

## Response to Issues and Proposals Raised by a Minority Shareholder: Our Position and Progress of Discussions with a Minority Shareholder

- We are deeply grateful for minority shareholders' interest and sincere feedback as a shareholder. We are always receptive to our shareholders' opinions and strive for open communication with our shareholders.
- We have responded three times in writing and held several telephonic discussions or meetings with respect to the letter by a Minority Shareholder raising issues and proposals about this spin-off, etc. In particular, Beom Jong Ha, CFO and a registered director of the Company, personally participated in a recent conference call and responded faithfully to the inquiries and concerns raised by a Minority Shareholder.
- We look forward to a constructive and smooth communication with our shareholders in the future as well, for the purpose of which this explanatory material has been also prepared.

# Response to Issues and Proposals Raised by a Minority Shareholder: Issue (1)

## 1 Related to the claim that the spin-off will worsen LG's NAV discount issue

- The holding company's NAV discount issue arises from the nature of the holding company's business that controls its subsidiaries and relies on the cash flow of dividends from them. This is an issue that other holding companies are also experiencing in common.
- In the case of holding companies, (i) the level of cash flow is low and the burden of holding investment assets is high due to the nature of the business that relies on dividends from subsidiaries, (ii) the investment tendency of investors who prefer to invest directly rather than indirectly holding stocks of superior subsidiaries, (iii) It is known that discount compared to NAV occurs due to the burden of business risk caused by trying to launch new business at the group level.
- In addition to these common factors of holding companies, individual discount factors related to LG Corp. are said to include a decrease in investment attractiveness due to excessive business diversification, a clear lack of market superiority in the electronics and telecommunications industry, and a lack of investment in business areas with high growth potential.
- Although it is difficult to solve all the various factors that cause the company's valuation discount at once, **LG intends to diversify investment risk, advance portfolio, promote business-specific expertise, and strengthen competitiveness by restructuring the business portfolio and the holding structure through the spin-off. This will ultimately help to improve LG Corp.'s valuation discount and enhance corporate value.**
- In addition to these efforts to enhance corporate value, LG will actively invest in new businesses with high growth potentials, utilizing abundant investment resources and will actively consider plans to enhance the shareholder value.
- It is true that LG's share price has declined slightly in the short term since November 26, 2020, the date of the announcement of the spin-off, and the NAV discount has also expanded, **but the stock price has gradually recovered from December 1, 2020, just a few days later. In particular, the stock price showed a sharp rise when the company's investment decisions and business restructuring plans were announced at the end of December 2020, along with the anticipation of accelerating growth after the spin-off.** This demonstrates that the market is also positively responding to the company's business portfolio enhancement, corporate governance restructuring, and profit generation plans by focusing on strategic business through the spin-off.

## Response to Issues and Proposals Raised by a Minority Shareholder: Issue (2)

### 2 Related to the claim that the spin-off decision shows that LG's corporate governance structure lags behind

- Prior to approving the spin-off plan, the board of directors of LG Corp. went through internal reviews, external consultation and analysis conducted on the spin-off, which provided sufficient data to make reasonable decisions.
- In particular, these materials were sufficiently provided to our board of directors in advance to the BOD meeting, where 4 independent outside directors participate. Explanations and Q&A sessions took place by the external experts and discussions between directors were also held.
- As a result, based on the aforementioned circumstances, the board of directors reasonably decided that this spin-off corresponds to LG's objective.
- The board consists of 7 directors in total, including 3 inside directors and 4 outside directors. In appointing outside directors, LG verifies various factors for disqualification of outside directors based on laws and regulations, such as relationship with the largest shareholder, major shareholders, and other related persons. We require outside directors with strict independence as they occupy the majority when constituting the board of directors.
- In addition to the 3 inside directors engaged in LG's ordinary business affairs, the 4 outside directors are professionals with sufficient knowledge and experience in various fields such as finance, accounting, audit, law, corporate management, sales, and media leading to a well-balanced board.
- Our board of directors and committees within the board of directors are appropriately making decisions on major corporate activities, including approval of transactions with specially related parties.
- LG already has an approval system for transactions with specially related parties by the board of directors to prevent damages to the company and shareholders through conflicts of interest. LG also complies with all relevant approval procedures and requirements in accordance with laws and regulations regarding public disclosures.

## Response to Issues and Proposals Raised by a Minority Shareholder: Issue (3)

### 3 Regarding allegation that spin-off does not create value for LG or the minority shareholders

- Although NewCo is small in terms of NAV, the size of the spin-off itself is considerable, exceeding KRW 1 trillion.
- Also, the spin-off is pivotal for LG to achieve its goals of improving and specializing business structure and to reach the objectives of independent and responsible management, moreover, the spin-off bears an enterprise-wide value, as it would cause a major transformation of LG's business in terms of restructuring its business portfolio.
- We believe that by establishing business organization / decision-making structure tailored to each of the Spun-Off Subsidiaries and by strengthening the respective capacities to independently conduct business and to expand outward business opportunities, the overall shareholder and corporate value would be improved.
- Considering that (i) Spun-Off Subsidiaries only take up 5.4% of dividend income and 3.4% of royalty income as of the 3Q 2020, (ii) dividend incomes have and will rise continuously, and (iii) there occurs no change in commercial terms associated with the Spin-Off with regards to royalty income, **the cash flow and investment capacity of the surviving holding company will remain intact** (see Appendix #2)
- Moreover, although approximately 8.9% of cash equivalent is to be spun-off with the deal, the yearly increase of cash flow greatly surpasses the cash equivalent to be spun-off and, hence, the damage to the investment capacity will be minimal
- As witnessed by numerous past cases in which spin-offs conducted in similar manner have resulted in increased corporate value for newly created companies, **we expect that the Spin-Off will provide an opportunity for LG, NewCo and Spun-Off Subsidiaries to each be re-evaluated of their respective corporate values and be focused on growth potentials, thereby ultimately enhancing the shareholders' profits**
- Comparative analysis on rate of change in aggregate corporate value three months before and after the spin-off public disclosure of 28 companies that spun-off during the past 5 years(2016~2020) has yielded, on average, higher corporate growth rate as compared to the KOSPI Index (see Appendix #3)

# Response to Issues and Proposals Raised by a Minority Shareholder: Proposal (1)

## 1 Response to Proposal to Immediately Implement the Capital Management Plan to Resolve NAV Discount Issue

- LG is fully aware that the company share's are trading at a wider NAV discount compared to its peers and that certain investors are requesting for a capital allocation plan. The management has been and will continue to use its utmost efforts to resolve these issues.
- Management continues to report to and deliberate with the Board at its meetings on various methods to enhance shareholder value, including increasing dividends and etc. LG will announce to shareholders if the Board resolves any specific matters at its meetings.
- In a fast-changing business environment, proactive action (including portfolio adjustment) is required. Coupled with the global and domestic uncertainty because of the COVID-19 pandemic, it is imperative for LG to retain sufficient liquidity.
- Regarding the enhancement of shareholder value, it is understood that LG's shareholder expect the implementation of LG's "Additive Expansion Strategy", which will include making significant investments into future growth businesses. LG believes this approach will help alleviate the NAV discount.
- LG has paid out considerable dividends to its shareholders to enhance shareholder profit. **For the past three years, LG has issued dividends that are significantly higher compared to those issued by other corporations in the KOSPI market or industry peer companies, maintaining a 60% or higher dividend payout ratio relative to LG's net income.**
- LG also publicly disclosed on February 13, 2020 that it would determine dividends based on various factors, including LG's investments for continuous growth, financial structure and the business environment. The disclosure also noted that "the company would return more than 50% of its net income (excluding one-off non-recurring income) to shareholders as dividends, with limitation of the company's dividend income from its subsidiaries" to accommodate the characteristics of the holding company that is highly dependent on dividend income. This disclosure is a model precedent among Korean companies in disclosing a specific dividend policy and communicating this with shareholders.

# Response to Issues and Proposals Raised by a Minority Shareholder: Proposal (2)

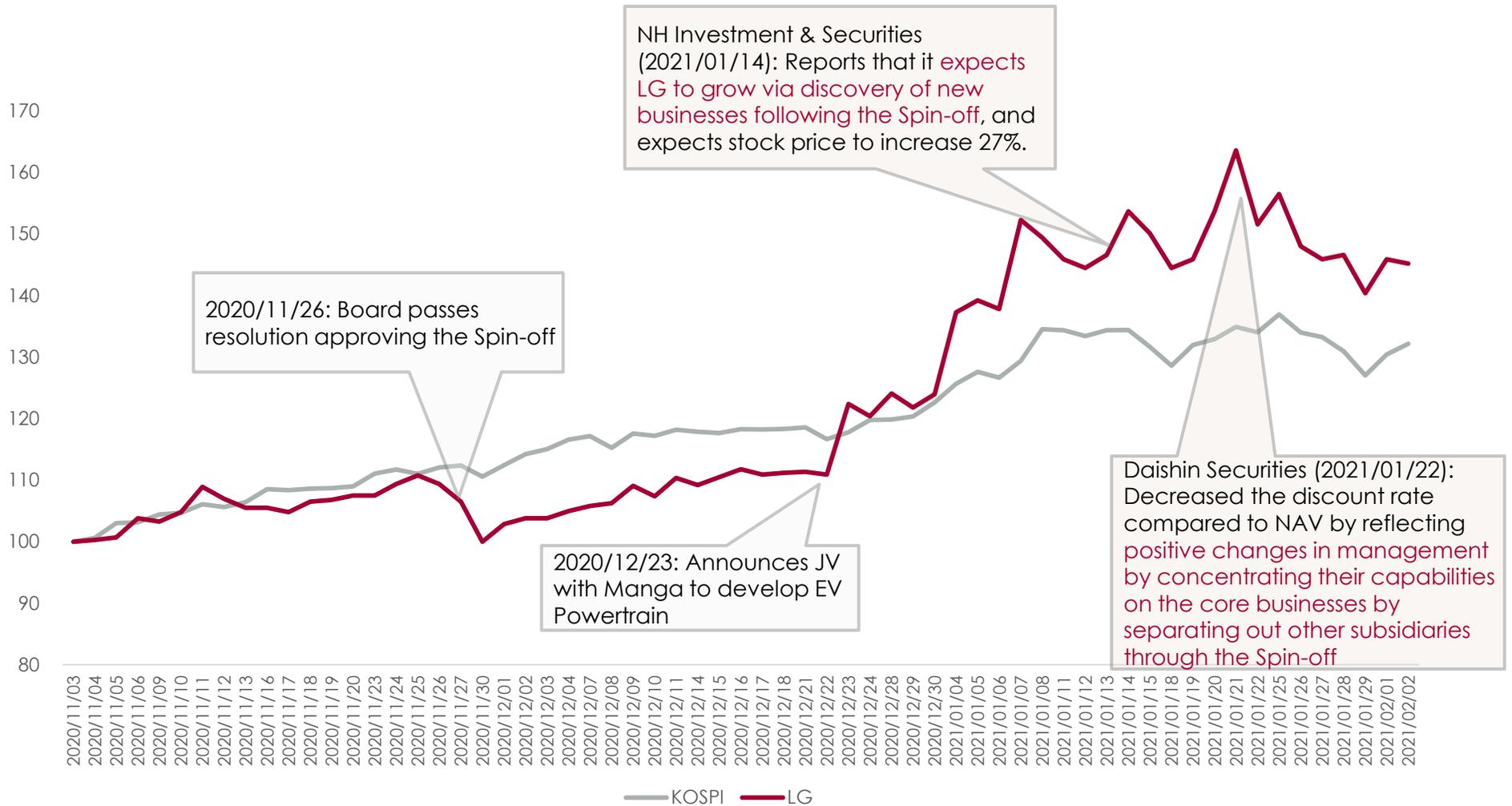
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## Response to Proposal to Establish a Corporate Governance Committee to Protect Minority Shareholders

- Whitebox argues that LG's governance policy is insufficient compared to another Korean conglomerate when evaluating the following factors: (1) whether the Chairman and CEO are separate positions within management; (2) the number and type of board committees; (3) the presence of a shareholder advocate on the board of directors; (4) the notice period for the annual general shareholders' meeting; (5) foreign shareholder notifications; and (6) the disclosure and publicity of voting results. However, corporate governance practices cannot be evaluated based on simple and limited considerations of individual elements in a company. In fact, even global corporate governance practices of various indices and governance rating institutions take a wide variety of factors into consideration when evaluating a company's overall corporate governance structure. Also, the "Comply or Explain" principle notes that regulations on disclosure of a company's corporate governance policies require reasoning for a company's current practices and plans for improvement, rather than evaluate whether the company has or has not complied with certain specific individuals factors.
- LG's current outside directors are experts in various fields, including finance, accounting, law, media and business management, maintain independence, and properly represent the interests of all LG's stakeholders, including its shareholders. The mere fact that LG does not present a shareholder advocate position in the course of the appointment procedure does not necessarily mean that LG's directors fail to fulfill their duty and obligation to represent and protect rights and interest of LG's shareholders and other stakeholders.
- Furthermore, it is difficult to make judgments on LG's governance structure or the independence and fairness of the Board based simply on the number of or the type of Board committees without taking into account the Board and the committee's composition, rules, operational status and other factors. In case of a conflict of interest, such as a transaction between LG and its related parties, LG should obtain the Board's approval consisting of a majority of independent outside directors. From an independence and fairness perspective, having a Board comprised of a majority of independent outside directors is not substantively different from an internal transaction committee.
- While the representative director also currently serves as the chairman of the Board, this alone cannot lead to the conclusions that LG's corporate governance practices are deficient. There are several other companies in which the representative director or executive director also concurrently services as the chairperson of the board.
- Furthermore, the strength of a company's governance structure cannot be solely assessed based on the notice period for the general shareholders' meeting, foreign shareholder notifications or the disclosure and publicity of voting results, without also taking into account the contents and sufficiency of the information disclosed to the shareholders for the attendance of the general shareholders' meeting, and the reactivity of a company's investor relations department.
- LG is highly interested in and committed to improving its overall ESG management system. LG is reviewing whether to establish relevant committees, including the committees suggested by our shareholders, to introduce into its ESG management system and to improve corporate governance. LG will notify shareholders upon any decisions relating to establishing such committee.

## Appendix #1: Stock Price Trends Following Announcement of Spin-off<sup>(1)</sup>

LG's stock price fell temporarily following the announcement of the Spin-off on November 26, 2020. However, the stock price recovered shortly thereafter starting on December 1, 2020, in particular following LG's announcement of new investments and business restructuring plan in December 2020, and the stock price has been rising sharply in anticipation of LG's accelerated growth following the completion of the Spin-off.

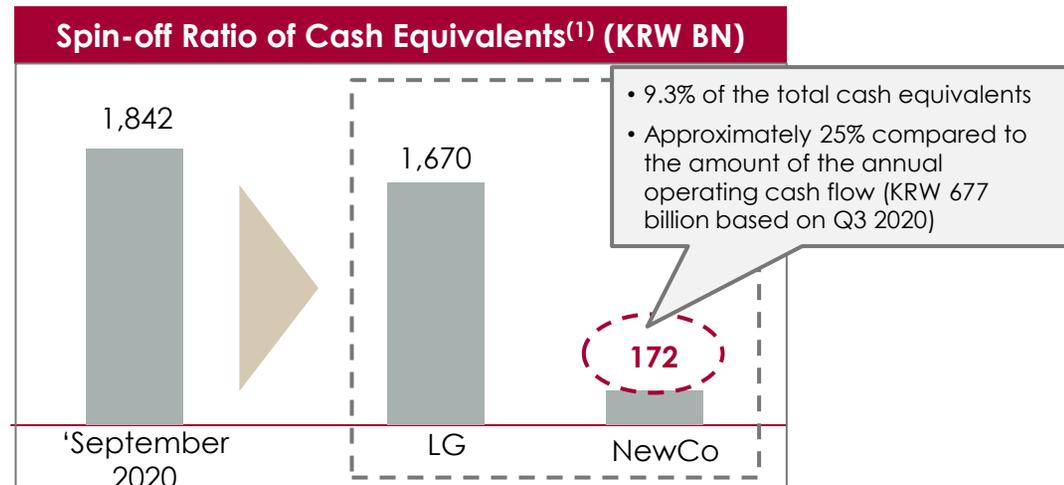
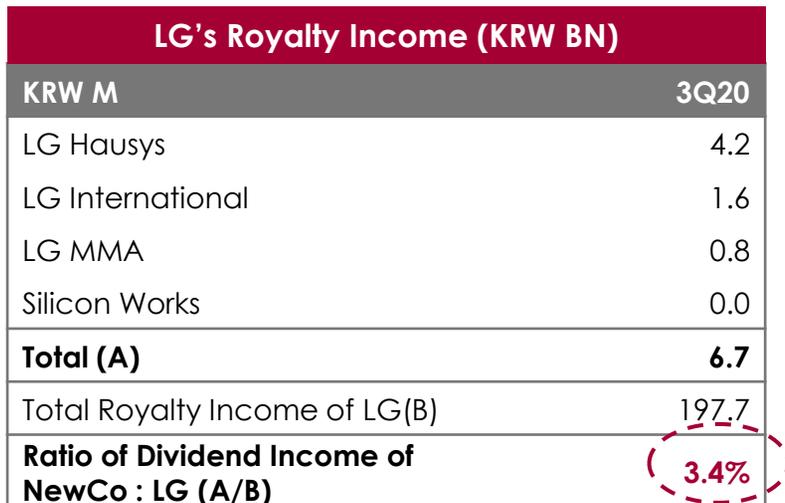
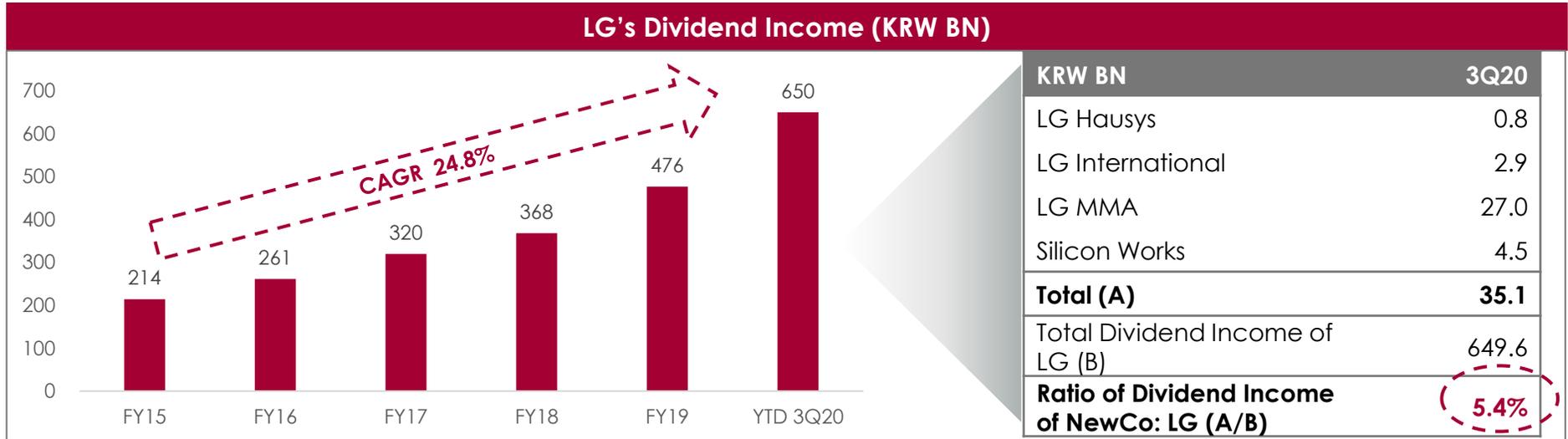


**Notes:**

1. On this graph, starting November 30, 2020, the stock price on the KOSPI index denoted in 100.

## Appendix #2: Impact of Decreased Assets and Profits of Surviving Company Following Spin-off

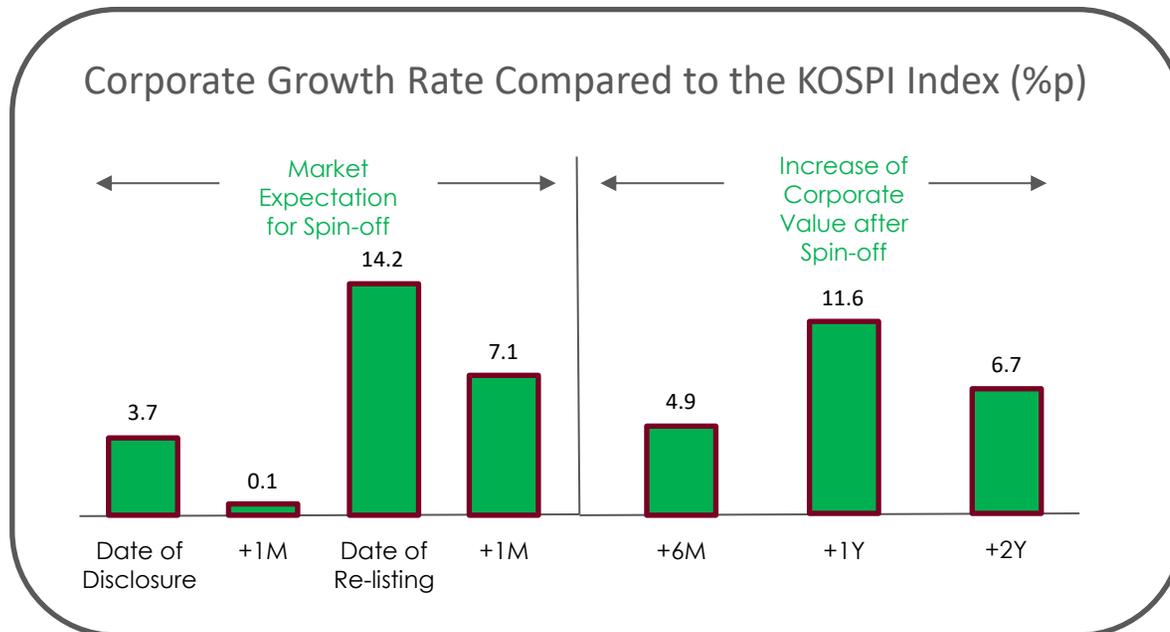
The subsidiaries being spun-off (held under NewCo) comprise 5.4% of the total dividend income of LG and 3.4% of the total royalty income of LG based on Q3 2020. While the Spin-off will result in a loss of 9% of LG's total cash equivalents, this does not have a significant impact because the annual cash flow of LG is substantially more than the amount of cash equivalents being spun-off.



Notes  
1. Cash equivalents and other financial assets as of the end of September, 2020

## Appendix #3: Empirical Analysis of Change in Corporate Value Following Spin-off (1)

Overall, companies that have completed spin-offs over the past five years have experienced on average an increase in corporate value. This reflects the market's expectations that spin-offs enhance corporate value.



- Consistent with a number of research results that have found that spin-offs have a positive impact on a company's stock price, companies that publicly disclosed spin-offs generally experience growth at rates higher than the market on average.
- The increase in the stock price in the period immediately following the public disclosure of a spin-off and relisting can be seen as the market's positive reaction to the spin-off.
- If a company continues to increase in value after the public disclosure of the spin-off, compared to the company's value prior to the spin-off, then this effect could be interpreted as the spin-off improving the long-term corporate value of the company.

### <Method of Analysis>

- Case study of 28 companies that spun-off during the five years between 2016 and 2020
- Compared the rate of change in aggregate corporate value three months before and after the spin-off public disclosure to the KOSPI Index during the same period
- Corporate growth rate is calculated as the difference (the average of the 28 cases) between rate of change in aggregate corporate value and rate of change in KOSPI Index

Notes  
1. Analysis Data from LG Economic Research Institute

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