

Healthy Beautiful Refreshing for people and the planet



About This Report

Report Overview

At LG Household & Health Care (LG H&H), we have disclosed our sustainability management initiatives annually since our first CSR report published in 2010. We aim to use this fourth CSR report to transparently present our endeavors for CSR management and to fully integrate stakeholder feedback into our business conduct.

Report Period and Scope

This report spans the period between January 1, 2012 and December 31, 2012. While a portion of this report contains 2010 and 2011 data so as to enable readers to identify trends over time, data on 2013 activities and performance is partially included if deemed necessary. This report primarily focuses on our Head Office in Seoul, domestic business sites and major subsidiaries in addition to a part of our overseas business performance. We plan to expand the reporting scope to include social and environmental performance of our overseas operations and will endeavor to advance and integrate sustainability management into our entire business sites in a balanced way.

Reporting Guidelines and Principles

This report was prepared against the GRI (Global Reporting Initiative) 3.1 guidelines, an international sustainability reporting guideline. Furthermore, our internal reporting principles were used so as to fully reflect stakeholder expectations and feedback in organizing and preparing the report content and to present Focus Area-specific information in a complete and transparent manner. We will continue to issue such sustainability reports annually.

Improvements from the 2011 CSR Report

2012 was a year of numerous changes and challenges for us. To help readers better understand such business conditions, our CEO directly outlined our business operations and major CSR accomplishments while systemizing guidelines for respective key management issues. The Sustainability Management Wheel was also created to set a clear CSR direction and to ensure a balanced management of major sustainability issues, in addition to presenting the materiality test matrix. To make this report more readable and easily understandable, area-specific implementation systems, mid-term roadmaps, KPIs and performance-based action plans were organically presented in respective DMA sections. Our endeavors to integrate CSR into the entire business operation were also outlined through the description of the integrated sustainability management system and function-specific operational progress.

Assurance

To enhance the accuracy and completeness of the report content and data as well as the transparency of the reporting process, this report was assured by KoreaCSR, an independent third-party assurance provider. You may refer to page 98-99 for further information.

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Cover Story

This embodies our business philosophy of dreaming a beautiful dream together with one heart and one mind for a sustainable future.



2009

2010

2011

2012

CSR Key Figure

	Major Indicators (Unit)	2010	2011	2012
Economy	Total Assets (KRW 100 million)	19,450	23,689	27,641
	Sales (KRW 100 million)	28,265	34,561	38,962
	Operating Profit (KRW 100 million)	3,468	3,702	4,455
	Debt-to-equity Ratio (%)	130.3	123.4	117.4
Environment	GHG Emissions (ton CO _{2e} /basic unit ton CO _{2e} /product-ton)	44,514(0.1076)	42,178(0.0995)	39,707(0.0889)
	Energy Consumption TJ (intensity-based GJ/product-ton)	831.9(2.0114)	795.6(1.8777)	769.5(1.7220)
	Consumption of Major Raw Materials (ton)	201,814	203,605	206,230
	Water usage (ton)	499,944	573,050	613,586
	Waste Recycled (ton)	2,185	2,589	2,577
	Green Purchasing (KRW million)	12,605	20,055	14,942
Customer	Customer Complaints (ppm)	28.8	27.3	27.3
	Customer Claims (No. of claims)	7,322	7,391	7,874
	Voice of Customer (No. of occasions)	77,074	87,998	106,412
	Customer Communication through SNS (No. of participating customers)	1,500	30,000	345,633
	Violation of Information Protection Regulations (No. of violations)	0	0	0
	Salespersons (No. of persons)	16,779	18,135	17,632
Product	R&D Cost (KRW 100 million)	391.9	460.1	513.9
	Eco-labeled Products (No. of products)	61	82	74
	Sales of Sustainable Products (KRW 100 million)	1,052	1,189	1,434
Supplier	Diagnosis (No. of diagnoses)	54	415	429
	Investment in the Growing Together Fund (KRW 100 million)	75	75	300
	Technological Support (No. of occasions)	-	31	32
Employee	Employees (No. of persons)	3,131	3,372	3,682
	Employee Satisfaction (%)	82	83	84
	Percentage of Female Employees (%)	48.8	49.9	51.8
	Recruitment of the Socially-disadvantaged (No. of persons)	76	84	95
	Total Training (No. of hours)	255,518	281,749	283,943
	Occupational Injury Rate (%)	0.16	0.27	0.05
Local Community	Employee Volunteers (No. of persons)	825	686	650
	Employee Volunteering (No. of hours)	3,564	2,845	4,737
	Social Contribution (KRW 100 million)	33.8	38.8	114
	Beneficiaries of Social Contribution (Accumulated No. of persons)	109,583	126,950	146,629

* The economic data is in a consolidated accounting manner while the other data is based on LG H&H's independent criteria

2010

2011

2012



Sales (KRW 100 million)

	2010	2011	2012
Sales (KRW 100 million)	28,265	34,561	38,962



GHG Emissions (ton)

	2010	2011	2012
GHG Emissions (ton)	44,514	42,178	39,707

Basic unit

(ton CO_{2e}/product-ton)

	2010	2011	2012
Basic unit (ton CO _{2e} /product-ton)	0.1076	0.0995	0.0889



R&D Cost

(KRW 100 million)

	2010	2011	2012
R&D Cost (KRW 100 million)	391.9	460.1	513.9



Diagnosis

(No. of diagnoses)

	2010	2011	2012
Diagnosis (No. of diagnoses)	54	415	429



Percentage of

Female Employees

(%)

	2010	2011	2012
Percentage of Female Employees (%)	48.8	49.9	51.8

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At LG H&H, our success story has continued in the face of numerous challenges.

As we are committed to becoming one of the world's most honored companies, we will sincerely fulfill our social responsibility and ceaselessly pursue future values.

Thus, your unwavering support and affection will be greatly appreciated.



Dear Stakeholders of LG Household & Health Care,

Let me deliver my heartfelt gratitude for your continued affection for and interest in LG H&H.

In the face of challenging business conditions in Korea and abroad, we posted the highest-ever sales and operating profit in 2012 since our inception.

All our employees at LG H&H will be proactively engaged in sustainability management initiatives so as to sharpen our focus on customers as the fundamental basis for our business operations and to lead the market through the following strategies.

Enhancing Our Global Competitiveness

Now that we evolved into Korea's No. 1 FMCG (Fast Moving Consumer Goods) manufacturer through sustained and diligent endeavors, we are expanding our investment to tap into the wider global market. We acquired the two Japanese companies of GINZA STEFANY COSMETICS and EVERLIFE in order to stably expand our business operations in Japan while establishing our presence in such major markets as China, Southeast Asia and the Middle East. Furthermore, we created joint ventures with 'METHOD', a U.S.-based eco-friendly household cleaning product manufacturer, and 'COTY', a French global beauty product company, so as to lay the basis for sustainable growth on a global level.

Making LG H&H Risk Resistant through Integrated CSR

To achieve our vision of becoming the best sustainable FMCG company, we are building a stable business portfolio and an integrated CSR system to fulfill our social responsibility. In so doing, we proactively communicate with wide-ranging stakeholders and make ourselves a risk resistant company. Such endeavors allowed us to be listed in the Dow Jones Sustainability Asia-Pacific Index for three consecutive years and ranked No. 1 consumer goods company on the Green Ranking list published by Korea's JoongAng Daily.

Creating Sustained Future Values

We continue to communicate and grow with our customers so as to deliver sustained future values. Specifically, we assist our suppliers through such effective and wide-ranging initiatives as financial support, technology development, education & training, and management innovation in promoting win-win growth. Furthermore, we undertake various social-giving programs that aim to make the life of our customers healthier, more beautiful and more refreshing: classical music education for youth from low-income families, oral care education for children, dental treatment for children from low-income families, plastic surgeries for children with congenital facial disfigurements and medical treatment for single moms.

Our 2012 CSR Report is the result of our commitment toward the shared happiness of customers, shareholders, communities, suppliers and employees. We will fulfill our economic, environmental and social responsibility as a corporate citizen and do our part as a sustainable global leader.

At LG H&H, our success story has continued in the face of numerous challenges. As we are committed to becoming one of the world's most honored companies, we will sincerely fulfill our social responsibility and ceaselessly pursue future values. Thus, your unwavering support and affection will be greatly appreciated.

Thank you.



July 2013
Suk Cha
CEO & Vice Chairman

2012 Business Spotlight



▲ Sales up by 12.7% to KRW 3.8962 trillion and operating profit up by 20.4% to KRW 445.5 billion against the previous year

In 2012, we set new records in our business results: our annual sales and operating profit rose by 12.7% and 20.4% to KRW 3.8962 trillion and KRW 445.5 billion respectively from the previous year. This means that our sales and operating profit have grown for 30 consecutive quarters since Q3 of 2005 and for 32 consecutive quarters since Q1 of 2005 respectively. Such unprecedented performance were possible as all our business segments - household goods, cosmetics and beverages- performed remarkably in the face of the domestic and global economic slowdown and the intensifying competition. Specifically, our overseas cosmetics operations rose from 9% in 2011 to 16% in share of the total cosmetics business through the accelerating advancement of THEFACESHOP into the global market and the acquisition of GINZA STEFANY COSMETICS of Japan.



◀ Taking over 'GINZA STEFANY COSMETICS' and 'EVERLIFE' to fully tap into the Japanese market

We took over 'GINZA STEFANY COSMETICS' (Japan-based cosmetics company) for KRW 133.8 billion in February of 2012 and 'EVERLIFE' (Japan-based health functional food provider) for KRW 303.9 billion in January of 2013 in a bid to fully tap into the Japanese market. In so doing, we are well-positioned to expand our presence in the Japanese cosmetics market that is six times bigger than that of Korea and we expect to generate synergy through the combination of GINZA STEFANY's mail-order sales network, EVERLIFE's distribution network and our cosmetics business.

▶ Creating 'CLEAN SOUL' with METHOD of the U.S. to focus on the eco-friendly household goods market

We created a joint venture with 'METHOD', U.S.'s No. 1 eco-friendly household goods manufacturer, to advance into the prestige Asian market. Named 'CLEAN SOUL Ltd.', the company has KRW 500 million in capital with an equity split of 50:50 between LG H&H and METHOD. Jointly founded by two young entrepreneurs in the U.S. in 2000, METHOD is headquartered in San Francisco and posting more than \$ 100 million in sales in the U.S., France and Australia through the sale of laundry & dishwashing detergents and body cleansers. CLEAN SOUL ensure that more than 95% of its product ingredients are such natural ingredients as coconut oil and corn while delivering non-irritating eco-friendly products and using 100% recycled materials for product containers. Our plan is to open new markets in Korea and Asia for our new prestige eco-friendly household goods.



► Partnering with the French perfume maker COTY to establish 'COTY KOREA' and reinforce the cosmetics business

We established 'COTY KOREA' as a joint venture with COTY, a world-renowned perfume maker, in July to expand our presence in the prestige cosmetics market. Launched in 1996, our PHILOSOPHY evolved into a world-class brand for its popular filling & nourishing and moisturizing products that are used by dermatologists and plastic surgeons. COTY owns 50.5% of PHILOSOPHY and we plan to build on the success in the Korean market to tap into the global market.



◀ Opening 17 VDL shops to raise the share of make-up products to 35%

Our 'VDL (Violet Dream Luminous)' shops, specialized in make-up product brands, were launched and the franchise business was fully initiated. In so doing, we aim to raise the share of make-up products to 35% and our competitiveness in the global make-up product market. Wendy Rowe, a world-renowned make-up artist, was proactively engaged in developing and designing more than 300 products for VDL shops. Presently, 17 VDL shops are in operation in major subway station areas and we plan to open more VDL shops in Russia and the Middle East as well as in Southeast Asia. While the launching of 'THECOLORLAB' allows for the integration of our make-up and beauty product operations for an enhanced competitiveness, our subsidiaries will concentrate their marketing capabilities on the make-up and beauty product business.

▼ Launching 'THEGOLDENSHOP' in April as a low-end brand for middle-aged female customers in the aging Japanese society

THEFACESHOP launched 'THEGOLDENSHOP' for 40 and older female customers in Japan. THEGOLDENSHOP products have been exclusively marketed in cosmetics sections of 350 AEON stores (Japan's largest retailer) since the end of April in order to target middle-aged women, independently of the existing THEFACESHOP brand. The creation of THEGOLDENSHOP through the collaboration between THEFACESHOP and AEON Group, was based on the insight that demand for cosmetic products for middle aged women would rise over the long haul with their increasing interest in preventing skin aging as the average age in Japan was 45 in 2010 and those over 40 accounted for more than 56% of the total population in the nation. THEFACESHOP plans to use THEGOLDENSHOP to position itself to fully tap into the Japanese market in consideration of the Korean Wave-caused admiration for Korean women's flawless skin and the growing interest in Korean cosmetics. THEGOLDENSHOP offers solutions for the troubled skin of women over 40 through Makgeolli (traditional Korean rice wine)-based skin care products as well as those that contain such various natural ingredients as fermented black garlic, silkworm and red ginseng.



2012 CSR Spotlight

ASIAMONEY

▲ 'Korea's Best Executive' for three consecutive years and one of 'Korea's Best Managed Companies' in 2013

Our Vice Chairman Suk Cha was chosen as 'Korea's Best Executive' for three years in a row since 2009 by (Asiamoney). Furthermore, we were honored as one of 'Korea's Best Managed Companies' in 2013 by (Euromoney), a prestigious world-class financial publication, due to our remarkable performance in the overall categories of market dominance, growth potential, profitability, and top management, which were evaluated by 144 analysts and top-notch securities firms in Asia.

▼ Ranked No. 1 in the consumer goods segment of the '2012 Green Ranking'

We were awarded as the No. 1 consumer goods company by the '2012 Green Ranking' last November. The 'Green Ranking', listed by the Joong-gang Daily, Sustinvest, and FnGuide, recognizes best environmental management practices of the top 200 companies (based on their market capitalization). We specifically outperformed the No. 2 and No. 3 companies in the category of 'top management's commitment to eco-friendly management (50%)' by a big margin (other assessment items included 'discharge of pollutants (40%)' and 'disclosure of environmental data (10%)'. Our endeavors for sustainable agriculture such as the purchase of fair-trade raw materials were also widely recognized.



▼ Increasing Indirect Recruitment of the Disabled

We are fully committed to offering employment opportunities to the Disabled. In July, we signed the agreement with Chunsungwon (job rehabilitation center for the seriously-Disabled) and Ewha (social welfare organization) to promote employment of these challenged populations in our society. While our agreement with Labor Center allowed us to indirectly hire 50 seriously-Disabled people since 1998, these newly-signed agreements will provide 150 such challenged people with decent jobs. We sincerely fulfill our social responsibility in enabling them to participate in such manufacturing activities as the assembly of household goods packages and cosmetic sample kits and the packaging of disposable diapers.



▶ **BEYOND's anti-animal testing campaign and endangered animals conservation fund**

With its cosmetic animal testing-free philosophy, BEYOND surpassed the 70% mark in unaided awareness for the first time in a consumer survey conducted of 2,000 women aged between 10 and 50 living in big cities of Seoul, Busan and Daegu in 2012 (TNS RI). Launched as a total beauty brand in 2005, BEYOND has been advocating its 'eco value 10': eco-friendliness, fair trade, chemical preservative-free, artificial pigment-free, anti-animal testing, skin stability testing, minimized chemical ingredients, minimized waste, recycled packaging and reduced use of fossil fuels. Furthermore, its 'Please Look After Seven BEYOND Lipsticks' integrated social issues into the product effectively and the 'Save Us' was created as an endangered animals conservation fund to ensure a harmonious coexistence between human and animals. The 'Please Look After BEYOND Lipsticks' have the 'Save Us' icon on them which embodies rabbits (the greatest victim of cosmetic animal testing) and a portion of their sales profits will be invested in the fund.



◀ **Opening career design training courses for assisting employees retirement plans**

Our 'employee career design training courses' aim to provide an opportunity to our senior employees to define their own vision and detailed plans for their professional life in the upcoming years. Such courses as special role model lectures, career development work courses led by career experts, financial planning courses and middle manager leadership courses are provided for three days. A total of eight rounds of training were attended by 166 employees over the years. In so doing, we continue to encourage our employees on respective job levels to think about their career path and reach their full potential while establishing their own vision and fully engaging themselves with their job so as to pursue joint growth of individual employees and LG H&H.

▶ **Beautiful Sharing Package**

Since 2006, we have been a proactive participant of the 'Beautiful Sharing Package' campaign that was launched to help the less-privileged in our society. Before every Lunar New Year day, the household goods and rice donated by sponsoring companies are directly delivered to beneficiaries. In 2012, 40 volunteers including 30 employees and their family members participated in the campaign while gift packages of household goods were donated.



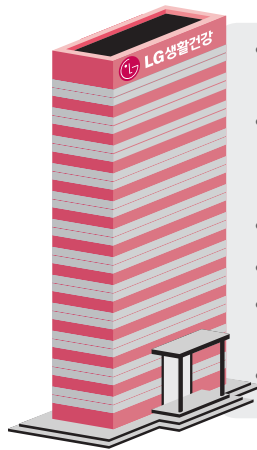
◀ **Honored with the Prime Minister's Commendation for our contributions to green growth**

Last October, we were awarded with the Prime Minister's Commendation in the green industry & green consumption segment under the Korean government's 2012 program to reward companies and organizations who contribute to the development of green technology & the distribution of green products and the nurturing of eco-friendly industries & the response to climate change. The award recognized our endeavors to enhance the safety of products and packaging materials in the entire life cycle of product development and disposal.

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Company Overview

Under the vision to become a 'leader in lifestyle that enables customers to realize their beauty and dream', we deliver value to consumers in the three business segments of Healthy, Beautiful and Refreshing as a FMCG(Fast Moving Consumer Goods) provider with KRW 4 trillion in sales. Furthermore, we have been included in the Dow Jones Sustainability Asia Pacific Index (which evaluates the global top 2,500 companies for their sustainability management performance) for three consecutive years.



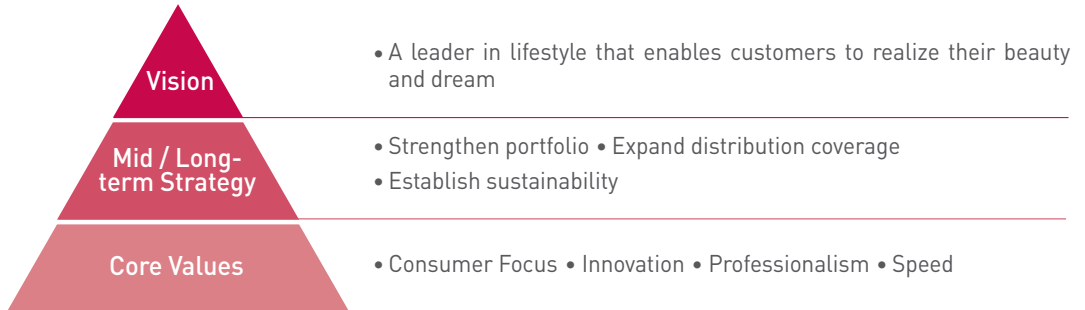
- Company Name: LG Household and Health Care, Ltd.
- Address : 10F, LG Gwanghwamun Building, 58, Saemunan-ro, Jongro-Gu, Seoul
- Date of Establishment: January of 1947
- CEO: Suk Cha
- Industry: Households goods, cosmetics and beverages
- Employees: 7,244 persons

- Total Assets: KRW 2.7641 trillion
- Total Equity: KRW 1.2716 trillion
- Sales: KRW 3.8962 trillion
- Operating Profit: KRW 445.5 billion
- Credit Rating: AA (bonds), A1 (commercial paper)

Business Philosophy (LG Way)

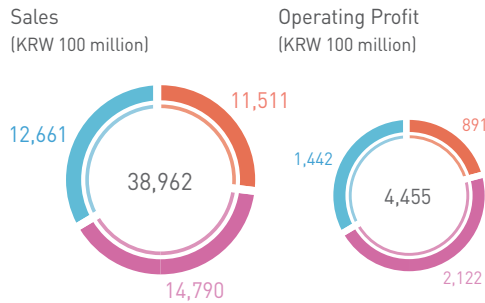
LG aspires to become the NO.1 LG that is recognized by the market through its Jeong-Do (right way) management that values competency-based fair play, on the basis of the creation of customer value and the respect for human kind.

Vision and Mid / Long-term Strategy



At LG H&H, we advance sustainability management as a way to ensure a balanced and mutually-complimentary growth of our three business segments and to minimize long-term risks. We will be sincerely committed to undertaking our mid/long-term business strategies and fulfilling our social responsibility through proactive communication with stakeholders.

Our Business Segments and 2012 Business Portfolio



1. Healthy :

We create a more convenient and healthier life for our customers through various products concerning oral care, skin & hair, laundry, living care as well as paper-based products.

2. Beautiful :

We provide wide-ranging cosmetic brands with top-notch quality to help our customers maintain their beauty and youth.

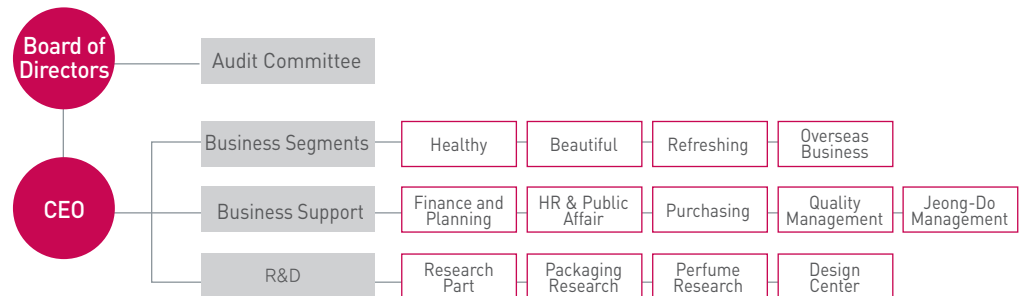
3. Refreshing :

We deliver a variety of flavors and product line-ups to protect the health of our customers and make their daily life more energetic.

Top Business Priorities in 2013

1. Globalize further
2. Foster value-generating brands
3. Maximize customer satisfaction
4. Establish risk resistance

Organizational Chart



Domestic and Overseas Corporations (As of the end of March, 2013)

Corporations	Location (Head Office)	Equity Ownership [%]
Coca-Cola Beverage Company	Yangsan, Korea	90.0
HAITAI Beverage Co., Ltd.	Seoul, Korea	100.0
Diamond Pure Water Co., Ltd.*	Cheorwon, Korea	100.0
THEFACESHOP Co., Ltd.	Seoul, Korea	100.0
Violet Dream Co., Ltd. *	Seoul, Korea	100.0
Beijing LG Household Chemical Co., Ltd.	Beijing, China	78.0
Hangzhou LG Cosmetics Co., Ltd.	Hangzhou, China	81.7
LG H&H Trading [Shanghai] Co., Ltd.	Shanghai, China	100.0
LG H&H [Taiwan], Ltd.	Taipei, Taiwan	100.0
LG Vina Cosmetics Co., Ltd	Dong Nai, Vietnam	60.0
LG HAI.	California, USA	100.0
GSI [Ginza Stefany]	Tokyo, Japan	70.0
Everlife **	Fukuoka, Japan	100.0

* Diamond Pure Water as merged with HAITAI Beverage and Violet Dream was merged with THEFACESHOP in March, 2013

** Acquired in January, 2013






Creation of Brand Values

In the prestige cosmetics market, our conventional brands continued to grow while newly-launched brands performed remarkably. In the masstige cosmetics market, our eco-friendly brand 'BEYOND' grew rapidly with the increasing consumer interest in green products while THEFACESHOP rose by 25% in sales from the previous year, quickly opening new shops in Korea and abroad. Our household goods business is extending its head further and strengthening its market dominance consistently through the sustained growth of major segments led by such mega brands as ELASTINE, TECH, PERIOE and SAFFRON. In the beverage business, all our brands pursued continued innovation in packaging solutions and offered a wider choice of options for customers through the supplementation of the product line-up and the expansion of distribution coverage, which eventually led to the solid growth of all our beverage brands.




Beautiful

Brand	Description	2012 Performance	Share in Sales
 OHUI www.ohui.co.kr	Launched in 1997 as our representative prestige cosmetic brand that is distributed through department stores, OHUI is based on the scientific research of Korean women's distinctive skin type. Through the strategic partnership with CHA Bio (under the CHA Hospital Group) to utilize stem cell technology, OHUI is leading the cutting-edge bio-engineered cosmetics market.	Our 'OHUI The First Geniture Cream', a genuine bio-engineered stem cell cosmetic product that contains human stem cell culture fluids (industry's first-ever) was enthusiastically welcomed by consumers. THE OHUI The First line-up accounts for as much as 15% of the total OHUI sales.	11.8%
 su:m ₃₇ www.su-m37.co.kr	Initiated in 2007 as Korea's first naturally-fermented cosmetics, Su:m37 is gaining its popularity as an innovative brand that established a new market segment. Su:m37 does not contain any artificial fragrance or pigments and synthetic preservatives.	Opening 62 shop-in-shops and surpassing the KRW 100 billion mark for the first time in 2012, Su:m37 emerged as a true mega brand. 'Su:m FLAWLESS', a new concept microorganism-based fermented line-up, made a big hit and further added to the popularity of the brand.	7.2%
 ISA KNOX www.isaknox.co.kr	Launched in 1995, ISA KNOX represents our masstige brand that is marketed through dedicated cosmetic shops and discount stores. As a long-lived high-functional cosmetic brand, ISA NOX is garnering attention through its product design and technological development based on the database of more than 100,000 Korean women's skin type.	ISA KNOX focused on make-up applicators that combined cosmetics with smart devices and its launching of 3D stereoscopic vibration make-up tools reaped a great success and created a sensation in the industry.	11.0%
 BEYOND www.beyond.co.kr	Launched in 2005 as a natural total beauty brand, BEYOND advocates the 'Eco Value 10': eco-friendliness, fair trade, chemical preservative-free, artificial pigment-free and anti-animal testing. BEYOND minimizes the consumption of packaging materials in its products, advertising, design and shop interior while opting for recyclable packaging such as plastics, paper and glass as well as soy ink printing.	BEYOND is posting an average annual growth rate of 50% recently and emerging as a mega brand with more than 1,000 shop-in-shops (discount stores) and BEAUTÉ stores. Its brand marketing strategy emphasizes eco-friendliness and naturalism through the anti-animal testing campaign and the 'Save Us' fund established last year to protect endangered animals.	5.5%
 THEFACESHOP 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 our subsidiary in January 2010, THEFACESHOP has been delivering customer value as a top-notch brand through a variety of high-quality products.	In 2012, the sales of THEFACESHOP grew by 24.9% and its moisturizing solution 'MANGO SEED' emerged as a big hit product. THEFACESHOP already has 1010 shops in Korea and 1,020 shops in 22 countries around the world and is highly keen on opening new shops in Korea and abroad.	27.5%

Healthy

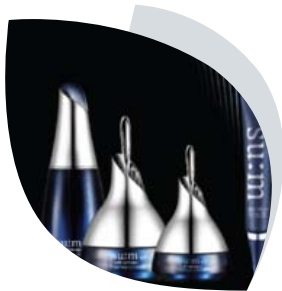
Brand	Description	2012 Performance	Share in Sales
 www.lgcare.com	SAFFRON rose to No. 1 in 18 years since it first debuted in the fabric softener market in 1979. It maintains its market dominance through outstanding user convenience and premium quality as well as technological advantage (both sheet type and concentrated liquid type are available).	SAFFRON continues to maintain its market share of up to 40% through the launching of new products that are lightweight and innovative in the way they are used (10x concentrated technology).	9.2%
 www.perioe.com	Launched in 1981, more than 1.2 billion toothpastes have been sold under our PERIOE brand, which translates into 24 toothpastes per person in Korea. PERIOE continues to grow as Korea's representative oral care brand.	PERIOE undertook various marketing initiatives: the 46cm White Now was patented for the first time in the world and the Dual Care toothbrush was launched specifically for dental and interdental care. The launching of low-florine toothpastes is part of its proactive oral care campaign for children.	7.2%
 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-lived shampoo brand, ELASTINE continues to grow through diversified science-based products.	The 'ELASTINE PERFUME SHAMPOO' line-up was launched through the collaboration with world-renowned perfumiers. Such emotional marketing initiatives that capitalized on aroma therapy led to a great success and enabled ELASTINE to proactively tap into the prestige shampoo segment.	6.4%
 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 benefits.	The newly-launched 'TECH 4X CONCENTRATED TECH MIX' which reflects such growing social trends as an increasing number of single-person households demonstrates innovative improvements in product logistics and usability, which makes TECH even more popular in the market.	9.2%
 www.onthebody.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.	Through the launching of the 'ON: THE BODY FERMENTED SKIN THERAPY' made from fermented ingredients, the brand reached 15% in market share in just one year since the inception and gaining sensational popularity in the body care product market.	3.0%

Refreshing

Brand	Description	2012 Performance	Share in Sales
 www.cocacola.co.kr	Since the acquisition in 2007, COCA COLA has continued to grow as a representative soft drink brand that sells more than 1 billion servings per day world-wide. The acquisition of HAITAI Beverage in 2011 reinforced our product portfolio further and the maximized synergy between COCA COLA Beverage and HAITAI Beverage drives our ambition to become No.1 in the market.	COCA COLA became the first company in Korea to introduce the 'Plant Bottle' made of plant-based materials. Used for the 300ml PET bottles for 'COCA COLA' and 'COCA COLA ZERO', the eco-friendly Plant Bottle will ultimately help us reduce our carbon emissions.	35.2%
 www.ccbk.co.kr/Fanta	'FANTA', one of the world's top five carbonated drink brands, introduced its orange flavor in Korea in 1968 and has delivered the palate-pleasing flavors of orange, grape and pineapple ever since. It maintains its popularity among Korean consumers through the launching of new flavors and fragrances ever year.	The new 'FANTA SMOOTHIE' debuted to deliver both refreshing fruit and creamy milk flavors. As a brand that always pleases its consumers, FANTA launches new products annually that are highly appreciated by consumers and delivers even more diversified and novel tastes in addition to its signature refreshing flavor.	7.2%
 www.cocacola.co.kr/Georgia	GOERGIA, the world's top-selling canned coffee brand, debuted in the Korean market back in 2008 to be the best companion for relaxation for office workers. It is gaining popularity with its premium-quality products that reflect sophisticated consumer tastes and well-being trends.	GOERGIA launched new products named 'ICE BLACK' and 'Light Sugar' with zero or significantly-reduced sugar content in February last year, which were warmly welcomed by consumers. Another new product named 'GOERGIA EMERALD MOUNTAIN BLEND' delivers creamy flavors and deep coffee aroma through the blending of Emerald Mountain, the finest 2% Columbia Arabica coffee beans.	6.5%

Leadership Brands

Our leadership brands were further expanded in the economic, environmental and social sectors through wide-ranging sustainability management initiatives in 2012. The number of our mega brands with more than KRW 100 billion in sales rose from 11 in 2011 to 13 in 2013 through the agility in reflecting changing life styles of our consumers. Their diversity was also enhanced as demonstrated through such market-dominating brands as 'METHOD' (eco-friendly brand) and 'BEYOND' (launching the anti-animal testing campaign)



From 11 to 13 Mega Brands

We successfully increased the number of our mega brands with more than KRW 100 billion in sales from 11 to 13 last year. Specifically, 'S:um37 (naturally-fermented cosmetics)' and 'BEYOND (eco brand)' emerged to join other mega cosmetic brands including OHUI, WHOO, ISA KNOX and SOORYEHAN. In the household goods segment, SAFFRON, BODY FIT, TECH, ELASTINE, PERIOE and subsidiary brands of COCA COLA and THEFACESHOP contributed to maintaining our No. 1 market position.

C2C (Cradle to Cradle)-certified METHOD, Advocate of the Eco-friendly Paradigm

Our METHOD brand uses non-toxic plant-based materials only such as beans, coconut and palm oil to make consumers healthier. METHOD ensures that only raw materials, that were approved by the Environmental Protection Agency (EPA) of the U.S. through stringent criteria, are used for its products. Its human & eco-friendly approach spans not just materials, packaging and formula but also the sourcing of such materials, manufacturing and logistics. METHOD has more than 60 products that were certified with the Cradle to Cradle (C2C) at the silver level: the C2C certification, as one of the most strict standards of its kind, is a new eco-friendly paradigm that aims to reduce the discharge of environmental pollutions to zero and to turn waste products not to 'Grave' but to 'Cradle' so as to be re-created.



BEYOND, Anti-animal Testing and Creating the Endangered Animals Conservation Fund

The eco-friendly strategy to fight against cosmetic animal testing that was undertaken by BEYOND in 2012 was met with positive response by consumers. BEYOND waged the 'One Million Signature Campaign' against the cosmetic animal testing while launching the 'Please Look After Seven BEYOND Lipsticks' that effectively integrated the social issue of protecting endangered animals. A portion of their profits goes to the 'Save Us' endangered animals conservation fund, created for a society where human beings coexist with animals, to protect these endangered animals.

COCA COLA, Introducing the Eco-friendly 'Plant Bottle'

COCA COLA became the first Korean company to introduce the eco-friendly and plant-based 'Plant Bottle' in June 2012 in order to conserve the natural environment. Adopted for the 300ml 'COCA COLA' and 'COCA COLA ZERO' products, this new eco-friendly bottle replaces approximately 30% of the conventional PET resin (entirely made from fossil fuels) with plant-based materials and thus contributes to reducing the use of fossil fuels and carbon emissions as well. This plant-based bottle still delivers the same performance as their existing PET counterparts in terms of durability, lightweightness and recycling as well as safety. Moreover, this is 100% recyclable just as the traditional PET bottles.





Economic Value Creation

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1. Strategic Directions to Create Economic Value

At LG H&H, we take a customer-driven perspective in our business conduct and undertake market-leading strategies so as to ensure our sustainable growth on the basis of our stable business portfolio in the three segments of Healthy, Beautiful and Refreshing.

Our top priority is to deliver specialized and differentiated value to customers rather than standardized mediocre products. In order to meet fast-changing and diversifying consumer needs, we present genuinely prestigious high-end brands as well as truly practical mass-market brands.

Furthermore, we are expanding our distribution coverage by opening more shops and establishing business relationships through diverse distribution channels so as to enable our consumers to access our products wherever and whenever.

We continue to establish our global presence in the wider world market through the capabilities built in Korea over the years. THEFACESHOP is playing a central role in tapping into new overseas markets and we are gradually securing stable business positions in major regions with promising and sizeable markets. In 2012, we acquired GINZA STEFANY COSMETICS to enter the Japanese market while strengthening our position in Japan through the acquisition of EVERLIFE in early 2013. In addition, we took over a cosmetics corporation in Singapore to advance into the Southeast Asian market and were engaged in creating joint ventures with influential local companies in China and the Middle East to enter these markets.

These endeavors allowed us to post KRW 3.8962 trillion in sales, up by 12.7% from the previous year as well as KRW 445.5 billion in operating profit, up by 20.4% from the previous year in 2012 in the face of unstable economic conditions in Korea and abroad.

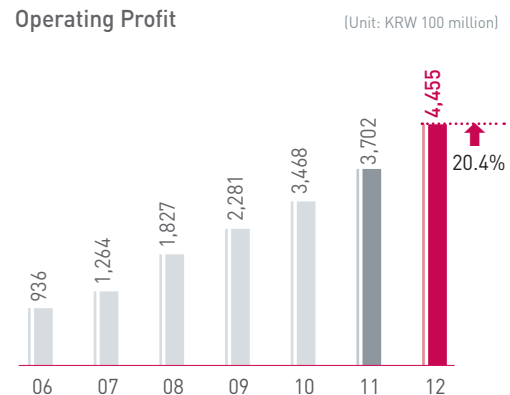
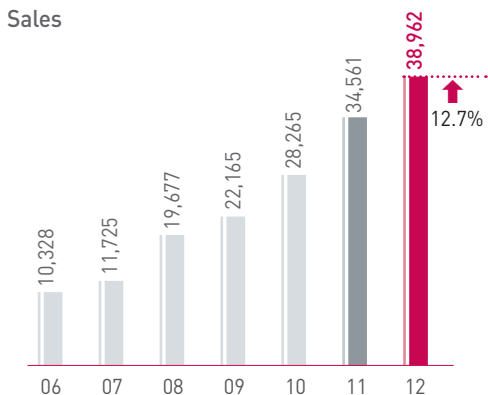
We will maintain our focus on the essentials and will not be distracted by issues that are irrelevant to customer value. In so doing, we will consistently create customer value to lead the market while fulfilling our social responsibility as a corporate citizen.

Sales and Operating Profit Trend

Economic Performance in 2012

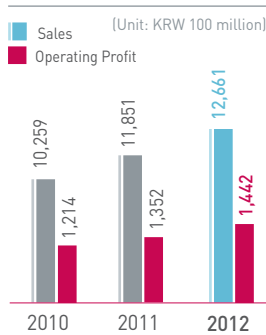
(Unit: KRW 100 million)

	2011	2012	Variation
Sales	34,561	38,962	12.7%
Operating Profit	3,702	4,455	20.4%
Earning Before Taxes	3,721	4,303	15.6%
Net Income	2,715	3,120	14.9%



2. Business Performance by Segment

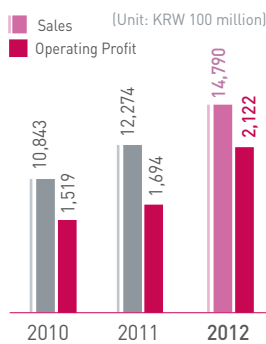
Healthy



Healthy Business

We maintain an unrivalled No. 1 market dominance in major household product segments: shampoo (31.9% in m/s), toothpaste (39.9%), dishwashing detergent (36.3%), laundry detergent (29.2%), fabric softener (40.8%) and body care (28.2%). As a result, our sales grew by 6.8% from KRW 1.1851 trillion to KRW 1.2661 trillion while operating profit rose by 6.7% from KRW 135.2 billion to KRW 144.2 billion. Our Healthy business will never fall into the complacency trap and continue to lead the market with its customer-driven perspective. To explore the eco-friendly premium market and respond to environmentally-conscious consumers, we created a joint venture with the U.S.-based top-notch eco brand METHOD. Currently in operation in Korea, our Method brand is poised to advance into such major Asian markets as China and Japan. Furthermore, our liquid baby formula brand 'BABIENCE' is being launched both online and offline to open a new liquid formula market in Korea. We are also planning to enter the Chinese laundry detergent market through our partnership with XIBAO GROUP in China while establishing a household goods joint venture in the Middle East.

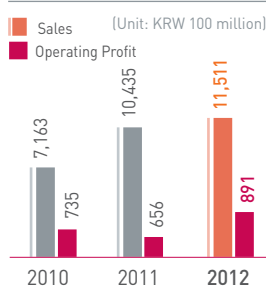
Beautiful



Beautiful Business

Our focus on the Beautiful business enabled us to generate KRW 1.479 trillion in sales, up by 20.5% from KRW 1.2274 trillion and KRW 212.2 billion in operating profit, up by 25.3% from KRW 169.4 billion in the previous year. These Performance were possible due to wide-ranging initiatives undertaken to become the No. 1 cosmetics company: fostering 'star' products and creating partnerships with and acquiring top-performing overseas companies. In the prestige cosmetics segment, we intensively promoted star products of OHUI, WHOO, Su:m37 and BELIF. Specifically, Su:m37 and BELIF enhanced their brand awareness in Japan as natural cosmetics and continue to grow through rapidly increasing sales at duty free shops and department stores. We also launched Frostine, Korea's first refrigerated cosmetics brand, to lead the market. We established COTY KOREA with the world-class cosmetics company COTY to initiate our own perfume business while signing the brand licensing agreement with Robert Mondavi, a premium winery in Napa Valley of the U.S., to market its cosmetic brand DAVI in Asia, which strengthened our brand position in the prestige cosmetics market. Meanwhile, all our make-up brands were integrated into 'THE COLOR LAB' for increased business capabilities and synergistic effects in the make-up product segment. With the launching of VDL that is specialized in make-up brands, our make-up business will serve as a future growth engine that will drive our Beautiful business.

Refreshing



Refreshing Business

Our market share in the carbonated beverage segment rose by 0.8%p from 48.9% in 2011 to 49.7% in 2012 thanks to COCA COLA's unbeatable No. 1 position and strengthened marketing in the lemon lime segment. Our coffee product line-up was reinforced through the launching of GEORGIA EMERALD MOUNTAIN and grinds coffee pouches while MINUTE MAID emerged as a mega brand (KRW 100 billion in sales) through new product launches and renewals. In the growing vitamin drink mix segment, we are challenged by competitors' new products and price discounts but are ready for a new take-off through the launching of new products and stronger marketing initiatives. In the bottled water segment, our annual production capacity in the Chulwon water catchment zone rose from 30,000 tons to 140,000 tons while differentiating our water quality from that of competitors whose production depends mainly on OEMs, through exclusively producing in Jeju, Peyongchang and Chulwon (Korea's highest-quality water catchment zones). As a result, our Refreshing business posted KRW 1.1511 trillion in sales, up by 10.3% from KRW 1.0435 trillion, and KRW 89.1 billion in operating profit, up by 35.8% from KRW 65.6 billion in the previous year.

3. Status of Overseas Business

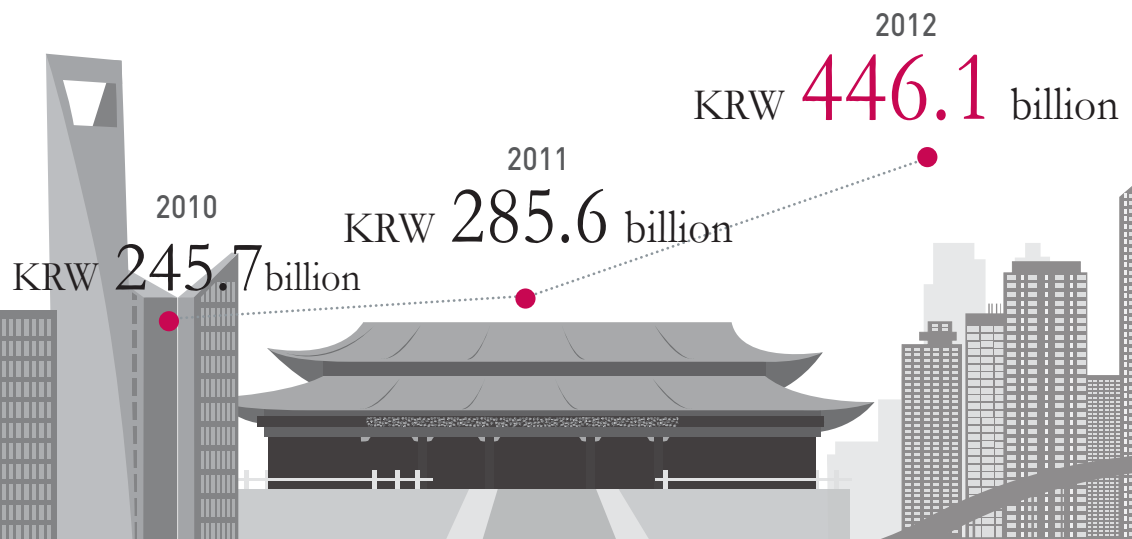
We established three production subsidiaries in China and Vietnam and sales subsidiaries in China, the U.S. and Taiwan for our household goods and cosmetics business. In 2012, we acquired the Japanese cosmetics company GINZA STEFANY to enter the local market. We export our major products to 22 countries including Japan, Iran, Russia and other regions where our subsidiaries are located. With our advancement into Kazakhstan and Ukraine, our sales rose by 12% from 2011 (excluding GINZA STEFANY) and our scope of overseas business operations continues to widen.

Overseas Business Strategy

To promote our herbal cosmetics brand WHOO as a global brand, we are undertaking sustained marketing activities through TV and magazine advertising in overseas markets. Meanwhile, BELIF is gaining popularity in Singapore and in Indonesia and Taiwan as well through its outstanding quality based on herbal ingredients and sophisticated design. BELIF will tap into overseas markets intensively through local department stores and shopping malls. BEYOND entered the Russian market and was successfully launched in Hong Kong with its remarkable quality against affordable prices. BEYOND will appeal to overseas consumers with its strengthened eco-friendly brand image through the anti-animal testing campaign and the protection of endangered animals. We specifically focus on promoting global oral care and detergent brands in the household goods business. Our oral care brand PERIOE successfully advanced into such strategic regions as western Russia, Ukraine and Kazakhstan and is undertaking proactive marketing activities. Our laundry detergent brand TECH and fabric softener brand SAFFRON are poised to enter new markets as well. In Japan, SAFFRON is being launched as an extension of our laundry detergent line-up while product renewals are underway in consideration of consumer needs in addition to new product launches. To enhance its brand awareness, large and small distribution channels will be addressed through brand campaigns and customized promotional activities respectively. Our overseas subsidiaries in China, Vietnam and Taiwan aim to recruit more local staff so as to swiftly identify local consumer needs in detail to reflect them in product development and to enhance customer satisfaction. Our purchasing from local suppliers with competitiveness in material quality and prices also continues to grow in consideration of geological conditions. In 2012, our local purchasing accounted for 79% (excluding THEFACESHOP).

Entry into New Markets

We took over GINZA STEFANY and EVERLIFE in 2012 and early 2013 respectively to fully advance into the Japanese market, which constitutes the world's No. 2 with KRW 41 trillion in value (six times bigger than that of Korea) after the U.S.. We plan to raise our share in the global inner beauty market through the gradual expansion of EVERLIFE products not just in Korea but also in China, Vietnam, Taiwan and Singapore.



Status of THEFACESHOP's Overseas Business

Global Business Strategy

The number of THEFACESHOP stores rose significantly from 880 in 21 countries in 2011 to 1,490 in 25 countries at the end of 2012 on the basis of its country-specific local exclusive distribution system. The brand is focusing on local marketing programs with its top-notch quality, competitive prices and diverse line-up while posting a high growth rate of 71% against the previous year through consistent efforts for market expansion. In 2012, it launched THEGOLDENSHOP in Japan in consideration of the aging Japanese population. In 2013, it plans to open new overseas VDL shops to enhance its competitiveness in the make-up product segment where it has been less successful.

Regional Strategy

Strengthened global marketing programs: THEFACESHOP will develop distribution channels to enhance accessibility for consumers and secure wide-ranging overseas customers. To this end, customer segmentation and CRM programs are being undertaken to facilitate membership programs and promotional activities respectively. Specifically, the 'Miss THEFACESHOP Contest' was held last March to find the ideal consumer models in nine Asian countries including Singapore, Vietnam and Taiwan. Attended by whopping 20,000 contestants, the event awarded local models who represent their respective countries: they served as brand ambassadors with beauty and intelligence and visited Korea to promote the Korean culture. In so doing, THEFACESHOP laid the firm basis to further promote its brand awareness.



Tapping into China and Southeast Asia: THEFACESHOP's target is to reach an annual growth rate of 44% in China through the opening of profitable and highly-visible brand shops and the phased launching of advertising and promotional programs. In Southeast Asia, it will use such channels as drug stores, multi-brand shops and kiosks for improved customer accessibility and undertake diverse promotional programs including the "Club20" section created to attract young customers.

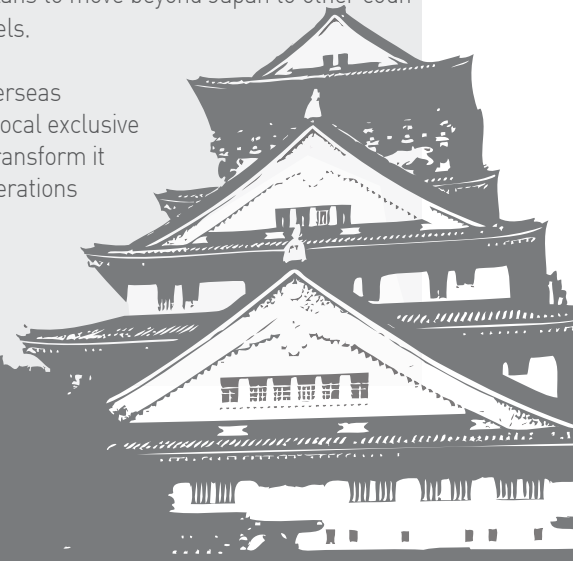
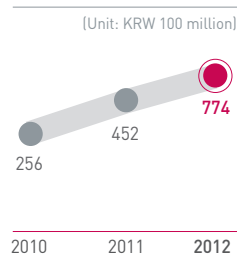


Strategic directions of new brands: VDL shops will specifically advance into Singapore and other Southeast Asian areas while initiating a local exclusive sales system and brand launching in China upon the completion of product registration. THEGOLDENSHOP (TGS) plans to move beyond Japan to other countries with its entry into Thailand through home shopping channels.

Establishing overseas subsidiaries: In addition to existing overseas subsidiaries in China and the U.S., THEFACESHOP took over a local exclusive distributor in Singapore with stable business track records to transform it into an official overseas subsidiary in order to strengthen its operations in Southeast Asia.

Global presence : Operating in China, Taiwan, Hong Kong and 25 other countries

Overseas Business Results



4. Creation and Distribution of Economic Value

As a member of our society, we share our economic Performance with such various stakeholders as suppliers, employees, governments and government agencies, shareholders, local communities and NGOs. Specifically, KRW 2.3106 trillion went to suppliers in purchasing raw materials and making facility investments.



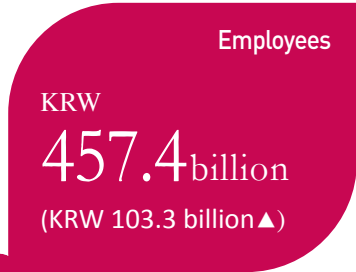
Our relationship with suppliers is critical as raw material cost accounts for the majority of our manufacturing cost.

* Facility investments, raw material cost, processing outsourcing expenses, service fees, slot fees and advertising fees



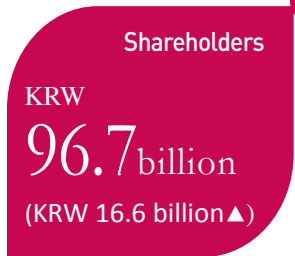
Our expenditures for employee wage, welfare and benefits continue to grow in proportion to the economic value created.

* Wage and bonus, welfare & benefits, retirement-related payment, education and training expenses



As our net income continues to grow, so do our dividends paid per share. Our dividend payout ratio is 30%.

* Dividends paid to shareholders



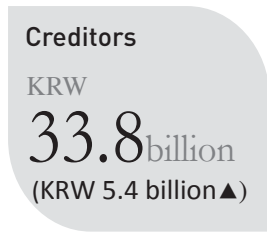
We transparently disclose the added value created through our business operations and pay a portion of our economic results to the central and local governments as taxes.

* Corporate taxes and other taxes and public utilities' charge



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

* Bond net interest cost





To give back to society the economic value that we created, we undertake sharing programs such as social contribution initiatives and support for local communities.

* Social contribution expenses, support for associations and academic societies



Contribution of Economic Performance

(Unit: KRW 100 million)

Brand	Stakeholder	2010	2011	2012	Against the Previous Year
 LG Household & Health Care	Suppliers	9,317	10,567	11,135	▲569
	Employees	1,990	2,144	2,421	▲277
	Governments and government agencies	551	618	658	▲40
	Shareholders	445	588	629	▲41
	Creditors	281	245	304	▲59
	Local communities and NGOs	41	47	124	▲77
	 Coca Cola Beverage Company	Suppliers	4,548	6,018	7,265
Employees		1,380	1,465	1,537	▲72
Governments and government agencies		42	52	63	▲11
Creditors		2	4	12	▲8
Local communities and NGOs		9	5	13	▲8
THEFACESHOP		Suppliers	2,572	2599	3,114
	Employees	171	198	199	▲1
	Governments and government agencies	118	126	176	▲50
	Shareholders	-	213	338	▲125
	Creditors	1	1	8	▲7
	Local communities and NGOs	3	3	3	0
HAITAI BEVERAGE	Suppliers	-	1,438	1,592	▲154
	Employees	-	411	417	▲6
	Governments and government agencies	-	21	21	0
	Creditors	-	34	14	▲20
	Local communities and NGOs	-	2	3	▲1
Total	Suppliers	16,437	20,622	23,106	▲2,484
	Employees	3,541	4,218	4,574	▲1,033
	Governments and government agencies	711	817	918	▲101
	Shareholders	445	801	967	▲166
	Creditors	284	284	338	▲54
	Local communities and NGOs	53	57	143	▲86

* HAITAI Beverage was acquired in 2011

5. Summary Financial Data

Financial Statement

(Unit: KRW million)

	LG H&H (Consolidated)			LG H&H (Non-consolidated)		Coca Cola Beverage (Non-consolidated)		THEFACESHOP (Consolidated)		HATAI Beverage (Non-consolidated)	
	2010	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
I. Current Assets	579,003	766,503	791,867	436,836	436,272	155,870	158,699	72,174	88,933	60,814	46,198
Cash and Cash Equivalents	44,402	91,763	65,204	8,127	2,237	30,995	15,783	28,687	23,463	1,905	1,451
Short-term Financial Deposits	3,000	3,300	12,000	3,000	12,000	0	0	0	0	0	0
Accounts Receivable	265,853	326,785	370,286	230,752	238,521	65,614	71,742	19,127	37,416	22,576	17,173
Other Receivables	18,585	21,466	16,099	2,775	2,248	11,928	15,045	514	458	6,410	762
Inventories	232,982	305,919	316,733	186,804	177,111	45,752	53,930	22,055	25,903	28,718	26,417
Other Current Assets	14,181	17,270	11,544	5,378	4,154	1,581	2,199	1,791	1,693	1,205	395
II. Non-current Assets	1,366,000	1,602,400	1,972,268	1,227,870	1,539,974	396,241	422,485	37,904	45,227	161,815	162,710
Long-term Financial Deposits	23	29	27	18	18	3	3	3	3	2	0
Long-term Other Receivables	40,699	48,270	55,296	33,340	36,797	6,826	6,790	8,481	11,313	2,862	2,661
Available-for-Sale	3,535	1,879	1,416	879	416	1,000	1,000	0	0	0	0
Subsidiary Shares	0	0	0	866,273	1,140,705	14,219	14,219	5,737	5,737	0	0
Shares in Associates and Jointly-Controlled Entities	22,619	28,325	34,827	16,038	18,268	0	0	0	0	0	0
Deferred Tax Assets	601	723	898	1,085	0	4,486	0	7,460	9,529	0	0
Tangible Assets	606,512	831,858	1,007,101	254,102	278,661	368,270	398,943	11,986	13,926	158,405	159,514
Property Investments	23,002	22,837	24,125	22,837	22,611	0	0	0	0	0	0
Intangible Assets	387,878	387,198	484,682	29,042	34,792	1,328	1,421	3,839	4,669	546	535
Other Non-current Assets	281,131	281,282	363,895	4,257	7,705	109	109	398	50	0	0
Total Assets	1,945,003	2,368,904	2,764,136	1,664,706	1,976,245	552,111	581,184	110,078	134,160	222,629	208,908
I. Current Liabilities	617,525	730,773	939,863	466,849	698,547	92,332	85,218	46,496	51,646	115,738	68,745
II. Non-current Liabilities	482,797	577,553	552,683	403,085	339,129	49,271	19,571	11,865	10,775	25,939	26,834
Total Liabilities	1,100,322	1,308,326	1,492,546	869,934	1,037,676	141,603	104,789	58,361	62,421	141,677	95,579
I. Paid-in Capital	88,589	88,589	88,589	88,589	88,589	100,000	100,000	890	890	174,140	174,190
II. Capital Surplus	97,326	97,326	97,326	97,326	97,326	163,072	163,072	9,921	9,921	0	34,550
III. Retained Earnings	675,387	883,845	1,120,462	680,436	824,029	147,436	213,323	40,905	60,928	92,793	95,411
IV. Accumulated Other Comprehensive Income	-1,258	-15	-31,886	-204	0	0	0	0	0	0	0
V. Capital Components	-71,910	-72,314	-72,940	-71,375	-71,375	0	0	0	0	395	0
VI. Non-controlling Interests	56,547	63,146	70,039	0	0	0	0	0	0	0	0
Total Equity	844,681	1,060,577	1,271,590	794,772	938,569	410,508	476,395	51,717	71,739	80,952	113,329

All-inclusive Income Statement

	LG H&H (Consolidated)			LG H&H (Non-consolidated)		Coca Cola Beverage (Non-consolidated)		THEFACESHOP (Consolidated)		HATAI Beverage (Non-consolidated)	
	2010	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
I. Sales	2,826,483	3,456,072	3,896,218	1,998,971	2,144,640	836,763	945,071	317,646	395,338	210,282	241,317
II. Cost of Sales	1,333,774	1,736,267	1,903,209	984,644	1,048,375	478,476	542,370	102,216	132,992	151,789	166,926
III. Gross Profit	1,492,709	1,719,805	1,993,009	1,014,328	1,096,265	358,287	402,701	215,430	262,346	58,493	74,391
IV. Selling and Administrative Expenses	1,145,892	1,349,611	1,547,478	765,712	836,520	276,071	314,752	164,513	190,772	72,690	75,477
V. Operating Income	346,817	370,195	445,531	248,616	259,745	82,216	87,949	50,917	71,574	14,197	-1,086
VI. Other Income and Expenses	-28,213	1,897	-15,241	-6,748	2,452	2,431	1,859	-17	254	13,773	-881
VII. Earnings Before Taxes	318,604	372,091	430,290	241,867	262,196	84,647	89,808	50,900	71,828	424	-1,967
VIII. Income Tax Expenses	81,652	100,573	118,302	51,621	54,400	20,883	21,285	12,299	17,620	32	0
IX. Net Income	236,952	271,518	311,988	190,246	207,796	63,764	68,523	38,601	54,208	392	-1,967

Fundamental Management Areas

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1. Responsible Governance

Composition and Operation of the Board of Directors

Our board of directors (BOD) consists of seven directors who are appointed at the general shareholder meeting. Four of them are Outside directors, who serve as monitors and supervisors concerning major issues related to our business operations. As experts with abundant experience and knowledge in management, law and other areas, our Outside directors offer their feedback on our business conduct and thus play a key role in the decision-making process.

Director	Name	Career	Gender	Stockholding (common/ preferred)	Position	Total Compensation (KRW million)
Inside Director	Suk Cha	CEO & Vice Chairman, LG H&H	Male	34,888/12,888	Chairman of the BOD	
	Keon-O Kim	CFO & director, LG H&H	Male	0/0	CFO	3,184
	Joo-Hyung Kim	President, LG Economic Research Institute	Male	0/0	Director	
Outside Director*	Woon-Oh Jung	Professor, Dept. of Management, Seoul National University	Male	0/0	Head of the Audit Committee	
	Lee-Seok Hwang	Professor, Dept. of Management, Seoul National University	Male	0/0	Member of the Audit Committee	240
	Sang-Lin Han	Dean, Dept. of the school of Management, Hanyang University	Male	0/0	Director	
	Yong-Suk Yoon	Head Attorney, Law Office Lee & Ko	Male	0/0	Member of the Audit Committee	

*As of the end of May, 2013

Our outside directors are appointed in consideration of their expertise in the economic, environmental and social sectors. Our BOD presents its feedback and sincere advice on major decisions to be made from a sustainability management perspective while making evaluations and reviews on our business results. The compensation of our outside directors and standing directors is composed of base salary determined within the boundary approved by the general shareholder meeting as well as bonus decided in alignment with corporate performance.

BOD meetings are held regularly in accordance with annual operational plans while ad-hoc meetings are held to address emergency management issues. To prevent conflicts of interest among stakeholders in making BOD decisions, directors who have interest in specific agenda items are prohibited from exercising their voting rights concerning such issues in conformity with commercial law and our BOD regulations. In addition, a staff member from the legal team is assigned to provide materials and detailed explanations (on the request of outside directors) concerning agenda items to assist outside directors in analyzing and reviewing such issues and making informed decisions. In so doing, we ensure that our BOD serves as an effective top decision-making body.

BOD Meetings

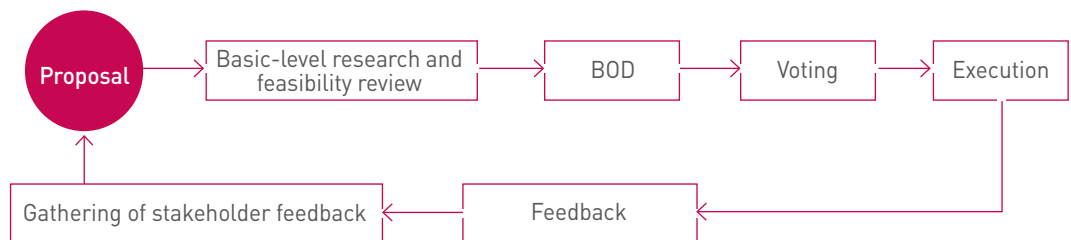
Year	Major Agenda Items	No. of Meetings Held	Attendance of Outside Directors
2010	Approval of the acquisition of HAITAI Beverage Co., Ltd.	10	93%
	Approval of the acquisition of the remaining shares of THEFACESHOP Korea Co., Ltd.		
2011	Approval of the acquisition of the operation of VOV Cosmetics Co., Ltd.	10	95%
2012	Approval of the acquisition of Ginza Stefany Cosmetics	12	94.8%
	Approval of the establishment of compliance control standards and the appointment of Compliance Manager		
	Approval of the equity acquisition of Future Co., Ltd.		
	Approval of the equity acquisition of Everlife Co., Ltd.		

Operation of the Audit Committee

The Audit Committee is entirely composed of outside directors (the committee head and two other members) and operated independently in accordance with the Audit Committee Operation Regulation established separately from the BOD regulations. The committee met four times in 2010, five times in 2011 and four times in 2012. Its main responsibilities include the auditing of business and accounting operations: the committee develops and executes internal audit plans as an independent body, and approves the outcomes of quarterly audit engagements performed by external auditors.

Gathering of Stakeholder Feedback and Its Integration into Management Decision-Making Process

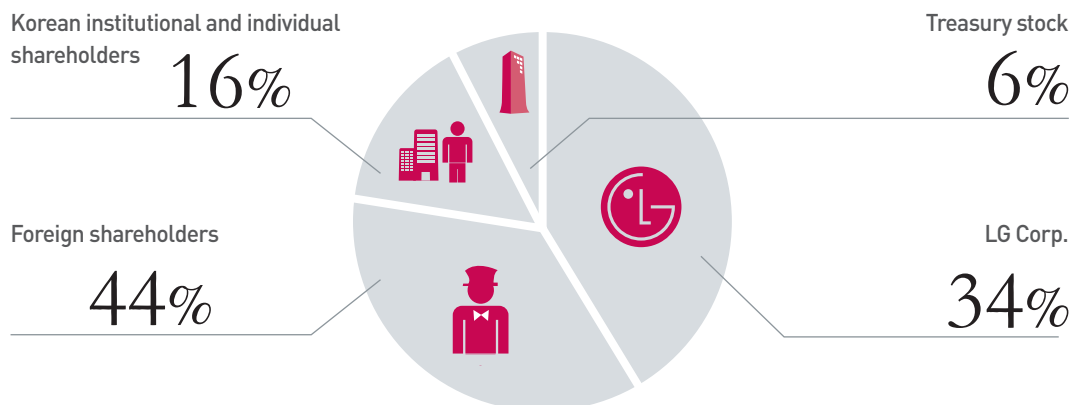
We listen to the voice of internal/external stakeholders so as to reflect their feedback in our decision-making process and business conduct. Investment information regarding our business operation, financial status and stock prices is posted on our website to be shared with shareholders while a separate section was created to enable shareholders to provide their feedback online. Our customers are also allowed to offer their feedback and we select major issues that they raised and post them on our intranet to be shared across the company. Furthermore, our quarterly Company Meetings assist our employees in sharing business outcomes, management strategies and corporate vision.



Protection of Minority Shareholders and Strengthened Information Disclosure

We operate the Ethics Hotline and other channels to gather various opinions so as to constantly communicate with customers, shareholders, employees and other internal/external stakeholders.

Major Shareholders



2. Jeong-Do Management and Management Ethics

CEO's Commitment to Jeong-Do Management

Jeong-Do Management represents LG's own unique way of behaviors that values competency-based fair play on the basis of management ethics. This embodies our full commitment to generating substantial outcomes through the nurturing of unrivalled capabilities on the foundation of legal compliance and business ethics. It is with our CEO's full commitment to Jeong-Do Management ('Our principles and standards should not be compromised no matter what when we move toward our goal') that we advance our Jeong-Do Management: all our employees play fair in an integral and transparent manner and deliver truly impressive customer experience while making LG H&H an honest company that fulfills its responsibility for suppliers, shareholders, employees and society and a company that is trusted by its customers.

Type of Reports Submitted to the Ethics Hotline

	2010	2011	2012
Total Submissions	12	32	38
Unfounded	4	13	13
Verified Reports and Work Process Improvements	8	19	25

Follow-up Measures

	2010	2011	2012
Light disciplinary action	-	1	1
Severe disciplinary action	6	9	26

- Including subsidiaries
- Light disciplinary action: Reprimand
- Severe disciplinary action: Wage reduction and other heavier punishments (suspension, demotion, suggested resignation, disciplinary dismissal, etc.)
- While employees who received warnings were included until 2011, the number excludes those employees as warnings are not regarded as disciplinary action.
- The number of employees subject to disciplinary actions includes those working at subsidiaries (Coca Cola Beverage, THEFACESHOP, HAITAI Beverage) in addition to LG H&H

Organizational Structure for Jeong-Do Management

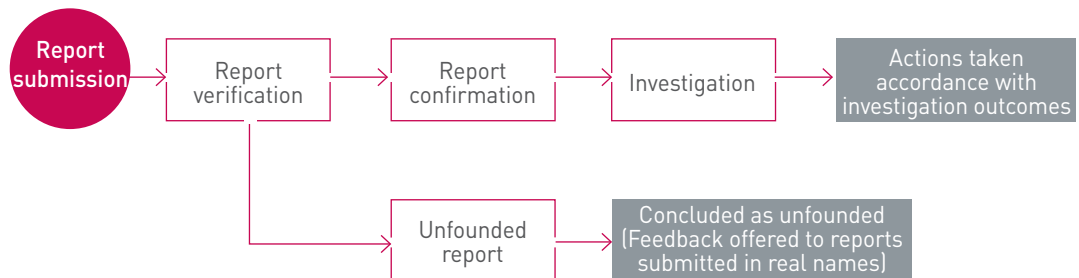
The Jeong-Do Management Team and the Ethics Bureau are responsible for Jeong-Do Management at LG H&H: the Jeong-Do Management Team reviews our compliance with corporate policies & guidelines and orders made by the top management through business diagnoses and auditing, and the Ethics Bureau provides Jeong-Do Management training and promotional programs and operates the Ethics Hotline as well as a bribery reporting system.

Online Jeong-Do Management Pledge

All our employees make their Jeong-Do Management pledge online every year. Our new hires are also obligated to submit their Jeong-Do Management pledge upon their employment. In addition, all our business partners make their commitment to Jeong-Do Management through the signing of such pledges upon their transaction registration. Our suppliers made their online pledge through our CPS system built in 2012 and will sign their pledge online annually.

Ethics Hotline

Our Ethics Hotline receives reports on any type of business practices that violate the LG Code of Ethics and Jeong-Do Management principles including unfair business operations and bribe-taking through the unjustified use of authority. These reports are subject to thorough preliminary and on-site investigations and the outcomes base such follow-up measures as disciplinary actions and the improvement of work processes. In 2012, 25 out of the 38 submitted reports proved to be true, which resulted in disciplinary actions taken against 27 employees and the improvement of work processes concerning all 25 reports.



	2010	2011	2012
Employees	1,825	1,861	3,218*
Suppliers	147	180	222

* Including subsidiary employees



Continued Jeong-Do Management Training

At LG H&H, Jeong-Do Management training is an essential part of every training program undertaken independently by respective business segments. Such training is also offered to all employees upon the acquisition of any new business operations to ensure Jeong-Do Management is quickly ingrained to corporate culture. In 2012, online Jeong-Do Management training was provided to all employees at LG H&H and our subsidiaries. One round of such training was also offered to CEOs and concerned employees of 222 major suppliers in the first half of 2012. We sincerely called for their participation in Jeong-Do Management to pursue win-win growth and eliminate unfair practices.

Global Jeong-Do Management Initiatives and Promotional Programs

| Overseas | To disseminate Jeong-Do Management across our overseas subsidiaries, Ethics Bureaus were created at four subsidiaries in China, the U.S., Vietnam and Taiwan while Jeong-Do Management training was completed by 616 employees under the supervision of the Korean Ethics Bureau. Furthermore, separate Jeong-Do Management training and lecturer skill courses were offered to overseas Ethics Bureau employees to ensure the continuity of Jeong-Do Management initiatives. Ethics code handbooks were published in English, Chinese and Vietnamese to help overseas employees learn our Code of Ethics.

| Domestic | Organizational leaders prepare a letter composed of their contributions on Jeong-Do Management and our Code of Ethics to be shared with all employees every Wednesday while a separate letter is created concerning fair trade and win-win growth with suppliers in order to prevent ethical conflicts between employees and stakeholders. Meanwhile, the "In-house Jeong-Do Management PR Competition" enabled our employees to engage themselves in publishing promotional materials for Jeong-Do Management to make our business philosophy easier to understand and access. A total of 210 applications were submitted, out of which 30 outstanding ones were chosen and exhibited at the headquarters and other major sites.

Bribery Reporting Center

At LG H&H, taking bribes from stakeholders is strictly prohibited under any circumstances. Before every Korean Thanksgiving Day and Lunar New Year, we remind our employees and suppliers of action agenda to eliminate bribe-taking. If our employees receive gifts for inevitable reasons, they must refuse them politely and if it is impossible to return such gifts, they are reported to our Ethics Bureau and either directly donated or sold through in-house auctioning (proceeds are donated). In 2012, supplies worth KRW 4 million were donated to Seoul Senior Welfare Center and two other organizations.

Regular Review and Revision of the Code of Ethics

We review and improve on our management ethics initiatives annually. In January 2013, the provision to "fundamentally ban the notification of family events to external stakeholders and the acceptance of money on condolences and congratulations (including gifts and flower wreaths)" was established to be implemented as a company-wide policy throughout the entire LG Group.

Compliance with Fair Trade

We offer training to all employees concerning fair trade, price fixing and subcontracting in order to comply with regulations that govern price fixing, practices that cause price disturbances, slandering and other practices suggested by fair trade regulations.

Training on Fair Trade, Price-Fixing and Subcontracting	Mar. ~ Oct. 2012	14 rounds of training	Team leaders (263), Part Leader and under (541), CPO segment (165), five subsidiaries including THEFACESHOP, Coca Cola Beverage (210)
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3. Integrated Risk Management

Integrated Risk Management

It is with our CEO's firm commitment to making LG H&H more resistant to external shocks that we operate an integrated company-wide risk management system. Business segment-specific risks are monitored regularly and non-financial risks are diagnosed by internal experts to be addressed more appropriately. In addition, operational and hazardous risks in the environmental and social sectors are identified by respective functional units and are effectively managed through an organically-aligned reporting system.

(1) Strategic Risks

Major Risk	Response to Risk
Global economic recession	Efficient decision-making at the top-management level and expanding of site-specific prompt communication systems. Identifying the status of global business sites in real time through conference calls. Sharing CEO messages across the company and eliminating unnecessary reporting
Shrinking domestic demand	Opening new markets to address shrinking consumption and strengthening marketing of innovative new products Launching three new brands and creating two joint ventures (Method, Coty Korea)
Widening consumption gap	Diversifying target channels due to the growing consumption gap. Expanding department store shops of prestige cosmetics and premium household goods. Entering the brand shop market segments through the prestige make-up product brand VDL
Increasingly diversifying value consumption	Fully reflecting the value consumption trends through the development of genuinely prestigious high-end brands as well as truly practical mass-market brands

(2) Financial Risks

We analyze and manage major issues that affect our financial status so as to build sustainability into the entire spectrum of our business operation. Thus, we maintain a swift and systemic risk management system in order to reduce financial risks that we face as a consumer goods manufacturer due to changing financial market conditions such as currency & liquidity risks and increasing raw material prices.

Major Risk	Response to Risk
Currency	Setting and managing 10%-range fluctuations of seven functional currencies through the regular measurement and calculation of currency risks
Liquidity	Ensuring long-term response and management of financial liabilities and assets through the development of short/mid/long-term foreign currency management plans and the sustained analyses and review of cash outflow budgets and actual cash outflows
Interest rates	Maintaining an adequate balance between fixed-rate loans and floating-rate loans in order to regularly measure and manage interest rate risks caused by fluctuating interest rates
Increasing raw material prices	Managing competitive brands through the regular monitoring and prediction of increases in raw material prices
Credit-related risk	Continually manage cash, cash equivalents and deposits in financial institutions in addition to customer credit risks through transacting with financial institutions with high credit scores to reduce credit risks while evaluating the credit of general customers in consideration of their financial status, previous experiences and other factors

Risk Management System



Integrated Risk Management Process



Integrated Risk Management System and Major Management Issues

Integrated Risk Management	Strategic Risks	Global economic recession/shrinking domestic demand/widening consumption gap/increasingly diversifying value consumption
	Financial Risks	Currency risk/liquidity risk/interest rate risk/price risk/strengthened disclosures/increasing raw material prices
	Operational Risks	Government policies and regulations/product quality management/protection of patents and trademarks/strengthened individual data privacy/growing importance of external brand image
	Hazardous Risks	Fire prevention/health & safety/natural disasters/ethics awareness

(3) Operational Risks

Major Risk	Response to Risk	Department in Charge	Related Details (page)
Government policies and regulations	-Expanding the monitoring of price policies	Public Affairs Team	87
	-Building mutually-beneficial labor relations		59
	-Expanding cooperation for win-win growth	Shared Growth Drive part	82-88
	-Preventing and monitoring price-fixing and fair trade regulations		24-25
Product quality management	-Preventing the occurrence of product defects	Quality Management Department	44
	-Preventing and quickly addressing consumer damage claims and damages		42-44
	-Improving and expanding mass-production processes of suppliers		44
Protection of patents and trademarks	-Expanding the monitoring of advertising and indication including exaggerated advertising	Public Affairs Team	40-44
	-Strengthening competitiveness as a leader in patents and trade mark	Legal Department Patent Team	51
	-Increasing the rate of winning law suits		86
Strengthened individual data privacy and trade secrets	-Constantly monitoring Korean and international information protection policies	Consumer center	28
	-Fundamentally preventing the leakage of key information through the development of R&D Center's centralized document system	IT Team	28
	-Reinforcing integrated security management systems of subsidiaries		
Growing importance of external brand image	-Developing external brand image risk management manuals as a global company	Management & Strategy Team	10-12
	-Training risk management manuals in response to issues in the entire categories of production, products and HR	PR Team	26-28, 46-49
		CSR Team	
Ethics awareness	-Expand training to build a stronger ethical awareness	HR Team	24-25
	-Disseminate ethical awareness-related issues across the board	Jeong-Do Management Team	

(4) Hazardous Risks

Major Risk	Response to Risk	Department in Charge	Related Details (page)
Fire prevention	-Review risk management manuals concerning on-site fires and emergency services	General Affairs Team	67-68
	-Restrain significant or unpredictable damage through risk diversification (insurance or contracting)	HES Team	
Health & safety	-Expand integrated health care systems and programs -Prevent safety accidents including leakages and explosions	HES Team, CSR Team, Environment and Safety Team	67-68
Natural disasters	-Expand natural disaster training and awareness - Undertake natural disaster risk management measures including the development of infrastructure to prevent damage -Expand training to build a stronger ethical awareness	General Affairs Team	65-68

TOPIC

Internal Accounting Control System and Information Protection

Internal Accounting Control System

Our Internal Accounting Control System has been in operation since 2006 to establish our operational efficiency and data reliability and to make our work process more transparent and healthy.

Internal Accounting Control Evaluation System

Our CFO is designated as the Internal Accounting Controller and the the Internal Accounting Control Department makes regular and year-round assessments in the five areas of control environment, risk

assessment, control activity, information and communication in accordance with the Internal Accounting Control System model criteria and application manual. We define 14 major business processes and 51 subprocesses. Potential improvements and risks are identified continuously through process-specific internal control evaluations and are addressed through follow-up management so as to substantially improve work processes and reduce risks. Our Internal Accounting Control System is reviewed by external auditors through the annual briefing to the BOD and the Audit Committee. In 2012, LG H&H, Coca Cola Beverage, HAITAI Beverage, and THEFACESHOP were evaluated as appropriate as a

result of the design and operational assessments made by external auditors. Given that it is more difficult to accurately identify the operational status of our overseas subsidiaries due to their geographical locations, we will intensively review these subsidiaries and identify their risk sources so as to expand the scope of our internal control evaluations to the entire business processes. Internal control evaluations will also cover our U.S. and Japanese subsidiaries, which demonstrates our continued commitment to the prevention of risks across all subsidiaries.

Internal Security Management

We develop information protection policies, guidelines and procedures as information protection standards while regularly revising them in response to changing security environments and regulations. Specifically, annual information protection courses are provided to all employees including new hires in order to raise their security awareness while dedicated monitoring staff members are constantly engaged in operating document security, PC security, printing security, and network monitoring systems in order to prevent data leakages. Furthermore, Virus/worm blocking, encrypted communication, web firewalls, DB firewalls, DB encryption and privacy management systems are under operation while security control is performed 24 hours a day throughout the year to allow for monitoring. Included in our endeavors to enhance operational efficiency and legal compliance are the blocking of non-business related websites, filtering of spam mails and illegal software management systems.

Security Management and Information Protection Systems

We have processes, guidelines and dedicated organizations to ensure a systemic company-wide operation of managerial, physical and technological security. Our CSO (Chief Security Officer) scheme, launched in 2001, ensures that all security management initiatives are undertaken through the approval and support of the CSO (also serving as the CFO), in accordance with the information protection policies prepared against international information protection standards as well as domestic regulations.

Furthermore, administrative operations (policy-making, technology provision, training and support) are separated from auditing operations to strengthen the roles and responsibilities of information protection organizations and to independently monitor operations and legal compliance concerning information protection.

In 2012, our information protection policies were revised in accordance with changing environments and regulations (Personal Data Protection Act). As the paralysis of computing systems caused by hackers and the leakage of confidential documents are emerging as major security issues of companies, our Research Institute has developed a centralized document systems to fundamentally prevent the leakages of key R&D data through PCs.

Our subsidiaries of Coca Cola Beverage, THEFACESHOP and HAITAI Beverage also completed their own security systems on the basis of LG H&H's security system to establish an integrated and water-tight security preparedness.





Constant Monitoring Areas

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4. Materiality Test	34
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1. Integrated CSR Management System

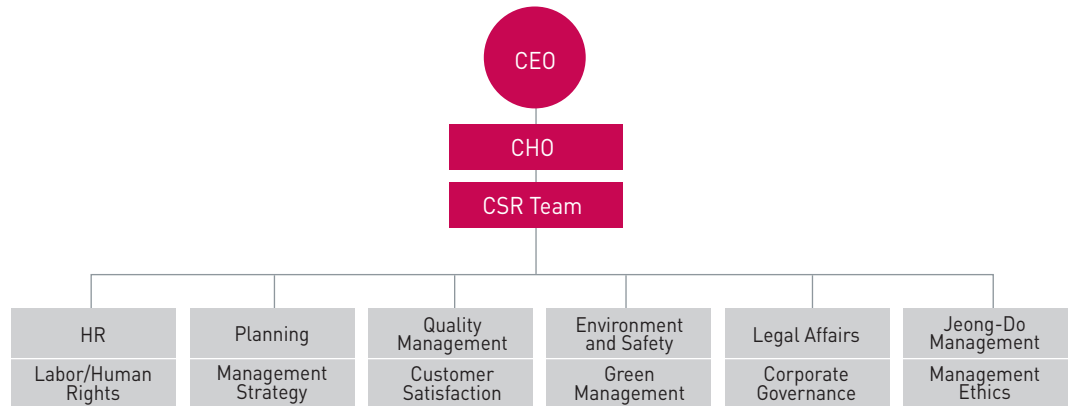
Vision Structure

We at LG H&H defined four strategic directions to advance sustainability management in six areas under the vision of becoming 'the best sustainable FMCG (Fast Moving Consumer Goods) company'. To fully integrate diverse requirements of stakeholders, our performance management is based on segmented and detailed sustainability management performance indicators. The outcomes are then communicated to major stakeholders through our CSR Reports and corporate website (www.lgcare.com).



Implementaiton and Management System

Launched in 2009, our CSR Team has been dedicated to sustainability management under the leadership of CHO (in charge of HR affairs). The CSR Team is responsible for identifying various sustainability management issues as well as developing and undertaking action plans. Specifically, the team will use the LG Way-based CSR check list to monitor our level of maturity and performance in six sustainability management areas.



2. CSR & Business Relations



3. Stakeholder Communication and Engagement

Stakeholder Engagement

Gathering of stakeholder feedback and stakeholder communication is an essential 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-government agencies-associations, suppliers 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 30 CSR issues in accordance with stakeholder interest and their impact on our business and its outcomes were integrated the materiality test process.

Stakeholder Communication and Engagement

LG H&H's Stakeholder Engagement Process

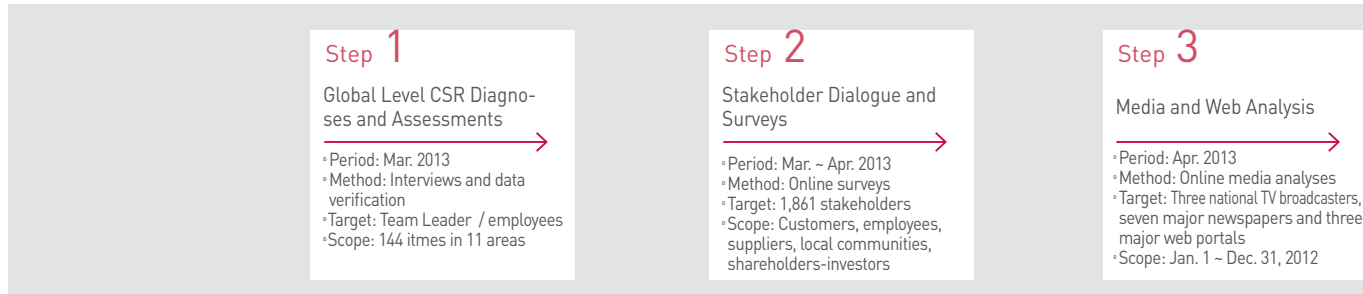


Stakeholder	Communication Channels	Major Expectations and Requirements	Stakeholder Interest - Top 10 Issues
Customers	Corporate website Brand-specific websites CS portal, VOC, call center Customer meetings Customer satisfaction surveys Consumer monitoring Prosumer activities Brand satisfaction surveys Gathering customer complaints/feedback Customer CSR survey	1) Build a swift customer complaint handling process 2) Secure product competitiveness 3) Strengthen the development of eco-friendly technology and products 4) Strengthen product safety guarantees and responsibilities 5) Secure technological competitiveness	Strengthen the execution of ethics and Jeong-Do management and comply with fair trade principles
			Strengthen product safety and responsibilities
Suppliers	Integrated purchasing website Partner's Day Supplier subcommittee Technological support for suppliers Jeong-Do management channel JBP (Joint Business Plan) Agency head meetings Supplier CSR surveys	1) Reinforce fair trade systems and training 2) Expand the partner program (beneficiary companies and benefits) 3) Expand channels for suppliers to present their opinions 4) Support for financial stability (improvement concerning payment systems) 5) Support suppliers with capacity-building	Swiftly handle customer claims and strengthen quality competitive edge
			Strengthen customer communication & satisfaction and customer relationship management
Employees	Labor-Management Council Grievance Committee Employee satisfaction surveys i-30 - Idea innovation i-30 Job level-specific meetings Industrial Safety Committee Intranet, newsletters/SNS Internal communication programs Employee CSR surveys	1) Expand employee training [systemic promotion plans] 2) Operate work-life balance promotion programs [family-friendly management] 3) Expand welfare & benefits 4) Secure fairness in HR systems 5) Enhance managers' leadership	Secure future growth engines through the expansion of R&D and investments
			Manage and ban the use of pollutants and hazardous chemicals
Local Communities (Environment)	Regional consultation meetings NGO meetings Operations concerning the public and governments and governments Partnership programs Launch events for the media Social contribution programs Community CSR surveys	1) Develop sustainable products 2) Invest in eco-friendly facilities and plant improvements 3) Management of hazardous chemicals 4) Sponsor culture/arts/sports in local communities 5) Local communities	Secure cost competitiveness through cost reductions
			Improve brand leadership and corporate image
Shareholders/Investors	IR website Business reports BOD meetings, general shareholder meetings Conferences IR roadshows	1) Increase investment value through enhanced management efficiency 2) Improve shareholder value through maximized business results 3) Build open decision-making process that fully reflects various stakeholder feedback 4) Make transparent management information disclosures 5) Improve corporate value through sustainability management	Strengthen the execution of ethics and Jeong-Do management and comply with fair trade principles
			Strengthen customer communication & satisfaction and customer relationship management
Government, Government agencies, Associations	Governmental working-level committees Participation in government-led projects and conference Committee with recycling associations	1) Legal and regulatory compliance 2) Private-public cooperative partnership 3) Job Creation 4) Transparently fulfill obligation to pay taxes and facilitate the local economy 5) Address social issues	Secure future growth engines through the expansion of R&D and investments
			Create economic value (business results)

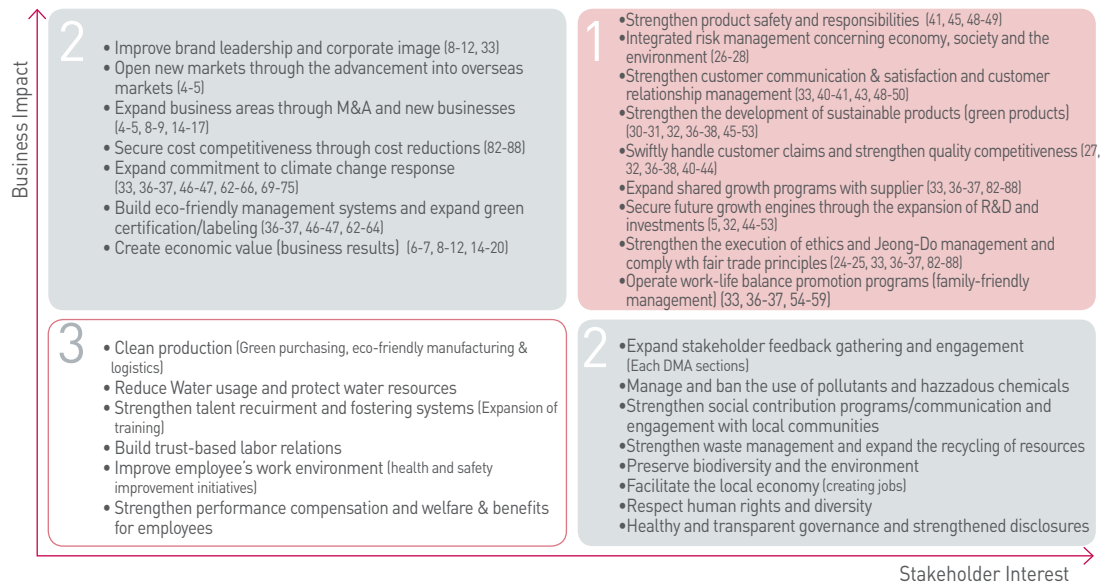


4. Materiality Test

We developed a seven-phase materiality test process. Specifically, stakeholder surveys and in-depth interviews with external stakeholders constitute the most important part of this process, in addition to such basic elements as diagnoses & assessments, media analyses, executive interviews, expert panel discussions, benchmarking of industry leaders and analyses of competitors. In so doing, we aim to enhance the availability and accuracy of materiality test outcomes. We plan to conduct the materiality test every October to identify Focus Areas and issues that will be the focus of the following year's management endeavors.



Sustainability Management Materiality Matrix for 2012~2013(Page)



Once identified, major issues are built into strategic directions through the consultation with respective working-level departments while a cooperation system is developed with the CSR Team to maximize our management capabilities concerning Focus Area issues. Specifically, major issues in the category 1 and 2 are organized in accordance with our internal management and classification criteria into five Focus Areas of: (1) customer satisfaction and quality management, (2) employee satisfaction management and value enhancement, (3) integrated ESH system and stronger competitiveness, (4) contribution to local communities and social-giving initiatives, (5) win-win growth partnership with suppliers. These issues are then reflected in the roles and responsibilities (R&R) of working-level departments to be subject to intensive improvement and management. Furthermore, governance, Jeong-Do and management ethics, and integrated risk management will be designated as fundamental management issues that require our constant management efforts and will be addressed through strengthened monitoring systems. The materiality test results are presented through the Steering Wheel to enable a balanced response and management while major issues that interest our stakeholders are fully outlined in this CSR Report.

Step 4

In-depth Interviews with Business Department Leaders and Executives

- Period: Mar. 2013
- Method: One-on-one in-depth interviews
- Target: Seven business department leaders and executives
- Scope: 30 common questions

Step 5

Expert Panel Discussions

- Period: Apr. 2013
- Method: Invite experts for panel discussion
- Target: Seven experts from seven specialty area
- Scope: Three key agenda items

Step 6

In-depth Interviews with External Stakeholders

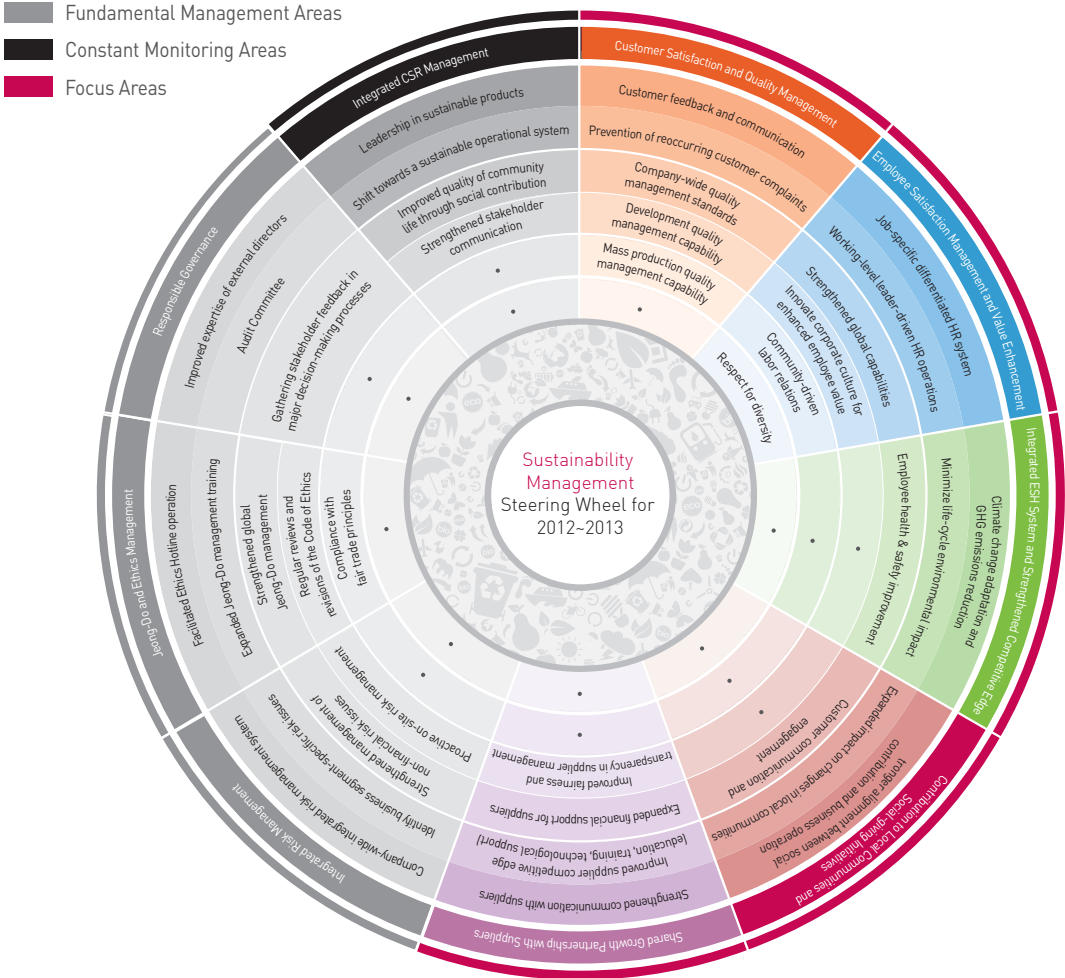
- Period: Mar.-Apr. 2013
- Method: On-site in-depth interviews
- Target: Consumers, NGOs, suppliers, media, distributors, investors and associations

Step 7

Issue Analysis of Industry Leaders and Competitors

- Period: Apr. 2013
- Method: Research and benchmarking
- Target: Four industry leaders
- Scope: Analyses of Focus Area issues

Sustainability Management Steering Wheel for 2012~2013



5. Roles & Responsibilities and Action Plans for CSR Operations

Areas		Strategic Directions	2012 Performance
Constant Monitoring Areas	Integrated CSR Management	<ol style="list-style-type: none"> 1) Leadership in sustainable products 2) Shift towards a sustainable operational system 3) Improved quality of community life through social contribution 4) Strengthened stakeholder communication 	<ul style="list-style-type: none"> - Issued the 3rd CSR Report - Included in the DJSI Asia Pacific index - Set supplier CSR Monitoring criteria - Joined the external initiative (UNGC) - Reviewed new social contribution programs
	Responsible Governance	<ol style="list-style-type: none"> 1) Improved expertise of outside directors 2) Audit Committee 3) Gathering stakeholder feedback in major decision-making processes 	<ul style="list-style-type: none"> - Held four Audit Committee meetings - Held four Company Meetings - Improved major decision-making processes
Fundamental Management Areas	Jeong-Do Management and Management Ethics	<ol style="list-style-type: none"> 1) Facilitated Ethics Hotline operation 2) Expanded Jeong-Do management training 3) Strengthened global Jeong-Do management 4) Regular reviews and revisions of the Code of Ethics 5) Compliance with fair trade principles 	<ul style="list-style-type: none"> - All employees signed the Jeong-Do Management pledge - All employees received Jeong-Do management training - Operated the bribery reporting system - Banned the acceptance of money for family events
	Integrated Risk Management	<ol style="list-style-type: none"> 1) Company-wide integrated risk management system 2) Identify business segment-specific risk issues 3) Strengthened management of non-financial risk issues 4) Proactive on-site risk management 	<ul style="list-style-type: none"> - Strategic risk: global economic downturn/shrinking domestic economy - Financial risk: currency risk/liquidity/interest rates - Operational risk: protection of patents and trademarks/stronger personal data privacy - Hazardous risk: fire prevention/health & safety/natural disasters
Focus Areas	1. Customer Satisfaction and Quality Management	<ol style="list-style-type: none"> 1) Customer feedback and communication 2) Prevention of reoccurring customer complaints 3) Company-wide quality management standards 4) Development quality management capability 5) Mass production quality management capability 	<ul style="list-style-type: none"> - Endeavored to prevent reoccurring customer complaints (Improved instant dyes for discharging defects) - Introduced the Q-NPD process - Established development and quality management process for beauty care devices
	2. Employee Satisfaction Management and Value Enhancement	<ol style="list-style-type: none"> 1) Job-specific differentiated HR system 2) Line-manager driven HR operations 3) Strengthened global capabilities 4) Innovate corporate culture for enhanced employee value 5) Community-driven labor relations 6) Respect for diversity 	<ul style="list-style-type: none"> - Operated HR systems led by team leaders - Introduced an individual compensation management system and offered fair assessment and compensation - Fostered employees with global business capabilities - Work & life balance program to establish Smart Work culture - Improved human rights conditions through the recruitment of females and the Disabled
	3. Integrated ESH System and Strengthened Competitiveness	<ol style="list-style-type: none"> 1) Company-wide ESH strategic system 2) Climate change response and GHG emissions reduction 3) Minimize life-cycle environmental impact 4) Employee health & safety improvement 	<ul style="list-style-type: none"> - Strengthened the company-wide ESH strategic system - Eco-labeling - Completion of ESH diagnoses (90% completion against the 95% target) - Purchased green products (general purchasing: up by 26% from the previous year)
	4. Contribution to Local Communities and Social-giving Initiatives	<ol style="list-style-type: none"> 1) Stronger alignment between social contribution and business operation 2) Expanded impact on changes in local communities 3) Customer communication and engagement 	<ul style="list-style-type: none"> - Benefited 44 youngsters through the Youth Orchestra Academy - Trained 19,434 children at 249 preschools through PERIOE Kids School - Benefited 201 through the Happy Smile Fund - Benefited 64 through the Smile Together program
	5. Win-Win Growth Partnership with Suppliers	<ol style="list-style-type: none"> 1) Strengthened communication with suppliers 2) Improved supplier competitiveness (education, training, technological support) 3) Expanded financial support for suppliers 4) Improved fairness and transparency in supplier management 	<ul style="list-style-type: none"> - Implemented the delivery cost alignment system (KRW 1.9 billion) - Supported the sales of subcontractors (KRW 307.1 billion) - Made joint patent applications for jointly developed new technology (seven applications) - Maintained the 100% payment of cash equivalents - Created the Growing Together Fund (KRW 30 billion)

2013 Targets	Mid-term Goals (~2015)	Responsible Department
<ul style="list-style-type: none"> - Join the DJSI Asia Pacific index - Evaluate CSR performance of suppliers (250 suppliers) - Operate a compliance program concerning the ten UNGC principles - Develop and evaluate a CSR check list - Develop and operate new social contribution programs 	<ul style="list-style-type: none"> - Establish competitiveness in global leading sustainable products - Reach global-level eco efficiency in the entire process of production, purchasing and logistics - Position ourselves as a representative social contribution company for women, children and teenagers - Enhance our profile as a sustainable company 	CSR Team
<ul style="list-style-type: none"> - Facilitate BOD operations - Expand a decision-making process that engages stakeholders - Continually expand the provision of information to stakeholders through Company Meetings 	<ul style="list-style-type: none"> - Strengthen expertise-based roles and responsibilities of external directors - Establish decision-making process that engages stakeholders - Develop a fair and transparent BOD performance evaluation system - Strengthen the protection of minority shareholders and expand information disclosures 	Legal Department
<ul style="list-style-type: none"> - Continue and strengthen education and promotional activities concerning Jeong-Do and management ethics - Facilitate Ethics Hotline operations and systemize follow-up improvement measures - Expand and strengthen training for global Jeong-Do management for overseas subsidiaries - Expand fair trade training 	<ul style="list-style-type: none"> - Establish a culture of Jeong-Do management and fair trade - Develop advanced reporting systems/improve follow-up measure programs - Expand and strengthen Jeong-Do management for overseas subsidiaries - Expand Jeong-Do management for suppliers and stakeholders 	Jeong-Do Management Team
<ul style="list-style-type: none"> - Strengthen company-wide strategic risk response - Identify function-specific risk issues - Identify and improve risk issue-specific responses 	<ul style="list-style-type: none"> - Develop integrated management/response systems for financial and non-financial risks - Identify and prevent strategic risks according to changing external business conditions - Reinforce employee awareness of ethical, social and environmental risks - Operate response manuals and prevention programs concerning major risks 	Strategy and Planning CSR Team
<ul style="list-style-type: none"> - Strengthen the prevention of recurring customer complaints - Establish quality management process for new Beautiful/Healthy businesses - Stabilize the Q-NPD process and forecast customer claims - Strengthen follow-up management through department-specific evaluation 	<ul style="list-style-type: none"> - Improve customers' reliability in products through sustained quality improvement - Develop our own quality management standards applicable to the development of new products and markets - Undertake R&D that reflects regulatory trends, changing customer needs and potential quality risks 	Quality Management Department Sales - Marketing
<ul style="list-style-type: none"> - Introduce an individual compensation management system for marketing and non-marketing positions - Foster locally-hired leaders and operate a locally-driven subsidiary operation model - Strengthen work & life balance initiatives (allow salespersons to directly commute to and from sales fields) - Build field-centered sales work stations (eight in the Seoul metropolitan area) 	<ul style="list-style-type: none"> - Maximize the operation of HR systems led by job-specific working-level leaders - Reassign talented individuals with global capabilities - Ingrain into the corporate DNA of LG H&H - Strengthen employee awareness concerning diversity and compliance 	HR Team Industrial Relations Team Corporate Culture Team
<ul style="list-style-type: none"> - Verify GHG emissions of HAITAI Beverage - Expand eco-labeled products - Perform ESH assessments (target: diagnostic completion rate of 95%) - Purchase green products (target: more than 5% increase in purchasing) 	<ul style="list-style-type: none"> - Develop a company-wide GHG target management response system - Expand eco-labeled products and improve product efficiency - Establish company-wide health care programs - Integrate disaster prevention initiatives into daily operation 	HES Team Environment and Safety Team
<ul style="list-style-type: none"> - Promote and expand representative social contribution programs - Promote representative child education support programs and increase their beneficiaries - Expand donation items and the number of volunteers in local communities - Expand traditional culture and continue to sponsor arts 	<ul style="list-style-type: none"> - Develop and expand representative social contribution programs - Strengthen global social contribution programs - Expand the scope of global community development initiatives - Facilitate social contribution programs through customer communication and engagement 	CSR Team
<ul style="list-style-type: none"> - Evaluate CSR performance of 250 suppliers - Purchase from suppliers: KRW 3 billion/Grow Together Fund: KRW 31.25 billion - Operate a technology document escrow system: 10 documents - Make eight joint patent applications concerning jointly developed new technology 	<ul style="list-style-type: none"> - Continue to expand direct communication with suppliers - Introduce a performance-sharing program with suppliers - Facilitate joint technology development and strengthen the protection of suppliers' original technology - Continue to expand the size of the Grow Together Fund 	Purchasing Team Win-Win Growth Drive Part

TOPIC

Panel Discussions

Panel Discussions

- Date: Apr. 3, 2013 (Wednesday) 2 p.m. ~ 4 p.m.
- Venue: LG Gwanghwamun Building (Seulgisam meeting room on 9th Floor)
- Proceedings
 - Introduction to LG H&H and its CSR initiatives
 - Stage 1: Discuss improvements to be made in respective CSR segments of LG H&H in response to changing social expectations and requirements of CSR
 - Stage 2: Discuss improvements to be made of LG H&H's CSR reports
 - Stage 3: Recommendations and wrap-up



Panelist Feedback



- ① Young-Chan Lee** _ Executive Director / Korea Management Association Registration

"The structure of site-specific and plant-specific data indicators needs to be unified while comparability needs to be ensured to clarify the meaning of such data."

- ② Jae-Eun Kim** _ President / The Institute for Industrial Policy Studies

"The structure of the report storyline needs to be improved through integrated reporting and the company is recommended to strengthen its brand value as a social and environmental contributor through the development of sustainable products and proactive marketing."



- ③ Tae-Hyung Lim** _ Director / Community Relation Center

"CSR governance and roles & responsibilities need to be expanded and systemized while integrated strategic CSR operations are required through the appointment of dedicated CSR executives. Furthermore, I expect the company to develop and strengthen its own unique social-giving programs."

- ④ Choong-Ho Kang** _ Policy Advisor to the Minister / Ministry of Land, Infrastructure and Transport

"I recommend the company to focus on labor issues in addition to the development of CSR reporting process that engages both labor and management. Furthermore, the title of the report may change into "Social Responsibility Report" in response to changing social requirements and the company will benefit from being a leader in transparent and balanced reporting."

- ⑤ Jong-Ho Kim** _ Former CEO / KPMG Samjong Accounting Corp

"Stakeholders require an easy-to-understand and detailed presentation on the company's financial and non-financial

risk management. Specifically, employees need to reinforce a systemic monitoring of risks that are related to their respective responsibility."

- ⑥ Soon-chul Hwang** _ Chairman / KoreaCSR Consulting Group

"Its corporate vision, CSR vision structure and function-specific strategic directions should be closely aligned through continued supplementation while future plans and mid/long-term targets should be outlined in addition to a mere chronological presentation of Performance. Furthermore, I expect the company to fully use its website to offer in-depth information."

- ⑦ Yong-Jae Jeong** _ Chairman / Social Venture Partners Seoul

"The company needs to consider NGOs and civic groups as long-term partners. It may benefit from expanding ethical and conscious consumption as a consumer marketing company through the collaboration with civil society."

- ⑧ Heung-Sik Kim** _ CSR Executive / LG H&H

Focus Areas

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- Product Safety and Responsibility	48
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- Product Patent Management	51
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4. Contribution to Local Communities and Social-Giving Initiatives	76
5. Win-Win Growth Partnership with Suppliers	82



Disclosure on Management Approach



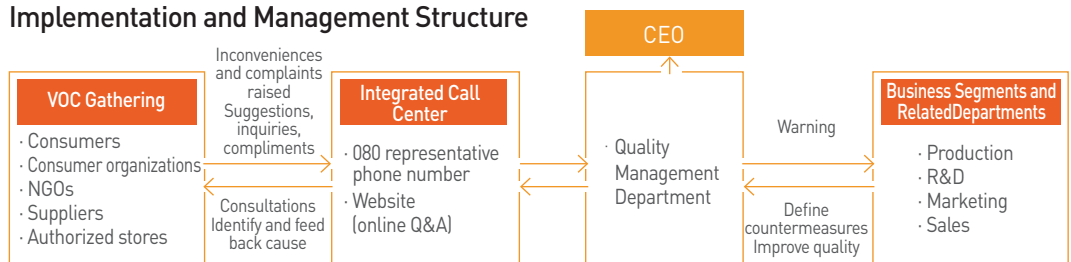
1. Customer Satisfaction and Quality Management



Strategic Directions

1. Customer feedback and communication
2. Prevention of reoccurring customer complaints
3. Company-wide quality management standards
4. Development quality management capability
5. Mass production quality management capability

Implementation and Management Structure



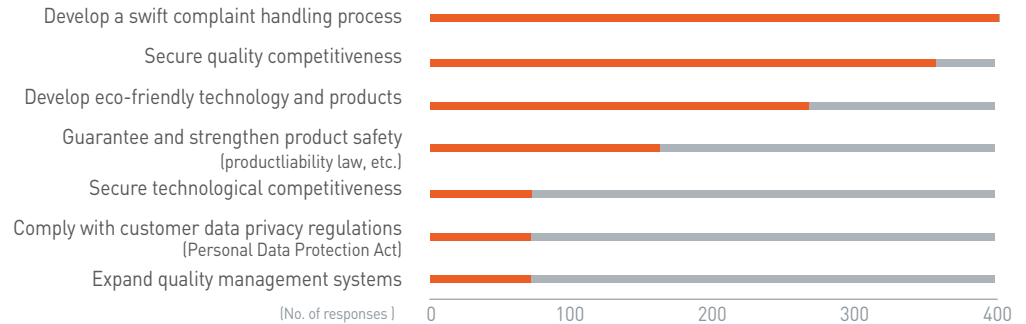
Mid-term Roadmap

Focus Area Issues	2013	2014	2015
Customer feedback and communication	Reflect VOC in product development	Enhance customer's trust in our products through sustained improvement	
Prevention of reoccurring customer complaints	Prevent reoccurring customer complaints through the management of customer complaint history		
Company-wide quality management standards	Develop business segment-specific quality management systems as well as standards through technology systemization	Develop our own quality management standards applicable to developing new products and businesses	
Development quality management capability	Proactively review customer complaint factors in product development and reflect them in product design	Serve as a company-wide quality management antenna through R&D and manufacturing that reflect regulatory trends, changing customer needs and potential quality risks	
Mass production quality management capability	Quality monitoring and follow-up management in the entire production segment		

We will quickly identify regulatory trends, changing customer interest and needs as well as potential quality risks to communicate them with experts in R&D and manufacturing process while transforming our process from the reactive management of customer complaints to the proactive management that identifies customer complaint factors in the initial product development stage and reflects them in product design. Furthermore, we aim to deliver a perfect quality of mass-produced products so as to prevent reoccurring customer complaints through quality monitoring in the entire manufacturing sector including suppliers while integrating customer feedback in product development in order to enhance customer's trust in our products. In addition, we will develop management standards through systemized business segment-specific quality management systems and management techniques while establishing our unique quality management standards applicable in developing new products and businesses.

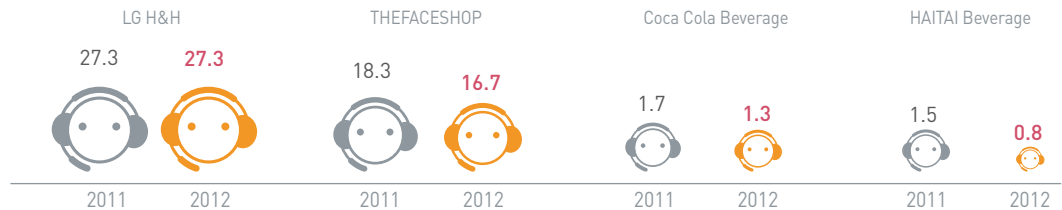


Customer Feedback Gathered



KPI

▶ Customer Complaint Rates (ppm)



Performance Chart

● Completed ◐ Under progress ○ Not completed

Level 1 Focus Area	Level 2 Key Managerial Issues	Level 3 Detailed Action Plan						
		2012 Performance	Completion	Page	2013 Plans	Target Deadline	Responsible Department	Collaborating Department
Customer Satisfaction and Quality Management	Customer feedback and communication	VOC* were received and managed	●	40,43	Receive and manage VOC	Year-round	Quality Management Department	Consumer center
	Prevention of reoccurring customer complaints	Reoccurring customer complaints were prevented (Instant dyes were improved for discharging defects)	●	42,43	Endeavor to prevent reoccurring customer complaints	Year-round		Quality Assurance Team Product Management Team R&D, Production Team
	Company-wide quality management standards	The Quality Declaration was developed Beauty device development and quality management processes were developed	●	44,46	Beauty/Healthy business segments Develop quality management processes for new business	Year-round		Product Planning Team Quality Assurance Team Product Management Team
	Development quality management capability	Development quality was managed through the introduction of the Q-NPD** process, Cosmetic commercialization guidelines Cosmetic pump bottle remaining content guidelines	●	44	Forecast customer claims through the stabilization of the Q-NPD process and the development of the Q-Library	Year-round		Product Planning Team R&D
	Mass production quality management capability	Mass production quality was managed through cross-verification among our business sites, monitoring of LG H&H and suppliers and the identification of improvement tasks	●	44	Strengthen follow-up management through the expansion of target suppliers and the introduction of plant/department-specific evaluation systems	Year-round		Quality Assurance Team Purchasing Department

* VOC: Voice of consumer

** Q-NPD : Quality based New Product Development

2012 Performance Highlight

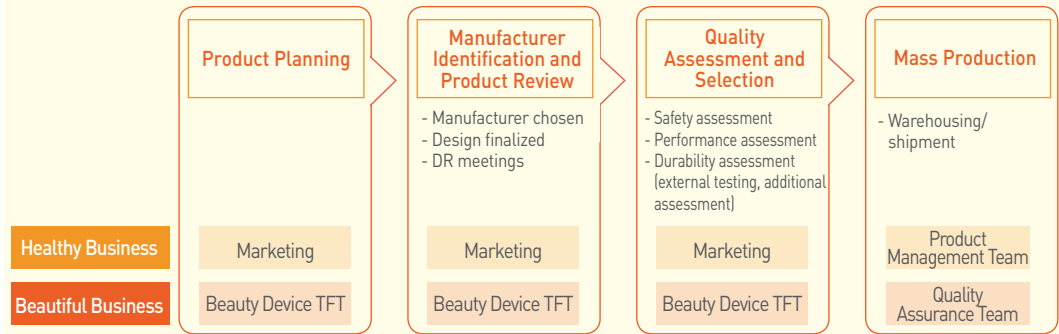


ISA KNOX
vibrating cleanse

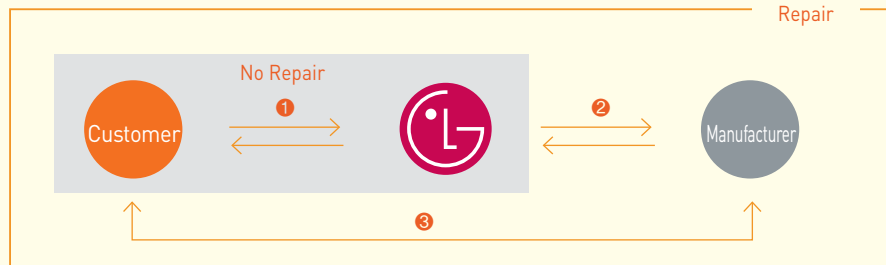
Beauty Device Development/Customer Complaint Handling Process

In response to growing customer needs for beauty devices that combine cosmetic and household goods with mechanical features, we launched such big hit products as Elastine curling iron, ISA KNOX vibrating foundation, ISA KNOX vibrating cleanser and Frostine cosmetic refrigerator. They were faced with customer complaints, however, as we lacked sufficient development capabilities in beauty devices. For instance, our vibrating cleanser, which aimed to make cleansing more convenient and effective, suffered failures: the head part became loosened due to repeated vibrations when used for a longer period of time, which created gaps in the battery case, and water penetrated into such gaps to cause failures. Our response was to modify the component mold and to indicate appropriate user guides and warnings so as to improve customer satisfaction. In so doing, we established our own development process and a swift customer complaint handling process that were applicable in developing new products required by the market. We will use customer feedback in further complementing these processes while proactively developing quality management systems in new business areas such as infant food.

Beauty Device Development Process



Beauty Device Customer Complaint Handling Process



No Repair

Repair

① LG H&H in charge of the entire counseling and handling process (exchange/refund)

① Offer basic-level counseling only
 ② Require the manufacturer to repair the concerned product, the outcomes are fed back and registered in systems
 ③ Defective products are sent and received by delivery service
 Exchange/repair (free of charge or charging the customer) /refund
 The manufacturer interacts with the customer through counseling only when charging the customer for repair services (Minimize contact between the manufacturer and customers)



Issue.1 Customer Feedback and Communication



Integrated Call Center

We ensure that invaluable customer feedback is fully integrated in improving products further through an integrated system so as to enhance customer value. While our telephone/online counseling and customer complaint handling operations had been dispersed across respective subsidiaries, they were integrated into a single system so as to remove complexity and inefficiency in operating multiple call centers, standardize customer complaint response systems, efficiently respond to internal/external changes and efficiently identify consumer features and patterns through the analyses of consumer data.



[Unit: No. of VOCs gathered]

VOC Status	Company	2010	2011	2012
	LG H&H	77,074	87,998	106,412
	Coca Cola Beverage	7,133	7,058	9,802
	THEFACESHOP	14,143	12,778	25,414
	Total	98,350	107,834	141,628

Issue.2 Prevention of Reoccurring Customer Complaints

Handling Customer Complaints

When customer complaints are submitted, their causes are immediately identified and they are fully reflected in improving our products and services. To ensure a high level of objectivity in quality management, we have been gathering such feedback in ppm, not in the number of complaints since 2006 while initiating our warning system in response to rapidly increasing complaints as a result of statistical analyses. Those complaints that are raised frequently and chronically are subject to intensive improvement efforts so as to prevent reoccurring complaints and enhance customer satisfaction.

Support for Salespersons

As we are fully aware that salespersons are our partners who directly deliver value to customers at the first customer contact point, we assist them in growing into top-notch consultants who serve customers. In addition, our BPS (Business Partner Supporting) organization offers systemic support to enable our salespersons to enjoy a stable livelihood and realize their full potential.



Customer complaint addressed through the improvement of the actuator part

Salesperson Operations

Category	Healthy	Beautiful				Refreshing	Total No. of Salespersons
Major Brands	ELASTINE TECH BODY FIT	ISA KNOX SOORYEHAN VONIN	OHUI WHOO Su:m 37	BEYOND	THEFACESHOP	COCA COLA MINUTE MAID GLACEAU	Total
2011	1,846	1,230	13,499	509	489	562	18,135
2012	1,784	1,133	13,044	523	707	441	17,632

Issue.3 Company-wide Quality Management Standards

As we produce wide-ranging products across multiple business sites, there may exist differences in product handling practices as well as managerial procedures and levels. Therefore, we are establishing standardized quality management across the board to satisfy legal requirements of respective products and to reach our target quality level so as to maintain consistent management standards while fully reflecting specificities of each product category.

Issue.4 Development Quality Management Capability

Development Quality Management through the Q-NPD Process

The very first prerequisite in developing new products is to reflect customer needs in product design and the decision made in the design stage ultimately determines the quality of finished products. Thus, our Q-NPD (Quality-based New Product Development) process has been operated since 2012 to establish a high level of design quality. Under this process, new products are mandated to pass the Q-Gate, which defines procedures that should be satisfied in the development process, to be launched into the market. The Q Gate aims to proactively address quality issues as well as the development time-table and spans from the product planning phase to the initial distribution phase. We will continuously update this process to thoroughly review product defects and possible customer complaints before any product launches and to improve the development quality of products that are delivered to customers.

Cosmetic Development Quality Management Guidelines

One of the greatest sources of quality issues in developing cosmetic products is the reaction between the content and the container. Therefore, we developed guidelines to assess such reactions in the initial phase of new product development. In addition, cosmetic pumping guidelines were defined to be applied to respective products so as to prevent customer complaints concerning excessive remaining contents in the container.

Issue.5 Mass Production Quality Management Capability

Cross-Site Verification and Supplier Quality Monitoring

To deliver the quality that was initially designed to customers, product quality is monitored at our business sites and suppliers in the mass production and manufacturing phase. Such quality monitoring is performed through cross-site verification so as to review our quality management operations in the manufacturing sector and identify improvements to be made. Cross verifications were made among LG H&H sites and beverage business sites once and twice respectively. Furthermore, outcomes of customer complaint handling will be subject to follow-up management while more stringent reviews will be conducted of Performance made through monitoring improvement tasks. In manufacturing products, packaging materials and other numerous components are externally sourced, which means that quality management should span the entire supply chain including suppliers in order to ensure stable product quality. Included in our partnership enhancement initiatives to ensure quality management and technology development with suppliers are regular meetings & learning organizations, on-site guidance offerings, and mock pharmacist observations. Quality monitoring systems were also introduced for major OEM companies and subsidiary material suppliers so as to provide detailed diagnoses and solutions to respective suppliers concerning overall quality management practices while making improvements in alignment with existing site-specific support initiatives.

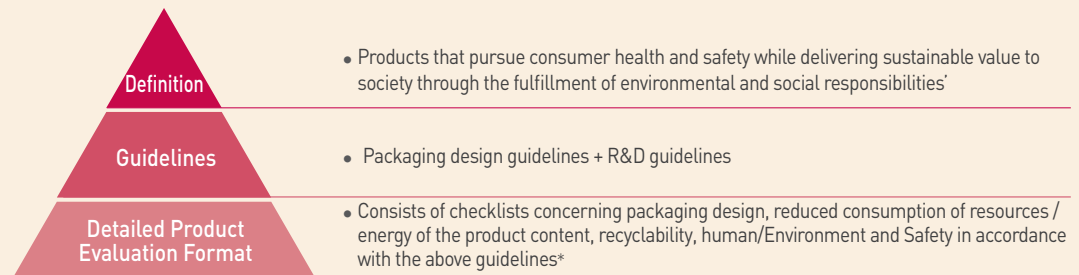


SPECIAL FEATURE Sustainable Products

We use our sustainable product guidelines developed in 2010 to make quantitative product evaluations. We define sustainable products as 'products that pursue consumer health and safety while delivering sustainable value to society through the fulfillment of environmental and social responsibilities'. As such, we ensure that our products have the least amount of environmental impact from the initial development phase to the disposal phase and contribute to a sustainable and harmonious society. Furthermore, we have packaging design guidelines that include ten principles concerning recycled materials and lightweight materials as well as R&D guidelines that also include ten principles concerning reduced environmental load and product safety. In addition, we use a detailed product evaluation format that consists of respective checklists of both product content and packaging design in consideration of product category-specific features.

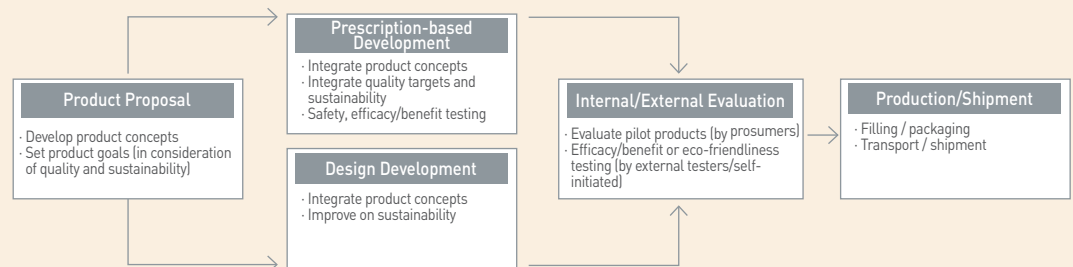


Sustainable Product Framework



* R&D Process for Sustainable Products

R&D Process for Sustainable Products



Sales of Sustainable Products

Category	2010	2011	2012
Sales (KRW 100 million)	17,477	19,956	21,446
Sustainable products (KRW 100 million)	1,052	1,189	1,434
Sales ratio	6.0%	6.0%	6.7%

Sustainable Products

* In accordance with LG H&H's non-consolidated accounting



Sheets-type detergent



belif



SAFFRON concentrated fabric softener

Definition of Sustainable Products



Evaluation Categories

Category		Evaluation Categories	Evaluating Department	Note
Product Content	Safety	1. Detection of hazardous substances - Heavy metals - Formaldehyde - Dioxane - Phthalate - Methanol - Phenol	Analytical lab.	Evaluation categories and criteria are applied to respective product categories
	Reduced environmental load	2. Hypoallergenic prescriptions 3. Use of technology to reduce environmental load/energy consumption	Product Research lab.	
Package	Safety	4. Limited use of heavy metals in packaging materials	Packaging Research Department	Different criteria are applied to each packaging type in
		5. Use of PVC		
	Reduced use of resources	6. Product-to-packaging weight index		
		7. Reduced product-to-package ratio		
	Recyclability	8. Secondary packaging		
9. Recyclable materials and structures				
	10. Recyclable design	Design Creative		

Evaluation Scale

Detailed evaluation category-specific criteria are set on a scale of one to three

- ❖ Considerations to be made in developing detailed criteria for respective evaluation categories



Eco Labeling

In response to growing eco-friendly consumption trends, we are expanding eco mark-certified and carbon-labeled products. These eco-friendly products use natural ingredients that are safe to human body and have less environmental footprint while reducing Water usage and water pollution in the use and disposal phases. As of last year, 66 of our products were certified with the eco mark.



Product Category	2010		2011		2012	
	Name of Product	No. of Items	Name of Product	No. of Items	Name of Product	No. of Items
Powder laundry detergents	Tech Simple Sheet, Think Earth, Hanspoon	13	Tech Simple Sheet, Think Earth, Hanspoon	16	Tech Simple Sheet, Think Earth, Hanspoon	8
Liquid laundry detergents	Think Earth	1	Think Earth	1	Think Earth	2
Liquid fabric softeners	Think Earth	2	Think Earth	2	Think Earth	-
Multi-purpose cleansers	Think Earth (bathroom/kitchen)	2	Home Star	9	Home Star	9
Liquid dishwashing detergents	Think Earth, Pong Pong, Sense, Safe Germinated Brown rice, Jayon Pong Rice Water, Safe Dishwashing, Jayon Pong Fermented Yogurt, Jayon Pong X8 Expandible Dishwashing Detergent	27	Think Earth, Pong Pong, Sense, Safe Germinated Brown rice, Jayon Pong Safe Dishwashing, Jayon Pong Fermented Yogurt, Jayon Pong X8 Expandible Dishwashing Detergent, Jayon Pong Clean Dishwashing, Safe Mineral	35	Think Earth, Pong Pong, Sense, Safe Germinated Brown rice, Jayon Pong Safe Dishwashing, Jayon Pong Fermented Yogurt, Jayon Pong X8 Expandible Dishwashing Detergent, Jayon Pong Clean Dishwashing, Safe Mineral	47
Body cleansers	Say (Lime Orange, Lavender, Angel Berry, Chamomile)	12	Say (Lime Orange, Lavender, Angel Berry, Chamomile)	12	Say (Lime Orange, Lavender, Angel Berry, Chamomile)	-
Total		57		75		66



Carbon Labeling

Issued by the Korea Environmental Industry & Technology Institute, carbon labeling indicates the GHG emissions, generated throughout the entire life cycle of products ranging from production and transport to distribution, use and disposal, on the product packaging so as to encourage consumers to purchase green products. We have a total of eight carbon labeled products with the addition of Super Ti in 2012. (12 when Coca Cola Beverage included)

2010		2011		2012	
Name of Product	No. of Items	Name of Product	No. of Items	Name of Product	No. of Items
Elastine Damage Control Shampoo 780g Elastine Moisture Control Shampoo 780g Elastine Volume Control Shampoo 780g Jayon Pong Sulip 1.4kg	4	Elastine Damage Control Shampoo 780g Elastine Moisture Control Shampoo 780g Elastine Volume Control Shampoo 780g Jayon Pong Sulip 1.4kg Saffron Pink Sensation 3,500ml Saffron x10 Pink 350ml Saffron x10 Violet 350ml	7	Elastine Damage Control Shampoo 780g Elastine Moisture Control Shampoo 780g Elastine Volume Control Shampoo 780g Jayon Pong Sulip 1.4kg Saffron Pink Sensation 3,500ml Saffron x10 Pink 350ml Saffron x10 Violet 350ml Super Ti Refill 6kg	8
Coca-Cola 500ml(PET) Coca-Cola Zero 250ml(CAN) VioSoonsoo Diamond 500ml VioSoonsoo Diamond 2l	4	Coca-Cola 500ml(PET) Coca-Cola Zero 250ml(CAN) VioSoonsoo Diamond 500ml VioSoonsoo Diamond 2l	4	Coca-Cola 500ml(PET) Coca-Cola Zero 250ml(CAN) VioSoonsoo Diamond 500ml VioSoonsoo Diamond 2l	4

Product Category	Carbon Emissions (gCO ₂ /product)	Phase-specific Carbon Emissions (gCO ₂ /product)		
		Before Manufacturing	Manufacturing	Disposal
Elastine Damage Control Shampoo 780g	741	523	150	68
Elastine Moisture Control Shampoo 780g	647	482	109	56
Elastine Volume Control Shampoo 780g	668	504	108	56
Jayon Pong Sulip 1.4kg	801	670	87	44
Saffron Pink Sensation 3,500ml	1,069	750	226	93
Saffron x10 Pink 350ml	1,780	1,366	68	347
Saffron x10 Violet 350ml	1,799	1,383	69	347
Super Ti Refill 6kg	7,942	7,243	575	124
Coca-Cola 500ml(PET)	225	174	41	10
Coca-Cola Zero 250ml(CAN)	67	51	15	1
VioSoonsoo Diamond 500ml	92	56	29	7
VioSoonsoo Diamond 2l	281	143	120	18

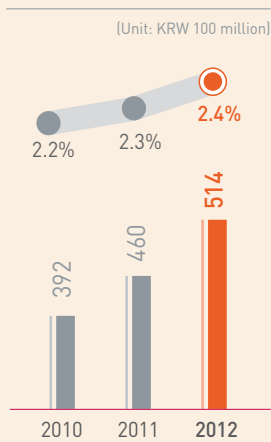
Product Safety and Responsibility

All our products and raw materials are stringently inspected for their potential harmful effects on human body so as to enhance their safety and eco-friendliness.

Eliminating Animal Testing in Cosmetic Development

Our consumer-friendly brand image was enhanced through the exclusion of animal testing from the safety assessment procedures undertaken as part of the cosmetic development process. While we had partially conducted animal tests to assess the safety of raw materials and finished products, such tests were completely eliminated from January 2012 due to EU's regulation that took effect in March 2013 to ban the manufacturing and sales of animal-tested cosmetic products, increasing consumer and social awareness of animal protection and the spread of anti-animal testing regulations from Europe to other regions of the world. In so doing, our social-friendly and eco-friendly brand image was further strengthened. For instance, our eco brand 'BEYOND' launched an anti-animal testing campaign, which was highly appreciated by consumers and contributed to establishing its image as an eco-friendly beauty brand. Included in its wide-ranging initiatives against animal testing are: the launching of endangered animal-themed make-up products, the 'Save Us' fund that donates a portion of the profits from these products to endangered animals conservation organizations, TV advertising that promotes its animal testing-free cosmetic products, the one million signature campaign against cosmetic animal testing, SNS-based presentations on the legitimacy of anti-cosmetic animal testing and its alternatives, the launching of basic care products that personify animals to induce consumers' interest and the listing of animal testing-free, 'conscious' cosmetic brands. BEYOND also joins other anti-animal testing campaigns and discussions held to revise relevant regulations while undertaking various safety assessment techniques concerning non-animal testing alternatives.

LG H&H's R&D Expenditures and Percentages



* R&D outcomes were modified due to the revision of internal management standards

Non-Animal Alternative Safety Assessment Techniques

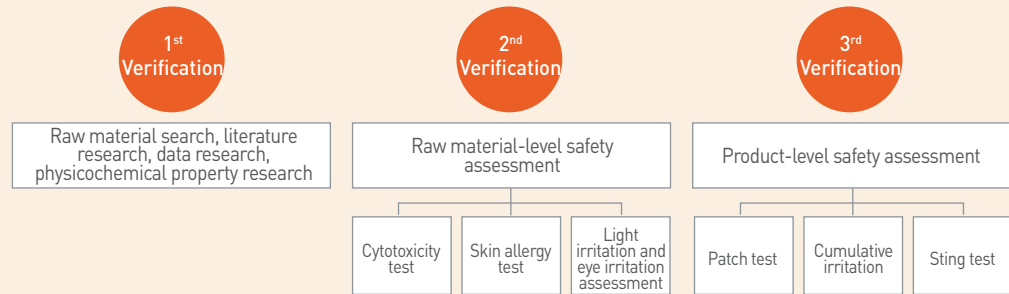
We have been preparing non-animal testing alternatives over the last several years for cosmetic safety assessments in consideration of changing social trends. Presently, our Research Park is performing such in-vitro techniques as cytotoxicity tests, immunocyte cultivation, and HET-CAM to establish the safety of our products for human body.

Safety Management Process

Our LG H&H Research Park performs human toxicity and risk assessments of the entire raw materials and finished products so as to ensure the eco-friendliness and safety of our products. On a material level, human skin cells are tested for toxicity while the probability of human skin allergy is evaluated through skin allergy testing. On a product level, patch tests are conducted as part of the product development process to choose and recommend the least skin-irritating prescription. In addition, sting tests and cumulative irritation tests are performed to proactively confirm the possibility of any other skin side effects.



Assessment of Safety to Human Body by Product Development Stage



Hazardous Substance Management Categories and Standards

We follow highly stringent criteria concerning hazardous substance management categories so as to ensure the safety of raw materials and finished products while monitoring these substances in real time to prevent and address environmental issues. Those substances that are harmful to human body such as heavy metals, formaldehyde, dioxane, phthalate, methanol, pesticide residues, steroid and asbestos are detected by highly-sensitive precision analytic devices on a constant and regular basis so as to guarantee product safety. Furthermore, we fully comply with regulatory standards concerning the combination limit of regulated materials as well as incompatible substances whose combinations are prohibited.

Open Innovation

In securing the technology and ideas required for R&D and commercialization purposes, we are moving away from a closed-loop system into open innovation that values the external sourcing of such technology and ideas and the sharing of internal resources with external stakeholders. In addition to continuous exchanges and networking with research institutes, universities, venture companies, technology trading institutes and raw material suppliers in Korea and abroad, we use i-CONNECT (iconnect.lgcare.com), an online website launched in 2009, to receive approximately 100 proposals annually on patent technology and business cooperation, which are then led to product launches through review process. In 2012, the 'OHUI The First Geniture' cream debuted in the market in 2012 through the collaboration with CHA Bio & Diotech.

Functional Wrinkle Treatment Cosmetics Developed through the Analyses of Wrinkle-related Genes of Koreans

We recognized that the reason why even the same cosmetic ingredients or products generated different levels of efficacy or irritation entirely lied in the genetic skin differences. Since 2009, our skin experts were joined by dermatologists at Chungnam National University, Gyeongsang National University and Yonsei University in Korea to perform skin gene analyses in accordance with different skin features of consumers and to initiate forward-looking R&D endeavors to develop brand new cosmetics. Genes collected from 475 people chosen in consideration of their age range and living environment were subject to in-depth analyses for three years. This led to the selection of gene candidates that showed different expression patterns in accordance with the amount of wrinkles and these selected genes became the focus of our R&D efforts, which led to the development of A440, a new functional wrinkle treatment material that produces skin collagen, for the first time in Korea. A440 facilitates the generation of skin collagen that declines in amount as our skin ages and thus is highly effective in treating wrinkles and improving skin elasticity of aged skin. Such open innovation-driven research enabled us to study skin genes in consideration of Korea's unique skin features and to develop highly-functional wrinkle treatment cosmetics while establishing the platform to classify and analyze skin features concerning key genes that are related to respective skin troubles. The launching of a brand new product that is Korea's first-ever will help us become the first-mover in the global market and contribute to an improved national competitiveness.

'OHUI THE FIRST', Advanced Bio-engineered Cosmetics

In 2009, we forged a strategic partnership with CHA Bio & Diostech which possessed global-level stem cell technology, so as to develop cosmetics through the use of stem cell technology that is emerging as a key regenerative medicine technology. Since then, a variety of new products have been launched. Our collaboration with the CHA Stem Cell Institute will continue to use cutting-edge stem cell technology in the R&D and development of products and to build competitiveness to lead the bio-engineered cosmetics segment.

'OHUI THE FIRST GENITURE CREAM' Created from Human Stem Cell Culture Fluids

Since the successful launch of the 'OHUI THE FIRST' line-up manufactured from key ingredients of stem cell culture fluids, we continued to look for ways to use these fluids directly as cosmetic ingredients and created the 'OHUI THE FIRST GENITURE' cream in 2012, which constituted a significant improvement from the previous line-up. To use the stem cell culture fluids exclusively sourced from the CHA Stem Cell Institute as cosmetic raw materials, our R&D was conducted in accordance with the stringent 'safety standards on human cell tissue culture fluid' proposed by the Korean FDA. Independent research activities were also undertaken to freeze-dry, stabilize and successfully formulate effective components of stem cell culture fluids that were fragile and easily destroyed. As a result of such endeavors, it was demonstrated that aging signs concerning skin tone, wrinkles, dermal density, sagging skin, dead skin cells and skin tone uniformity were effectively improved while dermal density rose by 6% after four weeks of applying the cream. The 'OHUI THE FIRST GENITURE' cream is continuously gaining popularity among middle-aged women who yearn for younger-looking skin as a prestige anti-aging solution created through cutting-edge bio engineering technology that enhances anti-aging potential to prevent future aging as well as improving aged skin.



OHUI THE FIRST GENITURE CREAM

'OHUI THE FIRST CELL SOURCE' Containing 90.3% of Nutritious Cell Media Instead of Purified Water

OHUI's research center was engaged in joint R&D with the CHA Stem Cell Institute to address the question of 'Are there any ways to further enhance the skin-related efficacy of stem cell culture fluids?'. While growing cells, it was proved that highly nutritious cell media were required to promote the growth of all types of cells including stem cells. Thus, an unprecedented project was initiated to use cell media as cosmetic raw materials with the belief that a young and healthy skin can be maintained if every skin cell becomes healthy as cells change their properties according to their surrounding conditions and generate the greatest benefits under the most favorable environment. Through more than one year of trial and error, we successfully developed a new formulation that contained 90.3% of cell media instead of purified water which accounted for the largest share as cosmetic ingredient. The in-vivo experiments conducted by an authorized clinical testing organization demonstrated that this new formulation was highly effective in improving blood circulation, skin elasticity and delivering a fairer skin tone. Specifically, skin elasticity reduced by aging was quickly recovered as well. Our OHUI THE FIRST CELL SOURCE, containing cell media as ingredient, created a wholly new product category and has enabled us to generate sales continuously in the anti-aging product segment.



OHUI THE FIRST CELL SOURCE



Product Patent Management

Our differentiated R&D outcomes on high-functional, high-efficacy technology are systemically managed through patent applications. Specifically, we are further driving our technology development regarding next-generation skin protection materials, high-functional cleansing emulsion technology, and genetic recombination cell culturing technology while protecting our technology through patent registrations. We aim to develop technology that addresses customer complaints through the improvement of existing products, delivers new functions that were not recognized yet by consumers and offers reasonable prices through cost reduction. These technologies that were independently developed by LG H&H are protected through the 835 patent registrations approved in Korea and abroad.



R&D Patent Applications and Utility Models

(Unit: No. of patents)

Category		2010	2011	2012	Total Patents
Korea	Applications	71	104	136	645
	Registrations	39	50	50	713
Overseas	Applications	6	10	20	133
	Registrations	11	10	9	122

Brand New 100% Water-soluble Sheet-type Detergent

Our 'Tech OK Soluble Sheet' offers an easy solution that addresses inconveniences of power detergents (power flow and residues) and liquid detergents (heavy weight and difficulty in measurement). Specifically, these detergent sheets prevent the spill of detergents around the detergent slot and help maintain a tidy laundry room while their smaller size makes it easier for housewives to purchase and use them. While detergent sheets are inherently fragile and relatively low-performing, our sustained R&D efforts allowed us to develop sheets that do not come apart easily and are highly water-soluble while delivering outstanding performance.



Solubilization of Hardly-Soluble Ceramide

Ceramide, which makes up approximately 50% of the skin lipid components, plays a key role in the aging process concerning skin moisturization, elasticity and wrinkles. However, it has a large molecular structure and is neither water-soluble nor oil-soluble, which motivated us to develop new formulations. We started with the development of source technology that solubilize ceramide through molecular modeling and then completed a new formulation that contained the optimized ceramide component. This technology was used in launching such products as Su:m 37 Secret Programming Essence, Whoo Bichup JaSaeng Essence and OHUI Cell Power No. 1 Essence while driving the growth of our flagship brands.

Ceramide Mycell Modeling



Resources Saving and Recycling

We take the initiatives to save resources, reduce waste and improve recyclability in developing product packaging solutions through plastic weight reduction technology, resource-saving packaging structures, the modification of packaging types and the minimization of post processing and the use of composite materials. We also take the environmental impact of packaging materials into account in developing these materials. The reduction of weight and thickness of packaging materials helps us improve the efficiency of resource consumption while reducing waste.

Compact gift set packaging made possible through partial trays

We adopted a compact gift set packaging solution to reduce the tray weight by 60% as well as 70 tons in annual plastic consumption.



Increased recyclability through the removal of post processing for cream giveaways

We eliminated the deposition coating that had been used to manufacture cosmetic giveaway containers and adopted pearl extrusion to enhance recyclability and simplify processes, which led to KRW 250 million in annual cost savings..

Reduced pulp consumption made possible through the use of recycled paper for individual cosmetic boxes

In manufacturing individual cosmetic boxes, we adopted the type of paper that contained recycled paper materials, which allowed us to save five tons in annual pulp consumption and KRW 80 million in cost savings.



Product instructions printed on the inside of the container box

While product instructions were separately provided within the packaging box previously, they were printed on the inside of the box so as to eliminate unnecessary waste.

- BEYOND's Please Look After BEYOND Lipsticks, BEYOND's Phyto Aqua make-up line

Opting for recyclable color paper instead of metalized packaging paper

As metalized packaging paper was impossible to recycle, this was replaced with recyclable color paper to increase recyclability.

- Su:m Secret line-up



Integrated plug instead of packing foams

The packing foams that had been used for jar-type cream products were replaced with direct plug-type packaging to enhance recyclability.

- SooRyeHan Boyun 10ml cream giveaways, Su:m 37 10ml cream giveaways, 5ml eye cream, Whoo 4ml and 10ml giveaways



Reduced resource consumption through the use of wavy embossed foams

General foams and embossed foams were replaced with wavy foams, which helped us save KRW 130 million annually.

- OHUI, ISA KNOX, CareZone, LAC VERT/Adopted for a portion of our product categories



● Packaging Improvements



Application Case	Name of Product	Features
Minimize packaging materials	Household goods gift set	Make gift set packaging compact through the use of partial trays - Minimize plastic consumption (tray) and the volume of packaging waste (boxes)
	Household goods gift set	Continue to reduce basis weight of non-woven shopping bags - 5-5g/m ² (2010) → 40g/m ² (2011) → 35g/m ² (2012)
	DeBON shampoo/conditioner	Improve recyclability through the removal of chaste Al - Triple-layer(PET/Nylon/LLDPE) → Double-layer (PET/LLDPE)
	Cosmetic sets	Reduce basis weight through the change of the type of paper used for set packaging (SC240 → 200, K400 → 300)
	Cosmetic individual boxes	Replace the type of paper used for individual cosmetic boxes - CCP (previously) → CWP (currently), reduced pulp consumption through the use of material containing recycled paper
Reduce the use of plastics	HAN.IP laundry detergent 1.2L liquid bleach	Reduce the container weight of the HAN.IP liquid detergents - 87.5g (previously) → 82.5g (currently)
	Hexa Wrap	Reduce waste through the launch of thin-film wrappers - Reduced wrapper thickness: 12.5μm → 10μm
	Su:m 37 1102 Skin 5.5ml and 25 other products	Replace composite materials with single materials for 5.5ml sample containers - Contraction film → printing
	10ml cream cap giveaways	-Remove packing foams from 10ml giveaway cream caps -Packing foams → Integrated plugs
Improve recyclability	PERIOE Kids Toothpaste	Remove coating films through the change of surface processing method for individual toothpaste boxes - Matt PP film laminated paper → Matt coating-applied paper
	SAFFRON 10x	Opt for easily-recyclable materials for Saffron 10x containers - PCTG (previously) → HDPE (currently)
	Carezone Acre Foam and two other products	Double tube cap: Plastic + metal (previously) → PP material (currently)
	Vonin	Use single materials for Vonin Character Gold Emulsion / Skin caps (ABS + PP → PP)
	OHUI Clear Science Easy Wash-up Cleansing Cream	Adopt single materials for aerosol cap buttons of Home Star Mold Remover - PP + POM (previously) → PP only (currently)
	Home Star	Adopt a simple structure and materials for double caps - Cap (PP) + plate (ABS) ABS → single caps (PP)
	Carezone Deep Clean Cleansing Foam and one other product	Improve recyclability and minimize plastic consumption through the change of tube specifications - Seven-layer Poly Foil tubes + double-layered caps (plastic + metal) → five-layer extruded tube PP caps
	IK MX-280 and 16 other products	Reduce the use of plastics through the removal of tube check valves
	WH00 Jinyulhyang Jinyul Go 10ml and three other products	Remove post processing for cream giveaways Change in specifications: Coating → pearl extrusion



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Disclosure on Management Approach



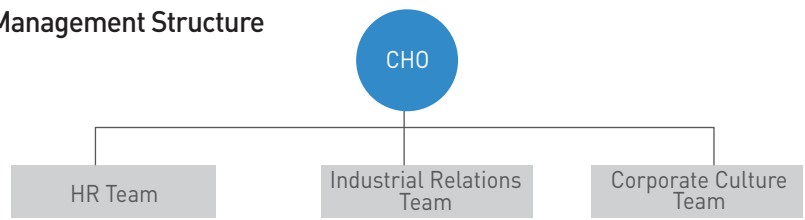
2. Employee Satisfaction Management and Value Enhancement



Strategic Directions

1. Job-specific differentiated HR system
2. Line-manager driven HR operations
3. Strengthened global capabilities
4. Innovate corporate culture for enhanced employee value
5. Community-driven labor relations
6. Respect for diversity

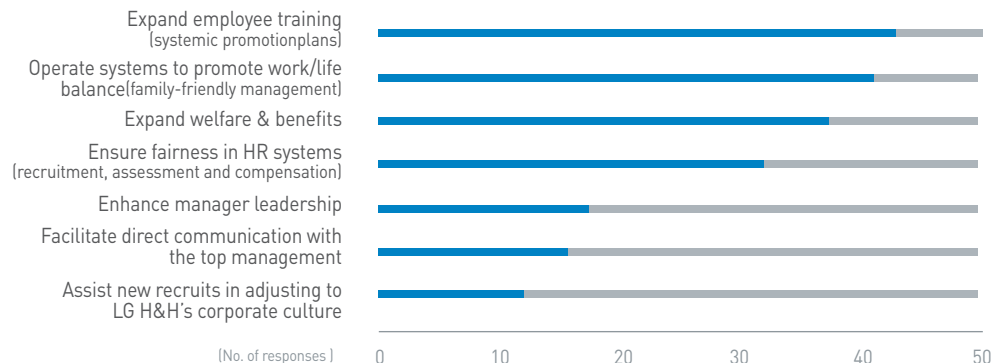
Implementation and Management Structure



Mid-term Roadmap

Focus Area Issues	2013	2014	2015
Job-specific differentiated HR system	Stabilize a job-specific differentiated HR system	Review a job-specific differentiated HR system and identify improvements to be made	Make improvement to maximize sustained benefits from the job-specific HR system
Line-manager driven HR operations	Introduce a new HR approach to marketing operations to enable Line-manager to take the initiative	Build HR operational system led by Line-manager in the entire operation and integrate improvements	
Strengthened global capabilities	Strengthen global capability through the appointment of globally-related employees	Undertake programs to build global capability of all employees	Reassign talented individuals with global capabilities
Innovate corporate culture for enhanced employee value	Develop LG H&H's own cultural DNAs	Disseminate the DNAs of LG H&H's corporate culture	Ingrain the DNAs of LG H&H's corporate culture
Community-driven labor relations	Develop a communication network	Strengthen communication with the Employee Council	Identify VOE and facilitate system improvement
Respect for diversity	Build awareness of relevant and all employees to respect for diversity	Proactively prepare for and respond to compliance-related regulatory changes	Undertake sharing activities for employees working in relation to compliance

Employee Feedback Gathered



KPI (Based on LG H&H)



*Disabled Populations, Children of Veterans and Foreigners

Performance Chart

● Completed ○ Under progress ○ Not completed

Level 1 Focus Area	Level 2 Key Managerial Issues	Level 3 Detailed Action Plan							
		2012 Performance	Completion	Page	2013 Plans	Target Deadline	Responsible Department	Collaborating Department	
Employee Satisfaction Management and Value Enhancement	Job-specific differentiated HR system	Outstanding new employees customized for their job were hired	●	57	Generate outcomes through a more efficient recruitment process while maintaining the job-specific, customized recruitment system	Year-round	HR Team		
		Job-specific differentiated compensation system and a job-based position/title system were operated	●	57	Gather VOE and identify possible improvements concerning the job-specific compensation system and the job title system	Year-round			
	Line-manager driven HR operations	HR systems led by Line-Manager, not by HR teams, were operated	●	57	Stabilize HR operations led by Line-manager	Year-round	HR Team		
		Individual compensation management system was introduced for marketing employees to ensure fair evaluation and compensation	●	57	Ensure fair evaluation and compensation through a stabilized individual marketing-related compensation management system	2 nd half			
	Strengthened global capabilities	Due diligence and consolidation of global M&As were performed successfully	Employees with global business capability were fostered	●	58	Facilitate the post-M&A consolidation in consideration of respective company features	Year-round	HR Team	
			Overseas subsidiary operation model led by locally-hired staff was introduced	●	58	Continuously foster employees with global business capability and assign them to overseas positions	1 st half		
			Overseas subsidiary operation model led by locally-hired staff was introduced	●	58	Ensure successful early-stage 'soft landing' of the promotion of locally-hired staff and the locally-initiated subsidiary operation model	Year-round		
	Innovate corporate culture for enhanced employee value	Work & life balance initiatives were undertaken - Flexible time system, enterprise-wide holiday system	Smart Work culture was developed - Team-level Smart Workshop was initiated - Smart Working Style Campaign was launched	●	58	Work & life balance initiatives - Enable salespersons to commute to and from sales fields	1 st half	Corporate Culture Team	
			'No. 1 Class Company' initiative was launched No. 1 Class Campaign All working-level department - No. 1 Class training [sexual harassment/price-fixing]	●	58	Build on-site Smart Stations for sales organizations - Eight stations in the Seoul metropolitan area	1 st half		
			Job position-specific self-growth courses were offered - Part leader career design course	●	58	Set a roadmap to develop the DNAs of market-leading culture	Year-round		
			Issue-specific idea suggestions were made - Killer Solution initiative	●	58	Provide job-specific self-growth courses - Deputy section chiefs career vision course	Year-round		
			Issue-specific idea suggestions were made - Killer Solution initiative	●	58	Continue with the issue-specific idea suggestion program while re-interpreting and commercializing existing ideas	Year-round		
	Community-driven labor relations	Communication with working-level staff was facilitated	VOE was gathered, systems and welfare & benefits were improved	●	59	Strengthen the operation of regular meetings (Labor-Management discussions, Employee Council meetings)	Year-round	Industrial Relations team	CBD Support team
			VOE was gathered, systems and welfare & benefits were improved	●	59	Diversify VOE gathering channels	Feb.		
	Respect for diversity	Management process was built to respect diversity and basic human rights were protected	Employment of females was expanded	●	60	Follow improved process to respect diversity, swiftly respond to improved procedures and share in-house activities that aim to protect basic human rights	Year-round	HR Team	All Working-level department
			Regulations concerning the Disabled were observed and outcomes were generated regarding their employment	●	60	Continue to increase the recruitment of female talent and integrate a culture of gender equality	Year-round		
			Regulations concerning the Disabled were observed and outcomes were generated regarding their employment	●	60	Comply with relevant regulations and take the initiative through the proactive response to both direct and indirect employment of the Disabled	Year-round		

2012 Performance Highlight

1. Fair Evaluation and Compensation Based on an Individual Compensation Management System for Marketing Employees

We initiated a new individual compensation management system that aimed to motivate high-performing marketing employees through differentiated compensation and to encourage low-performers to be fully engaged in improving their performance. This new system allows marketing line managers to directly determine the rate and frequency of wage increases for individual employees. In so doing, individual employees' performance is closely managed and individually compensated by their immediate supervisors, which leads to an increased fairness in employee evaluation and compensation.

2. Establishing Smart Work Culture

We define Smart Work as focusing on truly serving our customers without wasting our resources on issues irrelevant to customers. To build a culture of Smart Work, we adopted the three basic keywords of Simple (meeting/reporting), Balance (flexible time, time management) and Open (horizontal communication, collaboration & information sharing) so as to launch the Smart Work campaign, hold team/business segment-level Smart Workshops and perform organization-specific Smart Work diagnoses. In so doing, we are establishing a corporate culture of Smart Work.

Simplify internal operations drastically while identifying and responding to the needs and problems of customers

Simple

Meeting practices

Reporting practices

Promote creative thinking through work/life balance

Balance

Time Management

Flexible Time

Generate 'Medici Effects' through horizontal and vertical sincere communication

Open

Horizontal communication

Active collaboration & information sharing



3. Fostering Employees with Global Business Capability

As our overseas business grows and our key overseas business positions expand, we operate training programs that assist our employees in building and strengthening their global capabilities to serve as the platform for our global operational strategy.





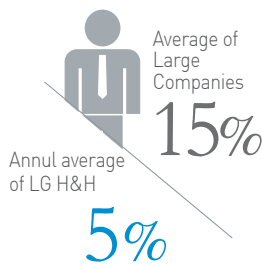
Issue.1 Job-specific Differentiated HR System

1) Success in Recruiting Talented Individuals by Job Position

In 2012, we hired outstanding individuals through our job-specific differentiated recruitment program. While we recruited first and assigned new hires to their job positions later, we currently operate diverse recruitment channels to enable young and creative talent to identify their job Attitude first and choose the right position. Thus, our new marketers were recruited through Marketing seminars, new salespersons through the Sales Academy, new researchers through R&D seminars, and production engineers through Production Technology seminars. This enabled us to practice our recruitment philosophy of "the Right People on the Right Job" while our systemic job-based recruitment process of resume review job aptitude test/personality test-interview-internship-seminar camp helped us drastically reduce the early resignation rate of new hires.



Early Resignation Rate of New Hires (Within one year after employment)



Job-specific Differentiated Compensation and a Job-based Position/Title System

We offer specialized compensation to next-generation key talent working in core positions as future business leaders while encouraging them to take the initiative and have meaningful work experience through our fast-track promotion program. Our differentiated compensation system, aligned with the job-specific recruitment system, adjusts the entry-level wage in accordance with job positions (marketing, R&D and sales) so as to hire the right people on the right job. Furthermore, our job-based title system ensures that our employees are addressed through the most appropriate title (assistant brand manager, researcher, perfumer, designer and team member) that best represents their distinctive responsibility and role, rather than uniform titles that were previously used.

Issue.2 Line-manager Driven HR Operations

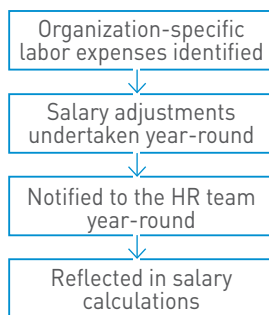
1) HR Process Led by Line-managers

While the HR department was in control of HR processes with an emphasis on seniority previously, our current HR system enables line-managers to take not just profit-making but also HR-centered perspectives into account in hiring, compensating and fostering talent. In so doing, we further drive ourselves to change and enhance operational flexibility.

2) Fair Evaluation and Compensation for marketing Employees through Individual Compensation Management System

Our newly-launched individual compensation management system motivates high-performing marketing employees through differentiated compensation and encourages low-performers to improve their performance. This also enables line-managers to determine the rate and frequency of wage increases of individual employees. While the HR department was unilaterally responsible for making regular salary adjustments, this new system allows line-managers to manage wage resources and talent so as to make salary adjustments and promotional decisions year-round and take the initiative in managing labor expenditures. In so doing, individual employee performance is closely managed and evaluated and individually compensated by their immediate supervisors, which enhances the fairness of our evaluation and compensation compared to the previous uniform system.

Modified Salary Adjustment Process



Issue.3 Strengthened Global Capabilities

Increase in the Number of Locally-hired Employees

(Unit: No. of persons)

Category	2010	2011	2012
Expatriate employees	18	19	21
Locally-hired employees	1,244	1,252	1,446

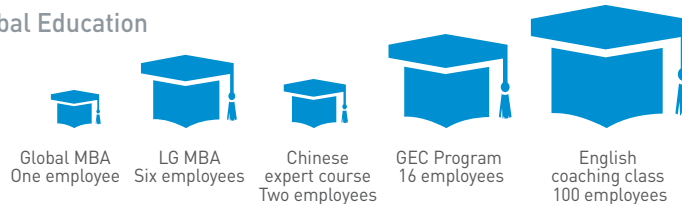
1) Global Consolidation & Self-initiated Subsidiary Operational System

We undertook wide-ranging due diligence activities due to the acquisition of overseas companies and the creation of joint ventures while increasing the speediness of our organizational structure to contribute to quickly stabilizing our global operations. Specifically, systemic HR strategies were adopted to allow locally-hired staff with deep knowledge of their local culture and market to take the lead in operating overseas subsidiaries. As we recognized that the previous operational system led by Korean expatriates could not effectively reflect local conditions in HR management, we actively fostered manager-level local employees to ensure an efficient division of labor between overseas subsidiaries and the Korean headquarters.

2) Fostering Employees with Global Business Capability

In response to growing overseas operations and key positions, we actively operated training programs to help our employees build and strengthen global capabilities: G-MBA enabled our marketers to take MBA courses at prestigious overseas educational institutes to foster them as future marketing leaders while G-CHO and G-CFO programs aimed to nurture HR and finance experts through world-renowned MBA courses. We also have Chinese expert courses. These programs encourage our employees to use their language skills to learn local culture and conditions and develop their own social network. Specifically, our Global Expertise Course program, launched in 2012 to help develop language skills and global business capabilities, was completed by 16 employees, who will then be grouped into our global talent pool and assigned to overseas positions. Included in our endeavors to assist all our employees in learning global etiquette and language skills are weekly one-hour English coaching classes that target the entire office/technical workers to enable them to have one-on-one communication with English-speaking lecturers.

Trainees of Our Global Education Programs in 2012



Issue.4 Innovate Corporate Culture for Enhanced Employee Value

1) Work & Life Balance

We provide five types of flexible time programs to allow employees to adjust their work schedule in consideration of their own life style. Under our flexible time system, employees may go to work between 7 a.m. and 9 a.m. and leave work between 4 p.m. and 6 p.m. at a 30-minute interval. In so doing, we promote work-life balance for our employees.

2) Smart Working Culture

We define Smart Work as focusing on truly serving our customers without wasting our resources on issues irrelevant to customers. Thus, we are undertaking the Smart Work campaign to make our meeting and reporting practices simple, promote work/life balance through the flexible time system and ensure horizontal communication and information sharing in an open manner.



3) Strengthened No. 1 Class Campaign and Idea Suggestion

We expect a higher level of behavior standards of our employees that befit our improved status as a company. Therefore, the company-wide 'No. 1 Class Campaign' was launched to provide training on mutual care and respect for women in addition to the compliance with fair trade regulations (price-fixing, etc.). Furthermore, Our I-3.0 initiative aims to encourage all our employees to propose their 'bottom-up' ideas for sustainable growth. Last year, a total of 10 issues were identified, 992 ideas were gathered and 45 ideas were chosen as outstanding ones which contributed to create customer value.



4) Strengthened Self Development Program for Enhancement of Work Focus

Program to assist every employee in taking a self development-centered perspective in interpreting their own job responsibility and think about their personal vision. Specifically, 'career design courses' were provided to part leaders in 2012 to help them manage their career and define their vision at LG H&H and thus become fully immersed in their job.

Operation of Labor-Management Communication Channels

Communication Channel	Details
Labor-management discussion meetings led by business segment	Annually (respective business segments)
Employee Council meetings	Quarterly
Corporate culture officer meetings	Semi-monthly (or year-round)

Issue.5 Community-driven Labor Relations

1) Active Communication with Working-level Employee

We use various communication channels to swiftly address issues that our employees face in their daily operation. Such channels include discussion meetings and Open-Up meetings operated by respective business segments as well as labor-management discussion meetings led by respective business segments, Employee Council meetings, and regular meetings with corporate culture officers.

2) Gathering VOE and System Improvement

We believe that the top priority in addressing VOE (Voice of Employees) is to take a proactive and reasonable perspective. When constructive complaints are raised, our own VOE handling process ensures that we come together to find reasonable solutions and alternatives. To this end, our top management is frequently interacting with working-level employees and paying regular on-site visits.

3) Employee Welfare & Benefits

To ensure a high quality of life for all our employees, we provide four welfare and benefits packages in addition to the four major insurance benefits that are stipulated by law. We also introduced both defined benefit and defined contribution retirement pension programs to allow employees to choose between lump-sum payment and pension payment. This is further complimented by our outplacement assistance programs for retirees.

Category	Details	Category	Details
Support for health care and retirement life	<ul style="list-style-type: none"> • Medical expenses • Regular health check-ups • Comprehensive health check-ups • Group term insurance 	Support for work life	<ul style="list-style-type: none"> • In-house cafeteria • Souvenirs • Rewards for long-tenured employees • Workplace uniforms
Support for asset accumulation and stable livelihood	<ul style="list-style-type: none"> • Housing funds • School tuition payments • Family events • Purchase discounts for LG Group products • In-house childcare facilities 	Support for leisure activities	<ul style="list-style-type: none"> • Holiday programs • Vacation facilities: Baekam training institute, Gonjjam Resort, Elysian Gangchon, etc. • Informal group activities • Sports event tickets • Health care programs: Support for Refresh Club activities

Issue.6 Respect for Diversity



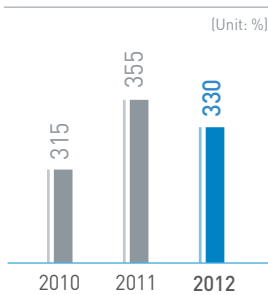
1) Management Process to Ensure Respect for Diversity and Protection of Human Rights

At LG H&H, sustained endeavors are made to respect diversity. Revised regulations are reflected in our guidelines and recruitment regulations and shared across the company. Specifically, issues concerning female employees are addressed through company-wide training programs. The 'No. 1 Talent Class' training initiated in 2012 enabled our employees to share general issues related to respect for diversity such as gender differences and compliance with regulations regarding treatment of the Disabled.

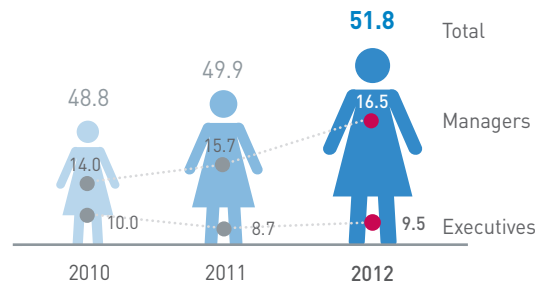
2) Increased Recruitment of Female Employees

Our recruitment of female employees has continued to increase to reach 51% of the total last year, which enhanced our reputation as an equitable employer promoting gender equality. Our employees are free to use childbirth and childcare leave programs and their actual use amounts to 100% and 46% respectively. In addition, we operate in-house childcare facilities. Specifically, we adhere to our absolute 'No Tolerance' policy in addressing workplace sexual harassments to eradicate them while providing relevant internal training to both male and female employees.

Entry-level Wage (against the legal minimum wage)



Ratio of Female Employees at LG H&H



Sexual Harassment Prevention Training



3) Regulatory Compliance Concerning Recruitment of the Disabled

We grant additional points to the Disabled applicants in our recruitment process to ensure that these Disabled populations make up a certain portion of our employees. In 2012, we hired three Disabled university graduates. Furthermore, we indirectly hire the Disabled in alignment with welfare facilities that care for seriously-Disabled people: we offer jobs that can be performed by these Disabled persons and pay them for their service through indirect employment. In 2012, two additional welfare facilities of Ewha and Chunsungwon signed the agreement with us in addition to Boram Job Center, which allowed us to provide job opportunities to a total of 133 Disabled people and thus fulfill our social responsibility.

Facility Partners in the Indirect Employment of the Disabled

Boram Labor Center

- Year of signing the agreement: **1990**
- No. of indirectly-hired Disabled persons: **55**
- Main operations: Packaging of household goods and diapers

Ewha

- Year of signing the agreement: **2012**
- No. of indirectly-hired Disabled persons: **55**
- Main operations: Packaging of cosmetic products

Chunsungwon

- Year of signing the agreement: **2012**
- No. of indirectly-hired Disabled persons: **23**
- Main Operations: Packaging of cosmetic product

Employee Data

Item	Category	2010	2011	2012	Unit	Note	
Total No. of Employees	LG H&H (male/female)	3,131(1,602/1,529)	3,372(1,691/1,681)	3,682(1,774/1,908)	No. of persons		
	Coca Cola Beverage (male/female)	2,380(2,250/130)	2,388(2,257/131)	2,449(2,321/128)			
	HAITAI Beverage (male/female)	Before acquisition	785(731/54)	789(739/50)			
	THEFACESHOP (male/female)	305(174/131)	310(178/132)	324(190/134)			
	Overseas (expats/local staff)	18/1,244	19/1,252	21/1,446			
Creation of Employment	LG H&H	360	367	447	No. of persons	Including new and experienced recruits	
	Coca Cola Beverage	316	360	352			
	HAITAI Beverage	-	-	126		Post-acquisition data	
	THEFACESHOP	-	31	54		Post-acquisition data	
No. of Employees by Job Boundary	LG H&H	Office workers	1,623	1,706	1,827	No. of persons	
		Technical workers	681	716	720		
		Sales workers	827	950	1,135		
	Coca Cola Beverage	Office workers	535	559	581		
		Production workers	283	287	295		
		Sales workers	1,058	1,028	1,012		
	HAITAI Beverage	Others	211	210	220		
		Office workers	-	234	221		
		Production workers	-	160	155		
	THE FACESHOP	Sales workers	-	301	273		
		Others	-	44	43		
		Office workers	294	298	319		
	Overseas	Others	3	3	2		
		Office workers	987	993	1,188		
		Technical workers	257	259	258		
No. of Employees by Employment Type	LG H&H	Regular workers (male/female)	2,675(1,579/1,096)	2,857(1,656/1,201)	3,104(1,736/1,368)	No. of persons	Given the inherent features of the FMCG industry, the majority of our contract workers are salespersons and they are provided with an opportunity to work in regular positions after serving for a specific period of time
		Contract workers (male/female)	456(23/433)	515(35/480)	578(38/540)		
	Coca Cola Beverage	Regular workers (male/female)	2,087(1,978/109)	2,084(1,975/109)	2,108(1,997/111)		
		Contract workers (male/female)	293(272/21)	304(282/22)	341(324/17)		
	HAITAI Beverage	Regular workers (male/female)	-	739(686/53)	692(642/50)		
		Contract workers (male/female)	-	46(45/1)	97(97/0)		
	THE FACESHOP	Regular workers (male/female)	297(173/124)	301(177/124)	321(190/131)		
		Contract workers (male/female)	8(1/7)	9(1/8)	3(0/3)		
	Overseas	Locally-hired regular workers	1,244	1,252	1,446		
	Diversity	LG H&H	Disabled	19	26		
Men of national merit			47	48	57		
Foreigners			10	10	9		
Coca Cola Beverage		Disabled	59	57	57		
		Men of national merit	46	43	45		
		Foreigners	2	0	2		
HAITAI Beverage		Disabled	-	20	18		
		Men of national merit	-	7	4		
		Foreigners	-	0	0		
THE FACESHOP		Disabled	4	4	5		
	Men of national merit	4	5	4			
	Foreigners	4	1	2			
No. of Retirees (Retirement rate)	LG H&H	124(4.0)	126(3.7)	137(3.7)	No. of persons		
	Coca Cola Beverage	262(11.0)	352(15.6)	291(12.5)			
	HAITAI Beverage	-	181(24.8)	122(16.5)			
	THEFACESHOP	72(23.6)	26(8.4)	40(12.3)			
Ratio of unionized workers	LG H&H	29.6	15	13.6	%		

Use of Childbirth and Childcare Leave

Item	Category	2010	2011	2012
Childbirth Leave	No. of employees (ratio)	97 No. of persons(100%)	101 No. of persons(100%)	143 No. of persons(100%)
	Reinstatement (ratio)	97.9%	100%	100%
	Maintenance (ratio)	96.9%	94.3%	94.1%
Childcare Leave	No. of employees (male/female)	1 No. of persons / 40 No. of persons	2 No. of persons / 58 No. of persons	0 No. of persons / 66 No. of persons
	Reinstatement (male/female)	100%/97.6%	100%/96.5%	- / 81%
	Maintenance (male/female)	100%/92.1%	100%/87.8%	- / 77.5%

Disclosure on Management Approach



3. Integrated ESH System and Strengthened Competitiveness



Strategic Directions

1. Climate change response and GHG emissions reduction

2. Minimize life-cycle environmental impact

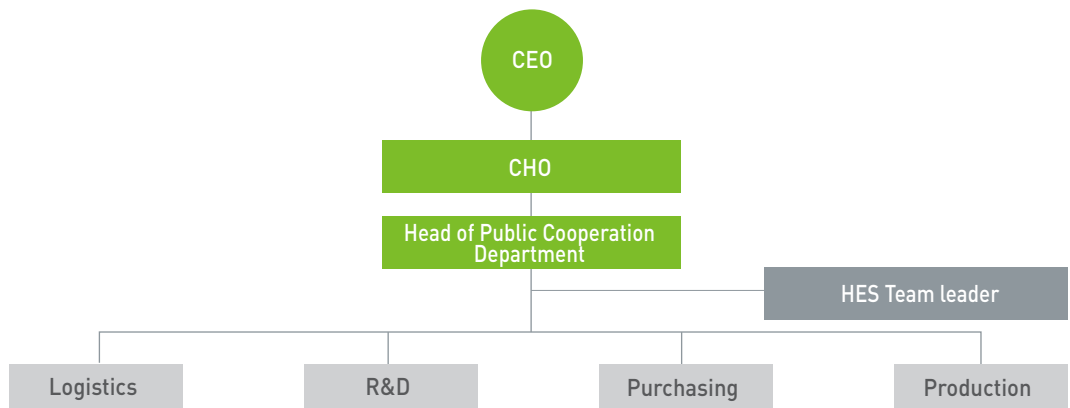
3. Employee health & safety improvement

Responsibilities of the Enterprise Environment and Safety Committee

1. Draft company-wide Environment and Safety policies
2. Develop responses to government policies
3. Offer technical information regarding environment and safety
4. Review and deliberate on the establishment and revision of Environment and Safety regulations
5. Identify workplace environmental and safety issues and develop countermeasures
6. Perform company-wide Environment and Safety diagnoses as well as follow-up management
7. Deliberate on other Environment and Safety issues

Implementation and Management Structure

Our Environment and Safety organization is responsible for working-level ESH operations including the green company designation, ISO 14001 and OHSAS 18001 while reviewing pending issues through the Enterprise Environment and Safety Committee and identifying alternatives.



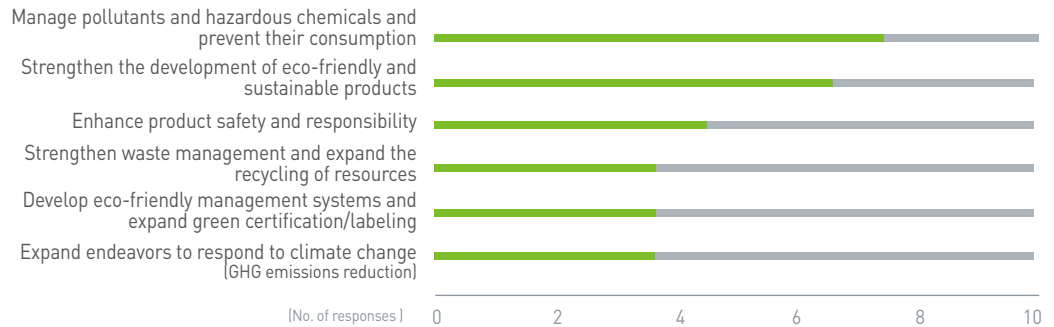
Mid-term Roadmap

Focus Area Issues	2013	2014	2015
Climate change response and GHG emissions reduction	Expand the verification of GHG emissions at major subsidiaries	Respond to the GHG Target Management System	Respond to the GHG Target Management System on a company-wide level
Minimize life-cycle environmental impact	Expand eco-labeled products and improve product efficiency		
Employee health & safety improvement	Introduce exercise prescription programs and injury prevention initiatives	Develop and implement disease-specific customized health care programs and undertake injury prevention initiatives	Establish company-wide health improvement programs and undertake injury prevention initiatives

KPI



Feedback Gathered Regarding Integrated ESH Operations



Performance Chart

● Completed ◐ Under progress ○ Not completed

Level 1 Focus Area	Level 2 Key Managerial Issues	Level 3 Detailed Action Plan						
		2012 Performance	Completion	Page	2013 Plans	Target Deadline	Responsible Department	Collaborating Department
Integrated ESH System and Strengthened Competitiveness	Climate change response and GHG emissions reduction	Climate change response systems were developed and operated	●	64-65	Verify GHG emissions of HAITAI Beverage	Year-round	HES Team	Environment and Safety Team Production Team
		Endeavor to reduce GHG emissions	●	65, 69, 70	Endeavor to reduce GHG emissions	Year-round		
	Minimize life-cycle environmental impact	Eco-labeling certification	○	46-47, 64	Eco-labeling certification	Year-round		
		ESH diagnostic completion (achieved 90% against the 95% target)	○	63	Perform EHS assessments (target: diagnostic completion of 95%)	Year-round		
		Green products were purchased (General purchasing: rose by 26% from the previous year but the purchase of raw and subsidiary materials fell)	○	71-75	Purchase green products (target: raise purchase amount by more than 5% from the previous year)	Year-round		
		Environmental accidents were managed (zero accidents)	●	66-68	Manage environmental accidents	Year-round		
	Employee health & safety improvement	Manage employees suffering four major diseases	●	67-68	Manage employees suffering four major diseases	Year-round		
		Health care programs were operated	●	67-68	Operate health care programs	Year-round		
		Injury management (safety/fire accidents)	●	67-68	Injury management (safety/fire accidents)	Year-round		

2012 Performance Highlight

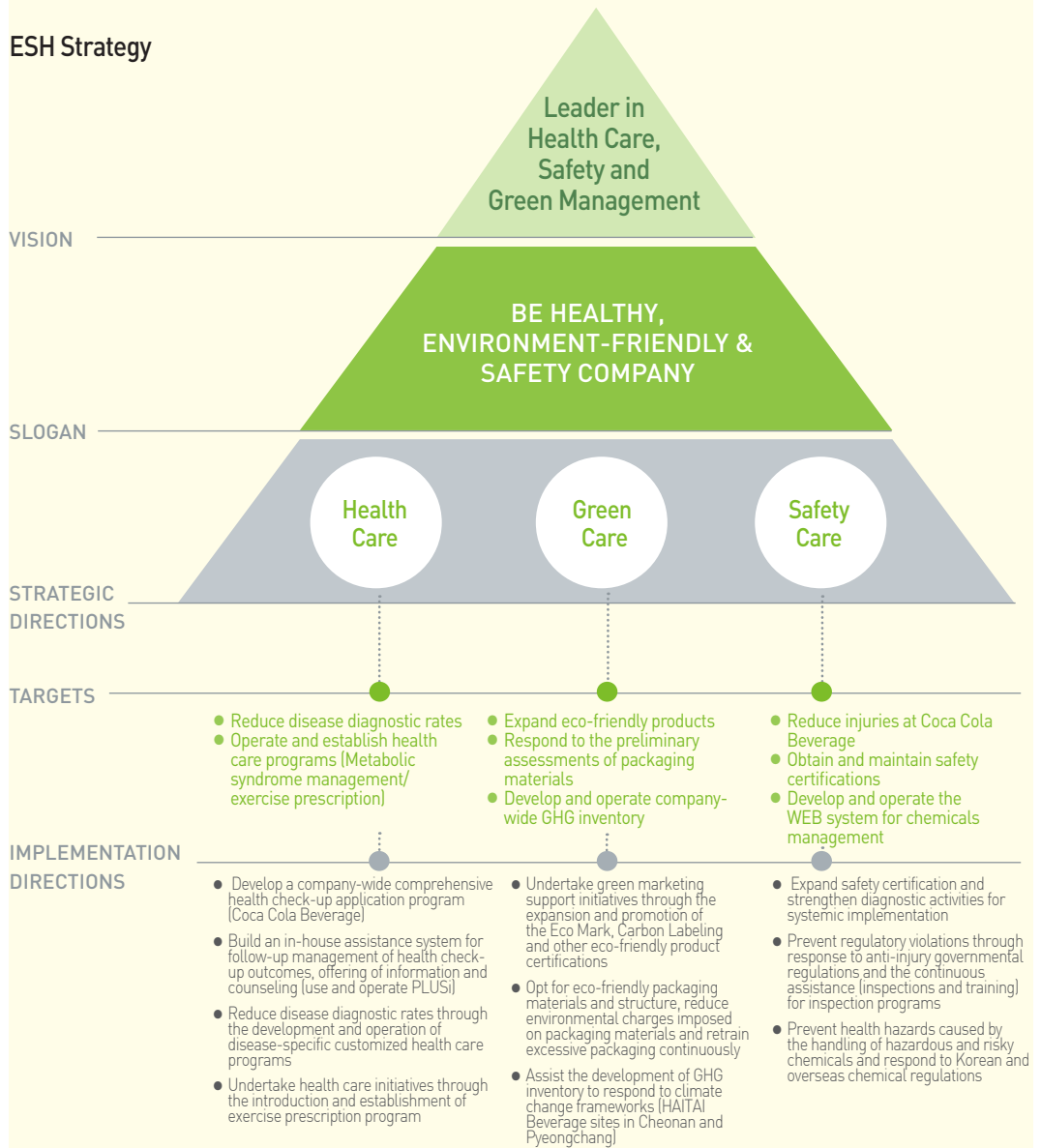
1. Reduction of GHG Emissions

Our sustained commitment to green management enabled us to reduce GHG emissions by 5.9% from the previous year to 39,707 tons, which is translated into a 3.7% reduction against the 2009 base year.

Expansion of Low Carbon-Certified Coca Cola Beverage Products

Coca Cola Beverage became the first to have low carbon-certified products in the industry (Coca Cola 500ml, Soonsoo Diamond 500ml and 2000ml). The company continues to expand 'low-carbon products' to build a stronger brand image as an eco-friendly company.

ESH Strategy

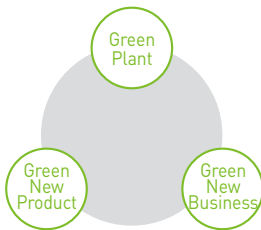




Issue.1 Climate Change Response and GHG Emissions Reduction



Three Major Goals of Green Management



Five Implementation Tasks

- 1** Increase R&D and facility investment
- 2** Improve portfolio continuously
- 3** Develop green products proactively
- 4** Expand investment in new green business
- 5** Strengthen green partnership



Heating pumps that recycle waste heat

Climate Change Response System

Our climate change response system, spanning HAITAI Beverage as a major subsidiary, is up and running in accordance with the green management strategy of LG Group. Our green management target is to set annual and site-specific reduction targets from the base year to 2020 and to reach these targets through green management investment. We aim to reduce GHG emissions and Water usage by 40% and 30% respectively by 2020 against the 2009 base year under the BAU (Business As Usual) scenario. To this end, we will invest KRW 51 billion in green management by 2020. Furthermore, we are expanding carbon-labeled products and renewable energy-related products as a way to promote green new products.

GHG Emissions Reduction Initiatives and Outcomes

1) Setting and managing targets for reducing energy use on a team level : Our Cheongju Plant set team-specific energy use reduction targets at the beginning of the year and integrated them in KPIs which prompted all its employees to reach these targets. (41 cases in total: 23 in the 1st half, 18 in the 2nd half)



GHG Emissions Reduction at LG H&H

1,863 TON CO_{2e}

(41 improvement tasks were undertaken)

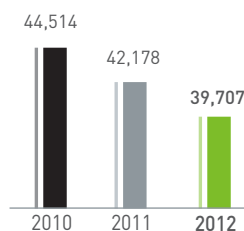
2) Examples of GHG Emissions Reduction{

- ① **Installation of Heating Pumps that Recycle Waste Heat:** In manufacturing Saffron, warm water is required, which is generated by heating cold water through heat exchangers. As the production volume increases, so does the use of steam and we installed heating pumps that use the waste heat to produce warm water, which resulted in energy savings. Between July and December of 2012, 1,664 tons of steam were saved and 215.8 tons of CO₂ emissions were reduced.
- ② **Use of LED Lighting Devices:** As lighting devices must be turned on 24 hours a day at water quality management facilities, we installed LED lamps that consume less power to reduce electricity consumption, which resulted in 10.4 tons of CO₂ emissions saved annually. The use of LED lamps will extend to the entire plant through the review of their applicability.
- 3) **Business Agreement Signed to Join the Green Start Campaign Led by the Green Company Council in Chungcheong Province :** To facilitate the 'Green Start Campaign' launched by the Ministry of Environment to reduce GHG emissions in the non-industrial sector through public engagement, the Green Start Business Agreement was signed by the Geum River Basin Environmental Office, the Green Company Council in Chungcheong Province, and the Green Start Network Organization in June 2012 to contribute to a greener society. Our Onsan Plant improved the shortages of steam in the AG process and successfully reduced the processing time, which translated into energy savings.

GHG Emissions Reduction at LG H&H

* Excluding other indirect emission

(Unit : tonCO_{2e})



Category	2010	2011	2012
Direct	5,338	5,476	5,534
Indirect	39,176	36,702	34,173
Other indirect	350	394	446

Issue.2 Minimize Life-cycle Environmental Impact

We define and develop the properties of sustainable products in the R&D stage through our integrated management system. We also make our production, purchasing and logistics more sustainable through green management while performing product life-cycle assessments to reduce our environmental footprint both in the product use and disposal stages. Site-specific targets are set and company-wide integrated diagnoses are made regularly through the integrated management system while third-party verification ensures the external credibility of such endeavors.

Air Quality Management

To operate air pollution control facilities safely, our Production Team and Environment and Safety Team conduct regular facility inspections. Those pollutants that are emitted through control facilities into the atmosphere are measured regularly for their concentration level and we maintain a stringent threshold that is less than 20% of the legally-permissible level (Dust 50mg/Sm³). Furthermore, the differential pressure of filter dust collectors are checked regularly while old filter bags are replaced regularly to improve the efficiency of these air pollution control facilities.

Water Quality Management

All the wastewater from our Ulsan Plant is treated at the pollution control facility jointly used with LG Hausys and discharged through the sewage treatment plant in Onsan. The discharged raw and treated water is regularly analyzed by professional testing organizations in the categories of: water pollutants such as BOD, COD, SS, T-N, and T-P and the entire specific water pollutants including phenol, cyanides, chromium and others. In addition, we signed the "voluntary agreement to improve the water quality of Miho Stream" in April 2012 with the Geum River Basin Environmental Office so as to achieve the goal of 'Clean Water, Eco River'. Our Onsan Plant invested KRW 30 million in replacing and paving old drainways and pipes laid on unpaved ground so as to prevent environmental accidents caused by the leakage of water pollutants. In addition, KRW 15 million was invested in installing monitoring devices and pits that block the leakage of pollutants into drainways to strengthen real-time on-site surveillance of areas that are vulnerable to pollution.



Chemical mixing devices in the water quality treatment facility



Soil contamination inspection

Soil Quality Management

To prevent soil contamination caused by the leakage of pollutants, we installed oil-retraining walls around the tank yard. In addition, soil contamination inspections are made to regularly monitor and prevent the occurrence of leakages. In 2012, our plants proved to be TPH-free as a result of soil contamination inspections made of the pollutant.

Prevention and Management of Environmental Accidents

To address the risk of external environmental accidents, we included in our definition of mega risks the leakage of raw materials caused by old facilities in transporting, storing and using these materials as well as external environmental accidents attributed to the failures of pollution control facilities. We ensure that these risks are constantly managed. Included in our responses are: team-specific emergency training, monitoring of outdoor raw material reservoirs and strengthening their management, and the development of pollutant monitoring systems (to be undertaken in 2013).



Hazardous chemical storage tank

Hazardous Chemical Management

To prevent the leakages of hazardous chemicals and protect the health of our employees, we provide pollution control devices and protective gear while conducting regular inspections and training. Our plants established emergency contacts to quickly notify emergencies to related nearby organizations and the local community where they are based as well as the division of labor to address emergency situations while developing measures to ensure effective response through annual review and renewal of such measures. We also defined internal pollution control plans for chemicals that may cause accidents and are offering regular presentations to local residents on the types and properties of such chemicals and evacuation measures to be taken when they are leaked so as to minimize any damage to these people in emergency situations. Three Coca Cola Beverage plants invested KRW 40 million last year in building a new storage facility for grade 1 hazardous chemicals (oxidizing solids), which will enable them to reinforce preventive management of possible fires and explosions. In addition, the operation of washing liquids (caustic soda) for bottle washers was increased from 500 hours to 700 hours through the reinforcement of bottle inspections and the installation of prewashers. The annual consumption of caustic soda also fell by 23%, which led to significant reductions in the consumption of such harmful substances.

Issue.3 Employee Health & Safety Improvement

To deliver a healthy and safe workplace, we are expanding health care programs and performing quarterly diagnoses through the joint labor-management committee. In addition, company-wide diagnoses are made of our business sites and sales logistics to comply with health and safety regulations.

Health Care Initiatives

We continue to offer such health care programs as anti-smoking campaigns, the Salt Down (low-sodium diets) campaign, physical tests and exercise prescriptions at respective sites. Our comprehensive health check-up program is gradually extending its scope and our employees are provided with counseling of the outcomes, which demonstrates our sustained commitment to improving the health of our employees. We provide monthly health tips to all our employees and undertake other initiatives to encourage them to pay more attention to their health conditions. Our plant in Cheongju launched an anti-smoking campaign to reward those who successfully quit smoking, initiated the 'Six Pack Club' program with the National Health Insurance Corporation to encourage employees to voluntarily check their physical fit and receive exercise prescriptions, which resulted in a 12% decline from 2011 in the number of employees diagnosed with specific medical conditions. Our Ulsan Plant has been undertaking its own anti-smoking campaign since 2008, which reduced smoking rates by 2% from 40% in 2011 to 38% in 2012. The plant will continue the anti-smoking campaign in the upcoming years. Our employees who are exposed to a high level of noise always wear protective gear and their exposure level is managed through semi-annual noise measurements made by professional organizations. In addition, we provide annual health check-ups to employees. Those over 35 are entitled to comprehensive examinations while female workers receive additional cancer examinations and those who handle chemicals receive special examinations. All our employees are provided with health counseling services through in-house nurses.

Safety Management Initiatives

We proactively communicate with our employees and suppliers to prevent and reduce injuries. We joined the pilot risk assessment project, launched by the Korean government in 2012 to elevate the nation's level of safety to that of advanced nations, and have been leading endeavors to improve on risk factors. Since 2008, we have implemented our PSM (Process Safety Management) system to make sustained facility investment and improvement (strengthening anti-fire areas, improvement of firefighting devices and employee education and training) to enhance the safety of areas with high risks of fires and explosions and prevent these accidents from spread further to surrounding areas. To extinguish fire quickly, we

operate fire control centers 24 hours a day and installed sprinklers, water spray extinguishers and high-performance fire extinguishers that are subject to regular inspections to ensure their normal operation under any circumstances. In addition, emergency manuals were defined and emergency drills are performed to review these manuals and improve our internal firefighting capabilities. In 2012, work areas that handle flammable materials were intensively examined and group safety training was offered to those who handle such substances.



Health care office

1) Comprehensive Health and Safety Management System



Anti-smoking clinic

2) Safety Risk Management and Prevention System

Our Ulsan Plant performs monthly 'Environment and Safety audits supervised by the plant manager' and operates the 'Day of Environment and Safety Inspections supervised by department heads' to identify and improve on Environment and Safety issues on a department level. In addition, each on-site office defines 'Weak Points' of major high-risk facilities and performs daily inspections while putting red (visual inspection), blue (tactile inspections), and yellow (olfactory and auditory inspections) stickers on facilities and making daily inspections in accordance with their own inspection routes. Our Environment and Safety managers regularly inspect major plant facilities and issue 'Environment and Safety improvement requests' when problems are found. Upon such requests, concerned departments undertake measures to address these issues. Coca Cola Beverage's Yeosu Plant offer two-hour health & safety training to be completed by all employees over two weeks every month in accordance with Article 31 of the Occupational Health and Safety Act due to its inherent double shift system. Furthermore, monthly Environment and Safety audits are performed of production areas and counter facilities under the supervision of the plant manager to improve on unreasonable and hazardous risks while quarterly progress reviews are made by Production Technology Team Innovation Secretariat. Such high-risk devices as robotic loaders and rotational wrappers are surrounded by protective barriers to prevent our staff from entering the work zone while safety devices are installed to automatically stop the operation of these devices when protective barriers open or are accessed by our staff. The operation of these safety devices are examined quarterly to ensure the workplace safety for our employees.

Occupational Injury Rates

Company	Details	Unit	2010	2011	2012
LG H&H	No. of occupational injuries	No. of injuries	5	9	2
	Occupational injury rates (=No. of injuries/employees)	%	0.16	0.27	0.05
Coca Cola Beverage	No. of occupational injuries	No. of injuries	26	8	3
	Occupational injury rates (=No. of injuries/employees)	%	1.09	0.34	0.12
HAITAI Beverage	No. of occupational injuries	No. of injuries	-	4	0
	Occupational injury rates (=No. of injuries/employees)	%	-	0.51	0
THEFACESHOP	No. of occupational injuries	No. of injuries	3	0	0
	Occupational injury rates (=No. of injuries/employees)	%	1.0	0	0

* In 2012, the average occupational injury rate in Korea was 0.59% while that of the Korean manufacturing industry was 0.84%

TOPIC

Green Logistics

Establishment of Green Logistics



We are taking stronger green logistics initiatives to improve customer services and lay the basis for sustainable growth. In 2012, our top priority was to establish our competitiveness in logistics and develop a green logistical system through more efficient transport and delivery, more reasonable logistical operations and expanded inter-business segment synergy. In the face of the global economic crises, our logistical cost against sales rose 0.1% from the previous year to 2.5%, which proves that our logistical system is sufficiently competitive. We will enhance synergy from new business, rationalize logistical key positions, shorten transport and delivery routes and expand green packaging to establish an eco-friendly logistical system and a differentiated logistical competitiveness.

1. Eco Drive Campaign

Our Eco Drive campaign was launched in 2008 to promote the eco-friendly driving of our delivery vehicles. Distribution managers are provided with Eco Drive training in addition to monthly two-hour service training while economical driving is promoted as a daily habit through the mileage management of delivery vehicles and the monitoring of economical driving habits (quick start, quick braking, economical speeds, and engine idling). Furthermore, GHG emissions reduction targets are set by each distribution center and their management outcomes are shared and evaluated through our operational process system.

2. Larger Transport Vehicles

We continue to use larger transport vehicles. In 2012, we reduced the share of 11-ton trucks while increasing the share of 14-ton trucks by 10% (50%→60%) in alignment with transport companies, which led to an 1.25% drop in total transport cost, KRW 130 million in logistical cost savings and 61Đ in diesel consumption savings (163 tons of GHG emissions). Coca Cola Beverage also expanded the use of 24-ton trucks instead of 14-ton trucks to save KRW 120 million and reduce fuel consumption as well as environmental load.

3. Rationalized Operation of Transport Vehicles

Our distribution routing system allowed us to optimize distribution routes and increase vehicle loading rates. THEFACESHOP also rationalized vehicle operations to reduce transport expenses by 17%, which equals the removal of the operation of two 2.5-ton trucks, as well as environmental load so as to contribute to a greener logistics.

4. Expansion of Cross-Docking in Production Bases

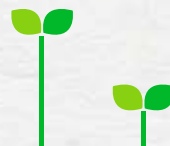
We promoted cross-docking: production warehouses and subcontractors/OEM companies send products to our central logistics centers and these products are directly loaded to the logistics centers of our distribution vendors. As a result, cross-docking rates of production warehouses, subcontractors and OEM companies rose by 7% (40%→47%), 11%(25%→36%), and 16%(19%→35%) respectively from the previous year. In so doing, transport routes were shortened and GHG emissions dropped.

5. Stronger Synergy among Business Segments

To remove transportation inefficiencies caused by independent distribution vehicle operations of respective business segments, joint distribution routes aligned among LG H&H, Coca Cola Beverage and HAITAI Beverage were developed while THEFACESHOP and LG Unicharm undertake combined transport operations to raise the efficiency of vehicle operations and lower logistics cost. In 2013, we will expand the scope of cooperation among business segments as well as synergistic effects. The use of battery-powered forklifts will also increase for eco-friendly logistics.

6. Efficient Operation of Logistical Centers

To increase our loading capacity to address growing logistical volume, investments were made and logistical bases were relocated. This allowed us to secure 12,850 m² of additional land, which equals the loading of 650,000 boxes. To generate synergy through the integration of logistical bases with HAITAI Beverage, our Iksan site was merged with Coca Cola Beverage's Jeonju site while HAITAI Beverage's Gwangju site and LG H&H's Gwangju site were consolidated.



7. Appropriate Pallet Management

We continue to use KPP rental pallets efficiently (recovered 1:1 in delivering to business partners) and saved KRW 20 million in annual cost through the expansion of Unloading through in-house vehicles.

8. Cost Savings through the Direct Management of Accident Vehicles

While the repair of accident vehicles was managed by our insurance company previously, we decided to directly manage such vehicles without increasing any inconveniences of internal customers, which saved KRW 370 million in annual insurance premium payment.

9. Replacing Old Vehicles and Introducing Electric Vehicles

Coca Cola Beverage replaced 60 old diesel vehicles with new ones in 2012 to minimize the emission of exhaust gas. In addition, six forklifts were replaced with electric lifts to improve the logistical work environment and reduce the emission of exhaust gas. We will continue to expand the use of battery-powered forklifts for green logistics.

Logistical Cost Savings in 2012

(Unit : KRW 100 million)

Category	Improvements	2012
LG H&H	Rationalize the operation of distribution vehicles	6.6
	Cross-docking among production bases	5.4
	Efficient pallet management	1.3
	Develop aligned and combined transport routes	0.8
Coca Cola Beverage	Rationalize the management of accident vehicles	3.7
	Operate larger distribution vehicles	1.2
	Efficient pallet management	0.2

Share of Logistical Cost of Sales

(Unit : %)

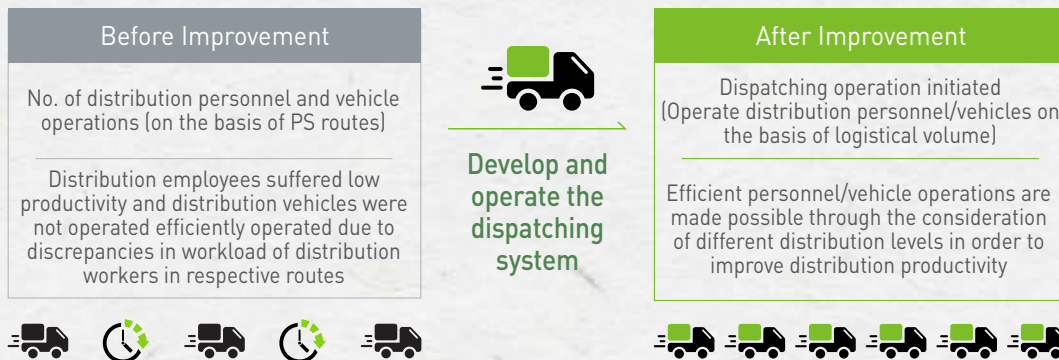
Category	2011	2012	2013
LG H&H	2.4	2.4	2.5
Coca Cola Beverage	13.2	12.1	12.0

* The logistical cost calculation criteria of Coca Cola Beverage was changed to use net sales.
 * Rate of logistics against the cost of sales

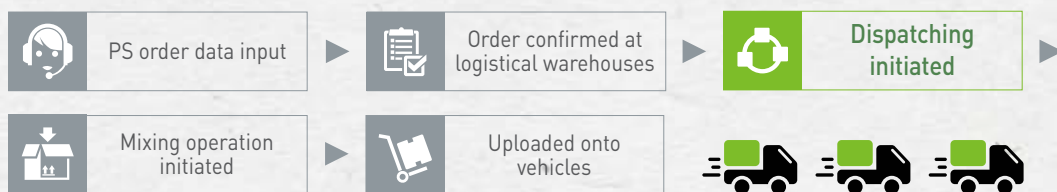
Introduction of HAITAI Beverage's Dispatching Technique

To adopt the dispatching technique, an efficient logistical operational method, we developed related systems and improved our operational efficiency to adjust the operation of vehicles and personnel in accordance with logistical load.

1. Expected Benefits



2. Dispatching Operational Process





Environmental Management Indicators



LG H&H

Item	Unit	2010	2011	2012	2013 Plans
Production volume	Ton	413,580	423,692	446,881	480,337
Input					
Energy consumption	TJ	831.9	795.6	769.5	805.3
	GJ/Product-Ton	2.011	1.878	1.722	1.676
Water usage	Ton	499,944	573,050	613,586	608,274
	Ton/Product-Ton	1.209	1.353	1.373	1.266
Recycled water	Ton	119,728	153,051	139,331	151,644
	%	23.9%	26.7%	22.7%	24.9%
Consumption of toxic materials	Ton	7,164	7,462	7,913	7,750
	Ton/Product-Ton	0.017	0.018	0.018	0.016
Consumption of raw and subsidiary materials	Ton	201,814	203,605	206,230	-
Output					
GHG emissions	Ton CO _{2e}	44,514	42,178	39,707	40,646
	Ton CO _{2e} /Product-Ton	0.108	0.099	0.089	0.085
	Ton CO _{2e} /KRW million	0.025	0.0211	0.019	0.017
Wastewater discharge	Ton	110,334	122,242	122,356	128,403
	Ton/Product-Ton	0.267	0.289	0.274	0.267
COD _{Mn}	Ton	11.34	9.28	8.86	9.50
	Kg/Product-Ton	0.027	0.022	0.020	0.020
Dust emissions	Ton	6.7	8.4	7.2	9.4
	Kg/Product-Ton	0.016	0.020	0.016	0.020
Total waste (excluding waste concrete)	Ton	5,054	5,500	5,797	5,696
Waste intensity	Kg/Product-Ton	12.221	12.980	12.971	11.858
Recycled waste	Ton	2,185	2,589	2,577	3,041
Rate of waste recycling	%	43.2%	47.1%	44.5%	53.4%
Total hazardous waste	Ton	1,265	1,487	1,518	1,478
Total non hazardous waste	Ton	3,789	4,013	4,278	4,218
Results of soilcontamination inspection	BTEX, TPH	Within the legal threshold	Within the legal	Within the legal	Within the legal
Green purchasing	KRW million	12,605	20,055	14,942	-

072

Coca Cola Beverage

Item	Unit	2010	2011	2012	2013 Plans
Production volume	Ton	621,351	661,480	697,391	755,963
Input					
Energy consumption	TJ	776	850	943	971
	GJ/Product-Ton	1.248	1.285	1.352	1.285
Water usage	Ton	1,879,129	1,900,857	2,029,741	2,124,856
	Ton/Product-Ton	3.024	2.874	2.910	2.811
City water (industrial + residential)	Ton	1,143,656	1,112,458	1,211,892	1,145,755
Underground water	Ton	435,018	438,577	434,504	573,784
Stream water	Ton	300,455	318,848	383,345	405,317
Logistics. City water	Ton	20,669	30,974	-	-
Recycled water	Ton	129,450	275,466	251,562	309,627
Consumption of toxic materials	Ton	751	784	637	646
	Kg/Product-Ton	1.209	1.185	0.914	0.855
Output					
GHG emissions	T CO2e	45,936	49,939	52,188	53,232
	T CO2e/Product-Ton	0.074	0.075	0.075	0.070
Wastewater discharge	Ton	1,037,115	1,064,362	1,053,363	1,081,309
	Ton/Product-Ton	1.669	1.609	1.510	1.430
CODMn discharge	Ton	17.0	16.1	15.6	15.2
	Ton/Product-Ton	0.027	0.024	0.022	0.020
SS emissions	Ton	5.8	6.3	5.2	5.0
T-N emissions	Ton	3.0	2.7	2.4	2.3
T-P emissions	Ton	0.7	0.8	0.7	0.7
Total waste (excluding waste concrete)	Ton	12,186	12,416	12,494	13,375
Waste intensity	Kg/Product-Ton	19.612	18.770	17.915	17.692
Recycled waste	Ton	9,197	9,197	9,997	10,997
Rate of waste recycling	%	75%	74%	80%	90%
Total hazardous waste	Ton	12	26	20	12
Total non hazardous waste	Ton	12,173	12,391	12,474	13,363
Purchasing amount	KRW million	23	76	82	90
Container recycling	Ton	25,018	33,737	45,953	-
Environmental investment	KRW million	1,227	5,882	2,738	-
Environmental expenses	KRW million	886	888	747	-

HAITAI Beverage

Item	Unit	2010	2011	2012	2013 Plans
Production volume (ton)	Ton	245,838	219,065	250,277	268,447
Input					
Energy consumption	TJ	266	233	126	127
	GJ/Product-Ton	1.083	1.064	0.503	0.473
Water usage	Ton	479,513	505,503	620,275	617,071
	Ton/Product-Ton	1.951	2.308	2.478	2.299
City water (industrial + residential)	Ton	172,753	347,891	485,481	463,682
Underground water	Ton	297,711	147,401	134,794	153,389
Stream water	Ton	-	-	-	-
Logistics. City water	Ton	-	-	-	-
Recycled water	Ton	-	-	82,611	81,907
Consumption of toxic materials	Ton	301	352	240	240
	Kg/Product-Ton	1.224	1.607	0.959	0.894
Output					
GHG emissions	T CO2e	15,657	13,706	14,842	14,923
	T CO2e/Product-Ton	0.064	0.063	0.059	0.056
Wastewater discharge	Ton	207,735	230,242	210,059	212,146
	kKg/Product-Ton	0.845	1.051	0.839	0.790
CODMn discharge	Ton	6	3	7	7
	Kg/Product-Ton	0.023	0.016	0.027	0.025
Total waste (excluding waste concrete)	Ton	2,567	2,739	1,653	1,629
Waste intensity	Kg/Product-Ton	10.442	12.503	6.605	6.067
Recycled waste	Ton	1,822	2,364	1,462	1,428
Rate of waste recycling	%	0%	87%	88%	88%
Total hazardous waste	Ton	12	2	11	11
Total non hazardous waste	Ton	2,555	2,737	1,642	1,618
Container recycling	Ton	15,042	5,470	7,170	-
Environmental investment	KRW million	1,041	460	25	-
Environmental expenses	KRW million	104	193	184	-

Vietnamese JV Site

Item	Unit	2010	2011	2012
Production volume	Ton	1,388	1,707	1,961
GHG emissions	Ton CO _{2e}	716	619	726
	Intensity(TonCO _{2e} /Product-Ton)	0.516	0.363	0.370
Energy consumption	Diesel (kl)	35,979	32,818	31,945
	Electricity (kwh)	1,322,283	1,143,253	1,376,820
Water consumption	Ton	35,212	40,550	50,442
	Intensity (Ton/Product-Ton)	25.37	23.76	25.72
Wastewater discharge	Ton	19,525	28,365	31,893
	Intensity (Ton/Product-Ton)	14.07	16.62	16.26
COD _{Mn}	Ton	7.07	10.27	2.74
	Intensity (Ton/Product-Ton)	5.09	6.02	1.40
Waste generation	Ton	18.9	36.0	92.6
Atmospheric emissions	Dust emissions (Ton)	1.7	1.7	1.8
	Intensity (kg/Product-Ton)	1.22	0.99	0.94

Manufacturing Subsidiary in Hangzhou, China

Item	Unit	2010	2011	2012
Production volume	Ton	218	239	301
GHG emissions	Ton CO _{2e}	1,017	1,065	1,130
	Intensity(ton CO _{2e} /Product-Ton)	4.666	4.457	3.754
Energy consumption	Steam (Ton)	2,638	2,745	2,935
	Electricity (kwh)	345,700	374,000	381,000
Water usage	Ton	9,145	8,889	9,207
	Intensity (Ton/Product-Ton)	41.9	37.2	30.6
Wastewater discharge	Ton	2,184	2,295	2,433
	Intensity (Ton/Product-Ton)	10.02	9.60	8.08
COD _{Mn}	Ton	0.27	0.43	0.48
	Intensity (Kg/Product-ton)	1.23	1.80	1.60
Waste generation	Ton	12.3	12.7	13.5

Manufacturing Subsidiary in Beijing, China

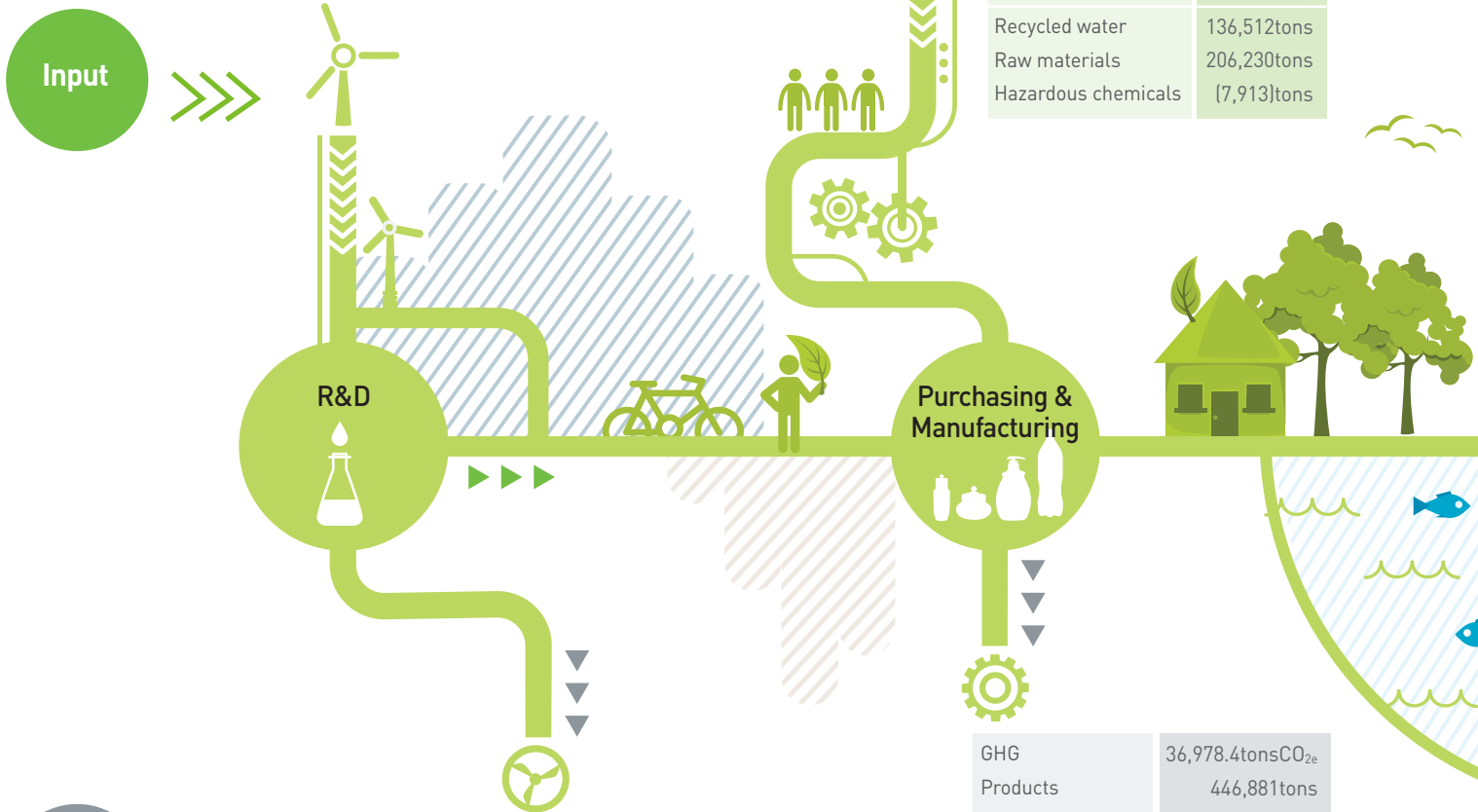
Item	Unit	2010	2011	2012
Production volume	Ton	6,407	6,869	6,998
GHG emissions	Ton CO _{2e}	831	841	826
	Intensity(Ton CO _{2e} /Product-Ton)	0.130	0.122	0.118
Energy consumption	Electricity (kwh)	1,782,163	1,803,204	1,771,500
Water usage	Ton	17,970	14,998	13,771
	Intensity (Ton/Product-Ton)	2.805	2.183	1.9968
Wastewater discharge	Ton	14,250	11,893	10,920
	Intensity (Kg/Product-Ton)	2.224	1.731	1.561
COD _{Mn}	Ton	0.44	0.48	0.50
	Intensity (kg/Product-Ton)	0.07	0.07	0.07
Waste generation	Ton	144	172	207
	Intensity (Kg/Product-Ton)	22.475	25.039	29.581
Atmospheric emissions	Dust emissions (Ton)	0.043	0.029	0.101
	Intensity (Kg/Product-Ton)	0.007	0.004	0.014

074

Material Flow Chart

Energy	33.4TJ
• Electricity	27.0TJ
• Fuel	6.4TJ
Water	27,748tons
• City water	27,748tons
Recycled water	(2,819)tons

Energy	715.3TJ
• Electricity	384.9TJ
• Fuel	330.4TJ
Water	579,861tons
• City water	244,312tons
• Underground water	270,416tons
• Stream water	65,133tons
Recycled water	136,512tons
Raw materials	206,230tons
Hazardous chemicals	(7,913)tons



Output >>>

GHG	1659.4tons
Sewage	27,748tons
Waste	99.6tons
• Non hazardous	78.5tons
• Hazardous	21.1tons

GHG	36,978.4tonsCO _{2e}
Products	446,881tons
Wastewater	122,356tons
Waste	5,697tons
• Non hazardous	4,200tons
• Hazardous	1,497tons
COD _{MN}	9tons
Dust	7tons
Sewage	97,748tons

Our Environmental Investment

(Unit : KRW million)

Category	2010	2011	2012
Air	147	444	487
Water	3,359	68	185
Waste	229	103	108
Others*	633	609	4,357
Total	4,367	1,224	5,138

Our Environmental Expenses

(Unit : KRW million)

Category	2010	2011	2012
Air	2	202	405
Water	1,071	1,509	1,864
Waste	611	688	737
Others*	124	0	0
Total	1,807	2,399	3,006

* Increases due to the expansion of energy facility investments (heating pumps)

Energy	20.9TJ
• Electricity	18.4TJ
• Fuel	2.6TJ
Water [City water]	5,977tons



GHG	1,069.3tonsCO _{2e}
Sewage*	5,977tons

* Sewage equals water in consumption amount

Container recycling**	14,134tons
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** Refers to plastics and glass bottles recycled through Recycling Associations

Our Pollutant Emissions and Discharge

Category	Unit	2011 (% against the legal threshold)	2012 (% against the legal threshold)
NOx	ppm	N/A	N/A
SOx	ppm	0.3%	0.4%
Dust	ppm	10.3%	10.7%
BOD	mg/l	15.7%	12.3%
COD	mg/l	42.6%	35.9%
SS	mg/l	5.2%	6.3%



Disclosure on Management Approach



4. Contribution to Local Communities and Social-giving Initiatives

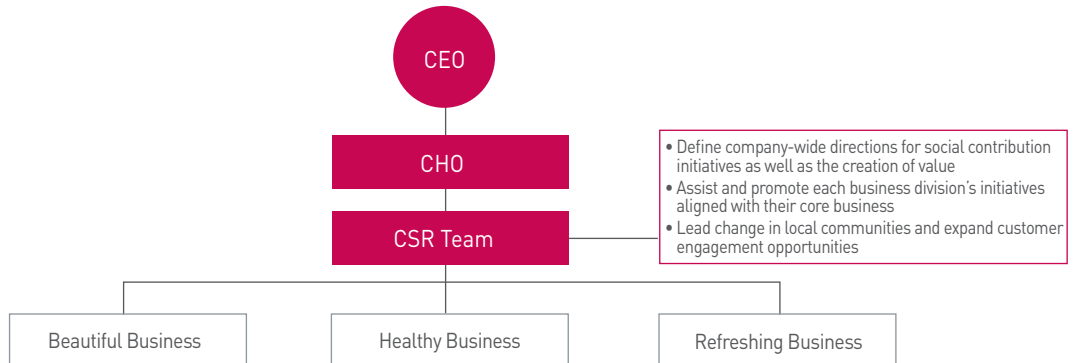


Strategic Directions

- 1. Stronger alignment between social contribution and core business
- 2. Expanded impact on changes in local communities
- 3. Customer participation and communication

Implementation and Management Structure

To undertake social contribution initiatives, our Beautiful, Healthy and Refreshing businesses cooperate closely and expand their influence to create shared value so as to deliver a beautiful and healthy life while assisting our youth, children and women realize their dream.

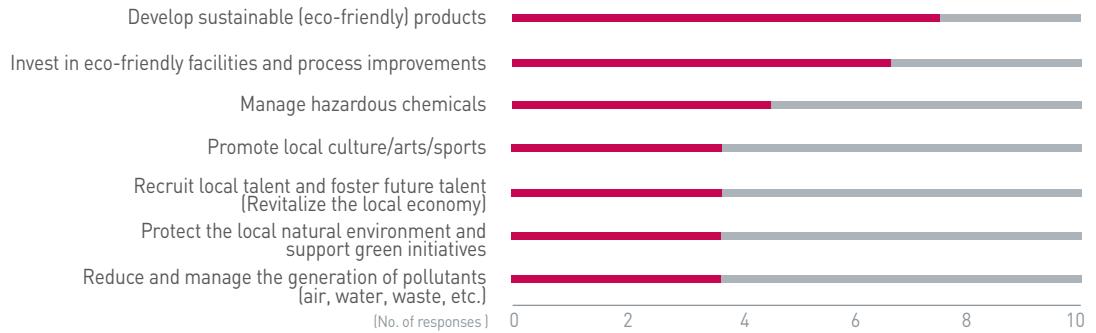


Mid-term Roadmap

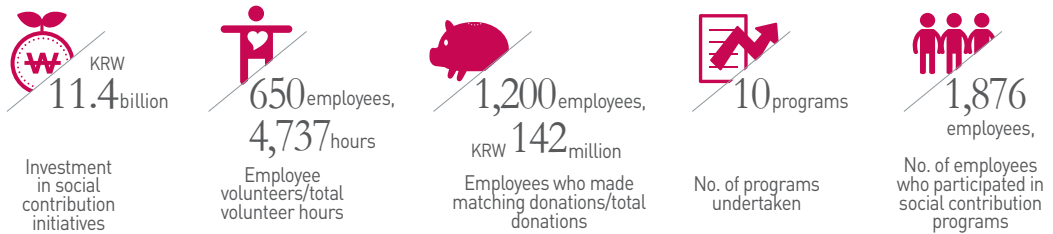
Focus Area Issues	2013	2014	2015
Stronger alignment between social contribution and business operation	Expand programs closely aligned with our business segments		
Expanded impact on changes in local communities	Strengthen global social contribution programs by 2015		
Customer participation and communication	Undertake programs to expand our influence in Korean and overseas communities by 2015		
	Improve and facilitate customer communication and engagement programs		

The CSR Team plays a central role in expanding our social-giving programs through the closely-aligned relationships among subsidiaries and business segment-specific marketing departments. Our CSR Team will launch more detailed and practical programs to deliver beauty and health to our customers in our three major business segments and to return the three social contribution values of education, health and sharing back to our teenagers, children and women.

Community Feedback Gathered



KPI (Based on LG H&H)



Performance Chart

● Completed ◐ Under progress ○ Not completed

Level 1 Focus Area	Level 2 Key Managerial Issues	Level 3 Detailed Action Plan						
		2012 Performance	Completion	Page	2013 Plans	Target Deadline	Responsible Department	Collaborating Department
Contribution to Local Communities and Social-giving Initiatives	Stronger alignment between social contribution and core business	Youth Orchestra Academy: 44 beneficiaries	●	79,81	Expand the initiative as a representative social-giving program/Expand stage experiences through collaborations with top-notch musicians	Year-round	CSR Team	Marketing Team in each business segment
		PERIOE Kids' School: 19,434 children educated at 249 preschools	●	79	Promote and expand the program as a representative child education support program, exceed the 20,000 mark in the number of beneficiaries	Year-round		
		OHUI Beautiful Face Campaign	●	78,81	Increase the number of beneficiaries and the quality of support including surgery fees	Year-round		
	Expanded impact on changes in local communities	Beautiful Store's donations and volunteering: KRW 690 million, 114 people	●	80,81	Increase the number of donation items and volunteers	Year-round		
		Food Bank: KRW 1.8 billion	●	80,81	Expand the beneficiaries of Food Bank	Year-round		
		Happy Smile Fund: 201 beneficiaries	●	80,81	Increase the number of beneficiaries and the quality of support	Year-round		
		Smile Together: 64 beneficiaries	●	81		Year-round		
	Customer Participation and Communication	Who's Korea classical music sponsorship 'Admiration for Haegeum': Seven Korean classical chamber orchestras were sponsored	●	80,81	Disseminate traditional Korean culture and continuously sponsor Korean arts	Year-round		
		Himango Project : KRW 200 million	●	80,81	Continue to expand HIMANGO Bazaar	Year-round		
		Environmental clean-up activities: 15 activities	●	80,81	Environmental clean-up activities: 16 activities	Year-round		
		Local volunteering: 19 rounds of volunteering	●	80,81	Local volunteering: 20 rounds of volunteering	Year-round		

2012 Performance Highlight

OHUI Beautiful Face Campaign to Offer Plastic Surgery to Children Born with Facial Disfigurements

This campaign was launched in 2007 in conjunction with Seoul National University Hospital to offer plastic surgery to children born with facial disfigurements.

▶ 'OHUI Donggeurami Camp' to Help Heal Children with Congenial Facial Disfigurements

We were an official sponsor for the '2012 Donggeurami Camp' held as part of OHUI's Beautiful Face Campaign in June 2012. While we have assisted children born with such facial disfigurements as cleft lips and palates in receiving plastic surgeries annually, we also held this 'healing' camp at Phoenix Park in Pyeongchang to enable children with facial disfigurements and their parents to enjoy pleasant experience. As these children rather choose to stay inside due to their low confidence in their appearance, this camping event, attended by some 10,000 participants, allowed these children to freely run about at the water theme park and enjoy a variety of performances. We provided the entire necessary supplies (cosmetics, travel goods, bottled water and beverages) to participating children and parents in addition to paying all the event charges to fill the camp with sharing mind and love.



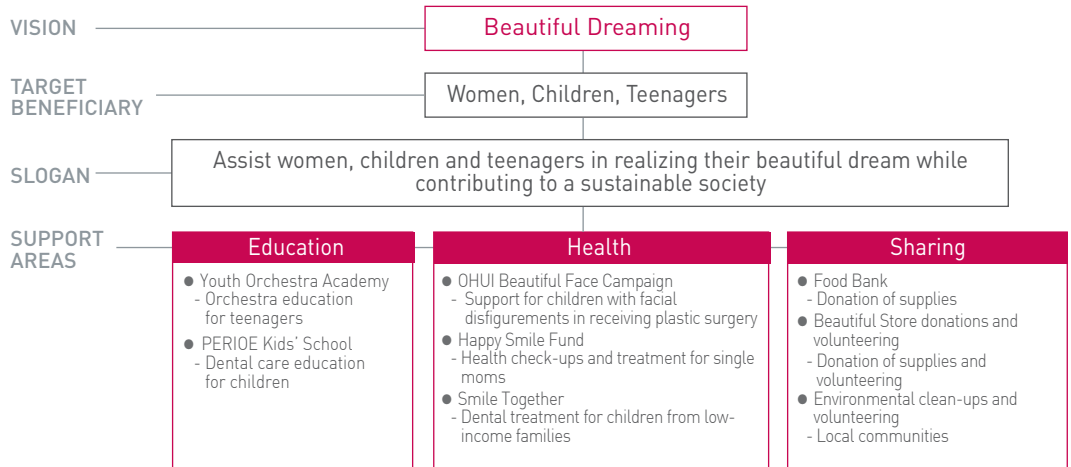
▶ Providing Increased Surgery Expense Support through 'OHUI Bazaar' and 'OHUI Beautiful Collaboration'

In September, 'OHUI Bazaar' was held along Garosu-gil in Sinsa-dong, Seoul, to offer increased surgery expense support through engaging local residents. The event was met with enthusiastic participation and positive response of hundreds of residents there and the majority of the proceeds were set aside to help children born with facial disfigurements receive plastic surgery. Furthermore, a unique collaboration event was launched in conjunction with 'Kim Tae-Hee', an actress who represents LG H&H's cosmetic brand as a model, to increase proceeds from the Beautiful Face Campaign and garner more attention from customers. She joined our 'OHUI Beautiful No. 1 Special Kit' collaboration event to manufacture cards that contain illustrations of smiling children and sell OHUI products worth KRW 200,000 at half this price for a month while offering her cherished possessions for the bazaar event, in order to financially support the plastic surgery for children with facial disfigurements.



Social Contribution Implementation Structure

We are committed to enhancing our influence in the global market through social-giving initiatives on the basis of such mid/long-term strategic tasks as stronger alignment between social contribution and business operation, expanded impact on changes in local communities, and customer communication and engagement.



Issue.1 Stronger Alignment Between Social Contribution and Core Business

We undertake wide-ranging social contribution programs that are closely aligned with our respective business segments. We believe that we position ourselves for a better future by securing future talent and customers through the increased investment in the music education for teenagers and the dental education for children.

1) Education

Youth Orchestra Academy

Our 'LG H&H Youth Orchestra Academy' was established in 2009 to provide students (from freshmen in junior high to sophomores in high schools) who are talented in music but are financially challenged with musical instruments and specialized and systemic classical music education in conjunction with Seoul Royal Symphony Orchestra. Between November 2009 and December 2011, 65 1st-term students benefited from 1-on-1 individual lessons and orchestra education while 44 2nd-term students will be intensively trained by Korea's top-notch faculty members and world-renowned musicians along with collaboration opportunities for two years starting from 2012. Furthermore, the 'LG H&H Youth Orchestra Academy Mentor School' program was held at Yewon School in Seoul, attended by Violinist Clara Jumi Kang and our Youth Orchestra Academy members. In her lecture titled 'My Music Story', Clara shared various episodes she experienced to become a world-class violinist with future musicians.



PERIOE Kids' School

In celebration of the 50th anniversary of our toothpaste business in 2004, we have been educating preschool teachers, parents and the general public on appropriate oral care tips. Specifically, our PERIOE Kids' School program has sent our in-house dental hygienists to 1,660 preschools to offer dental hygiene education to 143,000 children by 2012. In addition, its scope of activities has continued to widen to support the development of dental health educational programs and the distribution of dental care storybooks in a bid to communicate more actively with organizations and communities that are closely related with the dental care field.



2) Health

Happy Smile Fund (Sharing a Bean Together)

Our 'Sharing a Bean Together' campaign has been launched since 2005 to raise the quality of life for single moms. Our employees donate a specific portion of their monthly wage, which is matched in equal amounts paid by LG H&H in order to offer various health check-up services and treatment expense support to single moms.

3) Sharing

Regular Donation Initiatives

We have been donating household goods to the Beautiful Store in conjunction with Korea National Council on Social Welfare's Food Bank. Our employees have also volunteered for the 'Beautiful Sharing Package' and the 'Beautiful Saturday' events in the 1st and 4th quarters respectively since 2005. Specifically, a special donation event named 'Beautiful Hands' was held at the end of 2012: household goods and cosmetics worth KRW 2.5 billion were donated to Food Bank and the Beautiful Store to widely share our household and cosmetic products, that have continued to set new records in sales since 2005, with our neighbors in need so as to help them stay warm in freezing-cold winter weather.

Issue.2 Expanded Impact on Changes in Local Communities

We will continue to expand our endeavors to change the local community where we are based through the sponsorship for the Korean classical music that is often ignored and the mango tree-planting campaign that aims to resolve poverty in Sudan, Africa. We believe that expanding our influence on local communities can help us fulfill our social responsibility as a company that promotes a sustainable and win-win growth with local communities.

'Whoo's Mecenat Initiative to Expand Our Influence on Local Communities': Our 'Whoo Mecenat' Initiative has been undertaken since 2006 to re-recognize the value of underappreciated Korean classical music and instruments. Specifically, we fully sponsor seven Korean classical chamber orchestras to foster and support Korean traditional musicians and to help local communities increase their influence on Korean traditional music. Whoo's 'Admiration for Haegeum' concerts were held in Seoul and Busan to ignite the interest of local residents aged between 30's and 50's in Korean classical music and to promote our traditional culture.

HIMANGO Campaign: This charity project aims to plant mango trees as a way to resolve starvation and poverty in Sudan, Africa in a sustainable and permanent manner. Mango tree nurseries were developed to provide seedlings to households suffering food shortages and to help them stand on their own through cultivation education. Every year, 10,000 mango trees are planted and bazaars were held in May and December to invest the proceeds to the HIMANGO Village project launched in South Sudan. Specifically, the HIMANGO Village was completed in 2012 with a women job training center, a cultural center, an elementary school, a day care center, and a mango tree nursery as well as a venue for the entire family members from children to parents to receive education together.



Issue.3 Customer Participation and Communication

We will reinforce our social contribution initiatives that enable us to expand communication and engagement with customers as a consumer goods manufacturer that closely interacts with customers. It is critical that we expand customer communication channels and listen to their diverse feedback in order to set the right direction for our social-giving initiatives and grow together with our customers.



Beyond's Anti-Animal Testing 1 Million Signature Campaign to Engage More Customers: Our eco-friendly beauty brand 'Beyond' has undertaken full-scale marketing initiatives since its declaration of 'Beyond Eco Value 10' in 2005. Specifically, it presented anti-animal testing as its brand slogan in 2012 while launching the '1 Million Signature' campaign against cosmetic animal testing and creating the 'Save Us' fund to protect endangered animals. Consumers who purchased 'Please Look After Beyond Seven Lipsticks' automatically donated a portion of their profits to protect endangered animals. This initiative was warmly welcomed by women consumers who stood for animal protection through online blogs and Facebook and contributed to enhanced customer engagement.

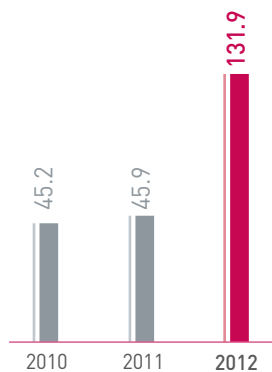


'Coca Cola Children Green Leadership' Program for Environment: The 'Coca Cola Children Green Leadership' program, held in conjunction with the Korea Green Foundation' constitutes the company's representative environmental program that enables children to explore wetlands as a way to learn about ecological symbiosis and the natural purification capability of wetlands and to build awareness of the importance of life and environmental protection. Celebrating its 2nd year since the initiation in 2011, this program provided four rounds of training in four wetlands across the nation to educate 160 environmental keepers. Sixteen outstanding green leaders were awarded with certificates and Coca Cola souvenirs and five of them were chosen as top green leaders and entitled to such special benefits as a visit to the Mai Po Wetlands in Hong Kong that is registered in the Ramsar Convention and participation in Hong Kong's Ecological Footprint education program tours.

Major Regular Social Contribution Program

Annal Amount of Social Contribution

(Unit: KRW 100 million)



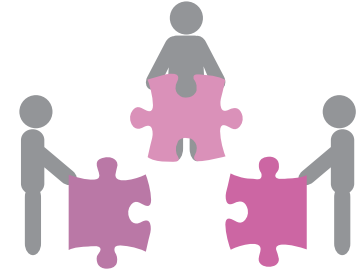
Company	2010	2011	2012
LG H&H	33.8	38.8	114.0
Coca Cola Beverage	9.0	4.3	12.5
HAITAI Beverage	-	-	2.7
THE FACESHOP	2.4	2.8	2.7
Total	45.2	45.9	131.9

Category	Program	Description	Target Beneficiary	Donation Method	Initiation	Accumulated Data	
						No. of Beneficiaries	
Health	Happy Smile Fund	Support for health check-ups and medical treatment expenses	Low-income single moms	1:1 matching funds between employees and the company	2005	2,027	201
	Smile Together	Dental treatment for beneficiaries of basic livelihood support aged between four and 13 as well as children from families in the lowest income bracket	Children from low-income families	Cash donations	2007	933	64
	OHUI Beautiful Face Campaign	Assist children born with facial disfigurements in receiving plastic surgery and joining special camping events while donating charity proceeds	Children	Cash donations	2007	87	1
Education	Youth Orchestra Academy	Offer classical music education to teenagers from low-income families (instruments and lesson fees included)	Children and teenagers	Cash donations	2009	44	44
	PERIOE Kids' School	Send in-house dental hygienists to schools, preschools and child welfare facilities to provide dental care education to children	Children	Free training by LG H&H employees	2004	143,538	19,434
Sharing	Beautiful Store's donations and volunteering	1. Quarterly donation of supplies 2. Employee volunteerism - Annual Beautiful Saturday and Beautiful Sharing Package events	Less-fortunate populations	Donation of supplies, employees' donations and volunteering	2004	Donations (No. of volunteers) KRW 1.08 billion (601) KRW 696 million (114)	
	Food Bank	Regular donation of household goods	Less-fortunate populations	Donation of supplies	2007	KRW 2.9 billion	KRW 1.8 billion
	HIMANGO Campaign	Sponsor the mango tree-planting project to resolve starvation and poverty in Africa	The needy in Africa	Cash donations	2010	KRW 600 million	KRW 200 million
	Environmental clean-ups	Launch environmental clean-up and protection activities in the local community where we are based	-	Volunteering	-	108 occasions	15 occasions
	Community volunteering	Volunteering of employees at Cheongju and Ulsan Plants	Less-fortunate populations	Volunteering	-	114 occasions	19 occasions

Disclosure on Management Approach



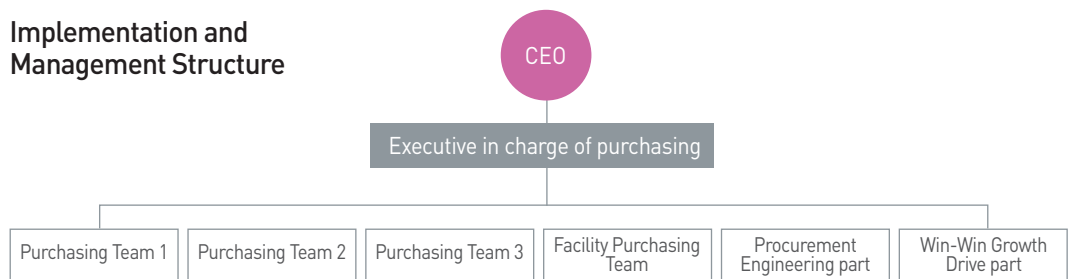
5. Win-Win Growth Partnership with Suppliers



Strategic Directions

- 1. Strengthened communication with suppliers
- 2. Improved supplier competitiveness (education, training, technological support)
- 3. Expanded financial support for suppliers
- 4. Improved fairness and transparency in supplier management

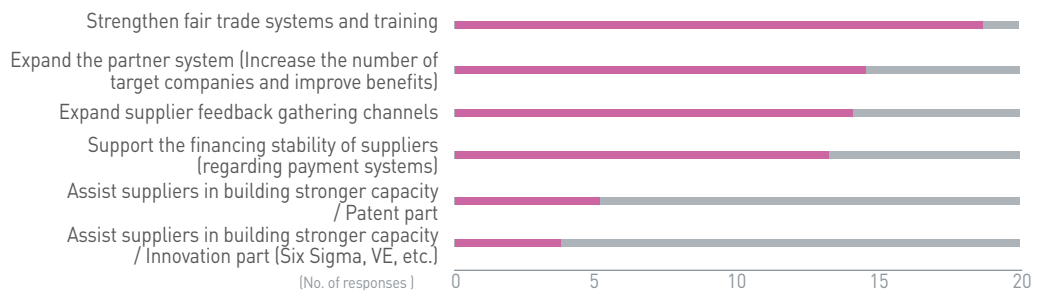
Implementation and Management Structure



Mid-term Roadmap

Focus Area Issues	2013	2014	2015
Strengthened communication with suppliers	Expand the direction communication with suppliers - General Cooperative Council meetings, discussion meetings, Win-Win Growth Committee meetings		
Improved supplier competitiveness (education, training, technological support)	Introduce a performance-sharing system, undertake joint technology development and expand the protection of suppliers' proprietary technology		
Expanded financial support for suppliers	Expand the Growing Together fund Maintain 100% cash equivalent payment (Subcontractors: 100% cash payment) Maintain semi-monthly payment for subcontractors and the ten-day payment deadline		
Improved fairness and transparency in supplier management	Use the CPS system to maintain transparency in working with suppliers and operate Sangsaenggo (online supplier communication channel) and a grievance gathering system		

Supplier Feedback Gathered



KPI



* Win-Win Growth initiatives were fully undertaken since 2012

Performance Chart

● Completed ◐ Under progress ○ Not completed

Level 1 Focus Area 1	Level 2 Key Managerial Issues	2010		Level 3 Detailed Action Plan				
		2012 Performance	Completion	Page	2013 Plans	Target Deadline	Responsible Department	Collaborating Department
Win-Win Growth Partnership with Suppliers	Strengthened communication with suppliers	General supplier meeting (1 meeting)	●	85	Hold 1 general supplier meeting (1 meeting)	Feb.	Win-Win Growth Drive part	Production Team Marketing Team
		Win-Win Growth Committee (Three meetings)	●	85	Win-Win Growth Committee (3 meetings)	Year-round		
		Executives and team leaders visited suppliers (18 visits)	●	85	Executives and team leaders' visit to suppliers (24 visits)	Year-round		
		Discussion meetings with suppliers (1 meeting)	●	85	Discussion meetings with suppliers (1 meeting)	Jun.		
	Improved supplier competitiveness	Delivery unit prices were proactively adjusted	●	86-87	Year-round adjustments to be made in alignment with raw material prices and exchange rates	Year-round		
		Subcontracting suppliers were assisted in increasing their sales	●	86-87	Increase purchasing amount from suppliers by 10%	Year-round		
		Technological document deposit system (four cases)	●	86	Technological document deposit system (10 cases)	Year-round		
		Joint patent applications were made of the new technology developed with suppliers (Seven applications)	●	86	Joint patent applications concerning new technology developed with suppliers (8 application)	Year-round		
	Expanded financial support	Payment methods were executed	●	87	Maintain 100% cash equivalent payment (Subcontractors: 100% cash payment)	Year-round		
		Growing Together fund (KRW 30 billion)	●	87	Growing Together fund- KRW 31.25 billion	May		
	Improved fairness and transparency	Supplier CSR monitoring (Six suppliers)	●	87	Supplier CSR diagnoses (250 suppliers)	Once		
		Purchasing diagnoses for suppliers (429 suppliers)	●	87	Purchasing diagnoses for suppliers (382 suppliers)	Once		

* Technological document deposit system: SMEs may use this system to deposit their key technological information in the Large & Small Business Cooperation Foundation, an independent and reliable third-party organization. This system allows SMEs to prove their development of the deposited technology while large companies can access deposited technologies to maintain and utilize them continuously even when SMEs go bankrupt or terminate their operation.

2012 Performance Highlight

Development of the Convergent Purchasing System (CPS)

Our convergent purchasing system (CPS) was completed last October to establish fair operational processes in response to the increasing work load of our corporate operational system and to supplement our system due to the continued increases in purchasing.

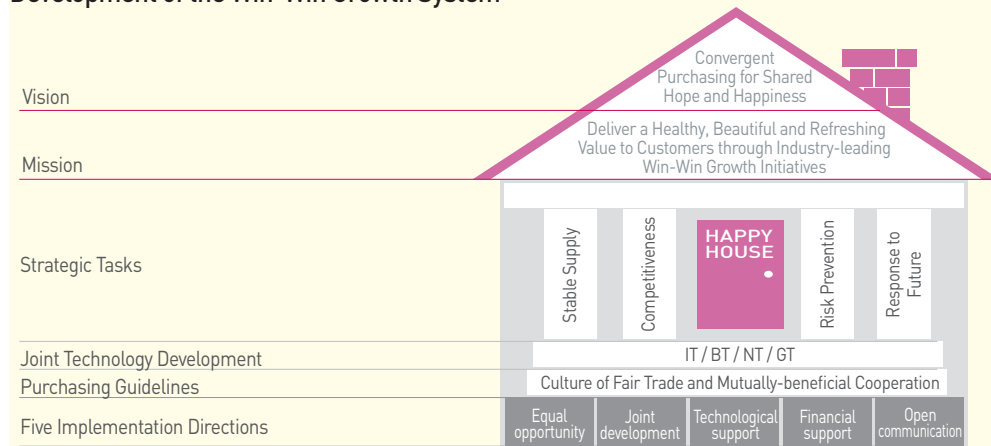
Fairness and Transparency in Purchasing Operations

Our CPS covers the entire purchasing process from the selection of suppliers and order placement to the inspection of unloaded products and payment in order to ensure fairness and transparency. This innovative system also serves as a communication channel to allow information sharing, technology proposals and the registration of grievances.

Laying the Basis for Win-Win Growth through the Enhancement of Suppliers' Trust

The CPS helps us take a systemic approach in doing business with suppliers so as to earn suppliers' trust in our win-win growth initiatives and to proactively assist our suppliers and our related departments in jointly developing technology. Furthermore, our operational efficiency increased through transparent purchasing procedures and operational procedures that comply with subcontracting regulations while active communication with suppliers enabled us to manage suppliers' track records systemically.

Development of the Win-Win Growth System



Operational Systems of the Cooperative Council and Win-Win Growth Committee

We operating general suppliers, members of the Cooperative Council and the Win-Win Growth Committee.

	Operational System	Role	Selection Criteria
▶ Win-Win Growth Committee	Win-Win Growth Committee	<ul style="list-style-type: none"> Gather and suggest opinions for win-win growth Recommend and deliberate on candidate beneficiaries of the Growing Together fund Recommend candidate beneficiaries of the Growing Together fund: Quarterly, three times a year 	<ul style="list-style-type: none"> Cooperative Council members (5 members) Recommended by LG H&H (3 members) LG H&H Assistant administrator(1 member)
▶ Cooperative Council	Representative suppliers in each business segment	<ul style="list-style-type: none"> Represent suppliers in each business segment and gather feedback of suppliers in the same line of business Innovation initiatives, technology proposals (eco-friendly and new technology) 	<ul style="list-style-type: none"> Supplier operational strategy, transaction value, evaluation outcomes, Jeong-Do management, contract observance 5 Executives (Chairman (1), Vice Chairman (3), and General Affairs (1))
▶ General suppliers	By business type Household goods/Cosmetics/Beverage	<ul style="list-style-type: none"> * Qualification assessment 1) The tenure of Cooperative Council members is two years and these members are subject to re-evaluation every two years 2) Members are subject to re-evaluation when rated "grade C" and under for two consecutive occasions as a result of supplier audits or found to have violated Jeong-Do management principles 	



Issue.1 Strengthened Communication with Suppliers



1) Improve Supplier Communication Channels and Expand their Operation

Supplier Communication Channel	2010	2011	2012
Cooperative Council (suppliers / No. of hold)	40 / 1	59 / 1	59 / 1
Win-Win Growth Committee	X	X	8 suppliers, held three times a year
Discussion Meetings (win-win growth seminars)	1	1	1

※ The Win-Win Growth Committee consists of Cooperative Council executives (CEO of five suppliers), representative suppliers in our three business segments (CEOs of three suppliers) and LG H&H's Assistant administrator (1 person).

2) Culture of Win-Win Growth

It is with the five implementation directions of equal opportunity, joint development, technological support, financial support and open communication that we create a culture of fair trade and mutually-beneficial cooperation so as to build a corporate culture of win-win growth. Our vision is to realize our hope and dream together with suppliers who deliver a healthy, beautiful and refreshing value to customers through joint technology development and the undertaking of strategic tasks.

3) Reorganizing the Win-Win Growth Committee and Cooperative Council and Expanding Supplier Discussion Meetings

While the Cooperative Council consists of 59 suppliers who represent the three business segments of household goods, cosmetics and beverage, our Win-Win Growth Committee is composed of five Cooperative Council executive members (CEOs of suppliers), CEO of the three suppliers who represent other suppliers in each of our three business segments, and Assistant administrator(1 person) from LG H&H. The committee represents the voice of the entire suppliers and exercises right to deliberate on major issues as a way to pursue win-win growth in a practical and sustainable manner. Meanwhile, supplier discussion meetings enable us to gather transaction-related grievances, improve our operation and share our purchasing policies in addition to providing information required by our SME suppliers.



Issue.2 Improved Supplier Competitiveness

1) Technological Support for Suppliers

We undertook such diverse technological support and quality improvement support initiatives as support for productivity gains and an enhanced cost competitiveness, TPM innovation initiatives for optimized processes, the relocation of plants and production lines and expansion of facilities.

Category	Item	No. of occasions	Support or Purchased Value (KRW million)
Technological Support	Joint development of raw and subsidiary materials	15cases	8,427
	Development of domestically-sourced raw and subsidiary materials	11cases	5,483
	Support for TPM innovation initiatives	2cases	10
	Relocation of plants, Relocation and expansion of production lines	4cases	30
	Subtotal	32cases	13,950

Joint Patent Applications

1. 10-2011-0113400 : Application Number
 2. Patent Title : Airtight cosmetic vessel
 3. Joint patent : "KR" "LG H&H"
 4. Advantages of the Invention
 [0030] According to this invention, the mutual assembly of injection comp1nt materials ensures sufficient airtight benefits for cosmetic ingredients filled in the cosmetic container without the need for separate rubber packing (airtight packing) while the repeated opening and closing operations caused by the application of cosmetic ingredients do not compromise the airtightness of the airtight combining sections and thus the reliability of the product is ensured.

[0031] In addition, according to this invention, such opening and closing operations are made easy without the need for separate rubber packing and thus high usability is ensured while mass production is made available through the simplified assembly, which reduces manufacturing cost.

2) Protection of Suppliers' Technology

To protect our suppliers' proprietary technology, we operate the technological document deposit system and the patent application support system. Our new technology development support system aims to work with suppliers with potential technology in developing new technology and thus provide assistance regarding development investment as well as independent/joint patent operations and relevant expenses.

Category	Item	No. of occasions	Support or Purchased Value (KRW million)
Technology Protection	Technological document deposit system	4cases	Payment of deposit cost Technology protectio
	Joint patent applications	7cases	
	Subtotal	11cases	1.2

3) Education Support

We offered substantial assistance through the development and continuous operation of training courses customized for respective job positions in the following categories of: CEO & top management, office workers, sales workers, quality management workers, shop-floor technical workers, and R&D workers.

Course Content	Participating Suppliers	No. of Trainees	Training Target	Supervising Department
SME CEO seminar	60 suppliers	60	CEO/top management	Purchasing Department
Finance/accounting, occupational health/safety	222 suppliers	222	Employees	Financing/Business Support
Supplier TPM innovation	64 suppliers	92	Shop-floor technical workers	Purchasing Department
Supplier quality improvement	126 suppliers	198		Product Management Team
Supplier quality improvement TFT	10 suppliers	61	Production Workers	Product Management Team
Practical training for supplier inspectors	31 suppliers	38		Quality Assurance Team
Total	513 suppliers	671		

Experts Support for Suppliers

* Assisting Darin Co., Ltd. in relocating its plant
 - 2.4%→1.7%-Process failure rates
 - 2.7%→0.9%-Unloading lot failure rates
 **Quality improvement at Youngil Glass Co., Ltd.
 - Glass container oil stain failures: 7 failures (1st half)-2 failures (2nd half)
 - Glass inlet molding failures (≠): 13 failures (1st half)-zero (2nd half)

4) Experts Support

When our suppliers review the relocation of their plants or facilities, our in-house experts work with supplier employees as a team to help stabilize modified operations through their accumulated knowledge. We also assist our suppliers in improving their quality level: chronic quality issues are chosen and the quality improvement task force team is created to repeat the operational cycle of planning/execution/review in order to address these issues.

Category	Project Name (TFT Name)	Name of Suppliers	Supporting Staff / Period
Plant relocation relocation	Plant relocation & work environment improvement TFT	Darin Co., Ltd.*	14 employees (9 weeks)
Quality/productivity improvement	Automated glass major quality issue improvement TFT	Youngil Glass Co., Ltd. **	10 employees (5 weeks) Five
Plant relocation	Plant relocation lay-out technical support TFT	Minjin Co., Ltd	employees (2 weeks)

Issue.3 Expanded Financial Support for Suppliers

1) Funding Support

We signed the loan support contract with the Industrial Bank of Korea while creating and operating the Growing Together fund to ensure the financial stability of our suppliers and lay the basis for mutually-beneficial growth (KRW 40 billion to be invested in the fund in 2014).

2) Improvement of Payment Methods (Subcontracting Payment)

Subcontracting payment: The previous "60-day commercial papers" were entirely replaced with "cash payment" (Since Jun. 2012).

3) Improvement in the number of payments (Subcontracting payment)

The number of payments was raised from once a month to twice a month to assist suppliers with smooth funding operations (Since Jun. 2012).

	2011	2012	2013
Funding support (Investment in the Growing Together fund)	KRW 7.5 billion	KRW 30 billion (KRW 25.8 billion)	KRW 31.25 billion
Improvement of payment methods (Subcontracting payment)	100% cash equivalent (100% cash)	100% cash equivalent (100% cash)	100% cash equivalent (100% cash)
Increase the number of payments (Subcontracting payment)	Once (Once)	Once (Twice)	Once (Twice)

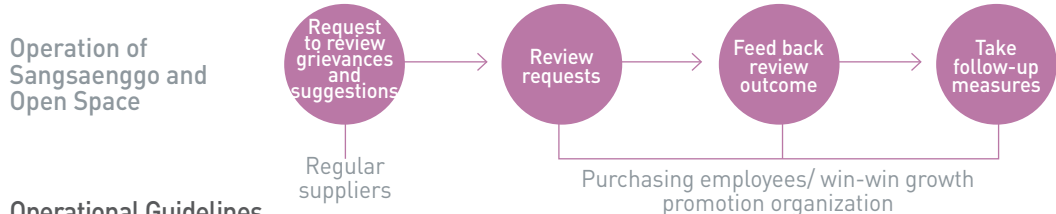
Issue.4 Improved Fairness and Transparency in Supplier Management

1) Purchasing and CSR Diagnostic Processes

Our supplier selection and registration process ensures transparency and fairness in selecting suppliers. In selecting new suppliers, application reviews and credit assessments are made in the 1st phase, which is followed by the 2nd phase assessment where candidates are assessed by our in-house assessment team, made up of at least three departments among purchasing, material management, quality, production, design, R&D and marketing departments. Such assessments target suppliers whose transaction period is more than 1 year and annual transactions amount to over KRW 100 million while assessment categories include quality, deadline, credit ratings, technology, and CSR. In 2012, sustainability management assessment categories was further segmented into 64 items in the seven areas of governance, Jeong-Do management, labor & human rights, environment, safety, consumers and local communities. Pilot assessments were also made of six raw and subsidiary material suppliers and OEM companies. In 2013, our plan is to perform CSR assessments of 250 major suppliers to reflect the outcomes in our comprehensive purchasing assessments as well as incentive criteria covering the allocation of product volume, the selection of beneficiaries of the Growing Together fund and technological support.

2) Sangsaenggo and Open Space

We created "Open Space" within our convergent purchasing system to gather feedback from suppliers. Our supplier dialogue channels enable our suppliers to freely communicate their grievances and suggestions regarding business transactions to our purchasing employees.



Operational Guidelines

- Submissions made by suppliers are strictly protected in accordance with our internal security regulations
- Submissions will be subject to continuous follow-up measures taken by our win-win growth promotion organization which is in charge of mutually-beneficial cooperation within Purchasing Department.

No. of Supplier Purchasing Diagnoses and Future Targets

	2011	2012	2013
Purchasing diagnoses	415	429	382
CSR diagnoses		6 Pilot execution	250

Issue.5 Tier 1 Suppliers' Support for Tier 2 Suppliers

To establish autonomous principles of fair trade and promote mutual competitiveness and win-win growth, we assisted our tier 1 and tier 2 suppliers in signing the fair trade/win-win growth agreement. Shared growth seminars were held in attendance of both tier 1 and tier 2 suppliers for them to be aware of win-win growth plans and to encourage tier 1 suppliers to provide the assistance they received from large companies to their tier 2 suppliers (tier 1 suppliers: 194, tier 2 suppliers: 28). In addition, win-win growth-related postings are made available at our CPS supplier portal in order to announce our commitment to win-win growth to our tier 1 suppliers and to encourage and assist them to sincerely comply with the win-win growth agreement.

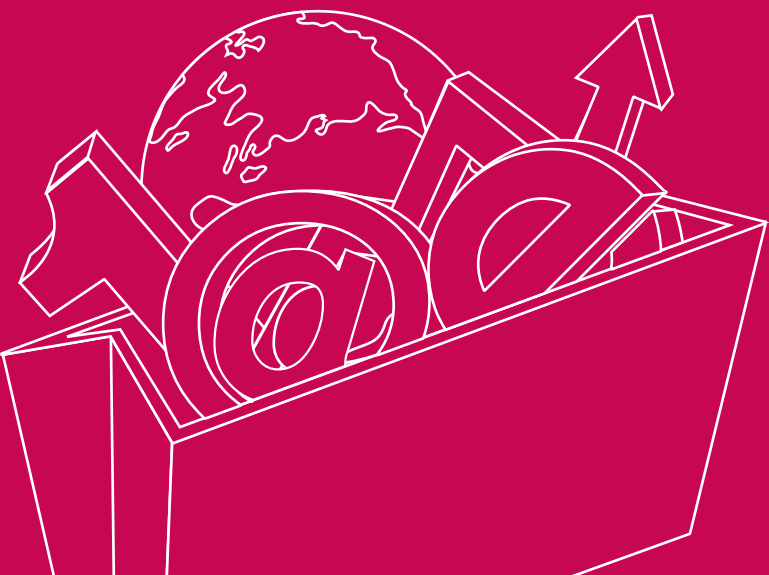
Category	Description
Procedures	<ul style="list-style-type: none"> ① Letters are sent to encourage the signing of the agreement under the name of our CPO in charge of purchasing and production (To 80 suppliers who signed the subcontracting fair trade agreement) ② The written agreement is signed and submitted to us
Major Details of the Agreement	<ul style="list-style-type: none"> ① When delivery unit prices are raised, cash (cash equivalent) payments are made, payment due dates are made more favorable and funding support is given, tier 1 suppliers notify tier 2 suppliers of such improvements ② Concerned agreement parties (tier 1 suppliers) disclose information on adjusted delivery unit prices to their suppliers through internal cooperation channels. ③ Large companies operate programs to offer assistance or transaction-related incentives to those tier 1 suppliers who sincerely adhere to the above mentioned requirements.
Status of the Agreement Signing	<ul style="list-style-type: none"> ① Suppliers who signed the agreement: 80 suppliers ② Tier 1 suppliers who signed the agreement with tier 2 suppliers: 36 suppliers ③ Tier 2 suppliers who signed the agreement with tier 1 suppliers: 172 suppliers



Supplier TPM training (Oct. 24~Oct. 25, 2012)

Appendix

1. Awards and Recognition	90
2. Association and Membership	90
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Global Business & Contact Us	Cover No. 3



1. Awards and Recognition in 2012

Awards	Description	Host Organization
Incorporation in the DJSI Asia Pacific	In the Personal Product Index for three consecutive years	Dow Jones /SAM/KPC
Best Executives	1 of Korea's Best Executives for three consecutive years	Asiamoney
No. 1 on the Green Ranking List	In the consumer goods segments	Sustainvest, Joongang Daily
Prime Minister's Commendation	Promotion of the eco-friendly industry and green growth	Korea Environmental Industry and Technology Institute
Grand Prize, Sustainability Report Awards	In the manufacturing segment	KMAR (Korea Management Association Registrations & Assessments)
Good Design	Frostine, Sunkist Family	Korea Institute of Design Promotion
World STAR	Sunkist Family	World Packaging Organization (WPO)

2. Association and Membership in 2012

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

3. Management System Certification

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	Yeosu/Yangsan/Gwangju	Yeosu/Yangsan/Gwangju	Cheongju/Ulsan/Onsan	Yeosu/Yangsan/Gwangju	Yeosu/Yangsan/Gwangju	N/A
HAITAI Beverage	Cheonan/Pyeongchang	Cheonan	Yeosu/Gwanju	Cheonan/Pyeongchang	Cheonan	N/A

4. Government Subsidies in 2012

(Unit: KRW million)

Project Name	Supervising Department	Government Subsidies
Development of fermented materials with outstanding skin stability	Ministry of Health and Welfare	135
Development of gene-based skin type classification criteria and customized effective ingredients	Ministry of Health and Welfare	280
Development of brand new special mask pack materials and formulations that contribute to higher efficacy	Ministry of Health and Welfare	135
Efficacy assessment of cosmetic ingredients from plant stem cells and establishment of their stability concerning cosmetic formulations	Ministry of Health and Welfare	40

5. Regulatory Violations in 2012

In 2012, there have been no penalties, business suspensions or any other administrative measures imposed due to regulatory violations.

6. GRI 3.1 Guideline Table

● Fully Reported ● Partially Reported ○ Not Reported N/A Not Applicable

Index No.	GRI 3.1 Guideline	Reporting Level	page	ISO26000	
Strategy and Analysis	1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.	●	2-3	6.2
	1.2	Description of key impacts, risks, and opportunities.	●	26-27, 30-31	
Organizational Profile	2.1	Name of the organization.	●	8	
	2.2	Primary brands, products, and/or services.	●	10-12	
	2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	8-9	6.2
	2.4	Location of organization's headquarters.	●	8-9	
	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.	●	8-9, Table No. 3	
	2.6	Nature of ownership and legal form.	●	22-23	
	2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	14-17	
	2.8	Scale of the reporting organization	●	8-9, 14-17	
	2.9	Significant changes during the reporting period regarding size, structure, or ownership	●	4-9, 22-23	
	2.10	Awards received in the reporting period.	●	90	
Report Parameters	3.1	Reporting period.	●	Table No. 2	
	3.2	Date of most recent previous report.	●	Table No. 2	
	3.3	Reporting cycle.	●	Table No. 2	
	3.4	Contact point for questions regarding the report or its contents.	●	Table No. 2	
	3.5	Process for defining report content.	●	Table No. 2	
	3.6	Boundary of the report.	●	Table No. 2, 98-99	
	3.7	State any specific limitations on the scope or boundary of the report.	●	Table No. 2, 98-99	
	3.8	Basis for reporting that can significantly affect comparability from period to period and / or between organizations.	●	Table No. 2, 98-99	
	3.9	Data measurement techniques and the bases of calculations.	●	Explanation of calculation method by indicator	
	3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	●	Three-year comparison of major performance indicators	
	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods.	●	4-7	
3.12	Table identifying the location of the Standard Disclosures in the report.	●	91-94		
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	99-100	7.5.3	
Governance, Commitments, and Engagement	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.	●	22-23	
	4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	22	
	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.	●	22	
	4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	23	
	4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives.	●	22	
	4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	●	22-23	
	4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	●	22-23	
	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.	●	30-31	
	4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance.	●	22-23	6.2
	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	●	22-23	
	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	●	26-28	
	4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	●	90	
	4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization.	●	90	
	4.14	List of stakeholder groups engaged by the organization.	●	33-38	
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	33-38		
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	●	33-38		
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.	●	33-38		

Index No.	GRI 3.1 Guideline	Reporting Level	page	ISO26000	
Disclosure on Management Approach					
DMA EC	Economic performance	●	14-20	6.8/6.8.3/6.8.7/6.8.9	
	Market presence	●	14-20		
	Indirect economic impacts	●	14-20	6.5.5	
DMA EN	Materials	●	62-75	6.5/6.5.4	
	Energy	●	62-75		
	Water	●	62-75		
	Biodiversity	●	62-75	6.5/6.5.6	
	Emissions, effluents and waste	●	62-75	6.5/6.5.3/6.5.5	
	Products and services	●	62-75	6.5/6.5.4/6.6.6/6.7.5	
	Compliance	●	62-75	6.5	
	Transport	●	62-75	6.5/6.5.4/6.6.6	
	Overall	●	62-75	6.5	
DMA LA	Employment	●	54-61	6.4/6.4.3/6.4.4	
	Labor/management relations	●	54-61	6.4/6.4.3/6.4.4/6.4.5/6.3.10	
	Occupational health and safety	●	54-61	6.4/6.4.5/6.4.6/6.8.3/6.8.4/6.8.8	
	Training and education	●	54-61	6.4/6.4.7/6.8.5	
	Diversity and equal opportunity	●	54-61	6.3.7/6.3.10/6.4/6.4.3/6.4.4	
	Equal remuneration for women and men	●	54-61	6.3.7/6.3.10/6.4/6.4.3/6.4.4	
DMA HR	Investment and procurement practices	●	82-88	6.3/6.3.3/6.3.5/6.4.3/6.6.6	
	Non-discrimination	●	54-61	6.3 / 6.3.6 / 6.3.7 / 6.3.10 / 6.4.3	
	Freedom of association and collective bargaining	●	54-61	6.3 / 6.3.3 / 6.3.4 / 6.3.5 / 6.3.8 / 6.3.10 / 6.4.3 / 6.4.5	
	Child labor	●	54-61	6.3 / 6.3.3 / 6.3.4 / 6.3.5 / 6.3.7 /	
	Prevention of forced and compulsory labor	●	54-61	6.3.10	
	Security practices	●	54-61	6.3 / 6.3.5 / 6.4.3 / 6.6.6	
	Indigenous rights	●	54-61	-	
	Assessment	●	54-61	6.3 / 6.3.3 / 6.3.4 / 6.3.5	
	Remediation	●	54-61	6.3 / 6.3.3 / 6.3.4 / 6.3.6	
DMA SO	Local communities	●	76-81	6.3.9/6.8/6.8.5/6.8.7/6.6.7	
	Corruption	●	24-25	6.6/6.6.3	
	Public policy	●	24-25	6.6/6.6.4/6.8.3	
	Anti-competitive behavior	●	24-25, 82-88	6.6/6.6.5/6.6.7	
	Compliance	●	24-25, 60, 90	6.6/6.6.7/6.8.7	
DMA PR	Customer health and safety	●	40-53	6.3.9/6.6.6/6.7/6.7.4/6.7.5	
	Product and service labeling	●	46-49	6.7/6.7.3/6.7.4/6.7.5/6.7.6/6.7.8/6.7.9	
	Marketing communications	●	40-53	6.7/6.7.3/6.7.6/6.7.9	
	Customer privacy	●	28, 41	6.7/6.7.7	
	Compliance	●	26-28, 90	6.7/6.7.6	
ECONOMIC Disclosure on Management Approach					
Economic Performance	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	●	14-20	6.8 / 6.8.3 / 6.8.7 / 6.8.9
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	●	46-47, 52-53, 62, 65, 69-75	6.5.5
	EC3	Coverage of the organization's defined benefit plan obligations.	●	59	-
	EC4	Significant financial assistance received from government	●	90	-
Market Presence	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	●	60	6.4.4 / 6.8
	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	●	82-88	6.6.6 / 6.8 / 6.8.5 / 6.8.7
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	●	58	6.8 / 6.8.5 / 6.8.7
	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	●	74-75,81	6.3.9 / 6.8 / 6.8.3 / 6.8.4 / 6.8.5 / 6.8.6 / 6.8.7 / 6.8.9
	EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	18,19	6.3.9 / 6.6.6 / 6.6.7 / 6.7.8 / 6.8 / 6.8.5 / 6.8.6 / 6.8.7 / 6.8.9

Index No.	GRI 3.1 Guideline	Reporting Level	page	ISO26000	
ENVIRONMENTAL Disclosure on Management Approach					
Materials	EN1	Materials used by weight or volume.	●	71-75	6.2 / 6.5
	EN2	Percentage of materials used that are recycled input materials.	●	71-73	
Energy	EN3	Direct energy consumption by primary energy source.	●	57, 71-75	6.5 / 6.5.4
	EN4	Indirect energy consumption by primary source.	●	65, 71-75	
	EN5	Energy saved due to conservation and efficiency improvements.	●	64-65, 69-75	
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	●	64-65, 69-75	
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	●	64-65, 69-70, 74-75	
Water	EN8	Total water withdrawal by source.	●	66, 71-75	
	EN9	Water sources significantly affected by withdrawal of water.	●	66	
	EN10	Percentage and total volume of water recycled and reused.	●	71-75	
Bio Diversity	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	●	66-67	6.5 / 6.5.6
	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	●	66-67, 80-81	
	EN13	Habitats protected or restored.	N/A		
	EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	●	48, 81	
	EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	N/A		
Emissions, Effluents, and Waste	EN16	Total direct and indirect greenhouse gas emissions by weight.	●	63, 65	6.5 / 6.5.5
	EN17	Other relevant indirect greenhouse gas emissions by weight.	●	65, 69-75	
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	64-65, 69-70	
	EN19	Emissions of ozone-depleting substances by weight.	●	72	6.5 / 6.5.3
	EN20	NOx, SOx, and other significant air emissions by type and weight.	●	66, 71-75	
	EN21	Total water discharge by quality and destination	●	71-75	
	EN22	Total weight of waste by type and disposal method.	●	71-75	
	EN23	Total number and volume of significant spills.	●	66-68	
	EN24	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.	N/A		
	EN25	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.	●	66-67	
Products and Services	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	45-49, 51-53	6.5 / 6.5.4 / 6.6.6 / 6.7.5
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	●	52-53, 71-75	6.5 / 6.5.4 / 6.7.5
Compliance	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	●	66-67, 90	6.5
Transport	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	●	69-70	6.5 / 6.5.4 / 6.6.6
Overall	EN30	Total environmental protection expenditures and investments by type.	●	74-75	6.5
LABOR PRACTICES AND DECENT WORK Disclosure on Management Approach					
Employment	LA1	Total workforce by employment type, employment contract, and region.	●	61	6.4 / 6.4.3
	LA2	Total number and rate of employee turnover by age group, gender, and region.	●	57, 61	
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	●	55, 57-59	
Labor/ Management Relations	LA4	Percentage of employees covered by collective bargaining agreements.	●	59-61	6.4/6.4.3/6.4.4/6.4.5 / 6.3.10
	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	●	59	6.4 / 6.4.3 / 6.4.4 / 6.4.5
Occupational Health and Safety	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.	●	61, 67-68	6.4 / 6.4.6
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	●	67-68	6.4 / 6.4.6 / 6.8 / 6.8.3 / 6.8.4 / 6.8.8
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	●	67-68, 78	
	LA9	Health and safety topics covered in formal agreements with trade unions.	●	67-68	

Index No.	GRI 3.1 Guideline	Reporting Level	page	ISO26000	
Training and Education	LA10	Average hours of training per year per employee by employee category.	●	55,61	6.4/6.4.7
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	●	56-59	6.4/6.4.7/6.8.5
	LA12	Percentage of employees receiving regular performance and career development reviews.	●	57,61	6.4/6.4.7
Diversity and Equal Opportunity	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	●	22-23,61	6.3.7/6.3.10/6.4/6.4.3
	LA14	Ratio of basic salary of men to women by employee category.	●	60	6.3.7/6.3.10/6.4/6.4.3/6.4.4
Employment	LA15	Return to work and retention rates after parental leave, by gender.	●	61	6.4/6.4.3
Human Rights Disclosure on Management Approach					
Investment and Procurement Practices	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights Screening.	●	87	6.3/6.3.3/6.3.5/6.6.6
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	●	87	6.3/6.3.3/6.3.5/6.4.3/6.6.6
	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.	●	24-25, 58-60	6.3/6.3.5
Non-Discrimination	HR4	Total number of incidents of discrimination and actions taken.	●	58-60	6.3/6.3.6/6.3.7/6.3.10/6.4.3
Freedom of Association and Collective Bargaining	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	●	59-60	6.3/6.3.3/6.3.4/6.3.5/6.3.8/6.3.10/6.4.3/6.4.5
Child Labor	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	●	59-60	6.3/6.3.3/6.3.4/6.3.5/6.3.7/6.3.10
Forced and Compulsory Labor	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	●	59-60	
Security Practices	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	N/A		6.3/6.3.5/6.4.3/6.6.6
Indigenous Rights	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	N/A	There were no such violations.	
Assesment	HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	●	59-60	6.3/6.3.3/6.3.4/6.3.5
Remediation	HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	●	24-25, 59-60	6.3/6.3.3/6.3.4/6.3.6
Society Disclosure on Management Approach					
Community	S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	●	76-81	6.3.9/6.8/6.8.5/6.8.7/6.6.7
Corruption	S02	Percentage and total number of business units analyzed for risks related to corruption.	●	24-25, 84, 87	6.6/6.6.3
	S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	●	24-25	
	S04	Actions taken in response to incidents of corruption.	●	24-25	
Public Policy Behavior	S05	Public policy positions and participation in public policy development and lobbying.	●	24-25	6.6/6.6.4/6.8.3
	S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	N/A	No political donation	
Anti-Competitive	S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	N/A		6.6/6.6.5/6.6.7
Compliance	S08	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	●	90	6.6/6.6.7/6.8.7
	S09	Operations with significant potential or actual negative impacts on local communities.	●	65-68, 80-81	6.3.9/6.8/6.8.5/6.8.7/6.6.7
Community	S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	●	65-68, 80-81	
Product Responsibility Disclosure on Management Approach					
Customer Health and Safety	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.	●	48-49	6.3.9/6.6.6/6.7/6.7.4/6.7.5
	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.	●	43-44, 46-49	
Product and Service Labeling	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	●	45-53	6.7/6.7.3/6.7.4/6.7.5/6.7.6/6.7.9
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	●	43-44, No	
	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	●	40-44	6.7/6.7.4/6.7.5/6.7.6/6.7.8/6.7.9
Marketing Communication	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	●	42-44	6.7/6.7.3/6.7.6/6.7.9
	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.	●	No	
Customer Privacy	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	●	26-28, No	6.7/6.7.7
Compliance	PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	N/A	No	6.7/6.7.6



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"> Code of Ethics_ Chapter 1. Responsibilities and Obligations to Consumer 1. Respect for Customers Code of Ethics_ Chapter 5. Responsibilities to Employees 2. Fair Treatment 	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.	95 67-68 59-60
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"> Operational Guidelines for the Labor-Management Council Code of Ethics_ Chapter 5. Responsibilities to Employees 1. Respect for Humankind 2. Fair Treatment 	We continuously endeavor to foster autonomous and creative talent.	67-68 59-60
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"> Code of Ethics_ Chapter 6. Responsibilities to Society and Country 4. Environmental Protection Environmental Health and Safety Guidelines Environmental Management Regulations 	We consistently undertake initiatives to enhance environmental value through supply chain-driven perspectives in evaluating the environmental impact of our business conduct.	62-75, 81
Anti-Corruption			
Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	<ul style="list-style-type: none"> Code of Ethics_ Chapter 2. Fair Competition 2. Legal Compliance Code of Ethics_ Chapter 4. Basic Ethics for Employees 4. Fair Operating Practices 	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.	24-25 54-61 82-88

GRI Application Levels Table

Report Application Levels	C	C+	B	B+	A	A+
G3 profile disclosures	Report on: 1.1, 2.1-2.10, 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15		Report on: Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17		Disclosure Items : Identical to Standard 'B' request items	
G3 management approach disclosures	Output Not required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
Performance indicators & sector supplement performance indicators	Report fully on a minimum of any 10 Performance Indicators, including at least 1 from each of: social, economic, and environment	Report externally assured	Report fully on a minimum of any 20 Performance Indicators, at least 1 from each of: economic, environment, human rights, labor, society, product responsibility	Report externally assured	Respond on each core and Sector Supplement indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission	Report externally assured

* In preparing the '2012 CSR Report', we used the GRI G3.1 guidelines and self-declared that the report satisfied the A Application Level requirements. In addition, the report was verified to meet A+ Application Level requirements by KoreaCSR, a third-party assurance provider.



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8. GHG Emissions Verification Statement

LG H&H CO., LTD.

Introduction

Samjong KPMG was engaged by LG H&H Co., Ltd. to verify the company's 2012 GHG emissions and energy inventory ('Inventory' hereafter). The responsibility for collecting GHG emissions data as well as developing and managing Inventory lies with LG H&H while Samjong KPMG's responsibility is limited in presenting its opinions relating to Inventory.

Verification Scope

The scope of this verification engagement includes Inventory created based on the 2012 consumption data.

- Emission sources owned and operated (used) by LG H&H (Target sites: Cheongju Plant, Ulsan Plant, Onsan Plant, Naju Plant, Daejeon R&D Centre, and domestic distribution centers)
- Direct emissions (stationary combustion, mobile combustion, process emissions and fugitive emissions) and indirect emissions (electricity and steam)
- CO₂, CH₄, N₂O, HFCs emissions generated for the period of January 1, 2012 through December 31, 2012

Reporting and Verification Standards

LG H&H prepared its Inventory in accordance with the Guidelines to Operating Greenhouse Gas & Energy Target Management (Announcement from the Korean Ministry of Environment No. 2012-211), IPCC's 'Guidelines for National Greenhouse Gas Inventories' (2006), WRI/WBCSD's 'GHG Protocol' (2004), and ISO14064-1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals. Samjong KPMG conducted the verification against ISO 14064-3: Specification with guidance for the validation and verification of greenhouse gas assertions and the Guidelines to Operating Greenhouse Gas & Energy Target Management (Announcement from the Korean Ministry of Environment No. 2012-211).

Verification Methodology

Samjong KPMG undertook the following activities in reaching its conclusions:

- Review of the methods, assumptions and procedures used to calculate GHG emissions
- Review of the systems to generate and collect GHG emissions data and the reporting system
- On-site physical inspections to gather and review evidence

Samjong KPMG discussed the modification of Inventory with LG H&H during the review process. To verify whether Samjong KPMG's findings were reflected, Samjong KPMG reviewed the final version of this report.

Conclusions and Opinions

LG H&H's GHG Emissions in 2012 (t-CO₂e)

Year	Direct Emissions (Scope 1)	Indirect Emissions (Scope 2)	Total	Other Indirect Emissions (Scope 3)
2012	5,534.24	34,172.82	39,707.06	446.23

※ Other indirect emissions (Scope 3) refer to GHG emissions related to employee commuting buses.

LG H&H's GHG emissions data stated above is not materially incorrect in consideration of the purpose of potential Inventory users.

May 20, 2013
Kyo-Tai Kim
CEO, Samjong KPMG

COCA COLA BEVERAGE CO., LTD.

Introduction

Samjong KPMG was engaged by Coca Cola Beverage Co., Ltd. to verify the company's 2012 GHG emissions and energy inventory ('Inventory' hereafter). The responsibility for collecting GHG emissions data as well as developing and managing Inventory lies with Coca Cola Beverage while Samjong KPMG's responsibility is limited in presenting its opinions relating to Inventory

Verification Scope

The scope of this verification engagement includes Inventory created based on the 2012 consumption data.

- Emission sources owned and operated (used) by Coca Cola Beverage (Target sites: Yeosu Plant, Yangsan Plant, Gwangju Plant, distribution centers)
- Direct emissions (stationary combustion, mobile combustion, process emissions and fugitive emissions) and indirect emissions (electricity)
- CO₂, CH₄, N₂O, HFCs emissions generated for the period of January 1, 2012 through December 31, 2012

Reporting and Verification Standards

Coca Cola Beverage prepared its Inventory in accordance with the Guidelines to Operating Greenhouse Gas & Energy Target Management (Announcement from the Korean Ministry of Environment No. 2012-211), IPCC's 'Guidelines for National Greenhouse Gas Inventories' (2006), WRI/WBCSD's 'GHG Protocol' (2004), and ISO14064-1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals. Samjong KPMG conducted the verification against ISO 14064-3: Specification with guidance for the validation and verification of greenhouse gas assertions and the Guidelines to Operating Greenhouse Gas & Energy Target Management (Announcement from the Korean Ministry of Environment No. 2012-211).

Verification Methodology

Samjong KPMG undertook the following activities in reaching its conclusions:

- Review of the methods, assumptions and procedures used to calculate GHG emissions
- Review of the systems to generate and collect GHG emissions data and the reporting system
- On-site physical inspections to gather and review evidence

Samjong KPMG discussed the modification of Inventory with LG H&H during the review process. To verify whether Samjong KPMG's findings were reflected, Samjong KPMG reviewed the final version of this report

Conclusions and Opinions

Coca Cola Beverage's GHG Emissions in 2012 (t-CO₂e)

Year	Direct Emissions (Scope 1)	Indirect Emissions (Scope 2)	Total
2012	31,041.70	21,145.92	52,187.62

Coca Cola Beverage's emissions data stated above is not materially incorrect in consideration of the purpose of potential Inventory users.



May 20, 2013
Kyo-Tai Kim
CEO, Samjong KPMG

9. Third-party Assurance Statement

Introduction

KoreaCSR was engaged by LG H&H to perform an independent assurance engagement of the '2012 LG H&H CSR Report (the 'Report' hereafter), that presented the company's corporate social responsibility as well as 2012 sustainability management initiatives and future commitments.

The purpose of this assurance engagement is to describe issues and possible improvements in the entire reporting process covering report preparation and the report content and to present independent opinions concerning significant errors, exaggerations or false descriptions through the physical inspections of the information and data contained in this report so as to assist the company in publishing a transparent and complete report.

As LG H&H was in charge of collating data and preparing this Report, the responsibility for the report content and data solely lies with the company.

Assurance Scope and Limitations

The scope of this assurance engagement spans LG H&H's Performance and data for 1 year from January 1, 2012 through December 31, 2012. Excluded from this engagement are verified financial performance, GHG emissions and energy-related information, product-related certificates and indications, and the corporate website. KoreaCSR, however, did verify whether the financial data contained in this Report was appropriately extracted from the company's financial statement that had been audited.

Furthermore, physical inspections were made of the company's plants in Anyang, Cheongju, and Cheonan as well as the Head Office in Seoul while interviews were conducted of relevant employees. The rest of the company's Korean workites and overseas subsidiaries were not included in performing physical inspections.

The purpose and scope of this assurance engagement was determined through the agreement with LG H&H. This assurance statement is a summarized version of the final assurance report that was created through refined assurance processes.

Assurance Standards

KoreaCSR performed a 'moderate level' assurance, which means that it verified whether the information and data presented in this Report fully reflected the company's endeavors and accomplishments. Included in this assurance engagement is a systemic review in accordance with 5Cs (KoreaCSR's own assurance standards) and the verification against GRI G3.1 guidelines' requirements.

※ KoreaCSR's CSR report assurance standards: 5Cs

① Contents

Organize the report items in a way that is appropriate for disclosure documents and report complete information required by stakeholders

② Commitment

Gather stakeholder expectations and requirements and present clear commitments and plans in response to them

③ Comparability

Present quantifiable data and performance that allows

comparative analyses by year and worksite and enhance its comparability

④ Credibility

Ensure 100% reliability of the report content

⑤ Communication

Prepare the report in a way that is readily accessible and in a language easily understandable for stakeholders

Assurance Procedures and Methodology

As limited in scope, this assurance engagement was conducted based on such methods as an analytical approach to respective report content chosen through sampling, inspections of evidence materials and interviews so as to fully achieve its assurance objectives. Major assurance procedures are as follows.

1. Review of the stakeholder engagement and communication processes to verify whether stakeholder expectations and requirements were fully reflected in the company's material sustainability management issues and were appropriately addressed
2. Review of the appropriateness and accuracy of the processes and systems to gather and manage the company's financial and non-financial data
3. Review of the process the company adopted in identifying Focus Area sustainability management issues including the materiality test and stakeholder engagement processes so as to evaluate the adequacy and effectiveness of those issues
4. Review of top management's decision-making process, report preparation process and reporting systems along with interviews with seven executives as well as working-level employees in order to verify the actual undertakings of sustainability management initiatives and their application to business operation, monitoring processes and processes to develop commitments and plans
5. Request and comparative analyses of relevant evidence materials to verify the accuracy and transparency of the information and data presented in this Report as well as physical inspections of the Head Office in Seoul and workites in Anyang, Cheongan, and Cheongju
6. Review of the completeness in reporting on indicators suggested by internationally-applicable reporting guidelines such as GRI guidelines as well as the description of appropriate reasons and future plans for omissions to help stakeholders check and make their own judgment
7. Media analyses and the review of other CSR reports issued by industry peers to evaluate the objectivity and appropriateness of the report content, along with the verification of the Report's compliance with the Application Level A requirements as suggested by GRI G3.1 guidelines
8. Review of the effectiveness of this Report in complying with the self-declared Application Level A+ requirements as suggested by GRI G3.1 guidelines

Findings

As LG H&H used the assurance process from the report preparation phase, a specific portion of the assurance recommendations were reflected and improvement was made during the reporting process.

Specifically, this Report was improved in a way to proactively respond to stakeholder requirements rather than simply describing Performance in presenting implementation systems and future plans in each Focus Area issue concerning sustainability management that was identified as a result of the materiality test.

Therefore, KoreaCSR is not aware of any exclusion of material issues or any inappropriate descriptions that may cause significant errors or biases on the basis of the verification activities conducted of the final Report. KoreaCSR also believes that this Report satisfies the self-declared Application Level A requirements as suggested by GRI G3.1 guidelines.

Conclusions and Recommendations

1. KoreaCSR's assurance team of experts believes that LG H&H's stakeholder engagement and communication process is substantially supportive in identifying material sustainability management issues. The company, however, needs to complement its process to induce proactive stakeholder engagement and gather their feedback in reviewing the prepared report content.

2. Analyses of reliability of the information and data contained in the Report based on physical inspections and interviews demonstrated that the reliability level was fairly high. Still, the company lacks a system to systemically collect and manage non-financial data as well as a process as part of the reporting system to enable supervisors to verify the completeness of data, which implies that more endeavors are required concerning data collection and management. Specifically, improvement is needed to allow integrated management of environmental, health and safety data as well as HR data in domestic and overseas business sites.

3. LG H&H undertook a sophisticated seven-phase materiality test process to identify CSR Focus Area issues and this process appropriately reflected social needs, impact on business and management as well as stakeholder interest. However, the Report insufficiently presented how stakeholder feedback would be integrated in developing future plans and commitments by function and issue and how the company would gather feedback concerning the progress made. Therefore, future CSR reports would benefit from making more detailed description of such processes to enable stakeholders to review them more clearly.

4. LG H&H's entire CSR initiatives are developed in alignment with the operation of major working-level departments and they are integrated in overall business operation in addressing sustainability issues. Still, the company needs to broaden consensus on each department's roles, responsibilities and detailed operations relating to CSR while developing systems and processes to regularly monitor progress and share Performance. Furthermore, company-wide education and the sustained sharing of Performance are required.

5. LG H&H provided evidence materials relating to the entire report content and KoreaCSR verified that the company fully responded to indicators suggested by GRI G3.1 guidelines and reported relevant Performance. Thus, KoreaCSR presents the following recommendations on sustainability management Focus Area issues to improve future reports.

- Present detailed endeavors to identify and improve on customer safety, product responsibility and environmental impact within the product life cycle
- Develop a system to allow an integrated management of ESH activities and Performance in all LG H&H sites in Korea and abroad
- Comparatively present ESH issues and performance data by region and site
- Expand sustainable products to the entire business segments and undertake concrete development projects while presenting production and sales targets and managing performance
- Present GHG emissions reduction targets in accordance with the major emission sources identified in each business site and monitor relevant performance
- Describe commitment to improving on the supply of raw materials, the management of water resources and biodiversity as well as relevant Performance
- Develop processes to enable local communities to evaluate and provide feedback on the company's social contribution initiatives
- Strengthen the alignment between the development of risk prevention manuals & employee training and the management of key risks & the identification of risk-specific scenarios to allow integrated risk management
- Develop an integrated management system that covers both company-wide CSR initiatives and data over the long haul to respond to integrated reporting while improving the CSR management system to align respective CSR initiatives with financial performance to allow integrated management as well as the management of CSR initiatives to verify their social and environmental impact and Performance

KoreaCSR's Qualifications and Independence

KoreaCSR was not engaged in the report preparation process. Its assurance team, composed of global sustainability management experts, maintains its independence, autonomy and fairness, free from any interest in or influence from LG H&H.



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June 2013

Myung-Hoon Yoo

CEO, KoreaCSR

Expert Opinions on LG H&H's 2012 CSR Report

Jong-Dae Kim

Professor of Business Administration, Inha University
Head professor, Sustainability Management MBA/Combined Master and Ph.D Courses
Director, Sustainability Management Research Institute
Former Chairman of the Korea Environmental Management Association

LG H&H has been growing in all of its business segments of cosmetics, household goods and beverages over the past several years. Specifically, successful acquisitions enabled the company to increase its corporate value and its performance is also improving in the overseas market. These remarkable financial outcomes are attributable to the exceptional leadership of its top management and the contributions and capabilities of the entire LG H&H staff.

For LG H&H to move beyond a merely financially-successful company to an industry leader in 'sustainability management', the company needs to become a pioneer in such diverse areas as the continuous undertaking of environmental management, win-win growth through cooperation with local communities, proactive handling of climate change and energy issues, advocacy of employees' human rights and the creation of a pleasant workplace. LG H&H has been undertaking stringent environmental health and safety practices over the past several years, in conjunction with its suppliers to pursue mutual benefits. All its activities regarding social responsibility are actively undertaken through stakeholder engagement. I believe that this report constitutes a fair and transparent presentation of such Performance.

LG H&H's CSR Report outlines its economic, environmental and social performance through the right balance between stakeholder's understandability and the materiality of the report content while satisfying international standards along with enhanced comparability. To ensure the continuous development of LG H&H's sustainability management and a more effective use of its CSR Report, I would like to present the following recommendations.

First, the materiality test process should be improved continuously. The materiality test serves as a fundamental basic step for a company to put its sustainability management on the right track as well as publishing CSR reports. While this report states that the materiality test was conducted in a meaningful way, I hope that the company communicate with its stakeholders on a constant basis so that stakeholder communication is combined with its strategic business decision-making to produce synergistic effects. The company would benefit from operating stakeholder engagement programs that are broader in scope and operated year-round and organizing their process and outcomes from the perspective of conducting the materiality test for CSR reports. In so doing, the company would be able to better present its interest in and objective for sustainability management.

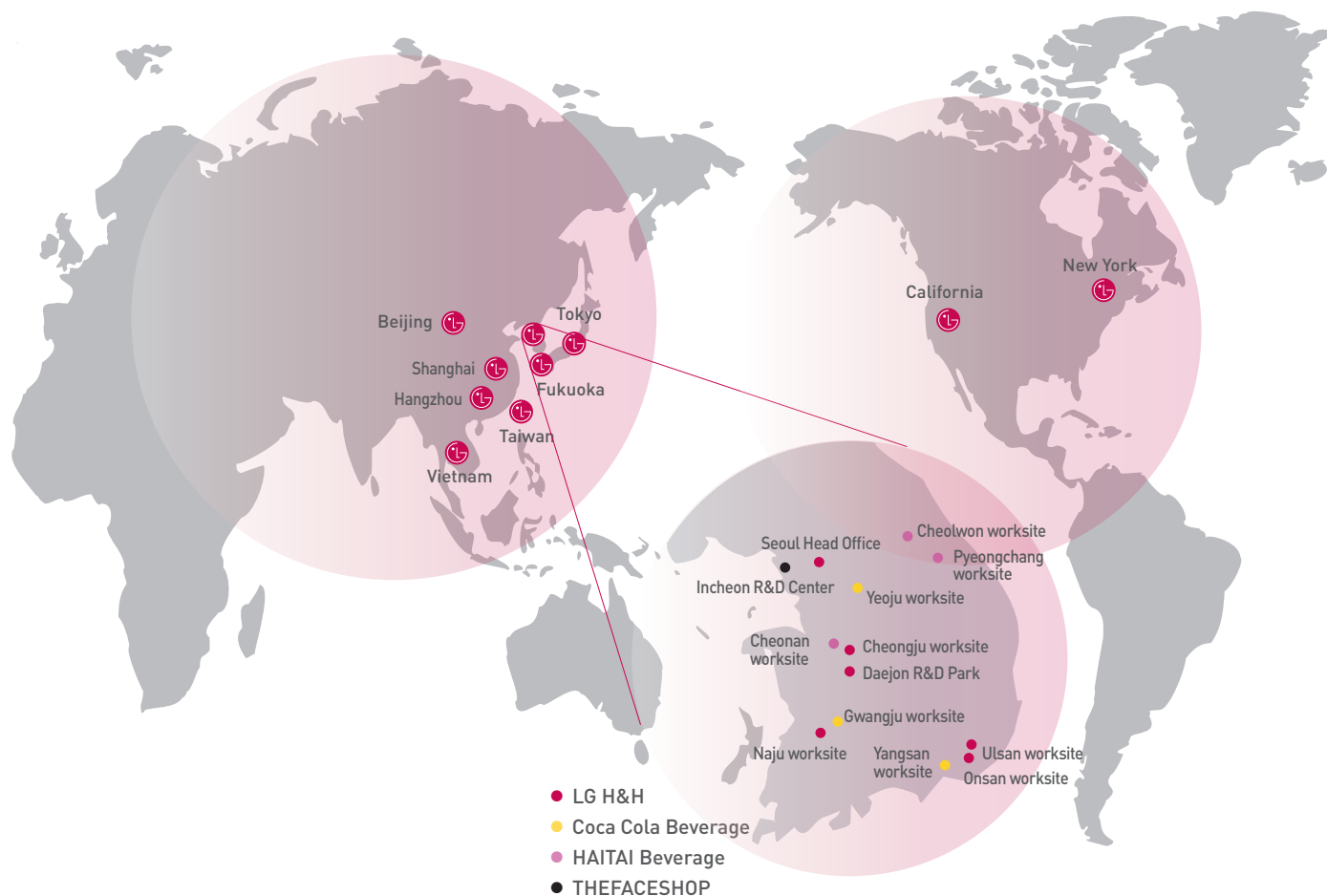
Second, I expect LG H&H to review and reflect the 'aspects' and 'issues' suggested by the GRI guidelines and ISO 26000 respectively in making major decisions in order to select and classify sustainability management issues. I also expect that relevant guidelines and check lists are analyzed and used company-wide in order to ensure that sustainability management is aligned with performance evaluation systems and practically used for business operations to take its deep root across the board. This, in return, will help construct sustainability management performance indicators that are suitable in promoting communication with internal/external stakeholders and thus may serve as a best practice for other domestic industries to follow.

Third, LG H&H's considerations that focus on its sustainability from the economic/social perspective need to be disclosed. The company would benefit from clearly stating how it recognizes its role as a corporate citizen from the macroeconomic and social perspective in further detail. Recent academic work on sustainability management and social responsibility is increasingly geared toward how a company's sustainability management changes its form and objectives in accordance with the society and country where it is based and operated as well as systemic infrastructure. Likewise, the management and strategic characteristics and objectives, that the company will pursue against the economic and social background where it is based, will become the main focus of its sustainability management. Thus, I expect the company to broaden its scope in disclosing its challenges and endeavors through sustainability reports as a corporate citizen.

Last but not least, I hope that the company will expand and diversify its communication channels, although the report content and its structure are designed to improve the understanding and convenience of stakeholders (readers). Its sustainability reporting will further improve by drastically eliminating the content that overlaps with previous reports and emphasizing key parts through the alignment with the corporate website.

Over the last decade, sustainability management has positioned itself as an essential consideration in any company's business conduct in Korea. I deeply appreciate LG H&H's sustained commitment to improving its environmental and social performance as well as economic performance. Thus, I expect the company to become a great contributor to sustainable development from a macro-perspective and proactively communicate such progress with stakeholders so that it evolves into a truly world-class company that creates world's best practices. I sincerely wish that LG H&H take the right path forward and enjoy success.

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