## overview

As globalization quickens, long-arm statute application of competition law is increasing. In order to ensure that the company continues to survive in this competitive business environment, products, services, and value in all areas must be provided to our customers through compliance activities. Furthermore, to fulfill company's social responsibilities and maintain a sustainable management system that customers can trust, it is necessary to extend compliance activities to all aspects of our business. In 2014, LG Chem increased employees' awareness on compliance by offering compliance education and drew interest through publication of a Compliance Newsletter. The main focus of compliance activity was to identify potential legal risks in Advanced Automotive Battery Division's procurement process and Battery Division's quality control process. Also, the risks associated with collecting competitors' information was inspected to prevent cartel activity. In 2015, there will be continued efforts to minimize legal risks related to subcontractor contracts, as well as extension of compliance programs to Chinese subsidiaries.

# Accomplishments

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# Procurement Process for Automotive Batteries

Automotive battery suppliers like LG Chem have many obligations including long-term supply contracts, quality assurances, product liability, recalls, and other legal liabilities. Ideally, the risks arising from these obligations should be shared between the companies that form the

supply chain as a whole. Since July 2014, the Advanced Automotive Battery Division's legal risks in the procurement process and management status were inspected. The result of these inspections revealed two main areas for improvements. First, purchase contracts with suppliers needed to be revised to add more detailed provisions of supply obligations and IP warranty/rights. Second, roles and responsibilities of departments needed to be realigned to enhance internal communication between departments. To improve the procurement process in 2015, a standard purchase contract for automotive batteries will be drafted, and contracts with suppliers will be negotiated accordingly.



# Claim Handling Process

There has recently been an increase in damage claims by LG Chem to suppliers for faulty products. Accordingly, the Compliance Team analyzed the Battery Division's quality management process, identified potential risks of each step, inspected management status, and ultimately offered countermeasures for process improvement.

Specifically, the "Battery Supplier Quality Requirements" was modified and constructed to produce an effective quality control process. Causes of problems were identified, damage compensation ranges were determined, and reasonable criteria for claims approval and processing were established. Based on these established criteria and procedures, a standard "Quality Claims Compensation Agreement" will be drafted in 2015.



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## Internal Monitoring for Cartel Activities

Due to recent international cartel regulation, there has been an increase in the mutual assistance between competition authorities of different countries, which has in turn increased the importance of cartel prevention. In particular, cartel regulations have expanded the scope of information collection between competitors and there is a risk that even an exchange of information unrelated to price with competitors may be considered cartel activity, which makes it critical to offer internal guidelines for contacting competitors. To correspond to this necessity, in 2013, a "Cartel Prevention Handbook" was published to educate and provide employees with a practical action guideline when attending a conferences or forums, and in 2014, internal monitoring was conducted to inspect for any potential risk for cartel activity.

In regards to internal monitoring, key personnel of sales/marketing teams were selected and their emails with attached documents were carefully inspected for any potential cartel risks. As a result, no data anomalies or any suspicious cartel activity was found.

Continuous internal monitoring for cartel activity will take place, and this type of internal monitoring will develop awareness among employees and effectively prevent cartel activity. In addition, our business departments have been legally collecting competitors' information to avoid cartel risks.

# Compliance Newsletter

As LG Chem's business has expanded, there are new regulations that the company and its employees need to comply with. Also, there are existing laws that have been amended and/or have changed their scope.

Thus, it is important for employees to understand the various domestic and international regulations, and providing assistance for possible regulatory risks is an important part of compliance activities. For this reason, in April 2014, the Compliance Newsletter was launched with the purpose to inform employees about new regulations relating to LG Chem's business and the workplace.

The Compliance Newsletter has received much recognition by employees for explaining complex

topics in simple and easy to understand language. Also, beyond delivering a rudimentary knowledge of regulations, it gives information on risk analysis and business impact to LG Chem, as well as offering viable countermeasure options.

From April 2014 to December 2014, there have been 9 editions of the Compliance Newsletter, with further publications to continue in 2015.



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Edition	Issue	Subject	
1	April 2014	Foreign Corrupt Practices Act (FCPA)	
2	May 2014	Electronic Industry Code of Conduct (EICC)	
3	June 2014	Conflict Minerals Regulation	
4	July 2014	Corporate Safety and Responsibility for Subcontractor	
5	August 2014	Antitrust, anti-corruption Regulations in China	
6	September 2014	Privacy Act	
7	October 2014	Corporate Social Responsibility (CSR)	
8	November 2014	Regulatory Requirements for Suppliers	
9	December 2014	EU Reg. 10/2011 Plastics Implementing Measure	

## **Compliance Education**

In 2014, the Compliance Team has focused on designing and structuring LG Chem's compliance program. We have added basic compliance education to the already-existing 2nd Year Assistant Manager Training Program to provide regular education of basic compliance risks.

Then, at the Leadership Training Program, Team Leaders are educated on 'Information Related Compliance Issues' for higher understanding of cartel issues and infringement of trade secrets. Furthermore, in order to disseminate subcontract management guidelines to all operating sites, in 2013, the Compliance Team visited 6 sites (Daejeon, Pajoo, Iksam, Yeosu, Chengju and Ochang) and held on-site educational conferences. Taking into account discussions and questions raised during these conferences, the Compliance Team additionally offered detailed supplemental guidelines on work direction, cost decision-making, and safety/environment training to increase work efficiency and minimize legal risks related to management of subcontractors.

In 2014, the Compliance Team extended compliance education to overseas subsidiaries. To increase awareness of regulation risks that can occur in overseas subsidiaries, we have provided education to expatriates on ever-changing cartel and anti-corruption regulations of different countries. Furthermore, at LGCCI, China, we have provided compliance education to local employees on cartel and anti-corruption regulations. In October 2014, the Compliance Officer gave a lecture on main issues that were raised in the Compliance Newsletters to emphasize the importance of compliance and draw company-wide interest to compliance activities.

Category	Program	Торіс	Times	Attendance
Theme	Subcontract Guideline Conference	Subcontract management	7	275
Regular	2 <sup>nd</sup> year assistant manager education	Basic compliance education	7	412
	Marketing/Sales Positions Understanding of international contracts and practical education	Compliance related clauses in contracts	1	37
	Lecture	Compliance Newsletter	1	380
Theme	New Team Leader Training	Information related Compliance Issue	3	73
	Leadership Enhancement Training	Information related Compliance Issue	7	381
	Overseas Subsidiary Expatriate Training	China Subsidiaries Compliance Issue	5	134
	Overseas President Training, Overseas Department Leader Pool Training	Overseas Subsidiaries Compliance Issue	2	11
Total	-	-	33	1,734

---- Compliance Education in 2014 (2014.1 ~ 2014.12)

## Activity Plan for 2015

## Extension of Compliance Activities to Overseas

### Continuance of Compliance Activities and Furtherance of Education

### Compliance Risk Analysis in China

Due to Chinese Antitrust Authority's strengthening of regulations on cartel and anti-corruption, and implementation of reinforced environmental law in 2015, compliance risk in China is increasing drastically. Consequently, as a countermeasure, the Compliance Team is planning to research and analyze potential compliance risks of Chinese subsidiaries and provide practical solutions. Preemptive risk management like this will contribute to secure competitiveness and operate the company in a stable manner.

#### Cartel Monitoring of Overseas Subsidiaries

The Compliance Team is planning to extend its domestic internal cartel monitoring to LG Chem's overseas subsidiaries. By simultaneously conducting cartel monitoring and cartel prevention education programs, we hope to increase employees' awareness of cartel activity, understand the way subsidiaries collect competitors' information, and ultimately be able to detect cartel risks in advance.

Extension of Procurement Process Improvement

The Compliance Team is also planning to extend its procurement process improvement activity that has been conducted for Advanced Automotive Battery Division to Basic Materials & Chemicals as well as IT&E Materials divisions. By considering product characteristics and transaction types of each division, we will evaluate legal risks that can occur in the supply chain and offer practical solutions.

#### Designing/ Promoting Compliance Education

The Compliance Team will continue to operate job position-based compliance education on a regular basis and at the same time, extend the education program to overseas employees. Furthermore, by diversifying education methods and subjects, the Compliance Team will continue to share compliance issues and alert employees of potential legal risks through publication of its Compliance Newsletter in 2015.

Only achievements earned through compliance is meaningful. To sustain growth and maintain competitiveness, LG Chem will be active with its compliance program and become a leading global company that customers can trust.

