

2015 Compliance Activity Report

Overview

Recently, business environments are changing due to long-arm statute application of competition law, expansion of anti-corruption regulations such as FCPA, and strict penalty for violation of compliance. In order to ensure that the company continues to survive in this competitive business environments, products and services in all areas must be provided to customers through compliance activities. Employees shall understand their own effort and attention to compliance are core for the sustainable management.

In 2015, LG Chem increased employees' awareness on compliance by offering compliance education to the Chinese subsidiaries and drew interest through publication of a Compliance Newsletter. Additionally, In-house Subcontracting TF has been organized through the cooperation with relative teams to investigate the on-site in-house subcontracting status and various follow-ups are in progress through interview with the site manager.

In 2016, there will be continued efforts to enforce the compliance program, such as establishment of online compliance education system to educate the employees; publishing of guideline regarding the anti-corruption regulations; and active reaction to the inquiries of the compliance.

Accomplishments

1 TF Activities for In-house Subcontracting

After the judgment in 2014 which concluded that all of the in-house subcontracting at Hyundai Motor was illegal, issues regarding the disguised subcontract and illegal dispatch are increasing. LG Chem was required to react in advance to the risk, since LG Chem have substantial number of subcontractors in the sites. With cooperation of Accounting Management Team and HR Planning Team, management status of the sites were inspected from March to May. Risk factors in the sites were also inspected through interview with the site manager. Results of site inspection were reported to the executives and various follow-up measures are in progress by HR Planning Team.

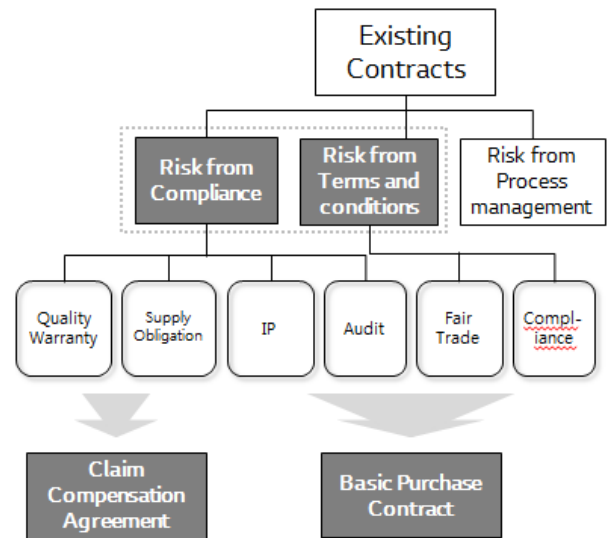


New In-house Subcontracting Guideline will be published in 2016 based on the inspection results, reflecting actual requirements and needs. Legal inquiries from employees related to in-house subcontracting will be actively replied to support legal subcontracting management in sites.

2 Minimizing Compliance Risk through Standard Contract

Due to recent expansion of business area of LG Chem such as battery and IT&E Materials, legal risk related to procurement is also increased. Especially, existing contracts stated LG Chem's contractual and legal liability to customers for long term supply obligation, quality warranty and recall; but ① supplier's liability in contracts between LG Chem and supplier was insufficient, different from that of LG Chem and customer; ② there was no clause on the contract regarding determination of liability and detailed standard of compensation for damages due to reasons attributable to the supplier.

Therefore, we reviewed existing purchase contracts and added quality warranty, IP, audit and compliance clauses to the contracts to minimize the compliance risk arising from supplier. Additionally, claim compensation agreement reflecting interests between LG Chem and supplier has been newly made with process to confirm the defects and standard for compensation as a reasonable standard to resolve disputes arising from damages attributable to supplier.



These contracts will be used through Open Procurement System newly made by Procurement TF from 2016.

3 Investigation and Report for Compliance Regulations and Issues

In 2015, there were various inquiries regarding compliance such as in-house subcontracting, fair trade law, subcontracting law and legality of business operation. We figured out legal issues through active communication with various departments and provided guides for such risks after detailed review on the legal issues.

Also, reports for new anti-corruption law and safety & environment law were made with detailed contents of the regulations, impact on LG Chem and reaction plan. Changes on government regulation trend were shared to the employees with format of reports or newsletters.

In 2016, we will make our best effort to minimize compliance risk by means of prompt reply to inquiries regarding compliance, change of law and regulation trend. If required, we will not hesitate to cooperate with relative teams to maximize the result.

Compliance Education

➤ Compliance education status in 2015 (2015.1~2015.12)

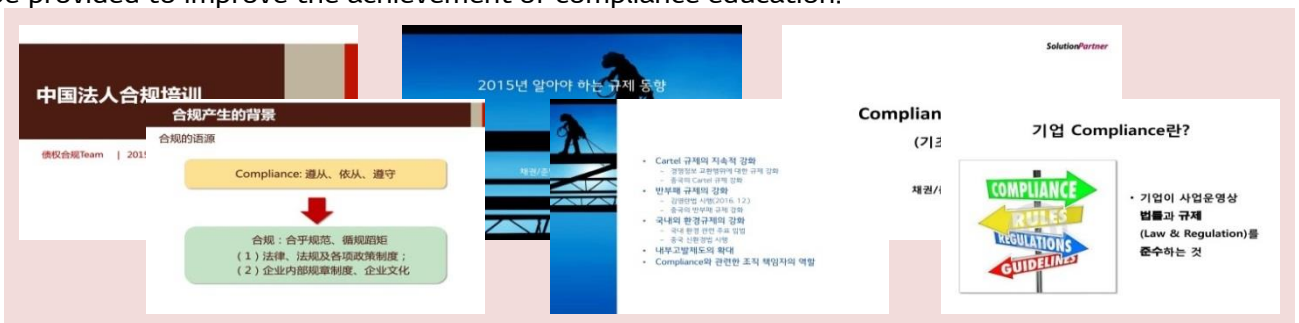
Category	Program	Topic	Times	Attendance
Regular	Chinese subsidiaries local employee education	Chinese Compliance Issue	4	934
	Basic Materials & Chemicals Sales Positions education	Basic Compliance Education	2	94
Theme	Understanding of International contracts and practical education	How to Prevent Cartel	1	30
	Overseas Subsidiary Expatriate Training	Understanding of Overseas Compliance	1	10
	Overseas President / Department Leader Training	Understanding of Overseas Compliance	1	5
Total	-	-	9	1,073

In 2015, the Compliance Team has focused on educations for overseas subsidiaries employees. We have made the education videos for 4 themes, and during 2015.9~12, the videos were provided on the separate homepage by means of online lecture. Total 934 of local employees in the Chinese subsidiaries were educated. We also have heard the satisfaction level and required improvements to make better overseas subsidiaries education.

Basic compliance education to the employees on sales position in Basic Materials & Chemicals was provided, and overseas compliance issues topic education was held to the overseas employees.

Prepare to importance of the compliance education, actual compliance education activities have difficulties such as rack of capacity, limitation on the maximum person in each class, and so on. Therefore, we will establish online compliance education system in cooperation with LG Academy in 2016. The lecture will be in format of animation video with major topics in compliance. The online compliance education will be opened company-wide to the whole employees once in a year. It is expected the education system will be significantly improved since understanding level of the lecture and opinions for improvement will be reflected to the education system.

Also, offline lectures regarding the compliance issue and changes in relative laws and regulations will be provided to improve the achievement of compliance education.



Compliance Newsletter

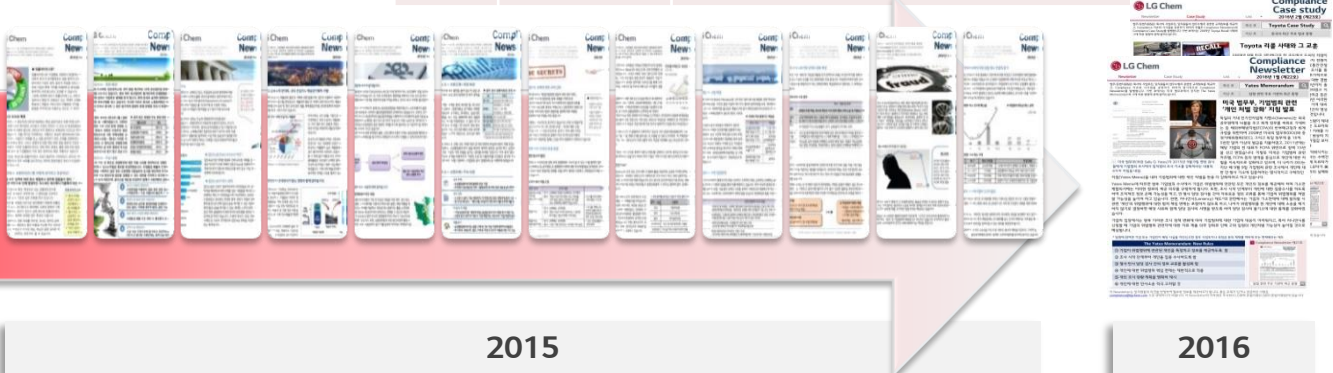
Compliance program is now not a recommendation but an obligation to corporation to comply with global business trend. There are new laws and regulations which corporation and its employees shall comply, existing laws and regulations are amended or expanded in its interpretation and application. Moreover, punishment has been strengthened according to the compliance regulations and impact on the corporation has become significant. Now compliance is important part of corporate operation.

In 2015, monthly Compliance Newsletter has been issued at the first week of each month, to investigate the major regulations related to the corporation and employees, and to share the reaction strategy. The subject for the Compliance Newsletter as follows:

We provided not only simple knowledge and explanation but also effective reaction plan through analysis of impact to the corporation. It is one of an important part of compliance activity for employees to understand the various domestic and international regulations and possible regulatory risks.

➤ Publication History of Compliance Newsletter (2015.1 ~ 2015.12)

No.	Issue	Subject
1	2015. 1	Understanding Compliance
2	2015. 2	Chinese Environment Protection Law
3	2015. 3	U.S. Class Action
4	2015. 4	Emissions Trading
5	2015. 5	U.S. Unfair Competition Act
6	2015. 6	Chinese public information filing ordinance
7	2015. 7	Regulations on the theft of trade secrets by foreign corporation
8	2015. 8	Whistleblowing
9	2015. 9	Environmental Compensation Law
10	2015. 10	Regulation trends on Unfair internal transactions
11	2015. 11	Corporate crime and Compliance
12	2015. 12	Recent trend of major Cartel related organizations



We are planning to provide both Newsletter and Case Study, to approach in detailed and various way in compliance issue and current status.

Activity Plan for 2016

- **Establishment of Online Compliance Education System**
- **Build-up of Compliance Education for Overseas Subsidiaries**

There were issues such as limitation on the maximum person in each class and inconsistent educational effect based on capability of lecturer on existing offline education targeting specific employees. In 2016, we will establish online compliance education system for company-wide employee. The lecture will use animation for each topics to increase the communication effect of education. It will be provided to the whole employees to expand the result of the education.

In second half of 2016, the lectures will be translated to be provided to the major overseas subsidiaries such as China, U.S., and the compliance risk of overseas subsidiaries will be investigated and compliance risk pool will be completed in accordance with the local characteristics.

Also, guideline booklet will be published to introduce Kim Yeong-Ran law which will be enforced in Sep 2016 in Korea, expanded application of U.S. FCPA, and amendment of Anti-corruption law in China. In-house subcontracting guideline, which was published in 2014, will be amended to strengthen the in-house subcontracting education. Continue to 2015, we will react actively to inquires related to the compliance issue, to conduct close communication with employees.

Establishment of Online Compliance Education System

- **Establishment of Compliance Education System with Animation to provide annual obligatory company-wide compliance education**
 - Topic: Cartel, Trade Secret, Subcontracting, Unfair Competition (Software), Anti-corruption, Specification & Product Safety
 - Plan: Contents structure in April with cooperation with external contractor; Lectures open in June

Reinforcement of Overseas Subsidiaries

- **Reinforce the Compliance Education in Overseas Subsidiaries such as China, U.S.**
 - Translation of Online Compliance Education System to be provided to the Overseas Subsidiaries
 - Investigation on Compliance Risk Pool of Overseas Subsidiaries and Establishment of Reaction Plan

Publishing of Compliance Guideline

- **Publishing the Guideline Booklet regarding major Laws and Regulations related to Compliance Issue and Reaction Plan**
 - Guideline and Lecture for the Kim Yeong Ran Law enforced in Sep 2016
 - Amendment and Re-publishing of In-house Subcontracting Guideline published in 2014

Compliance Management will be accomplished by employees' effort and attention, not by compliance part alone. To sustain growth and maintain competitiveness, please keep attention to the compliance management in 2016.