WHITEBOX

14 December 2020

For the attention of the Board of Directors of LG Corp:
Koo, Kwang Mo
Kwon, Young Soo
Ha, Beom Jong
Lee, Chang Kyu
Han, Jong Soo
Cho, Sung Wook
Kim, Sang Hun

Dear Members of the Board of Directors,

As you are aware, Whitebox Advisors LLC (together with its affiliates, "Whitebox" or "we") owns a significant stake in LG Corporation ("LG" or the "Company"). We are a long-term shareholder that has repeatedly sought to engage with the Board of Directors (the "Board") and representatives of the management team in a constructive, private manner over the past two years. It is extremely disappointing that our feedback and viewpoints have been repeatedly dismissed or ignored.

We are writing to you today regarding LG's November 26, 2020 announcement that it plans to spin off a newly created holding company comprised of the Company's direct and indirect holdings in LG Hausys, LG MMA, Siliconworks, LG International and Pantos (collectively, "the Spin-Off"). This transaction would spin out about 2% of LG's current net asset value ("NAV"). In addition, 9% of LG's KRW1.8 trillion cash balance would be transferred to the Spin-Off. We are deeply dismayed that the purported rationale for this transaction is to create and support Koo Bon-joon in developing his own business group, like others in his family.[1] Given LG's staggering NAV discount and the apparently anti-shareholder rationale for this transaction, we have serious concerns about the Spin-Off decision.

Our opposition to this poorly conceived transaction stems from the following:

1. It is unclear how the Spin-Off would create any meaningful value for LG's minority shareholders. We estimate that an alternative of distributing these assets directly to shareholders would generate a return three times greater than the Company's current proposal.

2. The Spin-Off does nothing to address LG's most pressing issue, which is the unprecedented discount at which the Company trades relative to its assets and, accordingly, inferior return to shareholders. Over the last three years, we estimate that LG's underlying asset value has increased by 33% while its share price has decreased by 12%.

3. The decision to proceed with the Spin-Off reflects poorly on corporate governance. Despite clearly favourable alternatives, the Board has unanimously approved a plan that, in our view, sacrifices minority shareholder return in order to resolve a family succession issue.

According to analysts and public reports, the transaction appears to have been conceived primarily to transfer assets (at a discount to market value) between the controlling shareholders and has detracted both time and resources away from what should be the number one priority of the Board and Management: the creation of value for all shareholders. We believe this conduct is inconsistent with the stated values of LG, whose role as a "corporate citizen" is to become "truly trusted and loved" by shareholders while "carrying out various means to increase shareholder value"[2].

[1] "LG to set up new holding company for affiliates split-off", Yonhap News Agency, November 27, 2020
[2] LG Corp FY19 Annual Report, Chairman's Statement

We believe the Spin-Off fails to create value for Minority Shareholders or LG Corp.

Spin-offs create value for shareholders when the spun off assets are worth more as independent entities than as part of a larger conglomerate or when the surviving company is sufficiently streamlined through the transaction (which is deemed as value-generating by supportive investors). This transaction does not have the hallmarks of a viable and well-supported spin.

The Board suggests that there is no possibility that the shareholders will suffer loss, since the Spin-Off method provides the existing shareholders with shares in the two split companies in equal proportions in accordance with the Spin-Off ratio. However, even from a legal perspective, where the aggregate value of the shares of the two companies after a spin-off are arithmetically the same as the value of the shares of the company before the spin-off, the spin-off will inevitably bring qualitative changes to the nature and substance of the shareholders' rights having an actual impact on the shareholder status[3].

In this instance, a group of disparate businesses drawn from all three of LG's segments would be spun off into a much smaller, less liquid holding company ("NewCo"), effectively creating a microcosm of LG itself. NewCo will be a holding company with 75% of its assets comprised of stakes in unrelated publicly listed companies. The remaining asset value will be split between an unlisted business and net cash. We cannot see a distinct competitive strength, strategy, industry position or compelling market opportunity for NewCo.

Even if an investment case could be constructed for NewCo, many investors would not be able to hold NewCo shares due to liquidity and size constraints. Using current trading prices for LG Hausys, LG International and Silicon Works and book value for LG MMA, we estimate that NewCo will have a NAV of KRW1031 billion (equivalent to 2% of LG's current NAV).

You will be aware that holding companies, particularly in South Korea, do not trade anywhere near their NAV. We estimate that LG itself is currently trading at a 69% discount to NAV. The average discount to NAV of the nine largest Korean conglomerates is 59%. Given the relative size and trading liquidity of NewCo, we presume it will trade at a wider discount to NAV than LG.

Applying a holding company discount of 69%, in line with the discount at which LG currently trades, implies a market capitalisation for Newco of KRW319 billion. This is smaller than both the average and median size of the MSCI Korea Small Cap Index[4]. If trading liquidity is proportionate to LG Corp's, NewCo will trade USD$400,000 per day.

Table 1: Pro-Forma NewCo

Businesses	Ticker	Market Value (KRWbn)	Value per share (KRW)	% of NAV
LG HAUSYS LTD	108670.KS	253	3,318	25%
LG INTERNATIONAL CORP	001120.KS	239	3,137	23%
SILICON WORKS CO LTD	108320.KQ	277	3,633	27%
LG MMA	(book value)	115	1,512	11%
Total Business Value		***885***	***11,600***	86%
Net Cash		146	1912	14%
Total NewCo Value (NAV)		**1031**	**13,512**	100%
Target Discount to NAV		-69%	-69%	
Market Value of NewCo		**319**	**4,188**	

Source: LG Corp, Bloomberg, Whitebox estimates. Prices as at 11 December 2020.

3 Seoul High Court 2018*Ra*21299
[4] Average market cap of MSCI Korea Small Cap is US$ 421.88 million, median US$327.2 million (October 30, 2020), USDKRW = 1100.
https://www.msci.com/documents/10199/5062f82d-c0a4-40a8-a07d-b230d674b0e6

An obvious alternative to creating a new holding company would be to spin out the intended NewCo assets directly to shareholders. LG Hausys, LG International and Siliconworks are all publicly traded companies and cash could be distributed as a dividend. LG MMA is not listed, but recent transactions in the MMA sector suggest this asset could be worth significantly more than book value to an industrial or private equity buyer.[5] At a market value of KRW1031 billion, NewCo's assets would be worth almost three times LG's FY19 dividend. We believe that the decision to place these assets into a locked box immediately extinguishes KRW711 billion of value available to shareholders.

Chart 1: Breakdown of LG NAV vs. Market Cap

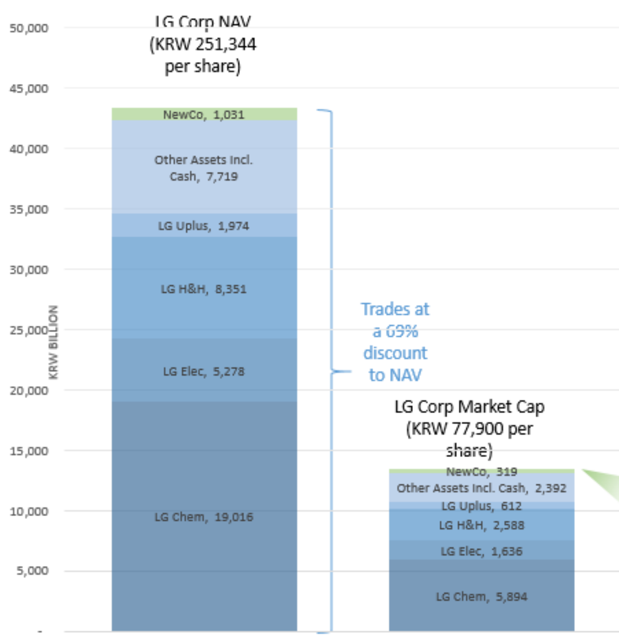
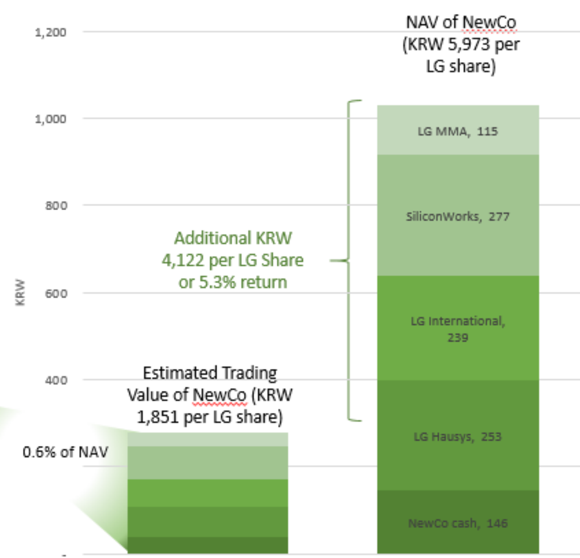


Chart 2: Breakdown of NewCo NAV vs. Market Cap



Source: LG Corp, Bloomberg, Morgan Stanley, Whitebox estimates. Prices as at 11 December 2020.

For LG, although the Spin-Off would divest of some non-strategic assets, it does so while sacrificing 9% of LG's cash balance, 17% of its dividend revenue and 3.6% of royalty revenue. This means that the ability for LG to create value for shareholders at the holding company level in the future is compromised without any sort of compensation.

Table 2: By distributing 2% of NAV, LG sacrifices 10% of income and 9% of its cash

Movement of Assets (KRW billion)	Current	RemainCo	% Total	SpinCo	% Total
Net Asset Value	47,119.3	46,085.8	97.8%	1,030.7	2.2%
Revenue (FY2019)	**874.7**	**785.3**	**89.8%**	**89.4**	**10.2%**
of which: Dividends	*476.2*	*396.6*	*83.3%*	*79.6*	*16.7%*
of which: Royalty Revenue	*270.6*	*260.7*	*96.3%*	*9.8*	*3.6%*
of which: Rental Income	*127.9*	*127.9*	*100.0%*		*0.0%*
Cash	**1,649.9**	**1,504.0**	**91.2%**	**145.9**	**8.8%**

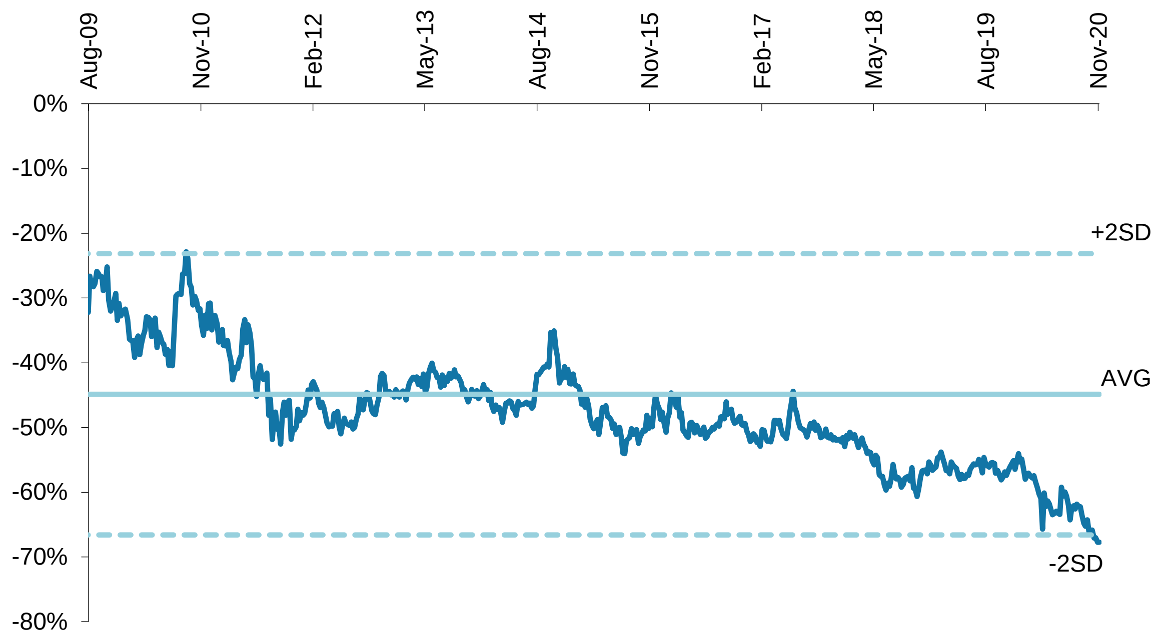
Source: LG Corp, Bloomberg, Whitebox estimates. Prices as at 11 December 2020.

[5] Using comparable transaction multiples of 8.5x FY19 EBITDA provides a value of KRW611.3 billion for MMA.

The most pressing issue for LG is the unprecedented discount at which its shares trade.

As we have communicated to you on many previous occasions, LG's number one priority should be to recover the shareholder value lost due to the widening valuation discount. LG currently trades at a 69% discount to its sum of the parts, which represents its widest level in more than ten years.

Chart 3: LG's historic discount to NAV

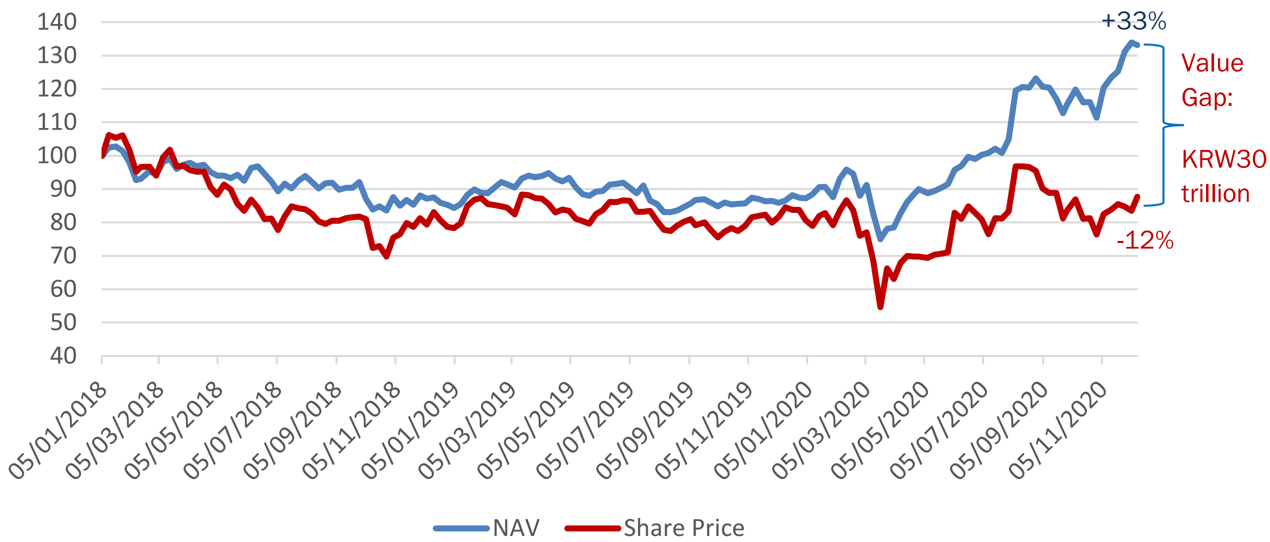


Source: Bloomberg, Morgan Stanley

In 2020, despite the tremendous success of major listed subsidiary companies LG Chem Ltd. ("LG Chem"), LG Electronics Inc ("LG Electronics"), and LG Household & Healthcare ("LG H&H") whose share prices are up 160%, 35% and 24%, and the profitable disposal of buildings in China for KRW 300 billion and a 35% stake in LG CNS for the amount of KRW 1 trillion, the share price of LG is up only 9%. This means that despite the extremely strong underlying performance of the Company's assets, LG's minority shareholders have barely profited.

Over the last three years, since January 2018, if an investor had bought $100 worth of shares in LG Corp those shares would be worth only $88 today. If instead, that investor had bought $100 in the underlying assets of LG Corp, we estimate it would be worth $133 today. So, despite a 33% increase in value of LG's net assets, from KRW33 trillion to KRW44 trillion, LG shareholders have seen a 12% loss in the value of their shareholding with the market value of LG decreasing from KRW16 trillion to KRW14 trillion. Incredibly, there is currently a KRW30.5 trillion gap between the value of LG's assets and its market capitalisation. This is a crisis and deserves the full attention of the Board and management.

Chart 3: KRW 30 trillion Valuation Gap



Source: Bloomberg, Morgan Stanley

The decision to spin-off these assets raises questions about corporate governance.

At a time when ESG policies are a priority for investors globally and the corporate governance of chaebols is in focus, we question why the Board has unanimously approved a sub-optimal, succession-driven restructuring plan, especially one lacking a clear strategic or financial rationale.

We understand from the Board meeting minutes that all seven directors unanimously approved the Spin-Off after having reviewed materials provided by an internal team, the LG Economic Research Institute and an outside legal expert. The materials stated that there were no issues with regard to any potential breaches of fiduciary duties by the directors and that the transaction was believed to be the best option for the Company as well as the shareholders compared to other options such as sale to an outside entity. In our view, the Board reached a conclusion that raises questions about the Board's judgement and independence.

We fail to understand how the materials presented did not anticipate any negative market reaction to the Spin-Off. In the three days of trading post the announcement, LG shares underperformed the KOSPI index by 6.3%. This is equivalent to a loss of KRW800 billion in value.

We certainly do not understand how the Board concluded that other options would not have created more value than the Spin-Off. If the NewCo assets were distributed directly to shareholders, we estimate they would be worth three times the value to shareholders of the NewCo holding company. If NewCo assets were sold to a third party, we expect LG could realise a meaningful premium to asset value.

The most disappointing aspect of the Spin-Off plan is that it was decided without delay, amid the uncertainty caused by COVID-19, suggesting that this was an urgent priority for the Company. The Capital Management Plan, on the other hand, has been delayed, time and again, despite its importance to minority shareholders and its potential to address LG's appalling valuation gap.

In Conclusion

Despite the relatively modest impact that the proposed transaction has on LG as a whole, the rationale behind the Spin-Off, the dismissal of alternatives, and the lack of engagement with minority shareholders is symptomatic of a larger problem. That LG – the “gentleman of Korea” with the reputation for the best corporate governance among peers – has proposed a transaction that appears to prioritise family over minority shareholders is a reason why the “Korean Discount” persists.

Investor trust needs to be restored.

- LG should immediately cease the current transaction as constructed and propose a spin-off which maximises value for all shareholders.
- The Board should create a Corporate Governance Committee – comprised of unconflicted directors with minority shareholder representation – to assess material corporate actions and related party transactions to ensure all shareholders are treated equally and fairly.
- The Board should immediately prioritise the implementation of a Capital Management Plan to address one of the largest discounts to asset value of any major publicly traded company globally.

Because of the lack of engagement with LG’s Board despite multiple communications, we have been forced to make this letter public. Other shareholders and regulators should assess this transaction in light of their priorities, including ESG policies, and act accordingly.

Yours faithfully

Simon Waxley

Head of Equity, Whitebox Advisors LLC