

FUTURING *SMART ENERGY*



About This Report

LSIS aims to use this report as a guide for sustainable growth. Therefore, we have worked to provide balanced information on our economic, social, and environmental performances and tried to introduce our various sustainability activities for the past year in response to stakeholder requirements. We plan to continue sharing our growth through our annual sustainability report.

Reporting Period

This report covers our sustainability activities and performances from January 1 through December 31, 2014 and in some cases, historical data in 2012, 2013 and current data in the first half of 2015 have been included.

Scope and Boundary

We aimed to report major status and performances in the aspects of economy (based on K-IFRS), society and environment of the domestic business sites in principle, but included overseas business sites when necessary.

Reporting and Assurance Standards

This report was prepared in accordance with categories outlined in the GRI G4 Guidelines. To ensure reliability and enhance quality, the report has undergone executive team review and received independent 3rd party assurance. The details of the Independent Assurance Report can be found in the Appendix.

Inquiries on this Report

Please send questions or comments on the LSIS Sustainability Report through the information below:

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Contents

About This Report	02
2014 Sustainability Management Highlights	04
CEO's Message	06
COO's Message	08

OVERVIEW

Corporate Profile	12
Global Business	16
Business Portfolio	18

GREEN BUSINESS

Smart Grid	22
Energy Efficiency Enhancement	24

INTEGRATED SUSTAINABILITY MANAGEMENT

Sustainability Management System	28
Materiality Test	30
Customer Satisfaction	34
Win-win Growth	40
Employee Satisfaction	46
Environmental and Safety Management	54
Social Contribution	60
Shareholders/Investors Satisfaction	66
Management Innovation	69
Technology Management/Intellectual Property	71
Ethical Management	74
Integrated Risk Management	77

APPENDIX

Sustainability Management Data	79
- Financial	79
- Environmental	80
- Social and Other	81
GRI G4 (Core) Index	84
UN Global Compact COP	87
Independent Assurance Report	88
Credits	90

2014 Sustainability Management Highlights



Donation of service vehicles to the disabled

January

Donation of service vehicles to the disabled

LSIS, together with LS Group, held the ‘Service Vehicle Delivery to People in Need’ ceremony on January 27 in collaboration with the Community Chest of Korea, where the company provided vehicles to 7 social welfare facilities, in an effort to improve mobility for the disabled.

March

Selected as the great workplace for 3 years in a row

At the ‘2014 Great Workplace Awards’ ceremony held at the Grand Hilton Hotel in Seoul on March 20, LSIS was awarded the grand prize for 3 years in a row. This award, hosted by Hankyung Magazine, recognizes companies for outstanding accomplishments in creating great workplace based on excellent corporate culture.



Selected as great workplace for 3 years in a row



CEO Ja-Kyun Koo received Gold Tower Order at 49th Annual Invention Day

May

CEO Ja-Kyun Koo received Gold Tower Order at 49th Annual Invention Day

LSIS CEO Ja-Kyun Koo received the Gold Tower Order of Industrial Service Merit in recognition of his concerted efforts to invest in R&D on industrial power and automation, and to boost the company’s intellectual property (IP) competitiveness, thereby helping secure future growth engines for the country. The Gold Tower Order, the most prestigious order of the government, had been conferred on CEO Koo at the 49th Annual Invention Day ceremony hosted by the Korean Intellectual Property Office at the aT Center in Yangjae-dong, Seoul.

Won the world’s largest smart grid project in Iraq

LSIS operations in Iraq, launched in 2011, are coming to fruition. In May 2014, LSIS signed a USD 52.24 million contract (worth KRW 53.6 billion) to construct advanced metering infrastructure (AMI) and provide 110,000 smart meters to 19 areas including Baghdad. This project marked the world’s largest single international project for AMI.



Won the world’s largest smart grid project in Iraq

June

Named Korea’s Best Corporation for 7 years in a row

In recognition of contributions to securing future growth engines for the nation with its strong investment in R&D and global strategy for electric/automation and green business, LSIS was honored with the title of Korea’s Best Corporation in the electrics/conductor sector at the 2014 Korea Best Corporations Awards held by the Korea CEO Association at the Renaissance Hotel (Seoul) on June 24. LSIS has been awarded this honor for 7 years in a row.



Named Korea’s Best Corporation for 7 years in a row



Ranked top in PLC/Drive sector of KS-QEI for 2 years in a row

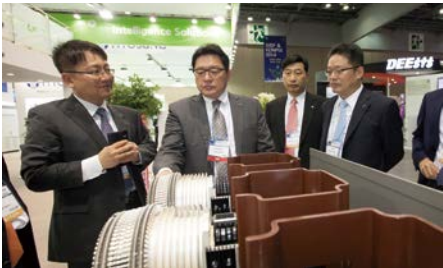
September

Ranked top in PLC/Drive sector of KS-QEI for 2 years in a row

LSIS was honored with the number one ranking for 2 years in a row in the programmable logic controller (PLC) and drive sector, the representative automation product category, of the KS-QEI (Korean Standard–Quality Excellence Index).

Unveiled high-voltage circuit breakers

LSIS unveiled its new large-capacity high-voltage circuit breakers including the Susol VCB (vacuum circuit breaker) with 7.2kV 50kA 5000A, and the Susol ACB (air circuit breaker) with 150kA 6300A, which were designed to ensure the safe operation of power supply lines on September 23 at the Seoul International Electric Fair (SIEF), held at Exhibition Center 1 of KINTEX (Ilsan, Korea).



Unveiled high-voltage circuit breakers

November

Named global top 100 innovative enterprises for 4 years in a row

LSIS was selected as one of the top 100 innovative enterprises for 4 years in a row by Thomson Reuters, a leading global consulting group and communication service provider. The award ceremony was held at the LS Tower in Anyang on November 26, 2014.



Named global top 100 innovative enterprises for 4 years in a row



LS Vietnam won the CSR Award

December

LSIS Vietnam won the CSR Award

LSIS Vietnam subsidiary received the Minister Prize of the Ministry of Planning and Investment in Vietnam at the ‘2014 CSR Awards for Korean Enterprises in Vietnam,’ jointly hosted by the Korean Ministry of Trade, Investment and Energy and Vietnamese Ministry of Planning and Investment. The contribution and value LSIS provided as a foreign investor were recognized in categories such as social contribution activities, participation in local communities, HR, finance, and environment after a two-phased quantitative and qualitative evaluation.

CEO's Message



'We will create a sustainable future by evolving into a global leader in the smart energy business.'

I deeply appreciate our stakeholders' great interest and support for LSIS.

Since the foundation in 1974, we have grown into a leading company in electricity and energy businesses, contributing to the development of national economy for the past 40 years. Our core business portfolio comprising of electricity and automation solutions has been a vital part of the nation's economic infrastructure. We have also created opportunities for growth by quickly and proactively adapting to changes in society and business environment.

In particular, our core mindset of 'Always with our Customers' and the management philosophy of 'LSpartnership' have allowed us to gain recognition as a company that contributes to national economy and society and become a motto for pursuing sustainable growth together with all stakeholders.

Moreover, the capabilities and ceaseless efforts of our employees have played a crucial role in our growth. We will continue to strive to create a corporate culture that enables all our employees to fulfill their roles honestly, fairly, and faithfully through sustainability management. By doing so, we will be able to gain even more trust from our stakeholders as well as secure sustainable competitiveness.

With the establishment of a new mission of 'Futuring Smart Energy' to prepare for the next 40 years, we are committed to helping all stakeholders enjoy safe and convenient life through efficient and eco-friendly smart energy.

In addition, we set a new vision of 'G365' which implies clear targets to achieve KRW 6 trillion in sales and KRW 500 billion in operating income by 2020 through focusing on 3 key words of 'Global,' 'Green,' and 'Great.' To realize the vision, we have set the 4 core values of collaboration, execution, creativity and integrity which will be standards for all business processes and basic guidance for implementing sustainability management.

Our sustainability management activities based on core values will not only contribute to creating an active communication culture inside and outside the company but allow us to highly satisfy needs and requirements of all stakeholders.

We aim to grow into a total solution provider in the smart energy business and at the same time, become a company that pursues win-win growth with diverse stakeholders. To this end, we reestablished the strategic direction for our businesses and products.

First, we are determined to shift our business focus to solutions from devices in order to strengthen our position as a solution provider. Second, we will preoccupy smart grid and automation solution markets in advance through technological convergence. Finally, we will conduct specific strategies by region to expand global markets.

I ask for your continuous support and interest in our steps to take toward change and innovation.

Chairman & CEO **Ja-Kyun Koo**

COO's Message



'Sustainability management
is the basic principle for all employees'
decision-making and work
execution at LSIS.'

LSIS introduced sustainability management in 2014. Can you share your plans to improve sustainability and accompanying expected effect?

Our fundamental goal for sustainability management is to become the most admired company based on stakeholder trust. To this end, we are focusing on strengthening communication with our six core stakeholder groups comprised of customers, suppliers, employees, shareholders and investors, and local communities, through which we pursue win-win growth with them. In addition, we will continue to create environmental value by providing products and services with high efficiency and low environmental impact. Because this is a basic corporate responsibility and the key to future market competitiveness. Finally, it is very crucial to comprehensively forecast and manage business risk as well as social and environmental risks in order to continuously develop businesses and pursue win-win growth with stakeholders in a time of high uncertainty.

Forecasts indicate that both the domestic and global market environment will be unfavorable in 2015. Therefore, it is more important than ever that we strengthen our basic activities such as R&D and quality control in addition to raising our corporate value through sustainability business practices such as pursuing management innovation, organization culture improvement, compliance and management ethics, and environmental management. This will enable us to lead the global standard and prevent various risks in order to create the opportunity to make a leap to the next level. These efforts will, in the end, play a central role in making LSIS a sound and strong company.

The growth of LSIS leads to happiness of stakeholders. What is the message you would like to share with stakeholders through the first sustainability report?

The most important purpose of the sustainability report is to fulfill our stakeholders' right to know by sharing not only our operating results but sustainability performances in an objective and transparent manner and to establish a two-way communication channel. Moreover, this report will be used as a guide for sustainability management implementation and published annually to introduce our businesses and corporate value.

I hope many stakeholders will gain a better understanding of LSIS and feel engaged in our business and management directions through this report. In particular, I should be grateful to stakeholders if they might actively share their ideas and suggestions so that we can become a more transparent and ethical company that exercises strong social stewardship and creates environmental value.

Most companies are today facing challenges in business due to tough global economic conditions and tightening ethical, social, and environmental issues. It is more crucial to understand and communicate with stakeholders in order to lead the future and successfully respond to these challenges, through which we will not only forecast and manage risks in advance but expand stakeholder participation and cooperation to build a better society.

All of us at LSIS will work together to sincerely implement sustainability management to strengthen internal stability and we will present the best practice of sustainable business innovation model in the global smart energy industry to grow into a respected and trusted company.

President & COO **Jai-Hoon Han**

Corporate Profile	12
Global Business	16
Business Portfolio	18

Overview

LSIS, Korea’s leading company in the fields of electrical power and automation solutions, announced ‘Futuring Smart Energy’ as a new mission at the ceremony to declare the value-focused management principle in 2015. We will continue to lead the future of smart energy together with our stakeholders by being committed to fulfilling environmental and social responsibility as well as generating economic value in spite of rapidly changing business environment.

Corporate Profile

Introduction

Since its founding in 1974, LSIS has become Korea's leading company in the fields of electrical power and automation solutions. LSIS was separated from LG Group in 2003 to pursue a second leap and new beginning under the current corporate name. In 2015, LSIS declared the value-focused management principle and launched a new mission of 'Futuring Smart Energy' and 'Vision 2020.' We are working tirelessly to grow into a global company that can create economic value, protect the environment with an eco-friendly business portfolio including smart energy, and contribute to humankind.

Profile

Company Name

LSIS Co., Ltd

Founded

July 24, 1974

CEO/COO

Ja-Kyun Koo/
Jai-Hoon Han

Headquarters

LS Tower, 127, LS-ro, Dongan-gu,
Anyang-si, Gyeonggi-Do

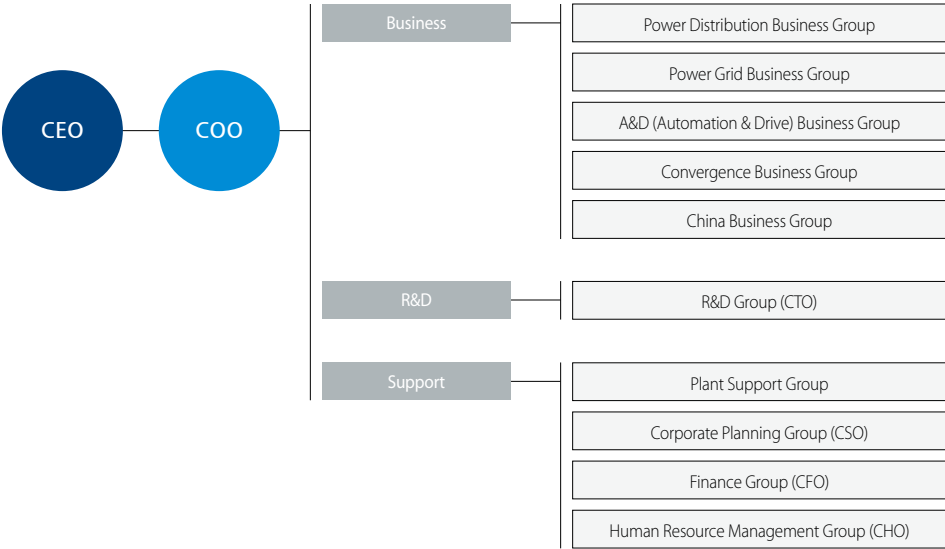
Employees

3,655 persons
(including temporary staff)

Credit Rating

AA-
(Korea Investors Service, Korea Ratings)

Organization Chart



Economic Value Flow

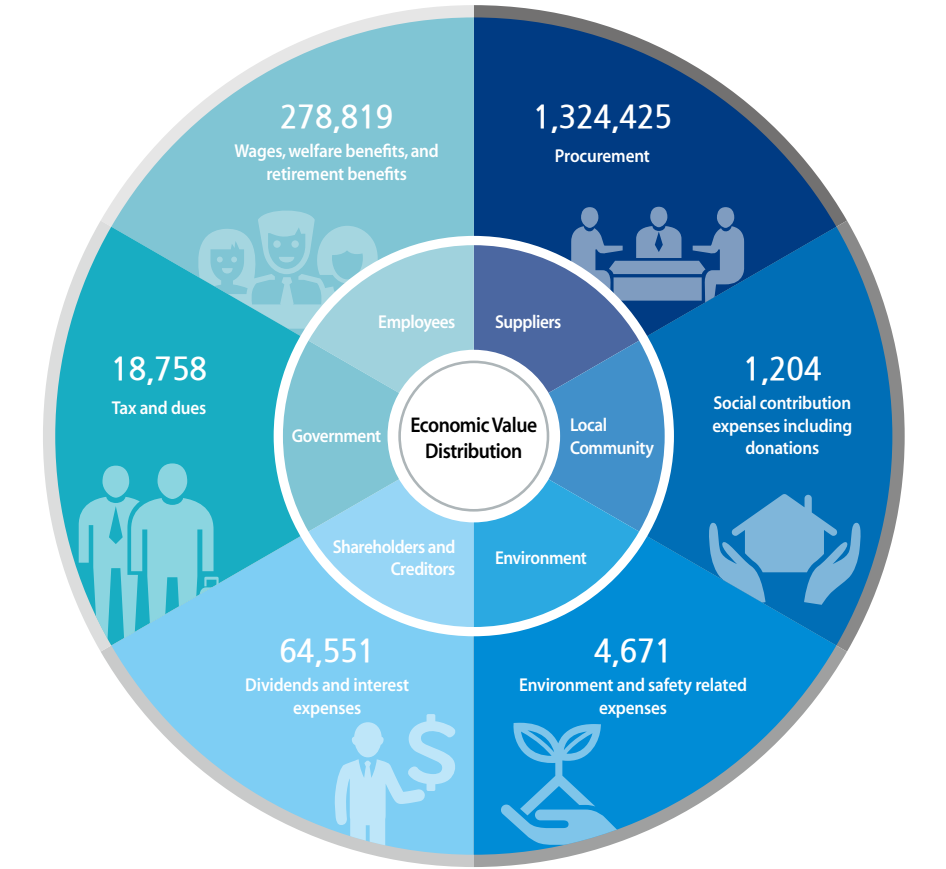
Business Analysis

Business environment in 2014 has been very tough internally and externally due to delayed global economic recovery, fluctuation in foreign exchange, drop in copper prices, and geographical risks in the Middle East. Under these challenges, LSIS achieved KRW 2.3 trillion in sales on the consolidated basis, a slight decrease from the previous year. However, non-consolidated sales recorded KRW 1.8 trillion, a stable growth compared with the previous year, backed by invigorating electric power and solar power businesses. In 2015, we expect robust growth in our flagship electric power and automation solutions and remarkable sales increase in new businesses. In addition, we will concentrate our efforts to achieve the Vision 2020 and become a leader of green business in the domestic and global markets by pursuing the following 4 strategic directions: 'enhance the position as an electric power solution provider,' 'dominate new markets in advance through convergence,' 'expand global markets,' and 'secure operational excellence.'

Economic Value Creation

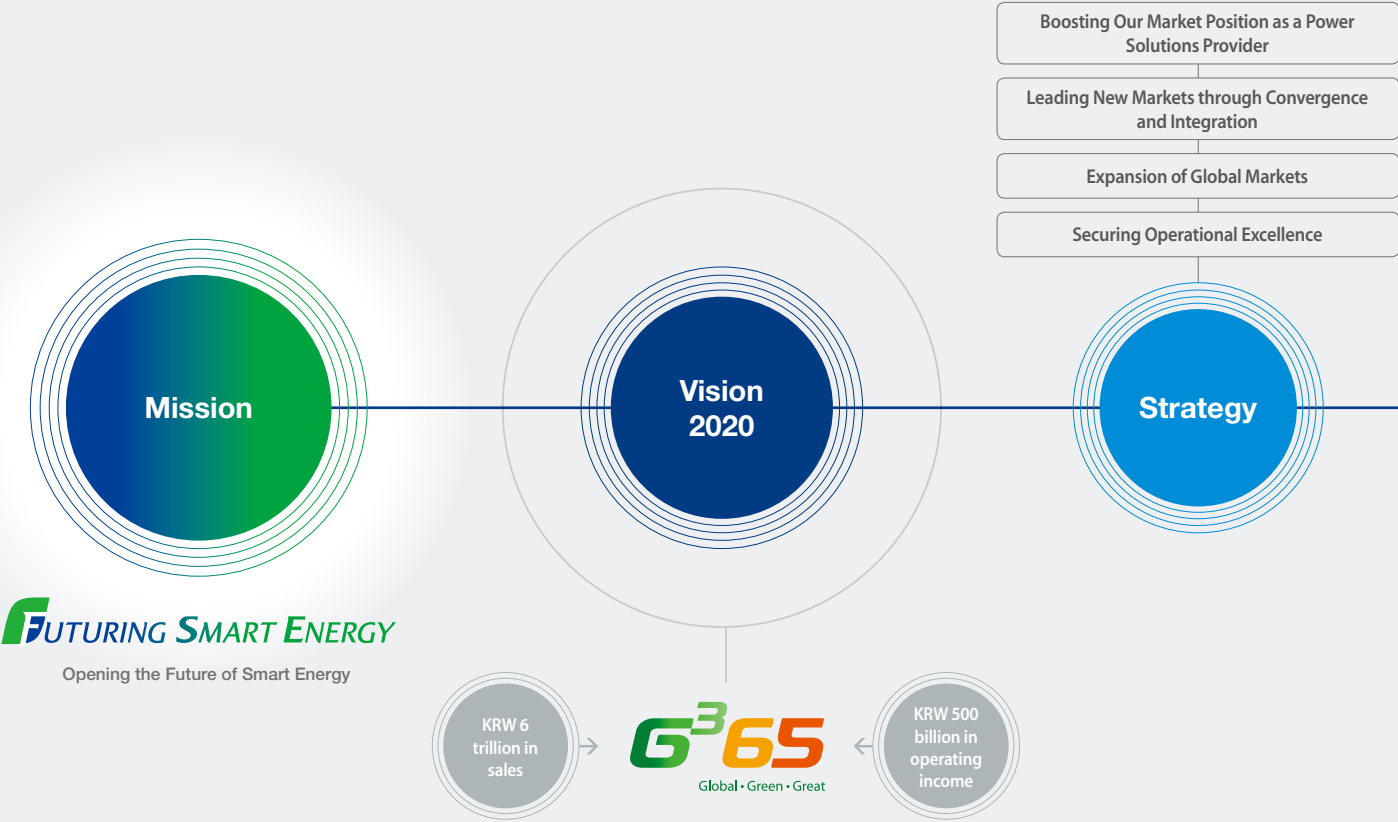
Sales	Operating Income	Total Assets	Total Liabilities	Total Equity
Consolidated 2,293,984	Consolidated 157,570	Consolidated 2,294,355	Consolidated 1,300,895	Consolidated 993,461
Non-consolidated 1,827,657	Non-consolidated 155,115	Non-consolidated 2,151,083	Non-consolidated 1,195,183	Non-consolidated 955,901

Economic Value Distribution



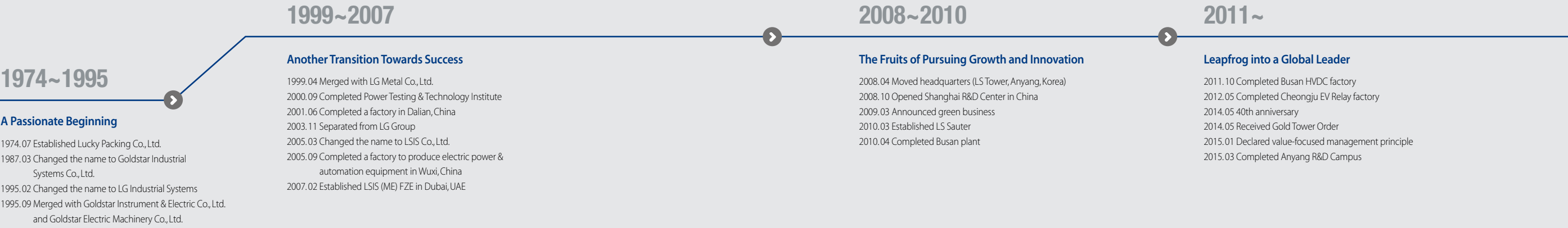
Corporate Profile

Vision and Strategy



LSIS has grown together with the Korean economy for the past 40 years. Our new mission requires us to consistently innovate and evolve into a leader that contributes to the development of the world and mankind beyond the domestic market. We will lead the world into the future of smart energy and continue to strive to become a global top-tier company. Value-focused management, reestablished value system, will be the key to achieve these goals.

Corporate History

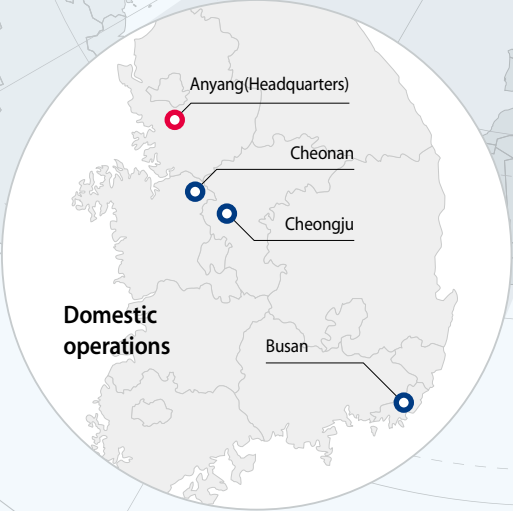


Global Business

Under the strategic direction to be a global power solution provider, LSIS is concentrating on local investments and marketing activities in the US, Europe, China, the Middle East, and Southeast Asia in order to boost global operations.

Global Network

● Headquarters	Anyang
● Domestic Operations	Anyang, Cheongju, Cheonan, Busan
● Overseas Subsidiaries	Shanghai, Wuxi, Dalian, Hubei (China), Hanoi (Vietnam), Amsterdam (Netherlands), Dubai (UAE), Tokyo (Japan), Chicago (U.S.A.)
● Overseas Branches	Shanghai, Beijing, Guangzhou, Qingdao, Chengdu, Shenyang, Jinan (China), Ho Chi Minh (Vietnam), Tokyo (Japan), Detroit (U.S.A), Moscow (Russia)
● Global Service Centers	Shanghai, Beijing, Guangzhou, Qingdao, Chengdu, Wuxi, Changzhou, Xiangtan, Nanjing, Jinan, Chongqing, Foshan, Fujian, Wuhan, Shenyang, Dalian, Yichang (China)
● Global R&D Centers	Shanghai (China)



Global Business Strategy



Asia
We will solidify our leadership in the power distribution and automation market by expanding authorized agents and utilizing local sales channels.

China
With the idea that China is our 2nd domestic market, we will expand market share by improving our brand power.



Middle East/Africa
We consider the Middle East and Africa as core markets for power grid EPC business. We will enhance marketing activities for this business and dominate our presence as a global player.

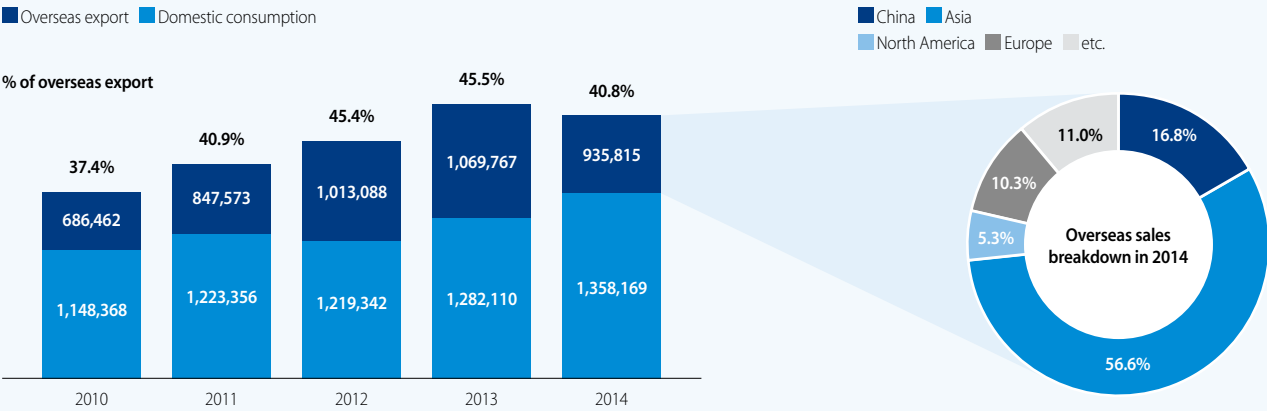
Europe/CIS
We will lay the foundation for stable growth and a new leap forward through expanding organization of local subsidiaries.



America
We will make significant progress towards making the Americas our core strategic market by building partnerships with local players.

Global Sales Composition (Consolidated)

(Unit: KRW in millions)



Business Portfolio

Power Grid Business

Major performances in 2014

- Supplied GIS to Samcheok thermal and Andong combined cycle power plants
- Won a major project to supply substation equipment from Iraq's Ministry of Energy (MOE)
- Diversified export markets by winning turnkey projects to supply substation equipment to Haiti and Sri Lanka
- Won a contract to supply HVDC converter station equipment to the North Dangjin-Godeok project

Plans for 2015

- Approach turnkey projects, and overseas markets by setting target-tailored strategies
- Enhance HVDC manufacturing and R&D capability
- Improve customer loyalty through providing tailored solutions
- Expand extra-high voltage and large capacity product lineups
- Reinforce competitiveness in the global market by developing market-tailored products

Power Distribution Business

Major performances in 2014

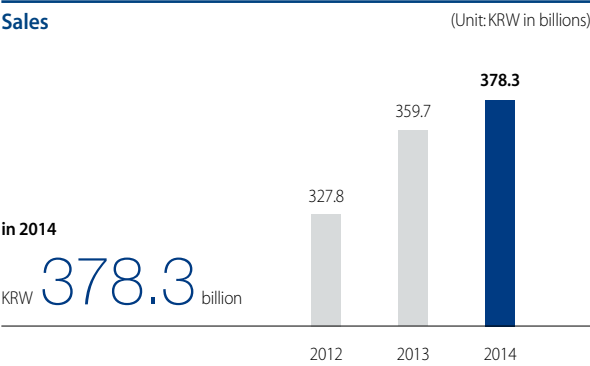
- Launched new UL MCCB
- PNL solution obtained approval from Electricity Boards (Taiwan, the Philippines, Pakistan, etc.)

<Major Projects>

- Soekarno Hatta Airport Terminal #3 project in Indonesia
- Electrical facility project of London Underground Limited in the UK (SSR3B)
- Water treatment project in Iraqi Kurdistan
- Won an Bidding for supplying E-type smart meters to KEPCO

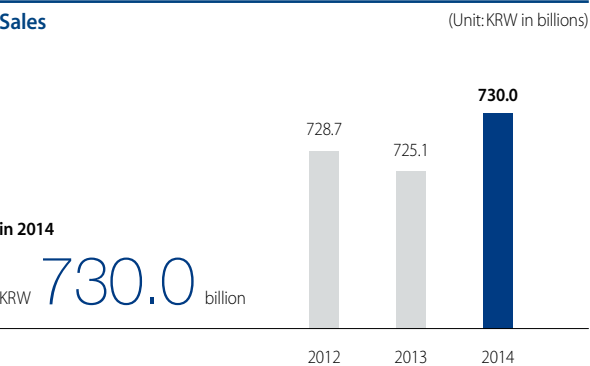
Plans for 2015

- Strengthen overseas business and project sales activities by establishing new local branches
- Provide tailored solutions by securing LV/MV PNL solutions and developing new products
- Target specific markets related to renewable energy (solar and wind power and energy storage equipment) and applications
- Research future technologies and next-generation products in advance
- Operate Separate organizations responsible for renovation and enhance pre-inspection activities



About the Business Group

The Power Grid Business Group promotes convergence solution that combines extra-high voltage electric power facilities and systems with IT technology. Major products include gas insulated switchgear (GIS), power transformer and switchgear to transmit, transform and distribute electricity generated from power plants. We also focus on monitoring & diagnosis system for electrical equipment and high voltage direct current (HVDC) system. By providing total solutions for extra-high AC and DC voltage power and conducting EPC turnkey business encompassing all processes from design to construction, we are proactively entering global markets including North America, the Middle East, Latin America and Asia.



About the Business Group

The Power Distribution Business Group provides solutions necessary for supplying power to industrial, commercial, and residential facilities, helping people to use electricity safely and conveniently. These solutions have allowed us to maintain the largest market share in the domestic power equipment market and to evolve into the leading company in the power business. Main products are vacuum circuit breakers (VCB) air circuit breakers (ACB), and Molded Case Circuit Breakers (MCCB) which protect electric power system ranging from low to medium voltage. We also focus on developing next-generation products including smart meter and IED (Intelligent Electronic Device) through consistent investment in R&D, and expanding our business territory to Asia, Middle-East, Europe, North America and so on.



Business Portfolio

Automation & Drive Business

Major performances in 2014

- Signed a big B/L contract from India
- Secured domestic FA system references
- Won a major contract for combined heat and power plants
- Expand product lineup through launching new products
 - S100/H100 series (LVD), M1000/1000A (MVD), XGB-U series (PLC)
- Expand the market by preparing tailored responses to customer and market needs

Plans for 2015

- Expand business basis and sales channels of local subsidiaries
- Establish the global SVC infrastructure
- Promote a pilot project for the domestic FA system under the Manufacturing Industry 3.0 strategy
- Boost the Servo and Motion businesses
- Expand new markets by winning contracts for heating facilities
- Research advanced technologies for next-generation products
- Raise brand awareness through proactive PR activities



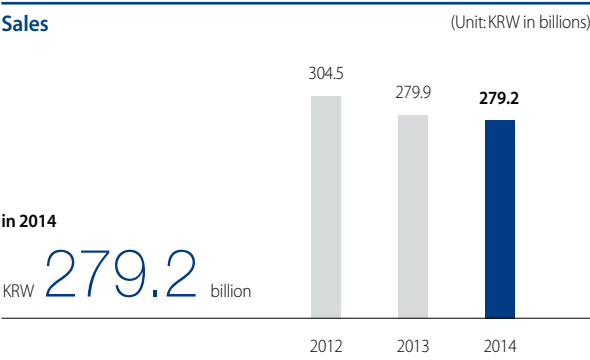
Convergence Business

Major performances in 2014

- **Smart Grid:** EES References to electric utility and private company
- **EV Solution:** Selected as a provider for mild hybrid system (48V) of a global top class automaker
- **Photovoltaic System Solution:** Advancement of business structure through total package projects
- **Public infrastructure:** Obtained Korea's first SIL 4 certification for CBTC on-board and wayside systems

Plans for 2015

- **Smart Grid:** Diversify overseas power IT markets for sustainable growth
- **EV Solution:** Develop new overseas markets including Japan to evolve into a global player
- **Photovoltaic System Solution:** Provide total package solutions that meet customer needs
- **Public infrastructure:** Establish the foundation for overseas business expansion by improving a short-term winning contract



About the Business Group

The A&D Business Group provides a wide range of solutions for factory automation. Major products include PLC (Programmable Logic Controller), AC Drive (LVD-Low Voltage Drive/ MVD-Medium Voltage Drive), HMI (Human Machine Interface), and Servo. We are also engaging in automation system and E/S (Energy Saving) businesses. Each of our products is dominant in the domestic market and we are accelerating penetration into overseas markets by continuously pioneering new markets and securing infrastructure. We aim to become the best solution provider in the automatic control market by securing global competitiveness in the equipment business and strengthening the FA (Factory Automation) field.

Sales

(Unit: KRW in billions)

in 2014

KRW 394.0 billion

Year	Sales (KRW in billions)
2012	239.4
2013	357.3
2014	394.0

The Convergence Business Group was newly organized in 2014 in order to manage new businesses of the company. It has four business divisions: Smart Grid Business Division, EV Solution Division, Photovoltaic System Solution Division, and Public Business Division. Major products include various solutions for Smart Grid, powertrain solutions for EVs, Photovoltaic System Solution ranging from modules to operation and maintenance services, and cutting-edge railway signaling system essential for safe and efficient railway operations. By capitalizing on our capabilities, we will expand our business portfolio to power generation and O&M (operation and maintenance) to solidify the leadership in the energy and railway solution business. Global business will be also accelerated through developing new markets.

PLC

A universal controller that is programmed to operate machinery in a set sequence and conditions which has a wide range of applications from large-scale automation equipment at factories and plants to car-wash machines, golf ranges and general usages

AC Drive

A control device that saves energy consumption by controlling motor through power supply frequency variation

HMI

Allow users to easily check the status of various production equipment through the touch screen and to take necessary measures immediately

Servo

A device to help users precisely control when manipulating equipment location required by the system and operating specific speed and torque (Servo Motor/Servo Drive)

20

2014 LSIS Sustainability Report

Smart Grid

EV Solutions

Photovoltaic System Solution

Railway System Solutions

21

Green Business

Smart Grid

Gridsol

The government has announced main implementation policies and technical areas to promote the deployment of Smart Grids. LSIS launched the 'Gridsol,' a total solution brand for energy optimization.

Major Performances in Smart Grid Areas

Smart Power Grid

LSIS has been leading the smart power grid business by installing EMS in Korea's 3 national control centers (Seoul, Cheonan, and Naju) and many other projects through advanced technologies.

Key Solutions

- EMS (Energy Management System)
- SCADA/DMS (Supervisory Control And Data Acquisition/ Distribution Management System)
- SAS (Substation Automation System)
- Frequency Regulation EES

KPX EMS in Naju (2014)

DCC SCADA/DMS in Iraq (2012~2015)

Smart Transportation

As Korea's leading railway system solutions provider, LSIS participated in the Osong-Gwangju Honam high-speed line section. We also provide green car solutions such as relay system for EV, power converter, and charger.

Key Solutions

- Railway Signalling System
- Railway Power T&D System
- Power control/electronic parts for EV
- Recharging system for EV

Won a KRW 12.5 billion order for BDU from SAIC (2015)
Won a KRW 7.5 billion order for EV relay from Renault (2014)

Key Products

BDU

EV Relay

OBC/LDC

Smart Renewable

We have built Japan's largest solar power system (Mito). We hold total solar power solutions including module, PCU, EES, and monitoring system, and our portfolio expands to floating and rooftop solar systems.

Key Solutions

- Module (production), PCU (transformation), EES (storage), monitoring system (power generation & consumption), and power generation system

40MW class for Mito New Town Megasolar Park (2015)

500kW class Floating Solar Power Plant in Hapcheon (2011)

Smart Consumer

We provide households, buildings, and factories with optimized solutions for using electricity, heat, and gas energy. These solutions are used in LSIS facilities as well. Also we provide EES solutions helping efficient energy use through charging and discharging electricity. We also demonstrate the largest supply performances in the domestic market including 16MW EES in Seoansung.

Key Solutions

- HEMS/BEMS/FEMS (Energy management system for households, buildings, and factories)
- AMI (Advanced Metering Infrastructure)
- Smart Meter
- EES (Electrical Energy Storage)
 - Mid-/large capacity: Integration of Renewable Energy/ Customer
 - Small capacity: Residential

BEMS at Anyang R&D Campus (2015)

FEMS at Cheongju Plant (2015)

1MW PCS

3kW EES (6.3kWh/9.45kWh/12.6kWh)

EnGather

EES brand born under the know-how and technology of LSIS. A solution that allows efficient energy management by storing electric power in battery and accessing such power when in need.

- EES integrated management system
- Linked to external systems

- Safe and efficient power transformation
- Multiple functionality

- Korea's leading switchgear design technology
- Supply of qualified switchgear

Key products

PMS - Commercial/Industrial EES

- Integrated EES monitoring and control system
- Operation mode
 - Demand load based peak shaving
 - Scheduled load leveling
 - Independent operation to replace emergency power generators

PCS - 1MW EES

- High efficiency (98%) and fast response
- Easy O&M based drive design
- Verified through largest contracts to electric utility and global firms (KEPCO 16MW, Samsung SDI 4.5MW)

40ft Container

- Optimized placement of PCS based on heat flow analysis (up to 4 units)
- Install disaster prevention facilities (heat/smoke detection center)

Expected Impact

Reduce excessive investments in generation facilities and save electricity costs of consumers by supplying power needed for peak hours through EES

Ensure quality and reliability of the grid with rapid response and stabilize output when renewable energies (photovoltaic, wind) are connected to the grid

Allow stable response to emergency situations by providing power even during sudden outages

Main Achievements

Commercial/Industrial

1 EnGather EES Station, LSIS R&D Campus (Anyang) (2015)

2 GridSol FEMS Station, LSIS Cheongju Plant (2015)

3 Samsung SDI, Cheonan Plant, 2.5MW PCS (2014)

4 Samsung SDI, Ulsan Plant, 2MW PCS (2014)

Frequency Regulation

KEPCO's 16MW EES project for F/R in Seoansung (2014)

Renewable Energy

500kW/250Wh EES connected with wind power grid in Bigeumdo (2014)

Others

Major contracts

- Residential EES test project for SCE (Southern California Edison) in North America, 4kW/10kWh class EES (UL certified)
- Smart Grid projects in 2013, supply of EES system (total 1.03MWh)
 - Busan Dongrae Market: 100kW/224kWh
 - Busan Industrial Supplies Market 500kW/806kWh

National projects

- Smart renewable project (Dec. 2009~May 2013)
- EES operation system for electric frequency regulation and electricity market system development project (Jun. 2013~May 2016)



HVDC

High Voltage Direct Current (HVDC) system transforms AC power generated from power plants into DC power and transmits it to the necessary point at which the power is transformed into AC power again and transmitted to consumers. LSIS completed the construction of HVDC-specific factory in Hwajeon Industrial Complex, Busan-Jinhae Free Economic Zone in 2011, laying the foundation for conducting all processes ranging from parts warehousing to performance inspection, assembly, test, and commissioning.

Features and Benefits

Advantage for long distance transmission

AC power facilities require additional equipment to provide reactive power in spite of relatively low initial investment, leading to an increase in cost proportionate to distance. DC power, on the other hand, has higher initial costs as additional substations are needed but cost less in relation to distance transmitted, making it better for long distance transmission. In addition, DC power can be transmitted more than double AC power because AC power only flows on the surface of wires but DC power utilizes the entire wire for transmission. Therefore, DC power is optimal for long distance transmission exceeding 450km, underwater or underground transmission exceeding 40km and allows for transmission from mainland to island.

Economic investment

DC voltage is only 70% of the max value of AC voltage, which ensures relatively easy insulation and low transmission line construction costs. As such, HVDC requires a quarter of the transmission towers compared to the same volume of AC power, making it more cost efficient.

Enabling transmission of grid connected with renewable energy

HVDC makes it easier for new and renewable energy systems that generate DC power such as photovoltaic and hydrogen fuel cells, along with wind energy, which generates AC power but must be transformed into DC due to frequency variability resulting from fluctuating winds, to connect to the electricity grid.



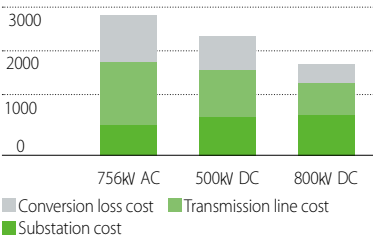
Jeju Pilot HVDC SMART CENTER

The HVDC Test-bed to connect our self-developed equipment (Thyristor valve, converter transformers, C&P) to the grid.

R&D Achievements and Performances

- Started joint R&D to localize HVDC technology with KEPCO, LS Cable & System, Taihan Electric Wire (2009)
- Established HVDC Smart Center in Jeju and designed/ manufactured core equipment (2012)
- Won the Technology Award from the Korea Institute of Electrical Engineers (localization of core HVDC components) (2012)
- Won the Power Electronics Product Prize of the Year, Technology Prize, and Plaque of Appreciation (HVDC Thyristor valve technology) (2012)
- Test operation of the HVDC Smart Center, testing and installation of self-developed products (2013)
- Test operation of self-developed products at the HVDC Smart Center (2014)
- Won an order to supply HVDC transformation equipment to North Dangjin-Godeok project (May 2014)

DC vs AC Transmission Cost (Unit: Million USD)



* Transmitting 6,400MW of electricity over 2,000KM

Comparison of Transmission Towers Required



* HVDC uses 1/4 the transmission towers to transmit the same voltage of AC power

Key products

Thyristor Valve



Core equipment of HVDC system that transforms AC to DC, then back to AC

Converter Transformer



• Role for supplying transformed AC voltage to the Thyristor valve

C&P (Control & Protection)



• Control and protect the overall transformation systems (converter transformers, Thyristor valve) through the HMI (Human Machine Interface)

AC Drive

AC Drive enables to reduce energy consumption by controlling motor speed through power frequency reconfiguration. As a leader who had first introduced universal AC Drive to the domestic market, LSIS has obtained the largest number of certifications on high-efficiency AC Drive and demonstrates the No. 1 position in the domestic market.

Features and Benefits

Product quality enhancement	Energy saving	Productivity improvement	Easy operation	Protection of external facilities
Enables to control the motor at constant speed even with unstable power supply	Save energy by controlling motor speed through frequency reconfiguration	Build optimal production lines in accordance with work processes to improve productivity	Allow users to manage the product easily	Minimize external impacts by gradually increasing power (Possible damages to external power sources and equipment when a sudden increase in power use for starting high-capacity motors)

Without AC Drive, energy saving is marginal because fans and pumps adjust valves and dampers in response to changing loads depending on seasons, time, and production volume.

With AC Drive, users are able to save much energy as rpm of electric motor is appropriately controlled in accordance with changes in load.

Key products



CO₂ reduction and energy saving from AC Drive installation in compliance with the 'High Efficiency Drive Support Program'

How many pine trees should we plant to equal the CO₂ reductions for the past 5 years?



How many homes can we power with the energy saved for the past 5 years?



LSIS's Response to the Changing National Energy Efficiency Policies







In 2015, the 'High Efficiency Drive Support Program' managed by KEPCO was changed to 'Energy Efficient Market Business'. The main difference is the transition to a performance based system that adds measurement and verification process from the previous blanket subsidy system. Prior to the official announcement in January of 2015, LSIS took preliminary measures to prepare for the changes by consulting the implementing agency, KEMCO, on technical aspects, measurement and verification methodologies, and market conditions. We will continue to actively take the lead in national energy efficiency initiatives by expanding deployment of high efficiency drives.

* What is the Energy Efficient Market Business?
It is a government-led project that promotes replacing old and inefficient equipment with high efficient equipment such as LED lights and drives. Rewards are given based on the amount of energy consumption reduced (KW).

Integrated Sustainability Management

Stakeholders of LSIS

LSIS has selected effective communication channels based on stakeholder surveys. We will continue to manage and improve communication channels and strive to build trust with all stakeholders through active and effective communication.

Core Stakeholders	Main Communication Channel			
 Customers	Visits to customers	Satisfaction survey	Customer meeting	Product exhibitions
		Training about products	Customer service center	
 Suppliers	Benefit sharing meetings	Supplier exchange meetings	Quality innovation meeting for Win-win Growth	Portal site for suppliers
		Visits to suppliers		
 Employees	LinkerS*	LSIS Sketch (company magazine)	Communicator	Dialogue with the management
		Corporate culture survey	Labor-Management Council	
 Environment	Direct communication with person in charge	Environmental campaigns	Environment-related meetings	Homepage
 Local communities	Direct communication with person in charge	Community meetings	Regional volunteer services	Homepage
		Surveys		
 Shareholders/investors	NDR (Non-deal roadshow)	Visits to the company	IR conference	Business reports
		Homepage		

* LinkerS: LSIS's representative body for office staff

Sustainability Management System	28	Social Contribution	60
Materiality Test	30	Shareholders/Investors Satisfaction	66
Customer Satisfaction	34	Management Innovation	69
Win-win Growth	40	Technology Management/Intellectual Property	71
Employee Satisfaction	46	Ethical Management	74
Environmental and Safety Management	54	Integrated Risk Management	77

Sustainability Management System

Goal of Sustainability Management

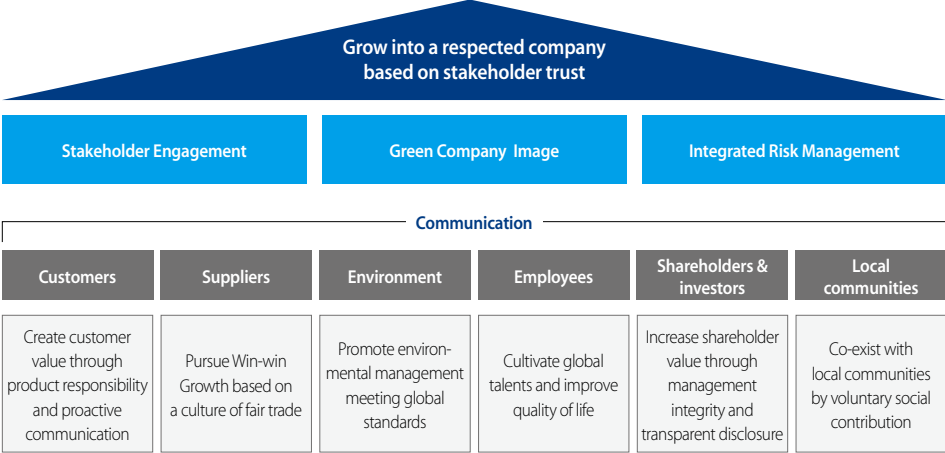
3 Strategic Directions

Core Stakeholders

Action Plans by Each Stakeholder

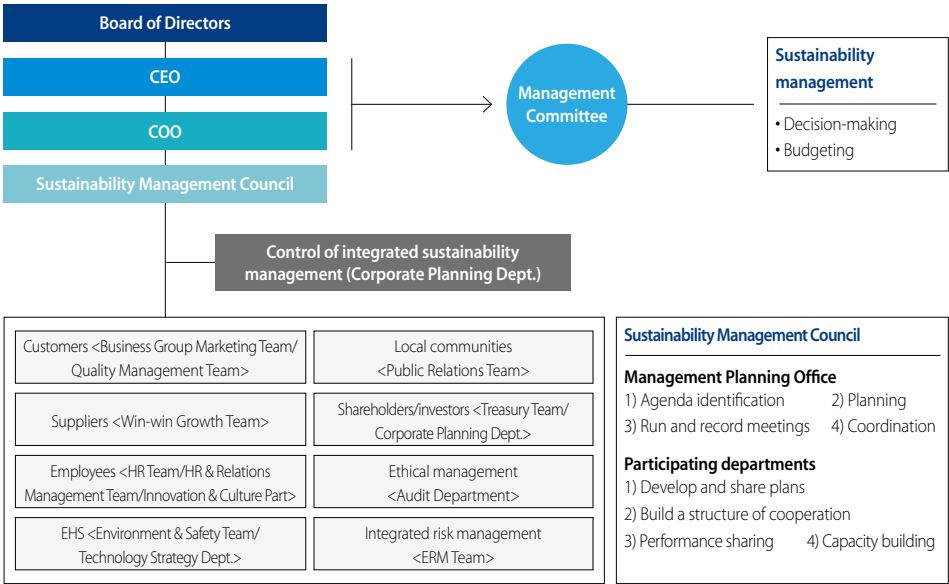
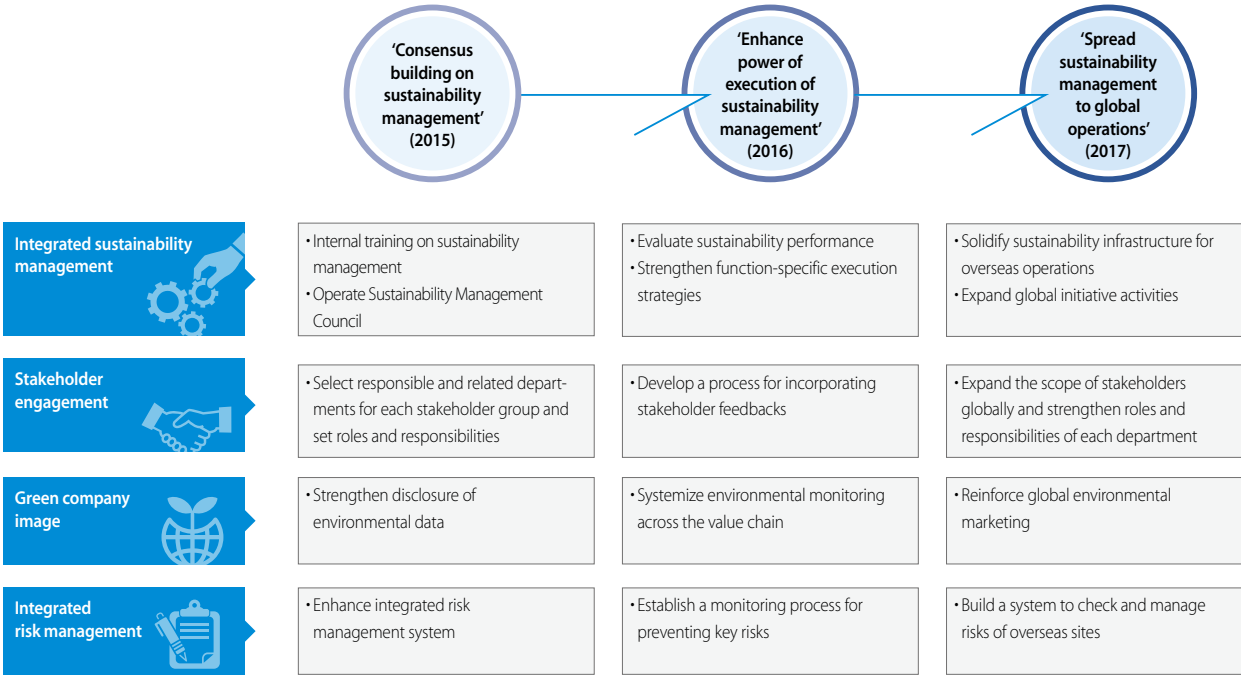
Fundamental Directions of Sustainability Management

The primary goal of our sustainability management is to grow into a respected company based on stakeholder trust. To achieve this, we set up 3 strategic directions, through which we are striving to satisfy stakeholders. In addition, the company is committed to listening to the voices of stakeholders through active communication and reflecting them to management activities. By doing so, we will grow into a trusted corporate citizen and a global leader in pursuit of sustainable growth.



Roadmap for Sustainability Management

LSIS established a roadmap to achieve the mid to long-term goal for the expansion of sustainability management to overseas operations. We also set up core annual tasks on the basis of our integrated sustainability management principle and 3 strategic directions of 'stakeholder engagement,' 'green company image,' and 'integrated risk management.' These tasks will be systematically managed in accordance with the roadmap.



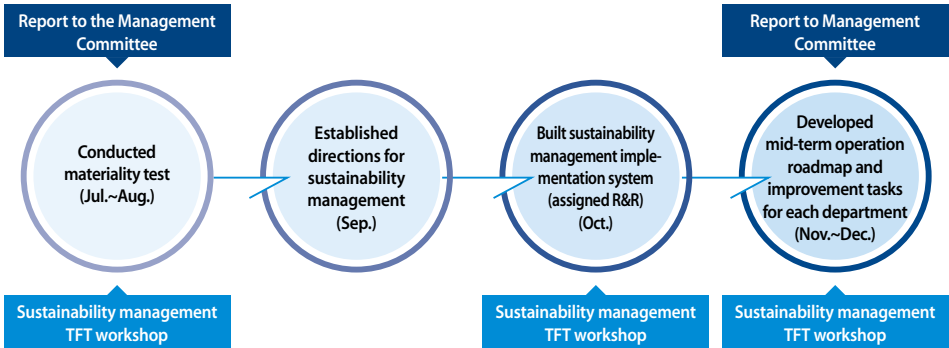
Sustainability Management Implementation System

LSIS has established a system that allows stakeholder input on sustainability issues to be delivered to top management and effectively applied to decision-making. The Sustainability Management Council is comprised of leaders and staff members of core teams in each category. The council gathers stakeholder opinions, develops strategic plans, and conducts detailed practices. The agenda formed by the council is passed on to the Management Committee, comprised of executives, to discuss performance and budgeting. The results of the discussion and core issues are then passed on to the highest decision-making body, the Board of Directors, so that they may ascertain and manage LSIS sustainability performances.

Sustainability Management Council

The Sustainability Management Council is a company-wide consultative group that presents agendas related to the overall sustainability issues LSIS faces. The meetings are scheduled to be held every other month, headed by the CSO. The Management Planning Office is responsible for identifying meeting agendas, and logistical aspects of managing and operating the council. Participating departments jointly develop sustainability management plans, share performances, and form collaboration systems in accordance with the company's sustainability management implementation direction. In 2014, we created a task force comprised of the departments participating in the council in order to help the Sustainability Management Council take root. We also conducted 3 workshops, resulting in better understanding of sustainability management along with the identification of improvement tasks for 2015.

Major Sustainability Management Activities in 2014

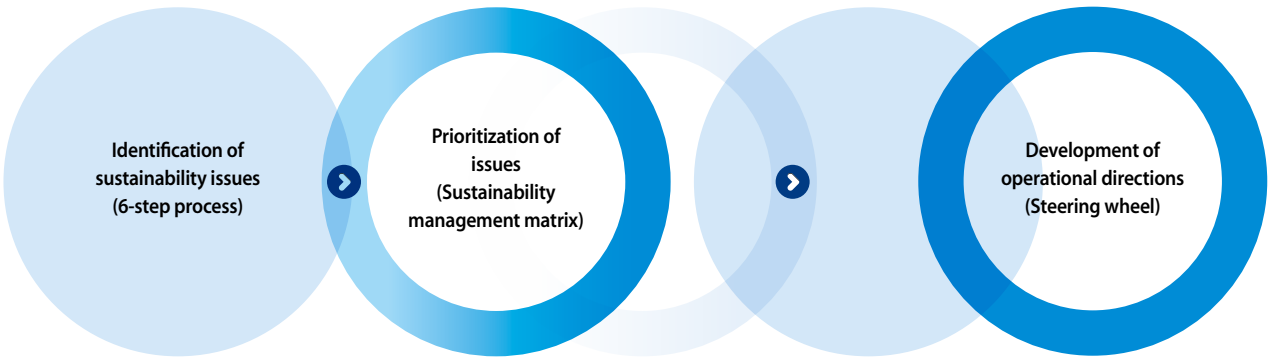


Materiality Test

Overview of Materiality Test

We strive to identify and improve our weaknesses, and actively gather and incorporate stakeholder opinions in our strategic direction for sustainable growth. The first step in this process is the materiality test we run in order to identify and manage issues related to sustainability management. Our materiality test is comprised of the identification of sustainability issues, prioritization of issues, and development of operational directions. Sustainability issues were identified through the 6-step process and identified issues were prioritized according to stakeholder concerns and business impacts. And then, we suggested strategic directions of sustainability management based on the prioritization and determined operational directions for 2014 to 2015.

Materiality Test Process



Identification of Key Sustainability Management Issues



We conducted stakeholder survey on our sustainability management. The survey was to ascertain interest in our sustainability issues, communication channels regarded as useful, and activities that stakeholder groups thought needed improvement. A total of 924 employees and 146 external stakeholders took part in the survey.

Period: June-July 2014
Method: On/offline questionnaire
Participants: 64 customers, 28 suppliers, 924 employees, 16 local communities, 35 persons in charge of environment, and 3 shareholders & investors

In order to identify key issues taking into consideration sustainability management directions and business, we conducted in-depth interviews with the management. The interview focused on material issues that needed to be prioritized, potential non-financial risks, sustainable business trends, methods to form internal consensus, and other business related topics.

Period: July 2014
Method: One-on-one in-depth interview
Participants: 10 Management Committee members including heads of business groups

We analyzed the media exposure for each sustainability issue along with critical articles covering LSIS. The past 2 years of sustainability coverage in major broadcasting companies, newspapers, and economy newspapers was analyzed to decipher changes in stakeholder interests. Negative articles were classified as risks and translated into improvement tasks.

Period: August 2014
Method: Media research
Subjects: Broadcasting companies, major daily newspapers and economy newspapers

We held a forum with experts in each sector to obtain specialized information on sustainability issues and future trends. The forum dealt with improvement directions of each sustainability issue in accordance with social expectations. In addition, ideas on publishing sustainability report were gathered and reflected in this report.

Period: August 2014
Method: Advisory Dialogue
Subject: 6 experts in sustainability management

An external expert institute was employed to assess our current status of sustainability and improve insufficiencies. Assessment items were based on international standards, relevant laws, and the SRI Investment Guide and all fields related to sustainability management were evaluated to accurately identify strengths and weaknesses. Issues identified as weaknesses were treated as potential risks and chosen as priority areas for improvement.

Period: June-August 2014
Method: Assessment by an external institute
Subject: Heads and working-level staff of departments related to sustainability management

We analyzed the level of sustainability management of global leading companies in the industry and competitors to identify and manage issues which are relatively weak. In addition, best practices identified during the analysis were chosen as benchmarks and shared with relevant business units.

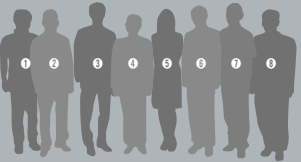
Period: June-July 2014
Method: Research and benchmarking
Subject: 6 domestic and foreign advanced companies and competitors



CSR Advisory Dialogue



- Participants (from left to right)
- 1 Tae-Jung Shin (Director, Corporation For All)
 - 2 Sang-Kyu Hwang (CEO, SR Korea)
 - 3 Han-Kyun Rho (Associate Professor, Kookmin University)
 - 4 Min-Goo Choi (CSO, LSIS)
 - 5 Eun-Kyung Lee (Team leader, Global Compact Network Korea)
 - 6 Choon-Seung Yang (Director, Korea Sustainability Investing Forum)
 - 7 Sang-Young Jeon (Senior manager, Samsung Electro-mechanics)
 - 8 Hwan Jeong (Head of Corporate Planning Dept., LSIS)



Experts' comments on publishing sustainability report and our responses

- Comment
- 1 'Both negative and positive aspects of business should be reported in a balanced manner.'
 - 2 'Annual sustainability data should be supplied in order to track changes and progress.'
 - 3 'Long-term sustainability goals should be set and continuous progress displayed.'
 - 4 'The sustainability report should address customer and investor needs for non-financial information.'
 - 5 'Approaches in solving social issues through product sales should be presented.'
 - 6 'You need to have systematic response and reporting processes meeting requirements of each stakeholder group.'

- Response
- 1 Negative issues were disclosed along with our efforts and plans for improvement.
 - 2 Three or more years of managed economic, social and environmental data were reported.
 - 3 We established sustainability management execution system and presented basic and strategic sustainability management directions.
 - 4 International sustainability standards, SRI investment guides, and client requests were transformed into data for management and disclosed in this report.
 - 5 We reported our green business to solve social issues on the special feature section.
 - 6 Our sustainability performances were reported in 6 categories in accordance with classified stakeholder groups.

Materiality Test

Prioritization of Key Sustainability Issues



LSIS response to key issues

Customers
35page

Upgrade product quality and responsibility

LSIS believes that quality is the key to lead us to a global company. We will strive to improve the quality of our corporate management as well as product quality and accountability.

Suppliers
41page

Establish a fair trade culture

Fair trade with suppliers is the first step toward win-win growth at LSIS. We sign subcontracting and win-win growth agreements annually with suppliers and frequently check the status of fair trade for better practices.

Employees
47page

Pursue work-life balance

At LSIS, we are creating an enjoyable corporate culture by pursuing work-life balance. We hold events for employees' families and operate 'Family Day,' and concentrated vacation program called 'Rest(休) Weeks' to ensure work-life balance.

Environment
22, 55page

Manage environmental products

LSIS contributes to improving our environment through environmental products and green business. We will solidify our image as a eco-friendly company by continuously upgrading our environmental product management system.

Local communities
61page

Develop flagship social contribution programs

In collaboration with our holding company, LSIS is implementing flagship social contribution programs at home and abroad. We are planning to create an even greater synergy by developing unique programs linked to our business expertise.

Shareholders/ investors
67page

Improve corporate disclosure

We are meeting requirements of all stakeholders including shareholders and investors by transparently disclosing corporate governance and economic, social and environmental data.

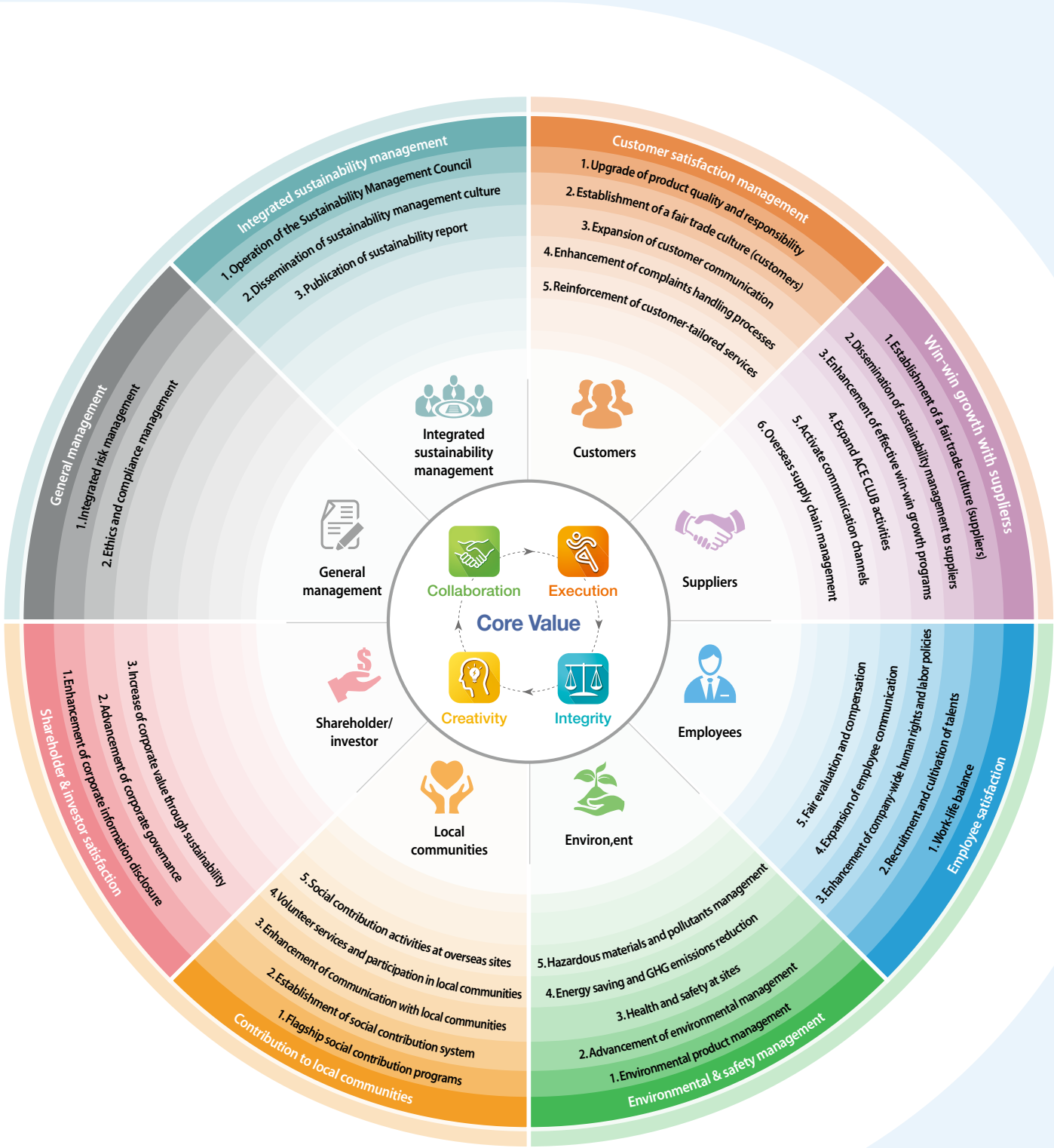
General management
77page

Integrated risk management

LSIS has been improving company-wide risk management system to efficiently respond to unforeseen risk factors. We will continue to systematically manage risks related to external environment, operations, finance, regulations, strategies, reputation and so on.

Sustainability Management Operational Trajectory

2014 LSIS Sustainability Management Steering Wheel



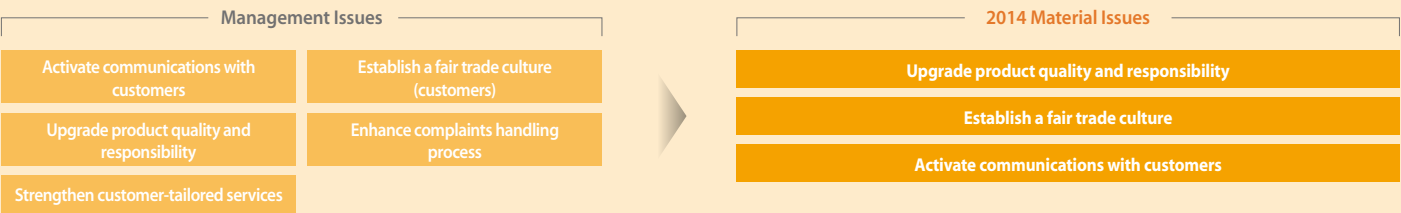
Customer Satisfaction

Creating customer value through product responsibility and proactive communication



01

2014 Materiality Test Results

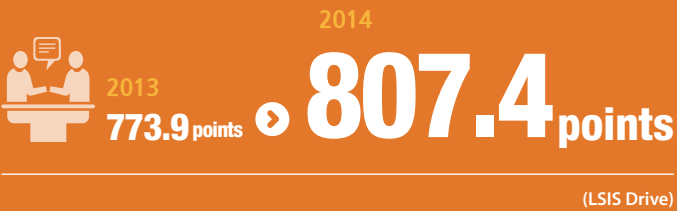


Roadmap for mid-term tasks (2015~2017)

With the establishment of an integrated customer satisfaction management system, we will strengthen activities to prevent complaints and act rapidly to resolve issues. Moreover, we will further customer satisfaction activities by building a real-time customer satisfaction system that will allow client feedback to be incorporated into management and provide customized service.



Korean Standard-Quality Excellence Index



Internal Quality Management Evaluation Score



Management Issue	Performances in 2014	Plans for 2015	Department
Upgrade product quality and responsibility	<ul style="list-style-type: none">Strengthened operation of internal quality evaluation systemConducted activities to secure quality in advance	<ul style="list-style-type: none">Strengthen talent development system for quality managementExpand evaluation on environmental and safety impact of products	QM Team
Establish a fair trade culture	<ul style="list-style-type: none">Conducted trainings on fair trade for all employees (online training, unit-specific training)Self-evaluation on fair trade and self-correction for sales, planning, and marketing staffImproved customer data protection system and increased regular inspections	<ul style="list-style-type: none">Expand fair trade training and monitoringDiversify reporting channels for fair trade issuesImplement education on personal data protection (twice in a year)	Legal Affairs Dept. IT Innovation Team
Activate communications with customers	<ul style="list-style-type: none">Carried out customer satisfaction survey for all business divisionsPR activities (exhibitions, roadshows, etc.)Responded to customer requirements	<ul style="list-style-type: none">Expand survey on satisfaction (overseas customers)Expand PR activity channelsRespond to customer requirements on non-financial dataDistribute sustainability report to major customers	Marketing Team Corporate Planning Dept.
Enhance complaints handling processes	<ul style="list-style-type: none">Strengthened preventative measuresImproved execution rate for Voice of Customers (VOC)	<ul style="list-style-type: none">Prevention: Standardize Q-Post tour improvement activitiesPost-counteraction: Standardize claim response process	QS Team
Strengthen customer-tailored services	<ul style="list-style-type: none">Held regional training on product in Korea	<ul style="list-style-type: none">Enhance training on products for overseas customers	Marketing Team

Upgrade Product Quality and Responsibility

Quality Management System

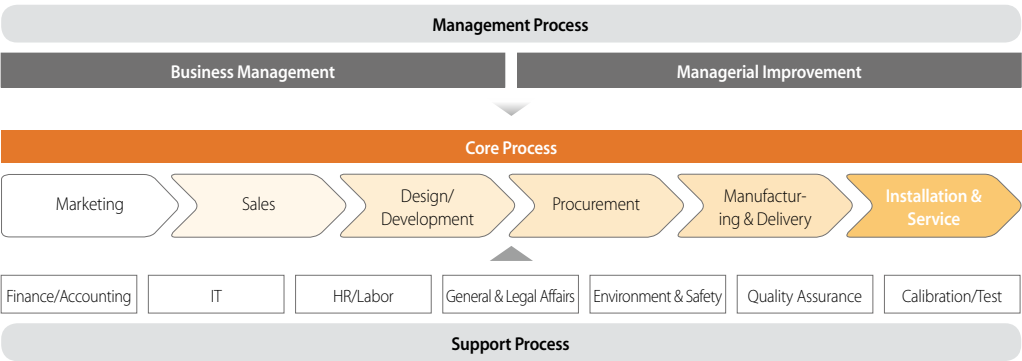
Our Quality Management System (QMS) has been established on the basis of requirements of ISO9001 (1993~), ISO14001 (1996~), K-OHSMS (2008~), TS16949 (2010~), regulations, customers, and markets as well as process improvements identified from management activities. It also encompasses all processes ranging from planning and development of products and service to relevant infrastructure such as IT system, business operation, and support activities. By harnessing the Quality Management System, we are committed to creating the best value.

be equipped with 2,000 MVA capacity short circuit, high voltage, and reliability test equipment and is focused on developing technology to improve product performance and strengthen reliability. By operating PT&T, we were able to reduce testing time by 30% and save approximately KRW 4.5 billion.



Power Testing & Technology Center

Management System Process Map



Internal Quality Management Assessment

LSIS has been operating the Quality Management Assessment System to upgrade the quality of management activities as part of process quality improvement since 2010. Our Quality Management Assessment System was developed based on the Malcolm Baldrige model, a renowned global management system. It has been contributing to upgrading the level of our management process and quality.

annually in testing costs. Above all, PT&T allows us to control testing schedules, making it possible to run preventive tests which have resulted in early-on improvements in quality and reliability.

Product Safety Standard Certification

LSIS has developed a manufacturing process with stringent reliability and safety standards in order to ensure safety during product utilization. In addition to the domestic KS standard, we have obtained various domestic and international standards certification including IEC, ANSI/IEEE, NEMA, ES, CE, and UL in order to provide customers with reliable products.

Cultivating Quality Management Talent

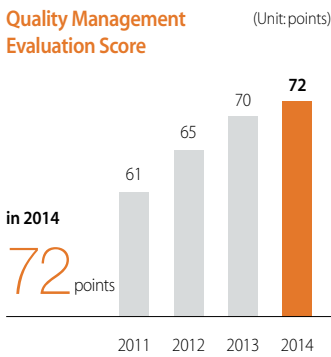
In order to secure the infrastructure for quality management, we are working to cultivate quality management talent. At LSIS, we are developing quality specialists based on the Quality Management Talent Development Roadmap and these specialists are spearheading efforts to improve quality at our business sites.

Customer-oriented Quality Innovation Activities

Securing high quality on the basis of reliability is very important in our businesses. As our business area is expanding to smart grid and photovoltaic power solution sectors, the importance of product and service quality is growing bigger. In particular, ensuring product quality before the delivery is critical to our sustainable growth. Therefore, we are working to ensure quality in advance throughout the value chain of R&D, procurement, manufacturing, marketing, sales, installation, and after-sales service.

Activities to Ensure Quality in Advance

The LSIS PT&T (Power Testing & Technology) Center, established in 2000, was the first private institute in Korea to



Customer Satisfaction

Establish a Fair Trade Culture

Prevent Unfair Trade

LSIS has proclaimed compliance and is implementing diverse fair trade practices based on top management's strong dedication towards fair trade. In order to establish a fair trade culture, we have been continuously implementing company-wide training for all employees and conducting regular inspections on relative departments. The online fair trade compliance training mandatory for all employees builds the foundation for fair trade culture and specialized trainings for each department helps to strengthen our commitment to fair trade. In 2014, we experienced the significant negative impact caused by collusion and became aware of the magnitude of damage resulting from having unfair trade practices brought to light. This acted as an important turning point and catalyst to eliminate unfair trade practices and promote fair trade throughout the company. LSIS has distributed a self-evaluation checklist to staff in

Corrective Measures for Unfair Trade Practices

Category		2012	2013	2014
Abuse of market position	No. of corrections	-	-	-
	Penalties (KRW in billions)	-	-	-
Unfair collusive practice	No. of corrections	-	-	2
	Penalties (KRW in billions)	-	-	4.12
Unfair trade practice	No. of corrections	-	-	-
	Penalties (KRW in billions)	-	-	-

sales, planning, and marketing departments to prevent unfair trade, providing them with opportunities to assess and correct their actions. When questions arise, they can consult the firm's fair trade specialists. This process is in itself a form of fair trade training and helps promote commitment to fair trade. The self-assessment and correction activities have proved effective in spreading a culture of compliance and preventing violations.

Protect Customer Information

LSIS strictly upholds laws pertaining to the protection of personal information and thoroughly safeguards the customer information we collect. In response to the broader application of personal information protection, we are managing and protecting all personal information on customers, recruitment, employees, and suppliers in accordance with our personal information protection bylaws. We conduct annual inspection on personal information in the fields of governance, life cycle and IT and identify improvement tasks for upgrading processes and systems. Other activities establishing internal management processes, gaining consents when collecting personal information, disposing personal information, and managing system passwords. In particular, we adopted DB encryption and DB access control solutions in the first half of 2014 to proactively prevent information leakage. We plan to expand the scope of regular inspections to personal information stored in our DB system and individual PCs.

Activate Communications with Customers

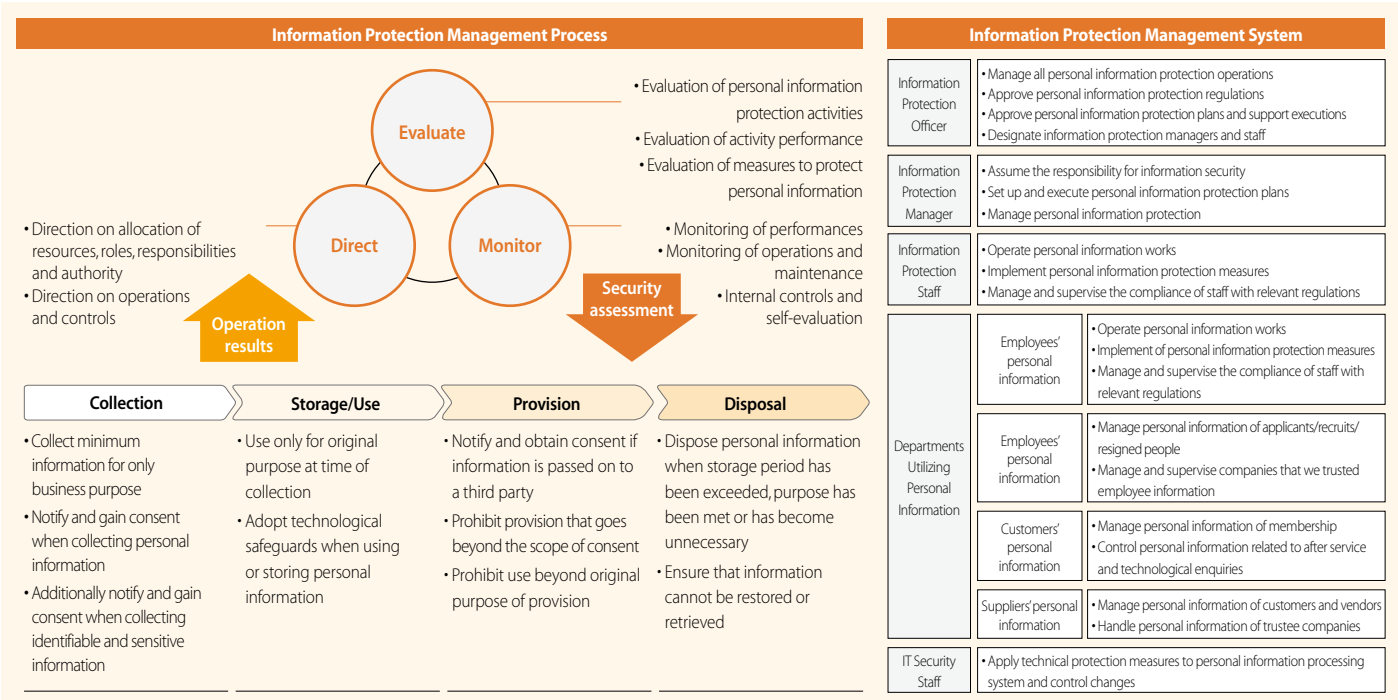
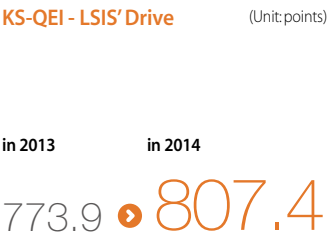
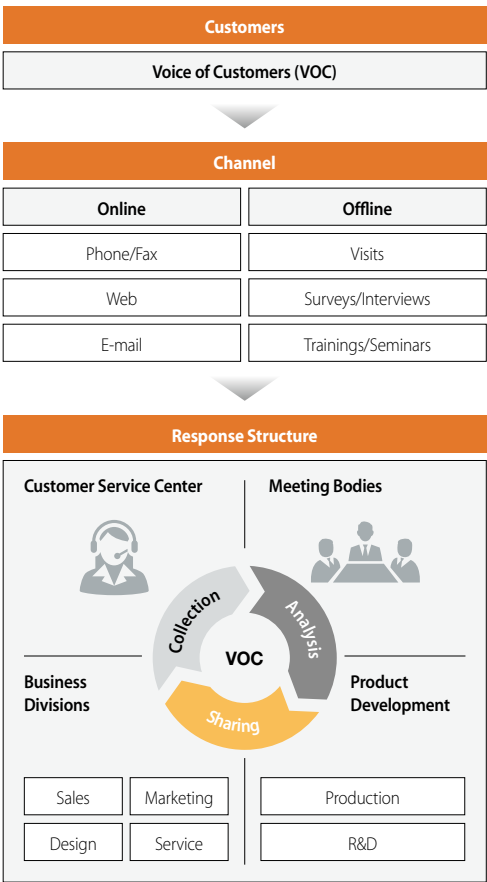
Customer Satisfaction Survey

The company conducts regular annual customer satisfaction surveys. On and offline surveys are conducted on major customers and the A&D Business Group works with a specialized third-party to increase reliability of survey results. We ranked top in the PLC/Drive sector in KS-QEI for 2 consecutive years in recognition of diverse activities to upgrade product and service quality. In 2015, we will expand the survey to overseas customers in order to activate communication and further satisfy customers.

Strengthen PR Activities

LSIS is promoting its products and technologies through diverse PR activities. In 2014, we participated in the largest electrics and automation exhibitions inside and outside Korea such as Automation World (Seoul), Hannover Messe (Germany), IEEE (U.S.), CIGRE (France), SIEF (Korea), SPS/IPC/Drives (Germany), PV EXPO (Japan), and CEPPI (Korea) to showcase our products which reflect global trends. Moreover, we held roadshows in Southeast Asian countries like Vietnam and Indonesia to accelerate our overseas expansion through communications with customers. We will continue to create value for our customers through exhibitions, roadshows, web-letters and advertisement.

to business division, type, processing status, and input channel on a monthly basis. Results are sent to related departments for prompt actions. The opinions gathered by the customer service center and business divisions are shared through company and division-wide meetings for a structured response.



Respond to Customer Requirements

LSIS is listening to customers' voices through various channels. We adopt both current demands and potential complaints to our product development process. The voices of customers are analyzed and treated according

Secure Potential Customers

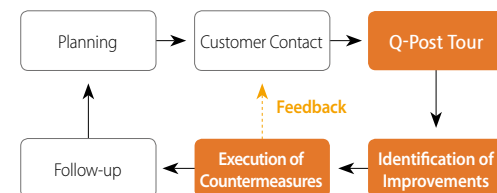
In order to secure potential customers, LSIS conducts one-on-one export consultations, business meetings, seminars through roadshows, and conventions and is managing related information in customer database. The database of existing and potential customers is shared with sales-related departments to boost sales and marketing activities. In addition, as part of our strategic social contribution activities, we are sponsoring educational institutions and technical competitions with our core products, which helps potential customers further become familiar with our company and products.

Customer Satisfaction

Enhance Complaints Handling Processes

Preventative Activities

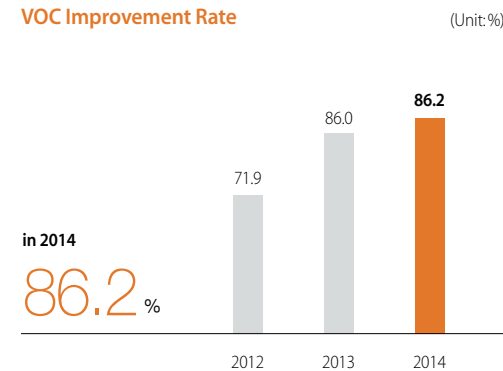
We have implemented the Q-Post Tour program to respond to customers' potential complaints since 2012. This program allows us to ascertain their quality expectations and potential complaints in advance and improve the quality of major products and sales activities. Customer needs identified through the Q-Post Tour program are applied to new product design and quality improvement of existing products, and the results are delivered to customers. We are striving to improve the continuity and efficiency of this program by building an integrated process through collaboration across sales and service departments and factories.



Manage Customer Complaints

LSIS records and manages customer complaints systematically based on our Complaint Response Protocol and processes. Claims regarding quality are treated according to severity through the Quality Information System (QIS) and claims collected by the customer service center and local offices are managed with a target processing time of 2 days (48 hours). Major claims are recorded in the ERP through Client Claim Reports and the Quality Management Department submits and shares the Improvement Report containing causes, improvement plans, and management solutions to the Quality Committee every month. Claims are distributed to responsible departments and results of implementation are managed as 'VOC Improvement Rate.' The VOC Improvement Rate was 86.2% in 2014 and has shown continuous annual improvement. Claims received from overseas customers are dealt with equally to domestic claims based on the Overseas Service Protocol and customer complaints response process. We will continue our efforts to minimize complaints by actively managing customer claims and providing guidance to production lines and suppliers.

VOC Improvement Rate



Strengthen Customer-tailored Services

Tailored Product Training and Seminars

LSIS provides systematic trainings to both domestic and overseas customers. We conduct production facility tours for existing and potential domestic and overseas customers and hold seminars to offer information on our products. Moreover, we are increasing customer convenience by visiting them located in remote areas who may have difficulties in visiting our business sites and training venues. In the future, we plan to expand the number of trainings and seminars to provide tailored training services meeting customer needs.



Product and Solutions Seminar, Indonesia



Product and Solutions Seminar, K-Water

2014 GOOD DESIGN Product Certification



GOOD DESIGN

Design Management Activities

With the declaration of design management for the first time in the industry, LSIS established the Design Center in 2005. The pursuit of customer-centric design was an innovative approach in the industrial equipment business with traditional producer-centric nature. The Design Center is being operated as a specialized organization under the CTO to rapidly respond to customer needs for specialization and sophistication. The Design Center enhances our design competitiveness and corporate image by introducing customer-focused designs that can highlight our technical expertise, upgrading design quality, and for-

tifying R&D capability. Moreover, we strive for sustainable design management to harness customer sensitivity and user experience. Going beyond product development, the Design Center is helping LSIS become more creative and safe by designing the R&D Campus, which will be built in 2015, into a truly smart green building that integrates our products, solutions, and services. We will continue to provide customers with differentiated value through quality that touches them and eco-friendly design development.

LSIS Switchgear and H100 Drive were selected as '2014 Good Design' products. The Good Design evaluation held annually by the Ministry of Trade Industry and Energy demonstrates the highest authority in Korea, and this year's evaluations were conducted with stringent site visits by judges. Our Switchgear and H100 Drive were highly recognized for collaborative efforts between business, development and design divisions to improve design quality in the B2B market, global competitiveness by a design that separates it from competitors, and the establishment of unique product identity.

Switchgear



It was customary for switchgears to have un-uniform shapes and colors and customer needs for this product were also diverse and complicated, leading to a wide range of designs. In order to address these issues, we established a design PI, providing a design standard to revolutionize design quality and improve competitiveness.

H100 Drive Series

The H100 Series (5.5~90kW) adopts an easy to use HVAC-specific keypad, offering a standardized user interface (UX) to all users. In addition, we have obtained various certifications (UL, CE, UL Plenum) to secure global competitiveness and enhanced user-friendliness by adopting Smart Copier technology.

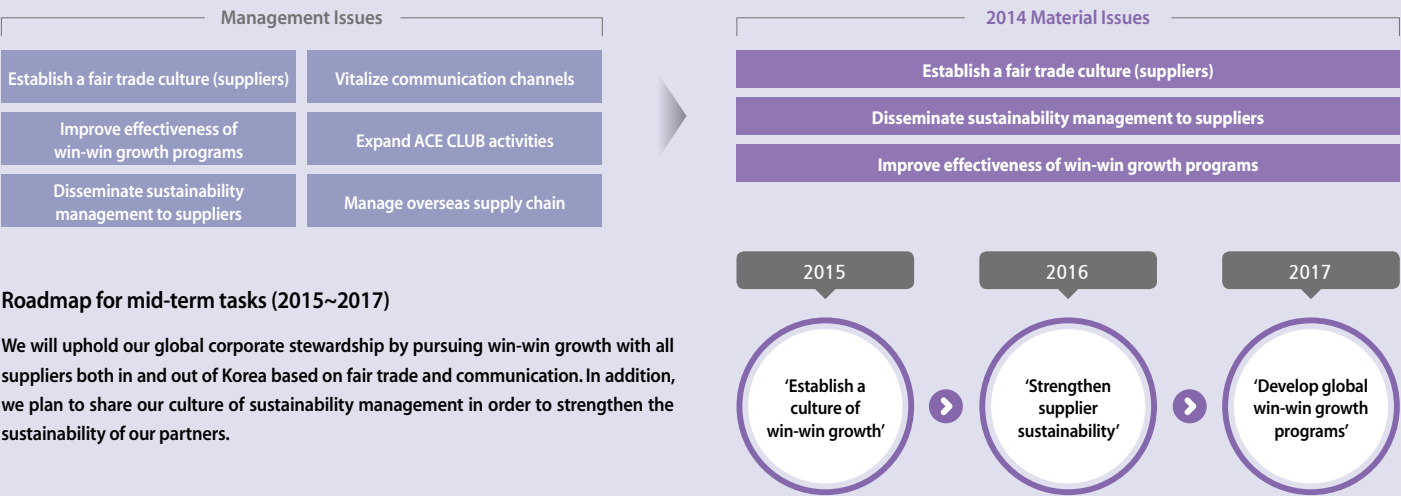


Win-win Growth

02

Win-win Growth Through a Culture of Fair Trade

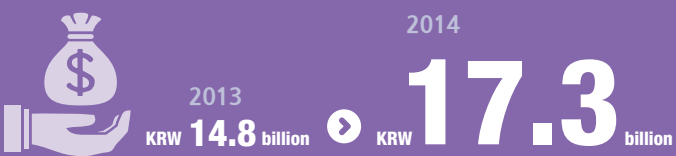
2014 Materiality Test Results



Number of ACE CLUB Members



Productivity Support Funding



Management Issue	Performances in 2014	Plans for 2015	Department
Establish a culture of fair trade	• Implemented surveys on ethical management	• Continue to implement surveys on ethical management (on going)	Audit Department /Legal Affairs Department
	• Conducted employee trainings on subcontracting	• Launch courses to train fair trade and ethical management	
Disseminate sustainability management to suppliers	• Developed strategy to disseminate sustainability management	• Implement special training on sustainability management for suppliers	Corporate Planning Department/ Win-win Growth Team
Improve effectiveness of win-win growth programs	• Strengthened infrastructure for win-win growth	• Expand infrastructure for win-win growth to 2nd-tier suppliers	Win-win Growth Team
	• Increased issue amount for Mutual Growth Payment System	• Increase use of Mutual Growth Payment System	
	• Provided financial and training support for suppliers	• Expand trainings and financial supports for 2nd-tier suppliers	
	• Implemented Technology Sharing Program	• Activate Technology Sharing Program: supports for improving R&D capacity based on transferred technology	
Expand ACE CLUB activities	• Expanded ACE CLUB	• Strengthen ACE CLUB support programs	
Vitalize communication channels	• Implemented Benefit Sharing with 1st-tier suppliers	• Implement Benefit Sharing with 1st and 2nd-tier suppliers	

Establish a Culture of Fair Trade

Policies and Activities to Comply with Subcontracting Law

The Legal Affairs Department supports the ethical operations of departments directly related to subcontracting and carries out various activities to ensure that compliant practices are in place throughout the company. First, the Department swiftly informs relevant departments of government policy announcements so that they may execute compliance. It also analyzes new laws and amendments in consultation with procurement departments to reflect these in business processes. Second, the Department helps procurement staff to embed compliance in their behaviors and promoting compliance through regular trainings. It also encourages the staff to conduct inspection and correction by themselves through checklists with respect to subcontracting regulations, preventing law violation risks. Finally, the Legal Affairs Department provides procurement staff with professional consultation on issues related to subcontracting laws and their applications, preventing exposure to non-compliance risk.

Systematic Subcontracting Law Compliance

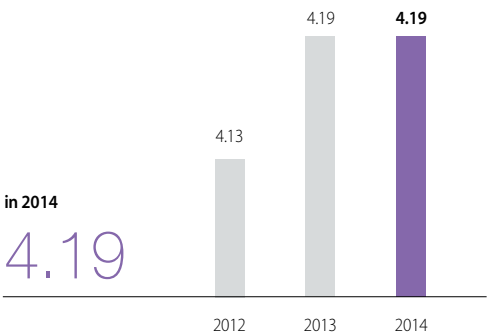
LSIS has undertaken various activities to build a systematic approach to fair trade and subcontracting compliance. As part of these efforts, we updated our 'Subcontracting Basic Agreement' in accordance with the Fair Trade Commission guidelines in 2014 to build a fair and transparent business relationship with suppliers. In addition, we are annually renew the 'Pledge to Ethical Management Practice' with all suppliers when signing the basic agreement. In 2014, we signed subcontracting and ethical management agreements with 416 suppliers to ensure mutual fair trade. Moreover, we have adopted the Fair Trade Commission's 4 key guidelines to company regulations in order to systematically manage subcontracting regulation compliance. The Internal Subcontracting Inspection Committee headed by the CPO checks violations of relevant laws and fair trade practices from supplier selection to transaction termination through monthly meetings.

Supplier Survey Results

We conduct an annual survey of suppliers and other partner firms with continuous business transactions to assess their satisfaction level in terms of our ethical management activities. The survey covers the entire processes ranging from supplier selection and contracting to oper-

ation and their opinions and recommendations are used for vital data in developing our directions for ethical management. Suppliers' satisfaction level on our ethical management (out of a possible 5 points) has been showing consistent improvement every year.

Ethical Management Satisfaction Index (Suppliers)



Disseminate Sustainability Management to Suppliers

Practice of Action Plans

With the belief that stable and balanced growth of suppliers will help us reduce risks and raise product competitiveness, we are encouraging them to adopt sustainability management system. As part of this, we implement environmental safety assessment of new suppliers and partially reflect their sustainability management activities in our supplier evaluation. In addition, a roadmap for spreading sustainability management to suppliers was established to enhance their capabilities and responsibilities. Based on the roadmap, we plan to provide suppliers with special lectures and regular trainings on sustainability management to form a consensus in the short term, while developing indices to diagnose their sustainability and applying them to the selection and evaluation of suppliers in the mid to long term. By doing so, we will continue to help suppliers reduce both current and potential risks and consequently build the foundation for win-win growth with them.

Win-win Growth

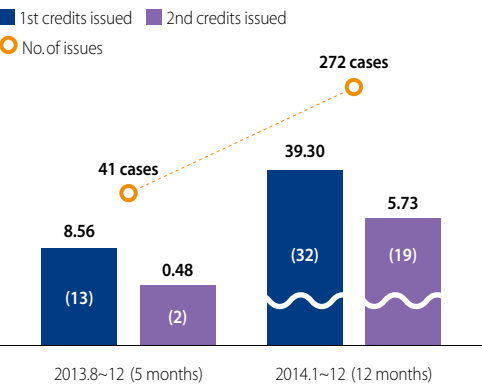
Improve Effectiveness of Win-win Growth Programs

Expand Win-win Growth Foundation

Build the Mutual Growth Payment System

LSIS first started the Mutual Growth Payment System which provides financial aids to not only 1st-tier but 2nd-tier and 3rd-tier suppliers in the industry. This system allows 2nd-tier and 3rd-tier suppliers to issue 'Win-win Sales Bond' by utilizing trade receivables from LSIS as collateral and to liquidate the bond at the same low interest rate granted to large enterprises, which ensures better liquidity. In 2014, a total of 51 suppliers issued 272 bond issues worth KRW 45 billion, a sharp increase from the previous year, through the system. We plan to make this system more active in 2015 by expanding the pool of participating banks. Through this, we hope to help suppliers reduce difficulties in collecting payments and concerns about dishonor. Consequently, this system is expected to substantially contribute to boosting win-win growth with our suppliers and improving the national competitiveness.

Utilization of the Mutual Growth Payment System (Unit: KRW in billions, firms)



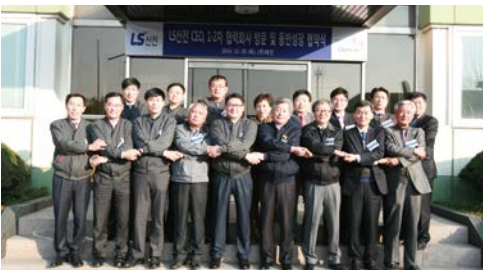
Launching ceremony of the Mutual Growth Payment System

Agreement on Win-win Growth between 1st-tier and 2nd-tier Suppliers

To establish a culture of voluntary fair trade and win-win growth between 1st-tier and 2nd-tier suppliers, LSIS signs agreements on win-win growth among the three parties. The agreements emphasizes compliance with the Fair Trade Commission's 4 key guidelines for subcontracting and commitment of 1st-tier suppliers to spreading our win-win growth policy to 2nd-tier suppliers. In 2014, 25 1st-tier and 19 2nd-tier suppliers signed a total of 75 agreements. We plan to expand the number of agreements between 1st-tier and 2nd-tier suppliers in 2015 to make this a meaningful activity towards win-win growth.

CEO Visits to 1st-tier and 2nd-tier Suppliers

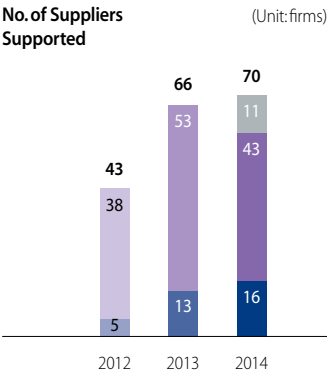
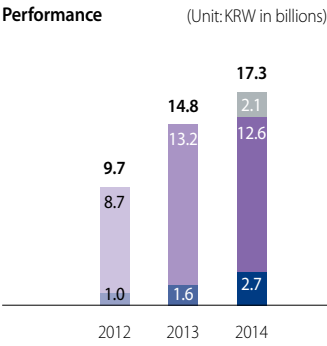
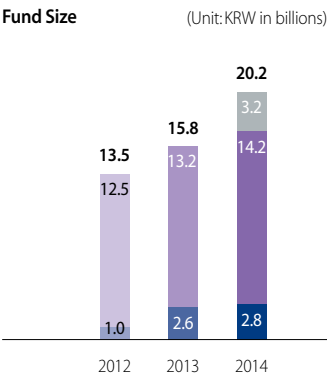
As part of our effort for win-win growth with suppliers, our CEO has visited 2nd-tier suppliers' onsite and had time to communicate with them. In 2014, he visited 3 suppliers and held onsite forums with 11 companies to discuss LSIS business strategies and operational directions along with ways to enhance cooperation and improvement. We plan to dispatch quality management specialists, improve payment conditions, and provide financial assistance in order to help both 1st-tier and 2nd-tier suppliers gain tangible benefits through the win-win growth activities.



CEO's visit to the 1st and 2nd-tier suppliers and forum with them

Financial Assistance for the Suppliers

■ Direct ■ Combination ■ Special



Guidance for Process Quality Management

Category	2013	2014
Suppliers visited	34	42
No. of visits	45	91
No. of supports	275	737

Improve Productivity

Financial Assistance

LSIS has provided suppliers with financial assistance at low interest rate for their stable production. In 2014, we raised a total of KRW 20.2 billion - KRW 2.8 billion for direct support, KRW 14.2 billion for combined support, and KRW 3.2 billion for special support. And a total of KRW 17.3 billion was supported to 70 suppliers for working capital and investments directly and indirectly. We plan to expand the scope of financial assistance to 2nd-tier suppliers in 2015.

Training Support

We develop and offer various training programs meeting suppliers' needs with the purpose of securing world-class quality. In collaboration with universities and specialized education institutions, we operated 5 courses, including injection molding expert and FTA origin specialist training courses, free of charge. In addition, we opened 9 courses on quality and production management for employees of suppliers based on job function and rank. In particular, we dispatched our design and quality specialists to perform specialized on-site training for more meaningful support to suppliers, which was especially well-received. These efforts have led to training of 1,005 persons on various topics including quality, production, finance, FTA, and injection molding in 2014 alone, contributing to enhancing the quality competitiveness of suppliers.

Guidance for Process Quality Management

In order to secure quality competitiveness from the stage of purchasing raw materials, LSIS dispatches internal specialists to guide the management and improvement of process quality. Our specialists visited 42 suppliers 91 times and completed 737 improvement support tasks in 2014. This has helped suppliers become aware of the importance of quality and process management so that they may independently and competitively manage their processes. In 2015, we plan to extend this support to 2nd-tier suppliers as well.

Strengthen Technology Development Capacity

Technology Sharing Program

In collaboration with the Korea Institute for the Advancement of Technology (KIAT), LSIS provided 290 unutilized technologies to SMEs through the Technology Sharing Program. LSIS became the third company to participate in this program after SK Hynix and LG Display. A total of 222 domestic and 68 foreign technologies with regard to patented and utility model in the heavy electrical equipment industry. Under this program, we donated 40 domestic and foreign patents to 9 SMEs in 2014. We will continue to provide supports in collaboration with the government so that our suppliers can improve R&D capability and succeed in commercializing transferred technologies.

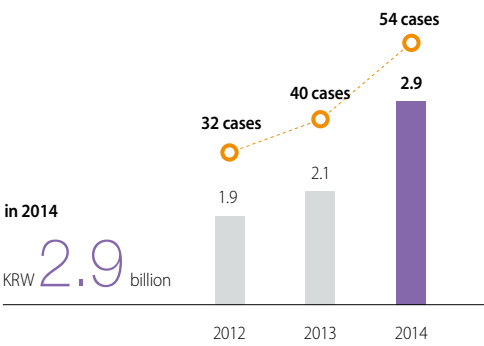
New Product Development with Conditional Purchase Option

LSIS is participating in the government-led 'New Product Development with Conditional Purchase Option' program with suppliers to both enhance technology development capacity but also increase sales. Through this program, we conducted 3 projects including the 'Localization of HVDC Power Supply' with Ejins in 2014. We will continue to jointly participate in this program, which helps secure sales channels from the stage of product development, to stimulate suppliers' R&D mindset and promote the localization of equipment.

Commissioned Development Projects

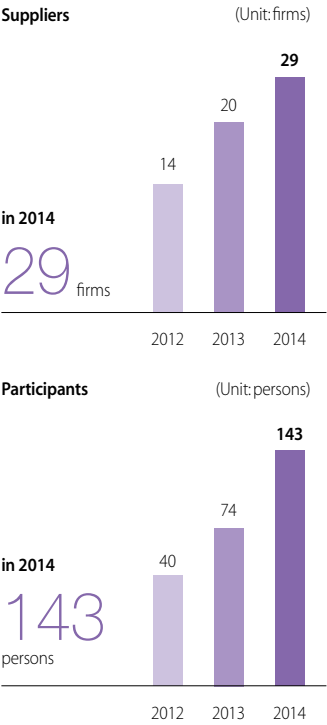
In order to improve R&D capability of suppliers and tighten relationships with them, we carry out national and private research projects. We commissioned a total KRW 2.9 billion worth of 54 research projects in 2014 and plan to continue to expand the number of projects.

Joint Execution of Commissioned Development Projects (Unit: KRW in billions)



Win-win Growth

Completion of the Innovation Task Force Program



ACE CLUB Management Seminar - workshop



ACE CLUB Management Seminar - special lecture

ACE CLUB

About ACE CLUB

ACE (Active, Challenge, Excellent) CLUB is LSIS' unique program to certify excellent suppliers, which aims to encourage them to build a culture of innovation and secure world-class competitiveness. ACE CLUB members are selected annually based on a comprehensive evaluation including quality, price, delivery, process management, and commitment to win-win growth. ACE CLUB members are given preferential payment conditions, training and education opportunities, and R&D support, which helps enhance QCD competitiveness. As a result, the number of suppliers with over KRW 10 billion procurement has increased to 10 in 2014 from 2 in 2008. ACE CLUB will become a catalyst for promoting sustainability management activities of suppliers in the future.

Management Seminars

We hold a seminar for the CEOs of ACE CLUB members once a year to share knowhow with respect to management strategy, finance, marketing, leadership, and the economy. A total of 163 CEOs of suppliers have participated in this seminar since 2008. In particular, experts in each field give special lectures and our executives offer a forum to discuss major issues in the industry and how we should work together. Moreover, ACE CLUB members can share successful innovation strategies and cases through this seminar, offering a chance for well-intentioned competition. This seminar will continue to help suppliers not only have a chance to learn management knowhow but communicate their difficulties with our executive and deliberate on future directions.

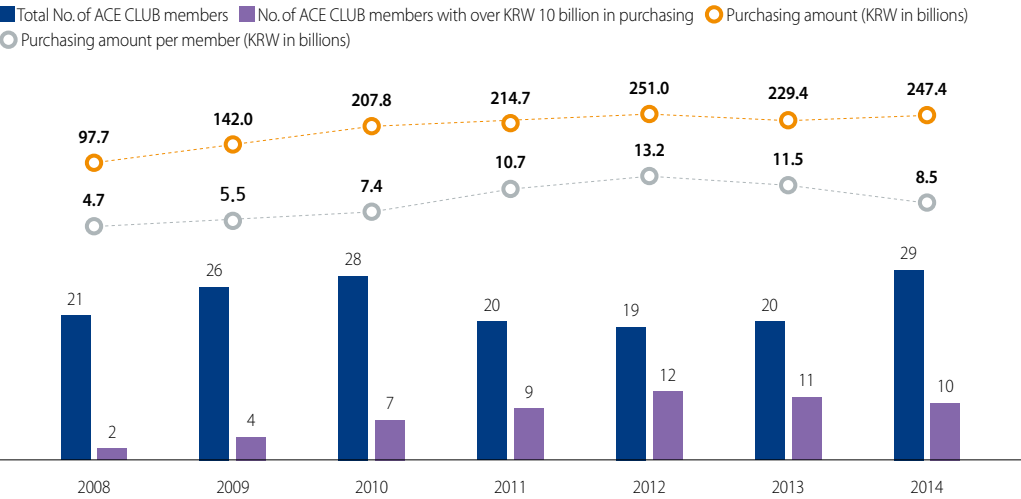
Special Task Force on Innovation

LSIS provides ACE CLUB members with the 'Special Task Force on Innovation,' a talent cultivation program, in order to help them grow into strong companies with global competitiveness. This program aims to reinforce suppliers' corporate competitiveness by upgrading productivity based on quality innovation, in which employees of ACE CLUB members participate. In 2014, this program continued for 10 months with the contents of consulting services by external specialized institutes and collective trainings to raise the awareness of quality, enhance data control, and innovate product quality. Participants who complete this program play a role as innovation leaders and candidates for the next-generation management in their companies. The number of participants was 40 from 14 suppliers in 2012 and 143 from 29 suppliers in 2014.



Innovation Task Force - education to improve process and quality management

ACE CLUB Status



Visit to Japanese TPS site for benchmarking on innovation



Visit to LSIS China subsidiary for benchmarking

Domestic and International Benchmarking

We operate a benchmarking program that provides ACE CLUB members with chances to visit advanced companies inside and outside Korea and to better understand rapidly changing competition environment. Performances include visiting 17 advanced companies in 5 countries and 3 domestic excellent companies and participating 3 overseas exhibitions from 2008 to 2014. A total of 210 employees of suppliers attended this program, experiencing changes in global market environment and best practices. We will continue to operate this program for nurturing excellent suppliers.

Communication and Information Sharing with Suppliers

Performance Sharing

The company holds the Performance Sharing Meeting every quarter not only to share our business vision and performances with suppliers but also create shared value and expand communication and cooperation. In 2014, a total



Performance sharing - special lecture on humanities



Performance sharing - agreement on win-win growth

of 610 employees from 585 suppliers participated in this meeting, through which they shared various performances with respect to product quality, delivery, procurement policy, excellent win-win growth practices, and special lectures. The Performance Sharing Meeting has helped us form a consensus on win-win growth with suppliers and we plan to expand the scope of this meeting to 2nd-tier suppliers in the future.

Partner Exchange Meeting

In 2014, we conducted 4 exchange meetings with the CEOs of suppliers in different business sectors, where our executives visited suppliers for in-depth communication. Through the meetings, we carefully listened to their voices and debated ways to cooperate with each other and enhance business competitiveness. We also took advantage of the meetings to identify and rectify inefficient business practices that had become customary in order to achieve win-win growth.

Talk Concert with the CPO

The CPO of our company visited suppliers once a quarter in order to expand communication opportunities with them and listen to their difficulties and suggestions, through which we were able to understand how they recognized and felt our win-win growth policies. And, at the same time, we discussed ways to improve delivery process and operate efficient quality management policies through the talk concert.

Manage Overseas Supply Chain

Regional Procurement

As the nation's leading heavy electrical equipment company that produces core equipment ranging from electric devices to industrial automation systems, LSIS purchases raw materials worth of about KRW 1.32 trillion from suppliers of 31 countries annually. Regional breakdown of procurement is as follows: Korea (82%), China (10%), Europe (3%), Japan (2%), and other parts of Asia (2%).



Exchange meeting with partner firms

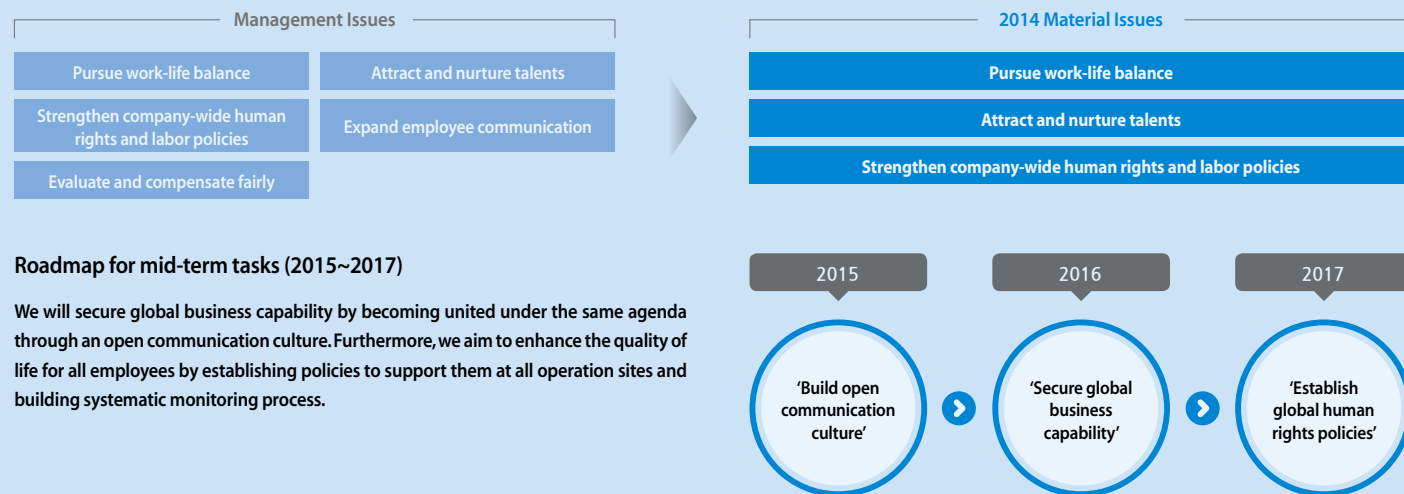
Employee Satisfaction

Cultivating global talents and improving employees' quality of life

03



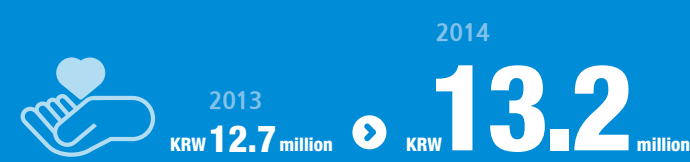
2014 Materiality Test Results



Education expenditure per person



Welfare expenditure per person



Management Issue	Performances in 2014	Plans for 2015	Department
Pursue work-life balance	• Implemented Rest (휴) Weeks (concentrated vacations)	• Promote the use of Rest (휴) Weeks system	HR Team
	• Acquired certification as a family-friendly company	• Strengthen family-friendly management	
	• Opened workplace nursery (Cheongju)	• Open workplace nursery (Anyang)	
	• Hosted employee family events	• Expand employee family events to more business sites	
Attract and nurture talents	• Operated various channels for talent recruitment (Corporate funded scholarships, lab tour, internships)	• Establish aggressive recruitment and promotion strategy	HR & Relations Management Team
	• Increased employee education costs and time	• Secure communication channels of potential recruits	
Strengthen company-wide human rights and labor policies	• Conducted self-evaluation of human rights and labor standards	• Expand operation of global capacity building program	
		• Establish human rights policies	
Expand employee communication	• Reinforced existing communications channels	• Activate labor and human rights related processes	Innovation & Culture Part
		• Provide training on labor and human rights policies and related issues	
		• Activate communication through the affiliation of communication channels	

Pursue Work-Life Balance

Events for Employee Families

Various family events are held to offer opportunities for open communication among employees and to inspire their families with pride in the company. In particular, for the employees who were promoted to managerial level, the company hosts an event where the families of the employees and company executives are invited. Starting in 2011, the event serves the purpose of assuring the importance of the manager role as well as thanking the families' support. We also hold events to invite the parents of new recruits. The parents of new recruits visit the company and experience the working environment of their sons and daughters, while sharing the company's corporate vision.



Family event for employees promoted to manager level

Family-friendly Programs

Under the motto, "as a happy home makes a happy workplace," LSIS runs various programs serving the needs of the employee's family. Designating the second Friday of each month as 'Family Day,' we encourage employees to leave work on time for better relationships with their families. Since 2011, we have been rewarding employees with the 'Filial Behavior Award,' a program in which individual employees are evaluated and selected for cases of filial behavior. Other programs include Summer/Winter English Camps for employees' children, Children's Day event, trips, operation of recreation centers in summer, film screening event, and others. As such, LSIS provides employees with opportunities to set aside work to create precious memories with their families.



Cultural outing for employees' children



Children's Day event

Workplace Nurseries

LSIS is operating nurseries in the workplace, supporting employees to balance their work and life. Our Cheongju plant had opened a nursery in the Cheongju Industrial Complex in March 2014, and the headquarters and the R&D Campus in Anyang started the operation of a nursery in March 2015. The nurseries are commissioned to agencies specialized in child care, ensuring that the children of LSIS employees will be nurtured in a safe environment, provided with excellent care.



LSIS Daycare Center

Concentrated Vacation System

We run a system which allows all employees to go on a concentrated vacation within the limits of their paid leaves and personal vacations, which are fixed by related laws and collective agreements. It is a system that helps employees balance work with home. It is implemented after long term projects or personal events, allowing employees to regain strength and return, thus enhancing business efficiency. Apart from summer vacation, all LSIS employees are given concentrated breaks at the first half and latter half of the year (3~5 days), which provides employees with an opportunity to rest and return.

Employee Satisfaction

Attract and nurture talents

Ideal Employee and Recruitment Philosophy

LSIS seeks after individuals that can, on the basis of LSPartnership, share the Core Values of Collaboration, Execution, Creativity, and Integrity. An ideal employee will also be Positive, Creative, and Professional. With this in mind, LSIS strives to recruit talents that show competence, while avoiding homogenous recruitment. Through recruiting talents with global competitiveness and positive mindset as well as a spirit full of challenge, LSIS pursues becoming a 'Great Company' loved by customers. LSIS also aims to become a company that immerses itself in achieving individual and corporate goals as passionate professionals join forces. To this end, LSIS is operating a fair and transparent system which does not discriminate based on individual characteristics such as education, age, gender and race.

Status of Global Talents

With the strategic direction of evolving into a leading global heavy electrical equipment company, each business site in the world is striving to recruit and cultivate global talents. As of the end of 2014, around 1,400 workers are employed at either both production and sales corporations including China, Vietnam, and Japan or ten overseas branches including the United States, Europe, India and Vietnam. In order to advance into global markets and boost sales, LSIS has been continuously striving to re-

inforce human resources' competitive edge in the global market. Also, it has been gradually expanding global recruiting at North America, China and Europe, attracting global talent.

Attract Global Talents

LSIS has been strategically introducing human resources to core business projects by public recruiting new and experienced workers. Furthermore, by enforcing global recruiting policies which target students staying abroad in universities at North America, China, or foreign intellectuals in the R&D field, LSIS is reinforcing its competitive edge in the global market. Particularly, regarding R&D human resources for the company's new core businesses and talented workers with enough experience, LSIS is also operating a year-round recruitment program. We also utilize various contact channels such as on-campus recruitment, employee recommendation, and search firms to attract talents meeting our businesses in early stage. Under the situation where corporations struggle to preoccupy talented workers, LSIS is also endeavoring to attract excellent and professional human resources. By providing constant support through corporate funded scholarships to Masters and Doctorate candidates, LSIS gives them the opportunity to study their specialties and join the company afterwards. Also, we conduct the Lab Tour program to visit outstanding electricity and electronic engineering labs at universities in order to continue exchange with schools and students. Our internship program targeting

college seniors in their spring semester allows them to experience LSIS's vision and corporate culture beforehand through undertaking jobs and tasks beforehand. Other programs include plant tours for university students, participation in the Human Resources Program in Energy Technology, and so on, which provide them with opportunities to have a positive impression toward LSIS.

Direction of Cultivating Talents

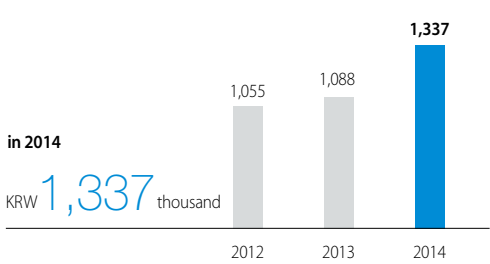
In the past when the half-life of knowledge was extended, experiences could become skill. However, in the vastly changing modern society characteristic of globalization, advancement of technology, and changes in law, having only experience one will fall behind. In order to secure and exhibit professionalism in the global market, LSIS is supporting systematic training and education programs that will nurture talents.

Human Resources Development

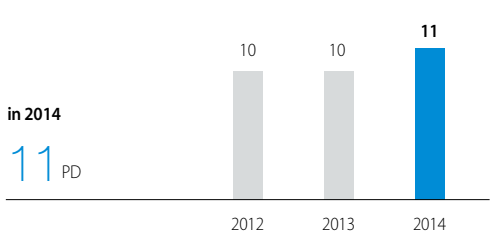
For efficient human resources development, LSIS provides systematic and well-organized education and training programs with regard to class, globalism, organizational development, and professionalism. In addition, the CDP (Career Development Program) is running for helping all employees manage their entire job careers from joining to leaving the company.

Class	Educate knowledge, skills and attitudes required by one's position, rank and duty
Globalism	Educate languages and culture related to a global environment
Organizational development	Internalize management philosophy, main values, and organization culture
Professionalism	Educate knowledge with the aim of nurturing professionals by each value chain

Training Costs



Education Hours



Caring for New and Experienced Employees

LSIS operates retention events and systematic talent development programs to effectively care new and experienced employees. We provide new graduate recruits with a message from the CEO and flower basket and take them on tours of the Jeju Pilot HVDC SMART CENTER, allowing them to be proud of joining the company. Other programs include entry-level education to introduce the group and the company, mentoring program, on-the-job training, basic job training course by each value chain, and LS Future Camp which aims to assist employees who have finished their first year to set visions. Moreover, we help new employees adjust to the organization and fulfill their potential with the On-boarding Package. We also strive for continuous communication through the frequent VOE (Voice of Employee), which caters to employees who have newly joined the organization.

The LSIS Ideal



Positive	Creative	Professional
Energetic, positive-minded, ethics People who are energetic and positive-minded, who work well with fellow coworkers, and who adhere to ethical procedures at work.	Change, innovation, performance-driven People who lead in developing the company into a global enterprise by pursuing changes and innovation and creating value on the basis of creative ideas.	Professionalism, self-development, global mindset People who incessantly strive to become the best in their jobs, have keen understanding of ever-changing global business environment and the competency and passion to compete globally.



Collaboration



Execution



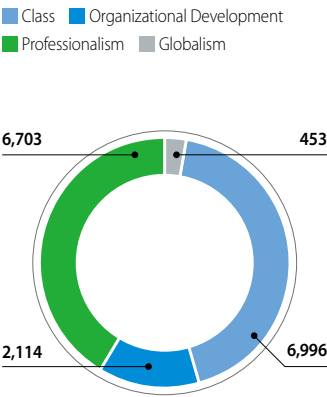
Creativity



Integrity

Education and Training in 2014

(Unit: PD*, persons per day)



* 1PD = Off the job training 8h, Cyber 1M



Welcoming event for new recruits



New recruits training in Jeju



LS Future Camp

Employee Satisfaction

Strengthen Human Rights and Labor Policies

Respect for Human Rights

LSIS has put in place an institutional strategy to prevent discrimination with regard to gender, race, religion or region of origin in recruitment, promotion, salary, and welfare benefits. We also fundamentally prohibit any form of child labor or forced labor and strictly comply with related domestic and international laws. As a result, there has been no single infringement in terms of these since the foundation, which was attributable to our efforts to continuously improve our policies in respect of human rights. In 2014, as part of our sustainability management assessment, we have evaluated our human rights and labor policies. Based on the results, the company improved relevant policies and process to deal with human rights.

Ensuring Basic Labor Rights

With the recognition that labor union is a partner for our businesses, we held negotiations on wages and collective agreement. We specified a phrase ‘The Company enters into collective discussions on equal terms as the labor union’ on the statement to respect the right of collective agreement. In cases of critical changes in business environment, we inform the facts to the labor union in a set period. In addition, activities of the labor union and its members are guaranteed without any disadvantage.

Labor-Management Partnership for Win-win Growth

LSIS operates the Labor-Management Working Taskforce Team (TFT) in order to improve mutual understanding and reduce the distance between labor and management by sharing information necessary to address issues promptly and proactively. The quarterly company-wide Labor-Management Council and Labor-Management Council by each business site also discuss working conditions and welfare and benefits along with personnel deployment and shifts, company growth strategies, and management issues with the labor union to reflect their voice for mutual growth. In particular, regular labor-management forums and table-top discussions are operated in order to emphasize open communications. Moreover, the management visits not only domestic business sites to explain the company’s quarterly performance to labor union officials, but also overseas subsidiaries together with labor union officials in order to directly experience global business environment and form a consensus. Meanwhile, we operate several groups representing em-

ployees such as LinkerS, Smart Board, and Ace Board as well as regular forums for different classes and departments, contributing to improving employees’ working environment and treatment.



Labor-Management Council

Labor-Management Relations

LSIS pursues labor-management relations based on equality and rational cooperation that allows both labors and management to fulfill their duties and work towards shared benefit creation. In compliance with the articles of the Collective Agreement and Labor Union Charter, a total of 1,047 employees (30.6%) are members of the labor union as of the end of 2014. The labor and management of LSIS has built an amicable relationship on trust and as a result, we were able to come to conclusions without disputes on wage and collective discussions since 2003. In addition, with the declaration of constructive communications and unlimited cooperation, the labor and management of LSIS have built a stable and cooperative labor-management relationship.

Labor Union Membership

		2012	2013	2014
No. of union members (persons)	Male	861	865	873
	Female	171	167	165
	Total	1,032	1,032	1,038
Rate of union membership		32.3%	31.1%	30.5%

Expand Employee Communication

Philosophy and Strategy for Communication

Upon the inauguration in 2008, the CEO Ja-Kyun Koo emphasized transforming the corporate culture with the statement that it is essential for us to grow into a global company. Since then, we have made continuous efforts to build a culture of communication. We are now determined to open the era of value-focused management, where qualitative and quantitative growth is balanced. With a new clear value system, the management, the company, and the employees are striving to harness capabilities toward one direction. Leader groups are helping members to improve themselves and focus on their work, and members are making concerted efforts to become professionals in their respective fields and to foster global competitiveness. Like this, we at LSIS are endeavoring to create better corporate value.

Employee Communication Channels and System

LinkerS		LinkerS is a representative body to support two-way communication between the management and staff and to build an open corporate culture, in which one representative from each division serves a two year term. It delivers employee opinions gathered through regular meetings and VOE to the management.
Communicator		Each team chooses one person as the communicator. He plays a role for leading the team culture, sharing and monitoring core values, and promoting free communication between team members and the leader.
Labor-Management Council		Labor-Management Council contributes to the establishment of healthy relationships between labor and the management based on understanding and cooperation. It also pursues increasing mutual benefits that can help the company grow sustainably and to improve the social and economic status of employees.
Grievance Resolution System		Our grievance resolution system helps activate communications within our organization and to solve problems and grievances of employees in terms of their company lives, which contributes to boosting confidence and building a positive corporate culture.
Hi-Card		Happiness & Improvement Card is a communication board that allows employees to express grievances and personal requests in an informal manner to either the CHO or HR representative and receive feedback.
Meeting with Management		Employee groups based on function and position are able to gain opportunities to directly communicate with the CEO, COO, head of divisions and departments through the Management Forum, and their opinions are reflected in our business operations.

Communication Enhancement Programs

LSIS seeks to vitalize internal communication and to create a cooperative environment by building a corporate culture to inspire voluntary participations, open communication, and social contribution activities.

1. Open Office

Facilitate open and equal communications between leaders and members by always opening the door of the leader’s office room

2. Harmony Day

Make opportunities to communicate and cooperate among relevant departments to eliminate misunderstandings and strengthen focus on work

3. Changing Positions

A work function exchange that allows employees to experience operations in different units in order to raise understanding of other units and to promote cooperation

4. Standing Meeting

Take time to share the direction of team tasks, status of individual work progress, and thinking about recent issues among team members every morning

5. A Million Roses

The company’s unique communication program to complement and encourage each other. If there is a person who would like to praise or encourage, he or she delivers a rose voucher with a compliment message. The recipient can exchange the voucher for food and beverage at the company store or café. Vouchers can also be passed on other persons for a compliment relay.

6. How-to Session

A workshop program to encourage every members to freely and honestly develop solutions beyond just traditional meetings between leaders and members. Under the theme that the answer to our question is at the site, members are able to jointly solve any problem through a workshop for two to three hours with their leaders and other members.

Employee Satisfaction

Evaluate and Compensate Fairly

Performance Management System

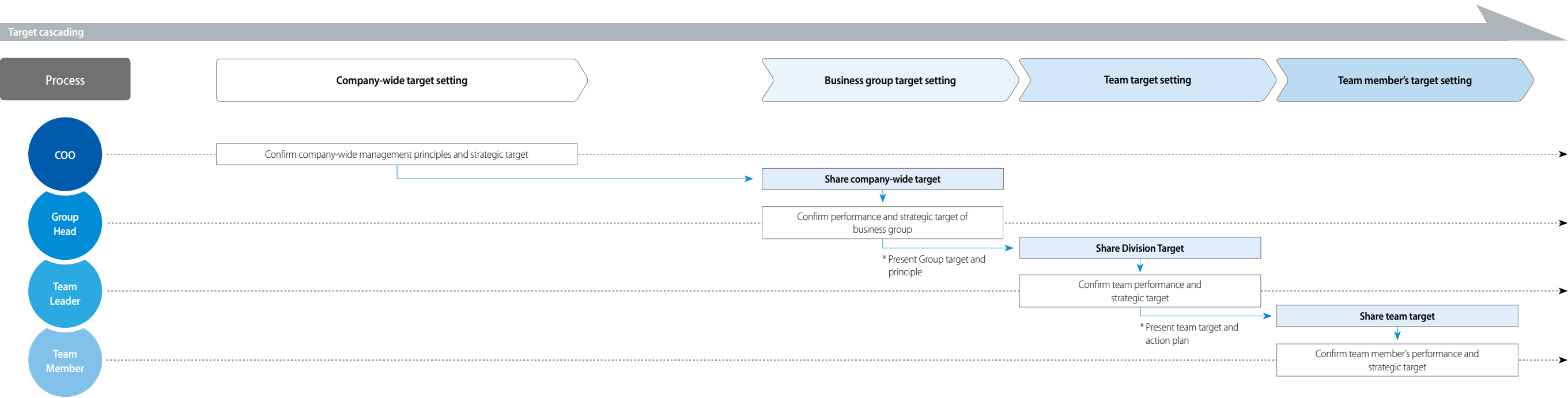
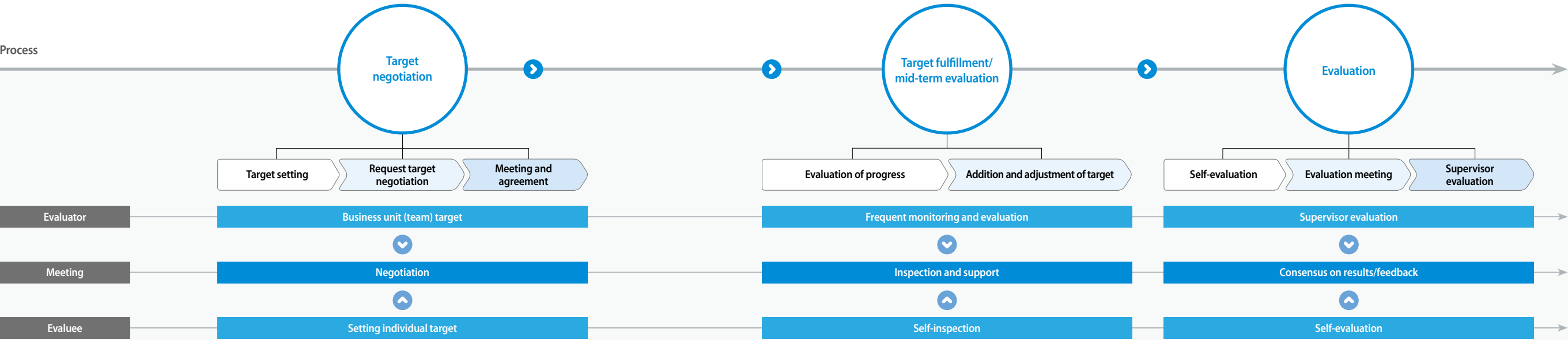
Our employee evaluation is conducted with respect to their performances and capabilities. As for performance evaluation, targets are set in the business group, division, team, and individual levels, respectively, through negotiations at the beginning of the year. The progress of each target is checked through daily and mid-term evaluations and various measures are taken to assist in reaching those targets. If those are not achieved, we identify the causes

and ways to improve. We secure fairness by requiring meetings between evaluators and evaluatees at every step of the process and improve transparency by providing feedback which is reflected in future goal setting and individual development plans. Business unit performances are linked to individual evaluation grades and are used in calculating bonuses, salary adjustments, promotions and career development.

Compensation Program

LSIS operates various award programs to compensate employee performances. For the most outstanding employee of the year, the 'Green Innovator Award' is given, the researcher who promoted active R&D the most is given the 'Best R&D Award,' there are also group awards. In addition, we hold the Innovation Contest to award compensations to the most innovative employees and

innovation items that contribute to the company, they are also recognized with the 'Patent of the Year Award.' For individual contributions to the company, we provide the 'Achievement Award' and the 'Service Excellence Award' to a service staff who have performed well, and the 'Sales Award' is given to the highest performing sales team in order to encourage employees.



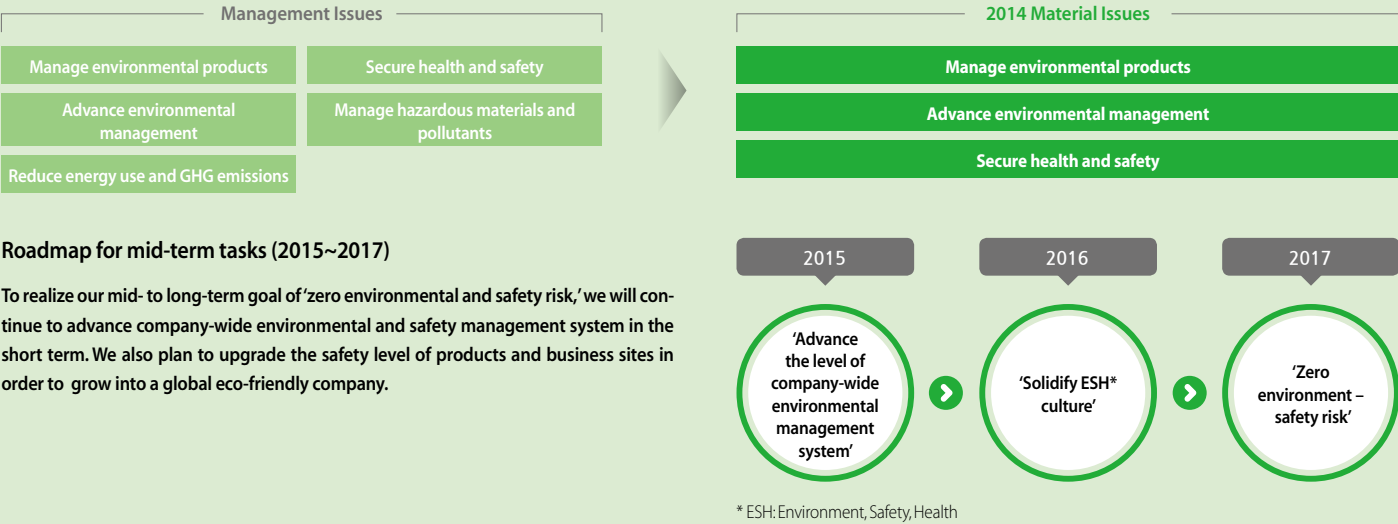
Environmental and Safety Management

Promote environmental management in accordance with global standards

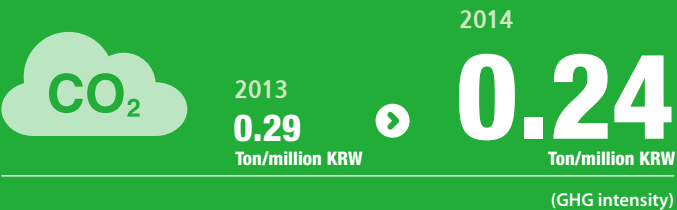


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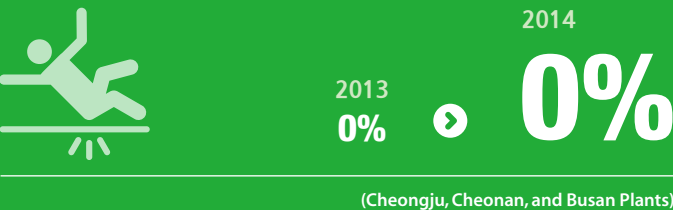
2014 Materiality Test Results



Greenhouse Gas Emissions



Occupational Accident Rate



Management Issue	Performances in 2014	Plans for 2015	Department
Manage environmental products	• Developed improvement plans for environmental product management	• Redefine eco-friendly product standards • Establish eco-friendly product development process	Technology Strategy Department
Advance environmental management	• Implemented self-assessment of environmental management level • Conducted green purchasing (office supplies and materials) • Implemented environmental investment	• Improve environmental management organizational structure • Proactively respond to regulations with pre-checks for environment and safety • Disclose environmental data faithfully • Raise awareness on green purchasing amongst employees • Expand the scope of green purchasing • Enforce the environment, safety, and health inspection system (in case of investments in new facilities, facility relocation, and change of materials)	Environment & Safety Team
Secure health and safety	• Inspected and diagnosed the status of safety and health • Executed emergency response activities • Implemented quarterly health and safety training	• Identify and respond to company-wide health and safety risk • Develop response manuals for individual environment and safety risks • Evaluate safety and health training programs and develop contents	Environment & Safety Team
Reduce energy use and GHG emissions	• Reduced GHG intensity	• Respond to GHG and Energy Target Management System	
Manage hazardous materials and pollutants	• Increased process water and wastewater recycling rate • Reduced air pollutants (dust)	• Change outdated equipment and enhance efficiency	

Environmental Product Management and Image as an Environmental Company



Manage Environmental Products

In accordance with the green business policy of the government, LSIS has redefined its capabilities to cover production, delivery, and utilization in the green energy industry, and focused on developing and managing environmental products such as photovoltaic power drive, photovoltaic power generation system, smart grid, EES, EV parts, and AC Drive. We have also invested in replacing hazardous substances, reducing pollutants, and saving energy consumption to respond to globally environmental regulations. We will continue to make concerted efforts to develop environmental products and increase their sales to lead the industry.

Advance Environmental Management

Environmental Guidelines

We have established and proactively complied with the environmental management guidelines to pursue sustainable growth and preserve global environment. In 2014, we assessed the current status of our environmental management and established directions for improvement. Based on the results, we will not only expand the coverage of our environmental management throughout the company but also enhance our systems to respond to relevant regulations from 2015.

<Environmental Management Guidelines>

1. Minimize environmental impacts throughout the product life cycle and fundamentally prevent pollution
2. Minimize resource and energy use by applying clean manufacturing technologies
3. Comply with international and domestic environmental laws and internal standards
4. Analyze environmental performance through regular environmental evaluations and continuously improve the environmental management system
5. Provide educational opportunities to raise environmental awareness amongst employees and promote active participation in environmental preservation activities
6. Make environmental data, including environmental guidelines, available for client and stakeholder use

Environment, Health and Safety Management System

LSIS has been operating the ESH (Environment, Safety, and Health) management system based on its environmental management guidelines. For better operation of this system, we identify and evaluate all environmental

impacts and risks resulting from production, products, and services, and undertake improvement tasks. Internal and external verifications are also implemented regularly to monitor and supplement imperfections.

Plant	Green Company	ISO14001	OHSMS18001
Cheongju	1991	1996.11	2008.06
Cheonan	1998.02	1996.11	2008.06
Busan	2015.02	2010.06	2010.06

Green Purchasing

Green purchasing aims to minimize environmental impact by prioritizing purchase of materials with low hazardous substances, high energy efficiency, and recyclability. LSIS has been conducting green purchasing since the establishment of guidelines in 2009. The company purchased materials and office supplies that obtained the Green Mark worth KRW 200 million in 2014. We will continue to raise the awareness of employees on green purchasing and add to the catalogue of items eligible for green purchasing in the future.

Environmental Investment

In order to minimize on-site environmental pollution, LSIS is proactively working on the development of green technologies and process improvement that can fundamentally remove the source of pollution as well as investing in pollution treatment and prevention facilities. In addition, we strictly conduct evaluations on environment, safety, and health when investing in new facilities, moving existing facilities, and changing raw materials in order to prevent relevant risks.

Environmental investment expenditure

Category	2014
Development of environmental products	4,025.1
Process improvements	180.3
Investment in environmental and safety facilities	351.3
Maintenance and repairs for environmental and safety facilities	114.5
Total	4,671.1

Environmental and Safety Management

Secure Health and Safety

Organization Structure for Health and Safety

In recognition of several large-scale national disasters in 2014, we have been raising awareness on safety and execution capacity with the motto of ‘sticking to the basics.’ To build an accident-free working environment, we built the Health & Safety Team comprised of experts in health and safety under the CLO (Chief Labor Officer) to identify health and safety issues and potential major risks and continuously make improvements. The team, as a unified organization to oversee all business sites, contributes to enhancing the level and efficiency of health and safety management in the company level.

Occupational Health and Safety Committee

The Occupational Health and Safety Committee aims to improve health and safety by holding joint labor-management discussions on site safety issues and methods for improvement. LSIS is also operating the committee regularly in which equal numbers of the labor and management participate, contributing to preventing company assets and secure employee health. Through the committee, the labor and management work together to share information on the current status of health and safety operations and related workplace issues for a progressive approach.

Health and Safety Inspections and Diagnostics

Each business site of LSIS autonomously inspects and diagnoses the status of dangerous equipment and machinery, heavy equipment, facilities with fire risk, treatment of hazardous substances so that safety incidents and potential risks can be removed. In addition, we commissioned external experts to conduct evaluation of health and safety at each site and enhance independent management capabilities. Imperfections drawn by the evaluation are being improved through scheduled plans. Our employees are also encouraged to attend voluntary safety inspections

to raise the awareness of health and safety. As most of our products are heavy equipment installed in construction sites, there is an inherent safety risk involved in installation. The construction industry is prone to falling, slipping and other conventional accidents. Therefore, we conduct regular safety guidance, inspections and trainings to enhance the safety capacity of site managers and suppliers as part of our safety management procedures aimed at preventing accidents.

Support for Subsidiaries’ and Suppliers’ Health and Safety Activities

LSIS provides supports for inspection and diagnosis of health and safety to its subsidiaries and suppliers with lack of experts in this field, helping establish the health and safety system. By transferring health and safety management technologies and evaluating the risk, we contribute our subsidiaries and suppliers to raise the awareness of their employees on health and safety and prevent industrial incidents.

Emergency Response Activities

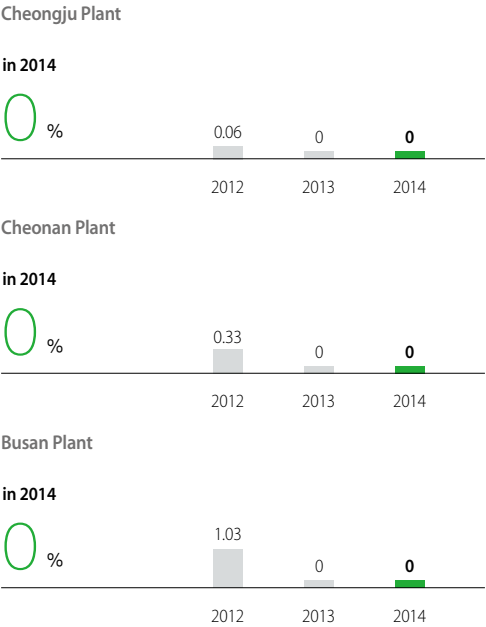
We are striving to prevent potential risks and enhance crisis management capability to secure optimal emergency response capacity. Though prevention is the utmost priority, rapid response to accidents is also an important factor to manage. As such, based on the results of our risk assessment, we have built an Emergency Response System that corresponds to the different categories of key safety risks, enabling employees to respond rapidly. In addition, we run regular emergency response drills and have built a support network with neighboring companies and communities to provide mutual support during emergencies. Our research center in Anyang invited the Anyang Fire Department to conduct training on how to respond to fires and other disasters. Our Cheongju plant received the 2014 Corporate Excellence in Fire Department Support Award from the governor of Chungcheongbuk-do in recognition

of upgrading emergency response capacity through in-house trainings. In addition, it invested KRW 300 million in an automated fire detection system which will be in operation from 2015.

Improvement of Working Environment

LSIS is making various efforts to provide employees with a pleasant working environment. With the goal of enhancing our human resource competitiveness and providing a healthy workplace, we regularly measure exposure levels of physical and chemical contaminants and metals and dust particulates. To improve the office environment, we monitor indoor air quality and also operate programs to prevent muscular skeletal disease and hearing loss.

Occupational Accident Rate



Health Enhancement Activities

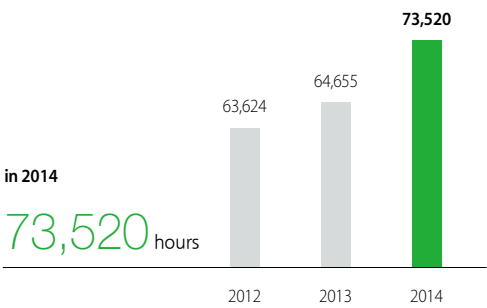
LSIS supports our employees’ health by providing regular health examinations in connection with local hospitals. We also operate on-site health care centers that offer education, medical consultation, physical therapy, and other services to prevent and treat diseases, at which employees are able to get counselling on their health management from professional nurses and experts. As our society’s interest in individual health increases, we are operating health enhancement programs focused on the 5 major diseases of high blood pressure, diabetes, high cholesterol, liver/intestine conditions, and obesity in collaboration with local offices of the Korea Association of Health Promotion and the National Health Insurance Service. In addition, we

opened a non-smoking clinic and run non-smoking campaigns to help prevent various disease caused by smoking. For voluntary participants trying to quit smoking, we offer frequent carbon monoxide measurements, smoking cessation information, consultation with external experts, and a smoking cessation fund.

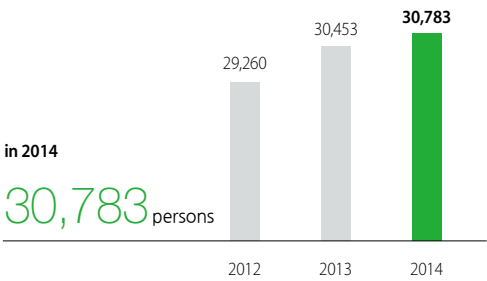
Education on Environment, Health, and Safety

All employees of LSIS are required to complete educations on health and safety which cover basic response to potential works and safety operations when joining the company. For employees handling hazardous materials such as chemicals, the ‘Special Health and Safety’ course is required. These courses help them embed the mindset of environment, health, and safety. Educations tailored to each business unit’s operations are conducted regularly as well. Moreover, supervising staff undergo remote training from external specialists (16 hours per year) and, receive quarterly collective training from the LSIS Environment & Safety Team, primary unit responsible for health and safety.

Training Hours Completed

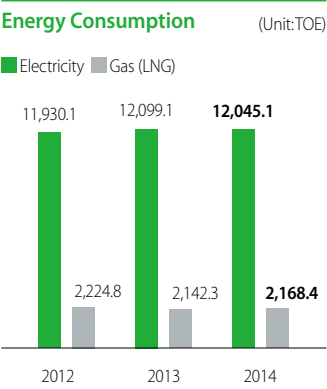


Trained Personnel



Joint fire drill in Cheongju plant

Environmental and Safety Management



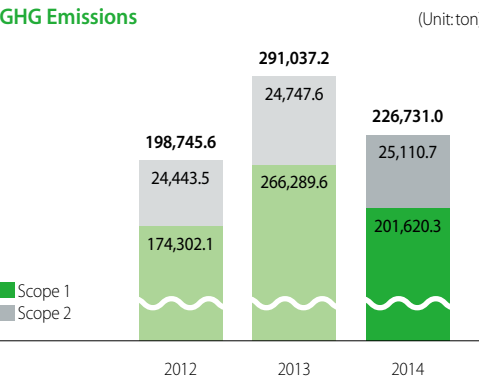
Reduce Energy Use and GHG Emissions

Energy Consumption

LSIS has been consistently investing in efficiently managing energy consumption based on mid to long term reduction plans. Our main indirect energy consumption comes from electricity used for product manufacturing and LNG gas used for heating and cooling, of which electricity and LNG gas accounted for 85% with 12,045.1 TOE and 15% with 2,168.4 TOE, respectively, in 2014.

GHG Inventory

As regulations on carbon emissions are becoming more stringent globally due to climate change, LSIS is taking an active stance to this trend with the establishment of a task force team. We enacted internal GHG regulations and standardized calculation manuals in order to systematically manage emissions. Our main emissions were SF6 and CO2, of which SF6 emitted from insulation materials accounts for about 88% of total emissions and indirect emissions represent about 9%. In 2013, we compiled a GHG inventory and received a third party verification for reliability and another verification is scheduled in 2015. Through these processes, LSIS identifies GHG related risks, develops environmental products, and reduces energy consumption.



Energy and Emissions Reduction Performance

LSIS is making tireless efforts to reduce energy use and GHG emissions in order to contribute to combatting climate change and be a leading Green Company. As such, we have established emissions reduction targets by forecasting and analyzing energy use for each facility. In addition, we have adopted renewable energy, built automated control systems, and are continuously replacing old equipment with high-efficiency equipment.

[Investment in Insulation Materials Recovery Devices]

SF6 gas used as an insulant in production of ultra-high voltage equipment is one of the 6 main greenhouse gases and has a higher global warming potential than carbon dioxide (CO2). LSIS tests completed products before installation by inserting SF6 and recovering the gas used in the test. In this process, SF6 is emitted. We have invested in a high-efficiency SF6 recovery system to increase the recovery rate. We plan to increase efforts to develop ultra-high voltage equipment that uses environment-friendly insulants instead of SF6.

[Adoption of Automated Heating and Cooling Control System]

We are operating an automated heating and cooling system that uses a web based software to control individual heating and cooling. When the target temperature is reached, the system computes energy consumption based on each facility's individual energy savings policy to reduce the electricity load of heating and cooling equipment, minimizing energy loss and maintaining a pleasant working environment. We expect that adjusting the indoor temperature 1℃ using this system will result in 7% reduction in energy consumption.

[Adoption of High Efficiency Utility Facilities]

By replacing the fluorescent and metal halogen lighting in our offices and plants to efficient LED lighting, we saved roughly 665MWh in energy and reduced 300 tons of GHG emissions. In addition, the replacement of out-of-date transformers to high efficiency models increased energy efficiency by 35%.

[Introduction of FEMS]

In 2015, we introduced our own Factory Energy Management System (FEMS) which is an integrated solution that maximizes energy efficiency at our Cheongju plant. Furthermore, we plan to install a 2,000kW roof-top photovoltaic power plant that can generate approximately 2.5 million kWh a year, which is expected to have the effect of planting 243,000 pine trees. A 1,000kW EES system, which is getting the limelight, will also be installed to respond to peak load and reduce electricity consumption. Other plans for reducing electricity consumption and GHG emissions include replacing out-of-date boilers, chillers and heaters, variable air volume HVAC with high efficiency equipment, and installing drives and lighting control systems.

Risks and Opportunities from Climate Change

Category	Risk Factors
Legal factors	• Energy Target Management Scheme - Costs arise if government quota is exceeded
Physical factors	• Temperature increase due to global warming - Increase in electricity costs due to cooling needs
Other factors	• Corporate reputation - Failure to establish environmental corporate image may lead to loss of business

Category	Risk Factors
Legal factors	• Tightening of product energy efficiency related laws - Sales increase from Green Business
Physical factors	• Increase in use of natural energy sources - Increase in sales of switch/circuit breakers and power generation systems
Other factors	• Corporate reputation - Preoccupancy of global markets by enhancing our environmental corporate image and providing efficient and safe green solutions

Respond to Climate Change

We signed an agreement on voluntary emissions reduction with the government and our Cheongju Plant became subject to the GHG and Energy Target Management System in 2014. According to this, we plan to conduct a third party verification on our GHG inventory and build a database to manage energy savings, efficiency, target achievement, and investments in facilities which we will report annually. In addition, since 2011, we have been participating in the Carbon Disclosure Project (CDP) which evaluates corporate carbon management, including emissions strategy and statistics. Through the CDP, we have disclosed our commitment to carbon management, reduction targets and performance, and risks and opportunities.

Manage Hazardous Materials and Pollutants

Management of Hazardous Materials

LSIS stringently manages hazardous chemicals from warehousing to use and disposal. We are replacing highly hazardous materials for eco-friendly materials through ceaseless process improvements and each business site conducts regular trainings on handling hazardous materials and emergency response steps based on Globally Harmonized System-Material Safety Data Sheet (GHS-MSDS). In addition, we post safety signs, safety gear and preventive chemicals at the main handling points and conduct regular safety drills in order to raise employees' capacity to respond to accidental exposure.

Water Consumption

Our Cheongju plant and Cheonan plant receive water from Daechong Dam and Busan plant receives water from Nakdong River. In 2014, a total of 230 km³ water was supplied to these plants. As our process water is not sourced from wetlands, there is no major environmental impact. However, as the UN has reported that Korea is in water shortage, we are taking various measures to reduce our water consumption such as adjusting the pressure of water supply, maintaining and repairing utility facilities, and operating a wastewater recycling system. We will continue to improve our equipment and undertake various activities to reduce our water usage.

Wastewater Management

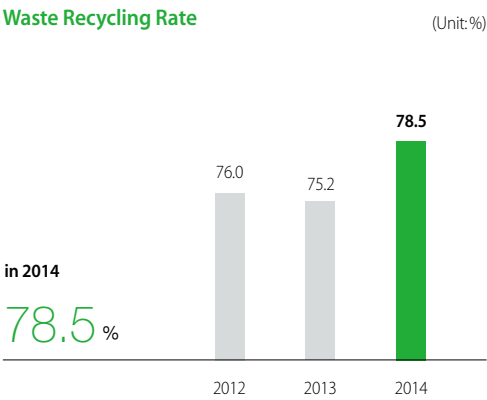
LSIS is enhancing production processes in an eco-friendly manner to reduce wastewater generation. Wastewater is entirely treated by specialized companies and regular water quality analysis is performed in order to obtain objective wastewater composition data so that we may comply fully with changes in related regulations. Our Cheonan plant invested in a wastewater recycling system to reuse process water and was able to reduce wastewater generation by 80%, significantly reducing the impact on the environment.

Air Quality Management

LSIS is working to improve air quality for our employees' health and local communities by improving processes and replacing raw and source materials. Air pollutants are stringently managed by setting internal criteria under 50% of the legal limit, and pollutant prevention facilities are operated optimally through continuous inspection. We will also replace out-of-date equipment progressively based on mid to long term plans.

Waste Management

LSIS is striving to reduce material input and enhance productivity throughout the product lifecycle in order to minimize waste. Employees are encouraged to routinize waste sorting in their works and take appropriate measures to minimize pollution for items that cannot be recycled. In addition, we conduct inspections of our waste management contractors prior to contracting in order to ensure compliance with disposal practices. As a result of these efforts, our recycling rate increased to 78.5% of total waste in 2014.



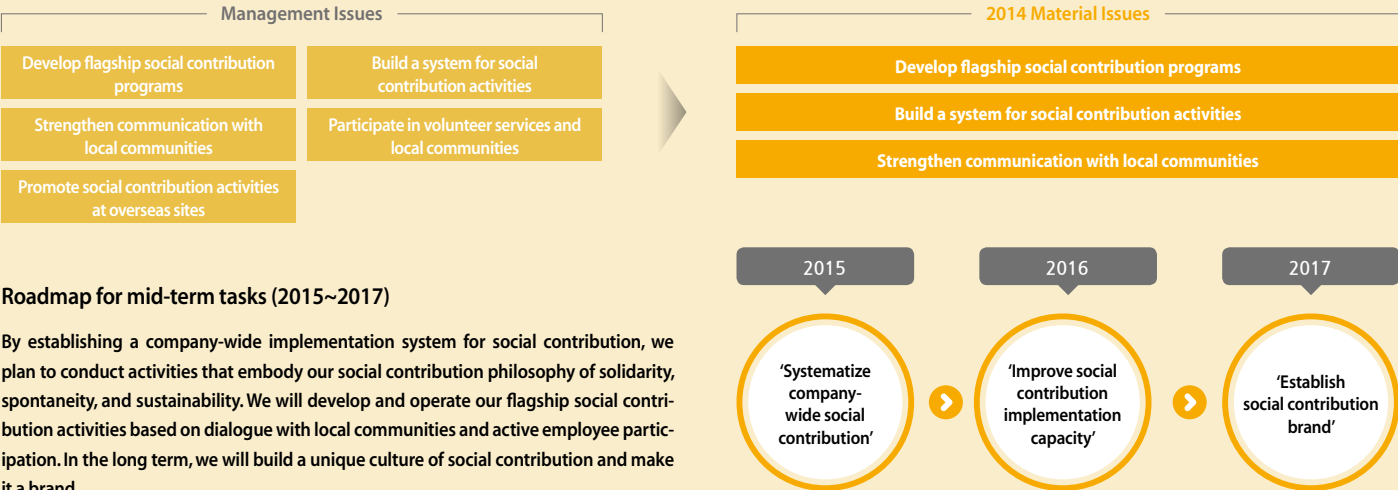
Social Contribution

Coexist with local communities based on voluntary social contribution



05

2014 Materiality Test Results



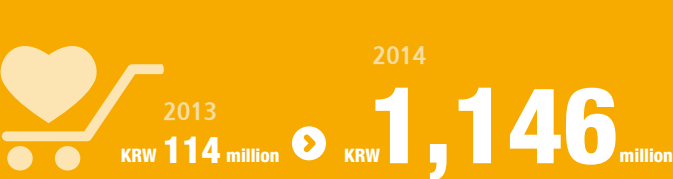
Roadmap for mid-term tasks (2015~2017)

By establishing a company-wide implementation system for social contribution, we plan to conduct activities that embody our social contribution philosophy of solidarity, spontaneity, and sustainability. We will develop and operate our flagship social contribution activities based on dialogue with local communities and active employee participation. In the long term, we will build a unique culture of social contribution and make it a brand.

Number of participants in social contribution



Donations



Management Issue	Performances in 2014	Plans for 2015	Department
Develop flagship social contribution programs	<div>Implemented social contribution programs in connection with LS (LS Dream Village, LS Dream Science Class)</div> <div>Executed programs linked to LSIS businesses</div>	<div>Participate in collaborative social contribution programs with LS</div> <div>Develop and implement LSIS's flagship programs in social contribution</div>	Public Relations Team
Build a system for social contribution activities	<div>Organized social contribution implementation system</div>	<div>Document social contribution policies</div> <div>Establish mid to long term social contribution strategy</div> <div>Disclose social contribution activity data</div>	
Strengthen communication with local communities	<div>Conducted survey to collect opinions from communities</div>	<div>Establish a permanent communication channel with local communities</div> <div>Identify local community issues and needs</div>	
Participate in volunteer services and local communities	<div>Offered volunteer services centered on each business site</div>	<div>Implement social contribution activities connected to local communities' issues</div>	

Develop Flagship Social Contribution Programs

LS Dream Village

LS Dream Village is LS Group's representative social contribution program launched in 2007, in which a total of 450 university students from 14 sessions have participated as of August 2014. They have improved educational environment provided education for cultural and emotional growth to students in developing countries including Vietnam, India, and Cambodia through this program. The LS college student volunteer corps is operated in collaboration with Copion and the Korea-Vietnam Culture Center and has been building primary schools called LS Dream Schools near LS affiliates' Vietnam branches. The operational rights of completed LS Dream Schools are transferred to the local People's Committee. Following the 1st

and 2nd Dream Schools in 2013, we completed Trung An 'A' Primary School in Vinh Long Province near Ho Chi Minh and Thai Hoa Primary School, with 6 to 10 classrooms, in Hai Duong near Hanoi in 2014 as the 3rd and 4th LS Dream Schools.

LS Dream Science Class

LSIS operates the LS Dream Science Class jointly with LS Holdings, Child Fund, and the National Academy Engineering of Korea to provide primary school students neighboring our plants with science practices and cultural experiences. LS Dream Science Class is run by LS employees and college students who act as science mentors in order to help students develop an interest in science. In 2014, LSIS held a total of 11 Dream Sciences Classes to support the dream of our future generations through science educations.

LS Dream Village Activities

Category	Place/Time	Summary
1st half	Dispatch Volunteers	Vietnam/Jan. 2014
2nd half		Vietnam/Aug. 2014
		Overseas volunteer services for 12 days by LSIS employees
		Overseas volunteer services for 12 days by LSIS employees

▶ ❶❷ LS Dream Village Activity
▼ ❸❹ LS Dream Science Class Activity



Social Contribution

Flagship Social Contribution Activities Linked to LSIS Businesses

In September 2014, our A&D Business Group donated KRW 17 million worth of drives, PLC and other automation equipment for practical and research purposes to engineering specialty high schools in Anyang area such as Anyang Technical High School and Pyongchon Technical High School so that students at technical engineering schools could better understand mechanisms and gain hands-on trainings with actual equipment. The donation helped foster a practical and systematic educational environment.

Build a system for Social Contribution Activities

LSIS Social Contribution Philosophy

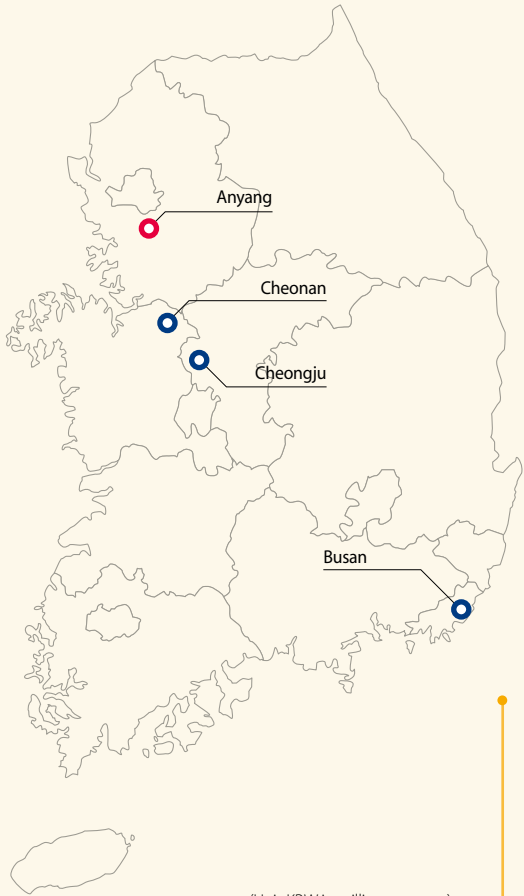
We pursue social contribution activities in line with those of other affiliates within the LS Group in order to achieve unity and synergy. Based on the LS Group's management philosophy, LSPartnership (LS is a faithful and reliable business partner creating greater value together), it has





Participate in volunteer services
and local communities

Regional Activities



Anyang

(Unit: KRW in millions, persons)

Category	Department in charge	Summary	Cost	Frequency	Participants	Remarks
Dream Science Class	Public Relations Team	Operated Science & Vision Camp event	-	Once	1	Run by LS Group
Blood Donation for Love		LS blood donation relay for love	-	Once	38	-
LinkerS Beautiful Day	LinkerS	Employee item collection drive for Beautiful Store		Once	50	
		Selling and donating items for Beautiful Store	1.5	Once	3	Employee goods donations
LinkerS regular sponsorship		Scholarship for 6 child household heads	7.2	12 times	204	True Love 999
Informal volunteer work	Woori Love Corps	Goods support for 70,80th birthdays	1.8	3 times	62	Informal event funds
Informal regular sponsorship		Contribution to child welfare funds	2.7	9 times	513	Informal event funds
Volunteer Day activities		Volunteer work at Love House/senior citizens welfare centers	0.8	6 times	44	True Love 999
Contribution to local communities	Public Relations Team	Donation of service vehicles	-	2 times	9	Utilized donations for the underprivileged
		Provision of winter apparel to senior citizens welfare center	-	Once	4	
		Free meal delivery on Korean Thanksgiving Day	-	Once	3	
		Support for sporting events at senior citizens welfare centers	-	Once	2	
	A&D Business Group	Donation of automation training equipment	17.0	Once	-	Division budget
Total			31.0	40 times	933	

Cheonan

(Unit: KRW in millions, persons)

Category	Department in charge	Summary	Cost	Frequency	Participants	Remarks
Green & Clean Day	Environment & Safety Team	On/off site cleaning activities	-	9 times	138	-
Blood Donation for Love	Support Innovation Team	Blood donation for love	-	4 times	121	-
Volunteer Day activities		Volunteer day for free meals	1,7	11 times	96	True Love 999
Contribution to local communities		Support for educational tours of the Cheonan plant for professors and college students	-	4 times	16	-
Total			1.7	28 times	371	

Cheongju

(Unit: KRW in millions, persons)

Category	Department in charge	Summary	Cost	Frequency	Participants	Remarks
1 Company 1 Mountain campaign	Support Innovation Team	Clean-up of Bumo Mountain	-	6 times	19	-
1 Company 1 Village sisterhood		Sales of agricultural products, promotion of local B&Bs, event support	5.9	5 times	109	Individual donations
Green & Clean Day		On/off site cleaning activities	-	9 times	167	-
Dream Science Class		Teacher for a day	-	2 times	2	Run by LS Group
Dream Science Class		Support site visits to Cheongju plant	-	2 times	3	
Blood Donation for Love		Blood donation	-	4 times	149	-
Informal regular sponsorship	Informal	Child sponsorships	-	11 times	528	Individual donations
	Boramhoe (club)	Support for the Choongbuk Rehabilitation Center/Oh-Am Welfare Center	-	12 times	660	
Volunteer Day activities	Innovation Implementation Team	Volunteer work at the Gomduri Sports center	0.2	7 times	71	Event budget
Volunteer Day activities		Volunteer work to protect ivy plants	0.4	2 times	38	True Love 999
Volunteer Day activities		Volunteer work at Yeshim House	0.9	6 times	88	True Love 999
Support for local cultural activities	Support Innovation Team	Viewing and support for concerts, recitals and plays	7.3	10 times	162	Promotion and advertisement budget
Korean Cultural Artifact Protector		Clean-up activities at Sangdangsanseong (mountain fortress)	-	7 times	72	-
Total			14.7	83 times	2,068	

Busan

(Unit: persons)

Category	Department in charge	Summary	Cost	Frequency	Participants	Remarks
Green & Clean Day	HR Support Team	On/off site cleaning activities	-	6 times	75	-
		Support for site visits to the Busan Plant	-	2 times	5	Run by LS Group
Dream Science Class		Teacher for a day	-	2 times	2	
		Support for end of session event	-	Once	1	
Blood Donation for Love		Blood donation	-	Once	29	-
Total			-	12 times	112	

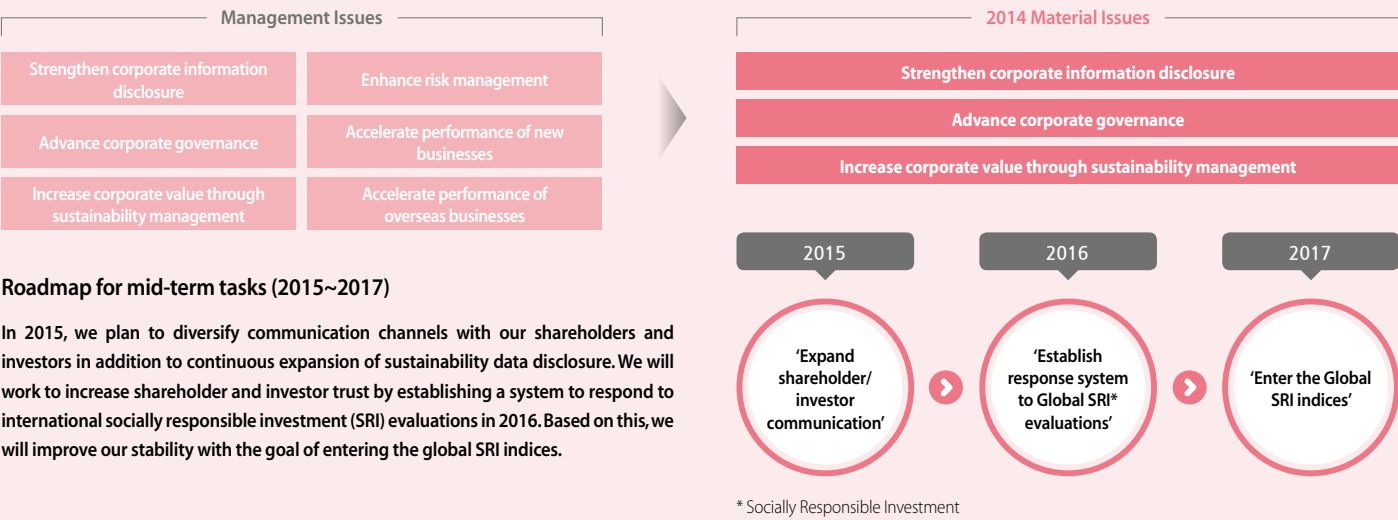
Shareholders/ Investors Satisfaction

Increase shareholder and investor value with management integrity and transparent disclosure

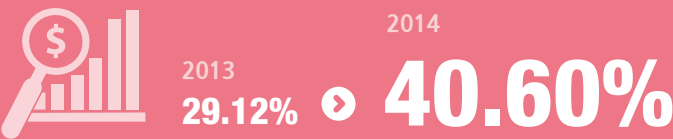


06

2014 Materiality Test Results



Dividend ratio



Credit rating



(Korea Investors Service, Korea Ratings s as of October 2014)

Management Issue	Performances in 2014	Plans for 2015	Department
Strengthen corporate information disclosure	• Disclosed and updated corporate governance data	• Activate performance disclosure for shareholders and investors	Treasury Team
Advance corporate governance	• Shareholder-investor communication activities - Quarterly performance presentations - Participation in the Company Day events held by major securities firms - Meeting with the management for sharing information on new businesses - Overseas IR • Established the Outside Director Candidate Nomination Committee • Strengthened the operation of internal audit system	• Expand communications with shareholders and investors - Surveys - Collect feedbacks related to sustainability management • Regularly monitoring corporate governance standards and implement improvements • Expand activities to reflect stakeholder feedbacks in management	
Increase corporate value through sustainability management	• Built a system for disclosing sustainability data	• Monitor SRI institutions' demands/standards and respond rapidly	Corporate Planning Dept.

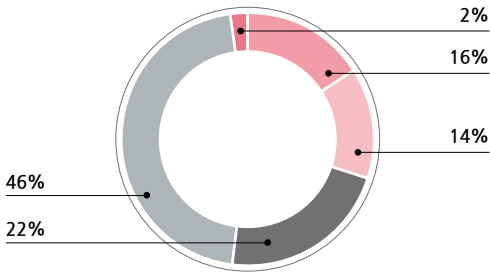
Strengthen Corporate Information Disclosure

Composition and Operation of the BOD

LSIS Board of Directors (BOD) is the supreme decision making body comprised of 5 directors (2 standing directors and 3 non-standing directors) that also balances the actions of the CEO and executives. Outside directors are nominated by the 'Outside Director Candidate Recommendation Committee' and confirmed at the general shareholders meeting, which ensures fair and transparent selection of outside directors.

Classification	Name	Position	Experience	Start of Term
Standing Director (2 Persons)	Ja-Kyun Koo	Chairman of the BOD	Chairman & CEO	2014.3.21
	Jai-Hoon Han	President & COO	• Former CEO of LS Metal	2015.3.20
Non-standing Director (3 Persons)	Hyun-Gyo Chung	Outside Director (Audit Committee)	• Professor, Electrical & Computer Engineering, Seoul National University	2014.3.21
	Sang-Woo Han	Outside Director (Audit Committee)	• Outside Director at Korea Development Financing Corporation	2013.3.22
	Byung-Kook Lee	Outside Director (Audit Committee)	• CEO, e-Chon Tax Accounting Corp	2014.3.21

■ Treasury Stock ■ Foreign Investors ■ Individuals
■ Domestic Institutions ■ LS Holdings



Category	Ownership (common shares)	
	Shares	Ratio
LS Holdings	13,800,000	46.00%
Treasury Stock	674,971	2.25%
Institutional Investors	3,540,917	11.80%
National Pension Service (NPS)		
KB Asset Management & Others	2,867,676	9.56%
Foreign Investors	4,907,092	16.36%
Individuals	4,209,394	14.03%
Total	30,000,000	100.00%

Ownership Structure

As of December 31, 2014, the number of floating shares of LSIS is 29,325,029, 98% of total issued shares excluding about 2% treasury shares. The largest shareholder is LS Holdings with 46% ownership, followed by the National Pension Service with 11.80%. Institutional investors including the National Pension Service hold 21.36% ownership, the largest portion excluding LS Holdings, followed by foreign investors with 16.36% and minority shareholders with 14.03%. Foreign investors have paid attention to our stable business portfolio and future growth potential, leading to a rise in their ownership.

Shareholder Returns

LSIS provides shareholders with above market average dividends. Dividends are an indicator of a company's financial health and the ability to continuously generate profits. LSIS has maintained a dividend payout ratio of 30% and increased the figure up to 40% in 2014 for more shareholder returns. Dividend per share and dividend yield have also increased backed by continued growth of net profit. Like this, we are committed to becoming a company that grows with our shareholders by providing dividends that are above market average.

Category	2011		2012		2013		2014	
	LSIS	KRX average	LSIS	KRX average	LSIS	KRX average	LSIS	KRX average
Total dividends (KRW in millions)	17,595	-	29,325	-	32,257	-	38,123	-
Dividends per share (KRW)	600	-	1,000	-	1,100	-	1,300	-
Dividend payout ratio	29.91%	24.56%	29.07%	17.15%	29.12%	21.09%	40.60%	-
Dividend yield	0.90%	1.54%	1.49%	1.33%	1.67%	1.14%	2.17%	-

* Dividend payout ratio: Dividend/net profit during the term. Dividends include mid-term and stock dividends. Calculated based on listed companies with year end accounting that pay dividends. (468 companies out of 669 in 2011, 448 out of 691 in 2012, 440 out of 691 in 2013)

* Dividend Yield: Dividend/closing stock price at the end of year

Shareholders/ Investors Satisfaction

Advance Corporate Governance

Shareholder and Investor Communication

Providing timely and transparent disclosure and communicating with investors and shareholders are essential for building solid trust in the aspect of sustainability. LSIS is always proactive in communicating with them.

- 1. We hold regular quarterly meetings to share our performances with shareholders and investors.
- 2. We actively participate in securities firms' Company Day events to interact with an even wider range of investors.
- 3. Through our management meetings to present new businesses, we communicate not only our new business ventures but our growth potential to strengthen trust and attract potential investors.
- 4. We are strengthening interactions with foreign investors and shareholders through conducting overseas IR activities.

Activity	Summary
Participate in the domestic IR conference	Participate in major securities firms' Corporate Day events
Promote overseas investor meetings	Conduct about 60 meetings a year locally in Europe, Asia, etc.
One-on-one meetings	Host about 100 visits to the company a year
Management meetings	Hold meetings with analysts and institutional investors once or twice a year
Earnings release	4 times a year (2 days in every quarter)

Outside Director Candidate Recommendation Committee

Selecting outside directors is transparent and fair through the Outside Director Candidate Recommendation Committee under the BOD. Our outside directors with plentiful expertise and experience not only supervise and monitor the management but also support rational and fair decision making by providing professional insight on our business and management.

Operation of the Audit System

Internal audits at LSIS are performed by the Audit Committee. The Audit Committee is made up of 3 outside directors, ensuring fairness and independence. The Audit Committee examines financial statements at least once a quarter and has the authority to investigate overall accounting operations and status of assets when necessary. In addition, we have the Internal Verification Part to operate internal accounting system, through which the Audit Committee receives reports and evaluates the internal auditing to ensure reliable recording and disclosure of our financial statements. Apart from these measures, the

Audit Department under the CEO frequently monitors violations of regulations, accounting errors and omissions. Furthermore, we select an independent auditor to review our quarterly balance sheets in compliance with the Act on External Audit of Stock Companies. The independent auditor performs annual and mid-term audits to evaluate risks surrounding the reliability of internal controls and balance sheets. The independent auditor is appointed by the Audit Committee and we ensure independence and transparency with regard to the selection and activities of the independent auditor.

Increase Corporate Value through Sustainability Management

Administration and Responsibilities for Sustainability Management

LSIS is continuously expanding communication channels with our stakeholders in order to better incorporate feedback into our management decisions. By doing so, we will actively communicate with them on our financial performances, new business plans, new products, global expansion as well as activities and data related to our sustainability management. In addition, we will continue to expand the scope of our disclosure and rapidly respond to their information inquiries. As part of this, we will publish sustainability report every year to systematically manage our economic, social and environmental performance.

Respond to Socially Responsible Investment

Following the adoption of the Bill for Partial Amendment of the National Pension Act that requires the Pension to consider social responsibility of its investments and disclose related information, we can expect investors and investment institutions to demand non-financial data and implementation of sustainability management practices. In addition to disclosing financial data, LSIS also participates in the Carbon Disclosure Project (CDP) in order to meet requests for social and environmental data disclosure. In the future, we will actively respond to stakeholders' requests for non-financial data disclosure through diverse channels including the sustainability report.

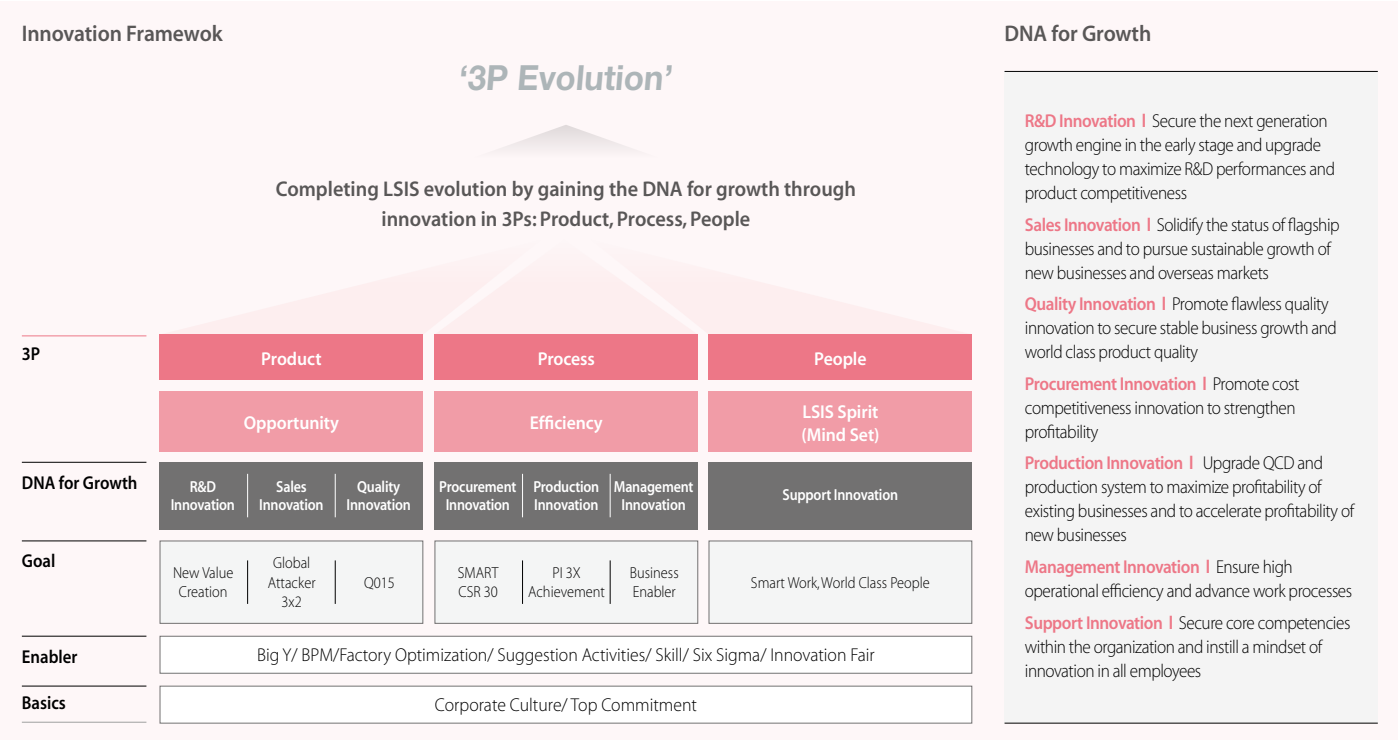
Management Innovation

Management Innovation Activities

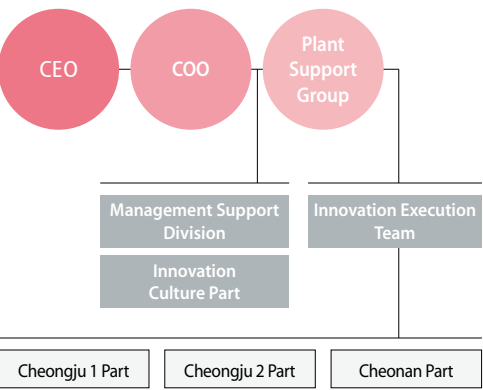
Our innovation framework is comprised of innovation activities to achieve our vision and mid to long term strategy, and the mindset to transform our people and organization. The '3P Evolution' management innovation activities we have been pursuing since 2012 is linked to our company-wide mid to long term strategy. It requires clarifying the direction of innovation activities by each function and role, as well as enhancing the mindset of all members toward innovation.

Implementation Structure for Management Innovation

Our company-wide management innovation activities are spearheaded by the Management Support Department under the COO. The implementation at each plant is managed by the Innovation Promotion Team under the Plant Support Group, which helps conduct innovation management systematically and consistently.



Management Innovation System



Future Plans

In 2015, LSIS will align our employees' thoughts and energies through value-focused management. LSIS will also reorganize the innovation system more clearly. As the 2020 vision target has become more clear, we plan to enhance execution capacity of innovation activities and improve the quality of existing activities such as Big Y and Suggestion Activities. For the Big Y program, we will clarify the selection guide for projects and strengthen the operation manual. We will also support KPI-focused activities by upgrading the innovation implementation system.

Management Innovation

Major Activities and Performances

Big Y Activities

We select strategic tasks, named Big Y to link our business strategy, and those tasks are undertaken by nominated excellent employees every year, contributing to increasing operating performances. For better engagement in the Big Y tasks, a task force team is being operated in Quick Innovation & Creation (QIC) Room. In addition, we systematically manage the tasks with our unique project tracking system, i-Space. Furthermore, the Innovation Specialist Committee works to improve the quality of task outcomes.

* **Big Y:** Strategic tasks aiming at securing core competencies and strengthening competitiveness to be promoted in the short to mid-term to evolve into the world best company

Factory Optimization Activities

To ensure quality and cost competitiveness, LSIS has commissioned external experts to improve site efficiency. We have been implementing site-centric efficiency measures in phases focused on mindset revolution, visual site management, efficiency per unit, and overall efficiency in accordance with a fixed process map. These activities were undertaken at both our domestic factories and overseas subsidiaries, and a total of 96 sites received consultations in 2014. In addition, overseas subsidiaries pursue maximizing synergy by sharing best practices with our domestic plants, as well as focusing on independent site efficiency activities. Domestic plants that have completed the six phases of the process map will maintain and develop site efficiency through operating independent meetings from 2015, while overseas subsidiaries that are on the 4th phases will continue to receive consultation to upgrade the efficiency level up to domestic factories.



Efficiency Improvement Status Board



Efficiency improvement activities at sites

Suggestion Activities

The Suggestion Activities was prepared to share ideas and knowledge among employees and eliminate waste and inefficiencies in their routine works. This program has been conducting in the company level, in connection with the CoPQ activities since 2008. Outstanding Suggestion are rewarded through deliberations.

(Unit: items, KRW in millions)

Category	2012	2013*	2014
No. of Suggestion	11,257	9,999	9,554
Participation rate	53%	64%	80%
Performances	41	604	372
Rewards	45	56	57

* Performances in 2013 sharply increased due to the change of calculation method.

Innovative Performance Sharing Meeting

The Innovative Performance Sharing Meeting is held to commend contributions to innovation activities and to share the contents and results. Innovation activities of each business group and division are led by their heads. Meanwhile, company-wide innovation activities are conducted by outstanding Big Y tasks selected through the evaluation of the Innovation Specialist Committee, and the performances are shared through company-wide Innovative Performance Sharing Meeting hosted by the CEO at the end of each year.

Category	2012	2013	2014
Outstanding projects (case)	5	5	4
Rewards (KRW in millions)	11	11	13

Technology Management/Intellectual Property

R&D Direction

As a total solution provider in power and automation industry, our R&D Group focuses on activating existing businesses, securing growth engines for the green and next-generation businesses, and maximizing R&D performance and efficiency. In particular, we are working to secure core competencies to gain 1st mover advantage in the smart grid market and focusing R&D capacity to build a foundation for next generation businesses such as HVDC and parts for future automobiles. We operate R&D centers in 3 domestic locations and overseas (Shanghai). The Power Testing & Technology Institute is engaged in improving technological competitiveness.

Strengthening R&D Capacity

LSIS conducts open recruitment in order to attract and develop outstanding R&D talent in a timely manner, and Lab Tours of major universities in the power and electricity field for early recruitment of talent. For recruited talent, we provide R&D mentoring and on the job training to help new hires adjust and gain a sense of membership early on and help them grow into key talent through systematic training. In order to build a performance-based culture and motivate R&D staff, we reward researchers with excellent accomplishments in fields such as research papers, patents, open culture, Partnership & Presentation, product development and technology research.



- ① R&D Campus in Anyang
- ② Electric Technology R&D Center in Cheongju
- ③ Power Testing & Technology Institute
- ④ Automation R&D Center in Cheonan
- ⑤ R&D Center in Shanghai

R&D Investment

In order to maintain our competitive advantage and prepare for the future, LSIS has been expanding R&D investment every year. We invest around 6% of sales to R&D and focus on developing next-generation products, products and technologies for new businesses and core technologies to lead us into the future.

(Unit: KRW in millions)

Category	2012	2013	2014
Total R&D expenditure	100,546	102,276	109,755
R&D expenditure/sales	6.1%	5.8%	6.0%

Opening of the Anyang R&D Campus

LSIS opened a new R&D center in Anyang in January 2015 to secure state-of-the-art infrastructure for R&D capacity enhancement. The R&D center was designed with the concept of communication, fun, and creativity, in which our capabilities in smart grid were fully introduced. This cutting-edge building provides a creative environment for LSIS researchers to pursue R&D.

Technology Management/ Intellectual Property

Open Innovation

LSIS leads open innovation through open R&D with domestic and foreign research centers. We operate a joint research center with the Korea Electro-technology Research Institute to secure world-class technology and work cooperatively with leading overseas institutes in India and Israel to obtain technology necessary for R&D efforts. In addition, we established the SVO (Silicon Valley Office) to monitor global technology and market trends in energy, electrical equipment, and materials, as well as actively collaborate with local universities and venture companies through the SVO.

Key R&D Accomplishments

Completed the K-EMS Project

The Korean Energy Management System (EMS) that LSIS has been working to develop in conjunction with various research institutes over the past decade was completed and began successful operation at the Naju Korea Power Exchange in December 2014. This means that Korea's national grid, which was dependent on foreign technology, can be operated and managed through a consolidated Korean system and we have the capacity to export this technology.

Built a Company-wide Technological Infrastructure

We built a company-wide infrastructure to strengthen technological and business competitiveness and an R&D system to enhance product reliability. In addition, with

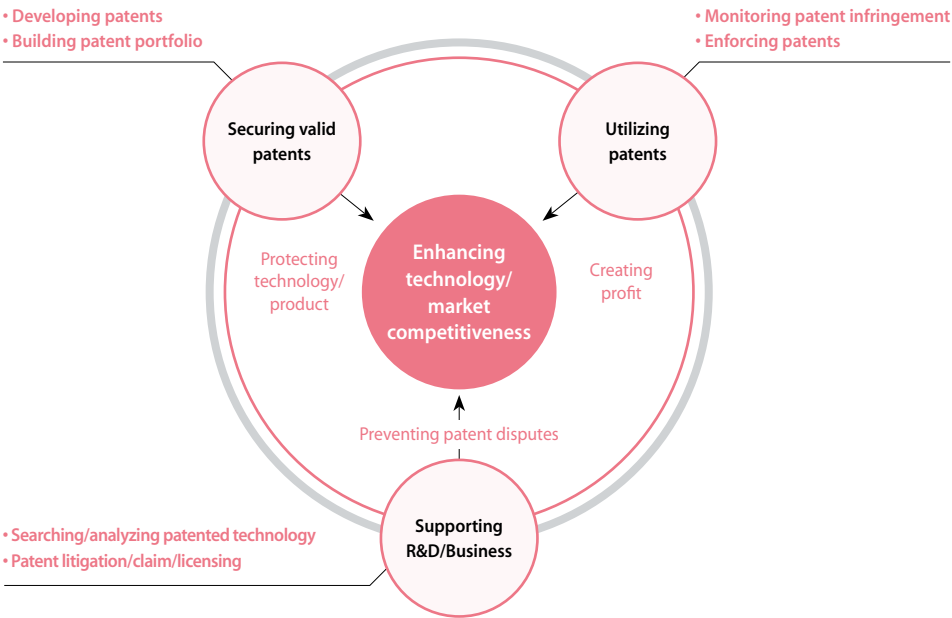
the establishment of control tower to foster the leadership in telecommunication, software, and model-driven design, we have promoted a PDCA approach to enhance our capabilities. We also secured quality and cost competitiveness by reinforcing research on materials and formed the Functional Safety Group and EMC (Electro Magnetic Compatibility) Group to increase product reliability.

R&D for Early Adoption of New Growth Engines

We are working to expand the EMS (Energy Management System) technology to the power distribution field for developing and exporting DMS (Distribution Management System) technology. In the field of EV solution, we are focusing energy on developing a 48V system which is key to micro/mild HEV (Hybrid Electric Vehicle) and have won large-scale contracts. We have also supplied a large scale EES to Samsung SDI, which is in operation, and won a contract to provide frequency regulation equipment to KEPCO.

Intellectual Property (IP) Strategy

LSIS is creating visible and invisible profits from IPs by building a strong IP portfolio, preventing disputes through preceding patent search/analysis, and proactively utilizing the rights. We are strategically building our IP portfolio through identifying IPs that have major business impacts based on equal or superior technology compared to our competitors, securing patents in countries we export to, developing standard-essential patents and monitoring infringements. In particular, we are signifi-



cantly increasing our overseas IP portfolio in connection with our global business strategy. Moreover, through collaborative analysis of IPs between our R&D and IP units, we not only build an effective R&D strategy but also secure differentiated technology and prevent IP disputes. In addition, we continuously seek ways to exercise our IP rights by evaluating IPs and obtaining infringement information. For win-win growth, we transfer, free of charge, IPs to SMEs as a part of the diverse methods of IP utilization. Various education programs are offered to develop IP experts and the LS-IP Forum which brings together the IP departments from the different LS affiliates is running to enhance the competitiveness in IP.

IP Portfolio

As LSIS's technology reaches global standards and our products gain market recognition, we have been encountering more cases of IP disputes and product counterfeiting. As such, we are focusing our capacities on strategic IP activities to protect our world-class products and technologies as well as new products that will act as our future growth engines. To this end, we have been striving to secure IP rights for technologies ranging from basic to applied levels, and create a competitive IP portfolio encompassing products and technologies. This strategy enabled us to prevent an IP dispute with a global competitor by signing a cross-license and contributed to our becoming one of top 100 global innovators which were named on the basis of IP index by Thomson Reuters for 4 consecutive years. As of December 2014, we hold 3,531 and 3,250 IPs (patents/designs) in Korea and foreign countries, respectively. Recently, our overseas patents have been increasing steadily as we strengthen our R&D-related and foreign-market-oriented patent activities.

Rights Ownership

(Unit: case)

Category	Granted	Pending	Total
Domestic Patent	1,950	1,350	3,300
Design	220	11	231
Total	2,170	1,361	3,531
Overseas Patent	1,252	1,746	2,998
Design	238	14	252
Total	1,490	1,760	3,250

* As of December 2014

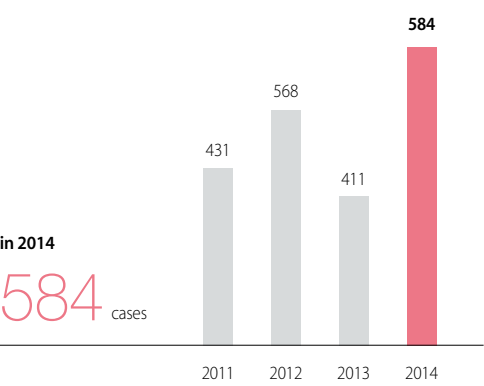
Patent Application

(Unit: case)

Domestic



Overseas



Named Thomson Reuters' Top 100 Global Innovators for 4 Consecutive Years

LSIS has been recognized for its IP capacity and corporate innovation efforts by a renowned international data provider, Thomson Reuters, in its annual Top 100 Global Innovators list for 4 consecutive years. The Top 100 Global Innovators are selected based on an index comprised of patent registration success rate over the past 5 years, influence of inventions, global accessibility, and number of IP applications. LSIS displayed excellence in this index compared to global leading enterprises. We will continue to hold IP as a main indicator of technological competitiveness and innovation and grow our IP portfolio across all business groups.



Ethical Management

Goal and Strategy for Ethical Management

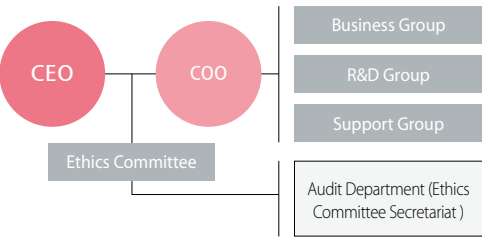
We aim to grow into a leading global company that fulfills our responsibility for customers, suppliers, shareholders, and the society by conducting transparent management on the basis of the principles of fairness, honesty, and faithfulness.

Ethical Management System

The Ethics Committee comprised of the HR Committee members is the supreme decision-making body for our ethical management. We are operating the Ethics Committee Secretariat to undertake regular ethical management practices and the Audit Department serves as the secretariat.

[Role of the Ethics Committee Secretariat]

- Develop and disseminate programs and training needed for voluntary compliance with ethics standards
- Institutionalize and operate regulations and processes necessary to report unethical cases or potential risks
- Provide authoritative interpretation for employees implementing ethical management in everyday work practices and raise important issues to the Ethics Committee



Code of Ethics and Conduct

LSIS has developed the Code of Ethics and Conduct to provide standards for employees' ethical behavior and decision-making and has applied this to all companies

and affiliates. For overseas affiliates, these standards are applied in consideration of local laws. In 2015, we plan to begin regular inspections on the implementation of the Code of Ethics and Conduct.

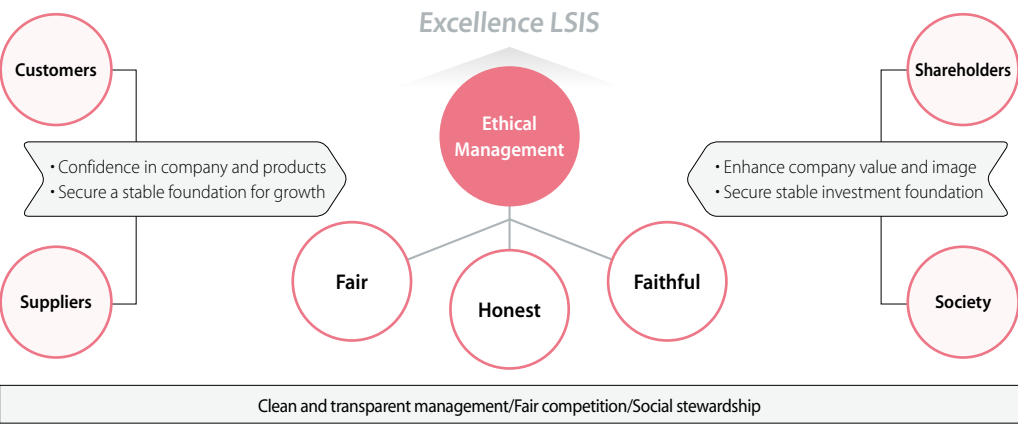
Code of Ethics

General Principles	Summary
Chapter 1.Responsibilities and Duties toward Customers	Faithful information disclosure/response to customers/protect customer' rights
Chapter 2.Fair Competition	Fair competition/respect for related laws and business customs
Chapter 3.Fair Transactions	Fair selection of suppliers/fair trade and evaluation/ a clean trade culture/support for suppliers
Chapter 4.Basic Ethics of Officers and Employees	Maintain employees' dignity/honest and fair reporting/protect company assets/avoid conflict of interest with the company/prevent sexual harassment in the workplace
Chapter 5.Responsibility toward Officers and Employees	Cultivation of talents/fair treatment/health and safety/respect individuals' ideas
Chapter 6.Responsibility toward the Nation and Society	Rational business operations/benefits of shareholders/environmental protection/contribution to national and social development

Operation Programs and Policies

Whistle-blower Protection Policy

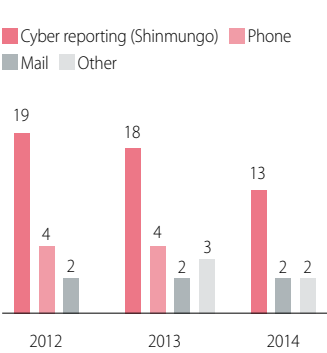
LSIS does not disclose the personal information of whistle-blowers or report content without prior consent in any manner. If the whistle-blower receives any disadvantage due to a miscarriage of this policy, the company takes all responsibility to repair or compensate for damages.



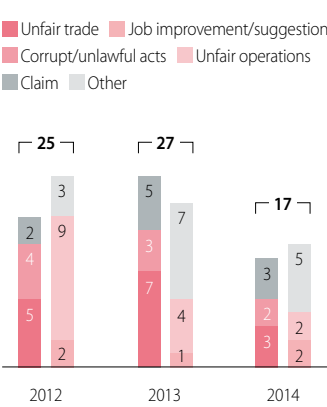
Ethical Management Strategy

Strategy	Strategic Action Items		
Establish and operate ethical management infrastructure	<ul style="list-style-type: none"> • Code of Ethics and Conduct 	<ul style="list-style-type: none"> • Operation program and policies <ul style="list-style-type: none"> - Whistle-blower protection - Operation of hotlines - Self-reporting system - Response procedure to infringement of ethical management 	<ul style="list-style-type: none"> • Operation system <ul style="list-style-type: none"> - Cyber reporting (Shinmungo) - Audit Report Follow-up System
Strengthen implementation capacity for ethical management	<ul style="list-style-type: none"> • Pledge to practice ethical management • Survey on ethical management 	<ul style="list-style-type: none"> • Education on ethical management practice for employees • Education on ethical management for suppliers 	<ul style="list-style-type: none"> • Delivery of official letters for cooperation to suppliers and distributors

Reports and Resolutions by Channel



Reports and Resolutions by Type



* Report types are selected by the reporters and may differ from investigation results.

01

The identity of the whistle-blower and the content of the report is treated as confidential and the reporting system is operated under a safe security system

02

Even if a person report corruption or unlawful acts he or she is involved in, the extenuating circumstances will be taken into consideration for rational resolution of the issue.

03

The identity of the whistle-blower and stakeholders are strictly protected and the content of the report will be fairly investigated for rational resolution.

04

If damages arise to the whistle-blower as a result of information leaks, reparations or corresponding rewards will be taken.

Operation of Ethical Management Hotlines

LSIS operates various communication channels all the time of the year to receive and process reports on employee corruption and unfair business practices leading to damage to the suppliers, employees, and customers. Reports can be submitted via phone, mail, e-mail or the cyber reporting system so that we may eradicate infringements. Reports related to product quality, services or product enquires are handled by a separate Customer Service Center.

Self-reporting Program

To eliminate unethical behaviors between employees or stakeholders (customers, suppliers, shareholders, etc.) and build a transparent and sound corporate culture, LSIS is running a system for employees to voluntarily report their unethical practices such as bribery and entertainment. In addition, we hold special sessions to promote self-reporting by guaranteeing anonymity and providing immunity for past infringements. Such sessions were held in 2007, 2010 and 2014.

Response Procedure to Infringement

Based on Code of Ethics and Conduct, LSIS carries out thorough investigations on unethical behaviors and takes disciplinary measures through the Disciplinary Committee. The degree of punishment is decided through deliberation and resolution of the Committee.

Operation System

Cyber-reporting (Shinmungo)

Since April 2005, LSIS has been operating the Cyber Shinmungo, an online reporting system that allows reports of employees' corruption or unfair actions towards stakeholders to be made at any time. There is no restriction on who can access the system and the identity of the reporter is strictly protected according to our whistle-blower protection policy.

Audit Report Follow-up System

To monitor the implementation of internal audit results by each unit and department, we have been operating the Follow-up System since June 2014, which helps enhance employees' implementation capacity and prevent reoccurrence of violations.

Strengthen Implementation Capacity for Ethical Management

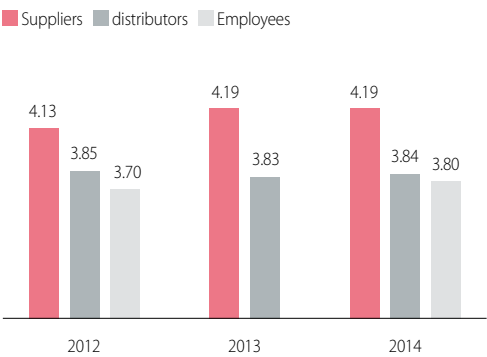
Pledge of Ethical Management

Employee at LSIS pledges the practice of ethical management every other year in order to maintain a mindset for ethical management and renew written promises due to new hires and personnel changes. Since 2013, all employees, including subsidiaries, have been subject to the pledge. We have achieved 100% participation excluding long-term overseas dispatch and employees on long-term leave.

Ethical Management Satisfaction Survey

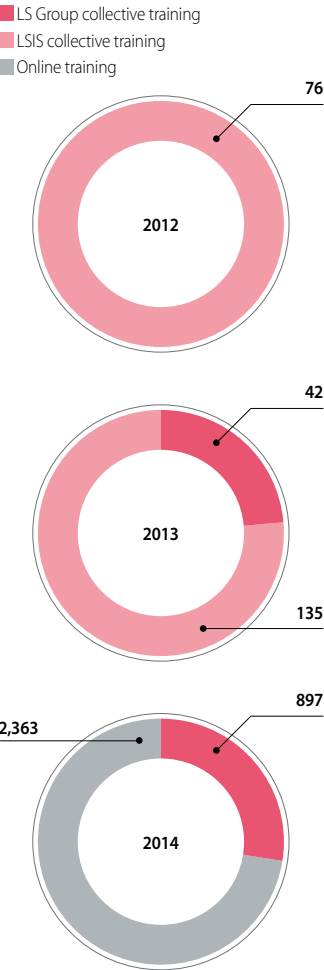
LSIS conducts a survey on the satisfaction level of partners (suppliers and distributors) and employees. The survey is administered annually to the partners and biannually to our employees. We use the results to monitor changes in satisfaction and the ethics index and also collect feedback to develop directions for our ethical management activities and identify action items. The satisfaction level of suppliers (out of a possible 5 points) was 4.19 in 2014, showing a steady increase since 2012, while that of distributors have shown similar levels during the survey period from 2012 through 2014. Biennial evaluation index by employees in 2014 achieved a slight increase since the first survey in 2012.

Ethical Management Satisfaction Survey (Unit: points)



Ethical Management

Completion of Ethical and Compliance Management Trainings
(Unit: persons)



Official Letters for Cooperation to the Suppliers and distributors

During the Korean Thanksgiving and New Year holidays, an official letter from the CEO is sent to suppliers and distributors to gain cooperation in forbidding our employees from receiving gifts, entertainment, goods and other items. Our employees are notified of this and encouraged to report infringements to help eradicate unethical conducts and take part in the LS Group Management Philosophy 'LSpartnership.'

Training on Ethical Management Practice

Our employee training on ethical management and compliance is centered on new and experienced hire entry training and since 2013, it has been carried out at the LS Group level to enhance ethics and compliance. In particular, in 2014, the GVT (Greater Value Together) program was implemented at the LS Group level to accelerate compliance and changes in organizational culture. As part of this, online training on compliance for all employees was conducted. In 2015, we plan to introduce training specific to each rank that will help enhance employee awareness of the ethical management and compliance and build our capacity to respond to ethical dilemmas.

Ethical Management Training for the Suppliers

In early 2014, we implemented training on ethical management for the suppliers that provided an introduction to the concept of ethical management, definitions of infringements and methods to handle misconduct. We will make these regular training sessions in 2015 in order to spread ethical practices among our partners, share the LSpartership philosophy, and build consensus on the topic.

Compliance

Declaration on Compliance Management

Ethics and compliance are both core principles for all LSIS practices. Following the LS Group's declaration to achieve the management philosophy of LSpartership by addressing unfair and unlawful practices strictly in order to become a company trusted by the nation and fulfill our social



responsibility, we held a ceremony to practice compliance management at our yearly kick-off meeting in 2014.

Appointment of the Compliance Officer

In accordance with the amended commercial law, the LSIS Board of Directors (BOD) approved the compliance control standards in December 2012 and appointed the compliance officer. The Compliance Officer reports directly to the BOD and is an adjunct position held by the head of the Legal Affairs Department. The Compliance Officer organizes the unit responsible for compliance and reports compliance activities to the BOD annually. The main compliance support actions consist of categorizing potential legal risks that may arise during business operations, creating a checklist to help prevent and manage risks and providing support for on-the-ground self-assessments using the checklist.

Self-inspection Activities

The compliance unit provides a checklist that helps employees conduct assessments of their legal risk control. In 2013, the checklist was developed based on categorization of legal risks and in 2014, it was amended to reflect changes in commercial law. We are promoting improvement activities based on the results of self-assessments.

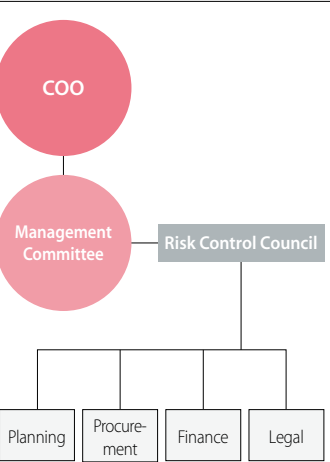


Compliance Training

LS Group conducts group-wide compliance education through both on and offline training. Our compliance unit not only participates in developing content for the Group's training program but also independently conducts trainings on fair trade and subcontracting led by the Legal Affairs Department for sales, procurement, research and other business units. It also provides monitoring and support for trainings conducted by each business division to maximize effectiveness.

Integrated Risk Management

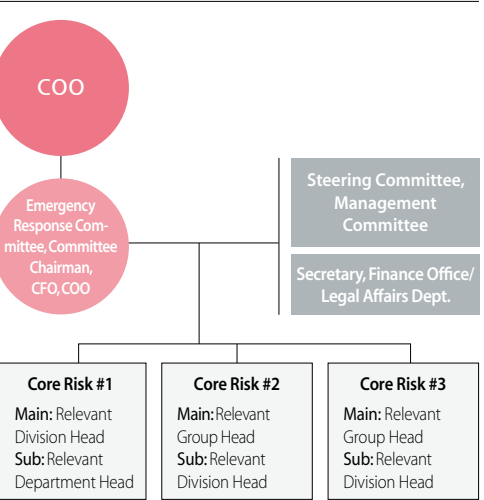
Normal Operations



Risk Management System

Our investments and projects are becoming larger backed by the expansion of our business domain and target markets. To meet this change and proactively respond to risk factors, we introduced the company-wide integrated management system in 2012. During normal operations when company-wide risks are within the risk limit, risk management departments hold the working-level meetings and departments responsible for risks conduct examinations and develops response to individual risks. During emergency operations when company-wide risk exceeds the given limit, the CFO, as the head of the Emergency Response Committee, organizes units to respond to core risks and a company-wide response plan is determined by the Management Committee. And the results of the responses are reported to the management.

Emergency Operations

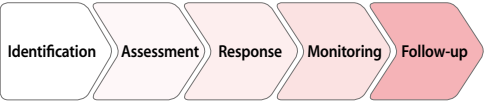


Risk Management Process

Risks identified through the risk management process are quantified and managed within the limit through the risk evaluation process. When the risks exceed the limit,

Risk Type	Risk Management Summary
External Environment Risk	Minimize impacts on business performance and sustainability caused by changes in the external environment • Currency crisis, financial crisis, fiscal crisis, natural disasters, country risk, etc.
Strategic Risk	Minimize risk caused by troubles in carrying out strategies • Development and investment in new businesses, M&A, business portfolio, business plans, etc.
Operational Risk	Minimize troubles in achieving business goals and operational efficiency caused by products, operational processes and systems, employees, etc. • Product development, purchasing and procurement, bidding risk, quality, IT, environment and safety, subsidiary management, personnel, information security, etc.
Financial Risk	Minimize asset loss or impacts on profitability caused by changes in external factors • Raw materials, credit risk, foreign exchange risk, liquidity risk, damage to assets, accounting corruption, tax risk, etc.
Legal Risk	Minimize direct and indirect losses caused by non-compliance with domestic and foreign laws and regulations • Contract/litigation/trade risk, fair trade, sub-contracting, IP rights, unlawful acts, etc.
Reputational Risk	Minimize direct and indirect losses caused by damage on the corporate image from negative media exposure, rumors, etc. • Damage on brand image, external IR, communication, etc.

the Emergency Response Committee is organized for company-wide response and monitoring. In 2015, we will improve our risk management process to achieve flawless risk management.



Internal Controls of Financial Reporting

To efficiently control all processes related to the calculation of our financial statements, we built an internal control system based on the COSO* Framework in 2005 and began operation in 2006. The internal accounting manager reports the operation status to the BOD and the Audit Committee, and the Audit Committee reports the evaluation results to the BOD.

Internal accounting system	Statement of work	
	Statement of control	Company-wide level
		Work level
		Account balance test
Internal verification system	Capital SRM controls	
	Ad hoc disclosure controls	

* COSO: Committee of Sponsoring Organizations of the Treadway Commission

Risk Management Categories

LSIS defines external environment, strategic, operational, financial, legal and reputational risks that may impact management goal achievement, and continuously improves these definitions in order to implement systematic and preventative risk management.

APPENDIX

Sustainability Management Data	79
- Financial	79
- Environmental	80
- Social and Other	81
GRI G4 (Core) Index	84
UN Global Compact COP	87
Independent Assurance Report	88
Credits	90

Sustainability Management Data_Financial

Operating Performances

Summarized Financial Position

(Unit: KRW in millions)

Item	41st Session (as of 2014.12.31)	40th Session (as of 2013.12.31)	39th Session (as of 2012.12.31)
Assets			
Current Assets	1,402,955	1,237,406	1,156,968
Non-current Assets	891,400	863,875	863,356
Total Assets	2,294,355	2,101,280	2,020,324
Liabilities			
Current Liabilities	737,437	521,551	604,173
Non-Current Liabilities	563,458	652,775	578,611
Total Liabilities	1,300,895	1,174,326	1,182,785
Capital			
Shareholder's Equity	992,937	926,212	834,303
Issued Capital	150,000	150,000	150,000
Capital Surplus	935	935	935
Other Capital Items	▲25,542	▲25,542	▲25,542
Other Comprehensive Income/Loss Accumulated Amount	22	▲1,164	▲1,786
Retained Earnings	867,521	801,982	710,697
Non-controlling interest	524	743	3,236
Total Capital	993,461	926,954	837,539
Total Liabilities and Capital	2,294,355	2,101,280	2,020,324

Summarized Income Statement

(Unit: KRW in millions)

Item	41st Session (as of 2014.12.31)	40th Session (as of 2013.12.31)	39th Session (as of 2012.12.31)
Sales	2,293,984	2,351,887	2,232,430
Gross Margin	421,713	432,090	405,926
Operation Income	157,570	174,925	154,164
Net Income Before Taxes	129,099	145,987	134,235
Net Income	105,146	113,991	97,263

* Subsidiaries subject to consolidated reporting (reports produced only when the stock-listed company issues annual, quarterly, semi-annual reports)
* LSIS (Wuxi) Co., Ltd., LSIS (Dalian) Co., Ltd., LSIS(ME) FZE, LS Mecapion Co., Ltd., LS Mecapion Automation Technology (Wuxi) Co., Ltd, LSIS Europe B.V, LS Sauter Co., Ltd, Metal Co., Ltd, LS Hukai Electric (Hubei) Co., Ltd., LSIS Japan Co, Ltd, LSIS USA Inc.

Government Subsidies for LSIS Co., Ltd (Non-consolidated)

(Unit: KRW in millions)

Category		2014	2013	2012
Tangible Assets	Machinery equipment	239	341	443
	Tool equipment	-	61	183
	Office equipment	34	138	229
Intangible Assets	Development fees	2,584	2,777	3,357

Sustainability Management Data_Environmental

Environmental and Safety

Category		Total			Cheongju Plant			Cheonan Plant			Busan Plant			
Item	Unit	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	
Environmental and Safety Investment														
Eco-friendly product development		5,066.0	6,231.7	4,025.10	1,099.0	4,871.7	2,237.1	1,350.0	1,360.0	1,788.0	2,617.0	-	-	
Process improvement		66.8	1,974.1	180.3	45.4	63.0	101.9	6.2	9.1	21.4	15.2	1,902.0	57	
Environmental and safety facilities investment		658.9	448.5	351.3	587	276	189.8	61.9	12.5	91.5	10	160	70	
Environmental and safety facilities investment		126	96.4	114.5	96.7	66.1	84.1	23.7	10.4	15.4	5.5	20	15	
Green Procurement														
Purchase of eco-friendly items		162	216.3	206.2	97	100.5	113.8	33	25.2	23.5	32.1	90.5	69	
Environment														
Dust emissions		kg	1,402.8	1,147.3	1,060.6	889	755.4	785.5	186.8	66.9	35.1	327	325	240
Water consumption		km ^l	199	209	230	100	95	100	82	80	83	17	34	47
Wastewater discharge		m ^l	1,192	949	875	18	14	18	1,174	935	857	-	-	-
Waste ¹⁾ discharge	General	ton	4,300.6	4,237.7	4,278.30	3,322.5	3,174.1	3,375.4	528.1	619.6	548.9	450	444	354
	Designated		76	90.3	80.8	42.1	38	31.9	2.9	3.3	4.2	31	49	44.7
Waste discharge		%	76	75.2	78.5	82.1	80.9	81.6	68.5	67	65.1	77.4	77.6	88.8
GHG emissions (by source)	Scope 1	ton	174,302.1	266,289.6	201,620.3	172,688.7	264,591.9	199,912.1	898.2	975.9	937.2	715.2	721.8	771
	Scope 2		24,443.5	24,747.6	25,110.7	14,522.7	14,685.3	15,172.7	7,613.3	7,774.3	7,594.9	2,307.5	2,288.0	2,343.1
	Subtotal		198,745.6	291,037.2	226,731.0	187,211.4	279,277.2	215,084.8	8,511.5	8,750.2	8,532.1	3,022.7	3,009.8	3,114.1
GHG intensity ²⁾		ton/million KRW	0.22	0.29	0.24	0.17	0.24	0.18	0.02	0.02	0.01	0.03	0.03	0.04
Energy														
Electricity consumption	MWh	51,870.0	52,604.8	52,370.0	31,148.0	31,496.6	31,522.0	16,261.0	16,674.4	16,228.0	4,461.0	4,433.8	4,620.0	
	toe	11,930.1	12,099.1	12,045.1	7,164.0	7,244.2	7,250.1	3,740.0	3,835.1	3,732.4	1,026.0	1,019.8	1,062.6	
Electricity consumption	km ^l	2,133.1	2,054.0	2,079.0	1,428.5	1,329.9	1,343.0	398.4	411.7	402	306.2	312.4	334	
	toe	2,224.8	2,142.3	2,168.4	1,489.9	1,387.1	1,400.7	415.5	429.4	419.3	319.3	325.8	348.4	
Safety														
Industrial accident rate ³⁾		%				0.06	0	0	0.33	0	0	1.03	0	0
Industrial accident rate		h	63,624	64,655	73,520	41,924	41,206	43,084	17,934	18,609	24,876	3,766	4,840	5,560
Cumulative training participants		persons	29,260	30,453	30,783	19,291	19,329	20,166	8,264	8,496	7,991	1,705	2,628	2,626
Raw Materials														
Steel		kg	20,456,233	20,407,957	18,934,796	16,167,762	16,086,518	15,323,048	-	-	-	4,288,471	4,321,439	3,611,748
Nonferrous metals			14,585,733	12,296,147	6,376,415	13,458,951	11,037,263	5,317,721	276,956	316,868	386,975	849,826	942,016	671,719
Resins			1,490,079	4,846,096	6,884,440	1,485,822	3,945,724	4,047,340	4,257	900,372	2,837,100	-	-	-

* As domestic operations in LSIS consist of treatment and assembly, there are no NOx or SOx emissions.

1) Includes metals and waste paper 2) Intensity : Emissions/Production Value 3) Unable to calculate

Sustainability Management Data_Social and Other

Employees

Indicator	Category	Unit	2012	2013	2014	Remarks
Total Employees	Executives	persons	21	21	20	
	Permanent staff		3,192	3,313	3,395	
	Contracted staff (Full-time)		286	255	240	
	Total		3,499	3,589	3,655	
Personnel by region	Anyang	persons	1,075	1,129	1,163	
	Cheongju		1,549	1,571	1,624	
	Cheonan		564	596	567	
	Busan		162	173	187	
	Other		149	120	114	Regional and overseas offices
	Total		3,499	3,589	3,655	
Personnel by age (excluding executives and contracted staff)	20's	persons	444	474	478	
	30's		1,223	1,240	1,220	
	40's		1,093	1,107	1,143	
	Over 50's		432	492	554	
	Total		3,192	3,313	3,395	
New hires (permanent staff)		persons	257	268	254	
Retirement rate (permanent staff)		%	3.0	3.0	3.4	
Female employee total		persons	467	455	457	Including contracted staffs
Female employee ratio		%	13.3	12.7	12.5	
Female managers		persons	24	26	29	Above supervisor
Employees with disabilities			45	46	44	
Ratio of employees with disabilities		%	1.4	1.4	1.3	
Foreign employees		persons	27	28	20	
Education and training expenditure per person		KRW in thousands	1,055	1,088	1,337	
Education and training time per person		PD	10	10	11	1PD = Off the job training 8h, Cyber 1M
Welfare expenditure per person		KRW in millions	12.0	12.7	13.2	
Employees utilizing childbirth leave		persons	24	13	16	
Employees utilizing parenting leave			11	21	14	Staff returning from parenting leave
Rate of return (after parenting leave)			82	95	100	

* We operate a retirement pension program to ensure stable disbursement of retirement funds. As of 2014, 3,601 employees are enrolled in the Defined Benefit scheme and 80 are enrolled in the Defined Contribution retirement pension scheme.

* All employees are compensated in accordance with national minimum wage laws and there is no differentiation in entry salaries for male and female employees.

Sustainability Management Data_Social and Other

Social Contribution Activities

Social Contribution Activities					
Indicators	Category	Unit	2012	2013	2014
Donations		KRW in	144	114	1,146
Social contribution expenditures		millions	41.2	45.2	47.4
Social contribution activity participants	Tabulation of participants	persons	Not calculated	1,296	3,484
Social contribution activity hours	Participants x Average activity hours (5 hrs)	hours	Not calculated	6,480	17,420

Win-win Growth Status

Win-win Growth Status						
Indicators	Category	Unit	2012	2013	2014	Remarks
LSIS Ethical Management Satisfaction Index		points	4.13	4.19	4.19	Survey of partner companies
Win-win Growth Agreement signing	Agreements signed	cases	214	185	416	
Funding support for the suppliers	Funds raised	KRW in	13.5	15.8	20.2	
	Funds disbursed	billions	9.7	14.8	17.3	
	Suppliers supported	firms	43	66	70	
Training support for the suppliers		persons	317	668	1,005	
Quality management support for the suppliers		cases	-	257	737	
Technology support for the suppliers		firms	-	-	9	Right to use patents, free of charge
Commissioning of development projects	Suppliers supported	cases	32	40	54	
	amount	KRW in billions	1.9	2.1	2.9	
Partner company ACE CLUB		firms	19	20	29	
ACE CLUB Innovation capacity support	Suppliers supported		14	20	29	Special Task Force on Innovation
	Supported personnel	persons	40	74	143	
Communication with the suppliers	Benefit sharing meetings	firms	421	433	584	Companies in attendance
	LSIS Partner Exchange Meetings	Meetings	4	4	4	Meetings held
	CPO Talk Concert		-	4	4	Meetings held

Memberships

Domestic	Overseas
Federation of Korean Industries, KERI, Korea Fire Safety Association, Korea Chamber of Commerce, Korea Customs Association, KIPA, Korea Electrical Contractors Association, Korea Atomic Industrial Forum, Korea Electric Engineers Association, ODVA, Korea PROFIBUS Association, Korea Association of ESCO, Korea Information and Communication Contractors Association, KRSEA	DLMS UA(Device Language Message Specification), IEEE PES(Institute of Electrical and Electronics Engineers), CIRED, LONMARK International, UN Global Compact

Violations

Category	2012	2013	2014	Remarks
Environmental violations	-	-	-	
Legal action due to unfair competition and anti-trust violations (collusion, etc.)	-	-	2	Unlawful group action (collusion, etc.)
Violations regarding customer health and safety risks of products	-	-	-	
Violations regarding information and labeling of products and services	-	-	-	
Products that have been banned or caused disputes	-	-	-	
Marketing and communication violations	-	-	-	
Violations of client information protection and client data	-	-	-	
Violations regarding the supply of products and services	-	-	-	
Employee discrimination violations	-	-	-	
Violations of local residents' rights	-	-	-	

* LSIS domestic production plants are located in industrial complexes and as of 2014, there were no claims regarding local communities or the environment.

Awards

Category	Date	Award	Host/awarder	Area Recognized
Company	2014.3.	Grand Prize, 2014 Great Workplace Awards (3 years running)	Hankyung Magazine	Corporate culture (LSIS)
	2014.6.	2014 Korea's Top 100 Happy Enterprises Grand Prize	Donga Daily	Great Workplace category (LSIS)
	2014.6.	Korea's Best Enterprise (Power and electrics segment)	Korea CEO Association	Management Excellence (LSIS)
	2014.6.	Korea Trust Awards Grand Prize	KORAS	Manufacturing segment (LSIS)
	2014.11.	Top 100 Global Innovators	Thomson Reuters	Excellence in innovation (LSIS)
Individual	2014.3.	2014 Korea Global Leader	Maekyung	Global future technology category (Vice president Ja-gyun Koo)
	2014.3.	2014 Creative Management for National Prestige	JoongAng Media Network	Management Excellence (Vice president Ja-gyun Koo)
	2014.5.	Award of Merit, Invention day	Korea Invention Promotion Association/Ministry of Trade, Industry, and Energy (MOTIE, Korea Intellectual Property Office)	Industry Gold Tower (Vice president Ja-gyun Koo)
	2014.6.	Chungbuk Quality Competitive Exhibition	Korea Standards Association/MOTIE	Minister's Award (Manager Hae-moon Chung)
	2014.8.	Award of Merit for Advancing Electrical Industry Culture	Korea Electrical Manufacturers Association/MOTIE	President's Award (Executive director Yong-sang Park)
	2014.10.	Award of Merit for Contribution to the Smart Grid Industry	Korea Smart Grid Institution/MOTIE	Minister's Award (Director Sangho Ahn)
	2014.11.	National Quality Awards	Korea Standards Association/MOTIE	President's Award (Team Leader Kyung-hee Koo)

GRI G4 (Core) Index

● Reported ● Partially reported ○ Not reported N/A Not applicable

GENERAL STANDARD DISCLOSURES						
	Indicator	Description	Status	Page	Assurance	Remark
Strategy and Analysis	G4-1	CEO Message	●	6~9	88~89	
Organizational Profile	G4-3	Name of the organization	●	12	88~89	
	G4-4	Primary brands, products, and services	●	18-23	88~89	
	G4-5	Location of the organization's headquarters	●	12, 16	88~89	
	G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	●	16~17	88~89	
	G4-7	Nature of ownership and legal form	●	67	88~89	
	G4-8	Target markets (including geographic breakdown, sectors served, and types of customers and beneficiaries)	●	16~17	88~89	
	G4-9	Scale of the organization	●	12~13	88~89	
	G4-10	Total number of employees by employment contract, region, and gender	●	81	88~89	
	G4-11	Percentage of total employees covered by collective bargaining agreements	●	50	88~89	
	G4-12	Organization's supply chain	●	40~45, 82	88~89	
	G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	●	15~17, 42~45, 67	88~89	
	G4-14	Organization's precautionary approach or principle	●	28~33, 77	88~89	
	G4-15	External principles or initiatives that the company complies with	●	87	88~89	
	G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations	●	83	88~89	
Identified Material Aspects and Boundaries	G4-17	Organization's consolidated financial statements or equivalent documents	●	16, 79	88~89	
	G4-18	Process for defining the report content and the Aspect Boundaries	●	30~33	88~89	
	G4-19	Material Aspects identified in the process for defining report content	●	32~33	88~89	
	G4-20	Aspect Boundary within the organization	●	32~33	88~89	
	G4-21	Aspect Boundary outside the organization	●	32~33	88~89	
	G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	N/A	-	88~89	First report
	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	N/A	-	88~89	First report
Stakeholder Engagement	G4-24	List of stakeholder groups engaged by the organization	●	30~33	88~89	
	G4-25	Basis for identification and selection of stakeholders with whom to engage	●	30~33	88~89	
	G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	●	30~33	88~89	
	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	●	30~33	88~89	
Report Profile	G4-28	Reporting period	●	2	88~89	
	G4-29	Date of most recent previous report	N/A	-	88~89	First report
	G4-30	Reporting cycle	●	2	88~89	
	G4-31	Contact point for questions regarding the report or its contents	●	2	88~89	
	G4-32	The 'in accordance' option the organization has chosen	●	84~89	88~89	
	G4-33	Organization's policy and current practice with regard to seeking external assurance for the report	●	88~89	88~89	
Governance	G4-34	Governance structure of the organization, including committees of the highest governance body	●	29, 67	88~89	
Ethics and Integrity	G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	●	74	88~89	

● Reported ● Partially reported ○ Not reported N/A Not applicable

SPECIFIC STANDARD DISCLOSURES						
Aspect	Indicator	Description	Status	Page	Assurance	Remark
Disclosures on Management Approach	G4-DMA	Report why the Aspect is material Report how the organization manages the material Aspect or its impacts Report the evaluation of the management approach	●	34, 40, 46, 54, 60, 66	88~89	
Economic						
Economic Performance	G4-EC1	Direct economic value generated and distributed	●	13, 79	88~89	
	G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to Climate Change	●	58~59	88~89	
	G4-EC3	Coverage of the Organization's defined benefit plan obligations	●	13, 81	88~89	
	G4-EC4	Financial assistance received from government	●	79	88~89	
Market Presence	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	●	50, 81	88~89	
	G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	●	-	88~89	All senior management (Directors) at domestic plants
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investments and services supported	●	13, 65, 82	88~89	
	G4-EC8	Significant indirect economic impacts, including the extent of impacts	●	13, 17, 22~25, 42~45, 60~65, 81~82	88~89	
Procurement Practices	G4-EC9	Proportion of spending on local suppliers at significant locations of operation	●	13, 43, 45	88~89	
Environmental						
Materials	G4-EN1	Materials used by weight or volume	●	80	88~89	
	G4-EN2	Percentage of materials used that are recycled input materials	●	-	88~89	Recycled raw materials not used
Energy	G4-EN3	Energy consumption within the organization	●	58, 80	88~89	
	G4-EN4	Energy consumption outside of the organization	○		88~89	
	G4-EN5	Energy intensity	●	80	88~89	
	G4-EN6	Reduction of energy consumption	●	58, 80	88~89	
	G4-EN7	Reductions in energy requirements of products and services	●	22~25	88~89	
Water	G4-EN8	Total water withdrawal by source	●	80	88~89	
	G4-EN9	Water sources significantly affected by withdrawal of water	●	59, 80	88~89	
	G4-EN10	Percentage and total volume of water recycled and reused	●	59	88~89	
Biodiversity	G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A	-	88~89	
	G4-EN12	Significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	N/A	-	88~89	Located in industrial parks
	G4-EN13	Habitats protected or restored	N/A	-	88~89	
	G4-EN14	Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	N/A	-	88~89	
Emissions	G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	●	58, 80	88~89	
	G4-EN16	Energy indirect greenhouse gas(GHG) emissions (scope 2)	●	58, 80	88~89	
	G4-EN17	Other indirect greenhouse gas(GHG) emissions (scope)	○	-	88~89	
	G4-EN18	Greenhouse gas (GHG) emissions intensity	●	80	88~89	
	G4-EN19	Reduction of greenhouse gas (GHG) emissions	●	58, 80	88~89	
	G4-EN20	Emissions of ozone-depleting substances (ODS)	●	58	88~89	
	G4-EN21	NOx, SOx, and other significant air emissions	●	59, 80	88~89	
	Effluents and Waste	G4-EN22	Total water discharge by quality and destination	●	59, 80	88~89
G4-EN23		Total weight of waste by type and disposal method	●	59, 80	88~89	
G4-EN24		Total number and volume of significant spills	●	59, 83	88~89	
G4-EN25		Weight of trnsported, imported, exported, or treated waste deemed hazardous	N/A	-	88~89	Waste materials are not exported
G4-EN26		Identity, size, protected status, and biodiversity value of water bodies related habitats significantly affected by the organization's discharge of water and runoff	N/A	-	88~89	All wastewater is treated by a specialized entity

GRI G4 (Core) Index

● Reported ● Partially reported ○ Not reported N/A Not applicable

SPECIFIC STANDARD DISCLOSURES						
Aspect	Indicator	Description	Status	Page	Assurance	Remark
Products and Services	G4-EN27	Extent of impact mitigation of environmental impacts of products and services	●	22~25	88~89	
	G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	○		88~89	
Compliance	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	83	88~89	
Transport	G4-EN30	Significant environmental impacts of transporting products and other goods and materials of the organization's operations,and transporting members of the workforce	○		88~89	
Overall	G4-EN31	Total environmental protection expenditures and investments by type	●	55	88~89	
Supplier Environmental Assessment	G4-EN32	Percentage of new suppliers that were screened using environmental criteria	●	41	88~89	
	G4-EN33	significant actual and potential negative environmental impacts in the supply chain and actions taken	●	41,55	88~89	
Environmental Grievance Mechanisms	G4-EN34	Number of grievances about environmental impacts filed,addressed,and resolved through formal grievance mechanisms	●	83	88~89	
Social						
Labor Practices and Decent Work						
Employment	G4-LA1	Total number and rates of new employee hires and employee turnover by age group,gender and region	●	81	88~89	
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees,by significant locations or operation	●	47~49	88~89	
	G4-LA3	Return to work and retention rates after parental leave, by gender	●	81	88~89	
Labor/Management Relations	G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	●	50	88~89	
Occupational Health and Safety	G4-LA5	Safety committees that help monitor and advise on occupational health and safety programs	●	56	88~89	
	G4-LA6	Type of injury and rates of injury,occupational diseases,lost days,and absenteeism,and total number of work-related fatalities, by region and by gender	●	57,80	88~89	
	G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	●	56,57	88~89	
	G4-LA8	Health and safety topics covered in formal agreements with trade unions	●	56,57	88~89	
Training and Education	G4-LA9	Average hours of training per year per employee by employee category	●	49,81	88~89	
	G4-LA10	Programs for skill management and lifelong learning that support the continued employability of employees	●	49,81	88~89	
	G4-LA11	Percentage of employees receiving regular performance and career development reviews	●	49,81	88~89	
Diversity and Equal Opportunity	G4-LA12	Composition of governance bodies and breakdown of employees	●	81	88~89	
Equal Remuneration for Women and Men	G4-LA13	Ratio of basic salary and remuneration of women to men by employee category,by significant locations of operation	●	50,81	88~89	
Supplier Assessment for Labor Practices	G4-LA14	Percentage of new suppliers that were screened using labor practice criteria	●	41	88~89	
	G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	●	41	88~89	
Labor Practices Grievance Mechanisms	G4-LA16	Number of grievances about labor practices filed,addressed,and resolved through formal grievance mechanisms	●	50	88~89	
Human Rights						
Investment	G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	●	41	88~89	
	G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations	●	50,76	88~89	
Non-discrimination	G4-HR3	Total number of incidents of discrimination and corrective actions taken	●	50,75,83	88~89	
Freedom of Association and Collective Bargaining	G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk,and measures taken to support these rights	●	41,50	88~89	
Child Labor	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor	●	41,50	88~89	
Forced or Compulsory Labor	G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor	●	41,50	88~89	
Security Practices	G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	N/A	-	88~89	
Indigenous Rights	G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	●	83	88~89	
Assessment	G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	●	50	88~89	
Supplier Human Rights Assessment	G4-HR10	Percentage of new suppliers that were screened using human rights criteria	●	41	88~89	
	G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	●	41	88~89	
Human Rights Grievance Mechanisms	G4-HR12	Number of grievances about human rights impacts filed,addressed,and resolved through formal grievance mechanisms	●	51,75	88~89	
Society						
Local Communities	G4-SO1	Percentage of operations with implemented local community engagement, impact assessments,and development programs	●	60~65	88~89	
	G4-SO2	Operations with significant actual and potential negative impacts on local communities	N/A	-	88~89	Located in industrial parks

● Reported ● Partially reported ○ Not reported N/A Not applicable

SPECIFIC STANDARD DISCLOSURES						
Aspect	Indicator	Description	Status	Page	Assurance	Remark
Anti-corruption	G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	🟡	75	88~89	
	G4-SO4	Communication and training on anti-corruption policies and procedures	🟢	75	88~89	
	G4-SO5	Confirmed incidents of corruption and actions taken	🟢	75,83	88~89	
Public Policy	G4-SO6	Total value of political contributions by country and recipient/beneficiary	🟢		88~89	None
Anti-competitive behavior	G4-SO7	Total number of legal actions for anti-competitive behavior,anti-trust,and monopoly practices and their outcomes	🟢	36,83	88~89	
Compliance	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	🟢	83	88~89	
Supplier Assessment for Impacts on Society	G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	🟡	41	88~89	
	G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	🟡	41	88~89	
Grievance Mechanisms for Impacts on Society	G4-SO11	Number of grievances about impacts on society filed,addressed,and resolved through formal grievance mechanisms	🟢	83	88~89	
Product Responsibility						
Customer Health and Safety	G4-PR1	Percentage of significant products and services categories for which health and safety impacts are assessed for improvement	🟢	35,55~56	88~89	Safety considerations are incorporated into all product development
	G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle,by type of outcomes	🟢	83	88~89	
Product and Service Labeling	G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling,and percentage of significant products and services subject to such information requirements	🟢	83	88~89	Product information disclosure and labeling is available for all products (in compliance with related laws)
	G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling,by type of outcomes	🟢	83	88~89	
	G4-PR5	Results of surveys measuring customer satisfaction	🟢	37	88~89	
Marketing Communications	G4-PR6	Sale of banned or disputes products	🟢	-	88~89	None
	G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising,promotion,and sponsorship,by type of outcomes	🟢	83	88~89	
Customer Privacy	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	🟢	83	88~89	
Compliance	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	🟢	83	88~89	



COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

UN Global Compact COP

UN Global Compact 10 Principles		Page reported	LSIS Policy
Human Rights	Principle 1.Businesses should support and respect the protection of internationally proclaimed human rights.	• Employee Satisfaction Management (p.50)	• LSIS Code of Ethics • Code of Conduct for Employees
	Principle 2.Businesses should ensure they are not complicit in human rights abuses.		
Labor	Principle 3.Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	• Employee Satisfaction Management (p.50)	• LSIS Code of Ethics • Code of Conduct for Employees
	Principle 4.Businesses should uphold the elimination of all forms of forced and compulsory labor.		
	Principle 5.Businesses should uphold the effective abolition of child labor.		
	Principle 6.Businesses should uphold the elimination of discrimination in respect of employment and occupation.		
Environment	Principle 7.Businesses should support a precautionary approach to environmental challenges.	• Environmental and Safety Management (pp.54~59)	• LSIS Environmental policies
	Principle 8.Businesses should undertake initiatives to promote greater environmental responsibility.		
	Principle 9.Businesses should encourage the development and diffusion of environmentally friendly technologies.		
Anti-Corruption	Principle 10.Businesses should work against corruption in all its forms, including extortion and bribery.	• Ethical Management (pp.74~76)	• LSIS Code of Ethics • Code of Conduct for Employees

Independent Assurance Report

The Business Institute for Sustainable Development (BISD), led by the Korea Chamber of Commerce & Industry, was requested to serve as an independent ‘third-party assurance institute’ for the ‘2014 LSIS Sustainability Management Report’ (hereinafter ‘Report’), and submits the assurance statement as follows.

Purpose

The purpose of this assurance report is to identify any major errors or biases in the report, to conduct independent assurance procedures to determine whether the sustainability management issues of LSIS were appropriately reported, and to accordingly present an assurance opinion.

Responsibilities and Independence

This report contains matters on LSIS’s sustainability management efforts, achievements and future plans in 2014. All responsibility regarding the drafting of the report lies with LSIS.

In conducting assurance procedures on the report and providing assurance opinions to the board of directors, BISD has no management-related interests in profits with LSIS, aside from carrying out third-party assurance, in order to maintain independence and autonomy.

Assurance Standards and Restrictions

BISD performed the assurance engagement in consideration of the three accountability principles (inclusivity, materiality and responsiveness) of AA1000AS (2008) and the principles for defining reporting quality laid out by the Global Reporting Initiative (GRI) G4 guidelines. Physical inspections were conducted at the Headquarters located in Anyang. The scope of the assurance was limited to only those performances stated in this Report and excludes data from previous years and data reported online. Furthermore, GHG data that has already been verified from another third-party organization was not subjected to the assurance engagement.

Major Assurance Procedures

For the assurance process, LSIS’s employees have engaged in interviews. Results from the interview and other relevant documents provided by LSIS were considered for the assurance process. Major assurance procedures undertaken are as follows:

- Review of application of company’s internal sustainability report standards
- Review of report information and information collection process
- Review of materiality test, report contents related to the core issues and company policies
- Conducting physical inspection and interviews with employees.

Opinions

BISD performed the assurance engagement in accordance with the procedures identified above, and modified the report if and when deemed necessary. Based on the assurance engagement, BISD is not aware of any significant errors in the report and confirmed that the report was written in accordance with GRI G4 guidelines (core option).

The opinions of BISD produced as a result of its assurance engagement and in consideration of the AA1000APS accountability standards are explained below.

- **Inclusivity:** Does LSIS adhere to the principle of stakeholder engagement in order to ensure a responsible and strategic response in advancing sustainability management?
 - LSIS is gathering major concerns and opinions from core stakeholders, including its customers, employees, partners, local communities, shareholders and investors through stakeholder communication channels.
 - BISD is not aware of any significant stakeholder groups that were omitted from the process of gathering sustainability management issues through LSIS’s stakeholder communication channels.
- **Materiality:** Does LSIS include material issues that affect stakeholders in the entire spectrum of sustainability management in this Report?
 - LSIS used the materiality test process to deduct major sustainability management issues and identified major issues through a separate process of compiling opinions on expectations by stakeholder groups as part of the materiality test process.
 - BISD is not aware of any significant issues that were omitted from the materiality test process.
- **Responsiveness:** Does LSIS respond appropriately to stakeholder issues?
 - LSIS has acknowledged the impact of its business decisions on stakeholders and responded properly with coherent actions. The Report presents related performances during the reporting period.
 - BISD is not aware of any violations of the principle of responsiveness in LSIS’s response to major sustainability management issues or performances that are described in this Report from the perspective of materiality.

Recommendations

BISD makes the following recommendations within a scope that does not affect the assurance results:

- LSIS classified 6 core stakeholders and introduced concepts for practice and typical communication channels for each stakeholder, demonstrating LSIS’s efforts to communicate with the stakeholders. BISD recommends that LSIS build diverse communication channels for each stakeholder and report their contents and frequency concretely. Also, BISD suggests releasing all activities and performances related to sustainable management on the company’s webpage in order to expand information accessibility for stakeholders.
- It is remarkable that LSIS made an effort to select core issues systematically in publishing the 1st report. In addition, accumulating the opinions of stakeholders through CSR expert dialogue is impressive. It is expected that LSIS improve transparency by clearly defining each stage of selecting core issues and reporting the results from now on. Also, BISD recommends continuing the process of gathering stakeholder opinions through expert dialogues or stakeholder dialogues and applying them in management activities.
- LSIS established the foundation of management activities, which balances economic, environmental and social factors in equal harmony by building a sustainable management roadmap and introducing a sustainable management committee. BISD recommends that LSIS continuously set up specific targets and plans for sustainable management and report its practices and performances.
- LSIS mentioned plans to improve their sustainable management index that is used to select cooperative firms. It is expected that LSIS expand sustainable management activities according to its scope of influence by establishing practicable indices and goals for important elements in sustainable management, such as human rights, labor and environment, and making persistent efforts at all levels of the company.



March 2015

President

Tae-Jin Park

Credits

<div>General publication management</div> <div><div>Chief Strategy Officer</div><div>Min-Goo Choi</div></div> <div><div>Corporate Planning Dept.</div><div>Hwan Jeong</div></div> <div><div>Corporate Planning Dept.</div><div>Yu-Seok Hong</div></div> <div><div>Corporate Planning Dept.</div><div>Young-Myoung Son</div></div> <div></div>	<div>Corporate Profile</div> <div><div>Power Distribution Business group) Planning Team</div><div>Jong-Sop Choi</div></div> <div><div>Power Distribution Business group) Planning Team</div><div>Jin-Hong Song</div></div> <div><div>Power Grid Business Group) Planning team</div><div>Sang-Tae Park</div></div> <div><div>Power Grid Business Group) Marketing team</div><div>So-Hyun Yoon</div></div> <div><div>A&D Business Group) Planning Team</div><div>Young-Lae Suk</div></div> <div><div>A&D Business Group) Planning Team</div><div>Jin-Bok Noh</div></div> <div><div>Convergence Business Group) Planning Team</div><div>Kyoo-Kun Sun</div></div> <div><div>Convergence Business Group) Planning Team</div><div>Ji-Hoon Seo</div></div> <div><div>Convergence Business Group) Marketing Team</div><div>Yi-Young Kim</div></div> <div><div>Convergence Business Group) Marketing Team</div><div>Na-Yeon Chung</div></div> <div><div>Corporate Strategy Dept.</div><div>Moon-Sig Jung</div></div> <div><div>Corporate Strategy Dept.</div><div>Hyeong-Cheol Gil</div></div> <div></div>	<div>Customer Satisfaction</div> <div><div>Quality Management Team</div><div>Kyeong-Hoi Koo</div></div> <div><div>Quality Management Team</div><div>Sik-Il An</div></div> <div><div>Power Distribution Business Group) Marketing Team</div><div>Sang-Won Hwang</div></div> <div><div>Power Distribution Business Group) Marketing Team</div><div>Si-Yeong Yang</div></div> <div><div>Power Grid Business Group) Marketing team</div><div>Hyung-Taek Myung</div></div> <div><div>Power Grid Business Group) Marketing team</div><div>Hyun-Sik Park</div></div> <div><div>A&D Business Group) Marketing Team</div><div>Kee-Cheol Hong</div></div> <div><div>A&D Business Group) Marketing Team</div><div>Dong-Rin Han</div></div> <div><div>Convergence Business Group) Marketing Team</div><div>Ki-Soo Yang</div></div> <div><div>Convergence Business Group) Marketing Team</div><div>Eu-Gené Sull</div></div> <div><div>Design Center</div><div>Hae-Sook Kim</div></div> <div><div>IT Innovation Team</div><div>Dong-Ho Song</div></div> <div><div>IT Innovation Team</div><div>In-Kyoung Kim</div></div> <div></div>	<div>Win-win Growth</div> <div><div>Win Win Growth Team</div><div>Ki-Bok Kim</div></div> <div><div>Win Win Growth Team</div><div>Se-Min Song</div></div> <div></div>
<div>Environment and Safety Management</div> <div><div>Environment & Safety Team</div><div>Sun-Kyu Park</div></div> <div><div>Environment & Safety Team</div><div>Gi-Hyun Ryu</div></div> <div></div>	<div>Shareholders · Investors Satisfaction</div> <div><div>Treasury Team</div><div>Byoung-Heon Choi</div></div> <div><div>Treasury Team</div><div>Kyung-Su Kim</div></div> <div><div>Treasury Team</div><div>Sung-Joon Song</div></div> <div></div>	<div>Technology Management/IP</div> <div><div>Technology Strategy Dept.</div><div>Jang-Cheol Seo</div></div> <div><div>Technology Strategy Dept.</div><div>Ju-Hyeong Lee</div></div> <div></div>	<div>Ethical Management/Integrated Risk Management</div> <div><div>Audit Dept.</div><div>Joon-Gil Kim</div></div> <div><div>Audit Dept.</div><div>Bo-Young Myung</div></div> <div><div>Legal Affairs Dept.</div><div>Tae-Yoon Sohn</div></div> <div><div>Legal Affairs Dept.</div><div>Ju-Hye Kim</div></div> <div><div>ERM Team</div><div>Ki-Soon Park</div></div> <div><div>ERM Team</div><div>Joon-Sik Kim</div></div> <div><div>ERM Team</div><div>Young-Jun Kim</div></div> <div></div>
<div>Social Contribution</div> <div><div>Public Relations Team</div><div>Young-Dal Oh</div></div> <div><div>Public Relations Team</div><div>Myoung-Geun Choi</div></div> <div><div>Public Relations Team</div><div>Jae-Myung Kim</div></div> <div></div>	<div>Management Innovation</div> <div><div>Management Support Div.</div><div>You-Jong Kim</div></div> <div><div>Innovation & Culture Part</div><div>Jeong-Mi Lee</div></div> <div></div>		