-20 for new drugs

**Estimated investment (KRW tn)**

- KRW 0.3tn/y
- KRW 0.5tn/y

**LG Chem’s additional investment is to be around KRW 100bn/year**, considering LGLS’s EBITDA

1) Less than 3% of LG Chem’s annual EBITDA
## 9. Expected benefit and synergy

<table>
<thead>
<tr>
<th>Expected benefit and synergy</th>
<th>Key contents</th>
</tr>
</thead>
</table>
| • Enhancing the possibility of success in new drug development | • Gradually increase investment up to KRW 300~500 bn from current KRW130bn level  
  - In particular, improve the success rate of new drug development by expanding the pipelines at least to 10-20 |
| • Supporting to enhance core competence of LGLS | • AOT\(^1\), Big data driven Innovation of drug development process  
• Expedite establishment of mass production system and improve the operational efficiency  
• Proactive open innovation and C&D\(^2\) activities through overseas network of 26 branches in 19 countries |
| • Enhancing the competence of Green-Bio business (Farm Hannong) | • Enhancement of global business capabilities using the experience of overseas licensing and new crop protection material development  
  - Share the know-hows in new material development such as HTS\(^3\) utilization  
  - Share the expertise in overseas registration, licensing, and toxicological evaluation  
• Enhancement of breeding capabilities utilizing LG LS’s genetic modification technology |
| • Upgrading business infrastructure and reducing financial costs | • Upgrading business infrastructure in a most cost effective manner  
(IT system, logistics, raw material purchase, etc.)  
• Financial cost reduction  
  - Current credit rating: LG LS’s A vs. LG Chem’s AA+4) |

1) Advanced Optimization Technology, 2) Connect and Development, 3) High Throughput Screening, 4) Based on local credit rating, and LG Chem’s S&P rating is A-
LG Life Sciences is the only company LG Chem can realistically acquire at a reasonable price

"Only candidate among the companies with new drug development capabilities"

- There are 6 Korean pharma companies with new drug development capabilities
- LGLS is the only realistic acquisition target

"Reasonable price"

- LGLS’s PER is 35.6x, lower than the industry average of 41x\(^1\)
- No additional premium payment for this merger
  - Generally, 30-50% of premium \(^2\) is required in Pharma M&A deals

"Low risk in PMI"

- Low risk of integration failure
- Low risk of hidden liability

Price is too high as its current market cap is KRW 7 tn

Low feasibility of acquiring controlling stake

---

\(^1\) KRX healthcare sector average
\(^2\) Based on 7 acquisitions worth around KRW 500 bn over the last 3 years (Endo-Paladin deal required 40% premium and Shire-ViroPharma required 47%)
11. LG Chem’s Vision for Growth

LG Chem will build a sustainable and balanced business portfolio by nurturing bio business on top of its flagship petrochemical and battery businesses.

**LG Chem’s Mid-to-long Term Management Goals**

- **Revenue by Business Area** (KRW tn)
  - Petrochem/Basic materials
  - Batteries/I&E materials
  - Bio

**Growth of Bio Business**

- **Revenue by Business Area** (KRW tn)
  - Red-Bio
    - Sales 2.5tn
    - OPM > 15%
  - Green-Bio
    - 1

- **5**
Appendix

1. Merger Overview

2. LG Life Sciences, Ltd.
   ① History
   ② Domestic/Global Networks
   ③ Financial Statements
   ④ Status by Business Division

3. Stock Price Trend
   ① Stock Price Trend by Industry
   ② Stock Price of Two Companies

4. Summary on Small-scale Merger
   Under the Commercial Code
1. Merger Overview

- **Merger Timeline**
  - BOD Resolution on Sep 12th
  - Shareholders’ Meeting on Amendment to Articles of Incorporation on Oct 31st
  - BOD on Merger Approval on Nov. 28th
  - Merger Completion on Jan 1st 2017

- **Merger Method**

<table>
<thead>
<tr>
<th></th>
<th>Remaining entity</th>
<th>Disposed entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG Chem</td>
<td>LG Chem</td>
<td>LG Life Sciences</td>
</tr>
</tbody>
</table>

- **Merger Ratio**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Common stock</th>
<th>Preferred stock</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LG Chem</td>
<td>LG Life Sciences</td>
</tr>
<tr>
<td>Based Share Price(^1)</td>
<td>KRW 253,390</td>
<td>KRW 66,053</td>
</tr>
<tr>
<td>Merger Ratio</td>
<td>1 : 0.2606772</td>
<td>1 : 0.2534945</td>
</tr>
</tbody>
</table>

- **New Stock Issuance after Merger**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total number of issued shares</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>4,321,243</td>
<td>On the date of merger, new issued common/ preferred stocks will be assigned to LG Life Sciences’ common/preferred stock shareholders</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>59,879</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4,381,122</td>
<td>Approx. 5.9% of 73,900,021, the total number of stocks issued.</td>
</tr>
</tbody>
</table>

\(^1\) Calculation method of based share price for merger: average of latest close price, recent 1 week, and 1 month weighted average price (Based on Article 165 (4) of Capital Markets and Financial Investment Services Act)
2. LG Life Sciences

1981  Started to conduct genetic engineering research, for the first time in Korea

1989  Developed Korea’s 1st biopharmaceutical product (Intermax Gamma)

1996  Hepatitis-B vaccine was pre-qualified by WHO

2002  LG Life Sciences was established

2003  Factive became Korea’s 1st new drugs approved by US FDA

2008  Became Korea’s 1st pharmaceutical firm to make $100 million in export

2009  Introduced the world’s weekly-administered growth hormone (Eutropin Plus)

2012  Developed Korea’s 1st new diabetes drug (Zemiglo)

2016  Achieved WHO Pre Qualification of Pentavalent vaccine

(Annex 2/8)
2. LG Life Sciences

② Domestic/Global Networks

**Domestic**

- Business divisions
- Domestic sales
- R&D (clinical trial /product development)
- Support

Research Centers in Daejeon

- Biopharmaceuticals R&D
- Vaccine R&D
- Drug discovery
- CMC R&D
- Drug development center

Osong Campus

- Vaccine / Biopharmaceutical products
- Biosimilar
- Zemiglo

Iksan Plant

- Yvoire, Boostin, etc.
- Materials for Factive

Onsan Plant

- Chemical drug materials
- Agricultural chemicals/
  Chemical materials

**Global Networks**

- Corporations (China, India, Thailand, USA, Poland)
- Regional Office (MENA)

(Annex 3/8)
2. LG Life Sciences

③ Financial Statement

Summary of Consolidated Financial Position Statement

<table>
<thead>
<tr>
<th>Classification</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Asset</td>
<td>221</td>
<td>248</td>
<td>233</td>
<td>262</td>
<td>255</td>
</tr>
<tr>
<td>Non-current Asset</td>
<td>280</td>
<td>321</td>
<td>379</td>
<td>391</td>
<td>452</td>
</tr>
<tr>
<td>Total Assets</td>
<td>501</td>
<td>569</td>
<td>612</td>
<td>653</td>
<td>707</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>98</td>
<td>118</td>
<td>166</td>
<td>98</td>
<td>161</td>
</tr>
<tr>
<td>Non-current Liabilities</td>
<td>154</td>
<td>198</td>
<td>192</td>
<td>306</td>
<td>288</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>253</td>
<td>316</td>
<td>358</td>
<td>404</td>
<td>449</td>
</tr>
<tr>
<td>Capital Stock</td>
<td>84</td>
<td>84</td>
<td>84</td>
<td>84</td>
<td>84</td>
</tr>
<tr>
<td>Additional Paid-in Capital</td>
<td>147</td>
<td>147</td>
<td>147</td>
<td>147</td>
<td>147</td>
</tr>
<tr>
<td>Other Capital Items</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-3</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>17</td>
<td>23</td>
<td>24</td>
<td>19</td>
<td>29</td>
</tr>
<tr>
<td>Total Stockholders’ Equity</td>
<td>248</td>
<td>253</td>
<td>254</td>
<td>249</td>
<td>258</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Ratio</td>
<td>102%</td>
<td>125%</td>
<td>141%</td>
<td>162%</td>
<td>174%</td>
</tr>
<tr>
<td>Net Borrowing Ratio</td>
<td>47%</td>
<td>63%</td>
<td>88%</td>
<td>103%</td>
<td>115%</td>
</tr>
</tbody>
</table>

Summary of Consolidated Income Statement

<table>
<thead>
<tr>
<th>Classification</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>382</td>
<td>406</td>
<td>417</td>
<td>426</td>
<td>451</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>168</td>
<td>185</td>
<td>200</td>
<td>201</td>
<td>219</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>12</td>
<td>15</td>
<td>14</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>Profit before Income Taxes</td>
<td>4</td>
<td>8</td>
<td>5</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Net Income</td>
<td>6</td>
<td>9</td>
<td>3</td>
<td>-2</td>
<td>11</td>
</tr>
</tbody>
</table>

(Annex 4/8)
2. LG Life Sciences

## ④ Status by Business Division

<table>
<thead>
<tr>
<th>Division</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales</td>
<td>Operating Profit</td>
<td>Sales</td>
</tr>
<tr>
<td>Total</td>
<td>417</td>
<td>14</td>
<td>426</td>
</tr>
<tr>
<td>Pharma</td>
<td>339</td>
<td>9</td>
<td>357</td>
</tr>
<tr>
<td>Bio</td>
<td>175</td>
<td>32</td>
<td>187</td>
</tr>
<tr>
<td>Chemical</td>
<td>66</td>
<td>-17</td>
<td>77</td>
</tr>
<tr>
<td>Vaccine</td>
<td>31</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>Fine Chem</td>
<td>79</td>
<td>5</td>
<td>69</td>
</tr>
</tbody>
</table>

* * 2016 H1 Sales KRW 250 bn, Operating Profit KRW 28 bn
3. Stock Price Trend

- Pharmaceutical sector’s stock price performance has been on a steep rise since 2015 as pharma industry became attractive in Korea
  → Further upside momentum is expected considering the growth rate and profitability of pharmaceutical sector

[ KRX Energy & Chemical Sector vs Healthcare Sector Performance ]

[ Hanmi vs LG Life Sciences Performance ]

LG Life Sciences deserves attention as it is undervalued relatively in the sector despite its Bio business potential and R&D capabilities.
LG Chem’s recent stock price is lower than the past, however, LG Life Sciences is in a similar situation. Thus, the merger ratio would have been quite similar.

<table>
<thead>
<tr>
<th></th>
<th>Closing before BOD</th>
<th>12 month-high</th>
<th>24 month-high</th>
<th>36 month-high</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LG Chem</strong></td>
<td>248,500</td>
<td>344,500</td>
<td>344,500</td>
<td>344,500</td>
</tr>
<tr>
<td><strong>LGLS</strong></td>
<td>64,000</td>
<td>79,400</td>
<td>91,100</td>
<td>91,100</td>
</tr>
</tbody>
</table>

\[
\left( \frac{\text{LGLS}}{\text{LG Chem}} \right) = \begin{bmatrix} 0.26 & 0.23 & 0.26 & 0.26 \end{bmatrix}
\]
4. Summary on Small-scale Merger under the Commercial Code

- **Purpose under the Commercial Code**
  - To support the revitalization of corporate restructuring and merger
  - If the amount of new shares issuance through the merger is not substantial (not more than 10% of outstanding shares), there is not a significant effect on existing shareholders, and therefore the procedures are streamlined to require only a board resolution rather than a shareholders’ approval of the merger.

- **Requirements for Small-scale merger**
  - Article 527-3, Section 1 of the Commercial Code, revised in 2012 (effective as of April 15, 2012) : New shares issued by surviving company must not exceed 10% of total outstanding shares

- **Cases of Small-scale merger prior to effectiveness of revised Commercial Code in 2012**
  - Number of small-scale mergers since 2012 : 289 according to disclosure records
  - Many cases involving new shares exceeding 5% and up to 10% of outstanding shares

- **Issues relating to communication with shareholders in case of merger**
  - In case of merger between listed companies in Korea, the merger consideration and merger ratio are determined mechanically based on the market price on a specified date in accordance with statutory requirements, and therefore it is not possible to reflect shareholders’ opinion.
  - If information on the merger is known, it may affect the market price which will directly impact the merger consideration. Therefore, it is important from the parties to the merger to prevent disclosure of merger-related information.
  - Discussion with shareholders in the course of the merger will give rise to the risk of major issues relating to “insider trading”.

(Annex 8/8)