

2015 UNGC COP (COMMUNICATION ON PROGRESS)

WE SUSTAIN THE
FUTURE of



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1. CEO STATEMENT

Dear distinguished stakeholders,

It is a great pleasure for us to share the FY15 TaeKwang Sustainability Summary Report, our third report since FY13, to show our sustainability progress.

We, TaeKwang

- Earnestly listen to our stakeholders.
- Do not fear changes and continue challenging ourselves with Technology & Innovation.
- Do our best to minimize an adverse effect on the environment in the manufacturing process.
- Pursue a better working environment and improve the quality of life for our employees.
- Make an effort to develop human resources with a sense of ownership through empowerment.
- Become an official member of the UN Global Compact in June, 2015. We apply the 10 Principles about Human Rights, Labor, Environment and Anti-Corruption of the UN Global Compact to our company operation and business strategy so that sustainability and corporate citizenship can be improved.**

We are committed to

- Be the best partner with Technology and Quality.
- Gain stakeholders' trust.
- Inspire our employees to have an ownership and leadership.
- Be the most desirable workplace with community growth
- Be a leading global company.

With Best Regards,

June 2015
CEO JM Kim

Jaе Min Ki



2. VISION & MISSION

Vision

The Undisputed Leader In Manufacturing

Mission

Give Value & Trust to all our Stakeholders by Leading the Footwear Industry to the Next Level

Innovation

Deliver a Consistent
Pipeline of Innovation

Modernization

Accelerate and Scale

Product Excellence

Deliver Great Product

Process Excellence

Leverage Process
as an Enabler

People

Attract, Develop & Retain
World Class Talent

Sustainable Mfg

"Beyond Compliance"
Stakeholder Engagement

Lean 2.0

Leadership, People, Process

Our vision is to be "The Undisputed Leader in Manufacturing to Lead the Global Footwear Industry".

Our strategic plan includes foundational elements for successful business and an enabler for sustainable growth as a company. We are quick to respond to a changing Business Environment through our Innovation Center, which goes beyond the conventional manufacturing process and technology, has bold Investment in Automation, and is the best product with the best quality.

These strategies are based on People Oriented Management, Sustainability Management, and Lean Management. Furthermore, these are motive powers of growth for the last half a century and essential sources of competitiveness to sustain TaeKwang's success.

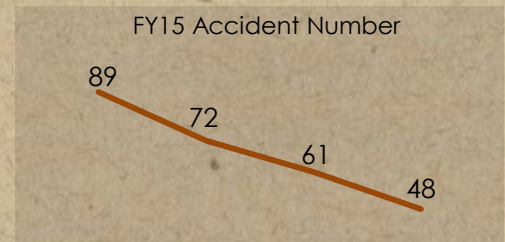
3. SUSTAINABILITY MANAGEMENT

HSE (Health Safety Environment) Management System

Compliance teams in TaeKwang make an effort to comply with regulations of Labor and HSE policies for Social Responsibility Management. We don't just settle for the compliance level. Beyond compliance teams integrate sustainability manufacturing with business strategy and lead TaeKwang to be a top global company by raising standard bars in Energy, HSE and Labor.

Especially, to establish safety culture, when an accident occurs, it's socialized immediately through the accident report. After that, all accidents are analyzed by type and the seriousness. After immediate actions are implemented, short-term and long-term plans are established. As a final step, we develop activities for recurrence prevention.

TaeKwang has specialized resources in Environment and Safety at each factory, and opportunities for trainings, benchmarking, and cross audit helped to reduce accident cases from 89, FY15 Q1 to 48, FY15 Q4.



Risk Findings

Obsolete Equipment
Non-Compliance
Poor Workplace
Management

Monitoring

Performance monitoring
and Evaluation
Systematization of
Rule & Process

Countermeasures

TPM(Total Production
Maintenance)
Compliance
Strength management
system

Improvement Activity




Equipment Monitoring
Safety Education
Site Inspection

- Renewal ISO14001 and OHSAS18001 with qualified internal auditors.
- Risk assessments with BV, SUMERRA.
- Continuous improvement and prevention activities.

4. BUSINESS UPDATE



General Overview (As of May 2015)

	Company	TaeKwang Industrial Co., Ltd
	Employees	61,483
	Production	44,761,932
	Product Creation Center	Korea, Vietnam

QT

 10,045

 7,056,530

T2

 613

 39,147

VT

 27,162

 23,645,446

VM

 14,124

 10,108,424

TT

 9,453

 3,912,385

5. UNGC 10 PRINCIPLES

Classification	Principle	Page
Human Rights	Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights, and	7, 8, 9
	Principle 2. Make sure that they are not complicit in human rights abuses.	
Labor Standards	Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining,	10, 11, 12
	Principle 4. The elimination of all forms of forced and compulsory labor,	
	Principle 5. the effective abolition of child labor; and	
	Principle 6. the elimination of discrimination in respect of employment and occupation.	
Environment	Principle 7. Businesses should support a precautionary approach to environmental challenges;	13, 14, 15, 16, 17, 18, 19, 20, 21
	Principle 8. Undertake initiatives to promote greater environmental responsibility; and	
	Principle 9. encourage the development and diffusion of environmentally friendly technologies.	
Anti-Corruption	Principle 10. Businesses should work against corruption in all its forms. Including extortion and bribery	22

6. PROGRESS UPDATE

Human Rights

We have achieved 5 years of consecutive recognition of compliance with local laws.

Internal audits, cross audits among factories and external audits by 3rd party are proceeded periodically. Even small violation cases of Human rights and HSE are dealt with by relevant departments for prompt improvement. Especially, we make it a rule to abide by a Zero Tolerance for Forced Labor, Child Labor, Physical Abuse, Failure to pay wages, and Serious Health, Safety and Environment threats.

Zero Tolerance

No forced labor	<ul style="list-style-type: none">1. Non-existence of OT voluntary registration1. Free toilet Pass1. No holding passport and or personal identification of migrant worker
No under aged labor	<ul style="list-style-type: none">1. No overtime working1. No job assigned in hazardous working environment1. No child labor1. Policy and procedure to verify identification
No physical & sexual abuse	<ul style="list-style-type: none">1. No unnecessary physical contact1. No verbal & physical abuse (insulting, yelling, beating, disrespectful-punishment)
No failure to pay wages	<ul style="list-style-type: none">1. No payment delays1. No miscalculations (included OT)1. Insurances
Major Impact on ESH	<ul style="list-style-type: none">1. Serious /Critical impact in environment2. or High risk on worker's health and safety

6. PROGRESS UPDATE

Human Rights

Sexual Harassment Prevention Education

In order to prevent sexual harassment, harassment and abuse at the workplace and uphold equal rights and dignity among employees, TaeKwang has been carrying out sexual harassment prevention education once a year. By explaining the concept of sexual harassment and illustrating each case in detail, it is strongly encouraging that all employees should practice their words and behavior to make healthy work environment. To extend the education opportunities, online classes are provided for employees in Headquarter and overseas factories once a year. Employees can access to either the computer or mobile phone as they prefer.



Furthermore, offline education for workshop workers who are not able to take online education is provided once a year.



6. PROGRESS UPDATE

Human Rights

Coexistence and Joint Prosperity with Subcontractors

1. Equal opportunities

All companies shall be ensured the opportunity to be registered as subcontractors and to participate in selection. Registration and selection of subcontractors shall be performed in a reasonable manner, according to objective and fair judging criteria.

2. Fair trade and evaluation

- 1) Information required for trade shall be mutually provided at appropriate times, and the necessary security measures shall be taken so as to prevent damage due to leakage of such information.
- 2) Mutually negotiated trade conditions shall not be changed without fair reason.
- 3) Fairly evaluated trade results shall be notified to customers, and shall be reflected in future transactions through prior negotiation.
- 4) Approval must be received from customers before using technology or other assets of customers.
- 5) Unfair practices prohibited in fair trade-related laws shall be avoided.

3. Seeking of coexistence and cooperation

Actively support and cooperate with each other through efforts such as technology support and management counseling to ensure long-term growth and development of competitive power.

4. Prohibition from providing money and valuables, entertainment, and conveniences

Subcontractors may not provide money and valuables, entertainment or conveniences, etc. under pretext of holidays, business trips, and occasions for condolences and congratulations. If subcontractors provide unfair benefits to employees and executives of Taekwang, such subcontractors may be subject to disadvantages in business.

5. Duty of adherence to ethical principles

Subcontractors must adhere to Taekwang's ethical principles when dealing with Taekwang.

6. PROGRESS UPDATE

Labor Standards

People is the fundamental of sustainable growth. We want to attract talented people and let them maximize their competencies at work.

Total number of Employees

20% ↑



41,759
2013



48,587
2014



64,483
2015

Member of union

7% ↓



80%

2013



66%

2014



73%

2015

Benefit sharing

1M ↑



1.1M

2013



1.9M

2014



2.1M

2015

Average education hours

5.9hr ↑



30.4hr

2013



37.7hr

2014



36.3hr

2015

Return % after maternity leave

9% ↑



78%

2013



83%

2014



87%

2015

6. PROGRESS UPDATE

Labor Standards

Open Communication with Employees

We define our employees as one of key stakeholders and all ears listen to their voice.

Especially their voices through various channels such as 1:1 interview, Talk with leadership, Union, Grievance boxes, ER, and the Hotline system should be heard.

We try not to let their voices be in vain, and feedback on their opinions are handled properly.

All grievances are classified by categories and analyzed on a monthly and quarterly basis and shared with upper management. Either immediate action or long-term remediation is implemented with bulletin board or in person.

Top 5	FY15 Grievances	Action taken
Company Policy	<ul style="list-style-type: none">-Working hour management-Annual Leave policy-Benefit of long-term employees-Social Insurance policy	<ul style="list-style-type: none">-Information session about Company policy-Opinion gathering through various channels-Advanced payment of insurance fee within 3 days to workers
Harassment & Abuse	<ul style="list-style-type: none">-Manager's abuse & harassment	<ul style="list-style-type: none">-Periodic training of Zero Tolerance-Cross Cultural Training-Communication training-Revise disciplinary policy
Health & Safety	<ul style="list-style-type: none">-Uncomfortable of PPE-Health & Safety in workshop	<ul style="list-style-type: none">-Engineering improvement(Ventilation, isolated)-Machine guarding-Training
Transportation	<ul style="list-style-type: none">-Motorcycle management in parking area-Shuttle bus	<ul style="list-style-type: none">-Safety management training for security workers-Survey, allowances
Canteen	<ul style="list-style-type: none">The quality, taste and menu of food	<ul style="list-style-type: none">-Survey-Food fair

6. PROGRESS UPDATE

Labor Standards

Talent Management

As of May 2015, the total number of employees in TaeKwang is 61,683 which is raised 27% compared to 2014. It is mainly attributed to recruiting new employees at Indonesian factory and manpower in R&D center.

Company regulations prohibit discrimination based on gender, age, religion and physical handicapped.

To be a global company, we need talents who have diverse views and cultures to contribute to new and innovative ideas (currently 6 USA nationals are working at T2).

- Localization

TaeKwang has a global talent training plan, so we hired international exchange students from Vietnam and China (2 per each) in 2014. Those employees deliver the knowledge and know-how that they learn at T2 to their colleagues after they go back to their countries.

Another approach we tried is hiring immigrants (2 Vietnamese, 1 Indonesian) working at T2 in Korea.

- Exchange Program

We select excellent employees at each overseas factories and give them opportunities working at headquarter from 3 to 6 months. This exchange program opportunities demonstrate recognition of their abilities and development of their career.

- Work-life Balance

More than 70% of employees are female. To balance work and life, we provide childcare subsidiary, flexible working hours, maternity leave and childcare leave.

6. PROGRESS UPDATE

Planet

TaeKwang sets up environmental key performance index(KPI) to cope with greenhouse gas reduction and tries to achieve the target. To protect the environment, we comply with the fundamental laws of Environmental policy, Air Environmental Conservation, Water Quality Control, and Waste Management. All chemicals should be used after an approval and are encouraged to replace with less hazardous ones. We save energy usage: using electric power optimization, high efficiency illumination, and renewable energy. We make effective use of resources through the recycling of water and waste.



26.2% ↓



8% ↑



40% ↓

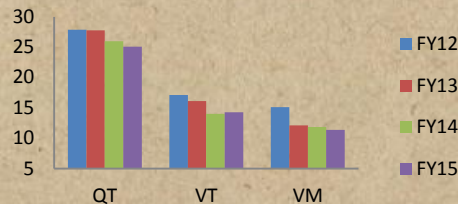
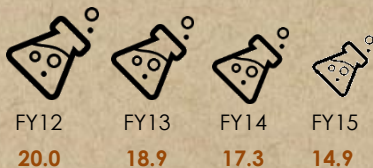


46% ↓

HAZARDOUS CHEMICALS

26.2% ↓

Chemical Consumption(g/pair)



Our efforts to reduce hazardous chemicals have been continued in FY15.

The amount of hazardous chemicals has been decreased to 26.2% for the last 4 years.

The proliferation of auto feeding system, enclosed containers to minimize volatile compound, water-based UV primer and automation machines contributed to the reduction of both hazardous chemicals and hazardous waste. We try to reduce environmental risks from purchase, transportation, usage to disposal and adopt sustainable manufacturing process.



Modernization



Auto UV Priming Machine

Auto UV Priming machines contribute to a reduction of hazardous chemical usage, minimizing exposure of volatile solvent primers to our employees. Also, they help to reduce hazardous waste generated from the manufacturing process.

Safety	Environment	Material	Productivity
✓	✓	✓	✓



Auto Gauge Marking

Replacement of the conventional gauge marking using toner and paint in screen-printing reduces the chemical usage and waste-water as the washing process is removed.

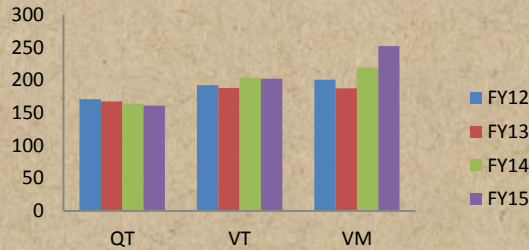
Safety	Environment	Labor	Material
✓	✓	✓	✓

Restricted Substance List

All new materials and chemicals are tested at the SGS(Certified testing institution).

This validation process helps to eliminate the restricted materials by country law and restricted substances in manufacturing. Restricted substance list renews annually and TaeKwang tries to find safer and more environment friendly material.

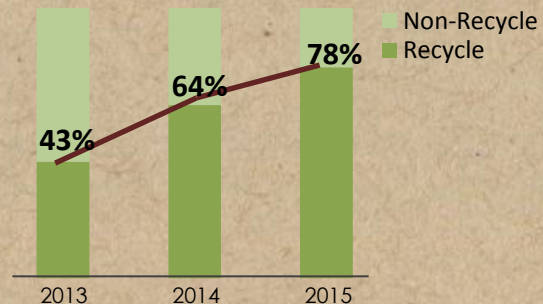
SOLID WASTE 8%



Despite our effort to reduce solid waste, the total waste amount was slightly increased. In FY15, it increased to 8% (203.3g/pr) compared to FY12. The material loss due to Jacquard design and defective shoes are major factors. TaeKwang has a policy that all disapproved product is shred out. Sustainability is not just a theory but has something to do with quality control and management. To restore trust from stakeholders, quality controls and commitment to sustainability are essential this year.

Closed loop : EVA scrap recycling

To minimize and recycle generated waste is one of our challenges and opportunities. Papers, plastics, cans are 100% recycled and rubber and EVA sponge is reused in house for recycled formulation. Our Vietnam factory regrinds EVA scraps which is 10.8% of total solid waste and adds to the virgin materials to make EVA foam. The amount of EVA scraps in-house recycling is gradually increased, up to 78%.



Greenovation Project II

We have encouraged employees to come up with ideas on how to recycle/reuse solid waste since we have generated from our manufacturing process. We call this project “Green-ovation” which is a compound word between Green and Innovation and it means we can achieve a sustainable environment through innovative ideas. The below are “Gloves from leather scraps”, “Cushion from sock liner scraps” and “Shoe bag from left-over materials”, made from new employees at stitching school at Indonesia factory”.



Gloves from leather scraps



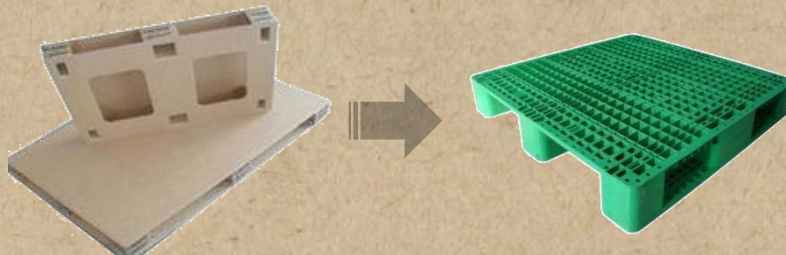
**Cushion from
sock liner scraps**



**Shoe bag from
left-over materials,
made from new employees
at stitching school**

Pallet Recycling Project

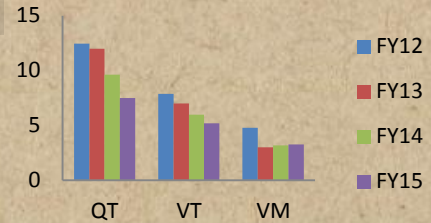
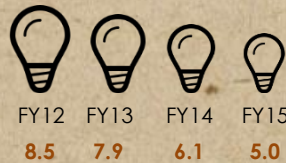
We use a lot of paper pallets for component transportation and loading. Paper pallets cannot be used more than many times because they are worn down and torn which cause solid waste incrementally. TaeKwang has propelled the project changing paper to plastic pallet with material suppliers. Plastic ones can be reused more than 10 times. We expect this changeover helps not only reduce the waste amount but also to preserve forest resources.



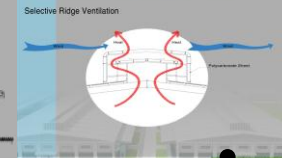
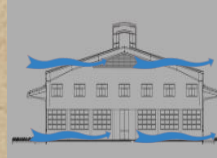
ENERGY

40% ↓

Energy Consumption (kWh/pair)



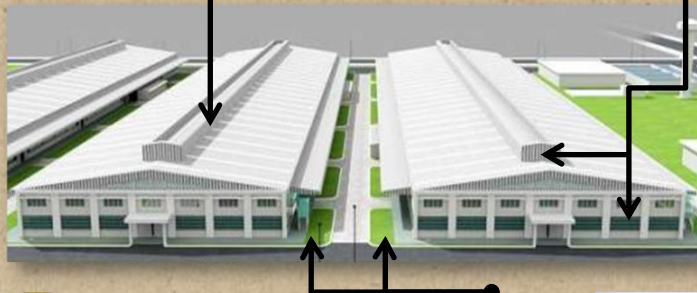
Green building: Green Building is an environment-friendly construction method to resolve energy issues as well as environmental problems. The design, construction, and operation of the building are oriented to save energy and enable environmental preservation. The application of high Efficiency Energy Equipment, resource recycling, and Environmental Pollution reduction technology to the structure helps to make the design of the building environmentally friendly and minimizes environmental damage when disassembled. Both our Mocbai Administration Office and Manufacturing Facility and Indonesian Administration Office received LEED Silver certification.



Natural Lighting :
Energy Reduction by Natural Lighting to decrease the consumption of artificial lighting

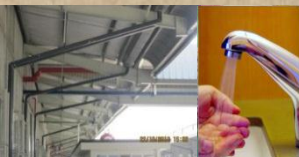
Natural Ventilation :

Special design for exterior wall to have fresh air from outside. Installation of wire-mesh at both sides of the building to have natural wind for the natural ventilation.



Heat island Effect :

Securing enough space between buildings. Lowering outside temperature through decorative plant and the grass so that cool air come inside for circulation.



Water Use :

Make the best use of rain water,
Save water by consistent water flow of water faucet and shower head,
Waste Water Treatment Plant



Energy Steering Committee←

To reduce energy consumption based on medium and long-term plans, every department brings new ideas for the resource efficiency improvement and minimization of wasted energy. All detailed progress is shared with the CEO and leadership.



→TPM Contest

To promote employees' TPM activities, a contest is held to choose the best Kaizen which helps to improve the manufacturing process. The selected idea is implemented in a workshop, and a prize is awarded to those suggested.

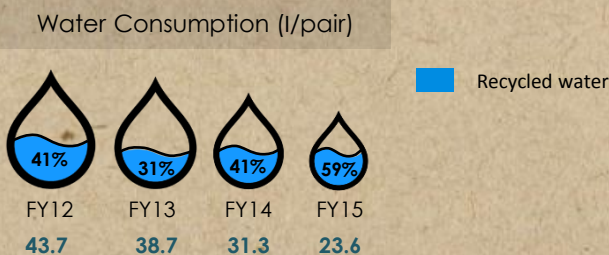
Renewable Energy ↓

To stop global warming and use renewable energy, part of the energy for manufacturing is supplied from renewable energy. A solar energy system on the roof of T2 was installed in 2014 and is in full operation now. Accumulated electricity is 26,704 kWh and it is equivalent to 2.5ton of CO₂(tCO₂) reduction. Solar energy is used for heating water, washing machines, and equipment management which shows that TaeKwang actively participates in sustainable energy source expansion.



WATER

46% ↓



Water consumption for the last 4 years shows 46% reduction from 43.7g/pr (FY12) to 23.6g/pr (FY15). The recycling percentage of waste water was increased to 59%. Recycled water is used for toilets and gardening.

WWTP

Each factory has its own waste water treatment system. Treated waste water is tested internal laboratory and monitored water quality in timely manner. The discharged water is meeting required standards.(as of May 2015)



	Item	Std.	FY15
QT	pH	6-9	7.01
	BOD (mg/L)	<30	6.85
	COD (mg/L)	<100	41.75
	SS (mg/L)	<70	15.88
VM	pH	6-9	7.10
	BOD	<30	11.33
	COD	<70	34.33
	SS	<50	12.67
TT	pH	6-9	6.77
	BOD	<50	45.80
	COD	<100	57.76
	TDS	<4000	391.98

Rain Water Harvest

The Rain water collected in underground tank through rain water pipes connected to the roof of the workshops is used for gardening and toilets. The amount of saved city water by rain water is up to 5% of total water consumption (21,000ton– Mombai).



Visual Management

Underground fire extinguishing facilities were moved above the ground so that prompt improvement can be made when leaking and cracking occur.



Old valve (water flow)



New valve (water spray)

“Small idea saves a lot”

We changed new valve system to minimize water run-off. The water consumption used in canteen and plants decreased to 78% by changing the new valve. It resulted \$10,232 saving per month.

6. PROGRESS UPDATE

Anti-Corruption

Ethical Management

TaeKwang's Ethical Management is a business activity for corporate social responsibility that complies with regulations and transparency policy.

To maintain the highest ethical standards, decision making is made based on what society requires. TaeKwang plans coexistence and co-prosperity with stakeholders such as business partners, employees, society, and country and promotes sustainable growth. We announced Ethical Management guidelines in 2005 and established an ethics charter, ethical standards, and their practice guidelines. The ethics charter has comprehensive and declaratory meanings. The ethical standards are a course of action for different stakeholders, and the practice guidelines of ethical standards are fundamental principles to abide by for a code of ethics.

The executive office of ethical management handles the establishment of strategies, planning, training for ethical management, public relations, and corruption scandals.



7. STAKEHOLDER FEEDBACK

Employees



After FDS (Sensei training course inside factory) training for 14 weeks...

"I enhanced the ability to find problems, solve issues, and improve situations through the classroom and hands-on training about workshop improvement.

Also, what I have learned about development, quality, manufacturing, and SM, as well as a mindset about improvement and innovation, helped to improve executive ability. Eventually, I grew in self-confidence as an FDS."

What I have learn is....

"What I have learnt is used in WOW project and TPM innovative activities, also I support energy and waste reduction and safety activities. As an internal instructor, I support coworkers in other department and encourage team members to make suggestion."

- Do Ngoc Hai

TPM Team



As a teamleader....

"I have received some training related to people management.

I had opportunities to learn English, Korean (after working hours), and other subjects through books.

With the full support from my team and leadership to fulfill my tasks, I could work well as IE Manager B. I have recently been promoted and have been taking care of the IE team.

I try my best to lead our team with the knowledge that I've learned to have the best performance and ask my team whether they need any support from me. I want to grow as the company grows."

- PHAM NGAN HA

IE Team



"All my family members love our new house! I think the company's policy and benefits from Labor Union are good. I would like to send many thanks to company Board of Directors and Labor Union for offering me to have a new house. If not having supporting from them, I wouldn't know when I can build a new house. What a miracle!. I promise that they I will try my best to work harder and work for my company a long time."



- NGUYEN THANH PHONG
Inspection team

BSR (Business for Social Responsibility)



"Pulling this sustainability summary report together is a great first step in promoting transparency and internal alignment. I look forward to seeing how T2 continues to evolve both this report and the important stakeholder engagement it represents."

- JEREMY PREPCIOUS
Vice President, Asia Pacific

UN Global Compact



COMMUNICATION ON
PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

"Congratulations to be a member of UNGC and Gobaal Compact network Korea. As you send commitment letter to Ban KiMoon, we really appreciate your commitment to comply with 10 principles. We are looking forward your contribution to Global compact network Korea and hope it helps to improve your sustainable business going forward."

- HongJae Lim
Secretary General,
Global Compact Network Korea



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