BEAUTIFUL
HEALTHY
REFRESHING
for people and the planet
About this Report

Report Overview
LG H&H has shared its sustainability management activities on an annual basis through its CSR Report since 2010, and this report is the 9th CSR Report. The CSR Report is used as a communication channel that transparently discloses the company’s performance and reflects stakeholders’ opinions on business activities.

Scope
The reporting period of this Report is from January 1 to December 31, 2017, and it partially contains data pertaining to the last three years to compare changes in trends. Certain data from 2018 is included, depending on its importance. The scope of this report encompasses the headquarters of LG H&H and its domestic and overseas subsidiaries, including Coca-Cola Beverage, HAITAI htb, and THEFACESHOP. We noted if the scope of certain data is different.

Standard and Principle
This Report was developed based on the Global Reporting Initiative (GRI) Standards. The SASB Standard, the Ten Principles of UNGC, and the UN SDGs were also considered.

Assurance
The objectivity and accuracy of the content, data, and standards of the Report were verified by an independent assurance agency, Korean Management Registrar (KMR), in accordance with the agency’s verification protocol based on the three principles (comprehensiveness, materiality, and responsiveness) of AA1000AS (2008). The assurance report can be found on pp. 98-99.

Inquiries
LG H&H CSR Team, 12F LG Gwanghwamun Bldg., 58 Saemunan-ro, Jongno-gu, Seoul, Korea
Website www.lgcare.com
E-mail lgcsr@lgcare.com

2017
LG HOUSEHOLD & HEALTH CARE CSR REPORT

Overview
CEO Message 03
Company Overview 04
Business Overview 06
Economic Value Creation 12

Focus Issues & Business Cases
16 Expanding to the Global Market
20 Strengthening Product Safety
28 Developing Products with Social Value

Sustainable Management
Expanding to the Global Market 16.p
Strengthening Product Safety 20.p
Developing Products with Social Value 28.p

Governance
GRI Index 95
UNGC & SASB 93
Independent Assurance Statement 98
GHG Emission Verification Statement 100

Appendix
Economic Performance 88
Environmental Performance 90
Social Performance 92
Supplier Code of Conduct 104

FOCUS ISSUES & BUSINESS CASES
Expanding to the Global Market
Strengthening Product Safety
Developing Products with Social Value
CEO Message

First, LG H&H will grow into a leading global company in Asia beyond Korea.

We will reinforce our crisis-resistant design to keep our business sound and stable, regardless of any changes in the external environment. LG H&H will promote the growth of luxury brands and build stronger competitiveness for premium brands in the cosmetic business division. We will also strengthen our overseas business with distinctive new products in the household goods business division, as well as boost our mineral water business in the beverage business division. We will continue to develop new business items to lay the groundwork to become a leading consumer goods company in Asia, going beyond the No. 1 position in Korea.

Second, we will build a sound foundation to win the trust of consumers and the community.

We will identify issues associated with quality, safety, the environment, and compliance that threaten stable business operation and take preemptive measures to remove factors that may have negative impact on our business performance and brand values. When it comes to major social issues related to quality, safety and the environment, we will build sufficient capacity with a standard that is stricter than the laws and regulations so that we can earn consumers’ trust. We will also check and improve our progress in this area with thorough methods. Through such efforts, we will become a reliable company that enjoys the trust of consumers and the community.

Third, we will innovate our capacity in manufacturing and R&D.

We need a production system that maximizes manufacturing productivity and flexibly responds to changes in the paradigm, particularly those that will accompany the Fourth Industrial Revolution. Our new cosmetics manufacturing plant is under construction and is slated to be completed by the end of 2019. It will be established as a “smart factory” with manufacturing capacity that can keep up with industrial and technological changes. Focusing on the LG Science Park, we will combine a wide range of technologies owned by LG’s subsidiaries to create synergy, as well as accelerate the development of products with core technologies for the future.

There is a Chinese idiom, “行百里者 半九十里,” meaning that ninety li (unit of length) is only half of a hundred-li journey. Keeping this idiom in mind, we will move forward step by step with honesty and humility. We sought to provide the data about our activities and performance of sustainability management achieved together with customers, suppliers, local communities, and employees in a transparent way in our 9th CSR Report.

As a global leader in sustainability management, LG H&H will continue to make efforts to observe the UNGC’s Ten Principles and fulfill its social responsibility and roles to help create a better future.

Your continued loyalty and support is greatly appreciated.

Thank you.

Greetings to our valued stakeholders,

I would like to express my sincere gratitude for your loyalty to LG H&H as well as your ongoing support.

2017 was the most challenging year for LG H&H with the business environment taking a sudden turn for the worse after the THAAD deployment issue, which affected the overall cosmetic and household goods industries. While other companies suffered a decrease in sales due to such an unfavorable business environment, LG H&H promoted distinctive premium cosmetic brands such as The History of Whoo and Su:m37° and proactively developed its business in China, achieving a remarkable year-on-year growth and outstanding performance compared to rival companies. 2018 is expected to be another challenging year full of variables, including a slowdown of the economic growth in China, uncertainties in the domestic economy, strengthened protectionism in many countries, and the ever-changing political mood between the two Koreas. We will be dedicated to leading the market in 2018 with a focus on the following core challenges, thereby turning our achievements into a foundation for sustainable growth.
Since its foundation in 1947, LG H&H has permeated every aspect of daily life, helping its customers live beautiful, healthy, and refreshing lives. Based in our Gwanghwamun Headquarters in Seoul, Korea, as well as our subsidiaries in China, Japan, Vietnam, Taiwan, the United States, and Canada, we strive to provide better products and services as we build a special relationship with our customers.

**Company Overview**

Since its foundation in 1947, LG H&H has permeated every aspect of daily life, helping its customers live beautiful, healthy, and refreshing lives. Based in our Gwanghwamun Headquarters in Seoul, Korea, as well as our subsidiaries in China, Japan, Vietnam, Taiwan, the United States, and Canada, we strive to provide better products and services as we build a special relationship with our customers.

**Company Profile**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>LG Household &amp; Health Care Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>LG Gwanghwamun Building, 5F, Saemunan-ro, Jongno-gu, Seoul, South Korea</td>
</tr>
<tr>
<td>Foundation</td>
<td>January 1947</td>
</tr>
<tr>
<td>CEO</td>
<td>Suk Cha</td>
</tr>
<tr>
<td>Business Type</td>
<td>Cosmetics, household goods, beverages</td>
</tr>
<tr>
<td>No. of Employees*</td>
<td>10,580 (including 2,649 local employees at overseas subsidiaries)</td>
</tr>
<tr>
<td>Total Assets</td>
<td>KRW 4,778 billion</td>
</tr>
<tr>
<td>Total Capital</td>
<td>KRW 3,082.6 billion</td>
</tr>
<tr>
<td>Sales</td>
<td>KRW 2,718.5 billion</td>
</tr>
<tr>
<td>Operating Profits</td>
<td>KRW 330.3 billion</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>AA+ rated by NICE, Korea Investors Service, and Korea Ratings (LG H&amp;H separate)</td>
</tr>
</tbody>
</table>

* Employees of LG H&H, Coca-Cola Beverage, HAITAI htb, and THEFACESHOP and regular employees at overseas subsidiaries

**Debt Ratio**

(As of the end of 2017)

<table>
<thead>
<tr>
<th>Year-on-year rate</th>
<th>16.8% ↓</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>132.8 %</td>
</tr>
<tr>
<td>2014</td>
<td>124.1 %</td>
</tr>
<tr>
<td>2015</td>
<td>99.2 %</td>
</tr>
<tr>
<td>2016</td>
<td>71.8 %</td>
</tr>
<tr>
<td>2017</td>
<td>55.0 %</td>
</tr>
</tbody>
</table>

**Sales**

(Unit: KRW 100 million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>10,392</td>
<td>11,015</td>
<td>17,080</td>
<td>19,677</td>
<td>22,165</td>
<td>28,265</td>
<td>34,561</td>
<td>38,962</td>
<td>43,263</td>
<td>46,770</td>
<td>53,285</td>
<td>60,941</td>
<td>62,705</td>
</tr>
</tbody>
</table>

**Operating Profits**

(Unit: KRW 100 million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>717</td>
<td>969</td>
<td>1,175</td>
<td>1,827</td>
<td>2,281</td>
<td>3,468</td>
<td>3,702</td>
<td>4,455</td>
<td>4,964</td>
<td>5,110</td>
<td>6,841</td>
<td>8,809</td>
<td>9,303</td>
</tr>
</tbody>
</table>
To move one step closer to our goal of becoming one of the top five cosmetics companies in Asia by 2020, we will accelerate the expansion of our business to the global market, starting by securing a bridgehead to China and the rest of Asia. To build our reputation as a truly global company, we will develop world-class brands with high-quality products to strengthen our luxury brand name and realize healthy beauty.

**Beautiful Division**

**Beautiful**

To move one step closer to our goal of becoming one of the top five cosmetics companies in Asia by 2020, we will accelerate the expansion of our business to the global market, starting by securing a bridgehead to China and the rest of Asia. To build our reputation as a truly global company, we will develop world-class brands with high-quality products to strengthen our luxury brand name and realize healthy beauty.

**The History of Whoo**

1. Ranked first in the domestic anti-wrinkle functional essence category for seven consecutive years
2. Ranked first in the nourishing cream category in the Korea-China Management Awards for three consecutive years

**Belif**

1. Ranked first in the moisturizing cream category for two consecutive years

**O HUI**

Survey of flight attendants
Target product: O HUI Prime Advancer Ampoule Serum
Respondents: 50 current flight attendants of Asiana Airlines
Research firm: SeoWoo&Company
Period: November 2017

**Sum37°**

Ranked first in the category of Korean premium skin care brands most loved by Chinese consumers for two consecutive years

**Live your dream, change your life**

High-functional cosmetic brand with the wisdom of natural fermentation that revitalizes your skin

96%

Survey of flight attendants
Target product: O HUI Prime Advancer Ampoule Serum
Respondents: 50 current flight attendants of Asiana Airlines
Research firm: SeoWoo&Company
Period: November 2017

*The data for 2015 was reorganized due to the modified classification of business divisions.*
Healthy Division

Healthy

We will continue to reinforce our growth engines by creating new values in the household goods division with products loved and trusted by customers and entering the rapidly-growing healthy supplement market. We will raise our safety standards for all products and explore natural ingredients to develop premium brands, thereby making safer products that consumers can use without any worries.

ON:THE BODY

- Ranked first in the category of Chinese consumers' favorite premium body wash brands for two consecutive years.

PERIO

- Ranked first 27 times.

Elastine

- Ranked first for 14 consecutive years.

For your healthy life

- TECH
- Perio
- Elastine

Sales and Operating Profits

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (KRW 100 million)</th>
<th>Operating Profits (KRW 100 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>15,132</td>
<td>1,714</td>
</tr>
<tr>
<td>2016</td>
<td>15,945</td>
<td>1,869</td>
</tr>
<tr>
<td>2015</td>
<td>15,804</td>
<td>1,670</td>
</tr>
</tbody>
</table>

*The data for 2015 was reorganized due to the modified classification of business divisions.
The Refreshing Division has launched various products through Coca-Cola Beverage, which produces and sells products featuring unique, refreshing flavors in Korea, and HAITAI htb, a beverage company that manufactures products such as Sunkist and Sunny10. We have entered the rapidly-expanding functional beverage and dairy product markets to provide a wide range of products that satisfy the needs of consumers.

**REFRESHING DIVISION**

**Refreshing**

The Refreshing Division has launched various products through Coca-Cola Beverage, which produces and sells products featuring unique, refreshing flavors in Korea, and HAITAI htb, a beverage company that manufactures products such as Sunkist and Sunny10. We have entered the rapidly-expanding functional beverage and dairy product markets to provide a wide range of products that satisfy the needs of consumers.

**GangWon PyeongChangSoo**

- 2018 OLYMPIC
- Official mineral water of the 2018 PyeongChang Winter Olympics

**Coca-Cola**

- Sparkling/Coke category; survey data from Nielsen; as of 2017
- Ranked first in the global market

**Guronsan**

- Since 1963
- Global brand that sells over 1 billion glasses a day

**For your refreshing life**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Unit: KRW 100 million)</th>
<th>Operating Profits (Unit: KRW 100 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>13,440</td>
<td>1,159</td>
</tr>
<tr>
<td>2016</td>
<td>13,789</td>
<td>1,272</td>
</tr>
<tr>
<td>2017</td>
<td>12,824</td>
<td>1,083</td>
</tr>
</tbody>
</table>

**Overview**

<table>
<thead>
<tr>
<th>Sales</th>
<th>Operating Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>13,440 1,159</td>
</tr>
<tr>
<td>2016</td>
<td>13,789 1,272</td>
</tr>
<tr>
<td>2017</td>
<td>12,824 1,083</td>
</tr>
</tbody>
</table>
Economic Value Creation

Business Performance in 2017

We have a well-balanced business portfolio that is stably maintained, regardless of changes in the external environment. Since the THAAD issue that arose in March 2017, the political tension between Korea and China was heightened, leading to an unfavorable business environment due to the drop in the number of Chinese tourists, our major customer group for cosmetic products and household goods. Based on our sound business portfolio, however, we promoted our distinctive luxury brands, such as The History of Whoo and Su:m37°, and expanded our business in China, accomplishing KRW 6,270.5 billion in sales and KRW 930.3 billion in operating profits. In this way, we achieved significant year-on-year growth despite obstacles in the industrial environment.

Business Plans for 2018

Our business environment will not be positive in 2018 either, due to China’s slow economic growth, uncertainties in the domestic economy, and intensified protectionism around the world. LG H&H will strengthen its crisis-resistant business system so as not to be swayed by external factors. We will continue to lay the groundwork to expand outside of Korea and become a leading company in Asia.

Beautiful

Despite the drop in sales in duty-free shops due to the decreased number of Chinese tourists visiting Korea, our brand The History of Whoo proved its global competitiveness with its sales reaching KRW 1.4 trillion based on the continued demand in China. Su:m37° has cemented its position as an emerging luxury brand by releasing new high-priced products and entering the overseas market, thereby achieving KRW 400 billion in sales. In spite of the slump in the domestic market and intensified competition, LG H&H’s premium cosmetic brands are dedicated to overcoming the slowdown in the industry by redesigning their brand concepts, nurturing major lines, and increasing the efficiency of their stores.

Healthy

The Healthy Division has cemented its top position in the domestic market by launching distinctive products and constantly developing premium brands. Further, we have released premium care brands focusing on China, while commercializing the business under the newly-acquired brands TJI and REACH in Japan, thereby expanding our foundation in the overseas market. We are also exploring new business opportunities with growth potential, such as the pet care business, in response to growing interests and worries about chemical substances. We are focusing on developing eco-friendly products that consumers can use without any worries.

Refresh

Despite the trend of an aging population, the price hike of raw materials, and the slump in economic growth, our Refreshing Division has retained its reputation as the top company in the sparkling beverage market through the diverse marketing activities of Coca-Cola Beverage and Minute Maid Sparkling products. In the non-sparkling beverage market, we proactively promoted our hydrating beverage TORETA and released GEORGIA’s premium Cold Brew, strengthening our brand portfolio. We also obtained part of the selling rights of Jeju Samdasoo in the instant beverage market, expanding our foundation for the mineral water business.
Focus Issues & Business Cases
**EXPANDING TO THE GLOBAL MARKET**

**Management Approach**

**Background**

The overall industries are affected by the low growth trend due to the saturation in the domestic cosmetics and household goods market and the crisis in the Chinese market due to international political situations. Major companies do not perceive this trend in the market as a crisis, and rather make the best of their strengths to enter the overseas markets and pioneer emerging markets with their existing products. In particular, companies are focusing on improving the brand leadership and corporate reputation by spreading K-beauty and entering major global markets.

**Principle & Strategy**

LG H&H strives to upgrade its business structure so as not to be swayed by changes in the external business environment. Our cosmetics division strengthens its competitiveness of luxury brands, while our household goods division releases unique and distinctive products. The beverage division facilitates the new mineral water business, promoting continued growth to lay the groundwork for becoming a leading consumer goods company in Asia.

**Efforts to Enter the Major Overseas Markets**

Continued Expansion of Overseas Business

LG H&H operates business in China, Japan, Southeast Asia, and North America based on its competitiveness in the global market. Its portfolio has been strengthened by nurturing luxury brands targeting the Chinese market, and its subsidiary in Malaysia was established at the end of 2017, following those in Vietnam and Singapore and expanding the business in Southeast Asia. In addition, our global brand value is increasing by expanding the business in advanced countries, such as Japan and the United States. We set the ERP (Enterprise Resource Planning) in our subsidiaries and solidify the internal foundation for business by strengthening the management of relationship with customers and improving the training system in preparation for the future.

1. China

China is a target market with a huge growth potential, taking up the largest share in our overseas sales. We achieved remarkable growth in this market, making a great appeal to Chinese consumers, particularly with products from The History of Whoo. In 2017, we expanded our portfolio with the next-generation luxury brands such as Su:m37°, O HUI, JDL, and belif, and developed stronger competitiveness focusing on premium stores of these brands in large cities. In the household goods division, we are expanding the premium personal care product lines, including Bamboo Salt Toothpaste, ReEn Yungo, and ON:THE BODY. We are also nurturing online channels to allow as many customers as possible to meet our products in a broader range of regions. We opened flagship stores for ReEn Yungo, Bamboo Salt Toothpaste, and ON:THE BODY at an online shopping mall called TMall, becoming more competitive online and increasing synergy between our online and offline channels.

2. Japan

Japan has the third largest cosmetics market in the world following the United States and China, but it is very challenging for non-Japanese companies to enter this market. In this country, LG H&H has achieved continued growth in the healthy supplement business since 2013 by utilizing a mail-order method. In 2017, we facilitated our cosmetic business focusing on cushion products, and expanded the scope of business by acquiring Japanese household goods company T.J. (Toiletry Japan Inc.) and promoting oral care brand REACH. Our cushion products have been well-received by Japanese consumers for their outstanding quality and convenience that significantly shorten make-up application time. We are trying to lead the cushion product market in Japan by increasing our product line-up with a customized formula for customers.

3. Southeast Asia

Southeast Asia has all sorts of growth potential and is called the post-China region. We recently opened a subsidiary in Malaysia, following openings in Vietnam and Singapore, to strengthen our local marketing activities. The History of Whoo has been well established as a luxury brand in local top-class department stores in Taiwan and Vietnam, while expanding its scope of business as a premium brand in other neighboring countries such as Singapore, Malaysia, and Thailand. In 2017, we launched Su:m37° as a next-generation brand, increasing our local brand awareness. In the household goods market with a large share taken up by global brands, we are introducing premium brands considering local trends, such as Eklatine and ON:THE BODY, for continued growth.

4. North America

The United States has the largest cosmetics market across the globe. LG H&H strived to introduce its brands to Sephora, a major distributor in the country. We introduced our brands at 148 stores (as of 2016 based on the number of stands exclusively for our brands) and expanded to 207 stores in 2017. Moreover, we are expanding our business in the United States and Canada with a focus on Nature Collection, our nature-oriented cosmetics multi-shop. belif is one of the most popular brands of LG H&H in North America, which has increased its market awareness through SNS, sampling, and collaboration projects. We worked with a famous designer, Prabal Gurung, during New York Fashion Week to promote belif products, while attending the Generation Beauty Event twice in New York and LA to introduce our products and provide samples. We’re also expanding SNS marketing activities to increase the effect of brand promotion.
EXPANDING TO THE GLOBAL MARKET

Major Overseas Subsidiaries

Overseas Sales in the recent 3 years (Unit: KRW 100 million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Unit: KRW 100 million)</td>
<td>2,491</td>
<td>3,467</td>
<td>5,071</td>
</tr>
</tbody>
</table>

As of December 31, 2017

China

We will continue to strengthen our marketing and sales capacity and expand the portfolio of luxury cosmetics brands focusing on top-class premium stores in large cities to build local competitiveness. We also build online marketing channels to increase the synergy between online and offline channels.

Japan

In 2017, we expanded the cosmetic business with a focus on our cushion products, while cultivating the global brand REACH as a professional oral care brand, for which we acquired the business license from Johnson & Johnson.

Hong Kong

Focus Issues & Business Cases: Expanding to the Global Market

SOUTHEAST ASIA

We are expanding local marketing activities by opening a new subsidiary in Malaysia, following Vietnam and Singapore. We will solidify our luxury brand image and increase our brand awareness by launching new brands.

Southeast Asia

Focus Issues & Business Cases: Expanding to the Global Market

United States

We focus on promoting luxury brands through our nature-oriented cosmetics multi-shop Nature Collection, while proactively entering online and offline markets such as Sephora and Amazon.

Canada

We are enhancing the competitiveness of our retail business, a major business category of our subsidiary in Canada, through Nature Collection. We are strengthening the basis of our cosmetics business in North America by promoting brands such as THEFACESHOP, belif, and F&P.

Focus Issues & Business Cases: Expanding to the Global Market

Table:

Focus Issues & Business Cases: Expanding to the Global Market

Sales (Unit: KRW 100 million)

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Unit: KRW 100 million)</td>
<td>114</td>
<td>236</td>
<td>296</td>
</tr>
</tbody>
</table>

Focus Issues & Business Cases: Expanding to the Global Market

Sales (Unit: KRW 100 million)

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Unit: KRW 100 million)</td>
<td>189</td>
<td>314</td>
<td>372</td>
</tr>
</tbody>
</table>
02

STRENGTHENING PRODUCT SAFETY

Management Approach

Background

Global companies manage the safety of raw materials and the production process and also pay attention to harmful factors and safety issues that may arise while customers use their products. With growing concerns about the health and safety of customers, the requirements for raw materials and processes are growing stricter, while the consumption of products with high quality and safety standards has expanded. In this context, the stricter safety is an essential factor for consumer goods companies. Even a single mistake could critically impact the trust between a company and its customers.

Principle & Strategy

The cosmetics, beverage and household goods businesses directly affect the healthy life of customers. LG H&H has made full efforts to provide safe eco-friendly products with higher values by reducing chemical substances and increasing natural ones, thereby enabling customers to use safe products with better ingredients. We implement internal guidelines that are stricter than safety regulations and only release products that conform to such standards, pursuing our philosophy of developing safe products that our customers can use without any worries.

System to Ensure Greater Product Safety

Consumer Reassurance Center

In order to provide safe and reliable products, we opened the Consumer Reassurance Center that manages the safety level across all processes from product development to their use by customers. This Center deals with all affairs related to product safety, including quality issues and harmful substance management. After the establishment of the Center, we organized the system to redesign the work process and enhance the work capacity of employees, while implementing safety standards higher than relevant regulations and society’s expectations.

The Consumer Reassurance Center has selected six major safety categories and ensured safe design quality, defect-free production, fresh distribution, and convenience for customers. In addition, the Center examines and improves the quality assurance system across all processes to help consumers lead safer and happier lives.

Organizational Chart of the Consumer Reassurance Center

Quality and Harmful Substance Management Department
Safety Assessment Department
Purchasing Department
Packaging Department
Technical Support Team for Suppliers
CS Team

Operation of Safe Quality Certification System

We developed and have operated the Safe Quality Certification System to manage the quality level across the overall scope of business management, including domestic and overseas subsidiaries, in a comprehensive way. This system was first applied to our business site in Yeoju in 2017 as a pilot project, and is expected to be introduced across all business sites in 2018. In this system, the certification is classified into five levels (1 Crown to 5 Crown) depending on the score (safe practice, safe satisfaction, safe impression), and is granted to a production line that scores over 650.

Safe Quality Certification System

We set the Safe Quality Certification System to enable consumers to easily recognize the certification and manage the safety level within the company through a stringent and systematic method. This is LG H&H's own system that selects evaluation items with criteria stricter than relevant regulations from product development to their use by customers and applies that criteria to each product.

Safe Quality Certification System

- Set the standard work process for tasks and production line-related CTQs (Critical To Quality), CTPs (Critical To Process), and ANTs (Material, Machine, Method)
- Rate each of the production processes and provide the certification based on the quality management level assessment in accordance with the evaluation system reflecting regulations, certification criteria, and ethical standards
- Achieve GAP based on the quality management standards
- Come up with measures to overcome GAP issues
- Initiate tasks to overcome GAP issues

1) Factors that have a critical impact on quality
2) Management items of the process that decide the quality level
3) Factors that have a direct impact on quality

Focus Issues & Business Cases Strengthening Product Safety
**Product Life-Cycle Safety Management Process**

### Safety Quality Certification System

- **Safe Quality Certification**
  - Set the standard work process for tasks and production line related to 4M (Man, Material, Machine, Method)
  - Evaluate the objective indicators and outcome levels regarding the quality factors (COQ, and process) of the six categories

### Focus Issues & Business Cases

- **Strengthening Product Safety**
  - Evaluate new commodities
  - Purchase only products that pass the assessment for the Safe Quality Certification
  - Evaluate materials, and packaging materials to be purchased
  - Apply the contract of responsibility for hazardous substances
  - Inspect and check for hazardous substances
  - Establish the ethical advertisement declaration for labeling and advertising
  - Provide technical support and audit suppliers

### Inventory Management

- **Safe Quality Certification System**
  - Evaluate the quality level
  - Spread the quality assurance system

### Content assessment & regulation examination

- **Analyze hazardous substances in product content**
  - Examine the relevant laws and regulations
  - Analyze the harmful substances in raw materials
  - Analyze the hazardous substances in the product

- **Examine the relevant laws and regulations**
  - Act related to chemical substances, resource recycling, packaging methods, etc.
  - Analyze hazardous substances in raw materials

- **Conduct a progress test over a certain period of time**
  - Quality insurance acknowledged by consumers, selling after using products, etc.
  - Conduct a progress test over a certain period of time

### R&D

- **Receive customer feedback and design**
  - R&D Receive customer feedback and design

### Disposal

- **Quality test on warehoused/finished products**
  - Quality test on warehoused/finished products
  - Quality test on warehoused raw materials
  - Quality test on warehoused/finished products

### Beautiful & Healthy

- **Verify the compliance of regulations**
  - Verify the compliance of regulations
  - Verify the compliance of regulations

### Refreshing

- **Verify the compliance of regulations**
  - Verify the compliance of regulations
  - Verify the compliance of regulations

### Logistics

- **Conduct regular education programs for safety and fire prevention**
  - Conduc regular education programs for safety and fire prevention
  - Conduc regular education programs for safety and fire prevention

### Purchasing

- **Evaluate the objective indicators and outcome levels regarding the quality factors (COQ, and process) of the six categories**
  - Evaluate the objective indicators and outcome levels regarding the quality factors (COQ, and process) of the six categories

### Recycling

- **Conduct VOC quality management activities**
  - Conduc VOC quality management activities
  - Conduc VOC quality management activities

### Packaging assessment

- **Analyze hazardous substances in packaging**
  - Examine the relevant laws and regulations
  - Analyze hazardous substances in packaging
  - Analyze hazardous substances in packaging

- **Examine the relevant laws and regulations**
  - Act related to chemical substances, resource recycling, packaging methods, etc.
  - Analyze hazardous substances in raw materials

### Additional evaluation on the ingredients of controversial issues at home and abroad

- **Conduct risk assessment for human body**
  - Risk assessment on human body
  - Risk assessment on human body

### 1) Chemical substance management system

- **Reduce the unnecessary raw materials**
  - Reduce the unnecessary raw materials
  - Reduce the unnecessary raw materials

### 2) Additional evaluation on the ingredients of controversial issues at home and abroad

- **Conduct risk assessment for human body**
  - Risk assessment on human body
  - Risk assessment on human body

### Ingredient & constituent examination

- **Examine the relevant laws and regulations**
  - Act related to chemical substances, resource recycling, packaging methods, etc.
  - Analyze hazardous substances in raw materials

### Ingredient safety assessment

- **Analyze hazardous substances in raw materials**
  - Analyze hazardous substances in raw materials
  - Analyze hazardous substances in raw materials

### Disposal

- **Quality assurance acknowledged**
  - Quality assurance acknowledged
  - Quality assurance acknowledged

### Raw Material & Subsidiary Material

- **Procure the safety and usability of packaging**
  - Examine and check the safety of packaging
  - Analyze hazardous substances in packaging

### Production EGK, Q&OHMS

- **Provide technical support and audit suppliers**
  - Provide technical support and audit suppliers
  - Provide technical support and audit suppliers

### Ingredients & Products

- **Increasing BPA-free and non-chemical products**
  - Increasing BPA-free and non-chemical products
  - Increasing BPA-free and non-chemical products

### Safe Quality Certification System

- **Set the standard work process for tasks and production line related to 4M (Man, Material, Machine, Method)**
  - Set the standard work process for tasks and production line related to 4M (Man, Material, Machine, Method)
  - Set the standard work process for tasks and production line related to 4M (Man, Material, Machine, Method)
Products for Consumer Safety

Development of Guidelines for Safety of Products for Babies and Children

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

Development of Guidelines for Safety of Products for Babies and Children

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as saw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.
Solutions for each Type of Customers

**CASE: Genetic Information about Skin for Customized Skin Care Service**

We need to understand the genetic information related to beauty and health to develop safe and effective customized cosmetic products that reflect the characteristics of each type of skin as well as the current skin condition of customers. In December 2016, LG H&H started to cooperate with gene research company Macrogen to establish a venture called MiGen-story and has conducted a joint R&D project on the genetic traits associated with the characteristics of the skin of Korean people and causes of skin aging. This company, which combines the technological and marketing capacity of the two companies, provides a genetic test service to collect the largest scale of big data in the beauty and health sectors in Korea.

**CASE: Preservative-free, Sterilized Cosmetics Distributed at Room Temperature**

LG H&H developed CNP Rx After OP Pure Formula Line with products that do not contain preservatives and any harmful chemical substances for skin. In the early development stage for this product line, we selected ingredients that restrict the growth of microbes and utilized the UHT (Ultra-High Temperature) sterilization method to exclude the entry of microbes in the manufacturing process. In order to prevent the secondary contamination while customers use the products, we apply double-airtight containers. Through these efforts, we could develop products that can be distributed and used at room temperature without preservatives. We even applied for a patent for preservative-free formula technology, which works stably even in the ultra-high-temperature sterilization process.

**CASE: Cosmetics Service Customized for Customers**

We provide a new customized cosmetics service through cosmeceutical brands CNP ReMède and CNP Rx. At our customized stores, we conduct a one-to-one interview done by a professional counselor and a precise diagnosis using skin diagnosis equipment, analyze the skin-related concerns of customers, such as pores, blemishes, wrinkles, skin elasticity, pigmentation, and moisture level, and finally recommend optimized cosmetic products for each customer. The ReMède flagship store provides a customized serum, a mixture of two recommended ingredients combined in a safe mixing machine. This service has been praised by customers with a high level of satisfaction with the skin diagnosis. In the long term, we will combine collected skin diagnosis data and technologies such as AI and IoT to provide a systematized, automated, and customized service for each customer, pioneering new markets and enhancing our global competitiveness.

**CASE: Genetic Information for Beauty & Health**

We need to understand the genetic information related to beauty and health to develop safe and effective customized cosmetic products that reflect the characteristics of each type of skin as well as the current skin condition of customers. In December 2016, LG H&H started to cooperate with gene research company Macrogen to establish a venture called MiGen-story and has conducted a joint R&D project on the genetic traits associated with the characteristics of the skin of Korean people and causes of skin aging. This company, which combines the technological and marketing capacity of the two companies, provides a genetic test service to collect the largest scale of big data in the beauty and health sectors in Korea.

**CASE: Beauty & Health Service Customized for each Customer**

We provide a new customized cosmetics service through cosmeceutical brands CNP ReMède and CNP Rx. At our customized stores, we conduct a one-to-one interview done by a professional counselor and a precise diagnosis using skin diagnosis equipment, analyze the skin-related concerns of customers, such as pores, blemishes, wrinkles, skin elasticity, pigmentation, and moisture level, and finally recommend optimized cosmetic products for each customer. The ReMède flagship store provides a customized serum, a mixture of two recommended ingredients combined in a safe mixing machine. This service has been praised by customers with a high level of satisfaction with the skin diagnosis. In the long term, we will combine collected skin diagnosis data and technologies such as AI and IoT to provide a systematized, automated, and customized service for each customer, pioneering new markets and enhancing our global competitiveness.

**CASE: Preservative-free, Sterilized Cosmetics Distributed at Room Temperature**

LG H&H developed CNP Rx After OP Pure Formula Line with products that do not contain preservatives and any harmful chemical substances for skin. In the early development stage for this product line, we selected ingredients that restrict the growth of microbes and utilized the UHT (Ultra-High Temperature) sterilization method to exclude the entry of microbes in the manufacturing process. In order to prevent the secondary contamination while customers use the products, we apply double-airtight containers. Through these efforts, we could develop products that can be distributed and used at room temperature without preservatives. We even applied for a patent for preservative-free formula technology, which works stably even in the ultra-high-temperature sterilization process.

**CASE: Beauty & Health Service Customized for each Customer**

We provide a new customized cosmetics service through cosmeceutical brands CNP ReMède and CNP Rx. At our customized stores, we conduct a one-to-one interview done by a professional counselor and a precise diagnosis using skin diagnosis equipment, analyze the skin-related concerns of customers, such as pores, blemishes, wrinkles, skin elasticity, pigmentation, and moisture level, and finally recommend optimized cosmetic products for each customer. The ReMède flagship store provides a customized serum, a mixture of two recommended ingredients combined in a safe mixing machine. This service has been praised by customers with a high level of satisfaction with the skin diagnosis. In the long term, we will combine collected skin diagnosis data and technologies such as AI and IoT to provide a systematized, automated, and customized service for each customer, pioneering new markets and enhancing our global competitiveness.
Expansion of Korean Beauty
A Guide for a Beautiful Royal Culture
The History of Who0 is a global brand that has taken its place as a royal culture-based cosmetic brand representing the queen’s beauty secrets in Korean traditional medicine and achieved annual sales of KRk 1 trillion 14 years after its launch in 2009. Since 2015, the brand has concluded the agreement for the Cultural Heritage Keeper Project with the Cultural Heritage Administration to enhance brand sustainability and expanded the beauty of Korean royal family and brand value through various activities such as the royal women’s cultural event to experience the life of queen at a beautiful palace, royal costume fashion show, and the charity project to raise social responsibility proactively by listening to social needs and utilizing the company’s characteristics.

Modernization of Korean Beauty
As a Korean medicine-based beauty brand reinterpreting the wisdom and secret of traditional Korean medicine in a modern way, Scoryeohan makes efforts to promote a variety of Korean beauty products in the global market by focusing on Korean-style beauty. As part of these efforts, the brand launched a product with beautiful lines and colors in collaboration with Park Sul-nyeo, a world-renown hanbok (traditional Korean costume) designer, to secure 1,000 tons a day as a new source of water intake and provide consumers with volcanic artesian water from Ulleungdo Island, but it will also revitalize the local economy by helping Ulleungdo to create new jobs, find a market for its unique water, and attract more tourists through product promotion.

Management Approach

Background
The range of corporate roles expected by customers is gradually expanding from creating economic outcome to addressing social issues. Thus, the various roles of a company are emphasized: they must not only develop eco-friendly products, but also serve society as a medium for cultural diffusion and a significant role for coexistence with local communities. Global enterprises endeavor to create sincere social value by focusing on such social needs and actively utilizing the characteristics of their business.

Principle & Strategy
LG H&H has created social value with sincerity by coexisting with local communities beyond providing simple economic support such as donations. We also strive to reinforce the economy of local communities and deal with environmental issues for the long term by considering waste in the process from production to product release and releasing green products, which minimize any environmental impact. LG H&H will continue to fulfill social responsibility proactively by listening to social needs and utilizing the company’s characteristics.

Coexistence with Local Communities
Creation of Shared Value with Local Communities through Products
LG H&H returns value to local communities by using local ingredients and producing products at the local site to generate more jobs for local residents and revitalize the economy. As products which acquired the Jeju Cosmetic Cert, a certificate for production in Jeju Island, BEYOND Phyto Moisture Jeju Line and Organist Made in Jeju improve product quality by applying high-efficiency ingredients originated from Jeju Island and contribute to developing local industries by creating jobs for local residents. We also launched BEYOND Himalaya, which uses herbal ingredients harvested at a height of 3,000m by local residents in Muku and Humla, Nepal, and provided an environment to help them to stand on their own feet by offering generic technologies for producing raw materials and 25 muti. In addition, the company manages the supply chain, which used to be operated by unfair trade, and contributes to increasing the income of local residents by helping them receive adequate pay through fair trade.

Protection of Urban Forests
As an eco-friendly brand of LG H&H, BEYOND conducts a pollution-free life campaign, which represents an alternative campaign for the coexistence between humans and nature. With the concept of “becoming empty of any unnecessary things for the skin and in daily life and filling up with necessities,” the pollution-free life campaign raises consumer awareness. As part of the campaign, the brand is scheduled to conduct the “pollution-free forest campaign” to protect the forests in cities. We aim to realize the value of environmental protection by BEYOND by protecting urban forests, which emerges as an alternative for citizens suffering from air pollution such as fine dust. BEYOND has launched the Seoul Forest Special Edition of its representative products and donated part of the profits for the protection of Seoul Forest to encourage consumers to indirectly protect urban forests.

Development of the Local Specialties of Ulleungdo Island
Ulleungdo Island is a volcanic island where the population of approximately 10,000 people reside based on tourism resources such as its beautiful natural landscape, agriculture, and fisheries. The spring water in Ulleungdo Island is volcanic artesian water made by snow and rain permeating the caldera, which is the crater of a volcano, flowing along the underlying bedrock to the ground. It is also first-class clean water rich in dissolved oxygen and minerals such as potassium and silica as well as excellent spring water with a high level of minerals. LG H&H is preparing for the development of spring water by concluding an MOU with the Government of Ulleungdo. Under this agreement, it is expected to not only secure 1,200 tons a day as a new source of water intake and provide consumers with volcanic artesian water from Ulleungdo Island, but it will also revitalize the local economy by helping Ulleungdo to create new jobs, find local specialties, and attract more tourists through product promotion.

Development of Products with Social Value
As a global brand that has taken its place as a royal culture-based cosmetic brand representing the queen’s beauty secrets in Korean traditional medicine and achieved annual sales of KRW 1 trillion 14 years after its launch in 2009, the brand has concluded the agreement for the Cultural Heritage Keeper Project with the Cultural Heritage Administration to enhance brand sustainability and expanded the beauty of Korean royal family and brand value through various activities such as the royal women’s cultural event to experience the life of queen at a beautiful palace, royal costume fashion show, and the charity project to raise social responsibility proactively by listening to social needs and utilizing the company’s characteristics.

Modernization of Korean Beauty
As a Korean medicine-based beauty brand reinterpreting the wisdom and secret of traditional Korean medicine in a modern way, Scoryeohan makes efforts to promote a variety of Korean beauty products in the global market by focusing on Korean-style beauty. As part of these efforts, the brand launched a product with beautiful lines and colors in collaboration with Park Sul-nyeo, a world-renown hanbok (traditional Korean costume) designer, to secure 1,000 tons a day as a new source of water intake and provide consumers with volcanic artesian water from Ulleungdo Island, but it will also revitalize the local economy by helping Ulleungdo to create new jobs, find local specialties, and attract more tourists through product promotion.
Reduction of Environmental Impact through Products

CASE: Expansion of Products with Eco-Labelling Certification

LG & H&H has expanded a range of products with eco-labelling certification, which is only given to eco-friendly products that reduce the use of energy and resources and minimize pollutants at each stage of the entire production process. In 2017, the number of products with eco-labelling certification was 155, which increased by 23% from 126 items in 2016. The sales of green products also grew by 3% from KRW 334.7 billion in 2016 to KRW 343.9 billion in 2017. LG & H&H makes every effort to continue eco-friendly management, which not only reduces the environmental impact of products, but also leads to increasing sales.

Total Certification Products

197
Eco-labeling certification: 155
Carbon footprint: 3
Low-carbon products: 39

CASE: Eco-Friendly Water-Soluble Sheet Detergent

As many consumers find it difficult to measure the accurate amount of detergent, they inadvertently use a larger amount of detergent than necessary, which causes water pollution. In addition, the large volume of detergent products induces the excessive use of packaging as well as the issue of energy consumption and air pollution due to the transport of products. With the aim of addressing these environmental issues, LG & H&H launched high-enriched felt sheet detergent, which is pulled out one by one, for the first time in the world in 2009 and developed felt sheets into 100% water-soluble sheet detergent in 2012. As the water-soluble sheet detergent can be used in sheets for every laundry load, it can prevent excessive detergent use without the need for separate measurement. As the product is light at a weight at 9% of powder and liquid-type detergent for the same amount of laundry and has half the volume, it can also reduce air pollution and energy and resource consumption for packaging and transport. As the sales of soluble sheet detergent in 2017 reached KRW 12.4 billion, which increased by 26% compared to the previous year, this sheet detergent has attracted a positive response from consumers and enjoys continuous growth in sales.

CASE: Reduction of Product Carbon Emissions

LG & H&H has contributed to cutting national carbon emissions by reducing emissions generated by using our products. We manage carbon emissions in the entire process, including the purchase of raw materials, production, sale, and disposal. In 2017, the company reduced the carbon emissions of Elastine Shampoo, Coca-Cola, and Jayeonpong Detergent by 4,294 tCO2e in total. We also identified the amount of carbon emissions reduction in each product through low-carbon certification. Thus, LG & H&H implements its social responsibility by striving to cut the impact of corporate activities on the environment.

Use of Naturally Fermented Ingredients as an Alternative to Microbeads

CASE: Use of Naturally Fermented Ingredients as an Alternative to Microbeads

LG & H&H commits itself to minimize any harmful chemicals for our body and environment by developing good toothpaste genuinely desired by consumers. In 2017, the company released the Bamboo Salt Toothpaste with Natural Fermentation, which uses water-soluble and naturally fermented grains instead of plastic microbeads, which are not easily soluble in water and threaten the marine ecosystem by flowing into the sea and river. Naturally fermented grains are refined by fermenting glucose from corn and have safe ingredients, which are even used in food. As we use these grains rather than abrasive substances, vulnerable consumers such as elderly people and children, who are sensitive to stimuli, can use the product more comfortably and safely. LG & H&H will continue our research for developing better products to ensure consumer health and protect the environment.

Focus Issues & Business Cases

Developing Products with Social Value

2017 LG HOUSEHOLD & HEALTH CARE CSR REPORT
Efforts to Reduce Waste from Products

Establishment of Green Packaging System

LG H&H operates the Green Product Review Committee to settle company-wide green management. With the CRO as the chairperson, the committee is composed of the environment and safety team, design team, packaging research team, purchase team, and business planning team and carries out activities from the pre-development stage, including proposing green packaging and suggesting and reviewing green level issues. By finding and executing ideas for sustainable packaging, LG H&H fulfills its responsibility and role as a green company.

Green Product Review Committee

Chairperson
CRO*

Secretariat
Environment, Safety, and Health Team

Design Center
Packaging Research
Purchasing Department
Business Planning

* CRO: Chief Reassurance Officer

Application of the Green Packaging Guide

LG H&H operates the Green Packaging Guide to develop and apply packaging in consideration of the environment from the stage of product development. As the unique rating scale by LG H&H, the Green Packaging Guide evaluates the eco-friendly level of a product before the launch by classifying the weight, volume, material, and recyclability of packaging in points. We classify products into Green Level 1 to 3 and manage and improve products in a systematic way. When any Green Level 3 product cannot be improved, a separate decision-making process is made.

Green Packaging Guide

- Minimize the weight of the container based on the lightweight index recommended by the Ministry of Environment (MKE)
- Contribute to resource recirculation by selecting raw materials with high recyclability
- Contribute to the resource recirculation by managing the structure of containers and packaging to achieve Recyclability Grade 3 based on the MKE criteria.

Target: All product packaging materials subject to mandatory recycling

<table>
<thead>
<tr>
<th>Points</th>
<th>55 points</th>
<th>39 points</th>
<th>30 points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight optimization</td>
<td>Material reduction</td>
<td>Recyclability improvement</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Goal</th>
<th>120 points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weight of newly developed products</td>
<td>599</td>
</tr>
<tr>
<td>Current status of the application of Green Level 3 products</td>
<td>249 products</td>
</tr>
<tr>
<td>Green Level 2 products</td>
<td>287 products</td>
</tr>
<tr>
<td>Green Level 3 products</td>
<td>23 products</td>
</tr>
</tbody>
</table>

Process to decide whether Green Level 3 products can be released

- Adopted by the Head of the Business Division

Effect of the Application of Green Level*

- KRW 7.45 million: Saving purchase cost/logistic cost
- KRW 5.7 million: Reduction of the mandatory burden for recycling

* Effect calculated based on the sales of the previous year

To ensure more efficient recycling of waste containers left after the use, LG H&H applies the Green Packaging Guide and enhances structural recyclability and material selection. Opaque PET bottles, which are being used in many products, need to be separately processed in each color at the recycling stage, which reduces the efficiency of recycling. From 2016, LG H&H has applied a transparent PET bottle for four homecare products among products whose safety is not impacted by direct sunlight. In the last year, we improved a colored PET bottle, which was used in seven types of Elastine Perfume, to a transparent PET. Through this improvement in recyclability, the Elastine Perfume achieved not only a reduction of the mandatory burden for recycling by approximately KRW 12 million, but also saved production costs worth of KRW 52.8 million. In 2018, we will continuously expand a range of potential products to enhance the eco-friendliness of products and further contribute to resource circulation.

CASE: Improvement of Recycling by Using a Transparent PET Bottle

CASE: Excellence Prize for Eco-Friendly Packaging

To improve the existing way of using adhesives on the sealing sticker for cushion foundation products, LG H&H has developed the Heating Sealing System, which does not use any adhesive. As the sticker is applied by heat without any separate adhesive, the Heat Sealing System not only ensures the same sealing effect, but also serves as eco-friendly packaging to secure consumer safety. In recognition of this eco-friendly innovation, the system received the excellence prize in the 7th Green Packaging Award.
Korean medicine technology by open innovation applies to the products of LG H&H’s representative royal court-based Korean medicine cosmetic brand, *The History of Whoo*, which is highly acclaimed by middle-aged women who are worried about skin aging. In 2017, sales of KRW 1,400 billion were recorded by the single brand of *The History of Whoo*.

**2003 ~ 2016**
Since 2006, LG H&H has operated the Korean Medicine Research Society, which is continuously expanding. It has developed dermatological theories by combining traditional Korean medicine and modern dermatology in cooperation with domestic colleges of traditional Korean medicine, relevant companies, and the Shanghai University of Traditional Chinese Medicine. As a result, we have improved the dermatological effects and developed distinctive formulas containing traditional Korean medicinal features.

**2017**
In 2017, LG H&H conducted a survey and medical examination by Korean medicine doctors with the Korean Medicine Research Society. Through this activity, we classified the standard for distinguishing the skin characteristics of normal people and people with less stamina and established a theory to improve skin aging by replenishing skin's energy. We also established a Korean medicine ingredients management system with OBM Lab, a company specialized in Korean medicine extract ingredients, to secure reliability in Korean medicine ingredients and deal with production process and analytical markers for identifying components and boosting extract efficiency.

**Eye health + Brain function and memory**
Japanese consumers have recently shown great interest in functional products that improve memory. According to recent research results, 80% or more of memory information or over is from visual information, and increased fatigue of the eyes caused by the use of PC or smartphones can have an effect on consumers’ memories. Everlife, LG H&H’s Japanese health food brand, has developed EYEKNOW as a double-function product for taking care of the reduced function in the brain and eyes for aging and external stimuli based on market demands and recent research results. EYEKNOW’s main ingredients are ginkgo leaves and bilberry extract, which are known to have remarkable effects in improving eye health and brain function as well as memory through many research cases. Consumers can now simply take high-concentrated functional ingredients in a small dose. As a functional product accredited by the Consumer Affairs Agency of Japan, EYEKNOW inspires confidence by making public information on the functionality and safety of the product. In the first year of launch in 2017, the product achieved sales of JPY 170 million.

**Focus Issues & Business Cases**
**Developing Products with Social Value**

**CASE: Double-Function Product for Improving Eye Health and Memory**
Japanese consumers have recently shown great interest in functional products that improve memory. According to recent research results, 80% or more of memory information or over is from visual information, and increased fatigue of the eyes caused by the use of PC or smartphones can have an effect on consumers’ memories. Evenlife, LG H&H’s Japanese health food brand, has developed EYEKNOW as a double-function product for taking care of the reduced function in the brain and eyes for aging and external stimuli based on market demands and recent research results. EYEKNOW’s main ingredients are ginkgo leaves and bilberry extract, which are known to have remarkable effects in improving eye health and brain function as well as memory through many research cases. Consumers can now simply take high-concentrated functional ingredients in a small dose. As a functional product accredited by the Consumer Affairs Agency of Japan, EYEKNOW inspires confidence by making public information on the functionality and safety of the product. In the first year of launch in 2017, the product achieved sales of JPY 170 million.

**CASE: Vitality of Life Created by Craftsmanship**
As a premium health functional food brand, the Daily Life Garden is the fruit of LG H&H’s knowhow and technology based on long-time research on nature, science, and health and provides customized solutions for each age, including basic nutrition products, red ginseng products, diet products, and nutrition products for children. Hwanghudan, launched in 2017, comes in a small pill with various ingredients: 6-year fermented red ginseng concentrate, which is easily absorbed in a body thanks to the fermentation by lactic acid bacteria from kimchi; other fermented substances as auxiliary ingredients such as fermented porcine placenta extract and fermented antler extract; and rare ingredients which are difficult to get in daily life such as aloeswood, comus fruit, and Korean angelica root. As a soft chewable pill that can be taken without water, this product enhances both efficiency and convenience in intake and reflects the philosophy of Daily Life Garden, allowing consumers to enjoy healthy and precious ingredients at any time in an easy and simple way.

**CASE: Open Innovation Activity for Strengthening Capabilities in Dermatology and Technology of Korean Medicine**
Through continuous open innovation activities, LG H&H not only produces products with the concept of Korean medicine, but also internalizes high-level Korean medicine technology.

**CASE: Promotion of Customer Health**
As a premium health functional food brand, the Daily Life Garden is the fruit of LG H&H’s knowhow and technology based on long-time research on nature, science, and health and provides customized solutions for each age, including basic nutrition products, red ginseng products, diet products, and nutrition products for children. Hwanghudan, launched in 2017, comes in a small pill with various ingredients: 6-year fermented red ginseng concentrate, which is easily absorbed in a body thanks to the fermentation by lactic acid bacteria from kimchi; other fermented substances as auxiliary ingredients such as fermented porcine placenta extract and fermented antler extract, and rare ingredients which are difficult to get in daily life such as aloeswood, comus fruit, and Korean angelica root. As a soft chewable pill that can be taken without water, this product enhances both efficiency and convenience in intake and reflects the philosophy of Daily Life Garden, allowing consumers to enjoy healthy and precious ingredients at any time in an easy and simple way.

**CASE: Double-Function Product for Improving Eye Health and Memory**
Japanese consumers have recently shown great interest in functional products that improve memory. According to recent research results, 80% or more of memory information or over is from visual information, and increased fatigue of the eyes caused by the use of PC or smartphones can have an effect on consumers’ memories. Evenlife, LG H&H’s Japanese health food brand, has developed EYEKNOW as a double-function product for taking care of the reduced function in the brain and eyes for aging and external stimuli based on market demands and recent research results. EYEKNOW’s main ingredients are ginkgo leaves and bilberry extract, which are known to have remarkable effects in improving eye health and brain function as well as memory through many research cases. Consumers can now simply take high-concentrated functional ingredients in a small dose. As a functional product accredited by the Consumer Affairs Agency of Japan, EYEKNOW inspires confidence by making public information on the functionality and safety of the product. In the first year of launch in 2017, the product achieved sales of JPY 170 million.
03 DEVELOPING PRODUCTS WITH SOCIAL VALUE

Reinforcement of the Capabilities of Suppliers

Development of Joint Technology with Suppliers

In the rapidly changing business environment, joint responses made together with suppliers create synergistic effects between mutual parties and allow them to deal with the market swiftly and efficiently. LG H&H continues implementing joint development with suppliers for mutual profit and practical win-win growth. We first improve financial stability by providing suppliers with funds for technology development so that the capabilities of suppliers for technology development, which serve as the foundation for product competitiveness, can be reinforced to take the initiative in market-leading technology. In this way, we strive to secure a stable market when we achieve success in technology development.

CASE: Localization of Spray Guns

Despite being one of the major subsidiary materials for daily supplies, spray guns used to be imported, usually at high prices, from overseas suppliers due to the quality difference from domestic products. LG H&H has secured competitiveness in price by reducing the cost for purchasing subsidiary materials and begun localization for stable supply management. We developed higher-quality spray gun subsidiary materials by improving spray-quantity quality in the characteristics of existing imported products and applying a leakage prevention structure. Through these efforts, LG H&H secures reasonable pricing by saving 20% in the price of subsidiary materials. The company can then provide consumers with excellent products at a reasonable price through the stable procurement of domestic products and quality control.

CASE: Application of Digital Printing

As existing package printing requires the manufacturing of a copper plate and film and minimum quantities for order, it was difficult to flexibly make changes in time, cost, and change in production quantity. To address these issues, LG H&H explores printing technologies adequate for small-quantity batch production and utilizes them in the manufacturing process at outsourcing suppliers. We use digital printing that allows printing with just a design file, and we only manufacture the intended quantity swiftly and without preparation. This can reduce the ratio of loss by up to 60% and has a low environmental burden and disposal cost.

CASE: Development of a Low-Priced Massage Roller

As more customers are interested in home care, the need for a massage roller at a reasonable price is also increasing. To meet those needs, LG H&H has developed a domestic massage roller at a competitive price. The product developed by LG H&H is a localized product whose assembly process is simplified through an independent product structure. Compared to massage rollers imported from China, our product saved costs by 36% and has no patent infringement element, thanks to independent development (Patent No. 10-2017-0031727).

As a result of the performance sharing project, both companies achieved win-win growth: DARIN secured new technology and sales and received a citation from the Prime Minister in 2016, while LG H&H raised its competitiveness in production cost.

CASE: Localization of Expensive Imported Foaming Pumps

LG H&H has set a common goal with suppliers based on the Performance Sharing Project and developed products with enhanced convenience in use. Since 2015, we have cooperated with DARIN, a company producing pumps for cosmetics and daily necessities and set the common goal of localizing expensive imported foaming pumps. Foaming pumps, which are mostly used in hand wash products, are highly difficult to produce and are mostly imported. This involves making molds and providing support for technology and funds, and they finally succeeded in the mass production of a foaming pump to produce more delicate foam than the Japanese product. Through the performance-sharing project, both companies achieved win-win growth. DARIN secured new technology and sales and received a citation from the Prime Minister in 2016, while LG H&H raised its competitiveness in production cost.
<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>CSR Strategy &amp; Roadmap</td>
</tr>
<tr>
<td>48</td>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td>42</td>
<td>Sustainability Value Chain</td>
</tr>
<tr>
<td>50</td>
<td>Social Contribution</td>
</tr>
<tr>
<td>44</td>
<td>Employee Value</td>
</tr>
<tr>
<td>56</td>
<td>Environment and Safety Management</td>
</tr>
<tr>
<td>64</td>
<td>Win-Win Growth</td>
</tr>
</tbody>
</table>

Sustainable Management
**CSR Strategy & Roadmap**

LG H&H has established medium and long-term CSR strategies and carried out a wide range of activities to achieve its CSR vision and become the Best Sustainable FMCG* Company that creates social values. Since the company set the first medium and long-term CSR strategies and roadmap in 2015, it has disclosed the data about major performances and progress.

**CSR Strategy & Roadmap**

<table>
<thead>
<tr>
<th>Category of Initiatives</th>
<th>2017 Plan</th>
<th>2017 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeong-Do Management, Environment and Safety Management, Win Win Growth, Customer Satisfaction, Employer Value, Social Contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Direction of Strategies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Goals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2017 Performance**

- Materialize the activities for the Safe Quality Certification System for Suppliers (evaluation of 143 suppliers and improvement of unreasonable issues)
- Conducted the company-wide quality innovation project activities (29 themes, 174 technical support cases (accumulated figure: 11,040 students))
- Conducted the zero-prolonged-complaint project (resolving 14 themes of complaints)
  - 210 technical support cases
  - KRW 40 billion in financial support
- Conducted the prevention/management program (prevention guide provided to 1,930 students at 15 organizations)
  - 174 technical support cases
  - KRW 14.7 billion in financial support
- Conducted the quality innovation project activities (14 themes, 299 technical support cases)
  - 210 technical support cases
  - KRW 40 billion in financial support

**2018 Plan**

- Conducted the training and workshop programs in four subsidiaries (subsidiaries in China, Taiwan, Vietnam, Singapore)
- Conducted the company-wide quality innovation project activities (29 themes, 174 technical support cases (accumulated figure: 11,040 students))
- Conducted the zero-prolonged-complaint project (resolving 14 themes of complaints)
  - 210 technical support cases
  - KRW 40 billion in financial support

**Relevant Activities**

- Materialize the activities for the Safe Quality Certification System for Suppliers (evaluation of 143 suppliers and improvement of unreasonable issues)
- Constitute the system for improvement challenges at overseas subsidiaries
- Introduce a psychosocial counseling program
- Introduce a trial system for automated safety cover monitoring
- Establish a system for supporting core quality indicators and continue to work on improvement activities
- Establish a system for supporting core quality indicators and continue to work on improvement activities
- Establish a system for supporting core quality indicators and continue to work on improvement activities

**Contribution to SDGs**

LG H&H considered the characteristics of its business, plans for future business, threatening factors and other business management conditions, and the medium and long-term CSR strategies to derive the correlation between such factors and the UN SDGs. Based on our medium and long-term CSR strategies, we hope to contribute to achieving the UN SDGs that are common challenges across the world.

---

*FMCG: Fast Moving Consumer Goods*
Sustainability Value Chain

LG H&H is dedicated to creating values for stakeholders, including employees, customers, local communities, and the environment, across all processes related to its products, from R&D and planning to recycling and disposal.

INPUT VALUE

VALUE CHAIN

VALUE CREATION
Employee Value

**Employee Value**

Employee value is one of the essential factors for a company to achieve continued growth. We need to respect the unique value of employees, provide opportunities to develop various forms of expertise and strengthen their capacity. Through these efforts, the company and human resources need to grow together.

Based on a fair and open recruiting process, we operate a program to select human resources and help them learn a wide range of knowledge and build their capacity. We maximize the values of employees, embrace their diversity, and pursue our management philosophy, “Respecting Human Dignity.”

**Our Commitment**

LG H&H puts our highest value on the respect for human dignity.

**Diversity of Employees**

**Training expense per employee**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (KRW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.26 million</td>
</tr>
</tbody>
</table>

**Ratio of female employees**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>55%</td>
</tr>
</tbody>
</table>

**Agendas for the employees’ committee**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>86 cases</td>
</tr>
</tbody>
</table>

**E-Academy course**

<table>
<thead>
<tr>
<th>Course</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,194 courses</td>
</tr>
</tbody>
</table>

**Global Diversity**

Operating businesses at home and abroad, LG H&H makes efforts to understand the culture and customs of each country and meet the demands of a variety of customers. With the expanding scope of the global market, we try to hire international students living in Korea who are fluent in Korean and have in-depth knowledge about non-Korean languages and cultures. These employees are trained at our headquarters and later dispatched to overseas subsidiaries, playing the role of a mediator between the headquarters and overseas subsidiaries. We are planning to strengthen overseas human resource development activities to hire Korean people living overseas and international students from Korea who are useful for overseas business.

**Job Creation for Retired Employees and the Elderly**

LG H&H rehires those who retired from the company due to the age-limit and dispatches them to positions that require years of experience and expert capacity, taking the initiative in employing aged human resources. In the production sector, such retired people are rehired when their experience and know-how are needed. At the supplier support team, newly organized in 2017, those who retired from LG H&H play the role of a consultant in providing technical support and quality assurance training to suppliers. We will find more opportunities for the elderly employees to participate in the company, fulfilling our responsibility as a social enterprise.
Corporate Culture

Building No.1 Dignity Culture with mutual respect and Consideration

In order to actualize a corporate culture with respect and compassion, we conduct the Top Dignity Education Program every year. Since 2012, this annual program has been carried out for all employees to swiftly respond to changes in the external environment, reduce internal risks, and enable employees to respect and considerate to each other. This program deals with the code of conduct to prevent the abuse of authority and sexual harassment based on respect and compassion between different departments and employees and to respect non-Korean employees and those with disabilities. Promoting the code of conduct for leaders and employees and spreading our corporate culture, which promotes smart working practices, meetings and reporting procedures, and work-life balance, we continue to create a healthy corporate culture to maintain the reputation of LG

Employees’ Committee

The employees’ committee enables employees to express their opinions to the management in a bottom-up system and let them understand the direction of the company’s business. In 2017, we subdivided the previously single committee into 12 groups for open communication and effective opinion sharing among all employees. With group leaders playing a key role, the committee is comprised of 12 group leaders and 65 members. Each group holds a regular meeting, and the representative employees’ committee implements various activities to improve the corporate culture, conduct company-wide campaigns, hold communication events with diverse themes, and give proposals for improvement. In 2017, a total of 86 agendas were discussed in the committee, which have all been received.

Work-life Balance

We make sure that our employees can maintain a work-life balance as they focus on work during the working hours and concentrate on their personal life after work, thereby enabling them to give their best ideas and performance. We implement the flexible time system, in which employees can select one out of five options as their working hours with the nine-to-five system as a default. We have a variety of spaces on our intranet to facilitate idea sharing among employees in a bottom-up system. We also run the company-wide simultaneous vacation system, a monthly or biweekly system where all employees can take a day off without worrying about troubling others. Employees are encouraged to go on parental leave to prevent the career interruption of female employees and enable them to show their capacity, regardless of whether they have children.

Employee Capacity Building

Marketing Case Study Course

We operate the marketing case study course for team members and junior marketing staff (assistant managers) to help them build practical marketing capacity and gain insight. This customized education program covers marketing theories, internal successful cases, and joint problem solving and provides employees with a wide scope of perspectives through case study training with internal and external experts. Employees internalize what they learn from discussion and explore ideas to apply to their actual work. In 2017, the program was conducted based on the cases of The History of Whoo and belif. A wide range of themes will be handled in this program.

Cultivating Global Experts

We develop human resources equipped with capacity for global communication and business strategy design. The training program includes foreign language classes for global business tasks, as well as background knowledge and planning capacity building for making strategies for the overseas market. Participants need to undergo the presentation session with their own business proposal to complete the course, which enables employees to apply what they learn to their actual work.

Number of trainees in the global expert training program in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of trainees</th>
</tr>
</thead>
<tbody>
<tr>
<td>English coaching classes</td>
<td>21</td>
</tr>
<tr>
<td>GCC(Global Expertise Courses)</td>
<td>24</td>
</tr>
<tr>
<td>GCC(Global Expertise Course in China)</td>
<td>18</td>
</tr>
<tr>
<td>LG MBA</td>
<td>3</td>
</tr>
<tr>
<td>Global MBA</td>
<td>3</td>
</tr>
<tr>
<td>Regional expert</td>
<td>3 (in China, 1 in Japan)</td>
</tr>
</tbody>
</table>

Various E-learning Courses

We offer diverse e-learning courses to enable employees to take education courses when it is convenient for them. In particular, L-lemon for sales and promotion staff has been designed with consideration for the characteristics of the industry, providing courses about skills that employees can immediately apply to their actual work.

E-learning

- Understanding of products
- Distribution trends
- Sales skills

Human-rights-based Management

Labor & Human Rights Assessment and Inspection

For the risk management of labor and human rights affecting sustainability management in direct and indirect ways, we conduct the monitoring and inspection of labor and human rights at our subsidiaries and suppliers with production facilities at home and abroad. We identify what to improve and check if the relevant aspects have actually been improved according to the predetermined schedule. In 2017, we conducted the self-assessment at 12 business sites and 24 suppliers, and detailed inspections on 6 of them. As a result, we designed 10 improvement plans for 4 business sites and 2 suppliers, and then checked if they actually resolved those problems.

Labor-management Relations

LG holds to build a cooperative labor-management relationship in which both sides express each other with equal footing and fulfill their own responsibilities in accordance with the relevant laws and principles. We have organized the company-wide employees’ committee and subcommittee of each business division, holding regular meetings, to improve the understanding of employees about the business environment and inform them about changes within the company. Various communication channels, including My Opinion and Zero-complaint Mailboxes, are reevaluating the issues of employees, thereby creating a fruitful labor-management partnership with smooth communication. In the employees’ committee in 2017, we discussed and addressed measures to improve the satisfaction level of employees, and shared their concerns about the management of the company, including the expansion of plants.

Corporate Culture

Building No.1 Dignity Culture with mutual respect and Consideration

In order to actualize a corporate culture with respect and compassion, we conduct the Top Dignity Education Program every year. Since 2012, this annual program has been carried out for all employees to swiftly respond to changes in the external environment, reduce internal risks, and enable employees to respect and considerate to each other. This program deals with the code of conduct to prevent the abuse of authority and sexual harassment based on respect and compassion between different departments and employees and to respect non-Korean employees and those with disabilities. Promoting the code of conduct for leaders and employees and spreading our corporate culture, which promotes smart working practices, meetings and reporting procedures, and work-life balance, we continue to create a healthy corporate culture to maintain the reputation of LG. We implement the flexible time system, in which employees can select one out of five options as their working hours with the nine-to-five system as a default. We have a variety of spaces on our intranet to facilitate idea sharing among employees in a bottom-up system. We also run the company-wide simultaneous vacation system, a monthly or biweekly system where all employees can take a day off without worrying about troubling others. Employees are encouraged to go on parental leave to prevent the career interruption of female employees and enable them to show their capacity, regardless of whether they have children.

Employees’ Committee

The employees’ committee enables employees to express their opinions to the management in a bottom-up system and let them understand the direction of the company’s business. In 2017, we subdivided the previously single committee into 12 groups for open communication and effective opinion sharing among all employees. With group leaders playing a key role, the committee is comprised of 12 group leaders and 65 members. Each group holds a regular meeting, and the representative employees’ committee implements various activities to improve the corporate culture, conduct company-wide campaigns, hold communication events with diverse themes, and give proposals for improvement. In 2017, a total of 86 agendas were discussed in the committee, which have all been received.

Work-life Balance

We make sure that our employees can maintain a work-life balance as they focus on work during the working hours and concentrate on their personal life after work, thereby enabling them to give their best ideas and performance. We implement the flexible time system, in which employees can select one out of five options for their working hours with the nine-to-five system as a default. We also run the company-wide simultaneous vacation system, a monthly or biweekly system where all employees can take a day off without worrying about troubling others. Employees are encouraged to go on parental leave to prevent the career interruption of female employees and enable them to show their capacity, regardless of whether they have children.

Employee Capacity Building

Marketing Case Study Course

We operate the marketing case study course for team members and junior marketing staff (assistant managers) to help them build practical marketing capacity and gain insight. This customized education program covers marketing theories, internal successful cases, and joint problem solving and provides employees with a wide scope of perspectives through case study training with internal and external experts. Employees internalize what they learn from discussion and explore ideas to apply to their actual work. In 2017, the program was conducted based on the cases of The History of Whoo and belif. A wide range of themes will be handled in this program.

Cultivating Global Experts

We develop human resources equipped with capacity for global communication and business strategy design. The training program includes foreign language classes for global business tasks, as well as background knowledge and planning capacity building for making strategies for the overseas market. Participants need to undergo the presentation session with their own business proposal to complete the course, which enables employees to apply what they learn to their actual work.

Number of trainees in the global expert training program in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of trainees</th>
</tr>
</thead>
<tbody>
<tr>
<td>English coaching classes</td>
<td>21</td>
</tr>
<tr>
<td>GCC(Global Expertise Courses)</td>
<td>24</td>
</tr>
<tr>
<td>GCC(Global Expertise Course in China)</td>
<td>18</td>
</tr>
<tr>
<td>LG MBA</td>
<td>3</td>
</tr>
<tr>
<td>Global MBA</td>
<td>3</td>
</tr>
<tr>
<td>Regional expert</td>
<td>3 (in China, 1 in Japan)</td>
</tr>
</tbody>
</table>

Various E-learning Courses

We offer diverse e-learning courses to enable employees to take education courses when it is convenient for them. In particular, L-lemon for sales and promotion staff has been designed with consideration for the characteristics of the industry, providing courses about skills that employees can immediately apply to their actual work.

E-learning

- Understanding of products
- Distribution trends
- Sales skills

Human-rights-based Management

Labor & Human Rights Assessment and Inspection

For the risk management of labor and human rights affecting sustainability management in direct and indirect ways, we conduct the monitoring and inspection of labor and human rights at our subsidiaries and suppliers with production facilities at home and abroad. We identify what to improve and check if the relevant aspects have actually been improved according to the predetermined schedule. In 2017, we conducted the self-assessment at 12 business sites and 24 suppliers, and detailed inspections on 6 of them. As a result, we designed 10 improvement plans for 4 business sites and 2 suppliers, and then checked if they actually resolved those problems.

Labor-management Relations

LG aims to build a cooperative labor-management relationship in which both sides express each other with equal footing and fulfill their own responsibilities in accordance with the relevant laws and principles. We have organized the company-wide employees’ committee and subcommittee of each business division, holding regular meetings, to improve the understanding of employees about the business environment and inform them about changes within the company. Various communication channels, including My Opinion and Zero-complaint Mailboxes, are reevaluating the issues of employees, thereby creating a fruitful labor-management partnership with smooth communication. In the employees’ committee in 2017, we discussed and addressed measures to improve the satisfaction level of employees, and shared their concerns about the management of the company, including the expansion of plants.
02
Customer Satisfaction

"LG H&H pursues customer-centered business management."

Customer satisfaction is an important factor in maintaining existing customers, attracting new ones, and strengthening brands. The scope of values that customers expect from products has expanded: they not only want positive effects from products, but they also expect positive social and environmental impact, including safe quality and eco-friendly raw materials.

Our Commitment

We have facilitated quality improvement activities to ensure safe quality for consumers and respond to changes in the future in an active and preemptive way. In addition, we have strengthened communication with customers to identify their needs and reflect them in our product development process and services.

Quality Management

Quality Diagnosis

LG H&H runs the product quality diagnosis system to prevent quality-related risks and continuously improve the quality of its products. This system is aimed at increasing the efficiency of quality-related tasks, preventing internal and external quality issues, checking the observance level of relevant regulations and internal management standards, and exploring improvement measures. It consists of the preventive diagnosis and post-diagnosis of quality issues. In 2017, we conducted a quality diagnosis on a regular basis on the production, quality, and logistics systems, found a total of 365 unreasonable cases, and tackled all these problems.

Customer complaint rate (ppm)

<table>
<thead>
<tr>
<th>Company</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>19.2</td>
</tr>
<tr>
<td>THEFACESHOP</td>
<td>17.6</td>
</tr>
<tr>
<td>Coca-Cola Beverage</td>
<td>1.3</td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Customer complaint rate of LG H&H is 19.2 ppm. The customer complaint rate was reduced by improving unreasonable aspects through quality diagnosis. In 2017, the customer complaint rate was 131% compared to the goal.

Rate of quality achievement through the quality innovation project

131%

Rate of response to customer inquiries in 20 seconds

82%

Communication with Customers

Customer Service

In order to provide a quick response to inquiries from customers through the call center, we maintain a rate of quick response, 20 seconds, at over 60%, and strengthen the kindness level of our call center employees through the internal counseling monitoring and coaching program. The CS team in charge of the company-wide customer information center selects particular information out of VOGs that are useful for product and service improvement, and then delivers them to the relevant departments to reflect them in products. In 2017, we selected over 50 opinions and shared them across the company to improve the quality of products.

Reduction of Customer Complaints

Enhancement of Product Satisfaction Level with an Upgraded Metal Cushion Pump

We modified the structure of the makeup cushion pump into a metal cushion pump to increase convenience. The previous airless pump container caused much friction, leading to the deformation of components due to the formula of the content. Sometimes the pumping container did not work and the content did not come out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston.
The world becomes more beautiful when you share love.

Social Contribution

Companies’ social contribution activities have shifted from simple charity and donations to addressing problems by connecting their characteristics and strategies with social issues. These activities have evolved to generate economic benefits and increase social values at the same time, creating a virtuous circle for the whole of society, not just for their own good.

CSR Background

LG H&H’s social contribution activities reflect the characteristics of its business. Beyond a simple donation, its social contribution activities are expanding by increasing the values of the members of society. Such activities are classified into several categories, including health, education and sharing, and provide support focusing on the particular fields where the activities are needed.

Our Commitment

LG H&H’s social contribution activities are aimed at strengthening the links with business and increasing the influence on making changes in the local community.

Social Contribution System

LG H&H contributes to society by putting into practice a healthy civic spirit. Our social contribution activities correspond to the direction of our business aimed at helping customers lead healthy, beautiful and refreshing lives, with a focus on support for women and teenagers. We try to double the effect of such activities through selection and concentration, and partnerships with specialized organizations, rather than a one-time donation.

Shiny PERIOE, a Dental Health Education Program for Children

We initiated this program believing that starting good toothbrushing habits during childhood ensures healthy teeth for the rest of your life. Utilizing PERIOE, the No. 1 toothpaste brand in Korea, we have carried out PERIOE Kids School since 2004 for about 210,000 children until 2017. In 2017, we added a musical with a theme related to the dental health of children to the program to help them learn good toothbrushing routines in a more intriguing way. We visit kindergartens and provide accurate knowledge about dental health to teachers and parents as well as children with dramatic contents and help them truly feel the need for dental care. We plan to operate the dental health education program titled Shiny PERIOE with the musical for about 8,000 participants over the year.

Shiny PERIOE, the First Dental Health Musical for Children in the Industry

Shiny PERIOE is the first health education musical for children that combines cultural contents such as a musical with healthy habits essential for children, including dental health and hygiene. We visit kindergartens to perform the musical, where the lead character Bomi, who hates toothbrushing, tries unique dishes of various countries with friends from all over the world and experiences their toothbrushing culture. Bomi learns good toothbrushing habits and puts them into practice. From the second half of 2017, we have performed the musical for 1,930 children at 15 kindergartens.
Borrowed Earth School

LG H&H’s Borrowed Earth School is the first environment, science and habit education program in Korea that helps you improve basic habits that anyone can learn but have not yet done so. In this program, teenagers look back on themselves to see if they have any bad habits that may cause pollution and waste resources in eight courses and learn good habits. The program consists of these eight courses and one career education course, which is different from current ones, featuring creative contents to let teenagers find their dreams and talent. In order to disseminate this good habit education program for teenagers, we signed an MOU with the Ministry of Education and local education offices to facilitate the Free Semester System, while cooperating with an environmental NGO, Ecomemorea.

Collaborating with individual media creators, whose job is promising and popular among teenagers, we provided the media contents are available on YouTube. We selected 17 college students as reporters for the Borrowed Earth School. We organized the supporter group consisting of mothers to expand the opportunities to participate in society for women whose career placed their career progress on hold. The support group also expanded the opportunities to participate in the program in person and encouraged them to become more interested in this campaign. The media contents are available on YouTube.

We visited 151 schools and 27,088 students participated in this program. 725 LG H&H employees donated their talent, participating as lecturers.

We held a class visit program for about 20 supervisors from the Gangwon Education Office to explore programs for the Free Semester System in Gangwon-do. We conducted a presentation session about the overall program with information about how the Borrowed Earth School could be included in the public education curriculum, the manual development and design theories in cooperation with the educational technology team from Ewha Womans University, the reaction of students, and know-how needed for the operation of the program. The supervisors also visited classes and experienced the program.

We organized the supporter group consisting of mothers to expand the opportunities to participate in society for women whose career placed their career progress on hold. The supporters participate in the program as instructors, consulting teenagers about skin care and their careers.

We selected 27 college students as reporters for the Borrowed Earth School, playing their role in four categories as editors, photographers, video content producers and designers. The reporters promote the program through SNS channels, such as the official website and blog, Facebook and Instagram, by visiting the venues of the program, covering each case and planning/producing relevant contents from various angles.

LG H&H employees participate in the Borrowed Earth School as lecturers. Using their day-offs granted for volunteer activities, a growing number of employees participated in this program (163, 237 and 325 employees in 2015, 2016 and 2017, respectively), enhancing their awareness and increasing opportunities to be a part of social contribution activities.

Borrowed Earth School Campaign with Creators

Collaborating with individual media creators, whose job is promising and popular among teenagers, we provided opportunities for the education program to those who cannot participate in the program in person and encouraged them to become more interested in this campaign. The media contents are available on YouTube.

Nine Courses

- 01 Face-washing
- 02 Toothbrushing
- 03 Shampooing
- 04 Handwashing
- 05 Dishwashing
- 06 Laundry
- 07 Table-Sorting
- 08 Beauty Expert
- 09 Junior Marketer

02 Handwashing Habit Education

For the health and hygiene of teenagers in response to fine dust, yellow dust, and infectious diseases caused by environmental pollution, we selected the handwashing habit education course as an optional subject and conducted it at most middle schools that operated the Borrowed Earth School.

03 Expansion of Participation of Employees

LG H&H employees participate in the Borrowed Earth School as lecturers. Using their day-offs granted for volunteer activities, a growing number of employees participated in this program (163, 237 and 325 employees in 2015, 2016 and 2017, respectively), enhancing their awareness and increasing opportunities to be a part of social contribution activities.

Expanding participation of employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>163</td>
</tr>
<tr>
<td>2016</td>
<td>237</td>
</tr>
<tr>
<td>2017</td>
<td>325</td>
</tr>
</tbody>
</table>

04 College Student Reporters of the Borrowed Earth School

We selected 27 college students as reporters for the Borrowed Earth School, playing their role in four categories as editors, photographers, video content producers and designers. The reporters promote the program through SNS channels, such as the official website and blog, Facebook and Instagram, by visiting the venues of the program, covering each case and planning/producing relevant contents from various angles.

05 Class Visit Program for Supervisors from the Gangwon Education Office

We held a class visit program for about 20 supervisors from the Gangwon Education Office to explore programs for the Free Semester System in Gangwon-do. We conducted a presentation session about the overall program with information about how the Borrowed Earth School could be included in the public education curriculum, the manual development and design theories in cooperation with the educational technology team from Ewha Womans University, the reaction of students, and know-how needed for the operation of the program. The supervisors also visited classes and experienced the program.

06 Mom Supporters

We organized the supporter group consisting of mothers to expand the opportunities to participate in society for women whose career placed their career progress on hold. The supporters participate in the program as instructors, consulting teenagers about skin care and their careers.
Amritsari Sharing Pack
Amritsari Sharing Pack is a sharing event that we conduct jointly with the Amritsari Store. This event commenced in 2004 to give over 100 gift sets to the underprivileged in local communities. The event is usually carried out just before the Diwali Festival, in which volunteers bring sharing packs and visit underprivileged people in person, extending holiday greetings and sharing love. In 2017, we provided more than 50,000 gift packages, including 15 daily necessities and blankets, to 2,500 households where grandparents are solely responsible for the care of children or where elderly people live alone.

Global Eco Leader
Global Eco Leader is a program for nurturing teenage environmental leaders and providing a wide range of environmental knowledge and experience, which commenced in 2004 with UNEP, the Ministry of Environment, and Eco-s拳拳。The program helps participants to become global leaders in the future by encouraging them to end bad habits and drive meaningful changes at home and school and in the local community. In 2017, 300 Eco Leaders, consisting of elementary, middle, and high-school students, and 26 Eco Mentors participated in the program under the theme of climate change and sustainable growth. We upgraded it to a sustainability growth education program where participants can understand that environmental issues are associated with all other political, social and economic issues and address such issues from a relational, future-oriented, and long-term perspective.

Sponsorship for Seoul Eco Film Festival and Support for HIMANGO
THEFACESHOP, a nature-oriented cosmetic brand, is deeply interested in environmental issues and carries out various social contribution activities related to the environment of the Earth that we have to protect. In 2017, the brand officially sponsored the Seoul Eco Film Festival, the largest event of its kind in Asia, to draw public attention to the significance of nature and the severity of environmental pollution. It gave away movie vouchers to customers who had a receipt after buying products at the THEFACESHOP stores across the country, helping various stakeholders form a new perspective on environmental issues. Since 2010, THEFACESHOP has also conducted THEFACESHOP HIMANGO Aid Program in cooperation with HIMANGO, a non-profit organization, for residents in impoverished areas in the Republic of South Sudan in Africa to help them stand on their own feet. We assisted the foundation of HIMANGO Village, an education center that provides local residents with self-reliance education and support for livelihood, while constructing the HIMANGO Elementary School to give local children opportunities for education. In Korea in 2017, we carried out the HIMANGO Day Event for sharing love and making friends, a campaign to empathize with the underprivileged and share a considerate mindset.

Global Eco Leader (Participant opinion)
Moments at which all people become one through the Olympics with Coca-Cola
Environment and Safety Management System

We manage risk factors associated with the environment and safety risks in our newly organized Environment and Safety Department. We have the Environment, Safety and Health Team in charge of planning under the Environment and Safety Department and the Logistics Environ-
ment and Safety Part in charge of relevant affairs in the field of logistics and sales. We classify the business site environment and safety group into six teams and parts to manage relevant issues at our business sites. Each year, LG H&H supports the environment and safety activ-
ities at its domestic and overseas subsidiaries, such as THEFACESHOP, CNP and Zenisce in the cosmetic business division and its subsidiaries in China (Beijing and Hangzhou) and Vietnam, for their observance of local regulations.

Medium and Long-term Strategies for Environment and Safety Management

We have organized the project TF to strengthen our environment and safety management capacity and set medium and long-term opera-
tional plans and made a roadmap that will be applied by 2020. Through this project, we have identified major risks related to the environ-
ment and safety across the company, designed our medium and long-term strategies, operational plans, and direction for human resource develop-
ment, and made progress in creating eco-friendly, accident-free business sites. With our medium and long-term strategy roadmap, we will focus on implementation by 2020, examine the progress each year, and actively address our loopholes.

Medium and Long-term Roadmap for Environment and Safety Management

<table>
<thead>
<tr>
<th>Category</th>
<th>KPI</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Achievement Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal use rate of safety covers</td>
<td>100% (6,147 cases)</td>
<td>100% (5,384 cases)</td>
<td>Operation stabilization</td>
<td>System upgrade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement rate of near miss</td>
<td>100% (4,525 cases)</td>
<td>100% (17,235 cases)</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GHG emissions intensity</td>
<td>0.075 tCO2e/product-ton</td>
<td>0.075 tCO2e/product-ton</td>
<td>0.075 tCO2e/product-ton</td>
<td>0.075 tCO2e/product-ton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of ISO certification maintained</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Our Commitment

LG H&H sets a target to reduce its environmental impact across all production processes and reinforces environmen-
tal management in its business sites to reduce GHG emissions and biodiversity conservation, are taken into account in
the evaluation of their values. Accordingly, companies now
have to minimize their environmental impact across all pro-
duction processes. Moreover, growing attention is being paid to the impact of the work environment on the safety of
employees and those of suppliers, and therefore we must
thoroughly manage business management activities in
order not to cause any negligent accidents.

LG H&H sets a target to reduce its environmental impact across all production processes and reinforces environmen-
tal management in its business sites to reduce GHG emissions and biodiversity conservation, are taken into account in
the evaluation of their values. Accordingly, companies now
have to minimize their environmental impact across all pro-
duction processes. Moreover, growing attention is being paid to the impact of the work environment on the safety of
employees and those of suppliers, and therefore we must
thoroughly manage business management activities in
order not to cause any negligent accidents.

CSR Background

Regulations related to environment protection and energy
have been tightened, while the roles of companies in the
environmental sector, including GHG emissions reduction
and biodiversity conservation, are taken into account in
the evaluation of their values. Accordingly, companies now
have to minimize their environmental impact across all pro-
duction processes. Moreover, growing attention is being paid to the impact of the work environment on the safety of
employees and those of suppliers, and therefore we must
thoroughly manage business management activities in
order not to cause any negligent accidents.
Energy and GHGs

Energy Consumption

We make efficient use of energy in accordance with guidelines for managing targets for GHG emissions and energy use. We try to lower energy consumption by replacing raw materials requiring heavy energy consumption with alternatives and reducing LNG through plumbing.

Cases of Reduced Energy Consumption

Energy Reduction

- Reduced power consumption by installing blowers for removing moisture in products (electricity): 203 MWh
- Reduced power consumption by improving the process control (electricity): 120 MWh
- Simplified processes by changing raw materials (electricity): 465 ton
- Reduced steam consumption by rationalizing processes (steam): 107 MWh
- Simplified processes by changing empty digestion tank (LNG): 411 ton
- Increased the efficiency of boilers by removing moisture on products (electricity): 43,118 N㎥/ton
- Increased the efficiency of power consumption by replacing lighting with LED lamps (electricity): 706,477 ton/product-ton
- Increased the efficiency of power consumption by replacing lighting with LED lamps (electricity): 1.484 (ton)
- Increased the efficiency of power consumption by changing empty container recycling method (electricity): 120 MWh
- Increased the efficiency of power consumption by replacing lighting with LED lamps (electricity): 465 ton
- Increased the efficiency of power consumption by changing empty container recycling method (electricity): 43,118 N㎥/ton
- Increased the efficiency of power consumption by changing empty container recycling method (electricity): 10

GHG Emissions

With abnormal weather occurring across the globe, there is growing attention to climate change among consumers. In response to such a phenomenon, each of our business sites makes various plans to reduce GHG emissions, increasing the efficiency of existing installations and introducing high-efficiency equipment with continued investment. In 2017, we reduced GHG emissions by 447 tCO2e and energy consumption by 10 T J in 11 cases. With these efforts, we improved GHG emissions intensity by 2% compared to the previous year, from 0.077 to 0.075.

Water

Water-related Risk Management

Coca-Cola Beverage and HAITAI htb, where water takes up more than 80% in the total use of raw materials, have conducted the raw water vulnerability test every five years since 2012. We analyze and evaluate the supply chain of raw materials, concerns, water quality, national water supply and protection policies, and future prospects for sustainable use of water resources. In 2017, we organized the raw water management team at each business site to effectively carry out the test while strengthening our capacity for managing the raw water vulnerability through pre-education programs. In addition, we undergo the WRI Aqueduct test across all business sites to identify and manage the current and future water stress in our business sites.

Water Consumption

The water consumption by LG H&H and Coca-Cola Beverage decreased due to the year-on-year reduction in production by 2.1% and 6.8%, respectively. On the contrary that of HAITAI htb jumped by 27% due to a 2.9% increase in the production of liquid sugar and aseptic products compared to the previous year.

Cases of Reduced Energy Consumption

Reduction in GHG emissions (tCO2e) 2017

- 95
- 56
- 55
- 50
- 49
- 45
- 43
- 42
- 7
- 5
- 2

Savings (KRW 10,000) 2017

- 2,501
- 1,321
- 1,690
- 1,330
- 1,644
- 6,500
- 1,279
- 1,168
- 209
- 128
- 4,055

[TARGET 2020] GHG emissions intensity 2017

- 0.077 tCO2e/product-ton

Water consumption (ton) 2017

- 706,477
- 735,449
- 697,879

[TARGET 2020] Water intensity 2017

- 0.998

* Non-consolidated
Wastewater Management

We upgraded facilities and added new installations to reduce pollutants in wastewater discharged during the water use and product manufacturing stage. For instance, we have reduced the amount of discharged pollutants by expanding anaerobic digestion tanks at our business site in Cheonan. Our business site in Cheongju installed cohesive chemical mixers, reducing the consumption of chemicals by 6%, increasing the efficiency of chemical co-oxidation treatment, and contributing to effective waste treatment.

Amount of Discharged Wastewater
We lowered the amount of discharged wastewater by 1% and the wastewater intensity by 4% compared to the previous year by continuously upgrading relevant facilities and reducing wastewater from emission sources. At the Yangsan Plant of Coca-Cola Beverages Korea, we shifted the wastewater discharge method from direct discharge to discharge through sewage treatment facilities, reducing sludge and waste. Our business site in Cheongju increased the recycling rate by shifting a sludge treatment method from landfill to recycling.

Odor Management
Our business site in Yeoju alleviates odor from wastewater treatment facilities and reduces damage to surrounding areas. We reduced the odor concentration by 95.5% by sealing the top of aeration tanks for odor concentration by 95.5% by sealing the top of aeration tanks and reducing the amount of wastewater discharged to surface water by 11.6%. Wastewater discharged from HAITAI H&B’s plant in Cheonan increased the recycling rate due to the normal operation of the process for 11.6%. Wastewater discharged from HAITAI H&B’s plant in Cheonan increased the recycling rate due to the normal operation of the process for 11.6%. Wastewater discharged from HAITAI H&B’s plant in Cheonan increased the recycling rate due to the normal operation of the process for 11.6%.

Chemical Substances

Chemical Substance Management System
We prevent regulation-related risks by improving the management system where raw materials can pass through the customs clearance only when the registration number of imported chemical substances is entered in accordance with relevant regulations. We also completed data collection and research on 837 chemicals for 575 flavoring elements (as of June 2017) to increase reliability of the system. In 2018, we will strengthen the raw material management system at GEM suppliers, in which the raw material mix process can be generated only when information about the contents of raw materials is entered by the researcher in charge.

Waste

Waste Management

We make continuous efforts to reduce the failure rate in the production process to minimize the amount of waste. We also facilitate the recycling of waste by conducting a regular waste sorting education program.

Amount of Waste

Our business site in Yangsan upgraded a wastewater treatment method from direct discharge to discharge through sewage treatment facilities, reducing sludge and waste. Our business site in Cheongju increased the recycling rate by shifting a sludge treatment method from landfill to recycling.

Industrial Safety & Health Activities

Goal of Achieving 100% Normal Use Rate of Safety Covers

Due to the characteristics of the manufacturing-based business, there are always potential risks of people becoming caught in machines, equipment and logistics installations. In order to avoid such major accidents in advance, we have tried to achieve a 100% normal use rate of safety covers that prevent the operation of machines to protect workers when their safety covers are open. The facility operation department takes charge of daily self-checks on safety covers, while the safety department conducts inspections, reducing such accidents from 3 cases in 2015 to zero in 2017. In 2018, we plan to fundamentally prevent negligent accidents by applying the lock-out and tag-out system to the switches of machines at our business sites in Cheongju, Iksan and Osan, avoiding accidents caused by miscommunication that may start machines during the inspection process.

Minimization of Negligent Accidents at Business Sites

Since construction projects are carried out by an external workforce with insufficient understanding of the relevant business site, there are high chances of major damage when any risks and accidents occur due to new workers, equipment and substances. LG H&B operates preemptive work risk assessments and a work approval system to ensure safety before, during and after the work process.

Safety Culture Campaign for Employees

We have conducted a basic safety compliance campaign to spread the safety culture. We use standing signboards at the entrances and cafeterias of our business sites where many people come and go to promote basic safety rules. We analyzed 4,826 near miss events and identified their causes to improve the process, preventing the recurrence of such accidents.

Industrial Safety and Health Committee
We organized the Industrial Safety and Health Committee consisting of the same number of members from both labor and management to hold a quarterly meeting to encourage the labor union to participate in the compliance of safety and health rules and find new ideas for improvement.

ISO Certification

For transparent and high-quality environment and safety management that conforms to global standards, we obtain and retain the environmental management certification (ISO14001) and safety and health certification (OHSAS18001) for major business sites. We independently evaluate the overall system through the environment and safety diagnosis, and undergo evaluation by external experts to maintain the ISO certification. According to the result of the latest evaluation, there was no major inadequate aspect. We immediately improved minor problems to stabilize the operation of the system.

Environmental management certification
ISO14001
11 business sites

Safety and health certification
OHSAS18001
10 business sites
Industrial Safety and Health Activities for Suppliers

We have an industrial safety and health committee for in-house suppliers to support their safety and health system. We share and discuss relevant issues, provide education programs about amended laws and regulations, and help them abide by such reg-
ulations. We also open our safety and health education rooms, health care center, fitness center, and shower rooms to employees of suppliers, assisting their training and health care activities and increasing their satisfaction level.

In-house Psychological Counseling Center for Mental Health

LG H&H operates a psychological counseling program to present stress management guidelines for employees, find any ment-
ial issues in the early stages, and help them maintain their mental health. Our counseling center operates at our business site in Any-
ang, focusing on call center staff who deal with emotional labor. To increase the awareness of psychological counseling and help employees better understand it, we invite renowned experts as special lecturers, and enable our employees to comfortably use the center anytime in our completely confidential counseling sys-
tem. In 2017, the counseling use rate reached 96% with 4.3 out of 5 points in the satisfaction level. We will continue to expand the pro-
gram to help our employees live healthy daily lives.

Education and Training for CPR

We carried out 18 training sessions for CPR and the use of AEDs (Automated External Defibrillator), which are the basics of safety education, for 1,187 employees. For swift and effective training, we utilized 23 sets of dummies and AED training kits. We also provide leaflets for visitors on the guidelines and rules for preventing card-
iac arrest, creating a safe work environment in our business sites. We will continue to provide training programs for employees to enhance their emergency response capacity.

Management of Cerebrovascular and Cardiovascular Diseases

For the management of cerebrovascular and cardiovascular dis-
eases, we had 326 employees aged 45 or over fill out the health management plan and undergo counseling and checkups with doctors. In 2018, we will expand the scope of subjects for health checkups and employ the cerebrovascular and cardiovascular disease checkup package that is supposed to be conducted every five years. We will operate the intensive care program targeting employees who need to be careful about or have a risk of four major diseases as diagnosed in the checkup, helping them to pre-
vent sudden heart attacks or cerebral infarctions.

Pleasant Health Enhancement Program

We carried out health education programs under eye-catching themes selected by a survey. A total of seven lectures were con-
ducted with themes such as four trigrams constitution, musculo-
skeletal system, cancers, good dietary habits, and laughter, and over 400 employees attended these events. They especially liked the dietary habit lecture consisting of demonstration and practice, which provided them with opportunities to relax.

Emergency Response Activities

Regional Response System

Regional Emergency Response System, aimed at immediately responding to accidents at its 90 business sites, including logistics facilities and research centers, throughout the country. The region and visit the facilities in the case of an emergency. With this system, we enhanced the response capacity of logistics facilities that are relatively lacking in resources.

Classification of Regions

Cheonan → Gwangju → Anyang → Cheongju → Daejeon → Yeosu → Ulsan

Eco-friendly Logistics and Centers

Upgraded Logistics System

Recognizing the significance of the role of logistics and response from the aspect of customers, we shorten the transport and deliv-
ery routes, expand joint transport and delivery, reduce packaging materials and waste, and strengthen communication with custom-
ers in the logistics system. Keeping up with the trend of the Fourth Industrial Revolution, we plan to introduce a logistics system that can upgrade the operation of logistics by increasing the automa-
tion level of warehousing and shipping based on our know-how of logistics and utilizing an advanced picking system.

Safe Logistics

We undergo a regular environment and safety diagnosis carried out by an external agency for logistics centers, in which the level of our product management and logistics centers is evaluated. In 2017, we improved facilities and work environment in 227 cases, trying to maintain the highest quality of logistics. We also conduct the 2-hour monthly safety and prevention education program to create safe business sites for employees.

Logistics Efficiency Enhancement for Minimizing Environmental Load

We are establishing the logistics system that minimizes our envi-
ronmental impact regardless of internal and external environmen-
tal changes and increasing uncertainties, by continuously opti-
mizing the operation of logistics in each field, including process improvement, transport, and unloading.

Effect of eco-friendly logistics activities

KRW 4.58 billion in total

→ Improve the operational process of logistics centers    2.21
→ Shorten transport routes and increase the size of vehicles    0.69
→ Improve the efficiency of delivery    1.68
Win-Win Growth

The relationships between a company and its suppliers are evolving from simple business relationships for supply to partners for win-win growth. It is now deemed that companies are responsible for handling negative issues emerging in the supply chain, such as non-payment of wages and human rights violations, and such issues have an adverse impact on corporate values. In this context, we need to lay the groundwork for supporting and cooperating with suppliers to grow together, recognizing them as key partners.

In pursuit of win-win growth with SME suppliers, LG H&H establishes implementation plans and examines performance in a systematic management system in the fields of fair opportunities, financial support, technical workforce support, and expansion of education. We support our suppliers to make them consider sustainability as an important corporate social responsibility and reflect it in the overall business management.

Fair Opportunity

Fair Opportunities for Participation

Since 2012, we have operated the Convergent Purchasing System to provide our suppliers with fair opportunities. For fair transactions, we classify suppliers according to the features of raw materials they supply and give all registered suppliers opportunities for bidding. We have a series of process steps from contract signing to order placement, order reception, supply and payment, which are managed through an interactive agreement procedure and disclosed in a transparent management system. We have remarkably simplified the process, so that any company that wants to make a deal with us can register itself on our system and submit a proposal for its products.

Report of Unfair Transactions and Operation of Communication Channel

We have a proposal and reporting channel where our suppliers can report unfair transactions, a system for protecting the rights of suppliers as partners. In addition, we try to expand communication with suppliers through the Open Forum in the procurement portal system to improve work practices and receive their suggestions for win-win growth.

Sales Growth

Domestic Market – Technology Proposal Fair

We held the technology proposal fair to explore new ideas about technologies between suppliers and help them commercialize such technologies. Through this event, our suppliers can communicate with the relevant departments at LG-H&H, such as marketing, sales and R&D, to find development measures, while we actively provide support to make such ideas lead to an actual increase in sales. In 2017, we conducted the technology proposal fair six times, generating KRW 3.22 billion of new sales at 34 suppliers.

Overseas Market – Application for Participation in International Beauty Fairs

We support SME suppliers to participate in various international beauty fairs where they can learn the trends of the global cosmetic market. In 2017, our suppliers applied for participation in three fairs, and they won contracts worth KRW 1.27 billion. Moreover, in the first technology proposal fair held by our subsidiary in China in 2017, we introduced exemplary suppliers in Korea. LG-H&H plays the role of bridgehead for export to help its suppliers go beyond the saturated domestic market and find a breakthrough to enter overseas markets.

Vision and Strategic System for Win-Win Growth

Win-Win Growth, Happy Together

Korea’s Best Leading Company for Win-Win Growth

Spreading of a performance-sharing model

Four major strategic tasks

Reinforcement of competitiveness in the supply chain

Conversion into a feedback-oriented payment system

Strengthening communication

Specific direction of strategies

• Distribution of channels for the performance-sharing system
• Expansion of direct investment by win-win growth investment funds
• Compliance with the agreement on suitable SME business types

Six initiatives

192 cases

Fair opportunity

Financial support

Sales growth

Technical and human resource support

Welfare and benefits

Open communication
Technical Human Resource Support

Technical Support for Suppliers

In 2017, we organized the technical support team for suppliers to actively provide support with technical support. We dispatched experts to provide them with ISO 14001 and that for safety and health (OHSAS 18001). In 2017, we provided five suppliers with 100% of expenses for certification evaluation and consulting, helping them receive nine certifications.

Support for Productivity-enhancing Consulting for Suppliers

We provide SME suppliers with an adequate consulting program to improve their productivity. Since 2014, we have supported over 150 suppliers every year. In 2017, we assisted 138 suppliers, accomplishing KRW 1.36 billion of financial performance that was useful for their business management.

Protection of Technologies Developed by Suppliers

We protect technologies developed by suppliers through a joint management system, we prohibit requiring their technical materials in management system, we prohibit requiring their technical materials in management system, and to nurture experts for technical and human resource support.

Financial Support

Improved Payment for Subcontractors

With the goal of enhancing financial management conditions in the subcontract line, LG H&H pays 100% in cash for its subcontractors three times a month within ten days of finishing the work. In case of any important issue such as a national holiday or economic slump, we additionally shorten the period of payment for subcontractors to improve their business management environment. We apply the same rule to the beneficiary selection process in the win-win growth support system, so that the rules can be applied even to secondary suppliers without direct contracts with LG H&H.

Shared Growth Payment System

LG H&H has introduced and expanded the Shared Growth Payment System, in which secondary, tertiary, and quaternary suppliers can also be paid under the same conditions. This system offers advantages of not having any burden of security or risk of bankruptcy in series for suppliers because they do not have the right of resource. They can also reduce financial expenses in utilizing bill discounts. In 2017, shared growth payment worth of KRW 585.7 billion was made for 438 primary suppliers, as well as KRW 14.4 billion for secondary and tertiary suppliers.

Financial Support System

LG H&H manages the Coexistence Cooperation Fund, a loan system managed by a finance institution, to support technology development and fair investment for suppliers. We also carry out financial support activities to lend the fund directly without interest and support suppliers’ investment issues by donating funds for win-win growth investment in the Korea Foundation for Cooperation of Large & Small Business, Rural Affairs, an institution specialized in win-win growth. In 2017, we introduced the system specifically for affiliated stores, expanding the scale of financial support.

Welfare and Benefit

Education Support for Suppliers’ Employees and their Families

LG H&H provides e-learning and correspondence learning programs to suppliers’ employees and their families. We also encourage their children to participate in the Borrowed Earth School conducted by LG H&H, where teenagers can learn eco-friendly habits.

Support for the Work-Life Balance of Suppliers

We run the welfare mall, where employees of suppliers can purchase products under the same conditions as LG employees, while supporting expenses to expand staff lounges and other welfare facilities to companies that win prizes in the supplier innovation contest. We also give away sports game vouchers to suppliers. In 2018, we plan to provide tickets for games on weekends for suppliers outside the metropolitan area.

Support for the Social Contribution Activities of Suppliers

Since 2015, we have carried out “Happy Together Campaign with LG H&H” to support the social contribution activities of suppliers outside the metropolitan area. If our suppliers select particular welfare facilities in the region and conduct volunteer activities, we provide goods worth KRW 5 million, spreading the volunteering culture and supporting the expansion of communication channels with local communities.

Open Communication

Proactive Communication

Practice of Open Communication

LG H&H builds mutual trust with suppliers through various communication channels, listening to their complaints and motivating them. We operate the Win-Win Growth Review Committee, CEO Academy, and Competitiveness Reinforcement Workshop on a regular basis targeting over 150 suppliers.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of meetings</th>
<th>Content</th>
<th>Current status of composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Win-Win Growth Review Committee</td>
<td>Four times a year</td>
<td>Deliberating on subcontract and win-win growth issues</td>
<td>2 full executive committee members, 5 representatives of suppliers, 3 LG internal committee members</td>
</tr>
<tr>
<td>CEO Academy</td>
<td>Twice a year</td>
<td>Sharing the procurement policy</td>
<td>123 employees of suppliers</td>
</tr>
<tr>
<td>Competitiveness Reinforcement Workshop</td>
<td>Four times a year</td>
<td>Sharing the procurement policy</td>
<td>123 employees of suppliers</td>
</tr>
</tbody>
</table>

Win-Win Growth Support System for Secondary Suppliers or Under Suppliers

Support for Consulting

- Support secondary suppliers by determining the scope of consideration for Coexistence Cooperation Fund of KRW 11 billion and Non-Interest Direct Loan of KRW 1 billion
- Operate the meeting of suppliers’ representatives for the review of major issues associated with subcontract and win-win growth
- Two out of five executive companies are secondary suppliers
- Provide support for three or more secondary suppliers a year through productivity innovation partnerships and the industrial innovation movement

<table>
<thead>
<tr>
<th>Category</th>
<th>Support performance in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support for the design and engineering</td>
<td>38 cases including engineering supervision, joint development and test molds</td>
</tr>
<tr>
<td>Activity for performance sharing</td>
<td>22 cases of fair performance management for cooperative tasks</td>
</tr>
<tr>
<td>Activity for coexistence and cooperation</td>
<td>15 cases including management of the environment, safety and health in business sites</td>
</tr>
<tr>
<td>Consulting for improving productivity</td>
<td>18 cases including innovation in manufacturing and management system certification</td>
</tr>
<tr>
<td>Technology protection program</td>
<td>21 cases including support for technology escrow for 15 companies</td>
</tr>
</tbody>
</table>

LG Coexistence Cooperation Fund

Support KRW 30.99 billion for 61 companies

Non-Interest Direct Loan

Support KRW 0.71 billion for 8 companies

Win-Win Growth Investment Fund

Support KRW 0.55 billion free of charge
CSR Assessment and Management for Suppliers

LG H&H makes efforts with its suppliers to address potential risks through their CSR assessment.

**Targets**
Core suppliers are supposed to have maintained a deal with LG H&H for longer than one year with the annual transaction amount worth KRW 200 million or more. Some suppliers can be included if they have a significant impact on the quality of products regardless of transaction amount. In 2018, we will reorganize the target companies and criteria to apply the safe quality system to the supply chain.

**Assessment Criteria**
We conduct a comprehensive assessment to select new suppliers for raw and subsidiary materials and products and decide whether to retain partnership with existing suppliers. New suppliers are selected when they score 70 points or over in the quality management (40%) and CSR (60%) evaluation. In terms of existing suppliers, we evaluate them in several categories: an annual on-site inspection (CSR, technical capacity, plant management), quality performance, rate of meeting deadlines, compliance with rules, win-win growth, credit rating, and customer complaints. We apply different proportions of scores depending on the type of suppliers and break off business relations with those rated Level D (under 70 points) in the comprehensive assessment. Those with high scores are granted incentives when the beneficiaries of the win-win growth support system are selected. In 2018, we will build a new evaluation system with the safe quality certification checklist and amended CSR checklist.

**Amendment of the CSR Checklist for Suppliers**
The previous CSR checklist consisted of 64 questions in the fields of governance, environment/energy, safety/health, Jeong Do Management, labor/human rights, customers, and local communities. In order to consider the efficiency of the examination and focus on risks, we reduced the number of categories to 40 and clarified the explanation of questions, basic grounds and rating criteria to help suppliers try self-checks and smoothly undergo the on-site assessment.

**CSR Assessment for Suppliers**
LG H&H has set the code of conduct for its suppliers with 26 items in four categories, including labor, human rights, the environment, safety, fair transaction, and personal information protection that are part of our corporate responsibilities. This code of conduct is available on the website of the procurement system. We conduct an annual on-site inspection to enable suppliers to pay more attention to CSR and comply with relevant principles. Based on the annual plan, we visit suppliers, check potential CSR risks, and reflect the result of the CSR on-site assessment in the comprehensive assessment of suppliers, thereby reducing risks. In 2017, we carried out the CSR on-site assessment for 235 suppliers, including 9 new suppliers, 22 suppliers for cosmetics and daily products, and 24 suppliers for beverage products. As some aspects including human rights, environment and safety were found inadequate in the assessment, we recommended that relevant suppliers (200%) tackle such shortcomings.

**Third-party CSR Assessment**
Aside from the annual on-site inspection, we selected seven suppliers and carried out a third-party pilot assessment in 2017. We employed the amended CSR checklist and on-site inspection staff. With this third-party assessment, we increased the expertise and objectivity of the CSR assessment, while providing more diverse information and aspects for improvement related to CSR. In the on-site inspection, the establishment of the code of ethics, the operation of the grievance arbitration process, and the provision of safety education programs were found inadequate. We provided a result report to each supplier and recommended they address all loopholes. In 2018, we will set the standards to select suppliers with a significant influence on LG H&H and conduct a third-party assessment for ten suppliers every year, expanding the scope of assessment even further.

**Amended CSR Checklist**
In 2018, we will review the amended CSR checklist and conduct a third-party pilot assessment in 2017. We will select seven suppliers and carry out a third-party assessment to identify any shortcomings and recommend improvements to address them.

**CSR Assessment for Suppliers**
We have selected 192 companies (5 new companies) for the third-party CSR assessment.

**CASE:** Supplier Shinwoo Discusses Coexistence with LG H&H

We can tear down the invisible wall between large companies and SMEs.

Shinwoo Korea Co., Ltd. started supplying containers for cosmetic products to LG H&H in 1989. We maintained a business relationship over many years. As the sales in the cosmetic business division of LG H&H soared remarkably from 2013, those of Shinwoo also jumped, achieving KRW 40 billion in sales of packaging materials for cosmetic products. As the company expanded its headquarters in 2017, however, some quality issues including the increase in the failure rate emerged. To manage the relevant risks, Shinwoo participated in the productivity innovation partnership program conducted by LG H&H and found a turning point. As a result, the company was selected as an exemplary supplier of LG H&H and won the Win-Win Growth Committee Chairperson Prize in 2017.

CEO Young-gyu Kim
Governance
Governance

BOD Operation
LG H&H has the governance structure whereby it can ensure the independent and transparent decision-making rights of the Board of Directors (BOD) and conduct efficient business management activities based on checks and balances. The board consists of two inside directors, one non-executive director, and four outside directors, who are appointed in a transparent procedure in the general meeting of shareholders. Outside directors provide professional opinions about major decision-making agendas from the aspect of sustainability management, while taking charge of evaluation and examination on the company’s performance based on their independency. The regular meeting of the board is held according to the annual plan, and additional meetings are held if any urgent agenda item needs to be decided. In order to avoid any conflict of interests, the voting rights of any director who has an interest in a certain agenda is limited pursuant to the Commercial Act and the BOD regulations. In 2017, a total of eight meetings were held, and the average attendance rate of the outside directors was 91.4%.

BOD Members

<table>
<thead>
<tr>
<th>Category</th>
<th>Name</th>
<th>Year of initial appointment</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inside Director(s)</td>
<td>Suk Cha</td>
<td>2005</td>
<td>CEO, Chairperson of BOD</td>
</tr>
<tr>
<td></td>
<td>Song-Muk</td>
<td>2016</td>
<td>CFO, Director</td>
</tr>
<tr>
<td>Non-executive</td>
<td>Joong-wook Suh</td>
<td>2018</td>
<td>Director</td>
</tr>
<tr>
<td>Director</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The chairperson of the Outside Directors Nomination Committee will be appointed later since the previous one resigned.

Outside Directors Nomination Committee
LG H&H operates the Outside Directors Nomination Committee to recommend candidates for outside directors in accordance with the Commercial Act. As a subcommittee of the BOD, the committee nominates candidates for outside directors by considering their expertise in each of the economic, environmental, and social sectors without special restrictions such as gender, race, or national origin. From the nominees, the final candidate is decided by the BOD and appointed as an outside director in the general meeting. The Outside Directors Nomination Committee consists of three members—two outside directors and one non-executive director—with outside directors holding a majority, ensuring fairness and independence in the operation of the committee and appointment of outside directors.

Outside Directors Nomination Process

1. A person who is in a special relationship with LG H&H is not allowed to be appointed as an outside director to prevent any conflict of interest and ensure independence within the BOD.
2. Any director, executive officer, or employee of the company who was excused or dismissed from his/her position within the past five years is not allowed to be appointed as an outside director.
3. Any director, audit officer, or employee of the company’s parent company is not allowed to be appointed as an outside director.
4. Any director, audit officer, or employee of another corporation under the same management as the company is not allowed to be appointed as an outside director.
5. Any director, audit officer, or employee of another corporation that is a partner or has an important stake in the company is not allowed to be appointed as an outside director.
6. Any director, audit officer, or employee of another corporation that is a partner or has an important stake in the company is not allowed to be appointed as an outside director.
7. The current ratio of outside directors is 55%, which satisfies the requirement of the Commercial Act. We may maintain or increase the ratio to ensure independence and check our business management with a particular limit.

Remuneration Policy for the Directors and Audit Committee

Directors are provided with a basic salary total amount of which is a bonus based on the management performance of the company. Their bonuses are decided by the BOD based on their performance in accordance with the special bonus rules set by the BOD. Directors are evaluated within a certain limit based on the company’s financial performance of the previous year as well as their fulfillment of medium and long-term expectations, leadership, contribution to the company, and other non-quantitative indicators. The remuneration of outside directors and members of the Audit Committee is provided within the remuneration limit with the approval from the BOD.

Audit Committee
The Audit Committee operates in accordance with the Commercial Act, as well as the Financial Investment Services and Capital Markets Act. The committee consists of three outside directors without special relationships with LG H&H based on the relevant rules to ensure their independency. One of the members must be an expert in accounting or audits, independently performing the roles of designing the internal audit plans and handling auditing affairs. The committee has the right to require the business report from the BOD or examine the assets of the company for auditing tasks. It can also ask for expert consultation at the company’s expense. In 2017, the committee meeting was conducted five times, achieving a 100% attendance rate.

CSR Committee Operation
LG H&H holds quarterly meetings of the CSR Committee, a decision-making body for company-wide coordination and activity planning related to CSR issues. The committee is chaired by the CFO, and its members include the heads of nine divisions, including the head of the planning and management of each business division.

Shareholders

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign investors</td>
<td>46.0%</td>
</tr>
<tr>
<td>LG Corp.</td>
<td>34.0%</td>
</tr>
<tr>
<td>Domestic institutional investors</td>
<td>12.2%</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>6.1%</td>
</tr>
<tr>
<td>Private investors</td>
<td>1.6%</td>
</tr>
</tbody>
</table>
Risk Management

Integrated Risk Management System

LG H&H operates an integrated risk management system that reflects the characteristics and strategies of its business to prevent and manage potential risks that could emerge in the company’s overall business. We classify potential risks into four categories—strategic, hazardous, financial and operational risks—and define specific types of each risk. According to the characteristics of business, the relevant departments or the company-wide risk management department takes charge of monitoring and responding to the relevant risks.

Compliance Committee

We operate Compliance Committee meeting four times a year to comply with the relevant rules and address risk factors across the company regarding compliance-related risks which are attracting attention at home and abroad. The committee shares key points in risk inspection and current issues and discusses the direction of improvement measures. Consisting of the CFO of the company as the chairman, the head of the Business Innovation, Public Relations and Jeong-Do Management divisions, etc., the committee manages risk factors regarding compliance issues in various fields.

Preventive Management Committee

Along with the Compliance Committee, we organized the Preventive Management Committee in 2017 to carry out risk management activities in detail related to business management. The committee prevents risks that may arise in business management, such as investment in facilities, equity investment, capital management, information security, and accounting management. It also responds effectively to relevant issues, and conducts practical and preemptive activities to avoid the recurrence of similar cases of risk.

Organizational Chart of the Compliance Committee

Compliance Risk

It is widely accepted at home and abroad that compliance risk management is an essential element of corporate management. Damage to the corporate reputation and management costs caused by compliance violations are both on the rise. LG H&H prevents and manages compliance risks in advance in the overall management tasks, avoiding any loss in the aspect of finance and management.

Compliance Risk Inspection

We identify the current status of tasks associated with legal affairs and examine compliance risks at the headquarters as well as overseas subsidiaries, including those in Japan and Taiwan. At overseas subsidiaries, the number of contract reviews and requests for legal opinions has increased, and they have reduced risks by setting a contract management process and guidelines to check issues related to each agenda. Particular types of contract agreement documents frequently prepared are summarized based on the standard contract agreement format, increasing work efficiency. We plan to expand the compliance risk inspection to other overseas subsidiaries.

Global Legal Affairs System (GLAS)

LG H&H introduced the GLAS to manage a wide range of legal issues in a more systematic and efficient way in the entire scope of business. We are preparing to introduce this system to overseas subsidiaries for their efficient management of legal affairs. In 2017, the GLAS was introduced to our subsidiary in China for the first time as an overseas subsidiary. Those in Beijing, Shanghai, and Hangzhou are stabilizing the method of handling legal affairs by using this system. The use of the system is expected to grow with the expansion of our business in China. Other overseas subsidiaries will gradually employ the GLAS with their IT environment and growing demand.

Compliance Newsletter

LG H&H publishes and shares a bimonthly newsletter about compliance trends and issues to instill in its employees a law-abiding spirit. In 2017, various contents were shared, including the Fair Transactions in Subcontracting Act, the Fair Agency Transactions Act, the Product Liability Act, the Personal Information Protection Act, and the Fair Transactions in Franchise Business Act.

Internal Accounting Control System

LG H&H has operated its strict Internal Accounting Control System since 2006 to secure transparency in business operation, the reliability of information and to enhance the soundness of our work processes. In accordance with the Act on External Audit of Stock Companies and the criteria of the system, it was designed with 14 compliance control systems and 347 control activities. In this way, the system can be used to conduct control assessments in the categories of purchasing, production, sales, financial report, etc. In 2017, we set the standard management system to prevent financial risks in advance, while building the monitoring system for abnormal signals of financial information and enhancing the reliability of financial statements.

Internal Control Assessment of Overseas Subsidiaries

To ensure the reliability of consolidated financial statements when applying the Act on External Audit of Stock Companies to domestic companies, we carried out the internal control assessment for overseas subsidiaries in Shanghai, Beijing, Hangzhou, Vietnam and Taiwan. In 2017, we also examined the adequacy of financial data and the internal control state in the overall management at subsidiaries in Japan, Taiwan and Singapore.

Assessment Results of the Internal Accounting Control System

According to the results of the assessment, LG H&H found that all control systems had operated exactly as designed without any problems. We also underwent the third-party assessment, and external auditor (EY Han Young) stated that LG H&H’s Internal Accounting Control System had been effectively managed as of December 31, 2017.

Result of the Law-abiding Awareness Survey among Employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>84 points</td>
</tr>
<tr>
<td>2016</td>
<td>88 points</td>
</tr>
<tr>
<td>2017</td>
<td>88 points</td>
</tr>
</tbody>
</table>
Compliance with Fair Trade Standards

Programs for Willing Compliance with Fair Trade Standards
To observe the relevant regulations and achieve a culture of fair trade, we conduct an internal inspection once a year or more on the R&D, purchasing and sales departments. In 2017, we focused on managing three categories of transactions—subcontractors, sales outlets, and franchises. In terms of trade with subcontractors, we introduced the database program to eradicate unreasonable requests for technical materials from suppliers and remove the potential risks of violations of technologies, a major issue in the industry. In terms of transactions with sales outlets and franchises, we tackled unreasonable work practices and distributed the fair trade manual to ensure a transparent and fair business relationship in transactions.

Ethical Provision of Product Information
LG H&H established its ethical declaration for labeling and advertising—our pledge to earn our customers’ trust in our services and products by providing accurate information. It is an advanced form of declaration that reflects our company’s strict internal standards, which go beyond the legal ones, regarding various information that is provided with products and advertisements. We also set the detailed ethical labeling and advertising guidelines to put into practice the declaration, increasing the transparency and reliability of product information. Only content that is approved by discussion between the quality assurance, product management, and regulation departments and R&D centers under the product labeling and advertising inspection system can be used in actual labeling and advertising.

Personal Information Protection

Reinforcement of the Personal Information Protection System
We maintain our personal information protection system to avoid data leakage from internal sources, hacking and malicious code. We have upgraded the e-mail monitoring system, strengthened personal information leakage monitoring with the encrypted communication monitoring system, and introduced the digital forensic solution to improve our investigation capacity in the case of security incidents. In 2018, we will enhance the data leakage monitoring system, reinforcing security activities with the participation of not only relevant departments but also all employees.

Improvement of the Personal Information Management System
We continuously upgrade the personal information management system to reduce risks of leakage. We ask our personal information management supplier for the data disposal check document every month. We also removed the ID check process in the sign-up stage to minimize the personal information that is collected, while expanding the scope of the ISMS certification obtained in 2014 from 42 to 95 systems and renewing the certification. We set the personal information protection guidelines for overseas subsidiaries and extended the security management scope to overseas subsidiaries. The personal information protection level will be enhanced by following the guidelines. We are now gradually establishing the security management system of consigned companies and applying the security solution at sales sites starting from department stores. In 2018, we will create a more efficient management system by applying the online check system to department stores, rather than manual inspections.

Potential Risks

LG H&H leverages strategic risk management approaches against newly emerging risks to turn potential risks of the company into opportunities.

Risks caused by the spreading of individual media

Category | Details | Description
--- | --- | ---
Response | When harmful chemical substances are used in the production process, it may have a direct/indirect impact on the health of customers. | We need to conduct annual security checks at sales business sites and implement a risk examination process for new categories, in which risks in various aspects are discussed and reviewed to launch products in a new field.
Impacted on | Business | Our business may encounter a slump due to drastic actions or boycotts by consumers. The regulation of our brands can be undermined due to consumers’ decrease in trust regarding product safety. |
Response | The company needs to prepare a risk examination process for new categories, in which risks in various aspects are discussed and reviewed to launch products in a new field. The Consumer Assurance Center, a company-wide integrated group, should monitor and prevent relevant risks in a systematic manner. | 

Tax Payment Policy

Complying with tax laws and fulfilling the responsibilities of various tax payments are part of the social responsibilities of a company. We have clearly assigned the roles and responsibilities of the employees in charge of tax filing and payment. If any issues emerge due to an unclear interpretation of the tax law, we seek advice from accounting firms and external tax experts to find optimum solutions. We fulfill our tax payment obligations both at home and abroad.

Disclosure of Tax Payment Records
We provide corporate tax information in the audit report published annually on DART (Data Analysis, Retrieval and Transfer System) run by the Financial Supervisory Service (FSS) to the public. We disclose the standards for calculating corporate tax expenses, deferred tax assets, liabilities, the details of corporate tax expenses, and tax payments in the financial statement and annotations in the audit report.

Tax Deduction & Exemption System
LG H&H makes full use of the tax deduction and exemption system in accordance with the tax laws in Korea. We file corporate taxes using the consolidated tax return system, and the subsidiaries included in tax filing are THEFACESHOP, HAKI, Ltd., Bright World, and Ulsung Chuan Yongsunges Water Development Co., Ltd. Within the framework of the tax deduction and exemption system and the consolidated tax return system, we strenuously try to minimize the tax burden and maximize shareholder values.

Fulfillment of Tax Payment Obligations
In terms of international transactions with overseas subsidiaries, LG H&H applies the reasonable transfer pricing policy that corresponds to the tax laws in Korea and the transfer price guidelines. We also fulfill our obligation of submitting the integrated report on international transactions in accordance with BEPS (Base Erosion and Profit Shifting), designed to prevent tax avoidance by multinational companies. As we operate local offices or subsidiaries in the U.S., China, Japan, Taiwan and Vietnam, we fulfill our duty of tax payments including corporate taxes based on local regulations and submit a variety of documents requested by the local tax authorities with the support of our headquarters.

Number of data examination cases in 2017

<table>
<thead>
<tr>
<th>Product Examination</th>
<th>15,818 commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving the system</td>
<td>76 websites</td>
</tr>
<tr>
<td>Compliance with regulations</td>
<td></td>
</tr>
</tbody>
</table>
- Personal Information Protection Act
- Act of Prevention of Information and Communications Criminals
- Personal Information Protection Act, etc.
- Privacy Law
- Overseas privacy laws | 
- Prevent unwarranted leakage of personal information
- Assist prevent leakage of personal information
- Conduct personal information check of consigned companies and strengthen security checks at sales business sites
- Observe the regulations of personal information protection
- Take operational and technical protection measures concerning the lifecycle of personal information
- Follow personal information protection guidelines for overseas subsidiaries |
"We will earn respect by pursuing healthy corporate ethics."

Jeong-Do Management

LG H&H implements Jeong-Do Management to become an admired company that pursues healthy corporate ethics and fulfills its responsibilities to customers, suppliers, shareholders, employees and society. We operate the Ethical Affairs Team in charge of systematic Jeong-Do Management activities and the Management Diagnosis Team in charge of regular diagnosis and relevant risk management. We have also designated employees in charge of Jeong-Do Management at each overseas subsidiary to increase employees’ awareness and create a culture of Jeong-Do Management.

Contents of the Code of Ethics

We have enacted and implemented the code of ethics as the criteria of desirable behaviors and value judgment among all employees. In 2017, with social trends such as tightened anti-corruption laws, we modified the contents and system of the code of ethics to help employees better understand them. The handbook of the code of ethics, available in Korean, English and Chinese, is shared with all employees.

LG H&H’s code of ethics includes the following basic principles:

- Fair treatment for all: LG employees are treated equally without discrimination.
- Fair competition: All business transactions follow fair competition principles.
- Fair and just management: LG operates transparently and fairly.
- No corruption: LG employees are committed to honest dealings.
- Protecting the environment: LG promotes sustainable practices.

Directions of LG H&H’s ethical management in 2017:

- LG H&H established a Cyber SINGUNDO and an Anti-bribery Management System to help increase employees’ understanding of ethical management.
- LG H&H held an educational program for CEOs of suppliers and raw materials as part of an anti-corruption campaign.
- LG H&H created a internal report system and established a whistle-blowing system to help employees report cases of wrongdoing.
- LG H&H enforces remedies for employees who improperly report such cases.

Company-wide Dissemination of Jeong-Do Management

Jeong-Do Management Education and Promotion

Our company-wide Jeong-Do Management education programs and promotion activities are aimed at enhancing knowledge about Jeong-Do Management and helping employees to internalize it. In 2017, we conducted the Jeong-Do Management sharing session for executives and heads of business divisions, discussing major issues and violation cases and strengthening the prevention and management in each division. In addition, we expanded the education programs for groups in the blind spot, such as overseas subsidiaries and acquired subsidiaries, through online/offline education programs for local employees in China and Vietnam, those for acquired domestic subsidiaries, and those for production line employees at plants and sales employees at duty-free shops. Further, we spread the Jeong-Do Management culture by holding the Jeong-Do Management education programs and meetings and issuing newsletters. We will improve awareness of Jeong-Do Management among employees further by reinforcing regular communication, education and promotion.

Jeong-Do Management Education

<table>
<thead>
<tr>
<th>Education program</th>
<th>Target</th>
<th>Initial</th>
<th>Actual</th>
<th>No. of employees</th>
<th>No. of sessions</th>
<th>Education period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeong-Do Management education for CEOs of suppliers</td>
<td>LG employees</td>
<td>40</td>
<td>40</td>
<td>1</td>
<td>2</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Jeong-Do Management sharing session for executives and heads of business divisions</td>
<td>LG employees</td>
<td>136</td>
<td>90</td>
<td>3</td>
<td>2</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Local education for our subsidiary in Vietnam</td>
<td>LG employees</td>
<td>54</td>
<td>54</td>
<td>1</td>
<td>2</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Local education for our subsidiary in China</td>
<td>LG employees</td>
<td>131</td>
<td>134</td>
<td>4</td>
<td>2</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Written pledge for Jeong-Do Management</td>
<td>LG employees</td>
<td>320</td>
<td>325</td>
<td>1</td>
<td>2</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Education for production line employees at plants and sales employees at duty-free shops</td>
<td>LG employees</td>
<td>54</td>
<td>51</td>
<td>4</td>
<td>2</td>
<td>2 weeks</td>
</tr>
<tr>
<td>Education for CEOs of suppliers and local management in each division</td>
<td>LG employees</td>
<td>763</td>
<td>753</td>
<td>3</td>
<td>2</td>
<td>2 weeks</td>
</tr>
</tbody>
</table>

Stabilize the Jeong-Do Management Culture

Written Pledge for Jeong-Do Management

All employees of LG H&H write a pledge to put into practice Jeong-Do Management as part of their efforts to create a transparent and fair Jeong-Do management culture. The written pledge includes their will to abide by the company’s code of ethics and pursue Jeong-Do Management in the work process. Our suppliers also need to submit the written pledge as part of the contract agreement. In this way, our employees and suppliers promise to observe LG’s code of ethics and implement Jeong-Do Management.

Training of Employees in Charge of Overseas Subsidiaries

LG H&H designates and trains employees in charge of Jeong-Do Management for nine overseas subsidiaries to provide the foundation on which our overseas subsidiaries can autonomously carry out relevant activities. In 2017, we held a workshop for employees in charge of Jeong-Do Management at four subsidiaries (China, Taiwan, Vietnam, Singapore), and shared relevant issues and information about activities at each business site, considering the global business environment. We also enable subsidiaries to conduct such activities through mutual benchmarking.

Bribery Report System

We send a biannual notice to all employees as well as suppliers about the anti-bribery campaign. In accordance with the code of ethics, LG H&H employees never receive money or other gifts from stakeholders regardless of reason. When someone offers money or gifts, employees should politely refuse and return them, and if impossible, they should report the case to the Ethical Affairs Team. Reported money and gifts are donated to welfare organizations or sold in the internal bidding events. The profits from the events are used for social contribution activities.

Voluntary Reporting cases

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of employees</th>
<th>No. of sessions</th>
<th>No. of cases</th>
<th>Revenue expenses</th>
<th>House of overseas business travel allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>148</td>
<td>5</td>
<td>9</td>
<td>142</td>
<td>1</td>
</tr>
<tr>
<td>2016</td>
<td>149</td>
<td>6</td>
<td>9</td>
<td>296</td>
<td>4</td>
</tr>
<tr>
<td>2015</td>
<td>150</td>
<td>7</td>
<td>10</td>
<td>321</td>
<td>12</td>
</tr>
</tbody>
</table>

Cyber SINGUNDO

We operate Cyber SINGUNDO as a corruption reporting system for accusations of unethical behavior that violate LG’s code of ethics. We carry out preliminary and on-site investigations first, and if the report is proved to be true, we take follow-up measures, including disciplinary actions, work process improvements, and Jeong-Do Management education to create a transparent and fair corporate culture. In addition, we have strengthened the reward system for informants and the protection of whistle-blowers to facilitate the reporting of wrongdoing. We also implement our Internal Report Integration System that estimates penalties in the case of voluntary reporting, thereby eradicating corruption and misconduct.

Progress of Cyber Report Handling

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of participants</th>
<th>No. of cases</th>
<th>No. of severe disciplinary actions</th>
<th>No. of light penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>49 (17)</td>
<td>142</td>
<td>75</td>
<td>67</td>
</tr>
<tr>
<td>2016</td>
<td>54 (28)</td>
<td>296</td>
<td>68</td>
<td>280</td>
</tr>
<tr>
<td>2015</td>
<td>54 (25)</td>
<td>321</td>
<td>51</td>
<td>250</td>
</tr>
</tbody>
</table>

*Severe disciplinary actions against 75 employees, light penalties against 21 employees in 2017 (number in brackets)
Stakeholder Engagement

LG H&H classifies its stakeholders with a major impact on its business management into customers, suppliers, employees, local communities, shareholders/investors, and government/public institutions/associations. We proactively entertain their opinions and reflect them in our CSR activities, thereby maintaining active communication. We also identify the demands of each group of stakeholders and apply them in our medium and long-term CSR strategies through regular communication channels.

Stakeholder Engagement Channels

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Communication Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Frequency</td>
</tr>
<tr>
<td>Website of the company and brands</td>
<td>Always</td>
</tr>
<tr>
<td>CS Portal, VDC, Call Center</td>
<td>Always</td>
</tr>
<tr>
<td>Complaints and feedback from customers</td>
<td>Always</td>
</tr>
<tr>
<td>Consumer monitoring</td>
<td>3 times/yr.</td>
</tr>
<tr>
<td>House monitoring agents</td>
<td>8 times/yr.</td>
</tr>
<tr>
<td>Brand awareness and satisfaction level surveys</td>
<td>6 times/yr.</td>
</tr>
<tr>
<td>CSR surveys of customers</td>
<td>Annually</td>
</tr>
<tr>
<td>Key activities: Conducting feedback surveys on products and service</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Communication Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>Frequency</td>
</tr>
<tr>
<td>Integrated purchase channel</td>
<td>Always</td>
</tr>
<tr>
<td>Jesang Eo Management channel</td>
<td>Always</td>
</tr>
<tr>
<td>Win-Win Growth Committee of suppliers</td>
<td>4 times/yr.</td>
</tr>
<tr>
<td>CEO Academy of suppliers</td>
<td>2 times/yr.</td>
</tr>
<tr>
<td>Technical support for suppliers</td>
<td>Always</td>
</tr>
<tr>
<td>CSR survey of suppliers</td>
<td>Annually</td>
</tr>
<tr>
<td>Meetings with managers of sales outlets</td>
<td>Annually</td>
</tr>
<tr>
<td>Key activities: Promoting win-win growth with suppliers</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Communication Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Frequency</td>
</tr>
<tr>
<td>Internal and complaint handling programs</td>
<td>Always</td>
</tr>
<tr>
<td>Idea Innovation :3D</td>
<td>Always</td>
</tr>
<tr>
<td>Company President</td>
<td>6 times/yr.</td>
</tr>
<tr>
<td>Company Meeting</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Industrial Safety Committee</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Meetings with specific levels of employees</td>
<td>Half-yearly</td>
</tr>
<tr>
<td>Satisfaction surveys of employees</td>
<td>Annually</td>
</tr>
<tr>
<td>CSR surveys of employees</td>
<td>Annually</td>
</tr>
<tr>
<td>Employees Committee</td>
<td>Bi-monthly</td>
</tr>
<tr>
<td>Employee meeting in each division</td>
<td>Always</td>
</tr>
<tr>
<td>Executive Board Meeting of each business unit</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Beakly Division manager meeting</td>
<td>Monthly</td>
</tr>
<tr>
<td>Key activities: Conducting opinion surveys on management strategies and implementation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Communication Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government, Public Institutions &amp; Associations</td>
<td>Frequency</td>
</tr>
<tr>
<td>Korea Industrial Safety Association</td>
<td>Monthly</td>
</tr>
<tr>
<td>Recycling associations</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Asia Carbon Footprint Seminar</td>
<td>Annually</td>
</tr>
<tr>
<td>Korea Fire Safety Association</td>
<td>Annually</td>
</tr>
<tr>
<td>Korea Environmental Industry &amp; Technology Institute</td>
<td>Irregularly</td>
</tr>
<tr>
<td>Government challenges and conferences</td>
<td>Irregularly</td>
</tr>
<tr>
<td>Key activities: Participating in the decision-making process related to government policies</td>
<td></td>
</tr>
</tbody>
</table>

Key Activities of Stakeholder Engagement Process

- Conducting a preliminary analysis of stakeholders
- Designing and scheduling communication with stakeholders
- Selecting stakeholders for communication
- Communicating with stakeholders and collect their opinions
- Apply the results of communication to tasks and improve management
- Monitor the improvement process and management of report outcomes
- Collect feedback from stakeholders and publish the CSR Report

Key Activities of Panel Discussion

**CASE**


In cooperation with Korean experts in the Chinese market and relevant networks, we held a panel discussion with experts in overseas business to help suppliers entering the Chinese market.

<table>
<thead>
<tr>
<th>External experts</th>
<th>Area of expertise</th>
<th>Suggestion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yang-xing Jia, PhD (Southwest Asia Research Center at Peking University)</td>
<td>Market conditions in China</td>
<td>Strategies for entering the Chinese market and considerations for marketing</td>
</tr>
<tr>
<td>Sun Hyun Koo, CEO (China Business)</td>
<td>International business management strategies</td>
<td></td>
</tr>
<tr>
<td>Gyu-ki Park, CEO (MK China)</td>
<td>Strategies for supporting suppliers entering the Chinese market</td>
<td></td>
</tr>
<tr>
<td>Jae-min Hwang, Director (Panda Korea)</td>
<td>Online market</td>
<td></td>
</tr>
</tbody>
</table>

Key Activities of Panel Discussion

- Strategically exploring the Chinese market and relevant networks
- Understanding the business environment in the Chinese region
- Identifying the challenges faced by suppliers entering the Chinese market
- Sharing the experiences of successful suppliers in the Chinese market

**CASE**

1st Panel Discussion in 2018 – Discussion of Management Measures for Labor and Human Rights in Business Sites

We examined risks associated with labor and human rights in domestic and overseas business sites and discussed what to improve in LG H&H to prevent risks with experts in the Vietnamese market and labor and human rights.

<table>
<thead>
<tr>
<th>External experts</th>
<th>Area of expertise</th>
<th>Suggestion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tu Nguyen-Tan, PhD (Institute for International Trade)</td>
<td>Market conditions in Vietnam</td>
<td>Sharing of information about labor environment in Vietnam</td>
</tr>
<tr>
<td>Han Hyun Hwa, Director (DNV GL)</td>
<td>Issues associated with labor and human rights in the Vietnamese market</td>
<td></td>
</tr>
<tr>
<td>Kyeong-young Lee, Department Head (NHG)</td>
<td>Due diligence of labor and human rights</td>
<td></td>
</tr>
<tr>
<td>Jae-seung Kim, Director (Panda Korea)</td>
<td>Government human rights policies</td>
<td></td>
</tr>
<tr>
<td>Gyu-ki Park, CEO (MK China)</td>
<td>Direction of human rights guidelines at home and abroad and requirements for relevant laws</td>
<td></td>
</tr>
<tr>
<td>Jae-min Hwang, Director (Panda Korea)</td>
<td>Needs of labor and human rights at home and abroad</td>
<td></td>
</tr>
</tbody>
</table>

Key Activities of Panel Discussion

- Strategically exploring the Vietnamese market and relevant networks
- Understanding the business environment in the Chinese region
- Identifying the challenges faced by suppliers entering the Chinese market
- Sharing the experiences of successful suppliers in the Vietnamese market
- Identifying the risks associated with labor and human rights in business sites
Materiality Test

Materiality Test Process

LG H&H examines economic, social, and environmental issues to find critical issues that may affect the company’s business. We also undergo the materiality test process to reflect the various expectations and interests of stakeholders as well as domestic and overseas business conditions. First of all, we select issues by examining global issues including the UN SDGs (UN Sustainable Development Goals), those suggested by international and nonprofit organizations, and external factors detected in the business process, and they are managed in our pool of issues. The significance of these issues is evaluated by analyzing other companies in the same industry and considering the interests of internal stakeholders as well as financial impacts such as cost, revenue, and risk. To examine the expertise of these issues, we conduct the CSR Committee meeting for discussion and listen to the opinions of expert panels. We report these issues by classifying them into Focus issues and Sustainable Management.

Materiality Test Standards

We select material issues by analyzing internal factors through the surveys of employees and suppliers, benchmarking of companies in the same industry, and interviews with executive officers with decision-making rights, and measure the relevance of each issue to medium and long-term strategies, the characteristics of the company, and Jeong-Do Management. To check the relevance to external factors, we analyze the issues in a comprehensive method based on the impact of the interests of external stakeholders, social issues, and regulations by using the results of surveys of customers and public institutions, media research, and global industrial indices.

Material Issues

Focus Issues

1. Launch new products by expanding R&D and investment
2. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
3. Expand the development of eco-friendly products
4. Strengthen the handling and management of hazardous substances
5. Manage the treatment and utilization of waste through reuse and recycling
6. Reduce GHG emissions
7. Strive for stringent ethical management and anti-corruption
8. Strengthen the safety and health of employees
9. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
10. Continuously expand communication with local communities
11. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
12. Improve product safety

Sustainable Management

1. Reduce the environmental impact of product packaging
2. Improve product safety
3. Reduce the environmental impact of product packaging
4. Improve product safety
5. Reduce GHG emissions
6. Improve the features/health-related effects of products
7. Enhance the brand leadership and corporate image
8. Enhance the features/health-related effects of products

Impact on business (Internal)

1. Launch new products by expanding R&D and investment
2. Improve product safety
3. Reduce the environmental impact of product packaging
4. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
5. Expand the development of eco-friendly products
6. Strengthen the handling and management of hazardous substances
7. Manage the treatment and utilization of waste through reuse and recycling
8. Reduce GHG emissions
9. Strive for stringent ethical management and anti-corruption
10. Continuously expand communication with local communities
11. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
12. Enhance the features/health-related effects of products

Impact on business (External)

1. Launch new products by expanding R&D and investment
2. Improve product safety
3. Reduce the environmental impact of product packaging
4. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
5. Expand the development of eco-friendly products
6. Strengthen the handling and management of hazardous substances
7. Manage the treatment and utilization of waste through reuse and recycling
8. Reduce GHG emissions
9. Strive for stringent ethical management and anti-corruption
10. Continuously expand communication with local communities
11. Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
12. Enhance the features/health-related effects of products
Material Issues Reporting Method
LG H&H reorganized material issues derived from the Materiality Test into the Reported Issues according to relevance and impact. The Reported Issues were categorized as “Focus Issues” and “Sustainable Management” based on level of significance.

**Focus Issues**
- Continuously expand the target overseas markets
- Enhance brand leadership and corporate image
- Improve product safety
- Strengthen the handling and management of hazardous substances

**Sustainable Management**
- Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
- Manage treatment and utilization of waste through reuse and recycling
- Reduce GHG emissions
- Strive for stringent ethical management and anti-corruption

**Contents of the Report**
“Focus Issues” are reported more in detail through the relevant business cases and performance of LG H&H in 2017, while “Sustainable Management” is constantly managed through reporting on the overview and overall system of the company.

<table>
<thead>
<tr>
<th>GRI Aspect</th>
<th>Material Issues</th>
<th>Impact</th>
<th>Cost</th>
<th>Revenue</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Performance</td>
<td>Continuously expand the target overseas markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enhance brand leadership and corporate image</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Health and Safety</td>
<td>Improve product safety</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strengthen the handling and management of hazardous substances</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products and services</td>
<td>Expand the development of eco-friendly products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduce the environmental impact of product packaging</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enhance the features/health-related effects of products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Launch new products by expanding R&amp;D and investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Maintain work-life balance (welfare benefits, family-friendly systems, etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversity and Equal Opportunity</td>
<td>Manage treatment and utilization of waste through reuse and recycling</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effluents and Waste</td>
<td>Reduce GHG emissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emissions</td>
<td>Strive for stringent ethical management and anti-corruption</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reported Issues</th>
<th>Relevance</th>
<th>Major Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding to the Global Market</td>
<td>Business can be stably operated regardless of external changes in the busi-</td>
<td>Customers, Employees, Suppliers, Local Community</td>
</tr>
<tr>
<td></td>
<td>ness environment by upgrading the business structure and entering overseas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>markets.</td>
<td></td>
</tr>
<tr>
<td>Strengthening Product Safety</td>
<td>Products such as cosmetics, household goods and beverages have a direct im-</td>
<td>Customers, Employees, Suppliers</td>
</tr>
<tr>
<td></td>
<td>pact on the safety of customers, so these products should be deemed and man-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>aged with the goal of making safe and healthy products from the production</td>
<td></td>
</tr>
<tr>
<td></td>
<td>stage.</td>
<td></td>
</tr>
<tr>
<td>Developing Products with Social</td>
<td>The company can create social values and tackle issues by developing new</td>
<td>Customers, Employees, Suppliers, Local Community</td>
</tr>
<tr>
<td>Value</td>
<td>products that reflect social needs and launching products to create shared</td>
<td></td>
</tr>
<tr>
<td></td>
<td>values with local communities.</td>
<td></td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>The company should meet the expectations of consumers with continued</td>
<td>Customers</td>
</tr>
<tr>
<td></td>
<td>improvement of product quality and accurately identify customer demand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>through proactive communication and opinion sharing.</td>
<td></td>
</tr>
<tr>
<td>Social Contribution</td>
<td>The company can expand its social contribution by connecting social issues</td>
<td>Customers, Local Community, Government/Public Institutions/Associations</td>
</tr>
<tr>
<td></td>
<td>with its characteristics and strategies beyond simple charity and donation</td>
<td></td>
</tr>
<tr>
<td>Win-Win Growth</td>
<td>The foundation for win-win growth can be created when the company</td>
<td>Suppliers</td>
</tr>
<tr>
<td></td>
<td>considers its suppliers as partners for mutual growth and conducts various</td>
<td></td>
</tr>
<tr>
<td></td>
<td>joint activities.</td>
<td></td>
</tr>
<tr>
<td>Employee Value</td>
<td>Improved working conditions for respecting the diversity of employees and</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>maximizing their values can enhance their satisfaction level and create a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>corporate culture for mutual growth.</td>
<td></td>
</tr>
<tr>
<td>Environment and Safety Management</td>
<td>Reduced environmental impact across all production processes can address</td>
<td>Customers, Employees, Suppliers, Local Community, Government/Public Institutions/Associations</td>
</tr>
<tr>
<td></td>
<td>global environmental issues and build trust with customers and other</td>
<td></td>
</tr>
<tr>
<td></td>
<td>stakeholders.</td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Disclosure of business management status in a transparent and fair method</td>
<td>Customers, Employees, Shareholders/Investors, Government/Public Institutions/Associations</td>
</tr>
<tr>
<td></td>
<td>can increase the reliability of the company.</td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td>Prevention of potential risk factors and immediate response can boost stable</td>
<td>Customers, Employees, Shareholders/Investors, Suppliers</td>
</tr>
<tr>
<td></td>
<td>sustainable growth.</td>
<td></td>
</tr>
<tr>
<td>Jeong-Do Management</td>
<td>The company can grow into an admired one with exemplary practices when</td>
<td>Employees, Shareholders/Investors, Suppliers</td>
</tr>
<tr>
<td></td>
<td>observing corporate ethics and fulfilling social responsibilities.</td>
<td></td>
</tr>
</tbody>
</table>

Governance Materiality Test
Appen#idding
### Economic Performance

#### Financial Statement

<table>
<thead>
<tr>
<th>Category</th>
<th>LCS-H &amp; M (Consolidated)</th>
<th>LCS-H &amp; M (Non-consolidated)</th>
<th>Coca-Cola (Consolidated)</th>
<th>TFS (Consolidated)</th>
<th>WHM (Separate)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,149,089</td>
<td>1,149,089</td>
<td>1,103,897</td>
<td>1,103,897</td>
<td>1,103,897</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,667,210</td>
<td>1,667,210</td>
<td>1,654,310</td>
<td>1,654,310</td>
<td>1,654,310</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,149,089</td>
<td>1,149,089</td>
<td>1,103,897</td>
<td>1,103,897</td>
<td>1,103,897</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>1,667,210</td>
<td>1,667,210</td>
<td>1,654,310</td>
<td>1,654,310</td>
<td>1,654,310</td>
</tr>
<tr>
<td><strong>II. Total liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,667,210</td>
<td>1,667,210</td>
<td>1,654,310</td>
<td>1,654,310</td>
<td>1,654,310</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>1,149,089</td>
<td>1,149,089</td>
<td>1,103,897</td>
<td>1,103,897</td>
<td>1,103,897</td>
</tr>
<tr>
<td><strong>III. Profit and loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1,667,210</td>
<td>1,667,210</td>
<td>1,654,310</td>
<td>1,654,310</td>
<td>1,654,310</td>
</tr>
<tr>
<td><strong>IV. Total</strong></td>
<td>1,667,210</td>
<td>1,667,210</td>
<td>1,654,310</td>
<td>1,654,310</td>
<td>1,654,310</td>
</tr>
</tbody>
</table>

#### Income Statement

<table>
<thead>
<tr>
<th>Category</th>
<th>LCS-H &amp; M (Consolidated)</th>
<th>LCS-H &amp; M (Non-consolidated)</th>
<th>Coca-Cola (Consolidated)</th>
<th>TFS (Consolidated)</th>
<th>WHM (Separate)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Sales revenue</strong></td>
<td>4,803,465</td>
<td>4,803,465</td>
<td>4,789,460</td>
<td>4,789,460</td>
<td>4,789,460</td>
</tr>
<tr>
<td><strong>II. Gross profit or loss</strong></td>
<td>3,072,897</td>
<td>3,072,897</td>
<td>2,989,580</td>
<td>2,989,580</td>
<td>2,989,580</td>
</tr>
<tr>
<td><strong>III. Non-operating profit and loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>1,299</td>
<td>1,299</td>
<td>1,299</td>
<td>1,299</td>
<td>1,299</td>
</tr>
<tr>
<td><strong>IV. Other income</strong></td>
<td>1,299</td>
<td>1,299</td>
<td>1,299</td>
<td>1,299</td>
<td>1,299</td>
</tr>
<tr>
<td><strong>V. Profit before tax</strong></td>
<td>4,803,465</td>
<td>4,803,465</td>
<td>4,789,460</td>
<td>4,789,460</td>
<td>4,789,460</td>
</tr>
</tbody>
</table>

#### Domestic/Overseas Economic Value Distribution

(based on domestic Company/subsidiaries and subsidiaries in China and Japan as of 2017)

<table>
<thead>
<tr>
<th>Employees</th>
<th>Government</th>
<th>Suppliers</th>
<th>Local Community &amp; NGOs</th>
<th>Shareholders &amp; Creditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>KRW 696.7 billion</td>
<td>KRW 264.1 billion</td>
<td>KRW 4.334 billion</td>
<td>KRW 30.8 billion</td>
<td>KRW 160.9 billion</td>
</tr>
<tr>
<td><em>Wages, bonuses, benefits, severance pay, education and training expenses</em></td>
<td><em>Corporate taxes and other taxes</em></td>
<td><em>Expenses for social contribution, healthcare, unemployment, and academic conferences</em></td>
<td><em>Costs for activities for social contribution</em></td>
<td><em>Dividend payout ratio 20%, LCS-H, non-consolidated</em></td>
</tr>
</tbody>
</table>

**Notes:**
- [Consolidated - based on domestic Company/subsidiaries and subsidiaries in China and Japan as of 2017]
## Environmental Performance

### Major Environmental Index

<table>
<thead>
<tr>
<th>Category</th>
<th>Company/Subsidiary</th>
<th>Unit 2016</th>
<th>Unit 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production volume</td>
<td>LG H&amp;H</td>
<td>493,470</td>
<td>493,470</td>
</tr>
<tr>
<td></td>
<td>Coca-Cola</td>
<td>1,602,010</td>
<td>1,602,010</td>
</tr>
<tr>
<td></td>
<td>HAITAI htb</td>
<td>411,410</td>
<td>411,410</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Volume</th>
<th>Category</th>
<th>Unit 2016</th>
<th>Unit 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>Water consumption</td>
<td>1,841</td>
<td>1,841</td>
</tr>
<tr>
<td></td>
<td>Ground water</td>
<td>1,841</td>
<td>1,841</td>
</tr>
<tr>
<td></td>
<td>Water supply*</td>
<td>1,841</td>
<td>1,841</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company/ Subsidiary</th>
<th>Total amount</th>
<th>Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>3,293,276</td>
<td>0.176</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>4,690,000</td>
<td>0.267</td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>698,023</td>
<td>0.461</td>
</tr>
<tr>
<td>Total</td>
<td>10,681,300</td>
<td>0.247</td>
</tr>
</tbody>
</table>

### Waste Recycling

#### Amount of Recycled Water

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit 2016</th>
<th>Unit 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>Amount of recycled water</td>
<td>50,000</td>
<td>19,825</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Amount of recycled water</td>
<td>39,458</td>
<td>26,013</td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>Amount of recycled water</td>
<td>7,216</td>
<td>11,425</td>
</tr>
</tbody>
</table>

#### Amount of Water Intake in 2017 by Source

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>Water</td>
<td>462,224</td>
<td>1,950,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Groundwater</td>
<td>155,991</td>
<td>250,784</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>Riverwater</td>
<td>79,654</td>
<td>100,980</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Amount of Recycled Containers

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit 2016</th>
<th>Unit 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>Amount of recycled containers</td>
<td>4,139</td>
<td>5,115</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Amount of recycled containers</td>
<td>42,283</td>
<td>45,935</td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>Amount of recycled containers</td>
<td>7,216</td>
<td>11,425</td>
</tr>
</tbody>
</table>

### Waste Treatment in 2017

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit 2016</th>
<th>Unit 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>Amount of incinerated waste</td>
<td>1,295</td>
<td>0.14</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Amount of buried waste</td>
<td>1,350</td>
<td>0.03</td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>Amount of incinerated waste</td>
<td>1,312</td>
<td>0.14</td>
</tr>
<tr>
<td>Total</td>
<td>Amount of buried waste</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

### Expenses for Environmental Protection in 2017

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit (2017)</th>
<th>Unit (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>Water environment</td>
<td>4,226</td>
<td>3,571</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Environmental expenses</td>
<td>4,226</td>
<td>3,571</td>
</tr>
<tr>
<td>HAITAI htb</td>
<td>Environmental expenses</td>
<td>4,226</td>
<td>3,571</td>
</tr>
</tbody>
</table>

### Additional Notes

- *The previous data have been modified due to changes to calculation standards.*
### Social Performance

#### Total Employees

<table>
<thead>
<tr>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coca-Cola</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TFS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HAITAI htb</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parental Leave</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of reinstated persons/No. of persons applicable for reinstatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of persons who have worked for a year after returning/No. of persons applicable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Detailed Status of Employees

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>7,227</td>
<td>8,000</td>
<td>7,911</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>4,115</td>
<td>4,402</td>
<td>4,479</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>11,342</td>
<td>12,402</td>
<td>12,390</td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>7,925</td>
<td>8,802</td>
<td>8,711</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>4,784</td>
<td>5,452</td>
<td>5,479</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>12,709</td>
<td>14,254</td>
<td>14,190</td>
</tr>
<tr>
<td>TFS</td>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>1,260</td>
<td>1,328</td>
<td>1,309</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>1,309</td>
<td>1,597</td>
<td>1,610</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>2,569</td>
<td>2,925</td>
<td>2,919</td>
</tr>
</tbody>
</table>

### Employee Education & Training

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Case/Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>70.1</td>
<td>67.3</td>
<td>64.9</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>74.1</td>
<td>69.8</td>
<td>67.6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>72.1</td>
<td>68.6</td>
<td>66.8</td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td>Case/Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>68.6</td>
<td>69.9</td>
<td>68.1</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>71.5</td>
<td>72.7</td>
<td>71.5</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>70.5</td>
<td>72.3</td>
<td>70.3</td>
</tr>
<tr>
<td>TFS</td>
<td>Case/Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>63.3</td>
<td>62.3</td>
<td>62.3</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>66.0</td>
<td>66.2</td>
<td>66.2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>64.6</td>
<td>65.9</td>
<td>65.7</td>
</tr>
</tbody>
</table>

### Parental Leave

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>No. of reinstated persons/No. of persons applicable for reinstatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>397</td>
<td>431</td>
<td>453</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>174</td>
<td>183</td>
<td>188</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>571</td>
<td>614</td>
<td>641</td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td>No. of reinstated persons/No. of persons applicable for reinstatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>319</td>
<td>347</td>
<td>374</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>150</td>
<td>168</td>
<td>178</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>469</td>
<td>515</td>
<td>552</td>
</tr>
<tr>
<td>TFS</td>
<td>No. of reinstated persons/No. of persons applicable for reinstatement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>472</td>
<td>518</td>
<td>551</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>400</td>
<td>445</td>
<td>462</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>872</td>
<td>963</td>
<td>1,013</td>
</tr>
</tbody>
</table>

### Job Creation in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Unit</th>
<th>Coca-Cola</th>
<th>HAITAI htb</th>
<th>TFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>Persons</td>
<td>18</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Female</td>
<td>Persons</td>
<td>123</td>
<td>25</td>
<td>13</td>
</tr>
</tbody>
</table>

### Turnover in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Unit</th>
<th>Coca-Cola</th>
<th>HAITAI htb</th>
<th>TFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>Persons</td>
<td>218</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>Female</td>
<td>Persons</td>
<td>225</td>
<td>21</td>
<td>25</td>
</tr>
</tbody>
</table>

### Lost-Time Injuries Frequency Rate (LTI FR)

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>20.1</td>
<td>15.2</td>
<td>13.9</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>15.2</td>
<td>15.6</td>
<td>16.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>17.7</td>
<td>15.4</td>
<td>14.7</td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td>Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>19.0</td>
<td>14.3</td>
<td>17.4</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>14.8</td>
<td>15.5</td>
<td>16.7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>17.4</td>
<td>15.4</td>
<td>16.7</td>
</tr>
<tr>
<td>TFS</td>
<td>Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>16.2</td>
<td>15.7</td>
<td>16.7</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>12.3</td>
<td>15.6</td>
<td>19.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>14.1</td>
<td>15.6</td>
<td>17.6</td>
</tr>
</tbody>
</table>

### Occupational Illness Frequency Rate (OIFR)

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Case</td>
<td>Persons</td>
<td>0.79</td>
<td>0.73</td>
<td>0.71</td>
</tr>
<tr>
<td></td>
<td>Rate</td>
<td>%</td>
<td>0.16</td>
<td>0.19</td>
<td>0.22</td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td>Case</td>
<td>Persons</td>
<td>0.93</td>
<td>0.98</td>
<td>0.97</td>
</tr>
<tr>
<td></td>
<td>Rate</td>
<td>%</td>
<td>0.04</td>
<td>0.06</td>
<td>0.10</td>
</tr>
<tr>
<td>TFS</td>
<td>Case</td>
<td>Persons</td>
<td>0.31</td>
<td>0.37</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td>Rate</td>
<td>%</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
</tr>
</tbody>
</table>

### Industrial Accidents

<table>
<thead>
<tr>
<th>Company/Subsidiary</th>
<th>Category</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>No. of cases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>37</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>LG H&amp;H</td>
<td>No. of cases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>33</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>TFS</td>
<td>No. of cases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case/M Work Hour</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>Persons</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>Persons</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Persons</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

---

*The previous data have been modified due to changes to the calculation method of the number of employees.*

*Figures of those who were hired as permanent positions and temporary workers who became permanent staff in the year.*

*The data is based on voluntary turnover of permanent employees.
Supply Chain Spending Analysis in 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Purchase Amount (KRW 2017)</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>21,715</td>
<td>18.9</td>
</tr>
<tr>
<td>China</td>
<td>489</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>253</td>
<td>2.1</td>
</tr>
<tr>
<td>Other Asian countries</td>
<td>660</td>
<td>2.7</td>
</tr>
<tr>
<td>Europe</td>
<td>256</td>
<td>1.2</td>
</tr>
<tr>
<td>North America</td>
<td>273</td>
<td>2.2</td>
</tr>
<tr>
<td>South America</td>
<td>74</td>
<td>0.3</td>
</tr>
<tr>
<td>Others</td>
<td>64</td>
<td>0.6</td>
</tr>
</tbody>
</table>

*(Purchase amount of raw materials, subsidiary materials, and products)

Social Contribution Investment and Volunteer Work Hours

<table>
<thead>
<tr>
<th>Category</th>
<th>Year</th>
<th>Hours</th>
<th>Hours</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>(KRW 100 M)</td>
<td>Ratio (%)</td>
<td></td>
</tr>
<tr>
<td>Health Nurses</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korean Association of Occupational Health Nurses</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea Fire Safety Association</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea Industrial Safety Association</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization of Consumer Affairs</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea Environment Packaging Promotion Institute</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korean Standards Association (KSA)</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Nurses</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korean Association of Occupational Health Nurses</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea Fire Safety Association</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea Industrial Safety Association</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization of Consumer Affairs</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea Environment Packaging Promotion Institute</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korean Standards Association (KSA)</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Memberships of Associations in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Year</th>
<th>Hours</th>
<th>Hours</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>(KRW 100 M)</td>
<td>Ratio (%)</td>
<td></td>
</tr>
<tr>
<td>Green Company Group</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LG HouseHoLd &amp; Health Care</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interbrand</td>
<td>1,720</td>
<td>1,720</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Major External Assessment and Awards in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>Award</th>
<th>Institution for Assessment/Award</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Award</td>
<td>Institution for Assessment/Award</td>
</tr>
<tr>
<td></td>
<td>Award</td>
<td>Institution for Assessment/Award</td>
</tr>
</tbody>
</table>

Management System Certification in 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>ISO 14001</th>
<th>ISO 9001</th>
<th>QHSEAS 2015</th>
<th>HACCP</th>
<th>KS</th>
<th>Green Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GRI Index

GRI Standards Index (Core Option)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Index</th>
<th>Indicators</th>
<th>Page</th>
<th>Remarks</th>
<th>Independent Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Topic</th>
<th>Specific Standards</th>
<th>Page</th>
<th>Remarks</th>
<th>Independent Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As LG H&H joined the UNGC (Global Compact) in November 2012, our company has reinforced voluntary efforts to comply with ten major principles in four major sectors including human rights, labor, environment, and anti-corruption.

**Human rights**
- Businesses should support and respect the protection of internationally proclaimed human rights.
  - Code of Ethics: Chapter 1: Responsibilities and Duties for Customers
- Businesses should ensure that they are not complicit in human rights abuses.
  - Code of Ethics: Chapter 1: Responsibilities and Duties for Customers

**Labor**
- Businesses should support the freedom of association and the effective recognition of the right to collective bargaining.
  - Code of Ethics: Chapter 4: Human Resource Management
- Businesses should support the elimination of all forms of forced and compulsory labor.
  - Code of Ethics: Chapter 4: Human Resource Management
- Businesses should support the effective abolition of child labor.
  - Code of Ethics: Chapter 4: Human Resource Management
- Businesses should support decent working conditions.
  - Code of Ethics: Chapter 4: Human Resource Management

**Environment**
- Businesses should support a precautionary approach in all environmental challenges.
  - Code of Ethics: Chapter 4: Human Resource Management
- Businesses should encourage the development and diffusion of environmentally friendly technologies.
  - Code of Ethics: Chapter 4: Human Resource Management

**Anti-corruption**
- Businesses should work against corruption in all its forms, including extortion and bribery.
  - Code of Ethics: Chapter 4: Human Resource Management

**Sustainability Accounting Standards Board (SASB)**

The SASB has established the guideline for announcement regarding corporate sustainability and standard on accounting to help the U.S. and foreign companies to report on sustainability practices. LG H&H, based on Jeong-Do management, practices ethical business activities and management, practices ethical business activities and management, practices ethical business activities and management, practices ethical business activities and management. LG H&H continues to carry out activities enhancing the overall performance and respects human rights of individual employees. LG H&H prohibits gender/ethnicity and background discrimination of individual employees.
Independent Assurance Statement

To the Readers of 2017 LG H&H CSR Report:

Foreword

Korea Management Registrar Inc. (hereinafter “KMR”) has been requested by LG Household & Health Care Ltd. (hereinafter “LG H&H”) to verify the contents of its 2017 CSR Report (hereinafter “the Report”). LG H&H is responsible for the collection and presentation of information included in the Report. KMR’s responsibility is to carry out assurance engagement on specific data and information in the assurance scope stipulated below.

Scope and standard

LG H&H describes its efforts and achievements of the corporate social responsibility activities in the Report. KMR performed a Type 2, moderate level of assurance using AA1000AS (2008) as an assurance standard. KMR’s assurance team (hereinafter “the team”) evaluated the adherence to Principles of Inclusivity, Materiality and Responsiveness, and the reliability of the selected GRI Standards indices as below, where professional judgment of the team was exercised as materiality criteria.

- GRI Reporting Principles
- Universal Standards
- Topic Specific Standards
  - Management approach of Topic Specific Standards
  - Economic Performance: 201-1, 201-2, 201-4
  - Market Presence: 202-2
  - Indirect Economic Impacts: 203-1, 203-2
  - Procurement Practices: 204-1
  - Anti-Corruption: 205-1, 205-2, 205-3
  - Anti-Competitive Behavior: 206-1
  - Materials: 301-3
  - Energy: 302-1, 302-2, 302-3, 302-4
  - Water: 303-1, 303-2, 303-3
  - Emissions: 305-1, 305-2, 305-3, 305-5
  - Environmental Compliance: 307-1
  - Supplier Environmental Assessment: 308-1, 308-2
- Employment: 401-3, 401-2, 401-3
- Labor/Management Relations: 402-1
- Occupational Health and Safety: 403-1, 403-2, 403-3, 403-4
- Training and Education: 404-1, 404-2, 404-3
- Diversity and Equal Opportunity: 405-1, 405-2
- Non-Discrimination: 406-1
- Freedom of Association and Collective Bargaining: 407-1
- Human Rights Assessment: 412-1
- Local Communities: 413-1, 413-2
- Supplier Social Assessment: 414-1
- Customer Health and Safety: 415-1, 415-2
- Marketing and Labeling: 417-2, 417-3
- Customer Privacy: 418-1
- Socioeconomic Compliance: 419-1

This Report excludes a data sand information of joint corporate, contractor etc. which is outside of the organization, i.e. LG H&H, among report boundaries.

Our approach

In order to verify the contents of the Report within an agreed scope of assurance in accordance with the assurance standard, the team has carried out an assurance engagement as follows:

- Reviewed overall report
- Reviewed materiality test process and methodology
- Reviewed sustainability management strategies and targets
- Reviewed stakeholder engagement activities
- Interviewed people in charge of preparing the Report

Our conclusion

Based on the results we have obtained from material reviews and interviews, we had several discussions with LG H&H on the revision of the Report. We reviewed the Report’s final version in order to confirm that our recommendations for improvement and our revisions have been reflected. When reviewing the results of the assurance, the assurance team could not find any inappropriate contents in the Report to the compliance with the principles stipulated below. Nothing has come to our attention that causes us to believe that the data included in the verification scope are not presented appropriately.

- Inclusivity
  Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.
- Materiality
  Materiality is determining the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions, and performance of an organization or its stakeholders.
- Responsiveness
  Responsiveness is an organization’s response to stakeholder issues that affect its sustainability performance and is realized through decisions, actions, and performance, as well as communication with stakeholders.

The assurance team could not find any evidence that LG H&H’s counter measures to critical stakeholder issues were inappropriately recorded in the Report.

Recommendation for improvement

We hope the Report is actively used as a communication tool for stakeholders and recommendation for improvements.

LG H&H reports specific economic, social and environmental performance in order to maintain lasting relationship with stakeholders. In the future, increase the sustainability of the organization and expand the product range of safety and quality certification systems of supplier and social environment values. It is recommended that to upgrade the personal performance compensation system for sustainability performance to incorporate key performance indicators that are relevant to the situation.

Our independence

With the exception of providing third-party assurance services, KMR is not involved in any other LG H&H’s business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.
GHG Emission Verification Statement (LG Household & Health Care)

Introduction
DNV GL Business Assurance Korea Ltd (“DNV GL”) was commissioned by LG Household & Health Care Ltd. (“LG Household & Health Care”) to verify the LG Household & Health Care’s Greenhouse Gas Inventory Report for the calendar year 2017 (“the report”) based upon a reasonable level of assurance. LG Household & Health Care is responsible for the preparation of the GHG emissions data on the basis set out within the ISO 14064-1:2006 and the ‘Greenhouse Gas and Energy Target Management Scheme (Notification No. 16-255 of Ministry of Environment)’. Our responsibility in performing this work is to the management of LG Household & Health Care only and in accordance with terms of reference agreed with them.

In the event of ambiguity or contradiction in this statement between English version and Korean version, Korean shall be given precedent.

This Assurance Statement is valid as of the date of the issuance (2nd May 2018). Please note that this Assurance statement would be revised if any material discrepancy which may impact on the level of assurance in any material way should arise.

Scope of Assurance
The emissions data covered by our examination comprise Direct emissions (Scope 1 emissions), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 emissions) from LG Household & Health Care boundary of the report;

- Organizational boundary for reporting: Domestic business sites of LG Household & Health Care (Ulsan, Cheongju, Onsan and Naju), Daejeon Technology Research Institute and Business Logistics

Verification Approach
The verification has been conducted by DNV GL from April through May 2018 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a reasonable verification opinion with 5% materiality level, concerning the completeness of the emissions inventory as well as the reported emission figures in ton CO2 equivalent. As part of the verification process;

- We have reviewed and verified the LG Household & Health Care’s GHG inventory report (Excel based)
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions
Based on the above verification core elements, it is DNV GL opinion that the data and the information reported in the GHG assertion are free of errors, omissions and misrepresentations providing a fair and balanced quantification, in compliance to the above reported verification criteria.

The GHG Emissions of LG Household & Health Care for the year 2017 were confirmed as below;

<table>
<thead>
<tr>
<th></th>
<th>Year 2017</th>
<th>Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (Scope 1)</td>
<td>8,222</td>
<td>23,224</td>
</tr>
<tr>
<td>Energy indirect emissions (Scope 2)</td>
<td>38,144</td>
<td>23,100</td>
</tr>
<tr>
<td>Other indirect emissions (Scope 3)</td>
<td>3,738</td>
<td>398</td>
</tr>
<tr>
<td>Total emissions</td>
<td>46,365</td>
<td>46,324</td>
</tr>
</tbody>
</table>

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO2.
**Total emissions = Scope 1 + Scope 2 + Scope 3 (include commuter bus and waste disposal)

In-Kyoon Ahn    Country Manager
DNV GL Business Assurance Korea Ltd
2nd May 2018
Seoul, Korea

---

GHG Emission Verification Statement (Coca-Cola Beverage Company)

Introduction
DNV GL Business Assurance Korea Ltd (“DNV GL”) was commissioned by Coca-Cola Beverage Company (“Coca-Cola Beverage”) to verify the Coca-Cola Beverage’s Greenhouse Gas Inventory Report for the calendar year 2017 (“the report”) based upon a reasonable level of assurance. Coca-Cola Beverage is responsible for the preparation of the GHG emissions data on the basis set out within the ISO 14064-1:2006 and the ‘Greenhouse Gas and Energy Target Management Scheme (Notification No. 16-255 of Ministry of Environment)’. Our responsibility in performing this work is to the management of Coca-Cola Beverage only and in accordance with terms of reference agreed with them.

In the event of ambiguity or contradiction in this statement between English version and Korean version, Korean shall be given precedent.

This Assurance Statement is valid as of the date of the issuance (2nd May 2018). Please note that this Assurance statement would be revised if any material discrepancy which may impact on the level of assurance in any material way should arise.

Scope of Assurance
The emissions data covered by our examination comprise Direct emissions (Scope 1 emissions), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 emissions) from Coca-Cola Beverage boundary of the report;

- Organizational boundary for reporting: Domestic business sites of Coca-Cola Beverage (Cheongsong, Gwangju and Yangsan) and Business Logistics

Verification Approach
The verification has been conducted by DNV GL from April through May 2018 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a reasonable verification opinion with 5% materiality level, concerning the completeness of the emissions inventory as well as the reported emission figures in ton CO2 equivalent. As part of the verification process;

- We have reviewed and verified the Coca-Cola Beverage’s GHG inventory report (Excel based)
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions
Based on the above verification core elements, it is DNV GL opinion that the data and the information reported in the GHG assertion are free of errors, omissions and misrepresentations providing a fair and balanced quantification, in compliance to the above reported verification criteria.

The GHG Emissions of Coca-Cola Beverage for the year 2017 were confirmed as below;

<table>
<thead>
<tr>
<th></th>
<th>Year 2017</th>
<th>Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions (Scope 1)</td>
<td>25,504</td>
<td>25,100</td>
</tr>
<tr>
<td>Energy indirect emissions (Scope 2)</td>
<td>20,146</td>
<td>20,100</td>
</tr>
<tr>
<td>Other indirect emissions (Scope 3)</td>
<td>2,148</td>
<td>2,100</td>
</tr>
<tr>
<td>Total emissions</td>
<td>47,808</td>
<td>47,300</td>
</tr>
</tbody>
</table>

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO2.
**Total emissions = Scope 1 + Scope 2 + Scope 3 (include waste disposal)

In-Kyoon Ahn    Country Manager
DNV GL Business Assurance Korea Ltd
2nd May 2018
Seoul, Korea
GHG Emission Verification Statement
(HAITAI htb Co., Ltd.)

Introduction
DNV GL Business Assurance Korea Ltd. (“DNV GL”) was commissioned by HAITAI htb Co., Ltd. (“HAITAI htb Co., Ltd.”) to verify the HAITAI htb Co., Ltd.’s Greenhouse Gas Inventory Report for the calendar year 2017 (“the report”) based upon a reasonable level of assurance. HAITAI htb Co., Ltd. is responsible for the preparation of the GHG emissions data on the basis set out within the “Greenhouse Gas and Energy Target Management Scheme” (Notification No. 2016-255 of Ministry of Environment). Our responsibility in performing this work is to the management of HAITAI htb Co., Ltd. only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance
The emissions data covered by our examination comprise Direct emissions (Scope 1 emissions), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 emissions) from HAITAI htb Co., Ltd. boundary of the report;
- Organizational boundary for reporting: Domestic business sites of HAITAI htb Co., Ltd. - Factory (Cheonan, Pyeongchang, Cheorwon, Iksan), Business Logistics

Verification Approach
The verification has been conducted by DNV GL from April through May 2018 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide with sufficient evidence to provide a reasonable verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO2 equivalent. As part of the verification process;
- We have reviewed and verified the HAITAI htb Co., Ltd.’s GHG inventory report (Excel based);
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions
Based on the above verification core elements, it is DNV GL opinion that the data and the information reported in the GHG assertion are free of errors, omissions and misrepresentations providing a fair and balanced quantification, in compliance to the above reported verification criteria.

The GHG Emissions of HAITAI htb Co., Ltd. for the year 2017 were confirmed as below;

<table>
<thead>
<tr>
<th>Source</th>
<th>Direct emissions (Scope 1)</th>
<th>Energy indirect emissions (Scope 2)</th>
<th>Other indirect emissions (Scope 3)</th>
<th>Total emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Unit: ton CO₂ equivalent)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td>31,424</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td></td>
<td>31,564</td>
</tr>
<tr>
<td><strong>Year 2017</strong></td>
<td>16,782</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In-Kyoon Ahn
Country Manager
DNV GL Business Assurance Korea Ltd
2nd May 2018
Seoul, Korea

Human Rights Policy
LG H&H implements our own human rights policy to respect all stakeholders including employees, customers, and suppliers, and guarantees their rights and human dignity in pursuit of LG’s management philosophy, “Respecting Human Dignity.” LG H&H complies with labor-related regulations in all countries and regions, strives to secure employment stability and adequate wage level for employees in the social and economic aspects. As a corporate citizen, we support the principles of human rights specified in the Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights presented by the United Nations Commission on Human Rights.

1. Prohibition of Discrimination
In the operation of our human resource system including employment, promotion, compensation, and training opportunities, and the provision of products and services, all stakeholders shall not be discriminated on the grounds of nationality, race, age, gender, sexual orientation, disability, pregnancy, religion, membership of political organization and/or labor union, and marital status.

2. Humanitarian Treatment
All employees shall be respected as humans, and they shall not be treated in any severe and inhumane way including sexual harassment and abuse, corporal punishment, mental and physical coercion, verbal abuse, and inhuman restriction at work.

3. Prohibition of Forced Labor
All employees shall not be forced to work against their free will with their mental and/or physical freedom restricted by means of assault, threat, and confinement. All labor shall be free of forced labor, and all employees shall not be required to hand over their identification card, passport, and/or work permission card issued by the government on condition of employment.

4. Women and Labor of Children
Children shall not be employed for any kind of job position. “Children” signifies those aged under a certain minimum age standard, and the minimum age for work is determined by the regulations of each country and region. Underage and/or pregnant employees are excluded from dangerous tasks. In accordance with ILO agreements ratified by each country, working conditions including age regulations shall be observed.

5. Working Hours
Working hours and days shall be determined in accordance with the regulations of each country and region concerning regular and overtime working hours and holidays.

6. Wage and Welfare
All employees shall be paid in accordance with the labor-related regulations of each country and region concerning minimum wage, overtime working hours, and legal welfare.

7. Freedom of Association
In accordance with the labor-related regulations of each country and region, the freedom of association and the right to bargain collectively shall be secured. All employees should be guaranteed an environment where they can communicate with the management with no fear for discrimination, retaliation, threat, and harassment.

8. Protection of Personal Information
The personal information of all stakeholders shall be strictly protected, and it shall not be leaked or utilized for any other use without prior approval of the relevant stakeholder. The company shall deliver only true information, avoid any false information, and shall fulfill this promise.
Supplier Code of Conduct

The LG H&H Supplier Code of Conduct (hereinafter referred to as the “Code”) is applied to all suppliers transacting with LG H&H and its subsidiaries (hereinafter referred to as “LG H&H”). This Code presents requirements which should be fulfilled by the company for all suppliers in cooperation with LG H&H. Suppliers are required to commit themselves to comply with the Code in all business activities. If necessary, LG H&H is entitled to change the Code by means of reasonable supplementation. Any change is notified to suppliers on the supplier procurement system website (https://pps.lghome.co.kr). LG H&H (and/or external audit) is also entitled to visit the business sites of suppliers, evaluate whether this Code is observed, and recommend improvement.

1. Labor Conditions and Human Rights

A. Prohibition of discrimination

In the operation of human resource system including employment, promotion, compensation and training opportunities, all suppliers shall strive to prevent their employees from being discriminated on the grounds of nationality, race, age, gender, sexual orientation, disability, pregnancy, religion, membership of political organization or labor union, and marital status.

B. Humane treatment

All suppliers shall respect all workers and not treat them in any severe and inhumane way including sexual harassment and abuse; corporal punishment; mental and physical coercion; verbal abuses; and material restrictions at work.

C. Prohibition of forced labor

All suppliers shall not use the labor of workers against their will with their mental and physical freedom restricted by means of assault, threat, and confinement. All labor shall be based on free will. All suppliers shall not require workers to hand over their identification card, passport, and/or work permission and issued by the government on condition of employment. Both suppliers and workers shall write and keep a copy of the labor agreement.

D. Child labor and protection of pregnant women

All suppliers shall not employ children for any kind of job position. In accordance with ILO Conventions, Convention concerning Minimum Age for Admission to Employment (1973) "children" signify those under the age of 18 or those who do not exceed the school leaving age. If a different age of children is stipulated in the regional laws and regulations, a lower age shall be applied, and such minimum age for work is determined by laws and regulations. Young workers under the age of 18 and pregnant employees shall be excluded from hazardous or dangerous tasks limited by legislations. All suppliers shall comply with the working conditions such as the limitation of age for work in accordance with the ILO (International Labour Organization) Convention ratified by each country.

E. Working hours

Working hours and days shall not exceed hours permitted by laws and regulations.

F. Wage and welfare

All payments for suppliers shall comply with all labor-related legislations concerning minimum wage, overtime working hours and welfare.

G. Freedom of association

All suppliers shall ensure workers to have the freedom of association and membership in the labor union and recognize the workers’ rights to select a representative and join the labor union. All employees shall be entitled to openly communicate with the management about working conditions with no fear of retaliation, threat, and harassment.

2. Safety and Health

A. Industrial safety

All suppliers shall eliminate any physical risk and safety risk elements and take preemptive measures to prevent accidents and occupational diseases. Such risks shall be controlled by appropriate design, engineering and administrative control; prevention, repair, safe work procedure, and continuous safety drills. In case risks cannot be sufficiently controlled by using these means, workers shall be provided with proper and well-maintained personal protective gears.

B. Industrial hygiene

All suppliers shall identify, evaluate and manage any exposure of chemical, biological, and physical factors to employees. All suppliers shall prevent workers from being excessively exposed to these factors by using technical or administrative control devices. In case risks cannot be sufficiently controlled by using these means, workers shall be provided with proper and well-maintained personal protective gear.

C. Preparation for emergency

All suppliers shall minimize any damage by identifying and assessing the emergency and its state if one happens and implementing emergency measures and response procedure.

D. Industrial accident and disease

All suppliers shall establish the process to prevent, manage, track and report industrial accidents and occupational diseases.

E. Hygiene, food, and housing

All suppliers shall provide employees with a clean toilet, drinking water, hygienic food cooking, storage, and dining facilities. An employee dormitory for suppliers or third-party agents shall be maintained to be clean and safe, and it will have the appropriate emergency exits, heating and ventilating devices, proper personal spaces, and reasonable

3. Environment

A. Environmental licensing and reporting

All suppliers shall acquire and maintain any required environmental licenses and reflect the latest revised content at all times. All suppliers shall comply with the requirements of operation and reporting in the licensing process.

B. Hazardous substances

All suppliers shall identify any compounds and other substances, which cause risk in safe in case of emission to the environment, and manage the safe treatment, transfer, storage, use, recycling, reuse and processing of these substances.

C. Solid waste and effluent

If necessary for the relevant laws and regulations, all suppliers shall identify, monitor, control, and handle any solid waste and effluent generated in the industrial process for operation and hygiene facilities before emission.

D. Air pollution

If necessary for the relevant laws and regulations, all suppliers shall identify the characteristics of any volatile organic compounds generated in the manufacturing process or aerosol, corrosive agents, fine powder, ozone layer-depleting substances, and combustion by-products in the process before emission and monitor, control, and handle such substances.

E. Prevention of pollution and reduction of resource use

Various wastes such as liquid and energy should be reduced or removed from pollutants or by using the method of changing the production, maintenance, and facility process, replacing or converting raw materials, and recycling and reducing raw materials. All suppliers shall make efforts to minimize environmental contamination by reducing the usage of water in the manufacturing and packaging process and using eco-friendly materials.

F. Regulation on materials in products

All suppliers shall comply with any relevant laws and regulations and customer requests with regard to the prohibition and restriction of certain substances, including the labeling of recycling and treatment.

G. Effort to develop sustainable products

All the products and services provided shall comply with legal regulations by local government. All suppliers shall strive to develop sustainable products, which improve environmental friendliness and energy efficiency.

4. Others

A. Jessong-Doo Management

All suppliers shall ban any corruption act such as bribery and embezzlement, including gifts, by policy in accordance with LG H&H policy on Jessong-Doo Management and continuously crack down and monitor corruption. All transactions shall be transparent and accurately recorded in the account book.

B. Fair trade

All suppliers shall prohibit any unfair trade and comply with the regulations on fair trade to protect consumers’ rights and interests.

C. Identity protection

All suppliers shall develop and operate a program to ensure confidentiality of whistleblowers and guarantee their protection.

D. Legal and ethical purchase of raw materials

All suppliers shall identify the source and origin of raw materials distributed in the supply chain, check if such materials are acquired by any illegal and unethical way (disputed mineral, illegal wood) and guarantee legal acquisition.

E. Protection of intellectual property rights

All suppliers shall respect all intellectual property rights and protect the rights in case of transferring technical know-how. All information on LG H&H shall be protected safely.

F. Protection of personal information

All suppliers shall systematically protect personal information of all stakeholders (including suppliers, clients, customers, and employees). All suppliers shall also comply with the laws and regulations for protecting personal information and information security in collecting, storing, processing, transmitting, and sharing personal information.

G. Responsibilities of suppliers

All suppliers for comprehensive purchase assessment shall submit the results of self-diagnosis based on CSR evaluation table. All suppliers shall recommend sub-suppliers to observe this Code and conduct evaluation.
Organizational Chart

CEO

Board Directors

Business

Support

R&D

Audit Committee

Technology R&D

Financial & Accounting

Health

Legal Affairs

Refining

Package HA&D

Overseas Business

Public Relations

Design Center

Jaein Do Mgt.

Committee

CSR Committee

Compliance Committee

Green Product Review Committee

Preventive Management Committee

Safety/Health Committee

COM Operation Committee

Investment Deliberation Committee

Subcontract Internal Deliberation Committee

Win-Win Growth Review Committee

Major Domestic and Overseas Subsidiaries

Domestic

<table>
<thead>
<tr>
<th>Business</th>
<th>Share</th>
<th>Location (HQ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola Beverage</td>
<td>90%</td>
<td>Yangsan, Korea</td>
</tr>
<tr>
<td>THEFACESHOP</td>
<td>100%</td>
<td>Seoul, Korea</td>
</tr>
<tr>
<td>Hankook Beverage</td>
<td>100%</td>
<td>Seoul, Korea</td>
</tr>
<tr>
<td>Zenisce</td>
<td>100%</td>
<td>Seoul, Korea</td>
</tr>
<tr>
<td>Perle</td>
<td>100%</td>
<td>Seoul, Korea</td>
</tr>
</tbody>
</table>

Overseas

<table>
<thead>
<tr>
<th>Business</th>
<th>Share</th>
<th>Location (HQ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola Beverage</td>
<td>10%</td>
<td>Beijing, China</td>
</tr>
<tr>
<td>HAITAI H&amp;B</td>
<td>100%</td>
<td>Shanghai, China</td>
</tr>
<tr>
<td>Zenisce</td>
<td>50%</td>
<td>Tokyo, Japan</td>
</tr>
<tr>
<td>HAITAI H&amp;B</td>
<td>50%</td>
<td>Singapore, Singapore</td>
</tr>
<tr>
<td>Zenisce</td>
<td>50%</td>
<td>Malaysia, Malaysia</td>
</tr>
</tbody>
</table>

Domestic Business Sites

<table>
<thead>
<tr>
<th>Company</th>
<th>Location (HQ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG H&amp;H</td>
<td>Business site in Cheorwon</td>
</tr>
<tr>
<td>HAITAI H&amp;B</td>
<td>Business site in Cheorwon</td>
</tr>
<tr>
<td>Technology R&amp;D Institute in Gwangju</td>
<td></td>
</tr>
<tr>
<td>Business site in Ulsan</td>
<td></td>
</tr>
<tr>
<td>Business site in Gwangju</td>
<td></td>
</tr>
<tr>
<td>Coca-Cola Beverage</td>
<td>Business site in Buyeo</td>
</tr>
<tr>
<td>Tekne Pharma Co., Ltd.</td>
<td>Business site in Haeinam</td>
</tr>
</tbody>
</table>

This report is printed with soy ink and printed on the paper made of materials from well-managed, FSC®-certified forests and other controlled sources.

We thank all of the individuals who helped to develop the CSR Report.

Published in May 2018
Published by Suk Cha

Cover History

2017 LG HOUSEHOLD & HEALTH CARE CSR REPORT