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 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 third-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:

LSIS Corporate Planning Department
10F LS Tower, 127, LS-ro, Dongan-gu, Anyang-si, Gyeonggi-Do, 431-848, Korea
Website www.lsis.com
Telephone +82-2-2034-4432
Fax +82-2-2034-4949
E-mail csr@lsis.com
2014 Sustainability Management Highlights

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.

May
- CEO Ja-Ryun Koo received Gold Tower Order at 49th Annual Invention Day
LSIS CEO Ja-Ryun 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 IT Center in Y Yangjae-dong, Seoul.

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 electric/automation 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.

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).

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.

- 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.

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- 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 115,000 smart meters to 19 areas including Baghdad. This project marked the world’s largest single international project for AMI.
- Named Korea’s Best Corporation for 7 years in a row
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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.
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.

COO’s Message

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

Economic Value Flow
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 pursing 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.’

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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.

Boosting Our Market Position as a Power Solutions Provider
Leading New Markets through Convergence and Integration
Expansion of Global Markets
Securing Operational Excellence

Vision and Strategy

Mission
Vision 2020
Strategy

Corporate History

1974~1995

A Passionate Beginning
1974.07 Established Lucky Packing Co., Ltd.
1987.03 Changed the name to Goldstar Industrial Systems Co., Ltd.
1995.02 Changed the name to LG Industrial Systems
1995.09 Merged with Goldstar Instrument & Electric Co., Ltd. and Goldstar Electric Machinery Co., Ltd.

1999~2007

Another Transition Towards Success
1999.04 Merged with LG Metal Co., Ltd.
2000.01 Completed Power Testing & Technology Institute
2001.11 Expanded from LG Group
2003.11 Separated from LG Group
2005.03 Changed the name to LSIS Co., Ltd.
2005.09 Completed a factory to produce electric power & automation equipment in Wuxi, China
2007.02 Established LSIS (ME) FZE in Dubai, UAE

2008~2010

The Fruits of Pursuing Growth and Innovation
2008.04 Merged headquarters (LS Tower, Anyang, Korea)
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2010.03 Established LS Sauter
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2011~

Leapfrog into a Global Leader
2011.10 Completed Busan HVDC factory
2012.05 Completed Chongqing HVDC Relay Factory
2014.05 40th anniversary
2014.05 Received Gold Tower Order
2015.01 Declared value-focused management principle
2015.03 Completed Anyang R&D Campus

Corporate Profile

Vision 2020

Core Value

Management Philosophy

Collaboration
Execution
Creativity
Integrity

Greater value together!

Future of Smart Energy

Operating the Future of Smart Energy

KRW 4 trillion in sales
KRW 500 billion in operating income
KRW 6 trillion in sales

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Future of Smart Energy

Operating the Future of Smart Energy

KRW 4 trillion in sales
KRW 500 billion in operating income
KRW 6 trillion in sales

Greater value together!
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 Business Strategy

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

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**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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Overseas Export</th>
<th>Domestic Consumption</th>
<th>% of Overseas Export</th>
<th>% of Domestic Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,148,306</td>
<td>664,462</td>
<td>37.4%</td>
<td>46.9%</td>
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<tr>
<td>2011</td>
<td>1,223,356</td>
<td>647,573</td>
<td>40.9%</td>
<td>56.6%</td>
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<tr>
<td>2012</td>
<td>1,215,342</td>
<td>670,742</td>
<td>45.4%</td>
<td>56.6%</td>
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<tr>
<td>2013</td>
<td>1,263,110</td>
<td>605,815</td>
<td>45.5%</td>
<td>56.6%</td>
</tr>
<tr>
<td>2014</td>
<td>1,308,169</td>
<td>593,815</td>
<td>40.8%</td>
<td>56.6%</td>
</tr>
</tbody>
</table>
Power Grid Business

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

Power Distribution Business

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.

About the Business Group

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Unit: KRW in billions)</td>
<td>378.3</td>
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</tbody>
</table>

Sales

<table>
<thead>
<tr>
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<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Unit: KRW in billions)</td>
<td>725.1</td>
<td>730.0</td>
<td>730.0</td>
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</tbody>
</table>

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 Korea’s Ministry of Energy (MOE)
- Launched new UL MCCB
- Won a contract to supply MCCB in a converter station equipment to the North Changui-Geobuk 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
- Enhance competitiveness in the global market by developing market tailored products

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.

Major performances in 2014
- Launched new UL MCCB
- Bid for supply of MCCB from Electricity Boards (Taiwan, the Philippines, Pakistan, etc.)
- Signed an Air Compression project in Indonesia
- Signed a facility project of an urban railway and Candle Cables in the UK (2013)
- Won an order from NTT Telecommunications (APAC)
- Won an order for supplying equipment from KEC

Plans for 2015
- Strengthen overseas business and project sales activities by establishing new local branches
- Provide tailored solutions by securing UL/IEC/PIL 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 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.

Major performances in 2014
- PNL solution obtained approval from Electricity Boards (Taiwan, the Philippines, Pakistan, etc.)
- Signed an Air Compression project in Indonesia
- Signed a facility project of an urban railway and Candle Cables in the UK (2013)
- Won an order from NTT Telecommunications (APAC)
- Won an order for supplying equipment from KEC

Plans for 2015
- Strengthen overseas business and project sales activities by establishing new local branches
- Provide tailored solutions by securing UL/IEC/PIL 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
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
• Expanded product Group through launching new products
  - 5150 Series (LVD), 5100 Series (MVD), 5100 Series (PLC)
• Expanded the market by preparing tailored responses to customer and market needs.

Plans for 2015
• Expanding business and sales channels of local subsidiaries
• Establishing the global SVC infrastructure
• Promoting a pilot project for the domestic FA system under the Manufacturing Industry 3.0 strategy
• Seizing new business opportunities in the Services and Motion businesses
• Expanding new markets by winning contracts for heating facilities
• Researching advanced technologies for next-generation products
• Raising brand awareness through proactive PR activities

Major performances in 2014
• Smart Grid: EES References to electric utility and private companies
• EV Solutions: Selected as a provider for mild hybrid system (48V) of a global top-class automaker
• Photovoltaic System Solutions: Advancement of business structure through total package projects
• Public Infrastructure: Obtained Korea’s first SIL 4 certification for CBTC on-board and outside systems

Plans for 2015
• Smart Grid: Diversify overseas power IT markets for sustainable growth
• EV Solutions: Develop new overseas markets including Japan to evolve into a global player
• Photovoltaic System Solutions: 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.

About the Business Group
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 portfolios 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.

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Unit: KRW in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>279.2 billion</td>
</tr>
<tr>
<td>2013</td>
<td>371.3 billion</td>
</tr>
<tr>
<td>2014</td>
<td>394.0 billion</td>
</tr>
</tbody>
</table>

Automation & Drive Business

Convergence Business

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Unit: KRW in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
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</tr>
<tr>
<td>2014</td>
<td>394.0 billion</td>
</tr>
</tbody>
</table>
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**

**Key Products**
- SAS (Substation Automation System)
- Microgrid
- SCADA/DMS (Supervisory Control And Data Acquisition)
- EMS (Energy Management System)
- Frequency Regulation EES
- SAS (Substation Automation System)
- → Microgrid
- → Frequency Regulation EES

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

**Main Achievements**

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

**Main Achievements**

**Frequency Regulation**

- Ensures quality and reliability of the grid with rapid response and stable output when renewable energies (photovoltaics, wind) are connected to the grid

**Commercial/Industrial**

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

**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.

**EnGather**

- High efficiency (80%) and high response
- Easy grid-based design
- Verified through large contracts to electric utility and global firms (DoE-EDA, Samsung, LG (S&A))
**Green Business**

**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 Jeju Industrial Complex, Busan Air 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, under submarine or underground transmission exceeding 400km 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.

- 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.

**R&D Achievements and Performances**

- Joint project to localize HVDC technology with KEPCO, L.G.Cable & System, Taihan Electric Wire (2009)
- Established HVDC Smart Center in Jeju and designed 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 of Electrical Engineers (2012)
- Started joint R&D to localize HVDC technology with KEPCO, LS Cable & System, Taihan Electric Wire (2009)
- Won an order to supply HVDC transformation equipment (2009)
- Test operation of self-developed products at the HVDC Smart Center (2014)
- Test operation of the HVDC Smart Center, testing and installation of self-developed products (2014)
- Won a contract to supply HVDC transformation equipment to North Gogunsan Island project (May 2014)

**Jeu-Pilot HVDC SMART CENTER**

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

**Features and Benefits**

- 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.

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

- LSIS’s Response to the Changing National Energy Efficiency Policies

In 2015, the ‘High Efficiency Drive Support Program’ managed by KECPO 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.

**Key products**

- Thyristor Valve
- Converter Transformer
- C&P (Control & Protection)

**Comparison of Transmission Towers Required**

<table>
<thead>
<tr>
<th>DC vs AC Transmission Cost</th>
<th>(Unit: Million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DC</td>
<td>AC</td>
</tr>
<tr>
<td>600</td>
<td>300</td>
</tr>
</tbody>
</table>

* HVDC uses ¼ the transmission towers to transmit the same voltage of AC power

**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?**
  - **790,906 trees**

- **How many homes can we power with the energy saved for the past 5 years?**
  - **45,880 homes**

**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**

- Thyristor Valve
- Converter Transformer
- C&P (Control & Protection)

**Features and Benefits**

- Enables precise control of motor speed and 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. Provides damage to external power sources and equipment when a sudden increase in power is required.

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**Key products**

- Thyristor Valve
- Converter Transformer
- C&P (Control & Protection)
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, Visits to suppliers, Quality innovation meeting for Win-win Growth, Portal site for suppliers
Employees | LinkedIn*, 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
Shareholders/investors | NDR (Non-deal roadshow), Visits to the company, IR conference, Business reports, Homepage

* LinkerS: LSIS's representative body for office staff
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.

Core Stakeholders

- Customers
- Suppliers
- Environment
- Employees
- Shareholders & investors
- Local communities

Integrated sustainability management

- Create customer value through product responsibility and customer communication
- Promote environmental management meeting global standards
- Cultivate global talents and improve quality of life
- Increase shareholder value through management integrity and transparent disclosure
- Cultivate social communities for voluntary social contribution

Stakeholder Engagement

- Promote stakeholder engagement
- Select responsible and related department for each stakeholder group and set roles and responsibilities
- Enhance integrated risk management system

Green Company Image

- Promote green company image
- Develop a process for incorporating stakeholder feedbacks
- Enhance integrated risk management

Integrated Risk Management

- Strengthen disclosure of environmental data
- Establish a monitoring process for preventing key risks

Goal of Sustainability Management

- Grow into a respected company based on stakeholder trust

3 Strategic Directions

- Operate Sustainability Management Council
- Develop a process for 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.

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 overall sustainability issues to the board. The meetings are scheduled to be held every other month, headed by the CEO. 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

LSIS is a leader in pursuit of sustainable growth. It is trusted by the general public and its performance is recognized by the local community. Life in the city of LSIS and the surrounding area has been improved through LSIS's voluntary social participation activities. LSIS has invested in enlarging its own buildings and facilities, transferring facilities to local communities and investing through the LSIS Environment Management Fund. It has also strengthened its corporate social responsibility efforts by conducting 3 workshops, resulting in better understanding of sustainability management and the identification of improvement tasks for 2015.
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 sustainability issues (6-step process)  
Prioritization of issues (Sustainability management matrix)  
Development of operational directions (Steering wheel)

Identification of Key Sustainability Management Issues

Step 1  
Stakeholder survey

Step 2  
Interview with the management

Step 3  
Media and internet research

Step 4  
CIR Advisory Dialogue

Step 5  
Global level CSR diagnosis and assessment

Step 6  
Analysis on issues of advanced companies and competitors

We conducted stakeholder survey on our sustainability management. The survey was to ascertain interest in our sustainability issues, communicate channels regarded as useful, and activities that stakeholders thought needed improvement. A total of 104 employees and 146 external stakeholders took part in the survey.

Period: June-July 2014  
Method: On/offline questionnaire  
Participants: 104 employees, 264 employees, 36 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 interviews 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 identify 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

Experts’ comments on publishing sustainability report and our responses

Response

1. Negative issues were disclosed along with our efforts and plans for improvement.
2. Our company was judged to have a sound sustainability management execution system and sound management and strategic sustainability management directions.
3. The sustainability report should address customer and investor needs for non-financial information.
4. We reported our green business to solve social issues on the special feature section.
5. Our sustainability performance were reported in 6 categories in accordance with identified stakeholder groups.

We held a forum with experts in each sector to obtain special information on sustainability issues and future trends. The forum dealt with improvement directions of each sustainability issue in accordance with social expectations. In addition, data 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-July 2014  
Method: Research and benchmarking  
Subject: domestic and foreign advanced companies and competitors

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.
LSIS response to key issues

Prioritization of Key Sustainability Issues

<table>
<thead>
<tr>
<th>Stakeholder interests</th>
<th>Customers</th>
<th>Suppliers</th>
<th>Employees</th>
<th>Environment</th>
<th>Local communities</th>
<th>Shareholders / investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materiality Test</td>
<td>1. Integrated risk management</td>
<td>2. Establishment of a fair trade culture (suppliers)</td>
<td>3. Fair trade with suppliers is the first step toward establishing a fair trade culture</td>
<td>4. Establish a fair trade culture (suppliers)</td>
<td>5. Disseminate sustainability management to suppliers</td>
<td>1. Advance environmental management</td>
</tr>
<tr>
<td>415</td>
<td>47</td>
<td>22</td>
<td>25</td>
<td>55</td>
<td>67</td>
<td>35</td>
</tr>
</tbody>
</table>

LSIS prioritization of sustainability management:

1. Integrated risk management
2. Establishment of a fair trade culture (suppliers)
3. Fair trade with suppliers is the first step toward establishing a fair trade culture
4. Establish a fair trade culture (suppliers)
5. Disseminate sustainability management to suppliers

Sustainability Management Operational Trajectory

2014 LSIS Sustainability Management Steering Wheel

1. Integrated risk management
2. Establishment of a fair trade culture (suppliers)
3. Fair trade with suppliers is the first step toward establishing a fair trade culture
4. Establish a fair trade culture (suppliers)
5. Disseminate sustainability management to suppliers

Core Value

Collaboration

Execution

Suppliers

Customers

Environmental & safety management

General management

Employees

Shareholders / investors

Local communities

Integrating sustainability management

1. Integrated risk management
2. Establishment of a fair trade culture (suppliers)
3. Fair trade with suppliers is the first step toward establishing a fair trade culture
4. Establish a fair trade culture (suppliers)
5. Disseminate sustainability management to suppliers

2014 LSIS Sustainability Report
**Customer Satisfaction**

Creating customer value through product responsibility and proactive communication

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**2014 Materiality Test Results**

<table>
<thead>
<tr>
<th>Management Issues</th>
<th>Performance in 2014</th>
<th>Plans for 2015</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade product quality and responsibility</td>
<td>Strenthened operation of Internal Quality Evaluation System</td>
<td>Strengthened talent development system for quality management</td>
<td>ITM Team</td>
</tr>
<tr>
<td>Establish fair trade culture</td>
<td>Original incentives for quality (promotion)</td>
<td>Strengthened talent development system for quality management</td>
<td>Legal Affairs</td>
</tr>
<tr>
<td>Enhance customer satisfaction</td>
<td>Satisfactorily satisfied for fair trade</td>
<td>Performability training and internal audit</td>
<td>Legal Affairs</td>
</tr>
<tr>
<td>Improve customer satisfaction survey for external organizations</td>
<td>Improvement of performance for social and environmental impact</td>
<td>Marketing Team</td>
<td></td>
</tr>
<tr>
<td>Active communications with customers</td>
<td>Improve customer satisfaction survey for all business divisions</td>
<td>Marketing Team</td>
<td></td>
</tr>
<tr>
<td>Enhance complaint handling processes</td>
<td>Strengthened operation of Internal Quality Evaluation System</td>
<td>ITM Team</td>
<td></td>
</tr>
<tr>
<td>Improve complaint handling processes</td>
<td>Improved performance for social and environmental impact</td>
<td>Corporate Running Dept.</td>
<td></td>
</tr>
<tr>
<td>Strengthen customer tailored services</td>
<td>Field regional training on products in Korea</td>
<td>Marketing Team</td>
<td></td>
</tr>
</tbody>
</table>

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**Internal Quality Management Evaluation Score**

**Korean Standard-Quality Excellence Index**

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>773.9 points</td>
</tr>
<tr>
<td>2013</td>
<td>807.4 points</td>
</tr>
<tr>
<td>2014</td>
<td>72 points</td>
</tr>
</tbody>
</table>

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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 services.

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**Upgrade Product Quality and Responsibility**

**Quality Management System**

Our Quality Management System (QMS) has been established based on the 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 services 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.

**Management System Process Map**

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**Internal Quality Management Assessment System**

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.

**Customer-oriented Quality Innovation Activities**

Securing high quality on the basis of reliability is very important in our business. As our business area is expanding to smart grid and photovoltaic power generation 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 be equipped with 2,800 MVA 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.

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**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 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 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 including 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.

Information Protection Management System

We established a fair trade culture to ensure that our employees utilize personal information within the scope of consent and in accordance with the purpose of the consent. We maintain personal information only for the necessary period and limit its use to the necessary extent. In addition, we promptly and accurately correct any incorrect personal information and notify and gain consent when collection or purpose of provision go beyond the scope of consent. In 2014, LSIS continued to adopt technological safeguards when collecting personal information, and disposed personal information after the storage period has been exceeded. Personal information that needs to be retained is stored securely and personal information that is no longer needed is deleted or canceled. We have received various awards and recognition for our efforts and commitment to information protection management.

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), SPS IPC Drives (Germany), PV EXPO (Japan), and CEPSI (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.

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 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.

Secure Potential Customers
In order to secure potential customers, LSIS conducts one-on-one export consultations, business meetings, seminars through roadshows, and conventions in various 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.

Information Protection Management Process

KS-QEI - LSIS Drive (sales points)

<table>
<thead>
<tr>
<th></th>
<th>in 2013</th>
<th>in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalties (KRW in billions)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>No. of corrections</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

2014 LSIS Sustainability Report
**Customer Satisfaction**

**Enhance Complaints Handling Processes**

**Preventative Activities**
We have implemented the Q-Post Tour program to re-

do customers’ potential complaints since 2012. This pro-

gram allows us to ascertain their quality expectations
and potential complaints in advance to 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 cus-
tomers. We are striving to improve the continuity and effi-
ciency of this program by building an integrated process
through collaboration across sales and service depart-
ments and factories.

**Manage Customer Complaints**
LSIS records and manages customer complaints system-
atically 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 Man-
agement Department submits and shares the improve-
ment 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 Im-
provement Rate.’ The VOC Improvement Rate was 86.2%
in 2014 and results of implementation are managed as ‘VOC Im-
pairment Rate.’ The VOC Improvement Rate was 86.2%
in 2014 and results of implementation are managed as ‘VOC Im-

**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 custom-
ners and hold seminars to offer information on our prod-

ucts. Moreover, we are increasing customer convenience
by visiting them located in remote areas who may have
difficulties in visiting our business sites and training ven-

ues. In the future, we plan to expand the number of train-

ings and seminars to provide tailored training services
meeting customer needs.

**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 in-
novative approach in the industrial equipment business
with traditional producer-centric nature. The Design Cen-
ter is being operated as a specialized organization under
the CTO to rapidly respond to customer needs for special-
ization and sophistication. The Design Center enhances
our design competitiveness and corporate image by in-
troducing 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 pro-

duce customers with differentiated value through quality
that touches them and eco-friendly design development.

**LSIS Switchgear and H100 Drive**

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 evalu-
ations were conducted with stringent site visits by judges. Our Switchgear and H100 Drive were highly recog-
nized 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, offer-
ing a standardized user interface (UI) 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.
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’s policy is to enhance relevant departments’ understanding of the contract law and to ensure that they adopt fair trade practices. Second, the Legal Affairs Department helps suppliers to comply with the contract law and encourages them to adopt ethical management practices. Finally, the Legal Affairs Department provides counseling and training to suppliers to ensure that they comply with the contract law and ethical management practices.

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 reviewing the ‘Pledge to Ethical Management Pact’ and promoting ethical management.

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 encourage them to adopt sustainable management systems. As part of this, we implement environmental safety assessment of new suppliers and promote the development of indices to diagnose their sustainability management systems. 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 operations and their opinions and recommendations are used for vital data in developing our directions for ethical management.

Ethical Management Satisfaction Index (Suppliers)
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 signed agreements on win-win growth among the three parties. The agreements emphasize compliance with the Fair-Trade Commissioner’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 3 suppliers’ onsite 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.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>1st credits issued</th>
<th>2nd credits issued</th>
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<tbody>
<tr>
<td>2013</td>
<td>43</td>
<td>0.48</td>
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<td>2014</td>
<td>39.7</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>1st credits issued</th>
<th>2nd credits issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>13.2</td>
<td>2.8</td>
</tr>
<tr>
<td>2014</td>
<td>14.2</td>
<td>2.3</td>
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</table>

Financial Assistance for the Suppliers

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Combination</th>
<th>Special</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>13.5</td>
<td>15.8</td>
<td>20.2</td>
</tr>
<tr>
<td>2013</td>
<td>12.6</td>
<td>14.8</td>
<td>17.3</td>
</tr>
<tr>
<td>2014</td>
<td>13.6</td>
<td>14.8</td>
<td>17.3</td>
</tr>
</tbody>
</table>

Guidance for Process Quality Management

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>Customers</td>
<td>24</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>40</td>
</tr>
</tbody>
</table>

L.6. Win-win Growth

Expand the Mutual 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 a lower 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 default. Consequently, this system is expected to substantially contribute to boosting win-win growth with our suppliers and improving the national competitiveness.

Improve Effectiveness of Win-win Growth Programs

LSIS signed agreements with our suppliers and improving the national competitiveness.

Expand the Mutual 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 a lower 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 default. Consequently, this system is expected to substantially contribute to boosting win-win growth with our suppliers and improving the national competitiveness.

Technology Sharing Program
In collaboration with the Korea Institute for the Advancement of Technology (KIAT) and LSIS provided 230 unsolicited 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 capability 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 supplier R&D mindset and promote the local 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

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
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<td>Sales</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sales</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sales</td>
<td>2.9</td>
<td>3.2</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Improving R&D Capabilities and Finishing Process Quality
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.

Improve Productivity
LSIS has provided suppliers with financial assistance at low interest rate for their stable production. In 2014, we raised a total of KRW 26.2 billion - KRW 1.4 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 1,055 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

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>34</td>
<td>20</td>
</tr>
<tr>
<td>Customers</td>
<td>34</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>40</td>
</tr>
</tbody>
</table>

Strengthen Technology Development Capacity

LSIS Sustainability Report
Win-win Growth

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 ODC 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 CEDs 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 competitors to cooperate with each other and develop promising solutions. Participating companies can also become a catalyst for promoting sustainability management activities of suppliers in the future.

Innovation Task Force Program
Completion of the Innovation Task Force Program

- Suppliers

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Suppliers</th>
</tr>
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<tbody>
<tr>
<td>2012</td>
<td>28</td>
</tr>
<tr>
<td>2013</td>
<td>32</td>
</tr>
<tr>
<td>2014</td>
<td>28</td>
</tr>
</tbody>
</table>

- Participants

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>14</td>
</tr>
<tr>
<td>2013</td>
<td>28</td>
</tr>
<tr>
<td>2014</td>
<td>29</td>
</tr>
</tbody>
</table>

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 company. 26 experts and candidates for the next-generation management in their company have participated in this program 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 competitors to cooperate with each other and develop promising solutions. Participating companies can also become a catalyst for promoting sustainability management activities of suppliers in the future.

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 in 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 to create shared value and expand communication and cooperation. In 2014, a total 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 not 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 attended our meetings 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 about KRW 1.32 trillion from suppliers of 31 countries annually. Regional breakdown of procurement is as follows: Korea (92%), China (10%), Europe (3%), Japan (2%), and other parts of Asia (2%).

We will secure global business capability by becoming united under the same agenda through an open communication culture. Furthermore, we aim to enhance the quality of life for all employees by establishing positions to support them at all operation sites and building systematic monitoring process.

2014 Materiality Test Results

**Pursue work-life balance**
- Operated various channels for talent recruitment
- Established aggressive recruitment and promotion strategy
- Strengthen company-wide human rights and labor policies

**Attract and nurture talents**
- Provided training on labor and human rights policies and related issues
- Strengthen company-wide human rights and labor policies

**Expand employee communication**
- Enhanced communication through the affiliation of communication channels
- Strengthen company-wide human rights and labor policies

**2014 Material Issues**

**2015**
- "Build open communication culture"

**2016**
- "Secure global business capability"

**2017**
- "Establish global human rights policies"

**2014 Material Issues**

**Performance in 2014**
- Participation in the "Weeks (concentrated vacations)
- Established internalistle as a family-friendly company
- Strengthened company-wide human rights and labor policies
- Open workplace nursery (Chonigyu)
- Established family-friendly management
- Participated in various channels for talent recruitment
- Established aggressive recruitment and promotion strategy
- Strengthened company-wide human rights and labor policies
- Conducted self-evaluation of human rights and labor standards
- Strengthened company-wide human rights and labor policies
- Established communication channels

**Plans for 2015**
- "Strengthen company-wide human rights and labor policies"
- "Expand employee communication"
- "Attract and nurture talents"
- "Pursue work-life balance"

**Department**
- HR Team
- 6S Team
- 6S & Relations Management Team

**Education expenditure per person**

2013 KRW 1.1 million  2014 KRW 1.3 million

**Welfare expenditure per person**

2013 KRW 12.7 million  2014 KRW 13.2 million

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.

Pursue Work-Life Balance

Events for Employee Families

Various family events are held to offer opportunities for open communication among employees and to improve 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 asserting 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.

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.

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.

Management Issue Performance in 2014 Plans for 2015 Department

**Pursue work-life balance**
- Operated various channels for talent recruitment
- Established internalistle as a family-friendly company
- Strengthened company-wide human rights and labor policies

**Attract and nurture talents**
- Provided training on labor and human rights policies and related issues
- Strengthened company-wide human rights and labor policies

**Expand employee communication**
- Enhanced communication through the affiliation of communication channels
- Strengthened company-wide human rights and labor policies

**2016**
- "Strengthen company-wide human rights and labor policies"

**2017**
- "Expand employee communication"

**2015**
- "Build open communication culture"

**2016**
- "Secure global business capability"

**2017**
- "Establish global human rights policies"
Employee Satisfaction

Attract and nurture talents

Ideal Employee and Recruitment Philosophy
LSIS seeks after individuals that can, on the basis of LSpartner ship, 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 homogeneous 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 professional 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 entities 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 business in early stage. Under the situation where corporations struggle to precocious 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 a skill. However, in the vastly changing modern society characteristic of globalization, advancement of technology, and changes in law, having only experience one will fail 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.

Education and Training in 2014

Education and Training in 2014

<table>
<thead>
<tr>
<th>Class</th>
<th>Organizational Development</th>
<th>Professionals</th>
<th>Globars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and Training in 2014 (Unit: PD*; persons per day)</td>
<td>2,714</td>
<td>640</td>
<td>493</td>
</tr>
</tbody>
</table>

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

Direction of Education and Training

1. Education

Class: Educate knowledge, skills and attitudes required by one’s position, rank and duty
Globalism: Educate languages and culture related to one’s position, rank and duty
Organizational development: Educate knowledge with the aim of nurturing professionals by each value chain
Professionalism: Educate knowledge with the aim of nurturing professionals by each value chain

Career Development Program for new employees

While LSIS is working on the establishment of human resources development, the Career Development Program for new employees is constantly evolving and improving. New employees enter the company 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 VOD (Voice of Employees), which caters to employees who have newly joined the organization.

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 VOD (Voice of Employees), which caters to employees who have newly joined the organization.
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 any other factors. In order to do so, LSIS has specified human rights in its mission and social mission, as well as a human rights policy. The company also promotes a culture of human rights through various channels, such as management forums and table-top discussions to explain the company's quarterly performance to labor union officials, in order to emphasize open communications. Moreover, labor-management relations and unlimited cooperation, the labor and management of LSIS have built a stable and cooperative labor-management relationship.

Labor-Management Relations
LSIS pursues labor-management relations based on equality and rational cooperation that allows both labor 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of members</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td>365</td>
<td>277</td>
<td>642</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>365</td>
<td>277</td>
<td>642</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>365</td>
<td>277</td>
<td>642</td>
</tr>
</tbody>
</table>

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

Linker5
Linker5 is a representative body to support two-way communications 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 to play a role in leading the team culture shaping and monitoring core values and promoting free communication between team members and the leader.

Labor-Management Council
The Labor-Management Council contributes to the establishment of healthy relationships between labor and 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
Hi-Card is a communication board that allows employees to express grievances and personal requests in an informal manner to either the CEO 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, CEO head of divisions and departments through the Management Forum, and their opinions are reflected in our business operations.

Employee Satisfaction

Ensuring Basic Labor Rights
With the recognition that labor union is a partner for our businesses, we hold 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 agreement. 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 processes to deal with human rights.

Employee Engagement
In order to improve employee engagement and reduce the distance between labor and management through sharing information necessary to address issues and reduce the distance between labor and management, we have established an organization, called TFT, in order to improve mutual understanding and sharing the choices. In 2014, 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.

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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 to 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.
**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.
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, 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.

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.

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 improvements.
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 capability 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 training 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 support for inspection and diagnosis of health and safety to its subsidiaries and suppliers with lack of experts in this field. By helping establish the health and safety system by transferring health and safety management technologies and evaluating the risk, we contribute to improve the safety 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 capability. 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 metal dust particulates. To improve the office environment, we monitor indoor air quality and also operate programs to prevent musculoskeletal disease and hearing loss.

Occupational Accident Rate (in %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cheongju Plant</th>
<th>Busan Plant</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.01</td>
<td>0.33</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
<td>1.33</td>
</tr>
</tbody>
</table>

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 counseling 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 in their daily lives. In addition, mandatory trainings 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.

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Reduce Energy Use and GHG Emissions

Energy Consumption

LSIS has consistently been 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 65% with 12,045.1 TEO and 15% with 2,168.4 TEO, respectively in 2014.

GHG Inventory

To manage our GHG emissions, we reviewed all processes. In the 2013 inventory, we compiled reports on energy consumption, of which electricity and LNG gas accounted for 85% with 12,045.1 TOE and 15% with 2,168.4 TOE in 2014.

Energy Consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>Electricity</th>
<th>LNG gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>22,248.6</td>
<td>2,342.1</td>
</tr>
<tr>
<td>2013</td>
<td>21,194.6</td>
<td>2,168.4</td>
</tr>
<tr>
<td>2014</td>
<td>21,008.6</td>
<td>2,072.1</td>
</tr>
</tbody>
</table>

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 emission reduction targets by forecasting and analyzing energy use for each facility. In addition, we have adopted renewable energy, built automat- ed 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 5 major 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 insulators instead of SF6.

Adoption of Automated Heating and Cooling Control System

We are operating an automated heating and cooling control 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°C 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 665 million kWh in energy and reduced 300 tons of GHG emissions. In addition, the replacement of out-of-date transformers to high efficiency models increased energy intensity efficiency by 15%.

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 rooftop photovoltaic power plant that can generate approximately 2.5 million kWh per year, which is expected to have the effect of planting 243,000 pine trees. A 1,000kW EEG system, which is getting the Illuminat, 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

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 caseless process improvements and such 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 occurrence.

Water Consumption

Our Cheongju and Cheonan plants receive water from Daechung 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 seawater, there is no major environmental impact. However, as the UHI 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 implementing 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 60%, significantly reducing the impact on the environment.

Air Quality Management

LSIS is working to improve air quality for our employees’ health and local community 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.

Environmental and Safety Management

<table>
<thead>
<tr>
<th>Year</th>
<th>Energy Consumption (TOE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>12,045.1</td>
</tr>
<tr>
<td>2013</td>
<td>12,045.1</td>
</tr>
<tr>
<td>2014</td>
<td>12,045.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>GHG Emissions (Unit ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>174,912</td>
</tr>
<tr>
<td>2013</td>
<td>191,745.2</td>
</tr>
<tr>
<td>2014</td>
<td>216,731.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Waste Recycling Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>75.0</td>
</tr>
<tr>
<td>2013</td>
<td>75.1</td>
</tr>
<tr>
<td>2014</td>
<td>78.5</td>
</tr>
</tbody>
</table>
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 Science Classes to support the dream of our future generations through science educations.

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.

LS Dream Village Activities

<table>
<thead>
<tr>
<th>Category</th>
<th>Place/Time</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>LS Dream Village Activity</td>
<td>Vietnam/Jan. 2014</td>
<td>Overseas volunteer services for 12 Days by LS employees</td>
</tr>
<tr>
<td></td>
<td>Vietnam/Aug. 2014</td>
<td>Overseas volunteer services for 12 Days by LS employees</td>
</tr>
</tbody>
</table>

LS Dream Science Class Activity

<table>
<thead>
<tr>
<th>Category</th>
<th>Place/Time</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
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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 Pyeongchon 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, LS Partnership (LS is a faithful and reliable partner creating greater value together), it has adopted the social contribution philosophy of being a trustworthy partner supporting the underprivileged and hopeful future generation. Based on this, we are pursuing domestic and overseas social contribution activities that focus on creating greater value with a sharing and collaborative relationship between recipients and volunteer workers.

Social Contribution Implementation Structure

LSIS aims to move beyond simply taking part in the activities led by our holding company, andrivly operate a new stand-alone social contribution program in the long run that can create larger synergy. Currently, the company-wide social contribution activities are led by the Public Relations Team and the Support Innovation Team and Linkers (representative body for support staff) from each plant implement activities tailored to each region.

Strengthened Communication with Local Communities

Communication with local communities are currently carried out through irregular meetings, surveys, volunteer services, and interviews. For a more strategic approach to social contribution, we will reorganize communication channels that reflect the characteristics of the local communities and conduct regular programs to accurately identify their actual issues and needs. By doing so, more practical supports will be provided to them. We will also share their needs with our volunteer groups at each business site to implement social contribution activities that are meaningful to our local communities.

Volunteer Services and Participation in Local Communities

In 2014, our donations increased significantly due to contributions to the Sewol Ferry accident victims and special contributions for win-win growth. We plan to continue making contributions to issues that concern our nation and national development.

Social Contribution Execution System of LSIS

Social Contribution Philosophy of LS Group

Trustworthy partner supporting the underprivileged and our hopeful future generation.

Social Contribution Philosophy of LSIS

Provide sustainable support towards solving social conflict and helping the situations based on a commitment to partnership.

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Social Contribution Execution System of LSIS

Social Contribution Execution System of LSIS

[Responsible parties for each plant]

<table>
<thead>
<tr>
<th>Plant</th>
<th>Public Relations Team</th>
<th>Social Contribution Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheongju Plant</td>
<td>Public Relations Team</td>
<td>Social Contribution Staff</td>
</tr>
<tr>
<td>Cheonan Plant</td>
<td>Public Relations Team</td>
<td>Social Contribution Staff</td>
</tr>
<tr>
<td>Busan Plant</td>
<td>Public Relations Team</td>
<td>Social Contribution Staff</td>
</tr>
</tbody>
</table>

* LS Partnership (LS) is a management philosophy by LS partnership, LS is faithful and reliable partner creating greater value together.

![Image of Social Contribution Activities]

Donations (Unit: KRW in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount 2014</th>
<th>Main Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social welfare</td>
<td>660,400</td>
<td>Sponsorship of Special Olympics Korea</td>
</tr>
<tr>
<td>Culture and arts</td>
<td>119,500</td>
<td>Sponsorship of local underwater photography contest</td>
</tr>
<tr>
<td>Education and research</td>
<td>56,000</td>
<td>Sponsorship of local underwater photography contest</td>
</tr>
<tr>
<td>Total</td>
<td>1,145,929</td>
<td></td>
</tr>
</tbody>
</table>

Activities Held

<table>
<thead>
<tr>
<th>Participants (Unit: people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,484 people</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Donations for the Sewol-Ho accident victims</th>
</tr>
</thead>
<tbody>
<tr>
<td>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 Pyeongchon 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.</td>
</tr>
</tbody>
</table>
### Regional Activities

#### Cheonan

<table>
<thead>
<tr>
<th>Category</th>
<th>Department in charge</th>
<th>Summary</th>
<th>Cost (KRW in millions)</th>
<th>Frequency</th>
<th>Participants</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green &amp; Clean Day</td>
<td>-</td>
<td>Dream Science Class Teacher for a day</td>
<td>2</td>
<td>11 times</td>
<td>204</td>
<td>True Love 999</td>
</tr>
<tr>
<td>Dream Science Class</td>
<td>-</td>
<td>Support visit to the Cheonan plant for primary and college students</td>
<td>4</td>
<td>6 times</td>
<td>371</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td>1.9</td>
<td>17 times</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

#### Busan

<table>
<thead>
<tr>
<th>Category</th>
<th>Department in charge</th>
<th>Summary</th>
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</tr>
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<tr>
<td>Green &amp; Clean Day</td>
<td>-</td>
<td>Dream Science Class - Support visit to the Busan Plant</td>
<td>4</td>
<td>12 times</td>
<td>371</td>
<td></td>
</tr>
<tr>
<td>Dream Science Class</td>
<td>-</td>
<td>HR Support Team - Teacher for a day</td>
<td>2</td>
<td>7 times</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td>6</td>
<td>19 times</td>
<td>112</td>
<td></td>
</tr>
</tbody>
</table>

#### Anyang

<table>
<thead>
<tr>
<th>Category</th>
<th>Department in charge</th>
<th>Summary</th>
<th>Cost (KRW in millions)</th>
<th>Frequency</th>
<th>Participants</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation</td>
<td>-</td>
<td>Dream Science Class - Support site visits to the Anyang Plant</td>
<td>4</td>
<td>3 times</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Dream Science Class</td>
<td>-</td>
<td>Teacher for a day</td>
<td>2</td>
<td>3 times</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td>6</td>
<td>6 times</td>
<td>37</td>
<td></td>
</tr>
</tbody>
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#### Cheongju

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<thead>
<tr>
<th>Category</th>
<th>Department in charge</th>
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<th>Frequency</th>
<th>Participants</th>
<th>Remarks</th>
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</thead>
<tbody>
<tr>
<td>External regular sponsorship</td>
<td>LinkerS</td>
<td>Employee item collection drive for Beautiful Store</td>
<td>4</td>
<td>12 times</td>
<td>371</td>
<td></td>
</tr>
<tr>
<td>Volunteer Day activities</td>
<td>-</td>
<td>Volunteer work to protect ivy plants</td>
<td>0.4</td>
<td>2 times</td>
<td>38</td>
<td>True Love 999</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td>4.7</td>
<td>14 times</td>
<td>99</td>
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### Participate in volunteer services and local communities

- **Anyang**: Participate in volunteer services and local communities.
- **Cheonan**: Participate in volunteer services and local communities.
- **Busan**: Participate in volunteer services and local communities.
- **Cheongju**: Participate in volunteer services and local communities.

### 2014 LSIS Sustainability Report

- **Regional Activities**: Participate in volunteer services and local communities.
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Increase shareholder and investor value with management integrity and transparent disclosure

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In 2015, we plan to diversify communication channels with our shareholders and investors in addition to continuous expansion of sustainability data disclosure. We will work to increase shareholder and investor trust by establishing a system to respond to international socially responsible investment (SRI) evaluations in 2016. Based on this, we will improve our stability with the goal of entering the global SRI indices.

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Management Innovation

Innovation Framework

‘3P Evolution’
Completing LSIS evolution by gaining the DNA for growth through innovation in 3Ps: Product, Process, People

Product
Process
People

DNA for Growth

R&D Innovation
Sales Innovation
Quality Innovation
Production Innovation
Management Innovation
Support Innovation

Smart World
Global Value

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 operational 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 (QC) 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 site efficiency activities. 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**

<table>
<thead>
<tr>
<th>Site Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Efficiency</td>
<td>78%</td>
<td>82%</td>
<td>85%</td>
</tr>
<tr>
<td>Participation rate</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>Rewards (KRW millions)</td>
<td>50</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>

**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 is rewarded through deliberations.

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2013*</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Suggestion</td>
<td>11,257</td>
<td>9,999</td>
<td>9,554</td>
</tr>
<tr>
<td>Performances</td>
<td>4**</td>
<td>3**</td>
<td>2**</td>
</tr>
<tr>
<td>Rewards (KRW millions)</td>
<td>45</td>
<td>56</td>
<td>57</td>
</tr>
</tbody>
</table>

* Performance in 2013 is 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 the head. 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.

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding Employee</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Rewards (KRW millions)</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

**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.

**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.

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total R&amp;D expenditure (KRW millions)</td>
<td>100,546</td>
<td>102,276</td>
<td>109,755</td>
</tr>
<tr>
<td>R&amp;D expenditure/sales</td>
<td>6.1%</td>
<td>5.8%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

**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.

**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 rewarded researchers with excellent accomplishments in fields such as research papers, patents, open culture, Partnership & Presentation, product development and technology research.

---

*Image 184x122 to 366x223*
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 electrical grid, which was dependent on foreign technology, can be operated and managed through a consolidated grid. This project means that Korea’s national grid, which was dependent on foreign technology, can be operated and managed through a consolidated grid. This project was completed in conjunction with various research institutes and 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 HEV system which is key to micro/mild HEV (Hybrid Electric Vehicles) 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 and exporting DMS (Distribution Management System) technology to the power distribution field. 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 LSIP 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 the top 100 global innovators which were named on the basis of IP index by Thomson Reuters. 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.
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.

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 these standards for all companies and affiliates. For overseas affiliates, these standards are applied in consideration of local laws.

Ethical Management Strategy
Establish and implement the Code of Ethics and Conduct
Develop and operate the Code of Ethics and Conduct
Educate and reinforce the Code of Ethics and Conduct
Promote ethical management culture

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.

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 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.

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 queries are handled by a separate Customer Service Center.

Adopt Cyber Report Follow-up System
To monitor the implementation of internal audit findings by each unit and department, we have been operating the Follow-up System since June 2014, which helps enhance employees’ implementation capacity and prevent recurrences 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 has 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.

Response Procedure to Infringement
Based on the 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.

Cyber Reporting System
Since April 2005, LSIS has been operating the Cyber Shinnungs, 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.
Ethical Management

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 conduct 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 G7T (Senior Value Together) program was implemented at the LS Group level to accelerate compliance changes and improvements in organizational culture. As part of this, online training on compliance for all employees was conducted. In 2015, plans 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 LSpartnership philosophy, and build consensus on the topic.

Compliance
Declaration on Compliance Management
Ethics and compliance are both core principles for all LS practices. Following the LS Group’s declaration to achieve Ethics and compliance are both core principles for all LS Group suppliers, 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 adjacent 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 2015, 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

Risk Management System
Our investments and projects are becoming larger as a result of 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 develop responses to individual risks. During emergency operations when company-wide risk exceeds the given limit, the CEO 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 response are reported to the 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 evaluations results to the BOD.

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.

Risk Management Categories
• External Risk
  ◦ Market impacts on business performance and sustainability caused by changes in the external environment
  ◦ Climate change, global value chain management, social issues, country risk, etc.
• Strategic Risk
  ◦ Workforce risk caused by troubles in running our strategies
  ◦ Development and investment in new businesses, R & D business portfolio, business alliances, etc.
• Operational Risk
  ◦ Business strategies in achieving business goals and operational efficiency caused by products, processes, systems, and employees, etc.
  ◦ Product development, purchasing, procurement, bidding risk, quality, IT environment and security, and management, personnel, information security, etc.
• Financial Risk
  ◦ Market impacts on assets, profit, and losses caused by changes in interest rates, exchange rates, etc.
  ◦ Risk material, credit risk, foreign exchange risk, liquidity risk, damage to assets, accounting corruption, tax risk, etc.
• Legal Risk
  ◦ Human rights, employee, and labor issues caused by the corruption with business partners, domestic and foreign legal and regulations
  ◦ Contract infringements, public/private trading, legal disputes related to employment and personal data, accidents
• Reputational Risk
  ◦ Market impacts on assets and losses caused by damage to the brand image or capital caused by negative media exposure, or unethical actions
  ◦ Damage to brand image and reputation, corporate image, stock price, etc., etc.
Sustainability Management Data_Financial

Operating Performances

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

(Unit: KRW in millions)

* Subsidiaries subject to consolidated reporting (reports produced only when the stock-listed company issues annual, quarterly, semi-annual reports)


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APPENDIX

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- UN Global Compact COP 87
- Independent Assurance Report 88
- Credits 90

---

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery equipment</td>
<td>200</td>
<td>341</td>
<td>411</td>
</tr>
<tr>
<td>Office equipment</td>
<td>70</td>
<td>165</td>
<td>165</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>598</td>
<td>2,777</td>
<td>3,297</td>
</tr>
</tbody>
</table>

(Unit: KRW in millions)

---

Back to Contents
## Environmental and Safety

### Environmental and Safety Investment

<table>
<thead>
<tr>
<th>Category</th>
<th>Unit 2012</th>
<th>Unit 2013</th>
<th>Unit 2014</th>
<th>Unit 2012</th>
<th>Unit 2013</th>
<th>Unit 2014</th>
<th>Unit 2012</th>
<th>Unit 2013</th>
<th>Unit 2014</th>
<th>Unit 2012</th>
<th>Unit 2013</th>
<th>Unit 2014</th>
<th>Unit 2012</th>
<th>Unit 2013</th>
<th>Unit 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental and Safety</td>
<td>5,360.3</td>
<td>6,234.7</td>
<td>4,210.0</td>
<td>10,840.0</td>
<td>4,677.1</td>
<td>2,273.7</td>
<td>1,305.8</td>
<td>1,368.0</td>
<td>1,788.0</td>
<td>2,617.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Process improvement

- NOx: 56.8
- SOx: 36.1

### Environmental and Safety Facilities Investment

- NOx in millions: 86.1
- SOx in millions: 40.7

### Environmental and Safety Facilities Investment

- NOx in millions: 86.1
- SOx in millions: 40.7

---

## Employees

### Indicator Category

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employees</td>
<td>employees</td>
<td>21</td>
<td>21</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Permanent staff</td>
<td>persons</td>
<td>3,192</td>
<td>3,153</td>
<td>3,150</td>
<td></td>
</tr>
<tr>
<td>Contracted staff (Full-time)</td>
<td>persons</td>
<td>206</td>
<td>235</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,398</td>
<td>3,388</td>
<td>3,390</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### By region

- Asia: 1,375
- Europe: 1,125
- America: 1,558

### By age (excluding executives and contracted staff)

- 25%: 444
- 35%: 476

### By gender

- Male: 1,487
- Female: 1,413

### By education and training expenditure per person KRW in millions

- 12.0
- 12.7
- 13.2

### By sex

- Female: 1,075
- Male: 1,880

### By location

- Anyang: 2,045,623
- Busan: 162
- Cheonan: 564
- Cheongju: 1,549

### By age

- 20's: 1,326
- 30's: 1,260
- 40's: 1,260

### By gender

- Female: 255
- Male: 1,125

### By location

- Anyang: 3,055
- Busan: 1,088
- Cheonan: 1,129

### By sex

- Female: 3.0
- Male: 3.0

### By age

- 25%: 24
- 35%: 16

### By gender

- Female: 21
- Male: 24

---

*As of December 31, 2014, LSIS consists of treatment and assembly and there are no NOx or SOx emissions.

1) Includes metals and waste paper. 2) Intensity: Emissions/Production Value. 3) Unable to calculate.
### Social Contribution Activities

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Category</th>
<th>Unit</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social contributions expenditure</td>
<td>KRW in millions</td>
<td>-</td>
<td>134</td>
<td>124</td>
<td>124</td>
</tr>
<tr>
<td>Social contribution activity participants</td>
<td>Tabulation of participants</td>
<td>persons</td>
<td>Not calculated</td>
<td>1,216</td>
<td>3,064</td>
</tr>
<tr>
<td>Social contribution activity hours</td>
<td>Paralegals/average activity hours/h</td>
<td>hours</td>
<td>Not calculated</td>
<td>0.386</td>
<td>1.143</td>
</tr>
</tbody>
</table>

#### Win-win Growth Status

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Category</th>
<th>Unit</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Win-win Growth Agreement signed</td>
<td>Agreements signed</td>
<td>firms</td>
<td>321</td>
<td>324</td>
<td>415</td>
<td>Survey of supplier companies</td>
</tr>
<tr>
<td>Funding support for the suppliers</td>
<td>KRW in billions</td>
<td>13.3</td>
<td>19.6</td>
<td>20.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social contribution activity participants</td>
<td></td>
<td></td>
<td>Not calculated</td>
<td>1,296</td>
<td>3,484</td>
<td></td>
</tr>
<tr>
<td>Social contribution activity hours</td>
<td>Participants x Average activity hours (5 hrs.)</td>
<td>hours</td>
<td>Not calculated</td>
<td>6,480</td>
<td>17,420</td>
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</table>

#### Violations

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

### Awards

<table>
<thead>
<tr>
<th>Category</th>
<th>Date</th>
<th>Award</th>
<th>Host/awarder</th>
<th>Area Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>2014.3</td>
<td>Good Place, 2014 Great Workplace Awards (3 years running)</td>
<td>Hankyung Magazine</td>
<td>Corporate culture (3rd)</td>
</tr>
<tr>
<td></td>
<td>2014.6</td>
<td>Korea’s Top 100 Best Managed Companies</td>
<td>Asia’s Best Managed Company</td>
<td>5th</td>
</tr>
<tr>
<td></td>
<td>2014.6</td>
<td>Korea Best Enterprise (Power and electricians segment)</td>
<td>Korea CEO Association</td>
<td>Management Excellence (1st)</td>
</tr>
<tr>
<td></td>
<td>2014.6</td>
<td>Korea Trust Awards Good Place</td>
<td>KORAS</td>
<td>Manufacturing segment (1st)</td>
</tr>
<tr>
<td></td>
<td>2014.11</td>
<td>Top 100 Global Innovator</td>
<td>Thomson Reuters</td>
<td>Excellence in Innovation (5th)</td>
</tr>
<tr>
<td>Individual</td>
<td>2014.3</td>
<td>2014 Korea Global Leader</td>
<td>MarkMy</td>
<td>Global Future Technology Category (Vice president Ja-gyun Koo)</td>
</tr>
<tr>
<td></td>
<td>2014.4</td>
<td>2014 Creative Management for National Prestige</td>
<td>JoongAng Media Network</td>
<td>Management Excellence (Vice president Ja-gyun Koo)</td>
</tr>
<tr>
<td></td>
<td>2014.5</td>
<td>Award of Merit, Environment Day</td>
<td>Korea Invention Promotion Association/Ministry of Trade, Industry and Energy, Korea Intellectual Property Office</td>
<td>Environment Award (Gold)</td>
</tr>
<tr>
<td></td>
<td>2014.5</td>
<td>Award of Merit, Environment Day</td>
<td>Korea Invention Promotion Association/Ministry of Trade, Industry and Energy, Korea Intellectual Property Office</td>
<td>Environment Award (Gold)</td>
</tr>
<tr>
<td></td>
<td>2014.5</td>
<td>Chungbuk Quality Competition Exhibit</td>
<td>Korea Standards Association</td>
<td>Korea Standards Association/Certificate of Recognition (Manager Han-in Soon)</td>
</tr>
<tr>
<td></td>
<td>2014.6</td>
<td>Award of Merit, Advancing Electrical Industry Culture</td>
<td>Korea Electric Association</td>
<td>President’s Award (Executive director Yong-sang Park)</td>
</tr>
<tr>
<td></td>
<td>2014.10</td>
<td>Award of Merit, Contributions to the Smart Grid Industry</td>
<td>Korea Smart Grid Association</td>
<td>President’s Award (Global Smart Grid Director)</td>
</tr>
<tr>
<td></td>
<td>2014.11</td>
<td>National Quality Awards</td>
<td>Korea Standards Association</td>
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### Memberships

- Federation of Korean Industries (FKI), Korea Safety Association, Korea Chamber of Commerce, Korea Customs Association, MEK, Korea Electrical Contractors Association, Korean Atomic Industrial Forum, Korea Electric Engineers Association, KOA
- Korea PROFIBUS Association, Korea Association of ESCO, Korea Information and Communication Contractors Association, KEI
GRI G4 (Core) Index

GENERAL STANDARD DISCLOSURES

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SPECIFIC STANDARD DISCLOSURES

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### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Compliance** | G4-EN24 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of advertising, promotion, and sponsorship, by type of outcomes | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Non-Humanitarian** | G4-EN27 Extent of impact mitigation of environmental impacts of products and services | N/A | 88~89 | N/A | Not applicable
| G4-EN28 Percentage of products sold and their packaging materials that are reclaimed by category | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Product Responsibility** | G4-EN30 Significant environmental impacts of transporting products and other goods to industrial parks and other locations of the organization's operations, and transporting members of the workforce | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Environment** | G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Labor** | G4-HR2 Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are applicable to the organization | N/A | 88~89 | N/A | Not applicable
| G4-HR3 Total number of incidents of discrimination and corrective actions taken | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Health and Safety** | G4-SO10 Significant actual and potential negative impacts on society in the supply chain and actions taken | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Governance** | G4-SO5 Confirmed incidents of corruption and actions taken | N/A | 88~89 | N/A | Not applicable
| G4-SO4 Communication and training on anti-corruption policies and procedures | N/A | 88~89 | N/A | Not applicable

### SPECIFIC STANDARD DISCLOSURES

#### Aspect | Indicator Description | Status | Page | Assurance | Remark
---|---|---|---|---|---
**Anti-Corruption principle 10** | Businesses should work against corruption in all its forms, including bribery and extortion | N/A | 88~89 | N/A | Not applicable
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 AA1000APS (2006) 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 collecting 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
This report was printed on environment-friendly paper using soy ink.

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