

Healthy Beautiful Refreshing  
for people and the planet



MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

## Cover Story

It embodies LG Household & Health Care's philosophy of communicating with people, nature and the environment for a sustainable future.



2013



2012



2011



2010



2009



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# About This Report

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## Report Overview

LG Household and Health Care (hereinafter, "LG H&H") has continually disclosed its performance of sustainability management activities since 2010, the year when the first CSR report was released. Through this publication, which is the fifth, we aim at transparently revealing the company's sustainability management activities and using this as the channel for actively reflecting the stakeholders' opinions. LG H&H will continue to issue this publication on an annual basis.

## Scope and Period

This report covers the period from January 1 to December 31, 2013. The year 2011 and 2012 data were included for some cases, to compare the trends. When timeliness was judged to be essential, the information on the 2014 activities and performances was also partially included. Within the boundaries of this report are LG H&H and its domestic and overseas subsidiaries in China and Japan such as THEFACESHOP, Coca Cola Beverage Company, HAITAI Beverage, Ginza Stefany, EVERLIFE and if the boundaries cover different areas from the above-mentioned, an extra mark was made on the information.

## Guidelines and Principles

This report was prepared using Global Reporting Initiative's (GRI) G3.1 Guidelines, the international guideline for sustainability reports and G4 was used in the process of deciding the reporting items. As for the beverage industry, Food Processing Sector Supplement, the G3.1 food and beverage sector guideline, was additionally reviewed and applied, but limited to Coca Cola Beverage Company and HAITAI Beverage.

## Assurance

The third-party assurance was conducted by Korea Management Association Registration Inc. (KMAR), an independent third-party assurance provider, to increase the accuracy and balance of this report's contents and data. You may refer to page 72 for the assurance statement to see the assurance opinions as well as the information on the assurance principles and boundaries.

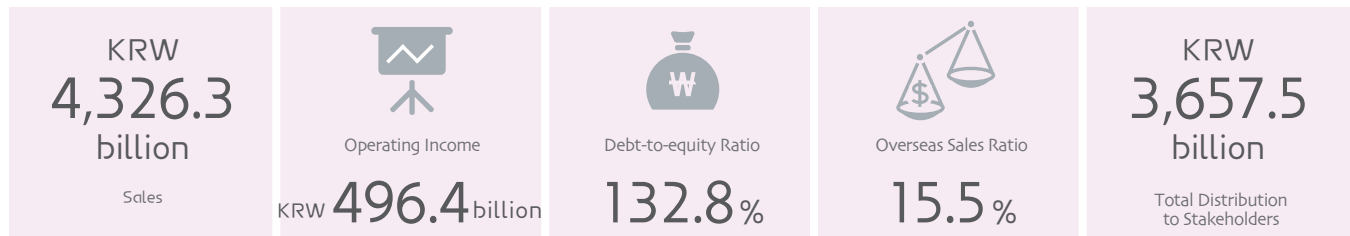
## Enquiry

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## CSR Key Figures

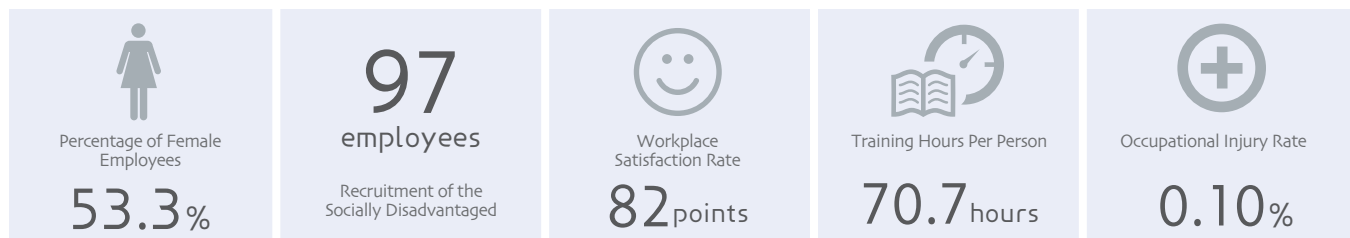
### Economic



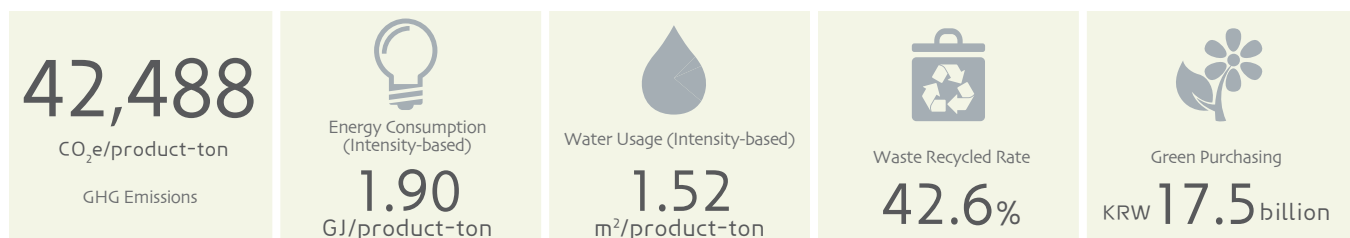
### Customer



### Employee



### Environment



### Community



\* The economic data is based on consolidated accounting of LG H&H and its subsidiaries and the customer, employee, environment, and community data are based on non-consolidated accounting.

Dear honorable LG H&H stakeholders!

I wish to express my sincere gratitude to you for your unchanging concern and affection toward LG H&H.

Last year, the economic recession in both the domestic and overseas markets caused LG H&H to fail to perform according to its own expectations. The steadfast support of its stakeholders, however, and the consistent efforts of its employees enabled the company to achieve record-breaking performance in both sales and operating incomes, thus strengthening its market position.

The difficulty in the management surroundings, however, is expected to continue. LG H&H carries forward a business strategy to secure mid-long term growth engines while raising the degree of its completion of its existing businesses with the aim of turning the crisis into an opportunity. At the same time, we will aggressively participate in sustainable management activities through the reinforcement of our authentic communication with our customers for future value creation, improving our stakeholder's value and leading the market.

### Securing of Mid-Long Term Growth Engines

At the cosmetic business level, we will endeavor to stabilize and globalize our established local bases in China, Japan, Southeast Asia, and North America in record time to go beyond the South Korean market. At the same time, we are planning to launch THEFACESHOP, whose market-leading potential has been proven, first in the local bases, in a bid to create synergy while procuring additional local bases. In addition, we are going to expand the health functional food segment in an attempt to overcome the stagnation of growth in the domestic household goods market. The continuous growth of our health functional food business will be enabled by our efforts to reinforce our product portfolios, expand our market and sales channels, and enter the rapidly growing functional beverage and functional milk product markets.

### Strategic Sustainability Management Activities

To realize our vision of becoming "the best sustainable FMCG company", LG H&H holds CSR meetings, the in-house decision-making entity for sustainable management, and panel meetings involving external experts on a regular basis, consolidating our integrated CSR system, which has received positive responses from various evaluation groups. The company has been included in DJSI (Dow Jones Sustainability Indexes) Asia Pacific for four consecutive years, has ranked first on the Green Ranking list in the consumer goods sector for two consecutive years, and has ranked third on the list of "KOSPI 100 Good Companies."

### Creation of Sustainable Future Value

LG H&H has been providing various kinds of support to its business partners for win-win growth, including the expansion of the win-win growth fund and COD (cash on delivery), and joint technology development. We have also made a diagnosis of our 215 major business partners for their CSR activities to build up their CSR capacities. Furthermore, with the aim of enlarging the leverage of its social contribution on the local community, LG H&H has carried out a variety of activities to realize the dream, beauty, and healthy life of children, adolescents, and women in the "Beautiful" (cosmetics), "Healthy" (household goods), and "Refreshing" (beverages) business segments. Beyond mere donations, LG H&H has been executing a new social-contribution program, utilizing the company's resources and technologies.

“

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Our endeavors to transparently hold sustainability management activities and to evaluate their outcomes, as we promised to our customers, business partners, our employees, and to the local community are reflected in our 5th CSR Report published in 2013.

LG H&H will continue to exert its best efforts to comply with UN Global Compact's ten principles, and to fulfill the company's social responsibility in pursuit of a better society in the future. Our stakeholders' unwavering support and affection will be greatly appreciated.

Thank you.

July 2014

Suk Cha

CEO & Vice Chairman

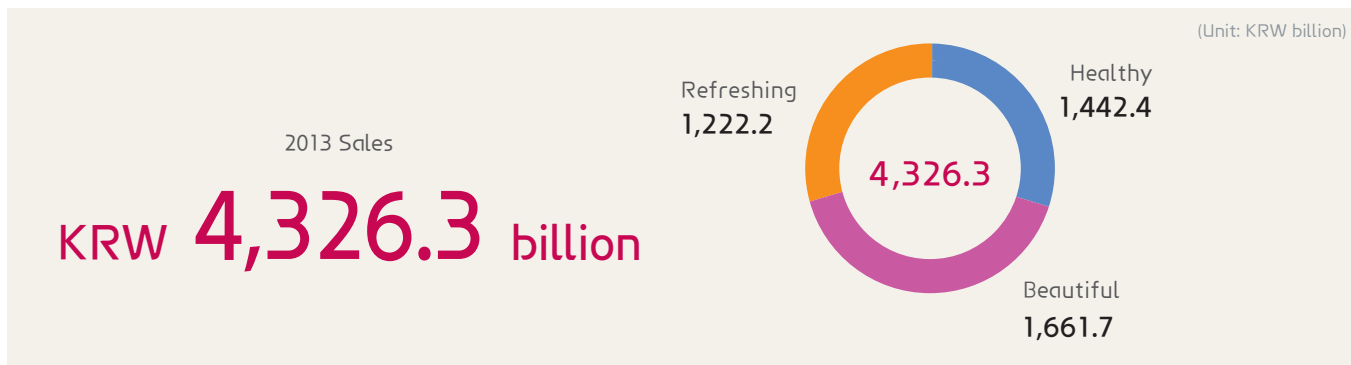
A handwritten signature in black ink, appearing to read 'SUK CHA'.

## Company Overview

LG H&H is a representative FMCG (fast moving consumer goods) company in South Korea, with its head office in Gwanghwamun, Seoul, and with 15 subsidiaries in six countries (South Korea, China, Vietnam, Taiwan, USA, and Japan).

LG H&H and its three subsidiaries (Coca Cola Beverage Company, HAITAI Beverage, and THEFACESHOP) have 9,404 employees (including its overseas employees) and operates its business in a way that provides values to its customers in three business segments: "Healthy" (household items), "Beautiful" (cosmetics), and "Refreshing" (beverages).

### Economic Performance (based on consolidated accounting)



### Economic Performance Distribution

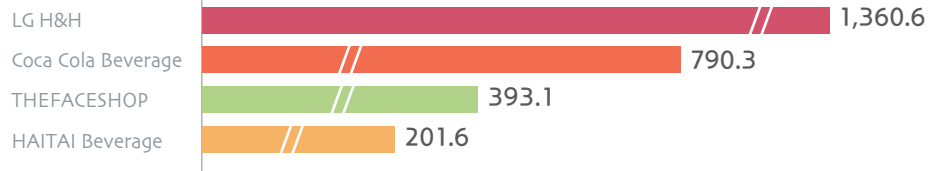
As a member of the society, LG H&H shares its economic performance with its various stakeholders, including its business partners, employees, government and public institutes, shareholders, local communities, and NGOs. In 2013, KRW 3,485.1 billion (domestic basis) was distributed to the society, and KRW 2,745.6 billion out of the total amount was used for the business partners to purchase subsidiary materials and to invest in equipment.

#### Business Partners

KRW  
**2,745.6 billion**



The business partners took 79% of LG H&H's total social distribution, which consists of the purchase costs of subsidiary materials, the processing costs paid to the subcontractors, the investment in equipment, the service charge, the commission charge, the advertising expenses, and the purchase costs of product promotional materials.

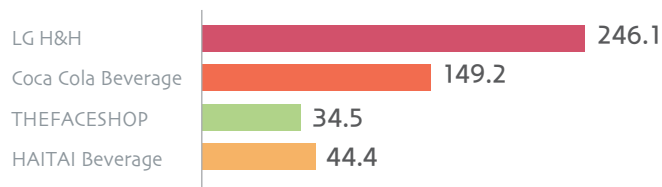


#### Employees

KRW  
**474.2 billion**

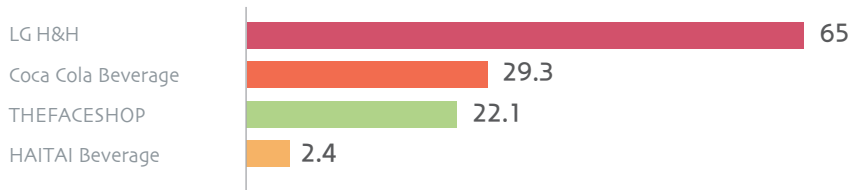


The amount paid to the employees as wages, welfare benefits, training funds, etc. has continued to increase in proportion to the growth of the company's economic outcomes. It consists of wages, bonuses, welfare benefits, retirement-related payments, and training expenses.





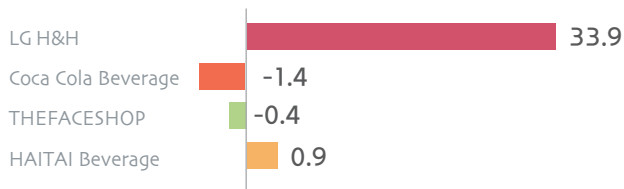
LG H&H has disclosed the added value created by its business activities in a transparent manner, and has been assiduous in paying taxes according to its economic outcomes. Its payments to the government and public institutes include taxes and the public utilities' charge.



In 2013, a KRW 102.9 billion total dividend was paid, and the dividend payout ratio of LG H&H was 35.6%.

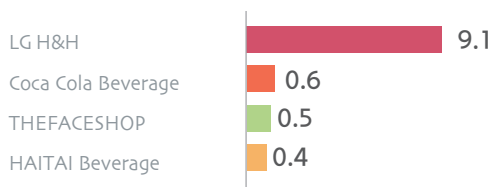


We strive to maintain an optimally leveraged financial structure to ensure smooth cash flows.



※ The sharing of the economic value to our creditors is the interest net cost.

To return our created economic value to the society, we have undertaken sharing activities such as social contribution and support for associations.



#### Government & Public Institutes

KRW  
118.8 billion



#### Shareholders

KRW  
102.9 billion



#### Creditors

KRW  
33 billion



#### Local Community

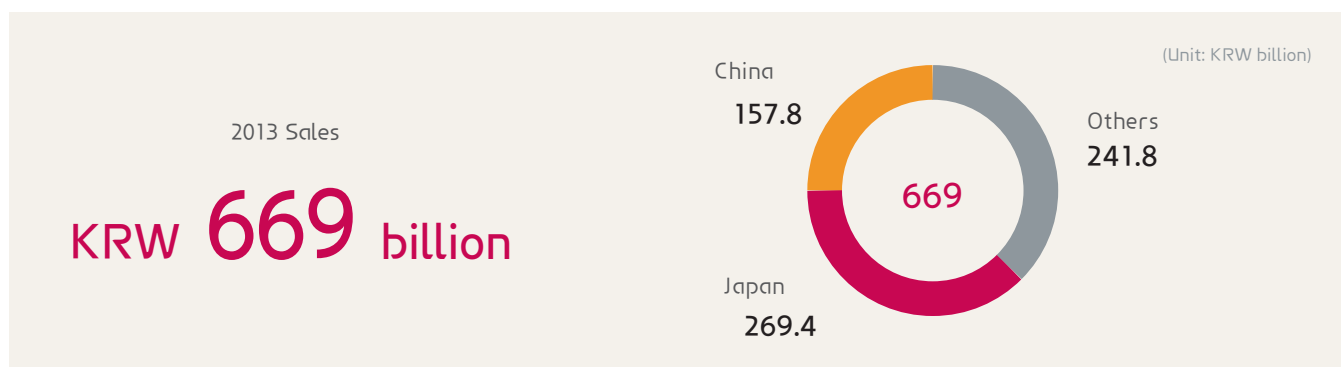
KRW  
10.6 billion



## Economic Performance & Distribution for Overseas Subsidiaries

The sales in our overseas markets reached KRW 669 billion in 2013: KRW 269.4 billion in Japan, KRW 157.8 billion in China, and KRW 241.8 billion in other foreign markets, including Vietnam. As a member of the local community, LG H&H also shared the economic value it created in the Japanese and Chinese markets with the local stakeholders. In 2013, the amount shared in the Japanese and Chinese markets reached KRW 172.4 billion.

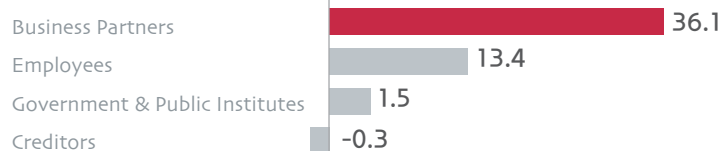
## Economic Performance for Overseas Subsidiaries



## Distribution for Overseas Subsidiaries

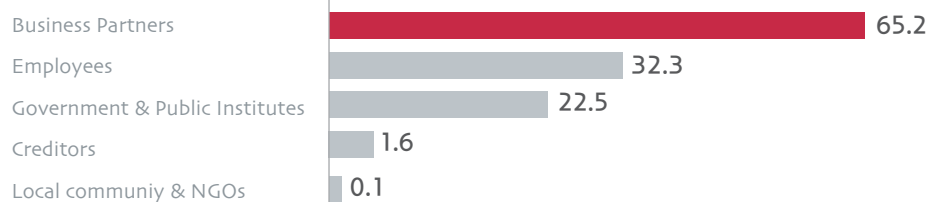
Corporation in China  
(Shanghai, Hangzhou, Beijing)

**KRW 50.7 billion**



Corporation in Japan  
(Ginza Stefany, EVERLIFE)

**KRW 121.7 billion**



## Major Brands

In 2013, LG H&H further expanded its leading brands in the economic, environmental, and social areas through various sustainable management activities. By promptly reflecting the changes in the consumer lifestyle, the number of megabrands worth KRW100 billion (on the basis of consumer price), which had been 13 in 2012, increased to 15 in 2013.



O HUI

[www.ohui.co.kr](http://www.ohui.co.kr)

Launched in 1997 as our representative prestige cosmetic brand distributed through department stores, OHUI is based on scientific research on Korean women's distinctive skin type. Through a strategic partnership with CHA Biotech (under the CHA Hospital Group) to utilize stem cell technology, OHUI is leading in the cutting-edge bio-engineered cosmetics market.



SU:M 37

[www.sum37.co.kr](http://www.sum37.co.kr)

Introduced in 2007 as a line of high functional and hypoallergenic naturally fermented cosmetics, su:m 37 is an innovative brand whose sales have exceeded KRW 100 billion, an amount regarded as a barometer of the mega brand, in just three years. It has established the natural fermentation category in the cosmetics market by using a genuine natural fermentation process without any artificial fragrance, pigments or synthetic preservatives. The representative item is 'Secret Programming Essence,' which has ranked top in repurchase rates.



ISA KNOX

[www.isaknox.co.kr](http://www.isaknox.co.kr)

ISA KNOX, launched in 1995 with a product design based on a database of more than 100,000 Korean women's skin type, represents our masstige brand, which is marketed through dedicated cosmetic shops and discount stores. ISA KNOX has unveiled high functional products designed for women's beauty based on the 'skin age 1/2' project with an aim of reducing women's skin age by half of the original, although it is impossible to reduce their real age.



WHOO

[www.whoo.co.kr](http://www.whoo.co.kr)

In 2003, the history of WHOO, the premium royal brand was created by modernistically reviving a secret royal court beauty formula descended from the heavens, which had been presented exclusively to emperors and empresses. The history of WHOO is leading a new market called 'royal cosmetics' in the prestige cosmetics market, by using premium medicinal ingredients such as gold wild ginseng, deer antlers, and snow lotus herb, based on 'Gongjinbidan,' one of three royal court secret beauty formulas.

# Beautiful



**belif**

[www.belifcosmetic.com](http://www.belifcosmetic.com)

belif is a brand created in 2010, formulated with superior ingredients and efficacy for the skin, presenting a level of honesty by leveraging the knowledge and traditional herbal processing method passed down from a British medical herbalist since 1960. It is a true herbal cosmetic using natural herbs with excellent skin improvement efficacy, completed by marrying a traditional approach with belif's innovative extracting method.



**Sooryehan**

[www.sooryehan.co.kr](http://www.sooryehan.co.kr)

Launched in 2003 under the slogan of 'the beauty of a prologue,' 'SOORYEHAN' represents our masstige oriental medicine brand, pursuing oriental medicine with efficacy by grafting a Korean ginseng formula with a 1,500-year history onto leading-edge biotechnology. SOORYEHAN believes prestige natural Korean ginseng is the key to everlasting skin beauty, and seeks 'new efficacious skin aesthetics' by adding its own oriental medicine biotechnology to deliver the ultimate efficacy with this precious ingredient for skin.



**BEYOND**

[www.beyond.co.kr](http://www.beyond.co.kr)

Launched in 2005 as a natural total beauty brand, BEYOND advocates 'Eco Value 10' including eco-friendliness, fair trade, chemical preservative minimization, and anti-animal testing. Based on our eco-philosophy, it has unveiled cosmetics that serve to make the environment as well as people beautiful. BEYOND is proud of its position as the representative good cosmetics brand in Korea.



**THEFACESHOP**

[www.thefaceshop.com](http://www.thefaceshop.com)

THEFACESHOP was launched in 2003 as a 'sophisticated natural' brand under the slogan of 'Natural Story' and offers skin-friendly cosmetic solutions made of natural ingredients. Incorporated as a subsidiary in January 2010, THEFACESHOP has been delivering customer value as a top-notch brand through a variety of high-quality products, continuously upgraded through technology tie-ups.

# Healthy



SAFFRON

[www.lgcare.com](http://www.lgcare.com)

SAFFRON has risen to No.1 32 years after it first debuted in the fabric softener market in 1979. It maintains its market dominance through outstanding user convenience and premium quality as well as technological advantage (both sheets and concentrated liquid available). Amid strong challenges from overseas products, SAFFRON maintains top market share through the launching of innovative new products with improvement in quality and concentration, and sheet availability.



PERIOE

[www.perioe.com](http://www.perioe.com)

Launched in 1981, more than 1.4 billion toothpaste products have been sold under our PERIOE brand, which translates into 28 toothpaste products per person in Korea. PERIOE continues to grow as Korea's representative oral care brand and firmly maintained top market share in 2013 by suggesting new standards for oral care through the launching of a new brand called PERIOE Total 7, which integrates all functions in one in the toothpaste market, which has been subdivided by function.





**Elastine**

[www.elastine.co.kr](http://www.elastine.co.kr)

ELASTINE pioneered the premium shampoo segment in Korea under the slogan 'Your hair is as essential as your skin.' As a long-living shampoo brand, ELASTINE continues to grow by unveiling diversified hairsience-based technology. The 'ELASTIN PERFUME SHAMPOO' line-up released through collaboration with world-renowned perfumers has been leading the perfume shampoo market and maintaining top market share for 10 consecutive years.



**TECH**

[www.lgcare.com](http://www.lgcare.com)

Launched in 1999, TECH has become a synonym for top-performing laundry detergents. It continues to grow as a representative detergent brand for its outstanding sterilizing and bleaching effects and maintains an unchallengeable top market share. It has also launched HAN-IP detergent optimized for laundry that has been washed after being worn once to keep pace with a fast-moving lifestyle, leading the change in the washing detergent market.



**ON: THE BODY**

[www.lgcare.com](http://www.lgcare.com)

Debuted in 2011, the body care brand 'ON THE BODY' is emerging as an emotion-driven brand through the use of such motives as flowers and fragrances that embody natural ingredients and emotional needs in the increasingly value consumption-driven body care product market. In 2013, the release of a perfume line-up served to reinforce its branding, and the release of hand wash and facial form products enabled the brand to firmly secure its position as the second brand in the market.

# Refreshing



**Coca Cola**

[www.cocacola.co.kr](http://www.cocacola.co.kr)

Coca Cola is a representative No.1 soft drink brand that sells more than 1 billion servings per day world-wide. Since Coca Cola was introduced in America in 1915, it has long been a passion for people around the world. Beyond being a mere beverage, it has continuously delivered its branding value of 'Happiness in a bottle' to customers and has enhanced a sense of intimacy with customers by actively supporting special events such as the World Cup, Olympics, and Christmas.



**Fanta**

[www.fanta.co.kr](http://www.fanta.co.kr)

Fanta, one of the world's top five carbonated drink brands, was introduced in Korea in 1968. Since then, it has constantly won favors from customers, especially from teenagers. The brand delivers three major flavors including orange, pineapple and grape. Recently, it unveiled a strawberry-flavored Fanta, and customers continue to gain pleasure from the constant release of new products.



**GEORGIA**

[www.georgiacoffee.kr](http://www.georgiacoffee.kr)

GEORGIA, the world's top-selling canned coffee brand, is gaining popularity with its premium quality products that reflect sophisticated consumer tastes and well-being trends. Especially, 'GEORGIA EMERALD MOUNTAIN BLEND' delivers creamy flavors and deep coffee aroma through blending with Emerald Mountain, the finest 2% Columbia Arabica coffee beans.



### Minute Maid

[www.minutemaid.kr](http://www.minutemaid.kr)

Minute Maid, the world's top-selling No.1 juice brand, has been loved by people around the world for 60 years. The juice is made from carefully selected fruits picked at the top of the season when they are deliciously ripe, securing its image as a premium juice brand for people pursuing healthy lifestyles through various fruits and vegetables with nutritional value such as vitamins.



### Sunkist

[www.htb.co.kr](http://www.htb.co.kr)

Sunkist, a global fruits/beverage brand with a 108-year tradition, was introduced in Korea in 1986 through a license contract with HAITAI Beverage. Since its launching, Sunkist has secured its position as a beverage brand for the whole family by releasing various products and leading the market trends such as with Sunkist Family, the 100% juice, and Sunkist Ade.



### POWERADE

[www.powerade.kr](http://www.powerade.kr)

POWERADE, under the slogan of 'Sports is everything to me,' enjoys constant love from sportsmen. It is a sports drink brand designed for sports activities with its ION4 system, which replenishes the four electrolytes expelled through sweating.

## Integrated Risk Management

LG H&H has established an integrated enterprise risk management system to ensure its readiness for the occurrence of external shocks, and managed the possible risks by classifying them into four areas: strategic risks, financial risks, operational risks, and hazardous risks. Each risk is doubly monitored by a working-level department and an enterprise risk management department. Financial risks like exchange rate fluctuations, liquidity risk, interest rate risk, raw material increase, and credit risk are regularly measured and managed according to the periodical risk management plan (short, mid, and long term). Non-financial risk management is also being reinforced through regular diagnosis by an in-house expert. The operational risks, such as the government policies and regulations, product quality management, protection of patents and trading rights, and protection of personal information and external image, and the hazardous risks, such as fire, safety and health, natural disasters, and corruption, are being monitored and addressed initially by an associated functional organization.

\* Comment: Please refer to the homepage for detailed information about integrated risk management.

### [Integrated Risk Management]



## Personal Information Protection

LG H&H is equipped with enterprise-wide management process instructions, procedures, guidelines, and a dedicated organization to manage personal information systematically. Since 2011, the company has been operating the CSO (chief security officer) system, and all security activities have been carried out with the approval and support of the CSO (additional post held by the CFO). From 2013, the Council for Information Security, chaired by the CSO, has been holding meetings on a quarterly basis to discuss the issue of enterprise security. It is being systematically undertaken under the information protection policy established in compliance with the international standards as well as the domestic regulations. In 2013, the in-house information protection policy was strengthened in line with the revised Information Network Law. Various measures were taken to prevent the spilling and hacking of personal information, such as introduction of the APT response service, vulnerability removal through simulation hacking, introduction of the network separation system for the personal-information handlers, and security verification testing for a newly introduced system. All the in-house employees and the employees of the business partners are given security education annually to increase their awareness of information security. To prevent the spilling of in-house information, we are monitoring frequently from document security to network security, and we are also operating systems to prevent external attacks and hacking. In 2014, we plan to elevate our information security level by acquiring ISMS (Information Security Management System) certification.

## Internal Accounting Control System

LG H&H has been operating a thorough internal accounting control system since 2006 in an attempt to secure company operation efficiency and information credibility, and to improve the company's business transparency and integrity. The CFO is designated as the internal accounting controller, and the department in exclusive charge of such matter conducts regular and non-scheduled assessments in five areas (control environment, risk assessment, control activities, information and communication, and monitoring) under the internal accounting control system model criteria and application manual. In 2013 the external auditor evaluated LG H&H, Coca Cola Beverage Company, HAITAI Beverage, and THEFACESHOP as appropriate in design and operation. In addition, internal control has been enhanced by the introduction of CSP in procurement and the internal control assessment system of Coca Cola Beverage and HAITAI Beverage integrated in 2012 was implemented more stably. Furthermore, multiple evaluation categories were newly developed, serving to enhance the substantiality of assessment. In 2014, we plan to improve our internal control by examining the current control level in the area of finance management and accounting, drawing up improvement measures, and standardizing our internal control activities by subsidiaries. Additionally, internal control assessment will be conducted at corporations in USA and Japan.

## “Jeong-do” Management

“Jeong-do” management is LG’s unique behavior mode of constantly growing its competence and competing in a fair manner based on ethical management. It connotes the active will to create tangible results by raising its capability to win any competition on the foundation of law observance and corporate ethics. All the employees of LG H&H have committed to fair and transparent business conduct based on its CEO’s strong will towards “Jeong-do” management, stressing going in the right direction, towards “Jeong-do”, amidst any crisis. To establish a “Jeong-do” management culture, our company set up a Management Consulting Team and an Ethics Bureau Team, which engage in exclusive activities: checking and improving the company policy and course, implementation of and compliance with the management instructions, training for and promoting advanced prevention of possible irrationality and fraud, operating an ethics hotline system, and monitoring bribery cases.

### Representative “Jeong-do” Management Operation in 2013

“Jeong-do” Management Fulfillment Pledge	All the employees of LG H&H are required to pledge their commitment to “Jeong-do” management. New employees, both the experienced and the beginners, are required to write a fulfillment pledge and to submit it. All the partner companies doing business with LG H&H also pledge their participation in the “Jeong-do” management activities through a written fulfillment pledge on the point of initiating transaction registration.
Irrationality and Fraud Reporting System Operation	An ethics hotline is being operated for the reporting of any employee conduct in violation of the LG Code of Ethics, including implementing an unfair work process and accepting money and valuables through abuse of authority. The reported case is verified through pre-inspection and on-the-spot investigation, followed by post-management, such as punishments, work process improvement, and education. In 2013, 30 cases were reported, and 24 of them were found to be true, resulting in the imposition of penalties on 29 violators and the carrying out of business process improvements in 22 cases. Except hotline, a variety of channels, including telephone, fax, mail, and personal visit, were used to eradicate irrationality and fraud.
Bribery Reporting System	At LG H&H, accepting gifts from stakeholders is prohibited, regardless of the reason. LG H&H is conducting a campaign targeting its business partners and employees not to accept any gift on traditional holidays, including Chuseok and New Year. In principle, any gift should be politely declined, and if inevitably received, should be reported to the Ethics Bureau, which then directly donates the gift to charity organizations or puts the gift on auction and uses the proceeds therefrom for charitable purposes. In 2013, goods valued at KRW 3 million in total were donated to two support institutions.
Code of Ethics Revision	In January 2014, the regulation on the fair performance of duty was reinforced. Accordingly, no personal gifts from the stakeholders are allowed to be accepted, regardless of their prices, and any personal transaction with the stakeholders is completely prohibited. The measure has been enforced on an enterprise-wide scale.
“Jeong-do” Management Education	Continual education is being offered to all employees, according to their companies, job categories, and positions, with the aim of firmly establishing the “Jeong-do” management culture and preventing fraud and irrationality. Education on “Jeong-do” management is compulsory for all the training courses offered in each business segment. In 2013, 656 office workers of CocaCola Beverage Company and THEFACESHOP were given in-house education under the theme “Jeong-do management initiated by me,” and the salespersons of Coca Cola Beverage Company and HAITAI Beverage who are hard to gather in one place were educated through a video training CD about “Jeong-do” management made and distributed by the company. In addition, the head and the person in charge of 178 tier 1 and 2 business partners of LG H&H were given training about “Jeong-do” management and win-win growth, and were encouraged to be committed to transparent transaction practices.
“Jeong-do” Management Promotion	<p><b>[Domestic]</b> A letter reflecting contributions to “Jeong-do” management written by company leaders, contents of the Code of Ethics, and social issues like the master-servant relationship between A and B was shared with the employees to prevent possible ethical conflict situations that employees can experience. For the continuous in-house promotion contest for “Jeong-do” management targeting the employees, 270 entries have been received.</p> <p><b>[Overseas]</b> To establish the “Jeong-do” management culture in the company’s overseas subsidiaries, the “Jeong-do” management evaluation system was piloted, and education &amp; promotion activities on “Jeong-do” management were carried out by the heads of corporations.</p>



# Responsible Corporate Governance

The board of directors of LG H&H is composed of seven directors in all who are elected at the general stockholders' meeting, playing a core role in the decision making.

## BOD Composition and Operation

The board of directors of LG H&H is composed of seven directors who are elected at the general shareholder meeting, four of whom are external directors. The external directors are experts with profound experience and knowledge in management, law and other areas. They monitor and check the important issues related to corporate operation, and present their opinions on management, playing a key role in decision making.

In appointing the external directors, their specialty in the economic, environment, and social areas were considered. The BOD, composed of experts in each area, faithfully provides opinions and advice in major decision-making, and conducts close evaluation and review of the company's business performance. Remuneration for the internal and external directors is paid in the combination of the annual basic salary within the director remuneration limit as approved at the general shareholder meeting and the bonus dependent on the company's management performance.

### [Members of the BOD]

Director	Name	Key Career	Gender	Position	Remuneration (KRW million)
Internal directors	Suk Cha	CEO & Vice Chairman, LG H&H	Male	BOD Chairman, CEO	1,833 (CEO:1,544)
	Hoyoung Jung	CFO & Vice President, LG H&H	Male	Director, CFO	
	Joohyung Kim	President, LG Economic Research Institute	Male	Head, External Directors Nomination Committee	
External directors	Lee-Seok Hwang	Professor of School of Business, Seoul National University	Male	Head, Audit Committee & Member, Nomination Committee	250
	Sang-Lin Han	Dean of School of Business, Hanyang University	Male	Member, Audit Committee & Nomination Committee	
	In-Soo Pyo	U.S. Attorney, BAE, KIM & LEE LLC.	Male	Member, Audit Committee	
	Chai-Bong Hahm	President, Asan Institute For Policy Studies	Male	Director	

※ As of June 2014

### [BOD Meetings]

Year	Major Decision(s)	No. of Meetings	External directors' Attendance Rate
2011	Approval of the acquisition of the operation of VOV Cosmetics Co., Ltd.	10	95%
	Approval of the acquisition of Ginza Stefany Cosmetics		
	Approval of the equity acquisition of Future Co., Ltd.		
2012	Approval of the equity acquisition of Everlife Co., Ltd.	11	90.9%
	Approval of the establishment of compliance control standards and the appointment of a compliance manager		
	Approval of the capital reduction of Coca Cola Beverage Company		
2013	Approval of the land purchase of Magok R&D Center	9	80.5%
	Reporting of the evaluation results on the internal accounting control system operation		

※ An internal standard of the minimum attendance rate (70%) was made for the smooth operation of the BOD.

The BOD holds regular meetings according to the pre-set yearly operation plan, and holds temporary meetings whenever other important management issues required to be dealt with urgently arise. To prevent conflict of interest in the BOD's resolutions, the voting rights of the stakeholders with interests in certain motions are limited in accordance with the Commercial Law and the company's own BOD regulations.

To ensure that the BOD can play its role as a de facto supreme decision-making body of the company, a staff member of the legal team is designated to support the external directors. The legal staff provides the external directors with sufficient information on the meeting agenda as well as adequate explanation upon the request of an external director, prior to the general shareholder meeting, so that the external directors can analyze and review the meeting agenda in advance.

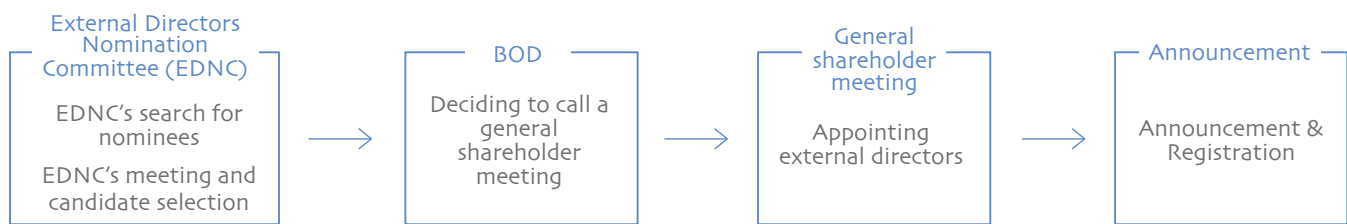
## Activities of the Audit Committee

The whole Audit Committee consists of three external directors, including the head of the committee, and is operated according to the Audit Committee Operation Regulation separate from the BOD Regulation to ensure the independent position of the committee. The Audit Committee held four meetings in 2010, five in 2011, and four in 2013. The committee establishes and executes internal audit plans independently, and receives and approves quarterly audit reports from the external auditors, enabling it to exert authority in auditing the company's affairs and accounting.

## External Directors Nomination Committee

The External Directors Nomination Committee is a “committee inside the BOD” established for recommending candidates for external director in compliance with the related law, bylaws, and BOD regulations. The committee’s role is to verify the qualification of a candidate for external director in terms of independence from the company, capacity to serve as a board member of a global company, etc., and to nominate such candidate based on the results of such verification. The BOD decides the final nominees from the recommended nominees, and participates in the confirmation of such decision at the general shareholder meeting. The committee plays an important role in minimizing the management’s leverage on nominating candidates for external directors and accordingly maintaining the independence of the external directors.







[Operation Process of the External Directors Nomination Committee]



## Gathering the Stakeholders Opinions and Reflecting these in the Company's Management Decisions

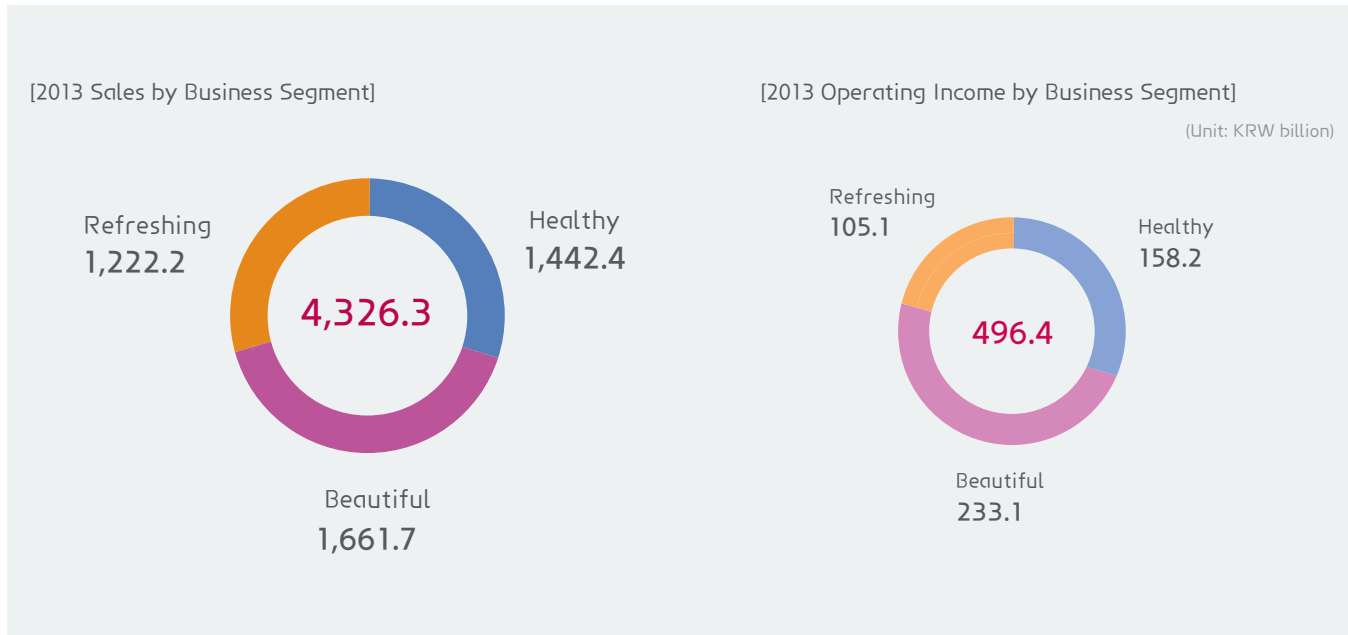
LG H&H endeavors to listen to the voices of the internal and external stakeholders, such as the customers, stockholders, and employees, and to reflect their opinions in the company's decision-making and management activities. Constant gathering of stakeholder feedback and stakeholder communication is a part of our operation at respective departments at LG H&H. Our CSR team undertakes its own stakeholder engagement process annually through the materiality test. Six stakeholder groups of customers, shareholders-investors, employees, government-public institutes-associations, business partners and local communities are surveyed and interviewed to identify their expectations and requirements. This is followed by consultations with working-level departments to define future improvement plans for enhanced stakeholder satisfaction. This year's stakeholder survey was conducted of 34 CSR issues in accordance with stakeholder interest and their impact on our business, and its outcomes were reflected in the materiality test results.

[Stakeholder Groups and Their Communication Frequency]

Stakeholder Groups	Communication Channel	Frequency	Stakeholder Groups	Communication Channel	Frequency	Stakeholder Groups	Communication Channel	Frequency
 Customers	Corporate website	Frequently	 Employees	Labor-Management Council	Once a quarter	 Share holders/ Investors	IR website	Frequently
	Brand-specific websites	Frequently		Class-specific meetings	Once a month		Business Report	Once a year
	CS portal, VOC, call center	Frequently		Company meeting	Once a quarter		General shareholders meeting	Once a year
	Housewives monitoring, prosumer	8 times a year		Grievance Committee Program	Frequently		Conference	Irregularly
	Brand awareness survey	2 months		Employee satisfaction survey	Once a year		IR Roadshow	Twice a year
	Brand satisfaction survey	2 months		Idea innovation i-30	Frequently			
	Customer complaints	2 months		Staff Committee	Once a quarter			
	acceptance/feedback	Frequently		Industrial Safety Committee	Once a quarter			
 Business Partners	Customer CSR survey	Once a year	 Local Community (Environment)	Intranet, newsletter/SNS	Frequently, newsletter (6 times a year)	 Government/ Public Institutes/ Associations		
				Employee CSR survey	Once a year			
	Integrated purchasing website	Frequently					International Seminar on Asia's Carbon Footprint	Once a year
	Business partners general assembly	Once a year					Korea Environmental Industry & Technology Institute	Irregularly
	Business Partner Win-Win Growth Committee	3 times a year		Regional consultation meeting	Twice a year		Participation in governmental tasks and conferences	Irregularly
	Business partner seminar	Once a year		NGO specialists panel meeting	Once a year		Recycling associations/Fire Safety Association	Once a quarter
	Business partner technical support	Frequently		Service for the public/ government	Irregularly			
	Business Partner CEO Academy	Once a year		Press launching event	Irregularly			
	Jeong-do management channel	Frequently		Social-contribution program	Once a year			
	Agency head meeting	Once a year		Community CSR survey	Once a year			
	Business partner CSR survey	Once a year						

## Creation of Economic Value

In spite of the hardships faced in both the domestic and overseas management environments, LG H&H has operated its business systematically, resulting in the stable operation of its three business portfolios: “Healthy,” “Beautiful,” and “Refreshing.” In particular, we have strategically focused on our “Beautiful” business segment, achieving visible business outcomes in the overseas as well as domestic markets.



### 2013 Business Status

Walking in step with the trend of consumption polarization in our “Beautiful” market, we focused on both high- and low-priced cosmetics and enhanced our market leadership in each business segment. We also concentrated on channels with high growth potentials, like duty-free, online, and brand shops, as a preemptive move against channel diversification, which resulted in the achievement of higher growth in comparison with the current market tendency.

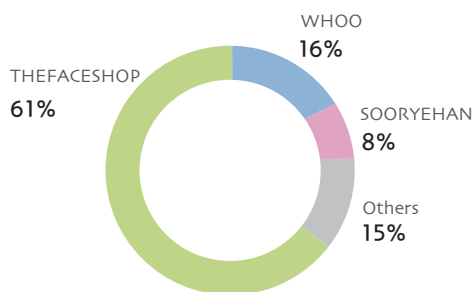
In our “Healthy” business, we unveiled innovative products in hair, oral, and body care, whose market trends rapidly become premium and differentiated, so that we also obtained good results in this area. As for our “Refreshing” business, the business continued to bear good fruit due to the growth of carbonated drinks with strong brand power, new-products release, and differentiated marketing. With these successful experiences as a stepping stone, we have made an attempt to extend our operation to the broader global market. We have extended our bases to the North American region, the world’s largest market, as well as to the Chinese, Japanese, and Southeast Asian regions. We have accelerated our business growth with these bases as the center. In 2013, the overseas sales of household goods and cosmetics reached around KRW669 billion, up more than 50% from the previous year. The proportion of sales also expanded to 15% in 2013 from 11% in 2012.

Meanwhile, the expansion of the overseas market has been accompanied by our continuous endeavor to secure a new growth engine for each business segment: strengthening the dietary supplement business in our “Healthy” business, investing in a THEFACESHOP overseas base in our “Beautiful” business, and preparing to produce functional beverage and dairy products in our “Refreshing” business. These are combined with our unceasing efforts to selectively develop new businesses that are expected to create synergy with our existing businesses. In so doing, compared with 2012, our company’s sales has increased to KRW 4,326.3 billion, up by 11% and operating incomes increased to KRW 496.4 billion, up by 11.4%, respectively.

## Overseas Businesses

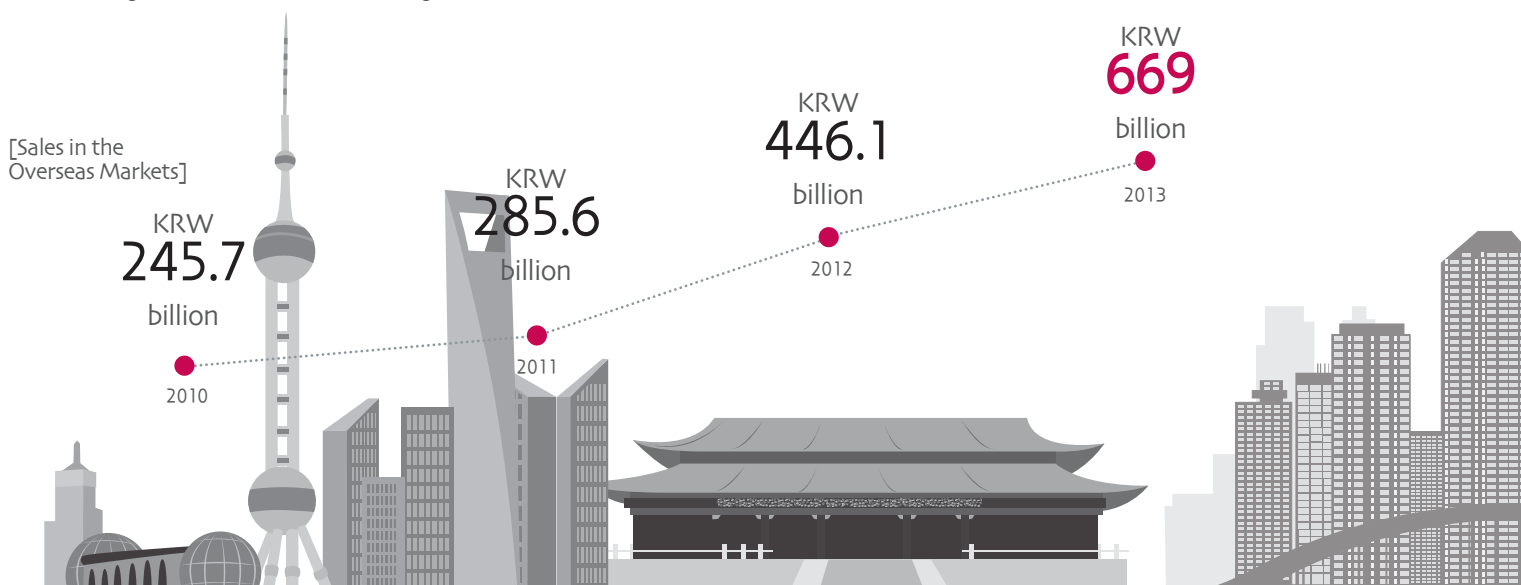
LG H&H is operating three production subsidiaries in China and Vietnam and one sales subsidiary each in China, USA, and Taiwan to carry out its household goods and cosmetics business. The company has exported major products to 22 countries, including the above-mentioned countries plus Russia, Iran, etc. Our cosmetics brand entered the Japanese market through Ginza Stefany, the Japanese cosmetics provider, which we acquired in 2012. In newly explored markets like Colombia, the sales generated by the exportation of goods like raw materials were up 10% from 2012. Our activity boundaries in the overseas markets have been enlarged in a sustained manner. Our strategically focused cosmetics brand is 'Whoo', which is being advertised in the local market to enhance its brand awareness. The first shop was launched in a premium department store in Hong Kong in 2013, receiving positive responses from the customers. As for BELIF, it was first launched in Singapore with the natural-herb concept, and after that, we made every effort to open a brand shop and to enter a department store in Indonesia, Taiwan, and others. BEYOND provides good-quality products at low prices and with its cute animal shape and the spirit of anti-animal testing, the brand is expected to appeal to the overseas consumers as the representative brand in the low and middle-priced markets. THEFACESHOP, recognized as a practical and low/middle-priced brand in the home market, has a differentiated positioning strategy for each nation.

[2013 Sales Ratio of Each Major Cosmetic Brand in the Overseas Markets]



In 2013, THEFACESHOP established a subsidiary in China and Singapore, where an exclusive operation system had been used, to gain a foothold for business expansion in such countries. Additional launching of other brands, such as belief and VDL, has been being done since the founding of the Singapore subsidiary in April 2013. In September, a joint venture was established in Guangzhou, China and the acquisition of exclusive sales entities was completed, equipped with a direct management system to develop various business activities. In Canada, the management systems of three F&P shops taken over in July 2013 was changed into the direct control system, which leads to big achievements. The number of directly controlled shops will continue to grow for business expansion in Canada.

In terms of household goods, we have focused on raising oral and detergent brands. We have finished our entry into strategic-focus regions, including western Russia, Ukraine, and Kazakhstan, with the oral care brand PERIOE and are tightening marketing activities. We have concentrated on selling quality products to the consumers in Russia and Columbia, with the enriched detergent brand TECH. In Japan, the fabric softener brand Saffron has expanded its detergent product range, unveiling new products as a result of product renewal tuned to consumer needs. To improve the brand awareness, we plan to develop branding campaigns for large channels and customized promotions for small channels. In the local subsidiaries in China, Vietnam, and Taiwan, the number of local employees will continue to increase in an attempt to enhance customer satisfaction through a rapid and detailed grasp of the local consumers' needs and its application to our products. Furthermore, considering the geographic conditions of the competitive local suppliers with quality subsidiary materials and competitive production costs, the ratio of local purchase has grown continually, accounting for 72% in 2013 (excluding THEFACESHOP).



## Japanese Market



(A SU:M 37 brand shop in a department store in Japan)

In 2012, our company entered the Japanese market in full scale by acquiring Ginza Stefany, the mail order cosmetics business in Japan. While cosmetics companies, including foreign corporations which had carried out their business mainly through department stores, are expected to reinforce the WEB sales channel, Ginza Stephany has recruited new customers while systematically caring for its existing customers, enlarging the people's awareness of Ginza Stephany and its branding image exposures to consolidate the cosmetics sales. In 2013, the acquisition of EVERLIFE, the premium health functional food company, followed in a bid to expand the business scale of health functional foods. Using the premium branding image of EVERLIFE, we plan to enter Taiwan and China. As for household goods, our major fabric softener/detergent brand has been distributed through our agency in Japan and has aggressively knocked on the doors of previously unreached distribution channels to expand its market coverage.

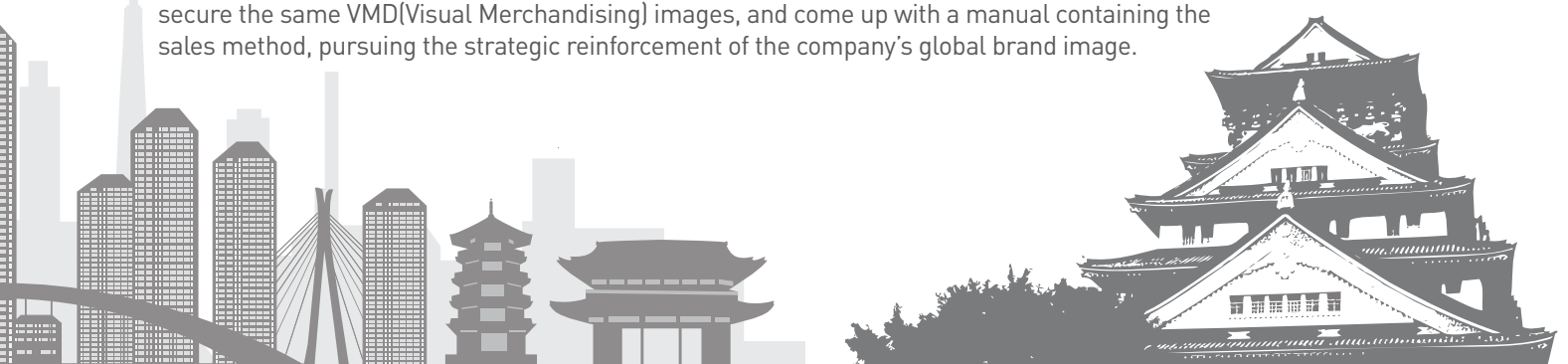
## Chinese Market



(A Whoo brand shop in a department store in China)

For the last five years, the Chinese cosmetics market has experienced average 15% continuous growth annually, and especially, the premium cosmetics sales have been expanded in a sustained manner. In accordance with this market growth trend, we have focused on cosmetics distribution in the premium market, including department stores. Shop opening targeting prestige department stores with high potentials located in major cities has been pursued to enhance the premium image through the new shop interior added to the existing interior operated in South Korea. Unlike the drastically growing cosmetics market, the growth rate of the household market in the last few years has decreased to around 6% from approximately 10% due to the global economic recession. In view of the economic growth in China, however, the purchase rate of household items in small and medium-sized cities has been gradually rising, and many multinational

competitors leading the household market are moving from big cities to small and medium-sized cities. In addition, with the continual sales expansion of online distribution, LG H&H currently invests more in online sales than in offline sales. THEFACESHOP has experienced rapid growth in the Chinese market for three years, recording a 21.5% average annual growth rate. Thanks to the establishment of a subsidiary in Shanghai, China, the company entered the online market successfully, and in 2013, the offline business operated as two exclusive entities was taken over by the newly founded Guangzhou subsidiary, which is expected to enable both the online and offline businesses to expand into an integrated system controlled by the head office. As for our online business, we plan to increase its market share by actively advancing into the new online home shopping channel in addition to the existing Internet business. As for our offline business, we aim to aggressively expand our business capacity by renewing the existing shops acquired through joint venture establishment. Furthermore, for both our online and offline channels, we plan to equalize the product prices, secure the same VMD(Visual Merchandising) images, and come up with a manual containing the sales method, pursuing the strategic reinforcement of the company's global brand image.





## Summary of Financial Information

### Financial Statement

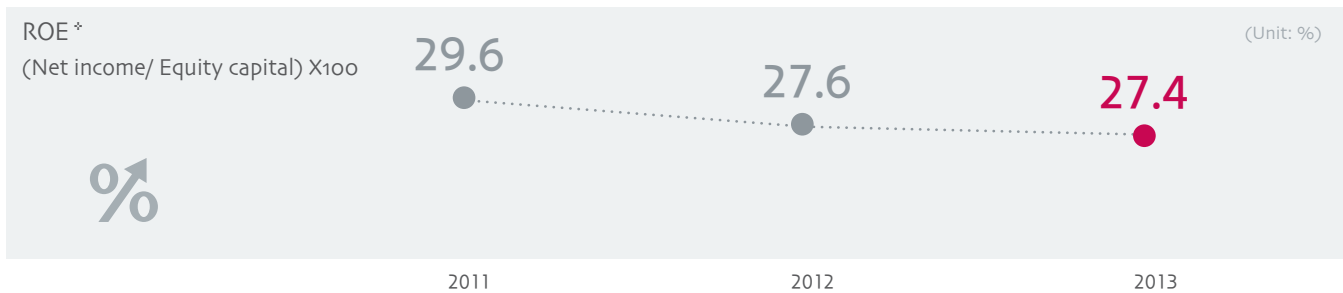
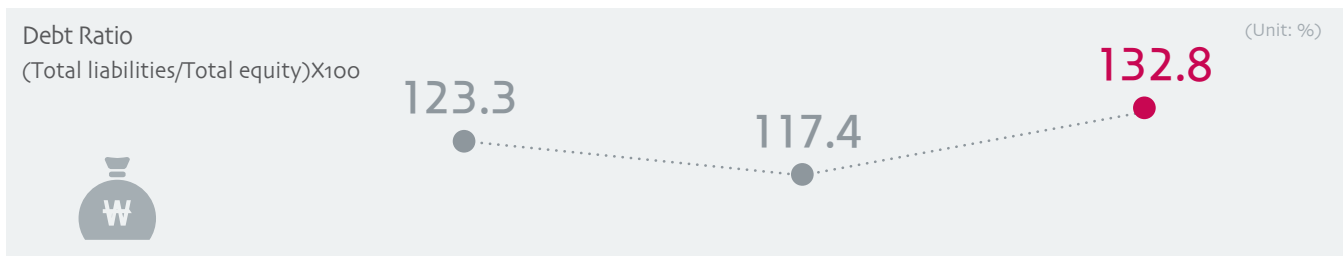
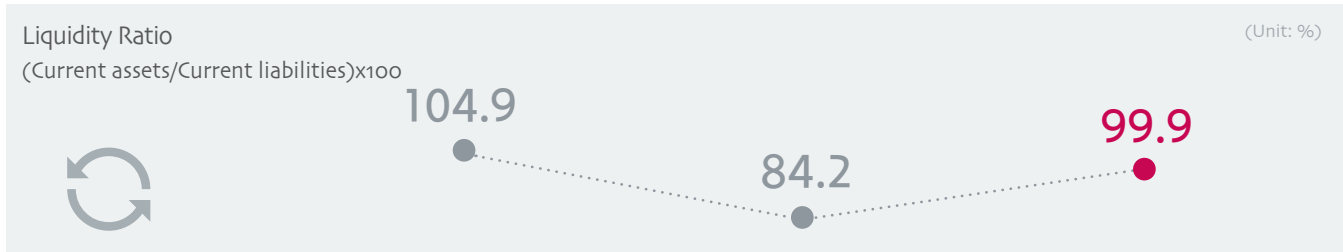
(Unit: KRW million)

	LG H&H [consolidated]		LG H&H [non-consolidated]		Coca Cola Beverage [consolidated]		THEFACESHOP [consolidated]		HAITAI Beverage [non-consolidated]	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
I. Current assets	981,075	791,867	570,079	436,272	167,982	163,807	140,222	105,583	57,318	46,667
Cash and cash equivalents	143,045	65,204	58,476	2,237	22,579	17,711	26,966	25,987	976	1,485
Short-term financial deposits	12,500	12,000	12,500	12,000	-	-	-	-	-	-
Accounts receivables	410,540	370,286	270,098	238,521	86,268	74,400	41,521	37,330	22,984	17,230
Other receivables	13,013	16,099	1,594	2,248	11,274	14,881	9,845	5,101	1,438	822
Inventories	375,625	316,733	212,324	177,111	44,808	54,585	57,710	34,756	31,308	26,690
Non-current assets estimated for sale	6,749	-	-	-	-	-	-	-	-	-
Other current assets	19,603	11,544	8,339	4,154	3,053	2,229	4,179	2,409	612	440
II. Non-current assets	2,454,029	1,972,268	1,755,735	1,539,974	426,338	426,111	151,612	94,643	192,518	178,119
Long-term financial deposits	1,027	27	18	18	6	6	3	3	1,000	-
Long-term Other receivables	71,030	55,296	44,202	36,797	7,444	6,823	18,405	11,478	3,060	2,662
Financial assets available for sale	1,635	1,416	524	416	1,000	1,000	-	-	-	-
Subsidiary shares	-	-	1,319,886	1,140,705	-	-	-	-	-	-
Shares in associated and jointly controlled entities	45,434	34,827	26,268	18,268	-	-	-	-	-	-
Deferred tax assets	780	898	5,714	-	90	87	9,385	9,647	-	-
Tangible assets	1,022,142	1,007,101	286,980	278,661	411,991	412,488	29,995	15,108	187,768	174,686
Property investments	23,605	24,125	22,386	22,611	-	-	-	-	-	-
Business reputation	669,395	355,961	-	-	4,176	4,176	45,098	20,347	-	-
Intangible assets	616,496	484,682	47,612	34,792	1,556	1,421	48,601	38,010	689	771
Other non-current assets	2,486	7,934	2,145	7,705	76	109	124	50	-	-
<b>Total assets</b>	<b>3,435,104</b>	<b>2,764,136</b>	<b>2,325,814</b>	<b>1,976,245</b>	<b>594,320</b>	<b>589,918</b>	<b>291,834</b>	<b>200,226</b>	<b>249,836</b>	<b>224,786</b>
I. Current liabilities	981,692	939,863	518,879	698,547	176,221	88,071	97,618	48,675	87,673	71,251
II. Non-current liabilities	978,036	552,683	755,059	339,129	23,631	19,543	12,721	11,806	16,142	27,112
<b>Total liabilities</b>	<b>1,959,727</b>	<b>1,492,546</b>	<b>1,273,938</b>	<b>1,037,676</b>	<b>199,852</b>	<b>107,613</b>	<b>110,339</b>	<b>60,481</b>	<b>103,815</b>	<b>98,363</b>
Paid-in capital	88,590	88,589	88,589	88,589	50,000	100,000	1,018	890	87,642	174,190
Capital surplus	97,326	97,326	97,326	97,326	48,072	163,072	64,314	9,921	134,823	34,551
Retained earnings	1,414,672	1,120,462	937,328	824,029	296,396	219,233	107,309	64,103	-75,918	-95,412
Accumulated other comprehensive income	-118,673	-31,886	81	-	-	-	-2,749	-52	-	-
Capital components	-73,057	-72,940	-71,449	-71,375	-	-	10,554	64,882	-526	13,094
Non-controlling interests	66,519	70,039	-	-	-	-	1,048	-	-	-
<b>Total equity</b>	<b>1,475,377</b>	<b>1,271,590</b>	<b>1,051,876</b>	<b>938,569</b>	<b>394,468</b>	<b>482,304</b>	<b>181,495</b>	<b>139,744</b>	<b>146,021</b>	<b>126,423</b>

### Income Statement

(Unit: KRW million)

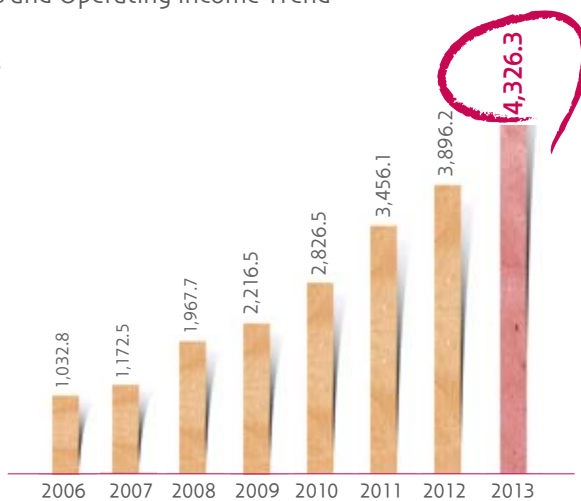
	LG H&H [consolidated]		LG H&H [non-consolidated]		Coca Cola Beverage [consolidated]		THEFACESHOP [consolidated]		HAITAI Beverage [non-consolidated]	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Sales	4,326,255	3,896,218	2,238,175	2,144,640	1,021,989	962,893	547,236	438,149	260,401	254,396
Cost of sales	2,031,823	1,903,209	1,107,466	1,048,375	580,924	556,822	178,703	151,216	175,082	177,033
Gross profit	2,294,432	1,993,009	1,130,709	1,096,265	441,065	406,071	368,533	286,932	85,319	77,363
Selling and administrative expenses	1,798,021	1,547,478	892,649	341,883	836,520	315,642	273,598	206,956	77,319	76,509
<b>Operating income</b>	<b>496,412</b>	<b>445,531</b>	<b>238,060</b>	<b>99,182</b>	<b>259,745</b>	<b>90,429</b>	<b>79,976</b>	<b>94,935</b>	<b>8,000</b>	<b>854</b>
Financial income	15,242	17,348	40,735	1,625	40,533	1,213	1,101	589	25	72
Financial expenses	37,389	34,812	34,996	154	33,018	0	89	177	901	1,622
Other non-operating gain and loss	-4,388	-2,741	-13,898	207	-5,064	735	-294	-720	-188	544
Gains or losses from the equity method	3,579	4,963	-	-	-	-	-	-	-	-
<b>Earnings before taxes</b>	<b>473,456</b>	<b>430,290</b>	<b>229,901</b>	<b>100,860</b>	<b>262,196</b>	<b>92,377</b>	<b>80,695</b>	<b>94,628</b>	<b>6,936</b>	<b>-151</b>
Income tax expenses	107,804	118,302	52,940	23,878	54,400	21,875	19,637	21,080	-12,125	94
<b>Net income</b>	<b>365,653</b>	<b>311,988</b>	<b>176,960</b>	<b>76,982</b>	<b>207,796</b>	<b>70,502</b>	<b>61,059</b>	<b>73,548</b>	<b>19,061</b>	<b>-244</b>



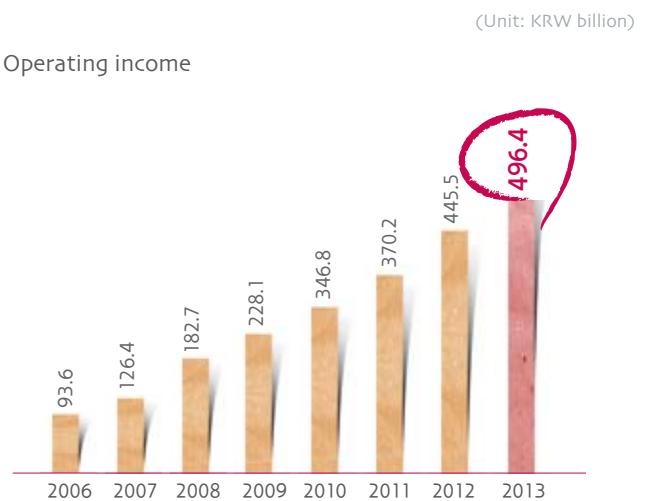
\* ROE(Return on Equity): the ratio of profit utilizing a company's equity capital.

## Sales and Operating income Trend

Sales



Operating income



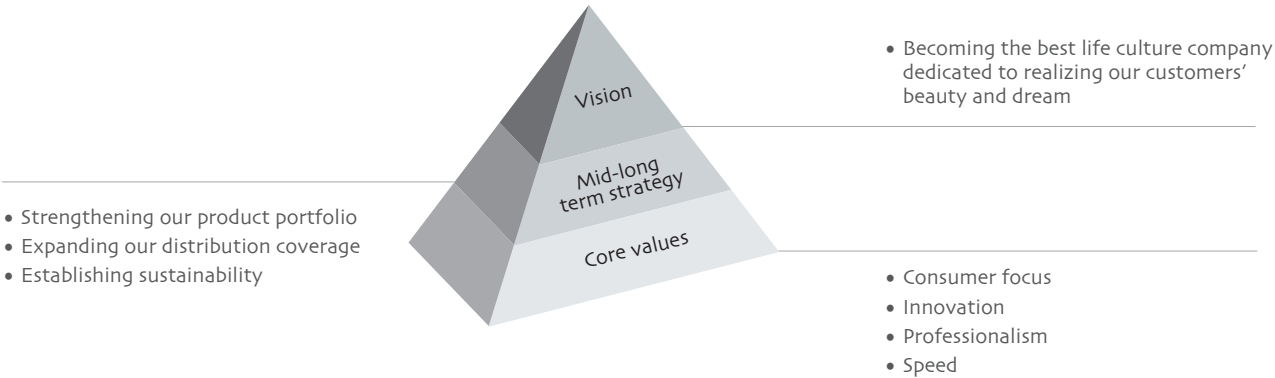
\* The Liquidity ratio, debt ratio and ROE are based on consolidated accounting.

# Our Mid-Long Term Strategy and Integrated CSR Management

It is the vision of LG H&H to grow as the best life culture company dedicated to realizing our customers’ beauty and dream. Our mid-long term strategy for achieving this vision is to tighten our product portfolios, expand our product distribution coverage, and ensure sustainability. At the level of CSR, we have set a vision for sustainability management to become “the best sustainable FMCG company”, and, to achieve this vision, we have operated CSR Team exclusively dedicated to our CSR activities under CHO since 2009. CSR Team operates CSR meetings to deal with various social, environmental, and economic issues of sustainability systematically.

## Vision and Mid-Long Term Strategy

The vision of LG H&H is to grow as the best life culture company dedicated to realizing our customers’ beauty and dream. For this, the company pursues four core values: customer-oriented operation, unceasing pursuit of innovation, a professional mindset, and one-step-ahead customer response. Since its founding in 1947, LG H&H has walked together with its customers towards realizing a healthy and beautiful life. Beyond the mere provision of household goods, cosmetics, and beverages, we have made every effort to enable our customers to enjoy a more “Healthy,” “Beautiful,” and “Refreshing” life. To realize our vision, we have strategically sought to tighten our product portfolios, to expand our product distribution coverage, and to ensure sustainability on a mid-long term basis. In 2013 alone, we devoted ourselves to expanding our globalization, developing value-creating brands, maximizing customer satisfaction, and strengthening our company’s risk resistance.



## CSR Vision and Core Fields

LG H&H has established a CSR vision in relation to its business vision, and implements a sustainability strategy led by CSR Team. The company pursues its sustainability vision of becoming “the best sustainable FMCG (fast moving consumer goods) company”. To realize this vision, we set four strategic goals (stakeholder communication, transition to the sustainability management operating system, expansion of sustainable products, and reinforcement of social responsibility) and conducted sustainability management in six fields: customer satisfaction, win-win growth, Jeong-do management, employee value, green management, and social contribution. We also manage our performances by departmentalizing and specifying our sustainability management performance indicators in an attempt to actively reflect the needs of our various stakeholders, including our customers, business partners, investors, and others, which are reflected in CSR Report and in our homepage ([www.lgcare.com](http://www.lgcare.com)) for communication with our stakeholders.

Vision	Slogan	Strategic direction	Implementation areas
<ul style="list-style-type: none"><li>the Best sustainable FMCG (fast moving consumer goods) company</li></ul>	<ul style="list-style-type: none"><li>Healthy, Beautiful, and Refreshing for people and the planet</li></ul>	<ul style="list-style-type: none"><li>Stakeholder communication</li><li>Transition to the sustainability management system</li><li>Expansion of sustainable products</li><li>Reinforcement of social responsibility</li></ul>	<ul style="list-style-type: none"><li>Customer Satisfaction</li><li>Win-win growth</li><li>Jeong-do management</li><li>Employee value</li><li>Green management</li><li>Social contribution</li></ul>



## Performance Summary and 2014 Goals

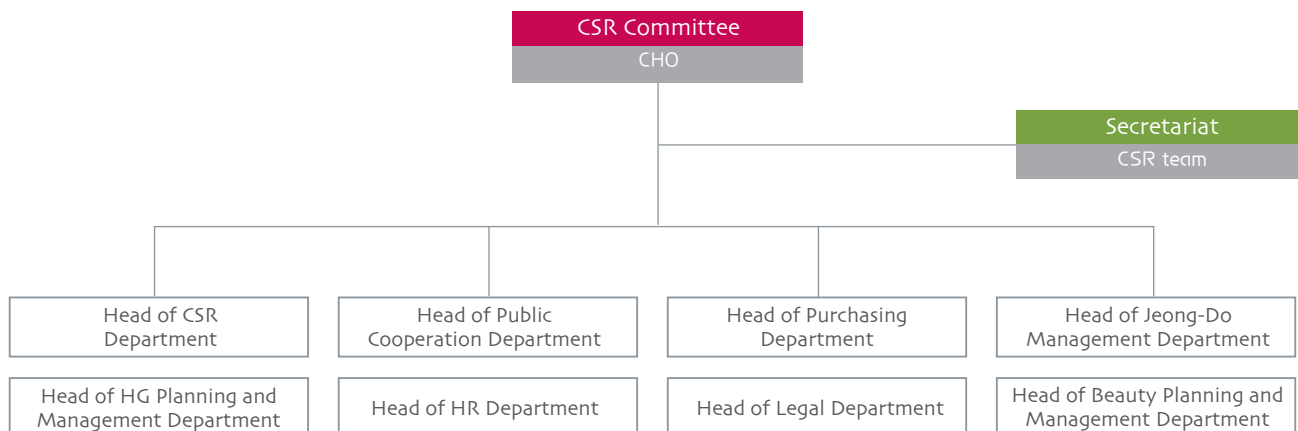
● Completed    ◐ Partially completed or in progress    ○ Not completed

Key Management Issue	2013 Performances	Completion	2014 Goals	Target Deadline			
				Q1	Q2	Q3	Year-round
Stakeholder Communication	Publication of 4th CSR Report	●	Publication of 5th CSR Report	◐	◐		
	Included in DJSI Asia Pacific	●	Response to DJSI evaluation	◐	◐		
	CSR monitoring of business partners	●	CSR monitoring of business partners	◐	◐		
	Compliance with UNGC's ten principles	●	Compliance with UNGC's ten principles	◐	◐		
Social Contribution	Operation of representative social contribution	●	Operation of representative social contribution	◐	◐		
	Preparation for new social contribution	●	Launching of Global Eco Leader Program	◐	◐		
Green Management	Expansion of the verification of the subsidiaries' greenhouse gas emissions	●	Expansion of the verification of the subsidiaries' greenhouse gas emissions	◐	◐		
	Diagnosis of the corporation's (LG H&H) CSR	●	Expansion of the diagnosis of corporations' (beverage company) CSR	◐	◐		

## CSR Committee

In 2014, LG H&H started holding CSR Committee, the venue for decision-making on CSR-related issues, to identify various sustainability management issues and to address these in advance, functioning to reinforce the integrated sustainability management system. The Committee is held quarterly. With the participation of the CHO and the head of relevant departments of the company's three business segments, various issues are discussed in the committee. During the committee held in the first quarter of 2014, the agenda, consisting of ① the discussion of the CSR plan and performance (information release, external assessment, diagnosis) and ② the establishment of countermeasures for the external stakeholders' requests at the enterprise level, were discussed. The agenda of social contribution, talented-women cultivation, and win-win growth will be discussed in the 2nd quarter. The Committee results will be reported to the CEO and the BOD according to the agenda.

[Composition of CSR Committee]



# Materiality Test

## Materiality Test Process

The materiality test is used in selecting prioritized strategic responses and reports by analyzing how comprehensive sustainability issues are related to the company's products and activities and by making a judgment on the materiality of each issue. LG H&H's materiality test process was developed using the materiality test principles and process suggested by GRI's (Global Reporting Initiative) G4, the global sustainability report guideline and the five-part materiality test methodology of Account Ability. The materiality test process was conducted from March to April 2014, in three stages: Identification of prioritized issues, evaluation of relative priority, and assessment of effectiveness. The materiality test process is expected to be continually upgraded, and, in this regard, LG H&H's materiality test process is considered as an ongoing improving process. As stated, LG H&H targets three business areas: household goods, cosmetics, and beverages. Accordingly, all the business features of LG H&H have been considered at all stages of the materiality test process as well as at the stage of analyzing their correlations.

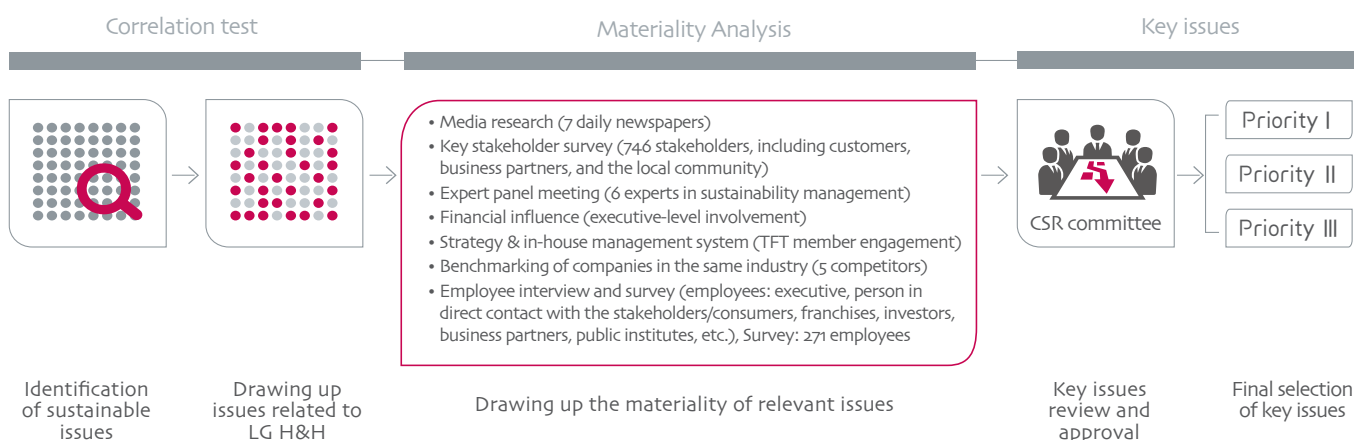
[Materiality Test Process]



## Materiality Test Criteria

LG H&H developed standards for the judgment of relative priority, from the points of view of the stakeholder and the business, and applied these. The materiality has been analyzed through media research (seven daily newspapers), a key stakeholder survey (746 stakeholders, including customers, business partners, and the local community), and expert panel meeting (six experts) from the stakeholder perspective, and through financial influence, strategy & in-house management system, level of competitors' countermeasures, and employee interview and survey from the business perspective. Especially, the employee interview was conducted targeting four executives, TFT members, and staff in direct contact with the key stakeholders, and a total of 271 employees participated in the employee survey, offering their opinions. With the weighted values added, the materiality of the stakeholder perspective and that of the business perspective were finally compounded to draw the relative priorities among the issues.

[Key Issue Selection Process]

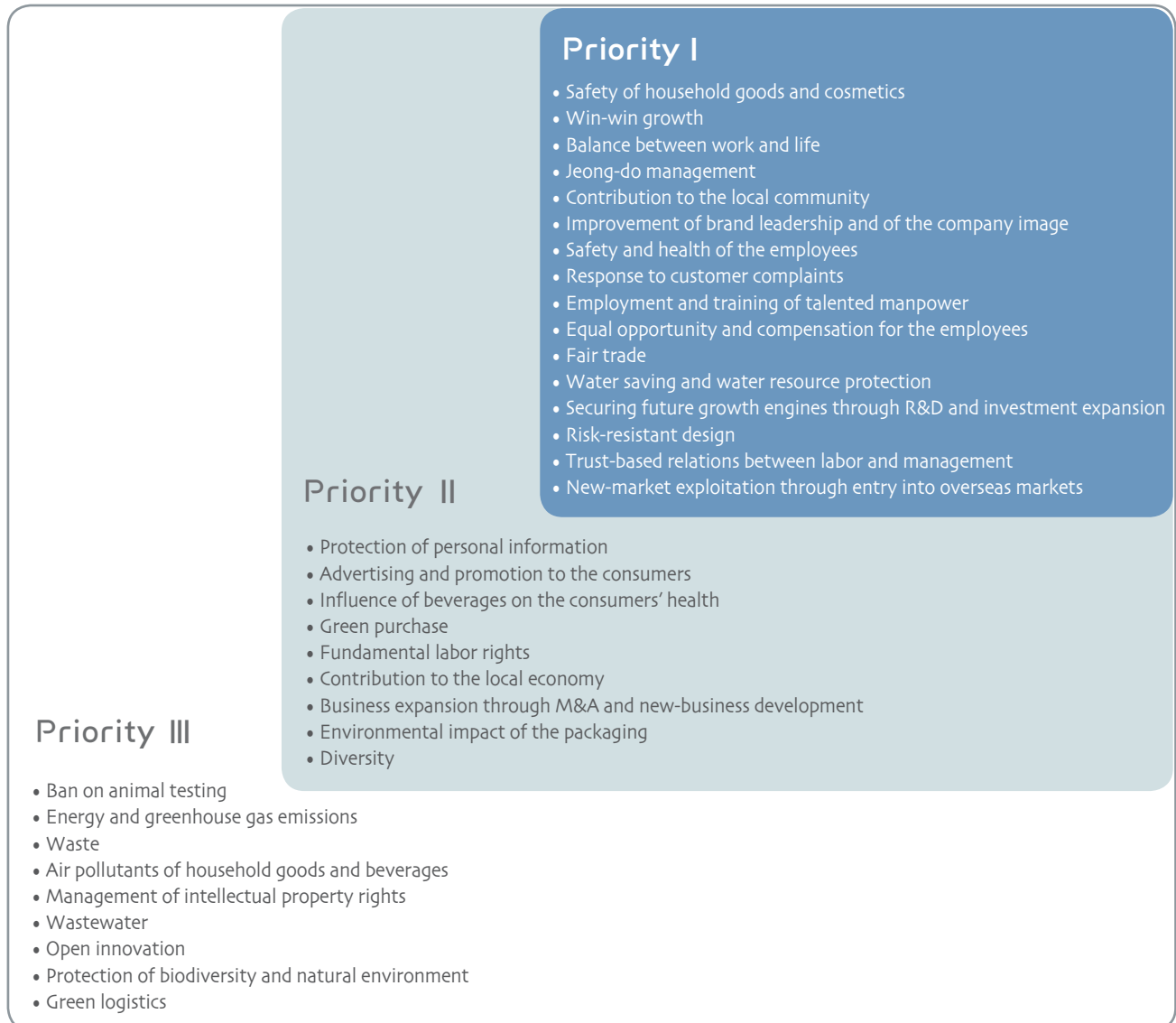


## Key Issue Selection and Approval

The major issues related to sustainability are the ones that are particularly related to the macroscopic goal of a community, the social expectations, and the stakeholders' interests, and are selected from among the themes deemed to have an impact on the achievement of LG H&H's vision and management strategy. The stakeholders have a tendency to consider such issues essential in decision-making. LG H&H has reviewed the propriety of the selected key issues in view of the company's vision, strategic system, business, and operation. For the approval of the issues, the issues were discussed by the management at the CSR meetings, went through the process of readjustment and grouping through the analysis of the correlation of each issue to the others, and were finalized. The CSR meeting is the supreme venue for decision-making, responsible for LG H&H's sustainability management. The total number of selected key issues was 34, classified as Priority I, II, and III according to the materiality. The test results were referred to in determining the report formation and reporting items and level. They will also be used as basic information in the process of improving the company's sustainability management strategy and system, and of reviewing the related achievements. The detailed issues are as follows;

[Key Issue List and Priorities]

Interest degree of the stakeholders

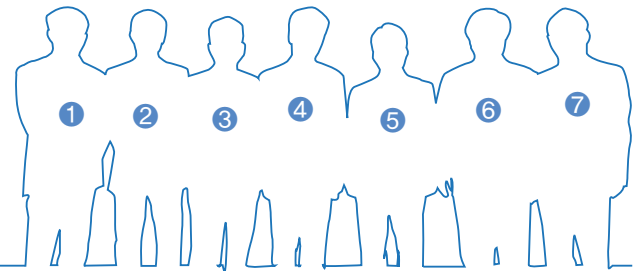


Degree of influence on the business



## Panel Meeting

1. Participants: 6 experts in sustainability management and an LG H&H executive in charge of CSR
2. Major discussion agenda
  - 1) Discussion on the materiality test process and results
  - 2) The recent trend and recommendations in relation to LG H&H's sustainability management
  - 3) Suggestions for improving CSR Report
3. Date & time: 14:00-17:00, April 15, 2014 (Tuesday)
4. Place: Meeting Room, 10th floor, Gwanghwamun Bldg., LG H&H



### ① Hee-sang Park, Head of Labor Corporation Ilwoo

In terms of CSR management, the current government labor policy is adjudged to be focused on family-friendly management (work-family coexistence), gender equality, industrial safety, and better treatment of temporary employees. LG H&H has achieved fine results in these areas, but ongoing efforts to comply with the policy are required. Internally, the fosterage of female management class is regarded as a major issue. Most leading companies tend to meet all the legal requirements in the area of human labor rights specified by the existing labor laws, but we have to closely determine if the actual in-house practice is as excellent as it appears externally, and if LG H&H has no exceptions. For example, it should be determined how well the employees recognize the guidelines for the company's declaration of human rights (ethical management) and how they are practiced in real life. In addition, it is a trend now to check the labor practice and human rights issues of the partner companies.

### ② Young-woo Kim, Research Fellow of National Commission for Corporate Partnership (NCCP)

NCCP unveils the win-win growth index of major companies on an annual basis. In 2013, 108 large companies were targeted, and LG H&H was one of the targeted companies. The company was also targeted, when 73 companies were the target of the assessment. The level of the company in terms of shared growth was evaluated as more than average. In the case of CSR Report, more concrete and precise contents are adjudged to be required. For instance, the detailed description of the KRW30 billion usage allocated for win-win growth could raise the report's credibility. It is our desire that you show more interest and take part in the benefit-sharing scheme operated by our committee. Meanwhile, only three technology escrow cases are being supported by LG H&H, which is regretful considering that there are approximately 10,000 escrow cases registered with Large & Small Business Cooperation Foundation. As the system requires lower cost and serves to protect the small/medium company's own technologies, it seems that more active support is needed. Meanwhile, CSR Report published in South Korea seems to be just going through the motions. Something should be done about the fact that similar contents are mechanically listed every year. One of the main purposes of CSR Report is to enhance the company's image, but we should go beyond this by creating social issues and boosting our business by employing a more strategic approach.

### ③ Sang-kyu Hwang, Head of SR Korea

Stakeholder engagement is essential, and this kind of panel meeting, where experts in each area intensively discuss issues, would be a good strategy for such. Experts tend to consider their own interests as most significant, but during the discussion, they listen to one another, ask questions, and can conclude which issue should be given priority. Rather than simply accepting the consequences, through communication and involvement, the stakeholders walk together in the process, which enables a deeper understanding of the issue. The stakeholders' involvement could be vitalized with the recognition of the fact that the result of the materiality test could be wrong. It is true that there is a disjunction among most of the South Korean companies' materiality test methods and outcomes, and in the stakeholders' recognition of such. This is why the process is more crucial than the consequences. As far as possible, the management should join the process with empathy, selecting major issues and helping draw conclusions. The world is changing and advancing. Facing new environments, we are required to cope with the rising issues and to discover new problem-solving methods. As for the reporting format and contents, they should be designed in such a way as to boost the readers' understanding. The way of sharing the report should be diversified; use various channels, like the internet and Facebook, as well as printed copy. Through online communication, the person in charge can update the information from time to time, enabling real-time interaction with the stakeholders.



④ Tae-hyoung Lim, Director of Community Relations Center

The social contribution activities that LG H&H has conducted so far are adjudged to be remarkable in terms of their positive influence and transformational effect on the society. The company's various kid-targeted campaigns, such as PERIOE Kids School, are desirable in view of their correlation with the company's business and capabilities, but the anti-animal testing campaign should be approached cautiously as it is like two sides of the same coin. In a certain aspect, it could run counter to the consumer safety issue, leading to a negative impact on such. Thus, rather than completely opposing animal testing, it is recommendable to advocate only the reduction of animal testing while increasing the measures taken to ensure consumer safety so as to gain consumer trust. Company A, belonging to the same industry as LG H&H, once declared that it would use only palm oil for its products, which resulted in its contribution to the destruction of the tropical rainforests for the planting of numerous palm trees for money. Please refer to such case. As for CSR Report, I suggest a more concise and sophisticated use of text and transformational-results/outcomes-oriented presentment rather than merely pointing out how many social contribution activities have been undertaken and the efforts that went into such activities.

⑤ Sung-rak Son, Head of Korea Consumer Agency, Seoul

Considering the features of LG H&H's products, the most sensitive issue as far as the consumers are concerned would be product safety. For example, a number of consumers have raised complaints to the Korea Consumer Agency about the allergic reaction they developed to certain cosmetics produced by LG H&H and about the heavy metal contents and defective disposable nappy of LG H&H's household goods and cosmetics. As for the beverage business, a number of consumers complained about the breakage of beverages while in motion. It is highly recommendable for the company to take active measures against these kinds of issues. Collaboration with its business partners is also very important for its consumer-oriented management. There have also been positive opinions, though. For example, the continuous use of eco-friendly raw materials and packaging materials is very desirable considering the recent consumer demands. Lastly, if I have to pick out one matter requiring improvement compared with developed countries, it would be the product safety signs. As for the issue of safety, making every effort to provide detailed information even about negligible parts is essential.

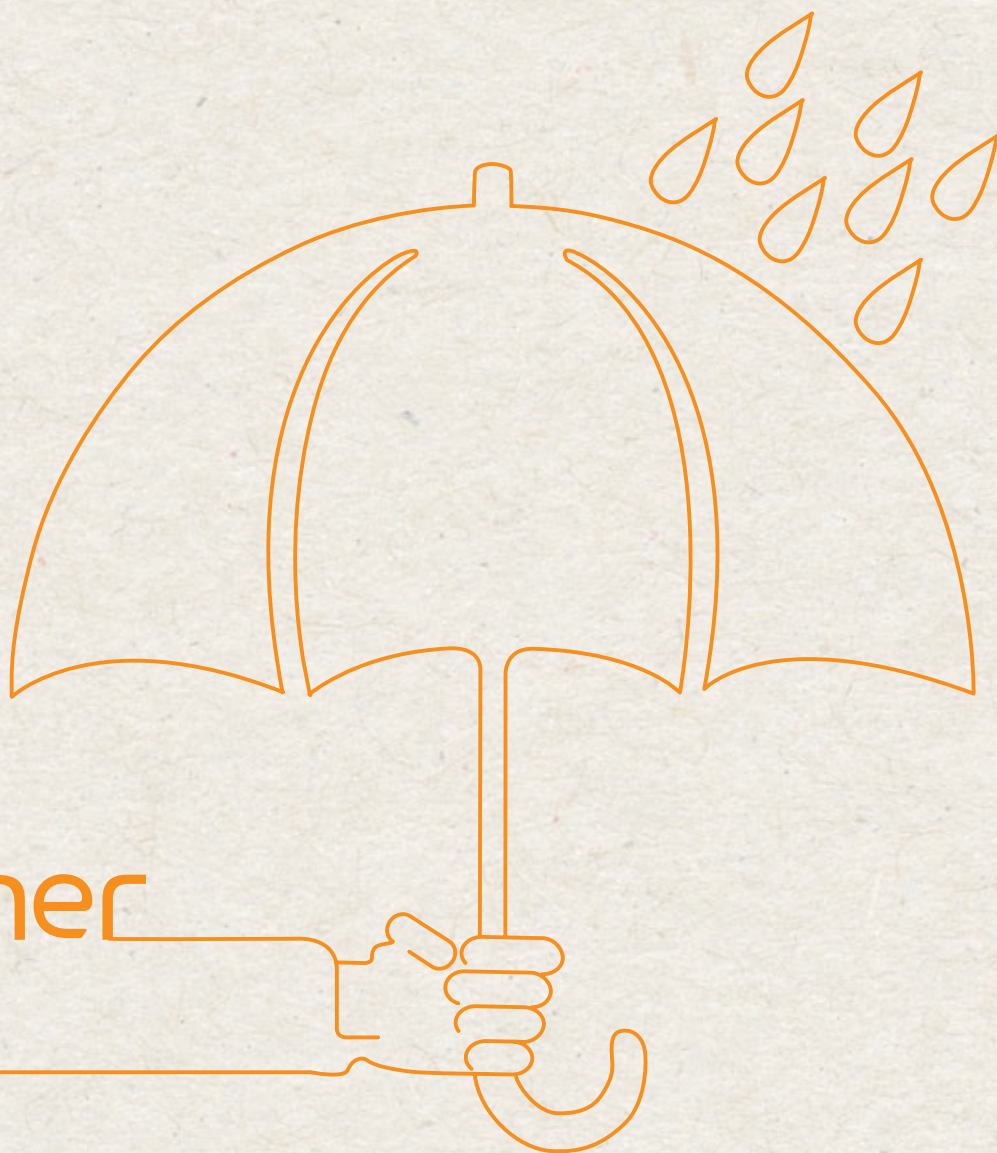
⑥ Young-chul Chang, Professor of School of Management, Kyung Hee University/ Co-head of Peter Drucker Society

Young-chul Chang, Professor of School of Management, Kyung Hee University/ Co-head of Peter Drucker Society Based on LG Group's own principles and creeds aimed at making the company the leader in Jeong-do management, the company seems to have a strong will to carry out ethical management in compliance with the international standards and principles. To be specific, the establishment and operation of an organization dedicated to Jeong-do management, the pledge of practicing it, the ethics hotline system, and the training extended to the stakeholders are noticeable. I suggest that indicators showing the effectiveness and concrete outcomes of these systems be drawn. For example, the reporting of how a relevant matter to the ethics hotline was dealt with and what its ripple effect was, and what actual fruits the Jeong-do and ethical management education produced will enable the more transparent reporting of the company's development goals and progress. In addition, I suggest that the number of field-oriented instruction and reflection training sessions where ethics dilemmas, law-abiding behavior, and the successes and failures of the company's ethical management are discussed be increased.

⑦ Heung-sik Kim, CSR Executive, LG H&H/ CHO



# Care Customer

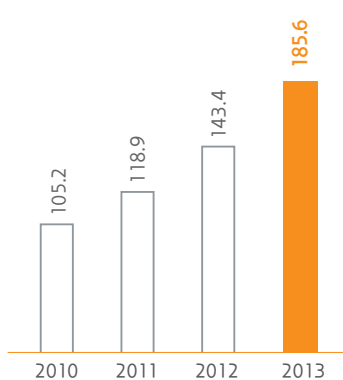


LG H&H's employees dream of providing our customers with healthy, beautiful, and refreshing values as the best life culture company dedicated to realize their beauty and dream. We believe that true-value creation for our customers can happen only if we take full responsibility for our products and exert unwavering efforts to improve them. Based on this belief, LG H&H will constantly endeavor to earn the trust of its customers and to create a sustainable future with them.

## Customer-oriented Management and Sustainable Products

Since its establishment, LG H&H has focused on product development prioritizing consumer health and safety. In 2010, the company came up with its "Guideline for Developing Sustainable Products" in pursuit of customer health and safety, and invested in the development of sustainable products in the spirit of carrying out its economic and social responsibility.

[Sales of Sustainable Products: 2010-2013]



※ Sales of sustainable products account for 8.3% of the total sales of LG H&H.

Definition of LG H&H's sustainable products: products that will promote consumer health and safety, and constant profit generation in the spirit of carrying out the company's economic and social responsibility

Product development prioritizing consumer health and safety has been at the top of LG H&H's agenda, and the company has emphasized it most since its establishment. Through this, LG H&H has won customer credit and has grown much. LG H&H will endeavor to contribute to its customers' well-being by constantly promoting customer health and safety.

### Consumer safety as the top priorities and product responsibility

LG H&H thoroughly inspects all its products and even its raw materials for any possible harmfulness to the human body, in an attempt to secure product safety and improve its products' eco-friendliness. A strict standard has been applied to hazardous-substance management items to secure the safety of the company's products and raw materials. Ever since LG H&H banned animal testing of all its products in its cosmetics development, the company has continually researched on alternative methods for years to ensure its products' harmlessness to the human body. As a result, we have continually ensured our products' harmlessness to the human body through the use of alternative methods, including immune cell



#### Case: HAN.IP, a safe liquid detergent with a half-dose



The number of consumers expressing concern about the safety of the detergents used for washing clothes directly touching the skin has been rising of late due to the continuous dwelling by the media on the household goods safety issue. To address the consumers' concerns, LG H&H was required to develop a mild detergent with safe image that is truly safe. Accordingly, LG H&H developed the liquid detergent HAN.IP using only a half-dose. To produce a clean detergent, we used plant based natural surfactants while maintaining the product's outstanding cleaning

power. With the application of a surfactant independently developed by LG H&H, we have enhanced the solubility of materials with poor water solubility, resulting in the maximization of the product transparency, which served to consolidate the effective and clean image of our liquid detergent. The results of our consumer monitoring after the product release were highly satisfactory in the areas of washing power, emotional image, and fragrance.

cultivation, immune cell cultivation method, and alternatives to animal experiments (HET-CAM). Alternative methods are used to verify the toxicity and harmfulness of our products and their raw materials to the human body. On the raw material level, preliminary tests on possible toxicity are conducted through skin cell experiments and allergy testing on the skin. On the product level, various kinds of tests, such as the product patch test, sting test, and cumulative stimulation test, are performed to identify any factor causing skin irritation and other side effects in advance. In the development and production of household goods, the company monitors possible hazardous substances real-time to prevent the emergence of safety and environmental issues, exerting its best efforts to promote consumer safety. In addition, it strictly abides by the limit on the use of legally restricted substances, and by the legal standards for banned substances.



## Eco-friendly Product Innovation (Low-Carbon Product Development)

LG H&H has been striving to develop and produce products with minimal environmental impact, considering every stage, from pre-manufacturing to after-usage, living up to the consumers' demand for eco-friendly products through Eco Mark and Carbon Footprint Labeling Certification. The effort to reduce the company's greenhouse gas emission through carbon footprint labeling certification was selected as an excellent case, and representing the South Korean companies, LG H&H shared it at the International Carbon Footprint Seminar. We will continue our relentless pursuit of low-carbon green management.

[Carbon Footprint Labeling Certification]

[2013 Eco-labeling Certification]

[Low-Carbon Product Certification]

20cases



※ Carbon Footprint Labeling :

A system designed to boost the consumer purchase of green products. The life-cycle greenhouse gas emissions for a product, from manufacturing to transport, distribution, usage, and disposal, is certified by Korea Environmental Industry & Technology Institute and is labeled on the product.

64cases



※ Eco-labeling Certification:

A system designed to give certification to a product with low environmental impacts through the assessment of the product life-cycle from manufacturing to consumption.

1,560\*  
ton reduction  
6 products

※ Low-Carbon Product Certification :

A system to approve a product that has Carbon Emissions Certification to use Low-Carbon Product Certification mark if it meets certain criteria required for low-carbon products by reducing the greenhouse gas emissions more than before through, for example, the improvement of production process and fuel efficiency.

\* Amount of reduction = Carbon reduction by product × Delivery quantity



Case: Dishwashing detergent and shampoo obtaining low-carbon product certification, the first in South Korea

LG H&H has constantly exerted efforts to increase the number of products with carbon footprint labeling certification in an attempt to reduce their life-cycle greenhouse gas emissions (manufacturing, transport, distribution, usage, and disposal). As part of these efforts, in 2013, its dishwashing detergent (Jayeonpong Sulip), shampoo (Elastin), and powder detergent (Super Ti) obtained low-carbon product certification, the first in South Korea. Furthermore, we are in the process of establishing a preliminary verification system for carbon footprint labeling, in addition to the acquisition of carbon footprint labeling certification, in a bid to increase the number of products with carbon-footprint-labeling certification and to ensure the effective management.



454g for Jayeonpong  
500ml



## Product Packaging and Resource Saving

LG H&H has been doing its best to develop packaging materials to reduce environmental impact based on three principles: packaging material minimization, plastic usage reduction, and recyclability improvement. The efforts to develop a resourcesaving packaging structure, to change the package type, to control the use of synthetic materials, and to develop technologies for reducing the weight of plastics have succeeded in saving resources, reducing wastage, and improving recyclability. In 2013, we reduced our plastic material usage by around 264 tons per annum through the use of various methods such as weight rationalization, pearl color removal, and usage of recycled plastic containers for our household goods, Saffron, and our paper usage by 533 tons per annum, by changing the materials used for cosmetic sets.



### Case: Packaging Material Reduction



#### SAFFRON

Reducing plastic usage by 68 tons annually, equivalent to KRW 0.16 billion cost reduction



#### PERIOE

Raising recyclability through the removal of the plastic film from the packaging box and the use of a high-gloss coating packaging material (saving KRW 0.15 billion)



#### Sooryehan

Reducing paper usage by 533 tons annually through the changing of the cosmetic set packaging material (packaging saving KRW 0.45 billion)



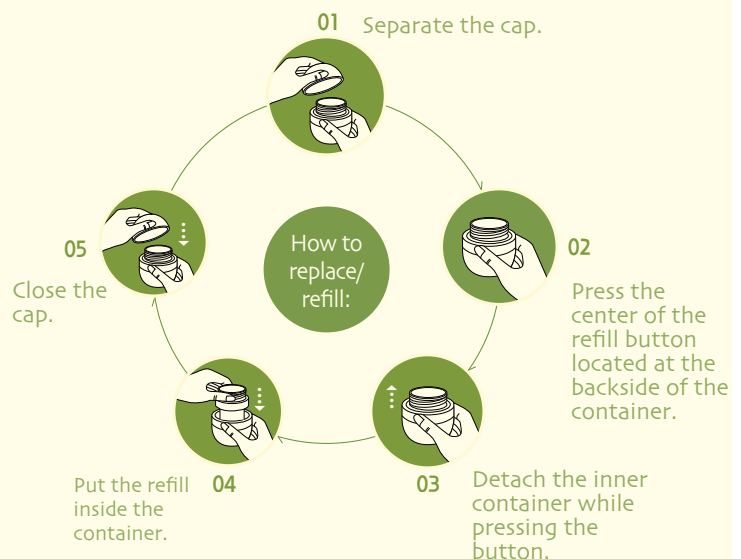
#### Wrap film

Reducing plastic usage by 196 tons annually through the development of a natural plasticizer and the consequent wrap film thickness reduction (equivalent to KRW 0.6 billion cost reduction)



#### OHUI Cell Lightening Prism Cream (50ml):

The refillable container enables the consumers to reuse the external container after easily replacing the contents.





## Ban on Animal Testing of Products, and Respect for Life

Since 2012, LG H&H has not conducted any animal test on its cosmetics and household goods end products and raw materials considering the domestic social atmosphere characterized by the enhanced domestic consumers' awareness of the need for animal protection and for promoting animal welfare as well as the changes in the global market trends, like EU's anti-animal experiments. Furthermore, the development of the in-vitro test, replacing the animal test, enables the exclusion of experimental animal use in the safety test of cosmetics and household goods on the human body. In particular, for cosmetics, animal testing has not been done for a long time for the end products, but for the raw materials, animal testing was conducted until 2011 to comply with the strict standard of the EU Guideline. In 2012, however, the 'in-vitro toxicity evaluation method', which evaluates the toxicity of raw materials through the skin cell cultivation, replaced the existing cytotoxicity evaluation method used for cosmetics raw materials, and the 'immune cell cultivation method', which measures the contents of the materials causing skin allergy reaction, replaced the then-existing allergy test, enabling the complete exclusion of animal testing.



### Case: 'BEYOND' Eco Value 10

LG H&H's 'BEYOND' was unveiled in 2005 under the brand philosophy of eco-friendliness and anti-animal testing. It is a differentiated brand that succeeded in completely removing animal testing of cosmetics end products and raw materials in 2008. Especially, Beyond declared "Beyond Eco Value 10" under the brand philosophy pursuing "eco-friendly total beauty": eco-friendliness, fair trade, no chemical preservative, no artificial pigment, anti-animal-testing, skin safety test, chemical composition minimization, waste minimization, use of recyclable packaging materials, and fossil fuel reduction.



At the end of 2012, we established "Save Us Fund," and we are currently in the process of augmenting such fund. As part of this effort, we donated a part of our earnings to an animal protection organization. We also continued to release collaboration products to support "Jedoli Project," in partnership with Korean Animal Welfare Association, and to protect endangered animals. In 2013, we participated in various animal protection activities, including donating an R&D fund to the National Park Research Centre, where research on habitat restoration for endangered animals such as lightning bugs is being conducted. (The lightning bug is one of the 246 endangered wild animals and plants designated by the Ministry of Environment.)



(A palm plantation view)

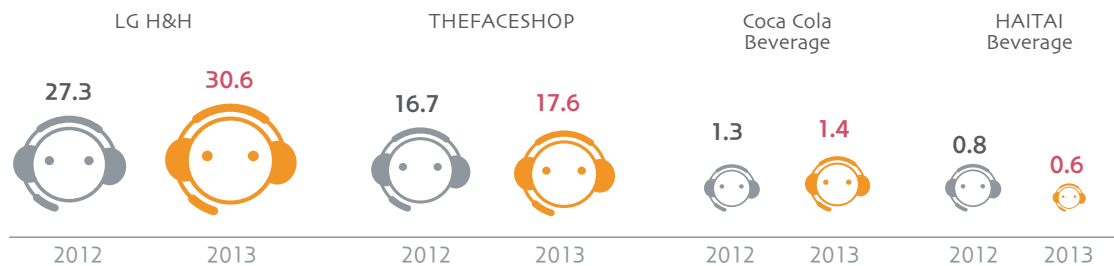
### RSPO (Roundtable on Sustainable Palm Oil) Certification

Majority of the world's palm oil is produced in Indonesia. Palm Oil Industry Corporation run by the Indonesian government has burned a considerable portion of Indonesia's tropical rainforests and has built palm oil plantations in such spots to meet the drastically increasing global demand for palm oil, which has resulted in serious deforestation and in the threat of orangutan extinction. Local labor exploitation in the poor work environment is also coming to the fore as a serious issue. In a bid to address this issue, a number of companies and private environmental organizations jointly established RSPO (Roundtable on Sustainable Palm Oil) in 2013. RSPO introduced an environmental and social certification system for sustainable palm oil production, making a significant contribution to the promotion of environmental and social human rights. RSPO certification is designed to ensure that palm oil providers produce palm oil products in the right way; while meeting the social demand, they can still protect the environment by conducting best-management practice in operating their plantations and factories, and by protecting natural resources and preserving the environment and the biodiversity of species. Only those plantations and refineries that satisfy all the set standards could obtain RSPO certification. RSPO targets not only palm oil plantations and refineries but also all the stakeholders throughout the entire supply chain. RSPO exists to promote sustainable palm oil products production and usage through the active involvement of all the stakeholders. The palm plantations and oil factories which received RSPO certification through this can have appropriate benefits. In addition, in the case of the sale of RSPO-certified products, a certain amount of support will be offered by LG H&H to RSPO in proportion to the sales volume. For a company like LG H&H, which makes products using palm oil, a natural fermented ingredient, to receive RSPO certification, the company not only should purchase RSPO-certified raw materials, but also should be equipped with either a segregation grade system to segregate the non-RSPO-certified ingredients' mixture, or a mass balance grade system to control the volume in & volume out recording. In the area of the raw material business, with the Onsan plant producing surfactants in the center, LG H&H has set aside a budget for RSPO certification beginning in 2013, and is currently preparing for this task, with the aim of joining RSPO's initiatives for sustainable palm oil production and consumption, which will enable the company to conduct business while being committed to its social and environmental responsibility.

## Customer Satisfaction and Quality Management

With the aim of achieving customer satisfaction and value management, LG H&H has strategically pursued the following goals: listening to the customers' opinions and strengthening the communication with the customers, preventing the recurrence of customer complaints, establishing enterprise-wide quality management standards, enhancing the company's development quality management capacity, reinforcing mass production quality management, managing the company's patent rights, and jointly developing products utilizing outstanding external resources (open innovation).

KPI (Key Performance Indicators): Rate of Customer Complaints (ppm)



Performance Summary and 2014 Goals					<div><div>●</div> Completed</div> <div><div>◐</div> Partially completed or in progress</div> <div><div>○</div> Not completed</div>			
Key Management Issue	2013 Performances	Completion	2014 Goals	Target Deadline				
				Q1	Q2	Q3	Year-round	
Listening to the customers' opinions & strengthening the communication with the customers	VOC receipt and management	●	VOC receipt and management	<div></div>	<div></div>	<div></div>	<div></div>	
Preventing the recurrence of customer complaints	Preventive action against the recurrence of customer complaints (addressing the liquid household cleaners leakage during the distribution)	●	Preventive action against the recurrence of customer complaints	<div></div>	<div></div>	<div></div>	<div></div>	
Establishing enterprise-wide quality management standards	Beauty/Healthybusiness segments; development of a quality management process for new businesses	●	In-house quality manual improvement	<div></div>	<div></div>	<div></div>	<div></div>	
			In-house regulation document management system improvement	<div></div>	<div></div>	<div></div>	<div></div>	
Enhancing the company's development quality management capacity	Preliminary forecast of possible customer claims through Q-NPD process stabilization & Q-Library establishment	●	Q-NPD process establishment for devices	<div></div>	<div></div>	<div></div>	<div></div>	
Reinforcing mass production quality management	Follow-up management reinforcement through the expansion of the target business partners and the introduction of plant/department-specific evaluation systems	●	Work site monitoring	<div></div>	<div></div>	<div></div>	<div></div>	
			Expansion of the target business partner scope for crosschecking (beverages, health functional foods)	<div></div>	<div></div>	<div></div>	<div></div>	

### Listening to the voices of the customers and upgrading the company's products

LG H&H has set up an integrated call center with the aim of enhancing its customer complaint response efficiency, and has actively utilized it as an opportunity to upgrade its products and services by identifying the cause of such complaints. We have classified customer complaints that could occur throughout the whole stage from manufacturing to usage by products and complaint types, and have analyzed and managed them for active improvement. In 2103, we received a complaint about the leakage of our household cleaners when it was transported while in a shopping cart, due to the pressure exerted on it by the other products on top of it. In response, we altered the container design to prevent any leakage, and we reflected instructions on the storage and usage of the container to avert the possible leakage of the liquid through a customer's carelessness during product transport.



## Enhancing the Company's Development Quality Management Capacity

LG H&H has implemented various quality management reinforcement measures, such as the establishment of the quality-based new-product development process and the preliminary quality management guidelines in 2012, to produce best-quality products. In 2013, the company set up Q-Library, systematizing the cases of failure to consolidate the new-product development capacity. Q-Library is a DB system that gathers the worst practices that have caused massive complaints or the voluntarily retrieval of stocks from the list of cases that led to quality upgrade due to complaints since 2006. Through Q-Library, a product developer can verify the compatibility between the product's contents and container, and can refer to the standard and in-house standards available in terms of product development. In addition, using Q-Library, we have introduced "the preliminary customer complaints forecast system for new products," designed to automatically inform us of the past failure cases of our products under similar conditions as our newly developing products, contributing to the risk inspection of our products under development, to the prevention of product failure recurrence, and to the timely release of products.

## Reinforcing the Company's Mass Production Quality Management Capacity

LG H&H has adopted both own and OEM production methods. In this regard, the quality management of business partners producing LG H&H's products using the OEM method is considered as important as that of LG H&H. In 2013, our company enacted quality management guidelines for the equal quality management of our products produced by our business partners and shared them. The guidelines described all the details of the quality management method being used as well as the requisites of the comprehensive product range provided by LG H&H such as household goods, cosmetics, beverages, and health functional foods by its business unit, considering the regulations, product features, and manufacturing conditions for each product line. Furthermore, a checklist has been provided to our business partners for the performance of self-diagnosis of their meeting requirements, making it easy for them to carry out onsite quality management.

## Managing the Company's Patents for Quality Management

LG H&H is striving to develop products providing new functions even before the consumers recognize the necessity for such, in addition to improving our product quality simply to resolve consumer complaints. Furthermore, cost reduction efforts have been exerted to provide reasonable prices to the consumers. LG H&H has systematically managed its R&D results through domestic and overseas patent applications, which has resulted in the protection of its own technologies and the differentiation of its products, providing the consumers price and functional values. In particular, we filed for patents for the leading technology in the area of next-generation skin protection materials, a highly functional cleansing emulsion technology, and a recombinant cell-cultivation to consolidate our product differentiation.

### [Patent & Utility Models]

Classification	Contents	2011	2012	2013
Domestic	Application	104	136	374
	Registration	50	50	89
Overseas	Application	10	20	22
	Registration	10	9	11

## Open Innovation

As a part of its efforts for quality consolidation and sophistication, LG H&H has aggressively utilized outstanding external resources through “open innovation,” creating synergy with its internal technologies and resources. Through i-CONNECT (iconnect.lgcare.com), the online site that we established in 2009, as well as through our continuous exchanges and networking with R&D institutes, universities, ventures, technical trading institutes, and raw material providers at home and abroad, approximately 100 patent technology and business cooperation proposals are reviewed and reflected in our product releases annually. In 2013, in collaboration with the Mondavi family, the world-renowned wine provider, the company launched the antioxidant cosmetics brand Davi, and in collaboration with LG Life Sciences Ltd., the company developed the professional derma cosmetic brand Dermalift.



### Case: Open Innovation



#### A Antioxidant Cosmetics Brand DAVI

LG H&H unveiled the new antioxidant cosmetics brand DAVI in cooperation with the Mondavi family, the world's best quality wine provider. In pursuit of antioxidant ingredients, the fundamental solution to wrinkles and aging skin, the company has taken notice of grapes and wine, which are famous for their antioxidant function, initiating joint research and development of new antioxidant cosmetics with the Mondavi family, the world-renowned premium-quality wine provider, and found “Phyto-meritage,” the core ingredient with a superior antioxidant effect. DAVI is a premium cosmetics brand boasting an enriched antioxidant effect, enabled by the additional development of a variety of natural plant components with “Phyto-meritage”, the core antioxidant component of DAVI. The premium skincare image has been secured through the realization of the world premium winery's philosophy and story, and through the recognition of its value due to its scarcity; it is available only in the world's premium hotels and the first-class cabin.



#### B Professional Derma Cosmetics Brand Dermalift

Dermalift is a professional derma cosmetics brand aimed at “derma lifting,” containing ingredients cohered from both the beauty technology of LG H&H and the biotechnology of LG Life Sciences (hereinafter, “LG LS”). The major component is NecroX™, developed by LG LS for the first time in the world, new component patented in the home country and in the U.S. caring for damaged skin and making it healthy by keeping down the active oxygen, the major cause of aging. While LG LS has performed clinical trials for this component for medical purposes for around 10 years, through open innovation, the two companies' officers in charge of R&D jointly reviewed the possibility of using it as a raw material for cosmetics. After that, LG H&H confirmed NecroX™'s safety and effectiveness on the skin and applied it to Dermalift, releasing the product in the steeply rising derma cosmetics market. The human test results confirmed its outstanding skin damage defense effect against external stimuli such as UV and SLS. Its excellent quality and specialty made this product differentiated and greatly well received by the consumers.

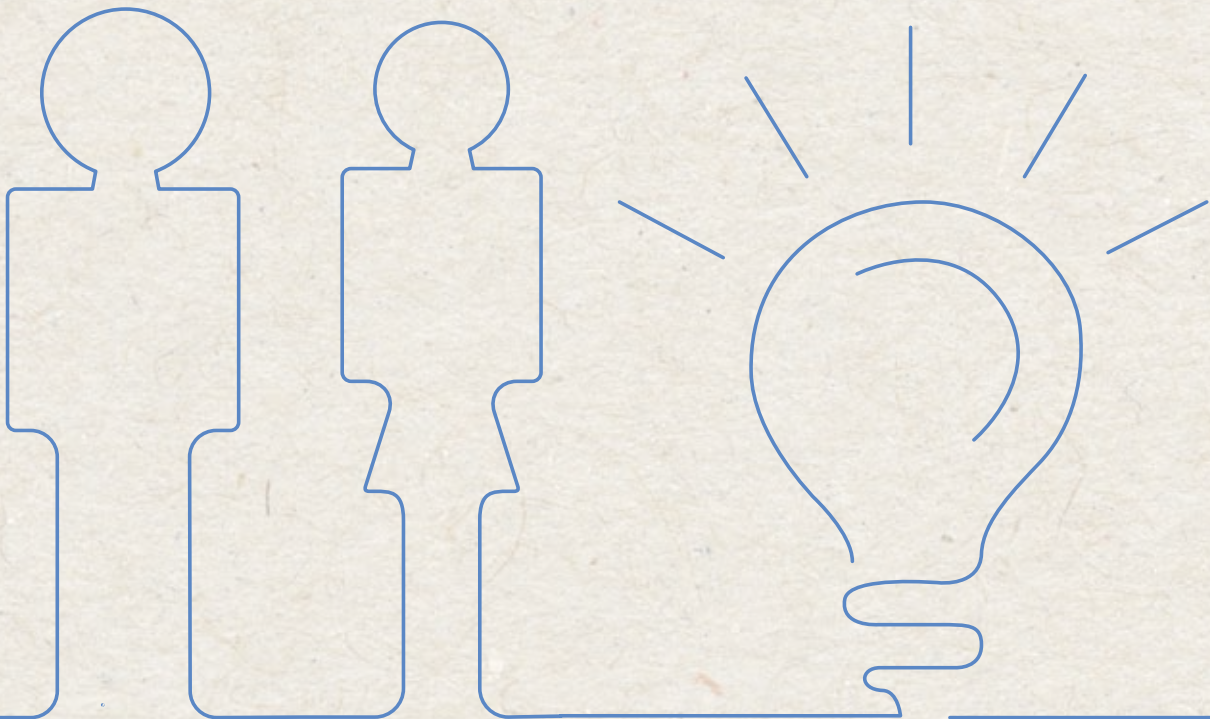
\*Derma Cosmetic: A compound word formed from the words “dermatology” and “cosmetic”



# Care Our Employee

Our employees are the foundation of the future of LG H&H as the best life culture company walking together with its customers. We want all our employees to work healthily, safely, and joyfully.

We believe that our employees' satisfaction in life is the driving force of our creative organizational culture and customer value. We at LG H&H will exert unwavering efforts to establish a healthy environment for our employees.





# Employee Satisfaction Management and Value Management

LG H&H pursues employee satisfaction management and value management. For this, we strategically seek to enhance our employees' safety and health, creating the leading organizational culture, operating a job-specifically differentiated HR system, reinforcing our employees' global capabilities, operating line-manager-driven HR, respecting diversity, and fostering harmonious labor-management relations.

KPI (Key Performance Indicators: Based on LG H&H)



53.3%

Female  
employee ratio



4.9%

Retirement  
rate



82points

Workplace  
satisfaction



70.7hours

Training hours  
per person  
(hourly basis)



0.10%

Occupational  
Injury Rate

Employee satisfaction management and value management form the foundation of LG H&H's efforts for a healthier, more beautiful, and more refreshing life for its customers. An environment where the members can work healthily and joyfully serves to raise the productivity of an organization, resulting in business goal achievement in the long term.



## Performance Summary and 2014 Goals

● Completed ● Partially completed or in progress ○ Not completed

Key Management Issue	2013 Performances	Completion	2014 Goals	Target Deadline			
				Q1	Q2	Q3	Year-round
Enhancement of employee safety and health	Health promotion program operation	●	Health promotion program operation				
	Disaster management (safety/fire accident)	●	Disaster management (safety/fire accident)				
Job-specifically differentiated HR system operation	Job-specifically customized new-employee recruitment program operation	●	Global recruitment network reinforcement to secure talented persons with global capabilities and job-specific specialties				
Line-manager driven HR operation	Introduction of a line-manager driven compensation management system connected to individual performances	●	Introduction of a line-manager driven compensation management system connected to individual performances				
Global capabilities reinforcement	Fostering of employees with global capabilities and overseas posting of some of them	●	- Continual fostering of employees with global capabilities and overseas posting of some of them - Establishment of a potential talented manpower pool with global capabilities				
	Subsidiary stabilization by dispatching employees through M&A with overseas corporations and PMI -Success in the initial soft landing of locally initiated subsidiary operation model	●	- Continuous subsidiary stabilization by equipping employees dispatched through M&A with overseas corporations and PMI with global capabilities - Dissemination and acceleration of successful locally initiated subsidiary operation model				
Harmonious labor management relations establishment	Regular meeting operation reinforcement (labor management discussions, Employee Council meetings)	●	Continuous regular meeting operation (expansion and diversification of Employee Council meetings by job type) and communication reinforcement				
Respect for diversity	Continuous expansion of talented female employment and internalization of gender equality	●	Diversification of talented female employment (hiring employees working flextime) and internalization of gender equality and its dissemination to subsidiaries				
Market-leading organizational culture establishment	Roadmap establishment to form the DNA for a market-leading organizational culture and its dissemination	●	Roadmap establishment to form the DNA for a market-leading organizational culture and its dissemination				
	Implementation of a selfgrowing process by position - Career course for assistant managers	●	Implementation of a self-growing process by position - Career course for assistant managers and part leaders				

## Enhancing Employee Health & Safety

LG H&H implements various health promotion programs to promote employee health. Also, to create a safe working environment, the company conducts enterprise-wide safety diagnoses of the worksite and sales logistics on a quarterly basis, in compliance with the health and safety regulations. To enhance employee health, we continue to carry out health promotion programs including an No-smoking campaign, the "Salt Down" (low-sodium diets) campaign, physical testing and health clinic operation by hiring a sports curer at each plant, and gradually expand the target of our comprehensive health check-up program. As for comprehensive health check-up, extra examinations such as female cancer screening and special medical check-up are conducted for female employees and the employees handling chemical substances, respectively. Further, counselling is provided based on the result of the examination, demonstrating our sustained commitment to the improvement of our employee health. LG H&H is ensuring injury-free worksite activities and traffic accident prevention during the transport of its goods all year round. To eliminate any harmful hazardous factor at a production site, an environment safety audit is conducted monthly, contributing to the constant removal of unsafety elements. Coca Cola Beverage Company exerts continual efforts to prevent musculoskeletal disorders at all its logistics centers. In 2013, the company verified the possible causes of musculoskeletal disorders, and the company is currently in the process of classifying and improving the work process that may cause the disease. It also draws attention to precautions by coming up with a signboard illustrating detailed information on heavy weights and on precautions, and put it up at the place where heavy weights are treated. As for the beverage business, which requires much transport logistics, traffic accident prevention education has been given to the employees handling vehicles (3,300 employees annually) in collaboration with the Road Traffic Authority and an insurance company. A promotion activity was held to prevent drunk and drowsy driving, which included making a poster and a banner and putting them up at the whole worksite.



### Case: emergency drill for accidents prevention

LG H&H has conducted an emergency drill more than once a year, in partnership with external governmental institutes, to ensure its preparedness for the possible impact of safety incidents on the local community. In May 2015, to prepare itself for a variety of disasters, such as storms and floods, earthquakes, and man-made disasters, the Yangsan plant implemented "Safe Korea Exercise for Disaster Response," a comprehensive disaster response drill designed to improve the nation's disaster response capabilities, hosted annually by the National Safety Management Commission and the National Emergency Management Agency. Approximately 200 people participated in all, including the employees of Yangsan City Hall, Yangsan Fire Station, Yangsan Police Station, the army, Yangsan Disaster Network, and Coca Cola Yangsan plant Self-Defense Fire Service of the Special Force Veterans Association. The scenario was an assumed sulphuric-acid leak from the sulphuric acid storage tank of the Yangsan plant. The Self-Defense Fire Service of the Yangsan plant took charge of the initial reaction and employee evacuation, and the other institutes, including Yangsan Fire Station, City Hall, and Police Station, took charge of the follow-up measures.



(A comprehensive disaster response drill at Yangsan plant)

## [Occupational Injury Rate]

Company	Unit	2011	2012	2013 *
LG H&H	Cases	9	2	4
	%	0.27	0.05	0.10
Coca Cola Beverage	Cases	8	3	12 **
	%	0.34	0.12	0.40
HAITAI Beverage	Cases	4	0	4
	%	0.51	0	0.53
THEFACESHOP	Cases	0	0	2
	%	0	0	0.51

\* In 2013, the average occupational injury rate in South Korea was 0.59%.

\*\* Reason of increase: The increase in the volume of goods transported caused the rise in the occupational injury rate.



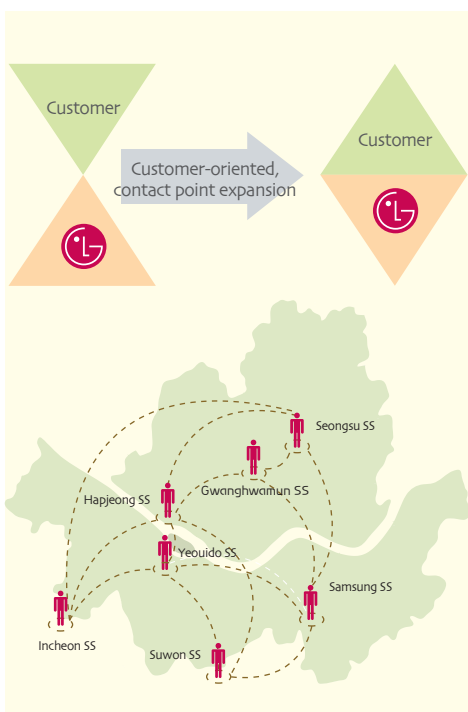
(A musculoskeletal disorder preventive training at Jaseng Hospital of Korean Medicine)

## Creating a Leading Organizational Culture

A company's organizational culture is the driving force of its growth, and it is essential to create a system and an environment in which each employee can display his/her ability creatively. LG H&H continually strives to foster an organizational culture in which employees can work creatively and effectively. Our adherence to an eight-hour work time, the removal of unnecessary meetings, the flexible-time system, and decision-making led by the person in charge regardless of his/her position have been evaluated as making up the leading organizational culture and have accordingly been benchmarked by other companies. Through the flexible-time system, LG H&H allows its employees to go to work between 7:00 and 9:00, and to leave work between 16:00 and 18:00, at 30-minute intervals, to promote their work-life balance. In 2013, the company implemented a company-wide simultaneous holiday system consisting of more than one day per month (15 times per annum), allowing its employees to enjoy holidays without having to read the countenance of their colleagues and boss.



### Case: Successful introduction of Smart Station in 2013



LG H&H introduced the "smart station" system in 2013 in a bid to promote the job efficiency of its salespersons with extensive field service by reducing their travel time. The company came up with a field workspace without designated seats for its salespersons in seven different places within the metropolitan area, which allowed them to increase their communication and networking time with their customers by deviating from the desk-job-oriented business pattern. If the salespersons need to deal with administrative tasks, they work at the nearest smart station according to their own schedule and moving line. The measure enabled the company's salespersons to directly go to the field and to directly leave the workplace after their work hours, serving to promote an environment where the company salespersons can work efficiently, without wasting time, and can enjoy balanced lives.

### More meetings with customers, more frequently

The 7 SS established in the first half of the year 2013 are evenly distributed throughout the metropolitan area. The location is selected considering the users' convenience, including customer accessibility, traffic convenience to reduce the travel time (connectivity with public transport modes such as the subway and main roads), level of building deterioration, and amenities. Based on SS, our company is located in the vicinity of our customers and accounts, with higher accessibility to them than any of our competitors, enabling us to extend field service and to rapidly read any slight change in our customers and cope with these faster than anyone else can.

## Operating a job-specifically differentiated HR system

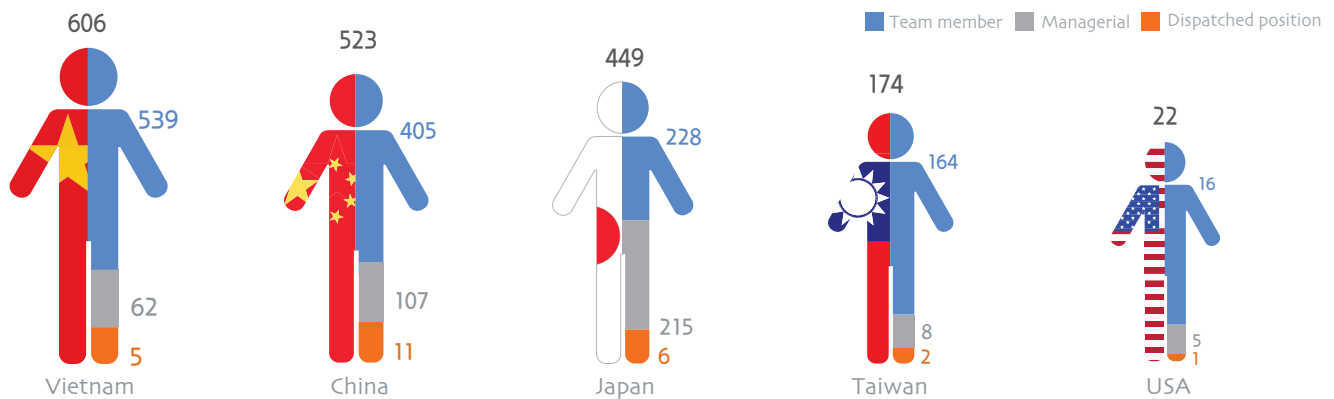
The representative feature of LG H&H's HR system would be the job-specifically differentiated recruitment and compensation system. The operation of an HR system differentiated by duty served to enhance job efficiency and employee satisfaction. In particular, an average of KRW 9 million is invested in hiring one new recruit to ensure the employment of the most appropriate manpower for a particular duty using the method consisting of overseas study, seminar, and academy, which results in a dramatic decrease in the early resignation rate of talented individuals (below 5% per annum; average rate of a large company: 15%). In 2013, we hired 24 new marketers through a marketing seminar, and 45 new recruits through our sales academy. We believe that differentiated fair compensation is the basic motivation for our employees and can enhance their satisfaction, serving to enable value management through work immersion. For this reason, LG H&H has continued its endeavor to offer differentiated compensation by person and by duty. In 2012, we abolished the regular salary adjustment system implemented across the board and at the same time, and allowed the line managers to take charge of the annual salary adjustment and year-round promotion, at their own discretion. In 2013, the individual compensation management system implemented for marketing people was extended to the company-wide office workers.

## Reinforcing the Employees Global Capabilities

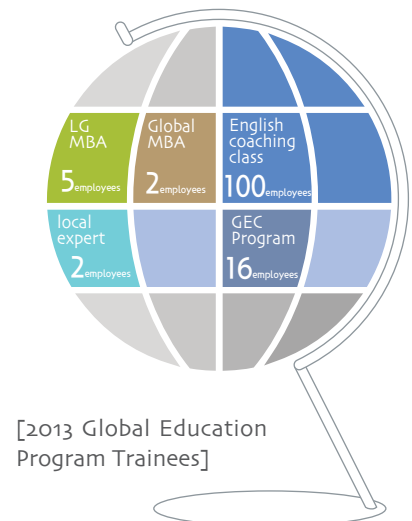
We have undertaken the acquisition of global companies and the establishment of joint ventures, and we systematized our HR strategy for our overseas subsidiaries so that such subsidiaries would be led by their local employees, who have a higher understanding of the local culture and the market. Accordingly, the local employment ratio is steadily being increased, and the efficient role division of our South Korean headquarters and subsidiaries is being implemented through the early hunting and cultivation of local leaders.

[2013 Local Employee Ratio]

(Unit: persons)



Internally, according to the growth of our overseas subsidiaries and the extension of our regional bases, we are aggressively operating education programs to secure and reinforce our employees' global capabilities. To foster global leaders in the area of marketing, finance & economy, and human resources, we are operating the G-MBA, G-CFO, and G-CHO programs, which allow the potential leaders in each area to take leading MBA courses abroad for 2 years and a local expert fostering course abroad targeting China and Japan for 8 months. The education courses are designed to develop language skills, increase the understanding of local cultures and characteristics, and build social networks. In 2013, the 2nd Global Expertise Course aimed at the acquisition of language skills and global business capabilities were operated to produce 32 graduates so far. Besides, the English Coaching class providing an opportunity for one-hour one-to-one communication with an English coach once a week, has been opened for all the employees with administrative and technical posts, serving to equip them with global manners and language capabilities.



[2013 Global Education Program Trainees]

## Trust-based labor-management relations

To establish trust-based labor-management relations, LG H&H has been committed to smooth in-house communication and employee welfare. To resolve possible employee issues at work promptly, we use various communication channels. The issues raised in discussion meetings and open-up meetings operated by the concerned business units are rapidly resolved in labor-management discussion meetings of each business unit, Employee Council meetings, and regular meetings with the staff in charge of the company's organizational culture.

[Unionization Rate \*]

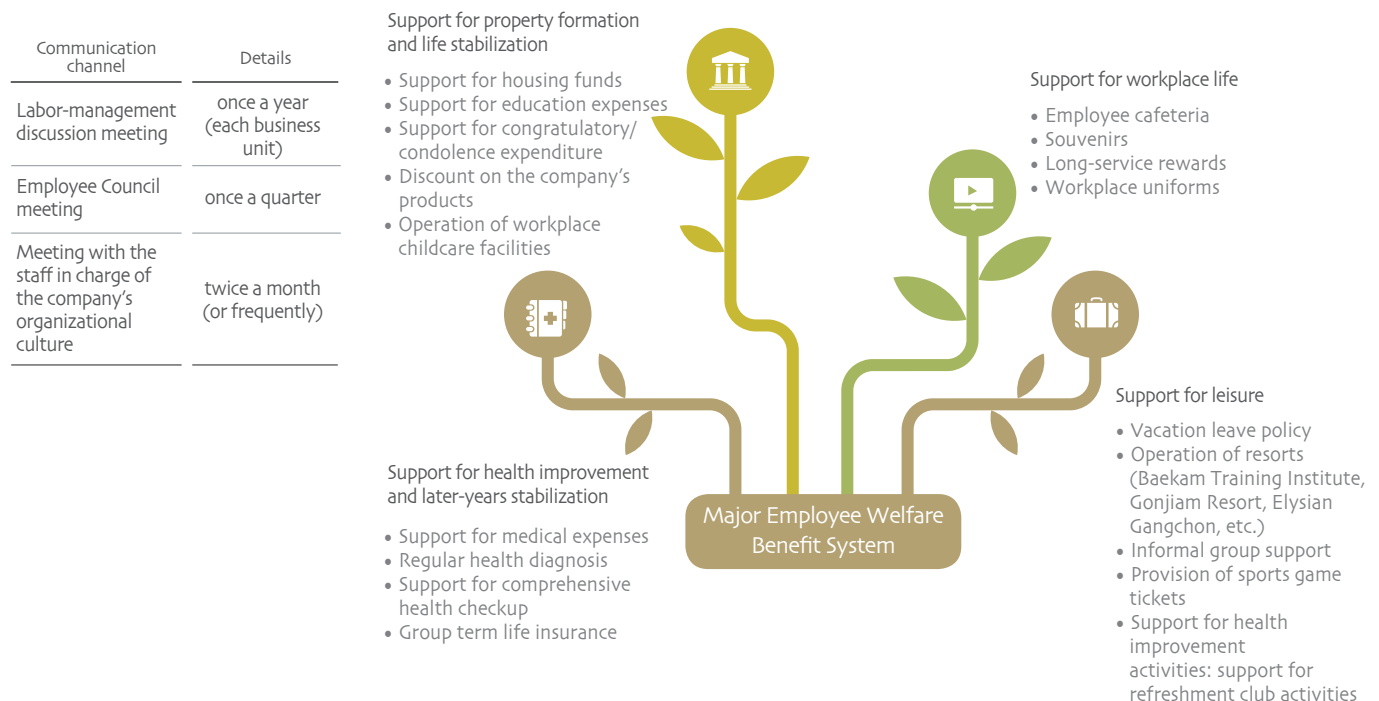
Company	2011	2012	2013
LG H&H	30.3%	27.7%	<b>23.5%</b>
Coca Cola Beverage	96.6%	95.6%	<b>96.4%</b>
HAITAI Beverage	74.9%	82.0%	<b>74.9%</b>

\* Unionization rate = Union members/potential union members x 100

※The Employ Council meeting takes the role of labor union at THEFACESHOP

Through the VOE (voice of employees) system designed to resolve employee grievances, we come together to find reasonable solutions and alternatives to our employees' constructive complaints. An Employee Council meeting is held on a quarterly basis to hear the voices of the employees, and the management pays onsite visits yearly.

[Labor-Management Communication Channel Operation]



To guarantee a good quality of life to all its employees, the company provides the four legal welfare benefit insurances, and apart from these, the company is running four separate welfare benefit systems. The company also runs the defined benefit retirement pension system and the defined contribution retirement pension system so that the retirees can select between receiving their retirement pay in lump sum or as pension. In addition, the company is running a job transfer program for the retirees.



## Respect for Diversity

LG H&H's respect for diversity is embedded in its management process, which is continually being improved. When the relevant regulation is revised, the revised items are instantly applied to the in-house guides and instructions. Especially, to protect the human rights of the minor groups in the workplace, such as women and the disabled, and to respect their diversity, we have done our best to create a female-friendly working environment and abide by the Act on Employment Promotion for Disabled Persons. When hiring new employees, we apply separate screening processes and give additional marks to people with disabilities. Furthermore, to create indirect employment of the handicapped, a linked employment promotion system for the disabled in association with welfare facilities taking care of severely disabled persons has been operated. In 2013, three social welfare facilities (Boram Labor Center, Ewha, and Chunsungwon) worked with us in terms of employment for the disabled, and we paid them KRW 560 million in all.



### Case: Fostering a female-friendly working environment (Opening a workplace daycare facility)

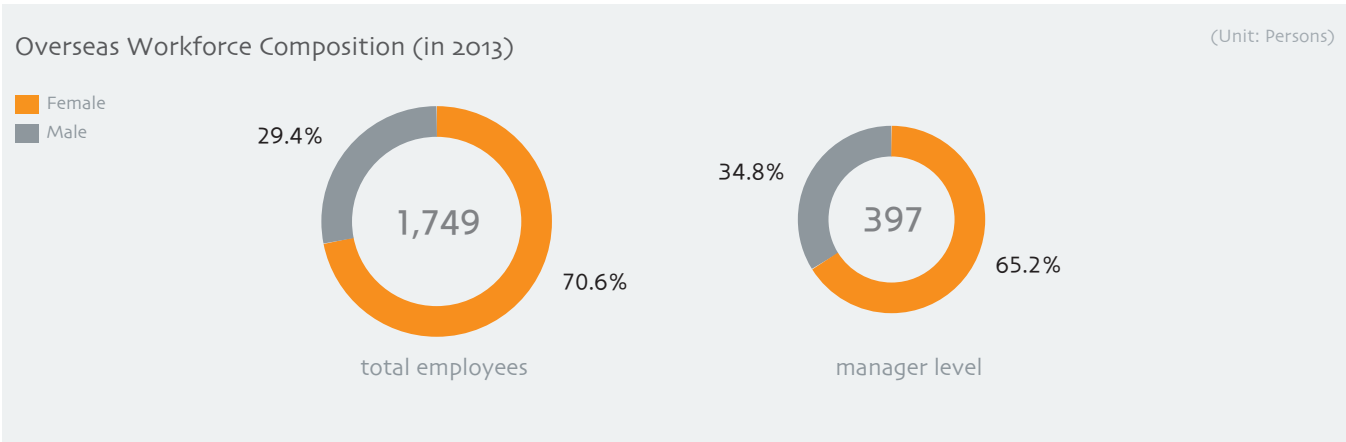
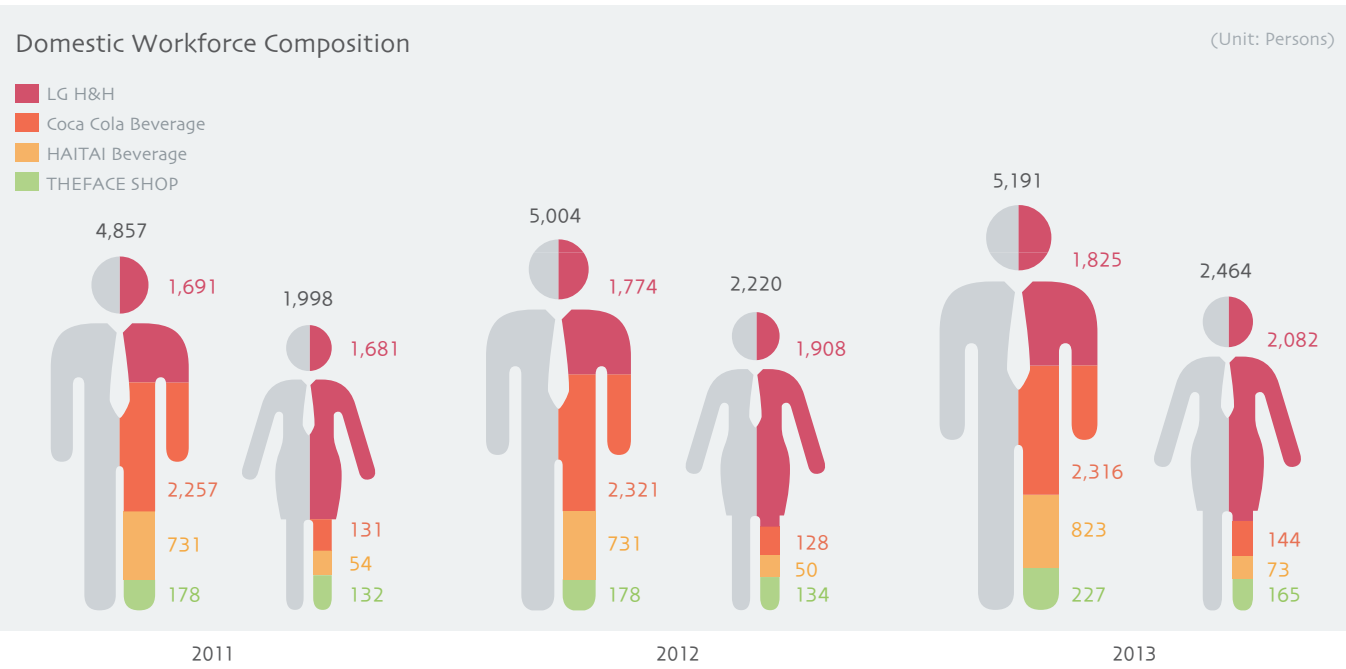
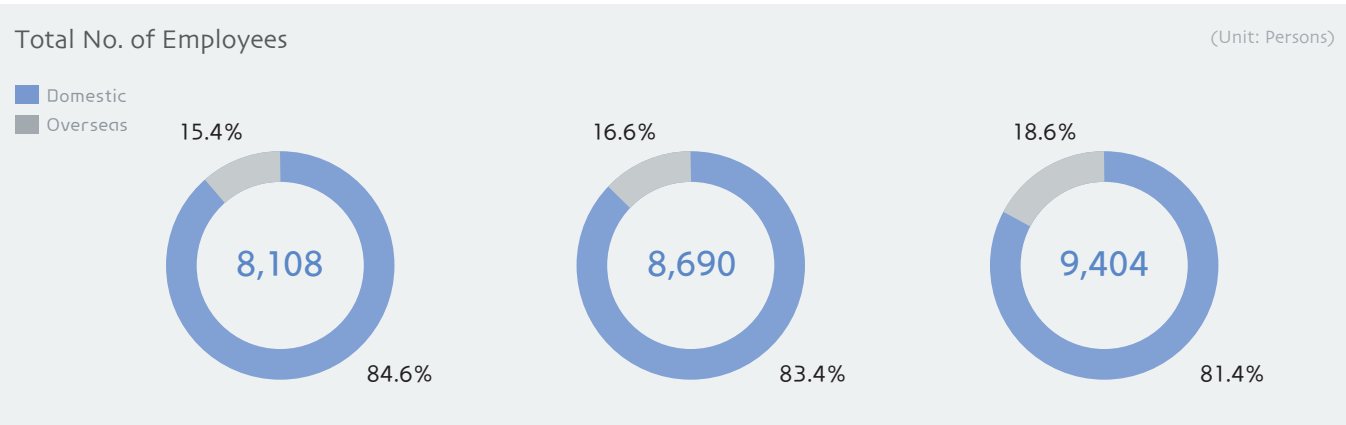
LG H&H has been continually increasing its female employment. In 2013, its female workforce rate was 53.5% of all the employees (based on LG H&H). They can freely apply for maternal and parental leave. In 2013, in pursuit of maternity protection, LG H&H opened a workplace daycare facility in its head office, which served to alleviate the pressure of child care on the part of the employees, and which allowed them to maintain a work-life balance.

(LG daycare center in Gwanghwamun)





Employee Data



## Summary of Employee Data

(Unit: Person)

Item	Category		2011	2012	2013
New hiring	LG H&H		367	447	352
	Coca Cola Beverage		360	352	299
	HAITAI Beverage		-	126	226
	THEFACESHOP		31	54	101
	Overseas (local employment)		8	194	303
No. of employees by job boundary	LG H&H	Office workers	1,706	1,827	1,951
		Technical workers	716	720	712
		Sales workers	950	1,135	1,244
	Coca Cola Beverage	Office workers	559	581	582
		Technical workers	287	295	279
		Sales workers	1,332	1,353	1,386
	HAITAI Beverage	Production workers	210	220	213
		Office workers	234	221	228
		Technical workers	160	155	195
		Sales workers	347	370	326
		Production workers	44	43	147
	THEFACESHOP	Office workers	310	324	392
No. of employees by employment type	LG H&H	Regular workers	2,857	3,104	3,555
		Contract workers	515	578	352
	Coca Cola Beverage	Regular workers	2,084	2,108	2,101
		Contract workers	304	341	359
	HAITAI Beverage	Regular workers	739	692	749
		Contract workers	46	97	147
	THEFACESHOP	Regular workers	301	321	380
		Contract workers	9	3	12
Diversity	LG H&H	Disabled	26	29	34
		Men of national merit	48	57	54
		Foreigners	10	9	9
	Coca Cola Beverage	Disabled	57	57	57
		Men of national merit	43	45	48
		Foreigners	0	2	1
	HAITAI Beverage	Disabled	20	18	19
		Men of national merit	7	4	6
		Foreigners	0	0	0
	THEFACESHOP	Disabled	4	5	4
		Men of national merit	5	4	6
		Foreigners	1	2	3
No. of retirees (retirement rate, %)*	LG H&H	129(4.5)	155(5.0)	174(4.9)	
	Coca Cola Beverage	352(15.6)	291(12.5)	288(12.4)	
	HAITAI Beverage	181(24.8)	122(16.5)	119(14.5)	
	THEFACESHOP	26(8.4)	40(12.3)	33(8.4)	
Retirement pension	Application object	100%	100%	100%	

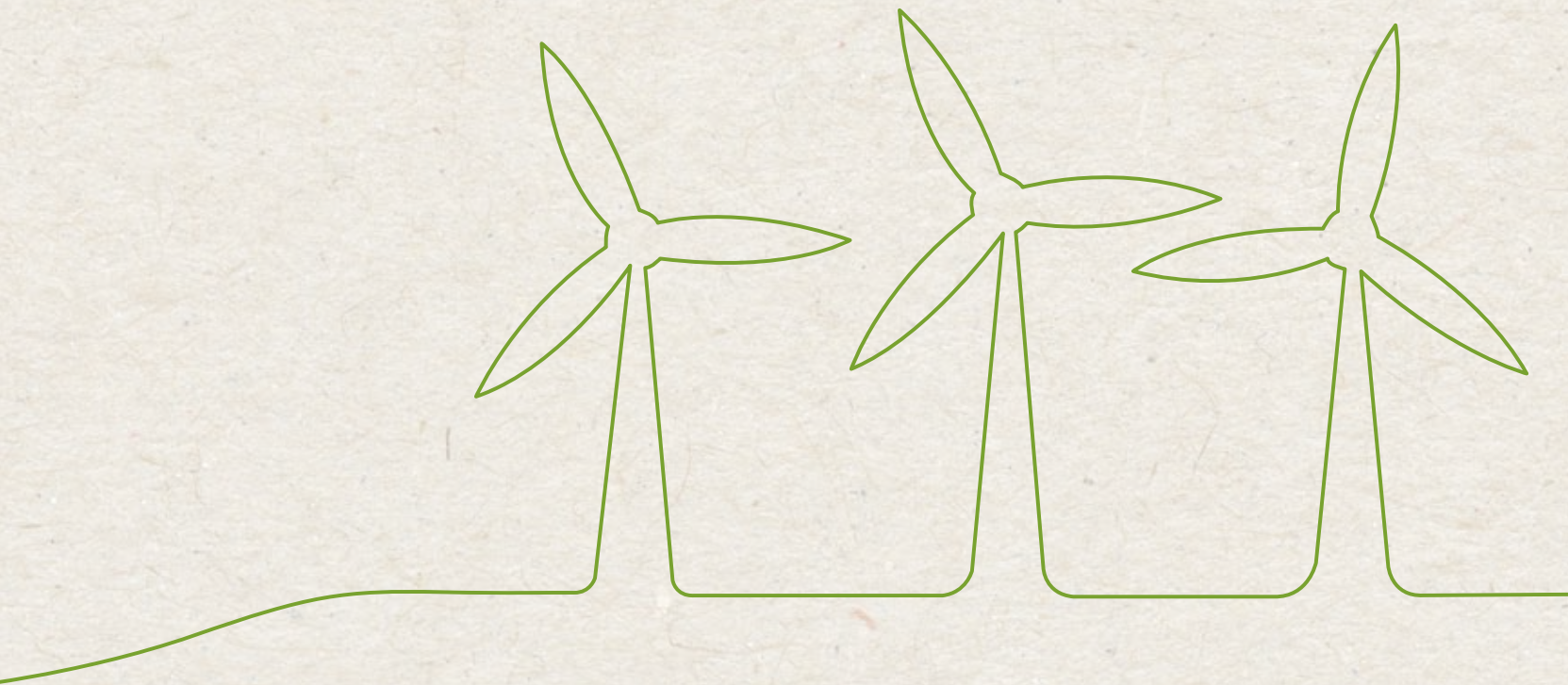
\* Retirement rate : total no. of retirees(voluntary, involuntary)/ no. of regular employees at the end of the year x100

## 2013 LG H&amp;H's Childcare Leave Status

Item	LG H&H	Coca Cola Beverage	HAITAI Beverage	THEFACESHOP
No. of applicants for childcare leave	92 persons	3 persons	5 persons	8 persons
Ratio of reinstatement after childcare leave	95%(80/84persons)	75%(3/4persons)	100%(3/3persons)	92%(11/12persons)
Ratio of one-year childcare leave	85%(74/87persons)	100%(6/6persons)	33%(1/3persons)	100%(3/3persons)

# Care Environment

There is something we cannot neglect just because it is not yet very widely known and does not draw our immediate attention. It is the environment. LG H&H has been considering how to protect the environment, and our commitment to this effort will continue. This is our way of respecting the rights of the current and future generations.



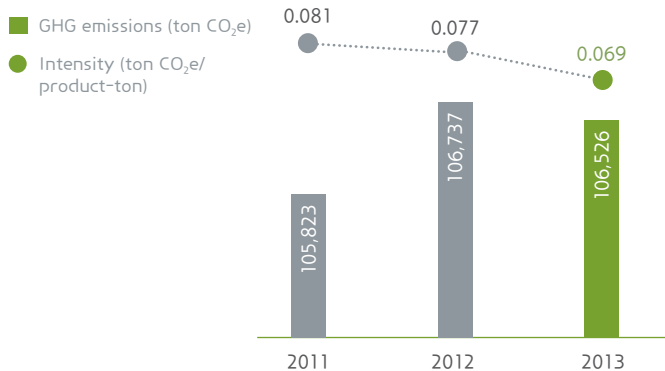
## Green Management

To address environmental issues systematically, LG H&H manages the environment issue within the integrated ESH (environment, safety, and health) system, together with the worksite safety issue. Our green management strategy in relation to our plant operation includes enterprise-wide ESH system establishment, climate change response, and greenhouse gas (GHG) emission reduction. Especially, LG H&H's climate change response system was built and is being operated in line with LG Group's green management strategy.

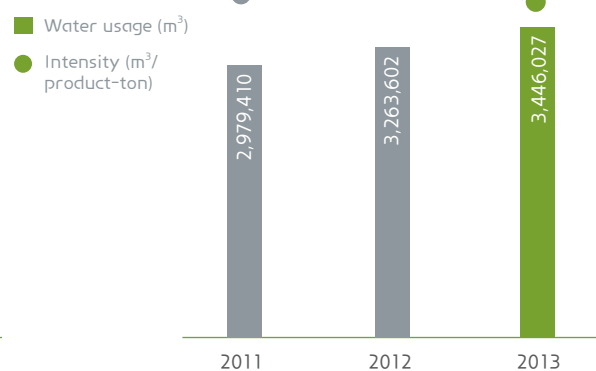
The goal of green management is to reduce our GHG emissions by 40%, and our water usage by 30%, by 2020, against the 2009 base year, under the BAU (business as usual) scenario. To attain this goal, we are planning to invest KRW 51 billion in green management by 2020.

### KPI(Key Performance Indicators)

[GHG emissions]



[Water usage]



Climate change and water shortage are the representative environmental issues that need to be addressed for sustainable development, and are very highly related to the features of LG H&H's products and operation. While the regulation on climate change is being toughened up, the GHG emissions attributed to energy usage is an essential issue that must be addressed in relation to climate change. As for water, the effective resolution of the water issue in relation to water usage in the beverage business as well as in the process conveys the most significant meaning. These issues should be addressed in the long term, and LG H&H has exerted its best enterprise-wide efforts at the entire group level to achieve long-term success in business while contributing to sustainable development.



### Performance Summary and 2014 Goals

● Completed ● Partially completed or in progress ○ Not completed

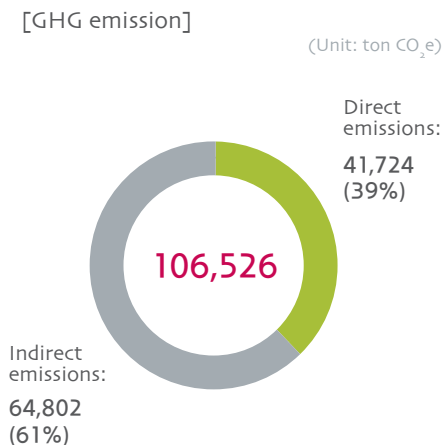
Key Management Issue	2013 Performances	Completion	2014 Goals	Target Deadline			
				Q1	Q2	Q3	Year-round
Climate change response and GHG emission reduction	Verify the GHG emissions at the Cheonan worksite of HAITAI Beverage	●	Verify the GHG emissions at the Pyeongchang and Cheolwon worksites of HAITAI Beverage				
Minimize the life cycle environmental impact	ESH diagnostic completion rate (achieved 91% against the 95% target)	●	Perform ESH assessment.				
	Green-product purchase	●	Green-product purchase				
	Environmental-accident management (achieved "0"accident)	●	Environmental-accident management				



## Establishment and Operation of the Environmental Management System

For systematic green management, LG H&H established an environmental management system in accordance with ISO 14001, and operated it. The company strives to apply consistent environmental policies and management standards to LG H&H's plants, global plants, and subsidiaries. LG H&H's current ISO 14001 certification status can be found in the Appendix. LG H&H reviews its green management policy, process, and outcomes for the efficient operation of its environmental management system. For example, internal diagnosis is conducted annually, targeting selected production plants and logistics centers, to ensure that the company complies with the policy and process, and to undertake improvements. Moreover, corrective measures are taken after the diagnosis, and the actual improvement practices are monitored and managed as the outcome. In 2013, the completion level of the corrective measures taken after the the local regulation, and is managed at an appropriate level.

## Management of Climate Change Response and GHG Emission Reduction



LG H&H's operation is to cause GHG emissions in most of its energy uses due to its operational features. Therefore, increase in energy efficiency has direct, significant impacts on the reduction of GHG emitted by the company's business activities.

To decrease our GHG emissions and to improve our energy efficiency at the same time, we have endeavored to undertake energy consumption diagnosis, to continually introduce facilities with high efficiency and to optimize the driving conditions. For instance, we undertook an energy consumption diagnosis of the Cheongju worksite's production facilities, utility facilities, and power substation for two weeks in November 2013, and we drew six improvement tasks therefrom, which resulted in an around 9.5 TJ reduction per annum. At the Ulsan worksite, the installation of an inverter for the distillation process has saved around 2.7 TJ per annum, and at the Yangsan worksite, the replacement of the aging oil immersed transformer with a transformer with low noise and high efficiency has reduced the power consumption, saving around 0.8 TJ per annum. At the Gwangju worksite, the installation of four Demand Controllers enabled automatic control of the chiller and heater at the time of maximum power load, resulting in an approximately 0.3 TJ reduction per annum. In 2013, the energy consumption (domestic standard) increased to 2,139 TJ, up 16.3%, and the GHG emission (domestic standard) decreased to 106,526 ton CO<sub>2</sub>e, down 0.2% from the previous year.

## Water Usage

LG H&H promotes a variety of activities to save and protect precious water. It is essential for the beverage manufacturing business, which handles a great amount of water, to pay attention to its possible environmental influence on the water catchment zone, and to manage it. It also affects the company's relationship with the local community and the company's reputation in the community. For instance, Coca Cola Beverage undertook a source water vulnerability assessment (SVA) and came up with a source water protection plan (SWPP) according to Coca Cola Global's policy. SWPP is an approval process developed by Coca Cola Global in response to the worldwide water shortage issue, which enables the local Coca Cola brand manufacturer to figure out its water usage status and the relevant risk. The plan is to be reestablished at five-year intervals. The SVA and SWPP are being implemented at the Yeosu, Yangsan, Gwangju, Cheonan, Pyeongchang, Namwon, Cheolwon, and Uiwang worksites.

## Pollutant Emission Management

LG H&H strives to reduce the environmental impact of the air and water pollutants emitted from its plant. Its strict management of its pollutant emissions is very important considering the impact of such emissions on the surrounding normally functioning ecosystem, and on the local community. Realizing this, LG H&H established an internal standard that is stricter than the external regulation on pollutant emissions, and applied it. The standard is revised in compliance with the local regulation, and is managed at an appropriate level.

### 1) Water pollutants

LG H&H appropriately deals with the wastewater generated by its industrial process through the wastewater treatment facilities at the plant or the jointly operated wastewater disposal facilities. When LG H&H has to treat wastewater directly, the company does it in compliance with its internal management standard, which is stricter than the external standard. The company also tries its best to effectively treat its wastewater through the constant maintenance of its waste disposal facilities, the preparation of standby facilities so it would be prepared for a possible breakdown, reinforced monitoring, and analysis of the water pollutants. For example, in 2013, the company conducted a risk analysis of the environmental pollutant emissions and installed a discharge detection facility at its final discharge pond, which has the highest emission risk, allowing constant monitoring.

### 2) Soil quality management

LG H&H figures out and manages in advance the possible soil-contaminating substances generated by its production activities. At our plant, the appropriate storage of products and liquid materials is regarded as most important. They are stored inside the tank, and oil-retaining walls have been installed around the tank yard so that in the event of a leakage, soil contamination can be prevented. The facilities are improved whenever required. For example, approximately KRW100 million was invested in coating the oil-retaining walls and in replacing the deteriorated hydrochloric acid storage vessel.

### 3) Hazardous substance management

LG H&H has carried out a variety of activities for hazardous substance management, which involves substance reduction, removal of possible risks in the handling process, and crisis management procedure and emergency preparedness. In 2013, at our Cheongju plant, to eliminate the treatment risk of hazardous chemicals, we replaced some hazardous chemicals with non-hazardous raw materials, and in the case of the non-replaceable hazardous chemicals, we strengthened the treatment facilities. At our Onsan plant, we have restored the storage facilities for toxic agents and hazardous substances, with the aim of reinforcing our preventive management system against chemical accidents. Furthermore, at our Gwangju plant, we have undertaken facility maintenance activities, such as the replacement of the aging facilities and the installation of a secondary contamination-preventive hump. We have also come up with an emergency contact system and a task division system with the relevant institutes in the vicinity of the worksite and with the local community to prepare for emergencies; such systems will be reviewed and upgraded every year for effective response to emergency situations.

## Eco-friendly Logistics

LG H&H recognizes that the appropriate integration of our logistical infrastructure and our existing-process innovation can create various opportunities to decrease our logistics expenses and our environmental impact. As such, we have endeavored to realize eco-friendly logistics through logistics rationalization, including logistics process innovation, logistics center integration and transportation capacity improvement, and in-house communication vitalization.

### 1) Logistics process innovation

The representative cases of logistics process innovation are the establishment of a joint delivery system and the expansion of cross-docking among our production bases. In the case of the joint delivery system, it was implemented in Busan and Jeju in 2010, using the logistics base between THEFACESHOP and LG H&H, which was gradually extended to the nationwide logistics bases, creating synergy effects on our logistics. In 2013, the joint delivery system establishment was completed in all our logistics bases by extending the system to the western and eastern parts of the metropolitan area. The system helps reduce our environmental impact, and for THEFACESHOP, its logistics cost was decreased by 17% per annum. Meanwhile, the expansion of cross-docking among our production bases also served to reduce our logistics cost and environmental impact. For example, LG H&H promoted cross-docking, the practice of unloading the incoming materials from the production storage and subcontractors/OEM companies to the central logistics center, and loading the goods directly into a distribution vendor's logistics center, which resulted in the reduction of the transport distance. As for the beverage industry, we have rationalized the transport route by allowing the direct transport of the beverage Vio Soonsoo from our Cheolwon plant to the local base. Besides, the practice of transporting the goods produced in the plant to our accounts via our logistics center was improved, resulting in transport distance reduction. The beverages produced in the Cheonwon plant of HAITAI Beverage Company, used to be transported first to Yeosu Mega Center and then distributed to the nationwide regional bases, but beginning in September 2013, they were directly transported to each



regional base. This transport route rationalization resulted in the 415-fold reduction of the 14-ton truckload, and the 8.5% reduction of the transport distance. In addition, the reduction of the goods transport stage (plant/logistics/accounts→plant/accounts) resulted in the 1,563-fold decrease of the 14-ton truckload per annum.

## 2) Logistics center integration

The effective integration of logistics centers is expected to create great synergy effects. In 2013, HAITAI Beverage Company conducted logistics center integration. As a result, the Ulsan logistics center of HAITAI Beverage Company and the Ulsan logistics center of Coca Cola Beverage were integrated, and the Jinju and Tongyeong logistics centers of HAITAI operated in the same business zone were likewise integrated.

## 3) Transport capacity improvement and eco-friendly vehicle introduction

LG H&H has enlarged its goods transport vehicle and has upgraded its load efficiency in a bid to improve its goods transport capacity. The company has also improved its old vehicles and has introduced eco-friendly vehicles and equipment to reduce its environmental impact. In 2013, along with the company's transport business partners, the usage ratio of vehicles over 14 tons increased by 10%, and the usage ratio of the 26-ton trucks in the beverage section rose by 5% compared to the previous year, which led to a fuel consumption reduction, and a consequent 35 ton CO<sub>2</sub>e and a 104 ton CO<sub>2</sub>e GHG emission reduction respectively. Efforts at replacing our old vehicles and introducing eco-friendly vehicles have been steadily made. In 2013, we replaced our old diesel cars, changed our gasoline cars to LPG, and replaced our existing forklifts with electronic forklifts to reduce our environmental impact. We also continued our "Eco-Driving Campaign" to take part in the low-carbon, green-logistics practice.

## 4) ESH Council operation with our business partners

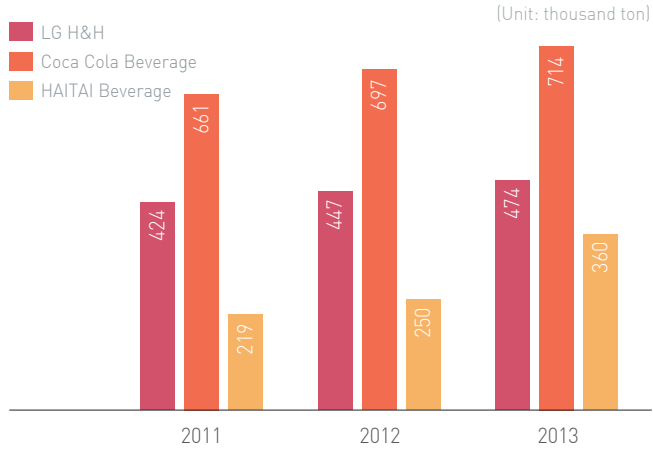
LG H&H holds regular meetings between the head of its logistics centers and the presidents and related managers of its business partners to share the domestic and overseas regulations on environment, and safety and health, and its eco-friendly logistics practice measures, and to receive the requests from its business partners. We also reflect the results of such meetings on our operations, and check if appropriate support is given and appropriate improvement is made when we conduct enterprise-wide ESH diagnosis.

(Coca Cola Beverage Logistics Center)

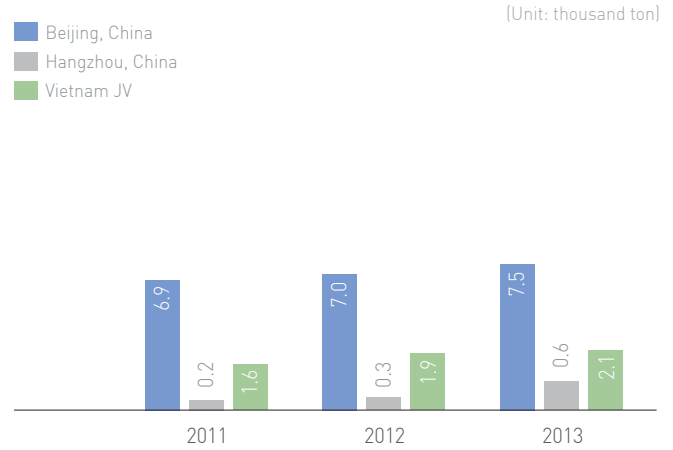


## Environmental Data

Production Volume (Domestic)



Production Volume (Overseas)



Energy (Domestic)

Company	Unit	2011	2012	2013	2014(Goal)
LG H&H	TJ	796	770	899	892
	GJ/product-ton	1.88	1.72	1.90	1.79
Coca Cola Beverage	TJ	850	943	887	947
	GJ/product-ton	1.28	1.35	1.24	1.31
HAITAI Beverage	TJ	233	126	353	321
	GJ/product-ton	1.06	0.50	0.98	0.84

Energy (Overseas)

Company	Unit	2011	2012	2013
Beijing, China	TJ	16	16	17
	GJ/product-ton	2.36	2.28	2.29
Hangzhou, China	TJ	3	3	4
	GJ/product-ton	14.08	11.39	6.46
Vietnam JV	TJ	13	12	13
	GJ/product-ton	7.75	6.29	6.12

Greenhouse Gas (Domestic)

Company	Unit	2011	2012	2013	2014(Goal)
LG H&H	Ton CO <sub>2</sub> e	42,178	39,707	42,488	45,446
	Ton CO <sub>2</sub> e/product-ton	0.10	0.089	0.090	0.091
Coca Cola Beverage	Ton CO <sub>2</sub> e	49,939	52,188	47,004	51,443
	Ton CO <sub>2</sub> e/product-ton	0.075	0.075	0.066	0.071
HAITAI Beverage	Ton CO <sub>2</sub> e	13,706	14,842	17,034	17,076
	Ton CO <sub>2</sub> e/product-ton	0.063	0.059	0.047	0.045

Greenhouse Gas (Overseas)

Company	Unit	2011	2012	2013
Beijing, China	Ton CO <sub>2</sub> e	841	826	891
	Ton CO <sub>2</sub> e/product-ton	0.12	0.12	0.12
Hangzhou, China	Ton CO <sub>2</sub> e	1,065	1,130	1,181
	Ton CO <sub>2</sub> e/product-ton	4.46	3.75	2.12
Vietnam JV	Ton CO <sub>2</sub> e	676	645	690
	Ton CO <sub>2</sub> e/product-ton	0.42	0.34	0.33

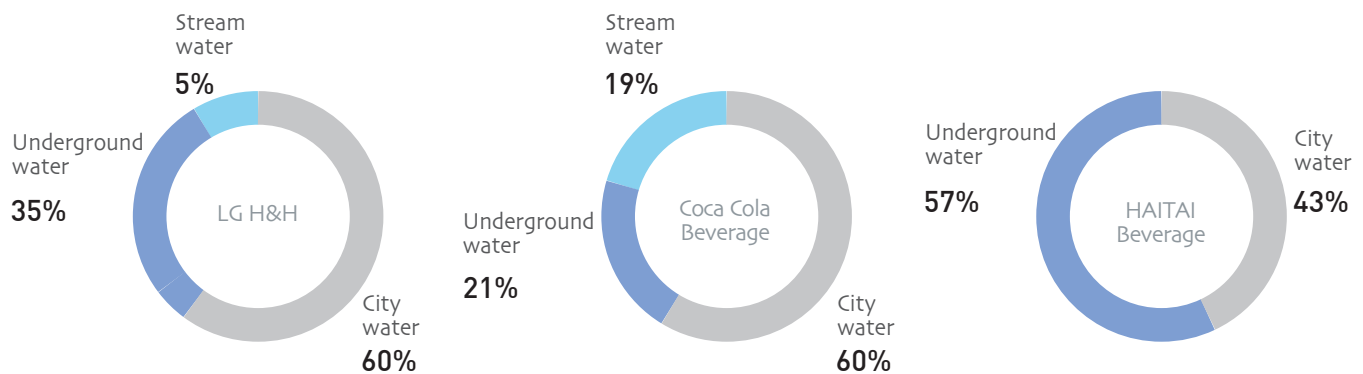
## Water (Domestic)

Company	Unit	2011	2012	2013	2014 (Goal)
LG H&H	Thousand m <sup>3</sup>	573	614	<b>719</b>	741
	m <sup>3</sup> /product-ton	1.35	1.37	<b>1.52</b>	1.49
	Thousand m <sup>3</sup> (recycled water)	153	139	<b>144</b>	156
Coca Cola Beverage	Thousand m <sup>3</sup>	1,901	2,030	<b>2,071</b>	2,005
	m <sup>3</sup> /product-ton	2.87	2.91	<b>2.90</b>	2.76
	Thousand m <sup>3</sup> (recycled water)	275	252	<b>301</b>	288
HAITAI Beverage	Thousand m <sup>3</sup>	506	620	<b>656</b>	674
	m <sup>3</sup> /product-ton	2.31	2.48	<b>1.82</b>	1.76
	Thousand m <sup>3</sup> (recycled water)	-	83	<b>58</b>	56

## Water (Overseas)

Company	Unit	2011	2012	2013
Beijing, China	Thousand m <sup>3</sup>	16	14	<b>16</b>
	m <sup>3</sup> /product-ton	2.18	1.97	<b>2.08</b>
	Thousand m <sup>3</sup> (recycled water)	-	-	-
Hangzhou, China	Thousand m <sup>3</sup>	9	9	<b>10</b>
	m <sup>3</sup> /product-ton	37.19	30.59	<b>18.20</b>
	Thousand m <sup>3</sup> (recycled water)	-	-	-
Vietnam JV	Thousand m <sup>3</sup>	43	48	<b>37</b>
	m <sup>3</sup> /product-ton	26.17	25.22	<b>17.49</b>
	Thousand m <sup>3</sup> (recycled water)	-	-	-

## Water Usage Rate per Catchment (Domestic)



## Wastewater (Domestic)

Company	Unit	2011	2012	2013	2014 (Goal)
LG H&H	Thousand m <sup>3</sup>	122	122	<b>129</b>	142
	m <sup>3</sup> /product-ton	0.29	0.27	<b>0.27</b>	0.29
Coca Cola Beverage	Thousand m <sup>3</sup>	1,064	1,053	<b>1,121</b>	1,069
	m <sup>3</sup> /product-ton	1.61	1.51	<b>1.57</b>	1.47
HAITAI Beverage	Thousand m <sup>3</sup>	230	210	<b>225</b>	250
	m <sup>3</sup> /product-ton	1.05	0.84	<b>0.63</b>	0.65

## Wastewater (Overseas)

Company	Unit	2011	2012	2013
Beijing, China	Thousand m <sup>3</sup>	12	11	<b>12</b>
	m <sup>3</sup> /product-ton	1.73	1.56	<b>1.65</b>
Hangzhou, China	Thousand m <sup>3</sup>	2	2	<b>3</b>
	m <sup>3</sup> /product-ton	9.60	8.08	<b>4.52</b>
Vietnam JV	Thousand m <sup>3</sup>	34	38	<b>30</b>
	m <sup>3</sup> /product-ton	20.94	20.16	<b>14.05</b>

### COD<sub>Mn</sub> (Domestic)

Company	Unit	2011	2012	2013	2014 (Goal)
LG H&H	Ton	9	9	13	13
	kg/product-ton	0.02	0.02	0.03	0.03
Coca Cola Beverage	Ton	16	16	15	14
	kg/product-ton	0.02	0.02	0.02	0.02
HAITAI Beverage	Ton	4	7	1	2
	kg/product-ton	0.02	0.03	0.004	0.005

### COD<sub>Cr</sub> (Overseas)

Company	Unit	2011	2012	2013
Beijing, China	Ton	0.5	0.5	0.7
	kg/product-ton	0.07	0.07	0.09
Hangzhou, China	Ton	0.4	0.5	0.5
	kg/product-ton	1.80	1.60	0.83
Vietnam JV	Ton	12	3	1
	kg/product-ton	7.58	1.73	0.41

### Waste (Domestic)

Company	Unit	2011	2012	2013	2014 (Goal)
LG H&H	Ton (total)	5,500	5,797	6,251	6,456
	kg/product-ton	13.0	13.0	13.2	13.0
	% (recycling rate)	47.1	44.5	42.6	55.2
	Ton (non-hazardous)	4,013	4,278	4,612	4,543
	Ton (hazardous)	1,487	1,518	1,639	1,913
Coca Cola Beverage	Ton (total)	12,416	12,494	13,510	13,257
	kg/product-ton	18.8	17.9	18.9	18.3
	% (recycling rate)	74.1	80.0	99.7	99.6
	Ton (non-hazardous)	12,391	12,474	13,497	13,244
	Ton (hazardous)	26	20	12	12
HAITAI Beverage	Ton (total)	2,739	1,653	1,931	2,106
	kg/product-ton	12.5	6.6	5.4	5.5
	% (recycling rate)	86.3	88.4	94.7	95.2
	Ton (non-hazardous)	2,737	1,642	1,927	2,102
	Ton (hazardous)	2	11	4	4

### Waste (Overseas)

Company	Unit	2011	2012	2013
Beijing, China	Ton (total)	172	207	236
	kg/product-ton	25.0	29.6	31.5
	% (recycling rate)	-	-	-
	Ton (non-hazardous)	111	133	153
	Ton (hazardous)	61	74	83
Hangzhou, China	Ton (total)	13	14	16
	kg/product-ton	53.1	44.9	28.2
	% (recycling rate)	-	-	-
	Ton (non-hazardous)	13	14	16
	Ton (hazardous)	-	-	-
Vietnam JV	Ton (total)	57	36	41
	kg/product-ton	34.8	18.7	19.6
	% (recycling rate)	98.2	97.2	97.1
	Ton (non-hazardous)	57	36	41
	Ton (hazardous)	-	-	-

### Raw Materials (Domestic)

Company	Unit	2011	2012	2013
LG H&H	Ton	203,605	206,230	204,770
Coca Cola Beverage	Ton	95,785	107,055	106,899
HAITAI Beverage	Ton	27,199	33,194	30,579

### Container Recycling (Domestic)

Company	Unit	2011	2012	2013
LG H&H	Ton	14,090	14,134	16,293
Coca Cola Beverage	Ton	33,737	45,953	46,022
HAITAI Beverage	Ton	5,470	7,170	7,041

### Green Purchase (Domestic)

Company	Unit	2011	2012	2013
LG H&H	KRW million	20,055	14,942	17,535
Coca Cola Beverage	KRW million	2,976	3,752	2,447

### Environment Protection Expenses and Investment (Domestic)

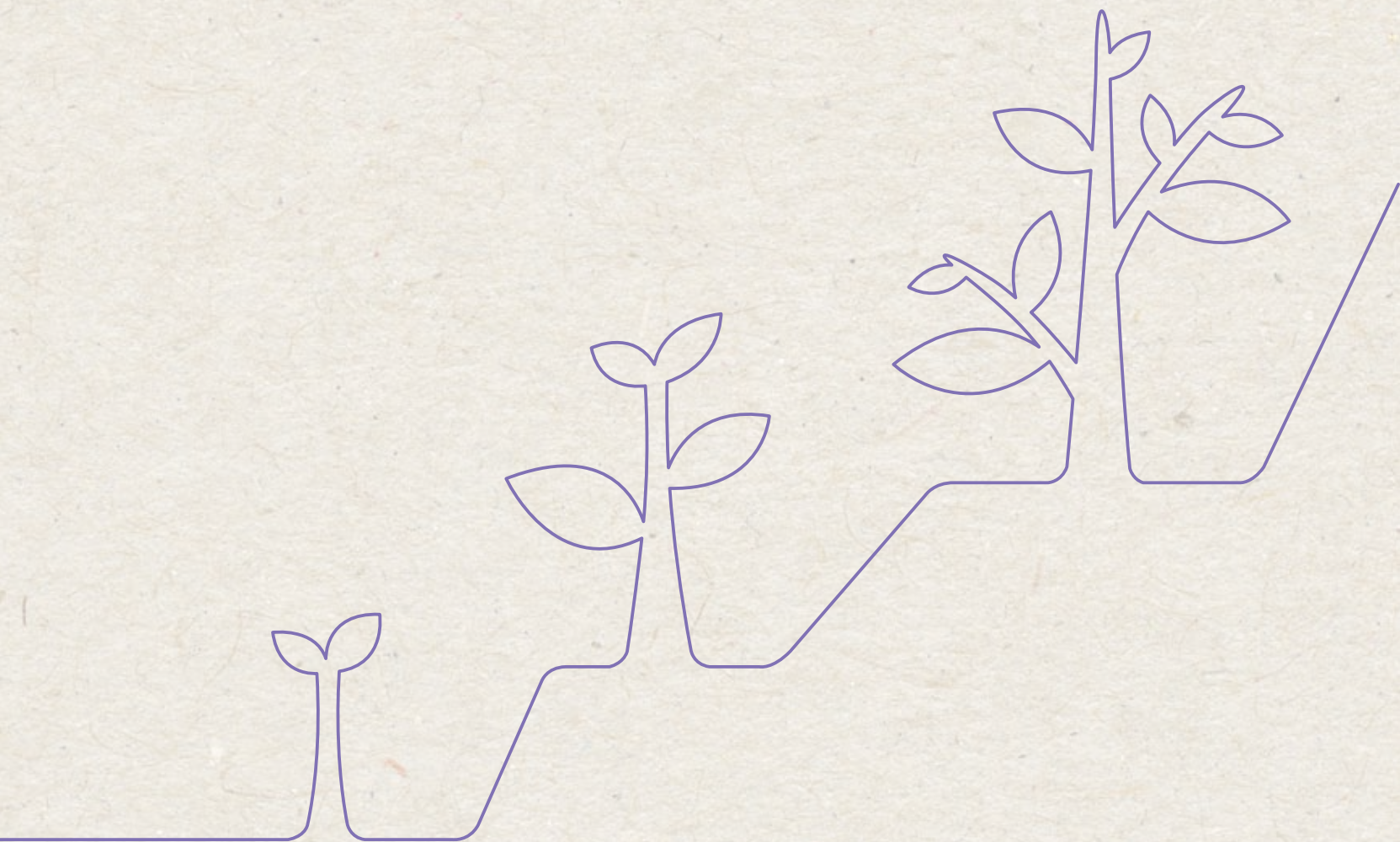
Company	Unit	Investment	Expenses
LG H&H	KRW million	1,284	2,931
Coca Cola Beverage	KRW million	1,628	1,065
HAITAI Beverage	KRW million	452	391

※ There is no existing production plant at THEFACESHOP. Accordingly, it is excluded from the list.



# Care Community

Being one-sided always brings unwanted results. Although we don't know exactly what the complete truth is, "balance" is an important creed for us. We believe that balanced coexistence is very significant for the healthy development of a community. As a member of a community, LG H&H pursues balanced development with our business partners and the local community.





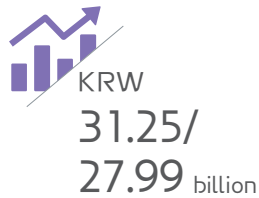
## Win-Win Growth with Our Business Partners

LG H&H set five directions in fostering a culture of fair trade and mutually beneficial cooperation, equal opportunity, joint development, technological support, financial support, and open communication and plans to establish a win-win growth corporate culture based on such. We pursue the provision of healthy, beautiful, and refreshing values to our customers through joint technological development, and strategic task completion, and convergent purchasing for shared hope and happiness with our business partners.

### KPI(Key Performance Indicators)



Win-Win Growth Index  
Assessment  
(National Commission for  
Corporate Partnership)



Growing Together Fund  
Creation and execution



No. of business partners  
with CSR diagnosis



Technological support and  
protection for our business  
partners:

(technological document deposit  
system: 10 cases; joint patent  
application: 21 cases; LG personnel  
support 189 companies, 48 persons)

※ Win-win growth initiatives have been fully undertaken since 2012.



### Performance Summary and 2014 Goals

● Completed    ◐ Partially completed or in progress    ○ Not completed

Key Management Issue	2013 Performances	Completion	2014 Goals	Target Deadline			
				Q1	Q2	Q3	Year-round
Strengthened communication with business partners	Business Partner Cooperative Council meeting (once)	●	Business Partner Cooperative Council meeting (once)	■			
	Win-Win Growth Committee operation (3 times)	●	Win-Win Growth Committee operation (3 times)	■	■	■	■
	Executives(twice a month) and team leaders(four times a month)' visitation to business partners	●	Executives(twice a month) and team leaders(four times a month)' visitation to business partners	■	■	■	■
	Discussion meetings with business partners (once)	●	Discussion meetings with business partners (twice)	■	■	■	■
Improved business partner competitiveness	Proactive adjustment of delivery unit prices	●	Year-round adjustment in line with the raw material prices and exchange rates	■	■	■	■
	Support of subcontracting business partners' sales	●	Increasing the purchasing amount from business partners by more than 1%	■	■	■	■
	Technological document deposit system operation (10 cases)	●	Technological document deposit system operation (more than 15 cases)	■	■	■	■
	Joint patent applications for new technologies developed in partnership (21 applications)	●	Joint patent applications for new technologies developed in partnership (more than 25 applications)	■	■	■	■
Expanded financial support	Maintaining 100% cash equivalent payment (subcontractors: 100% cash)	●	Maintaining 100% cash equivalent payment (sub-contractors: 100% cash)	■	■	■	■
	Growing Together Fund operation (KRW 31.25 billion)	●	Growing Together Fund arrangement (KRW 41 billion)	■	■	■	■
Improved fairness and transparency	CSR diagnosis of business partners (215 companies)	●	CSR diagnosis of business partners (200 companies)	■	■	■	■
	Purchasing diagnosis of business partners (316 companies)	●	Purchasing diagnosis of business partners (200 companies)	■	■	■	■

## Improving Communication Channels with Business Partners and Expanding Their Operation



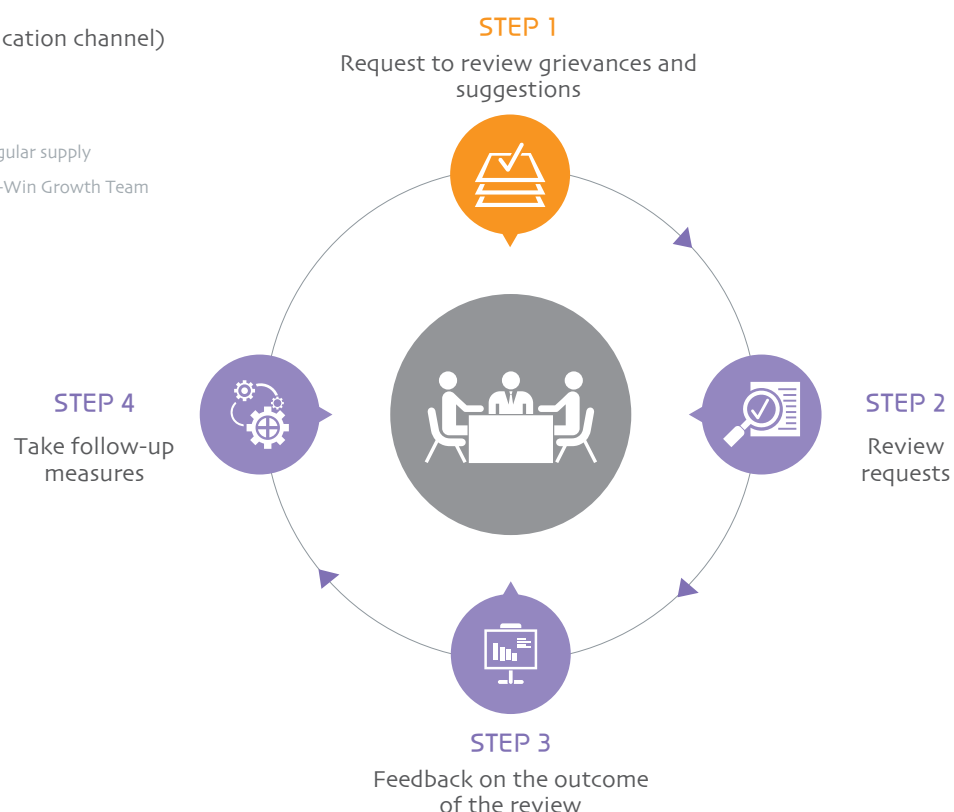
(Win-win growth discussion meeting for our business partners)

LG H&H has arranged various types and levels of communication channels in pursuit of win-win growth with its business partners, and strives to operate the relevant systems more effectively. The communication channels include the Business Partner Cooperative Council meetings, the Win-Win Growth Committee meetings, discussion meetings, the open space, and Sangsaenggo. The discussion meetings are used to improve the business process by listening to our business partners' difficulties in their business relationship with us, share purchasing policy, and provide them with the necessary information for operating a small or medium-sized business. In August and September 2013, our Anyang i-Center held "2013 Win-Win Growth Discussion Meetings for Business Partners," inviting 200 employees from our tier 1 and 2 business partners in the area of household goods and cosmetics. We gave the participants a detailed explanation of our win-win growth directions and systems, encouraging their participation through the utilization of such systems. We also actively discussed how to jointly develop new products with us to achieve win-win growth and pursued joint cooperation

in addressing the issues of securing advanced technologies for our business partners, international certification management, and joint development of new technologies, which were intensively discussed in the meeting. Besides, an "open space" has been opened within CPS (convergent purchasing system) to gather feedback from our business partners. The data obtained are being used for free communication with our purchasing workers in relation to their grievances and suggestions regarding business transactions. The contents are protected according to the internal security regulation, and are followed up by the win-win growth promotion organization in charge of mutually beneficial cooperation in the purchasing department.

[Sangsaenggo (communication channel) and the open space]

- Business partners with regular supply
- Procurement Staffs / Win-Win Growth Team



## Supporting Our Business Partners' Competitiveness Enhancement

### 1) Technological support and protection, and personnel support

We have given various technological and personnel support to our business partners, such as technological support aimed at reinforcing productivity and cost competitiveness, TPM innovation initiative support for process optimization, business site relocation, line relocation, and increase of equipment. For more systematic support, LG H&H operates a "manpower pool for technological support" composed of experts in five areas, including quality management, equipment investment, and finance/accounting. They are ready to instantly respond to our business partners upon request. To protect our business partners' proprietary technologies, we operate the technological document deposit system and the patent application support system. We also operate a new-technology development support system, with the aim of working with our business partners with potential technologies in developing new technologies. We thus provide them with assistance in the form of development investment as well as support for independent/joint patent operations and relevant expenses.



Technological and personnel support

**112 cases**  
**0.94 billion**  
**48 persons**



Technology protection

**31 cases**  
**0.66 billion**

### 2) Education support

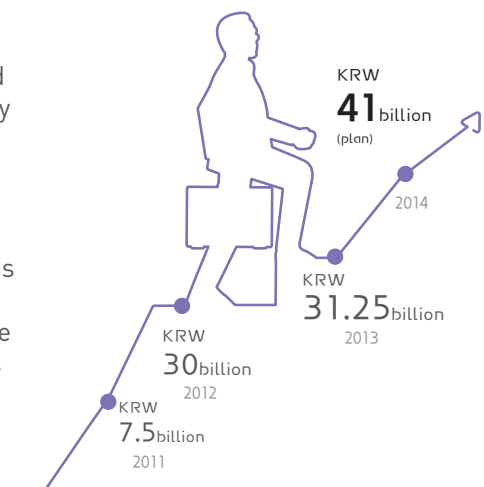
LG H&H has developed and has been offering training courses customized for the job positions in the categories of CEO and top management, office workers, sales workers, quality management workers, shop-floor technical workers, and R&D workers, in a bid to enhance our business partners' employee capabilities.

[2013 Education Support Results for Our Business Partners]

Course	No. of Participating Business Partners	No. of Trainees	Target Group
CEO Academy	107 companies	107 persons	President/management
TPM Shop-Floor Improvement Suggestion Training	28 companies	45 persons	Shop-floor technical workers
E-learning Cyber Job Training	86 companies	345 persons	Employees
Total	221 companies	497 persons	

### 3) Expanding our financial support

LG H&H has signed a loan contract with Industrial Bank of Korea to arrange and operate the Growing Together Fund in an attempt to ensure the financial stability of our business partners. The total arranged fund amounted to KRW 7.5 billion in 2011, and increased to KRW 31.25 billion in 2013. Of this amount, KRW 27.99 billion has been used. In 2014, the amount is expected to grow to KRW 41 billion. Furthermore, we arranged the conditional development fund for purchase (KRW 0.5 billion) provided as support for the joint development of items that were adopted in the new-technology proposal exhibition, which contributed to the expansion of our business partners' domestic sales. Beginning in 2014, we offer a no-interest loan (KRW 1.1 billion budget) as an incentive for our business partners who show excellent win-win growth and whom we have been supporting. Besides, in June 2012, the subcontracting payment method was changed to 100% cash payment, and the number of payments has since increased from once a month to twice a month. We did this to assist our business partners in financing cost reduction and smooth fund supply and demand.



[Amount of the Growing Together Fund]

#### 4) Support for overseas expansion

From 2013, LG H&H has actively supported its business partners' participation in overseas fairs and exhibitions to aid their substantial overseas expansion and the consequent sales increases. In 2013, the company supported the participation of its six business partners including Minjin, Biomix, and Taejin Chemical in In-Cosmetics Asia 2013 held in Bangkok, the leading exhibition targeting 400+ personal care ingredient suppliers around the world. LG H&H applied for the exhibition space on behalf of its business partners and funded all expenses for exhibition booth set-up and interior decoration. The company also dispatched two assistant staff to support them. As a result, its six business partners engaged in 180+ cases of business counselling, and more than USD 750,000 worth of sales are expected to be generated. LG H&H also listened to opinions about future directions from the business partners who participated in the exhibition with an aim of more effectively supporting their overseas expansion, which includes supporting overseas exhibition participation in the long term perspective, expanding the participatory business partners, and offering consulting services in relation to overseas exhibitions. We plan to enlarge the scale of support for our business partners' overseas expansion in 2014.

[Achievements in its business partners' overseas expansion in 2013]

Company	Business counselling	Major Achievements	Expected Sales
Minjin Inc.	50 cases	Business meetings with large companies such as I.L.C, MILOTT	USD 100,000
Biomix Inc.	20 cases	Matching proposal for partnership with Ashland	Not decided yet
Taejin Chemical Inc.	30 cases	Co-work with Lessonia France for new containers	USD 300,000
Tab Korea Inc.	25 cases	Container order from Giga Fine Chemical (100,000 unit)	USD 150,000
Korea P&P Inc.	8 cases	Extra visit to domestic plant of a Malaysian buyer	USD 200,000
NFC Inc.	50 cases	Gained footholds to tap into the Asian and European ceramide market	In progress

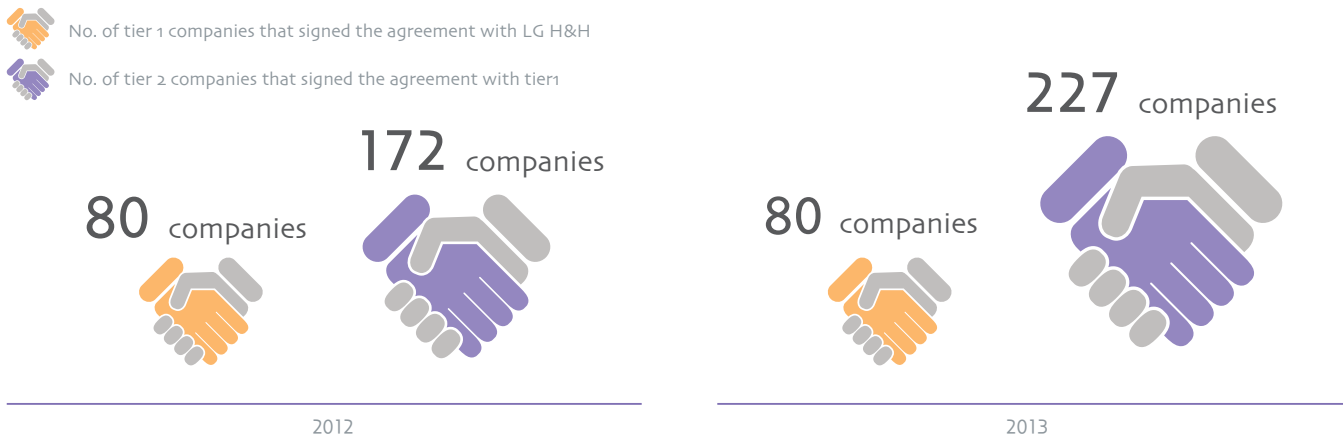
(Our business partners' exhibition booth at In-Cosmetics Asia 2013)



## Extending Our Win-Win Growth Target to Our Tier 2 Business Partners

To establish an autonomous fair trade order and to promote mutual competitiveness and win-win growth, we have endeavored to extend our commitment to win-win growth to our tier 2 business partners by assisting our tier 1 and 2 partners in signing the fair trade/win-win growth agreement. The system is designed to encourage our tier 1 partners to provide the assistance received by us from large companies to our tier 2 partners. For this, a win-win growth seminar was held, attended by both our tier 1 and 2 partners, where we attempted to share with them our win-win growth plans (tier 1 partners: 169; tier 2 partners: 31). In addition, win-win-growth-related postings are made available at our purchasing system portal to announce our commitment to win-win growth to our tier 1 partners, and to encourage and assist them to sincerely comply with the win-win growth agreement.

[No. of business partners that signed the agreement between tier 1 and 2]



## Business Partner Assessment and CSR Management

LG H&H strives to ensure that the process of business partner selection and registration is made in a transparent and fair manner. In selecting new business partners, application review and credit assessment are done in the first phase, followed by the second-phase assessment by our in-house assessment team, made up of representatives from the purchasing, material management, quality, production, design, R&D, and marketing departments. Such assessments target the companies that have entered into transactions with us for more than one year, and whose annual transactions amounted to over KRW 100 million. The assessment categories include quality, deadline, credit ratings, technology, and CSR. The sustainable management assessment was piloted in 2011 and, now, is segmented into 64 items in the seven areas including governance, Jeongdo management, labor human rights, environment, safety, customer, and local communities. In 2013, we performed CSR assessments of our 215 major business partners to reflect the outcomes in our comprehensive purchasing assessments and our incentive criteria covering the allocation of product volume, the selection of beneficiaries of the Growing Together Fund, and technological support. The purchase amount from our major business partners assessed in 2013 reached 84% of our total purchase. We plan to adjust the transaction volume of the target companies to KRW 200 million in 2014.

[No. of Business Partners Subjected to Purchase and CSR Diagnoses]

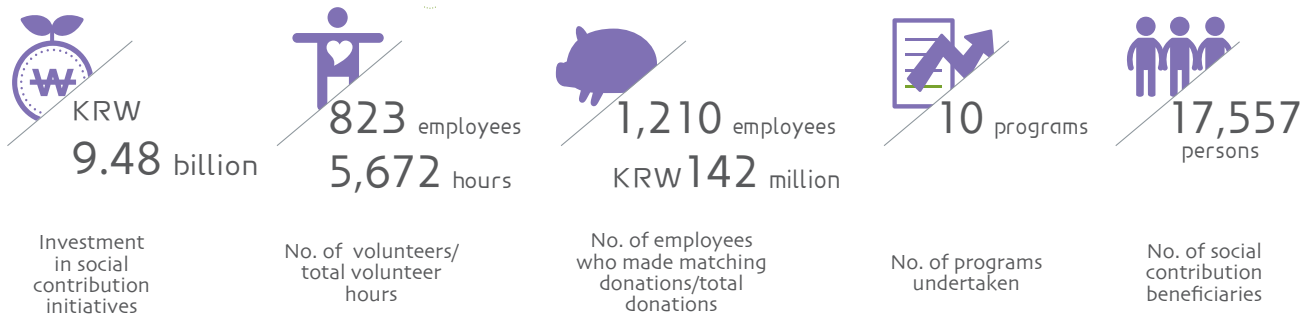




## Community Involvement and Development

LG H&H believes that a company's social contribution activities are "compulsory" and not just "necessary," and accordingly, we are trying our best to pursue social and corporate values at the same time. Making a contribution to the local community is an inevitable social investment, and LG H&H's authenticity is well embedded in it, gaining the trust of its customers and creating an impression on them. What matters most is that embarking on initiatives related to our characteristics as a company enables us to produce the best results and to contribute to the effective resolution of social issues. LG H&H is committed to launching initiatives to advance constant and systematic virtuous communication, which allows us to grow together with our customers and society. Such initiatives involve the improvement of the community infrastructure, beyond mere donations, and social investment to lead the transformation of the social system.

### KPI (Key Performance Indicators)



### Performance Summary and 2014 Goals

● Completed    ● Partially completed or in progress    ○ Not completed

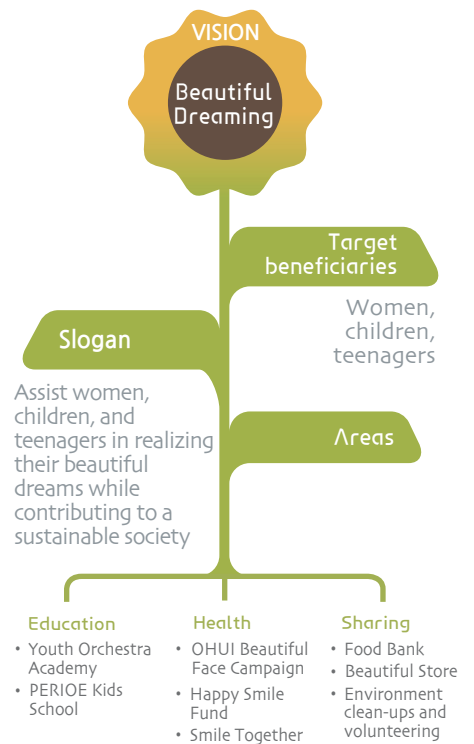
Key Management Issue	2013 Performances	Completion	2014 Goals	Target Deadline			
				Q1	Q2	Q3	Year-round
Stronger social contribution business alignment	PERIOE Kids School	●	Foster and expand Oral Care Education Program for the local community children				
	OHUI Beautiful Face Campaign	●	Expand the quality plastic surgery support and healing camp aimed at psychological restoration				
	Youth Orchestra Academy	●	Program ended				
Expanded impact on local community changes	Donations to and volunteering for Beautiful Store	●	Expand the number of employee volunteers and gift donations				
	Food Bank & Community Chest of Love	●	Expand the local community benefits through nationwide distribution				
	Happy Smile Fund	●	Increase the number of beneficiaries and the quality of support				
	Smile Together	●					
Customer participation and communication	WHOO Korea classical music sponsorship: "Admiration for Haegeum"	●	Disseminate traditional Korean culture and continuously sponsor Korean arts				
	Himango Project	●	Expand the vocational education and preschool program in Himango Village				
	BEYOND Animal Protection Campaign	●	Continually expand the protection of endangered animals				

## Social Contribution Strategy and Program

LG H&H has set the following directions for its social contribution initiatives: stronger alignment with its business areas, expanding the impact of such initiatives on the transformation of the local community, and extending customer involvement and communication. It has also developed and operated various programs focused on three support areas: education, health, and sharing. The program details and outcomes can be seen in the “Social Contribution Program Status and Outcomes” Table on page 61. As can be seen in the support areas, each program is closely related to LG H&H’s business. A related budget was set up and the program outcomes were monitored to review the program performance and effectiveness, and to consolidate the correlation between our social contribution and business activities. We will continue our efforts to vitalize our social contribution initiatives through program improvement and expansion as well as employee engagement expansion.

### Happy Smile Fund

To assist single mothers in maintaining good health and family happiness, LG H&H has undertaken the Happy Smile Fund project to provide them with support for their health check-up and medical treatment expenses. To establish the fund, our employees donate a certain portion of their monthly wages, which is then matched by the company. These small deeds of sharing by our employees for the last 10 years will be continued to help the women in our society become self-reliant and realize their dreams.



### PERIOE Kids School

PERIOE Kids School is a representative social contribution initiative implemented by the oral care brand PERIOE since 2004, designed to educate children as well as preschool teachers, our business partners, and the general public on appropriate oral care. The in-house dental hygienists visit education facilities for preschoolers and offer them dental hygiene education to establish healthy oral care habits such as correct brushing of the teeth, which is expected to help promote national oral health. We visit 200 schools, preschools, and child welfare facilities per annum, and 160,000 children have received dental healthcare education from us to date.



## HIMANGO Campaign



LG H&H has been carrying out a mango tree planting project in a sustainable and permanent manner in South Sudan, Africa, where people are suffering from the poor environment and from food shortage. The project is aimed at helping each household become self-sustainable by providing them with mango tree seedlings and education on how to plant them and make them grow. Through this project, 10,000 mango trees are planted in the country yearly. Mango trees are seen as very effective tools in addressing the poverty and hunger issue in the region as they bear fruit when they turn 4 years old, and their fruits can be harvested twice a year. Their fruits are very good for children with malnutrition as they provide enriched vitamins A, C, and D and can live up to 100 years even under the poor conditions in Africa. Furthermore, in 2012, LG H&H purchased mango extracts cultivated in Sudan for its Mango Seed product line, a highly moisturized cosmetic line composed of seven varieties, which fetched approximate KRW 20 billion in sales in 2013. We call it "Himango Circulation Circle," targeting economic and educational self-subsistence. The circle will go around as a certain portion of the product sales proceeds is reinvested in the planting of mango trees. In 2012, our commitment to this project produced tangible fruits through the establishment of Himango Village, a comprehensive education and culture center designed to provide the foundation for the

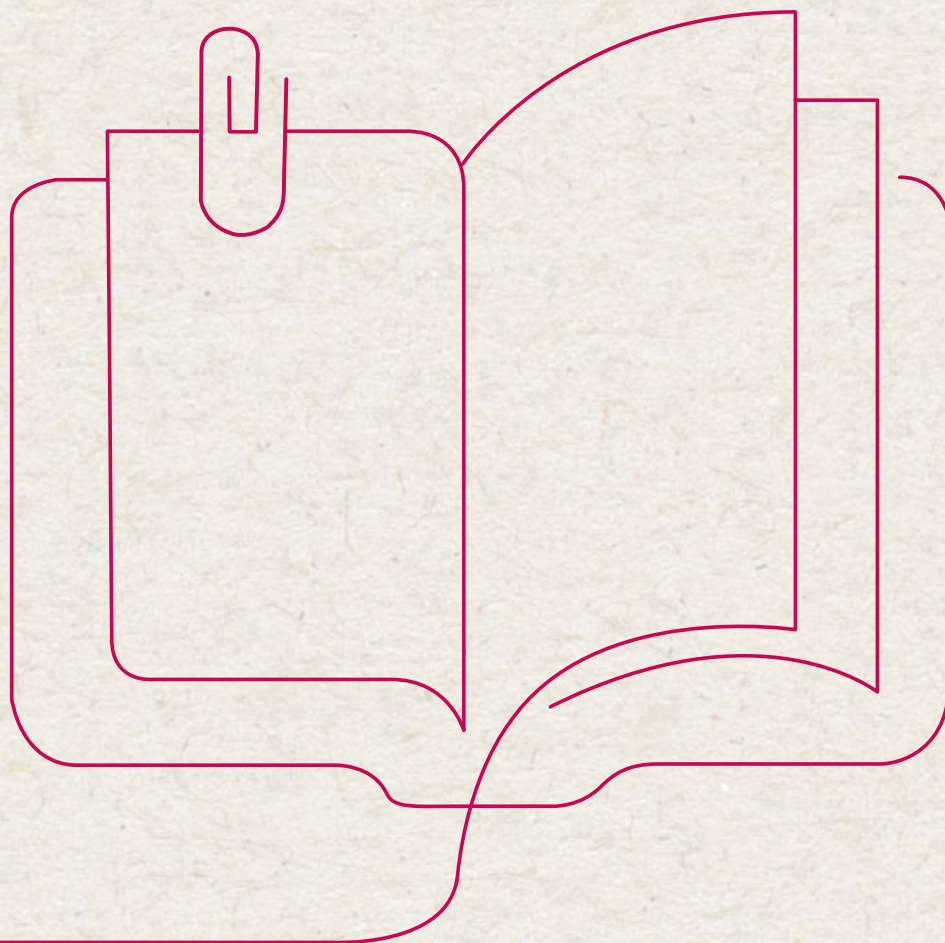
self-reliance of the people in Tonj. There, the males receive vocational training in carpentry and construction, and the females, sewing and English. A preschool was built to offer education to the children. Approximately 250 people find hope for the future through this project.

(The Himango Village in South Sudan)









# Appendix



## 1. Major External Recognition & Awards in 2013

Classification	Details	Host Organization
Incorporated in the DJSI Asia-Pacific	In the Personal Products sector for four consecutive years	Dow Jones/SAM/KPC
Ranked 1st on the Green Ranking List	In the Consumer Goods sector	Sustainvest/Joongang Daily
Sustainability Management Assessment	Ranked 1st in the cosmetics sector	Korean Standards Association
Korea CSR 30	Selected for four consecutive years	Hankyoreh Economic Research Institute
Reddot communication design award	Minute Made/HAN.IP/Prostine	Reddot
WORLD STAR	Sunkist Family	World Packaging Organization (WPO)
2013 Korea Win-Win Supply-chain Partnership Company	In the distribution and household industry sector	Seoul Economic Daily/Fortune Korea
2013 Best Managed Companies in Korea	Best Managed Companies in Korea	Euromoney
Asia's Fab 50 Companies	Selected for three consecutive years	Forbes

## 2. Association & Membership in 2013

KISANHYUP	Korea Customs Logistics Association	Korea Products Safety Association
The Organization of Consumer Affairs Professionals in Business	Korean Business Council for the Arts	Korea Intellectual Property Protection Association
Green Company Council	Korea International Trade Association	Korea Chemicals Management Association
Korean Society of Toxicology	Korean Association of Occupational Health Nurses	Korea Environmental Engineers Association
Korea Industrial Safety Association	Korea Industrial Technology Association	Korea Environmental Industry & Technology Institute
Korea Cosmetic Association	Korea Listed Companies Association	Korea Environmental Preservation Association
The Federation of Korean Industries	Korea Fire Safety Association	CSV Society
UN Global Compact	Korea Food Industry Association	HACCP Councils
Fair Competition Federation	Korea Personnel Improvement Association	KOSHA Voluntary Safety Club

## 3. Management System Certification in 2013

Company	ISO 14001	OHSAS 18001	Green Company (Eco-friendly Company)	ISO 9001	HACCP	KS
LG H&H	Cheongju/Ulsan/Onsan	Cheongju/Ulsan	Cheongju/Ulsan/Onsan	Cheongju/Ulsan/Onsan/Naju	N/A	Cheongju/Ulsan
Coca Cola Beverage	Yeoju/Yangsan/Gwangju	Yeoju/Yangsan/Gwangju	Yeoju/Gwangju	Yeoju/Yangsan/Gwangju	Yeoju/Yangsan/Gwangju	N/A
HAITAI Beverage	Cheonan/Pyeongchang/Cheolwon	Cheonan/Pyeongchang/Cheolwon	-	Cheonan/Pyeongchang/Cheolwon	Cheonan	N/A

※There is no existing production plant at THEFACESHOP.

## 4. Government Subsidies in 2013

(Unit: KRW million)

Project Title	Supervising Dep.	Amount	Period
Development of fermented materials with outstanding skin stability	Ministry of Health and Welfare	135	Nov. 2012 ~ Oct. 2013
Development of gene-based skin type classification criteria and customized effective ingredients	Ministry of Health and Welfare	280	Nov. 2012 ~ Oct. 2013
Development of brand new special mask pack materials and formulations that contribute to higher efficacy	Ministry of Health and Welfare	135	Nov. 2012 ~ Oct. 2013
Efficacy assessment of cosmetic ingredients from plant stem cells and establishment of their stability concerning cosmetic formulations	Ministry of Health and Welfare	40	Nov. 2012 ~ Oct. 2013

## 5. Regulatory Violations in 2013

In 2013, there have been no penalties, business suspensions or any other administrative measures imposed due to regulatory violations.

## 6. GRI 3.1 Index

### G3.1 Index

● Fully    ● Partially    ○ Not reported

#### I. Profile Disclosure

		Reporting Level	Location of disclosure /Direct answer
<b>I. Strategy and Analysis</b>			
1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.	●	6-7
1.2	Description of key impacts, risks, and opportunities.	●	12
<b>2. Organizational Profile</b>			
2.1	Name of the organization.	●	4, 75
2.2	Primary brands, products, and/or services.	●	Paper 1 - Paper 6
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	74, 75
2.4	Location of organization's headquarters.	●	74, 75
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	8, 10, 16-17
2.6	Nature of ownership and legal form.	●	74, 75
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	8, 15, 18
2.8	Scale of the reporting organization.	●	4, 8, 39, 42-43, 74-75
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	●	74
2.10	Awards received in the reporting period.	●	63
<b>3. Report Parameters</b>			
3.1	Reporting period.	●	4
3.2	Date of most recent previous report.	●	4
3.3	Reporting cycle.	●	4
3.4	Contact point for questions regarding the report or its contents.	●	4
3.5	Process for defining report content.	●	22, 23
3.6	Boundary of the report.	●	4
3.7	State any specific limitations on the scope or boundary of the report.	●	4
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	4
3.9	Data measurement techniques and the bases of Calculations.	●	Explanation available in the corresponding information
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	●	Explanation available in the corresponding information
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods.	●	4
3.12	Table identifying the location of the Standard Disclosures in the report.	●	64-67
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	72, 73
<b>4. Governance, Commitments, and Engagement</b>			
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	●	13, 14
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	13
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	●	13
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	13, 14
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives.	●	13, 14
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	●	13
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees.	●	14
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	●	11, 20
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance.	●	13, 14, 21
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	13, 14, 21
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	12, 68
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	31, 63, 68
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations.	●	63
4.14	List of stakeholder groups engaged by the organization.	●	14, 22, 24-25
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	14, 22
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	14, 22
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	●	23, 26-61

 Core indicator

## II. Disclosures on Management Approach (DMAs)

		Reporting Level	Location of disclosure /Direct answer
<b>DMA EC</b>	Disclosure on Management Approach EC	●	15-17
<b>DMA EN</b>	Disclosure on Management Approach EN	●	45, 46
<b>DMA LA</b>	Disclosure on Management Approach LA	●	36
<b>DMA HR</b>	Disclosure on Management Approach HR	●	36
<b>DMA SO</b>	Disclosure on Management Approach SO	●	53, 58
<b>DMA PR</b>	Disclosure on Management Approach PR	●	27, 32

## III. Performance Indicators

<b>Economic</b>			
<b>EC1</b>	Direct economic value generated and distributed.	●	8-10
<b>EC2</b>	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	28-29, 45-48
<b>EC3</b>	Coverage of the organization's defined benefit plan obligations.	●	40
<b>EC4</b>	Significant financial assistance received from government.	●	63
<b>EC5</b>	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	●	319%
<b>EC6</b>	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	●	16
<b>EC7</b>	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	●	39, 42
<b>EC8</b>	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●	41, 53-61
<b>EC9</b>	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	56, 60
<b>Environmental</b>			
<b>EN1</b>	Materials used by weight or volume.	●	51
<b>EN2</b>	Percentage of materials used that are recycled input materials.	●	51
<b>EN3</b>	Direct energy consumption by primary energy source.	●	49
<b>EN4</b>	Indirect energy consumption by primary source.	●	49
<b>EN5</b>	Energy saved due to conservation and efficiency improvements.	●	46
<b>EN6</b>	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	28
<b>EN7</b>	Initiatives to reduce indirect energy consumption and reductions achieved.	●	46
<b>EN8</b>	Total water withdrawal by source.	●	50
<b>EN9</b>	Water sources significantly affected by withdrawal of water.	●	46
<b>EN10</b>	Percentage and total volume of water recycled and reused.	●	50
<b>EN11</b>	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	46
<b>EN12</b>	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	●	46
<b>EN13</b>	Habitats protected or restored.	○	
<b>EN14</b>	Strategies, current actions, and future plans for managing impacts on biodiversity.	●	31
<b>EN15</b>	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	○	
<b>EN16</b>	Total direct and indirect greenhouse gas emissions by weight.	●	46, 49
<b>EN17</b>	Other relevant indirect greenhouse gas emissions by weight.	●	69
<b>EN18</b>	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	46, 48
<b>EN19</b>	Emissions of ozone-depleting substances by weight.	○	Not essential considering its production process features
<b>EN20</b>	NO, SO, and other significant air emissions by type and weight.	○	Not essential considering its production process features
<b>EN21</b>	Total water discharge by quality and destination.	●	50, 51
<b>EN22</b>	Total weight of waste by type and disposal method.	●	51
<b>EN23</b>	Total number and volume of significant spills.	●	No such cases
<b>EN24</b>	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	●	No such cases
<b>EN25</b>	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	●	46
<b>EN26</b>	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	27-29
<b>EN27</b>	Percentage of products sold and their packaging materials that are reclaimed by category.	●	29, 51
<b>EN28</b>	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	●	63
<b>EN29</b>	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	47, 48, 69
<b>EN30</b>	Total environmental protection expenditures and investments by type.	●	51

 Core indicator

		Reporting Level	Location of disclosure /Direct answer
<b>Labor Practices and Decent Work</b>			
LA1	Total workforce by employment type, employment contract, and region.	●	43
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	●	43
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	●	40
LA4	Percentage of employees covered by collective bargaining agreements.	●	40
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	●	2 months
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	○	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region and by gender.	●	38
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	37
LA9	Health and safety topics covered in formal agreements with trade unions.	●	37
LA10	Average hours of training per year per employee by employee category.	●	5, 36
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	●	39
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	○	43
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	●	13-14, 42- 43
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	●	No difference
LA15	Return to work and retention rates after parental leave, by gender.	●	43
<b>Human Rights</b>			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	●	No such cases
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.	●	57
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	●	11
HR4	Total number of incidents of discrimination and corrective actions taken.	●	No such cases
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	●	57
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	●	57
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	●	57
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	○	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	●	No such cases
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	●	21
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	●	40
<b>Society</b>			
S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	●	46, 61
S02	Percentage and total number of business units analyzed for risks related to corruption.	●	11
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	●	11
S04	Actions taken in response to incidents of corruption.	●	11
S05	Public policy positions and participation in public policy development and lobbying.	●	52-57
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	●	No such cases
S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	●	No such cases
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	●	63
S09	Operations with significant potential or actual negative impacts on local communities.	●	46
S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	●	46
<b>Product Responsibility</b>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	27
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	●	63
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	●	27
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	63
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	32
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	[Guidelines for code of ethics practices ( <a href="http://www.lgcare.com/right/rule2.jsp">http://www.lgcare.com/right/rule2.jsp</a> )]
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	63
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	5
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	●	63

## FPSS (Food Processing Sector Supplement) Index

The beverage industry including Coca Cola Beverage and HAITAI Beverage is within the boundaries of LG H&H's CSR report. The indicators below are required by GRI's Food Processing Sector Supplement index, thus, only applicable to Coca Cola Beverage and HAITAI Beverage.

FPSS		Reporting Level	Location of disclosure /Direct answer
<b>Sourcing</b>			
FP1	Percentage of purchased volume from suppliers compliant with company's sourcing policy.	●	75% (based on the purchase amount)
FP2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard.	●	31
<b>Labor Practices &amp; Decent Work</b>			
FP3	Percentage of working time lost due to industrial disputes, strikes and/or lock-outs, by country.	●	No such cases
<b>Society</b>			
FP4	Nature, scope and effectiveness of any programs and practices that promote access to healthy life-styles; the prevention of chronic disease; access to healthy, nutritious and affordable food; and im-proved welfare for communities in need.	●	58-61
<b>Product Responsibility</b>			
FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards.	●	Coca Cola beverage: 97%, HAITAI beverage: 100%
FP6	Percentage of total sales volume of consumer products, by product category, that are lowered in saturated fat, trans fats, sodium and added sugars.	●	Under 3%
FP7	Percentage of total sales volume of consumer products, by product category, that contain increased nutritious ingredients like fiber, vitamins, minerals, phytochemicals and functional food additives.	●	Under 5%
FP8	Policies and practices on communication to consumers about ingredients and nutritional information beyond legal requirements.	●	Warning sign on the product containing high levels of caf-feine
<b>Animal Welfare</b>			
FP9	Percentage and total of animals raised and/or processed, by species and breed type.	○	Not related to beverage industry
FP10	Policies and practices, by species and breed type, related to physical alterations and the use of anaesthetic.	○	Not related to beverage industry
FP11	Percentage and total of animals raised and/or processed, by species and breed type, per housing type.	○	Not related to beverage industry
FP12	Policies and practices on antibiotic, antiinflammatory, hormone, and/or growth promotion treatments, by species and breed type.	○	Not related to beverage industry
FP13	Total number of incidents of non-compliance with laws and regulations, and adherence with voluntary standards related to transportation, handling, and slaughter practices for live terrestrial and aquatic animals.	○	Not related to beverage industry





## 7. UNGC COP (Communication on Progress)

Since we joined the UN Global Compact (UNGC) in November 2012, we have been strengthening our endeavors to comply with its ten principles in the four areas of human rights, labour, environment and anti-corruption.

Ten Principles	LG H&H’s Systems and Guidelines	Relevant Initiatives	Page
Human Rights			
Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2. make sure that they are not complicit in human rights abuses	<ul style="list-style-type: none"><li>• Code of Ethics_ Chapter 1. Responsibilities and Obligations to Consumer 1. Respect for Customers</li><li>• Code of Ethics_ Chapter 5. Responsibilities to Employees 2. Fair Treatment</li></ul>	We comply with standards and regulations of human rights-related international organizations and associations (UN Universal Declaration on Human Rights) based on our business philosophy of creating customer value and respecting humankind.	36-41, 57
Labour			
Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"><li>• Operational Guidelines for the Labor-Management Council</li><li>• Code of Ethics_ Chapter 5. Responsibilities to Employees 1. Respect for Humankind 2. Fair Treatment</li></ul>	We continuously endeavor to foster autonomous and creative talent.	40-41
Environment			
Principle 7. Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.	<ul style="list-style-type: none"><li>• Code of Ethics_ Chapter 6. Responsibilities to Society and Country 4. Environmental Protection</li><li>• Environmental Health and Safety Guidelines</li><li>• Environmental Management Regulations</li></ul>	We consistently undertake initiatives to enhance environmental value through supply chain-driven perspectives in evaluating the environmental impact of our business conduct.	28-29 45-48
Anti-Corruption			
Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	<ul style="list-style-type: none"><li>• Code of Ethics_ Chapter 2. Fair Competition 2. Legal Compliance</li><li>• Code of Ethics_ Chapter 4. Basic Ethics for Employees 4. Fair Operating Practices</li></ul>	We take Jeong-Do management as our employee code of conduct and advance Jeong-Do management through the Code of Ethics, LG Guideline for Practice and the LG Ethics Code Handbook. Furthermore, these are integrated into the standard contract format to ensure our suppliers’ compliance.	11, 54, 57

## 8. GHG Emissions Verification Statement

LG H&H CO., LTD.



### Introduction

Korean Foundation for Quality (hereinafter 'KFQ') has been engaged by LG Household & Health Care(hereinafter the 'Company') to independently verify its 2013 Greenhouse Gas Emission Report (hereinafter 'Inventory Report'). It is the responsibility of the Company to compile the 'Inventory Report' according to the 'Greenhouse Gas and Energy Target Management Scheme (Notification No. 2012-211 of Ministry of Environment)'. KFQ has responsibility to conduct verification based on the ISO 14064-3 to provide verification opinion on compliance of the 'Inventory Report' against verification criteria.

### Independence of Verification

KFQ has no conflict of interest with LG Household & Health Care in terms of profit generation-related activities except providing 3rd party verification service on the 'Inventory Report'. And we do not have any biased opinion on LG Household & Health Care's stakeholders.

### Verification Scope

KFQ's verification was focused on all of the domestic subsidiaries controlled and owned by the Company.

### Consideration Limitation

Accuracy and completeness of emission data reported in the 'Inventory Report' are subject to inherent limitations due to their nature and the methodology used in determining, calculating and estimating such data.

### Conclusion/Opinion

Based on verification process according to the ISO 14064-3, KFQ obtained reasonable basis to express the following conclusion on the 2013 LG Household & Health Care's Inventory Report.

- 1) The Inventory Report was prepared against 'Greenhouse Gas and Energy Target Management Scheme' run by Korea Government.
- 2) As a result of materiality assessment on 2013 Greenhouse Gas Emission of entire domestic subsidiaries, material discrepancy is less than the criteria of 5% for the organization who emits less than 500,000 tCO<sub>2</sub>-eq/yr in accordance with the requirements of the 'Greenhouse Gas and Energy Target Management Scheme'.

(Unit : tCO<sub>2</sub>-eq)

Year	Direct Emissions	Indirect Emissions	sub total	Other indirect emissions	Total
2013.1.1 ~ 2013.12.31	6,021	36,467	42,488	480	42,968

May 20th, 2014

CEO Daehyun Nam

Korean Foundation for Quality (KFQ)



## COCA COLA BEVERAGE CO., LTD.

### Introduction

Korean Foundation for Quality (hereinafter 'KFQ') has been engaged by Coca-Cola Beverage (hereinafter the 'Company') to independently verify its 2013 Greenhouse Gas Emission Report (hereinafter 'Inventory Report'). It is the responsibility of the Company to compile the 'Inventory Report' according to the 'Greenhouse Gas and Energy Target Management Scheme (Notification No. 2012-211 of Ministry of Environment)'. KFQ has responsibility to conduct verification based on the ISO 14064-3 to provide verification opinion on compliance of the 'Inventory Report' against verification criteria.

### Independence of Verification

KFQ has no conflict of interest with Coca Cola Beverage in terms of profit generation-related activities except providing 3rd party verification service on the 'Inventory Report'. And we do not have any biased opinion on Coca Cola Beverage's stakeholders.

### Verification Scope

KFQ's verification was focused on all of the greenhouse gas emission sources controlled by the Company's places of Korea.

### Consideration Limitation

Accuracy and completeness of emission data reported in the 'Inventory Report' are subject to inherent limitations due to their nature and the methodology used in determining, calculating and estimating such data.

### Conclusion/Opinion

Based on verification process according to the ISO 14064-3, KFQ obtained reasonable basis to express the following conclusion on the 2013 Coca Cola Beverage's Inventory Report.

- 1) The Inventory Report was prepared against 'Greenhouse Gas and Energy Target Management Scheme' run by Korea Government.
- 2) As a result of materiality assessment on 2013 Greenhouse Gas Emission of entire domestic subsidiaries, material discrepancy is less than the criteria of 5% for the organization who emits less than 500,000 tCO<sub>2</sub>-eq/yr in accordance with the requirements of the 'Greenhouse Gas and Energy Target Management Scheme'.

(Unit : tCO<sub>2</sub>-eq)

Year	Direct Emissions	Indirect Emissions	Total
2013.1.1 ~ 2013.12.31	26,514	20,489	47,003

May 20th, 2014

CEO Daehyun Nam

Korean Foundation for Quality (KFQ)



## HAITAI BEVERAGE CO., LTD.

### Introduction

Korean Foundation for Quality (hereinafter 'KFQ') has been engaged by Haitai Beverage(hereinafter the 'Company') to independently verify its 2013 Greenhouse Gas Emission Report (hereinafter 'Inventory Report'). It is the responsibility of the Company to compile the 'Inventory Report' according to the 'Greenhouse Gas and Energy Target Management Scheme (Notification No. 2012-211 of Ministry of Environment)'. KFQ has responsibility to conduct verification based on the ISO 14064-3 to provide verification opinion on compliance of the 'Inventory Report' against verification criteria.

### Independence of Verification

KFQ has no conflict of interest with Haitai Beverage in terms of profit generation-related activities except providing 3rd party verification service on the 'Inventory Report'. And we do not have any biased opinion on Haitai Beverage's stakeholders.

### Verification Scope

KFQ's verification was focused on all of the greenhouse gas emission sources controlled operationally by Cheonan, Pyeongchang and Cheolwon Plant.

### Consideration Limitation

Accuracy and completeness of emission data reported in the 'Inventory Report' are subject to inherent limitations due to their nature and the methodology used in determining, calculating and estimating such data.

### Conclusion/Opinion

Based on verification process according to the ISO 14064-3, KFQ obtained reasonable basis to express the following conclusion on the 2013 Haitai Beverage's Inventory Report.

- 1) The Inventory Report was prepared against 'Greenhouse Gas and Energy Target Management Scheme' run by Korea Government.
- 2) As a result of materiality assessment on 2013 Greenhouse Gas Emission of entire domestic subsidiaries, material discrepancy is less than the criteria of 5% for the organization who emits less than 500,000 tCO<sub>2</sub>-eq/yr in accordance with the requirements of the 'Greenhouse Gas and Energy Target Management Scheme'.

(Unit : tCO<sub>2</sub>-eq)

Year	Direct Emissions	Indirect Emissions	Total
2013.1.1 ~ 2013.12.31	5,329	7,364	12,693

May 20th, 2014

CEO Daehyun Nam

Korean Foundation for Quality (KFQ)

## 9. Third-party Assurance Statement

To the Readers of 2013 LG H&H CSR Report:

### Foreword

The Korea Management Association Registration and Assessments (KMAR) has been requested by LG Household & Health Care Co., Ltd. (LG H&H) to verify the contents of its 2013 CSR Report (hereinafter referred to as "the Report"). LG H&H is responsible for the collection and presentation of information included in the Report. Our responsibility is to carry out assurance engagement on specific information in the assurance scope stipulated below.

### Assurance scope and standard

LG H&H describes its efforts and achievements of the sustainability activities in the Report. Our assurance engagement covers LG H&H and its 3 subsidiaries (Coca Cola Beverage Company, HAITAI Beverage Co., Ltd. and THEFACESHOP Co., Ltd.) in Korea and the assurance team performed a type 2, moderate level of assurance using AA1000AS (2008) as an assurance standard. That is, the assurance team assessed whether inclusivity, materiality, and responsiveness were observed, and verified the followings to assess the reliability of the data and information specified in the Report where professional judgement of the practitioner of KMAR's assurance team was exercised as materiality criteria.

- Assurance of the economic section:  
Reviews whether the financial data and information have been extracted appropriately from LG H&H and its 3 subsidiaries' 2013 financial statements and public notification data
- Assurance of the environmental and social section:  
Reviews whether the environmental and social data and information included in the Report are presented appropriately

"Appropriately presented" means that the original data and information are reported appropriately in the Report with consistency and reliability.

The confirmation of the application level of GRI G3.1 utilized as the report criteria was included in the scope of assurance.

### Assurance process

In order to verify the contents of the Report within an agreed scope of assurance in accordance with the assurance standard, KMAR's assurance team visited the LG H&H's headquarter and the 4 sites (Anyang, Yangsan, Ulsan and Cheonan) located in Korea, and carried out an assurance engagement as follows:

- Reviewed systems and processes used in producing data
- Assessed internal documents and materials
- Interviewed people in charge of disclosed strategies, activities and performances
- Reviewed the GRI G3.1 application level which was used as a reporting framework

### 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 and information are not presented appropriately.



#### ● Inclusivity

Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

- LG H&H is developing and maintaining stakeholder communication channels in various forms and levels in order to make a commitment to be responsible for the stakeholders. The assurance team did not find any critical stakeholder group left out during this procedure.

#### ● 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.

- LG H&H is determining the materiality of issues found out through stakeholder communication channels through its own materiality evaluation process, and the assurance team did not find any critical issues left out in this process.

#### ● 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 did not find any evidence that LG H&H's counter measures to critical stakeholder issues were inappropriately recorded in the Report. In addition, the assurance team checked that the LG H&H complied with the GRI G3.1 in preparing the Report, and that the Report fulfills the requirements of GRI application level 'A+'.

#### Recommendation for improvement

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

- We recommend LG H&H develop more systematic internal assurance process so as to enhance reliability of data and information.

#### Our independence

With the exception of providing third party assurance services, KMAR is not involved in any other LG H&H business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.

30 June 2014



**AA1000**  
Licensed Assurance Provider  
000-129

*K. H. Park*  
\_\_\_\_\_  
CEO Ki Ho Park

## Global Business &amp; Contact us



## LG H&amp;H's Overseas Corporations

## China

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Thank you to everyone for helping publish our CSR report.

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