



T2

**SUSTAINABILITY
REPORT 2016**

About This Report

COVER STORY

The image on the cover is a plaque award to TaeKwang employees who have shared his/her passion, professional growth and achievement together with TaeKwang for 10, 15 and 20 years+. The traces, what we have made, created today's TaeKwang, and the footprints we are making today will create TaeKwang's tomorrow. Please join us to form beautiful and exciting footsteps together!

INTRODUCTION

TaeKwang Sustainability Report 2016 presents our sustainability activities from 01 June 2015 to 30 May 2016. Environment performance is compared with the last four years of historical data with FY12 as the baseline. The report scope covers the following operations: headquarters (T2) in Korea, Vina (VT) and Mocbai (VM) in Vietnam, Qingdao (QT) in China, and Subang (TT) in Indonesia.

REPORT FEEDBACK

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Leading Innovation Thinking

Message from the Chairman



Dear TaeKwang People and stakeholders ,
I am very happy to greet you in our 4th Sustainability Report.

First of all, I am very proud of TaeKwang People who have dedicated their efforts to build TaeKwang and fully demonstrated each of their roles and responsibilities.

I feel I am an extremely fortunate person to observe the growing TaeKwang through innovative technologies and ideas nevertheless the prolonged economic difficulties.

The success or failure of a business relies on its PEOPLE. We would like to create a ground of INNOVATION where our employees are able to perform their talents creatively and excitedly.

We would like to build our clients' trust not on a company making shoes but TaeKwang where makes the quality of shoes.

In order to minimize environmental impacts from our activities, we will endeavor to grow together with TaeKwang People and our local communities.

YC, Park
Chairman of TaeKwang Industrial

A handwritten signature in black ink, consisting of stylized, cursive characters.

Letter from CEO

On behalf of our 70,000 TaeKwang employees in Korea, Vietnam, China, and Indonesia, I am sincerely glad to share the TaeKwang Sustainability Report 2016.

We have strived to make more positive changes in economic, social, and environmental fields. We would like to share our Sustainability Report 2016, the fourth report, to show our sustainability progress since we published the first report in 2013.

Despite the global economic recession, we have achieved higher profits and expanded our production capabilities through automation, product innovation, and advanced technologies. Sales reached USD 1.17 billion as of December 2015, a 15.3 percent increase compared to the last year. We have continued to be a top footwear manufacturer in the world by leading innovative technologies and stabilization of production quality. With this growth in size, we will also focus on compliance management, including human rights, business ethics, profit share with communities, and minimal environment footprint to be a sustainable growth company.

As an official member of the UN Global Compact, we have made efforts to fulfill our social responsibility by complying with the international standards on Human Rights, Labor, Environment, and Anti-Corruption. Not only do we support the UNGC 10 principles, but also we submit our communication on progress report. In addition, we have challenged ourselves to build more creative and diverse corporate culture. We have hired global talents and local experts, provided learning opportunities to employees such as training and work experience in the USA and Asia, which will strengthen our 'charming employees' capabilities.

Even though the sales increase of 115 percent over the past five years, we have reduced environmental footprint in energy consumption, water usage and hazardous chemicals input. Solid waste management and safe workplace are our main challenges that we are working on every day to improve our current practices further.

We are not satisfied with the achievements we have made so far. We want to continue to grow with our employees, clients, and local communities as we embed sustainability into the corporate strategy and operation together. TaeKwang is an innovative company that aims to be the best partner for our clients, a widely recognized employer of choice, and a corporate citizen upholding its corporate social responsibility. We ask for your continuous interest and feedback.

Thank you.

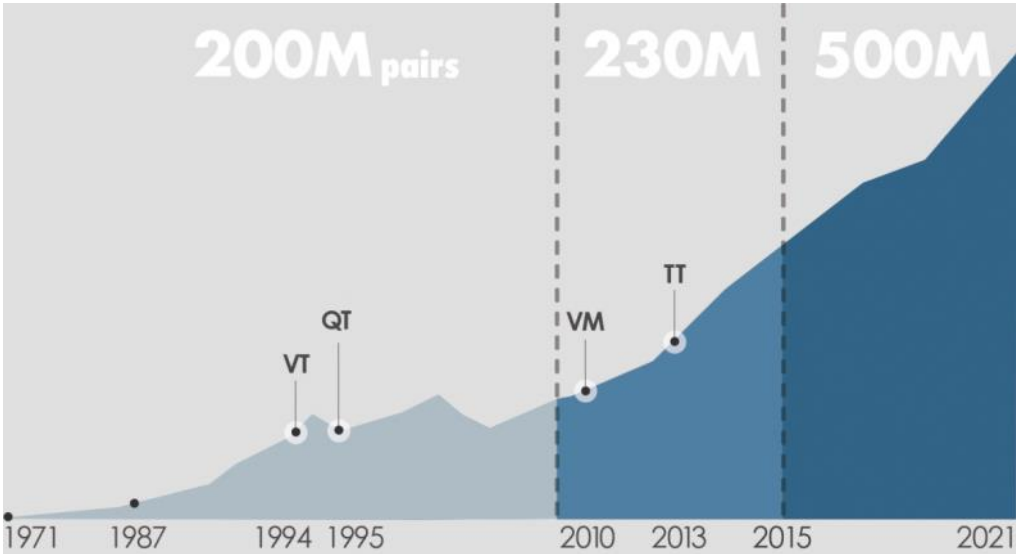
With Best Regards,

 JM Kim, CEO



Growth of TaeKwang

" The growth of TaeKwang achieved for the past five years surpassed the 40 years' performance accumulated from the foundation. Today, we step forward to leap for another great evolution we will make for the next five years"



430 million people in the world wearing shoes made by TaeKwang

TaeKwang has started the business under the name of JUNG IL Industry in **1971** and began producing shoes

as a footwear OEM for a global brand company in **1987**

TaeKwang Vina (VT) was founded in Vietnam in **1994** and we increased our production capacity by establishing a production plant in Qingdao (QT) in China. We achieved 200 million pairs of shoes production by **2010** through intensive investment in technologies and quality improvement.

In **2010**, we established VM, a second factory in Vietnam, then a new production plant in Indonesia (TT) in **2013** to spur our production while increasing productivity in existing factories. By doing so, we realized production of 230 million pairs of shoes that has exceeded the production volume, what we had accumulated for the previous 40 years, in the last five years.

500 million people in the world will wear shoes made by TaeKwang over the next five years

We have continued our growth momentum that created with a balance of 'technology' and 'production', the DNA of TaeKwang, and its implementation in **2016**.

To achieve the target of 'double growth' by **2021** against the production and sales of 2015 and to reach to our vision of '**Undisputed Manufacturer in the World**', we will practice '**Exciting Innovation**' every day.

Business Updates



Employees : 63,003 [7% increase YoY]



Production : 60M pairs [18% increase YoY]

* As of 30 May, 2016

Product Creation
Center



T2



VT

968

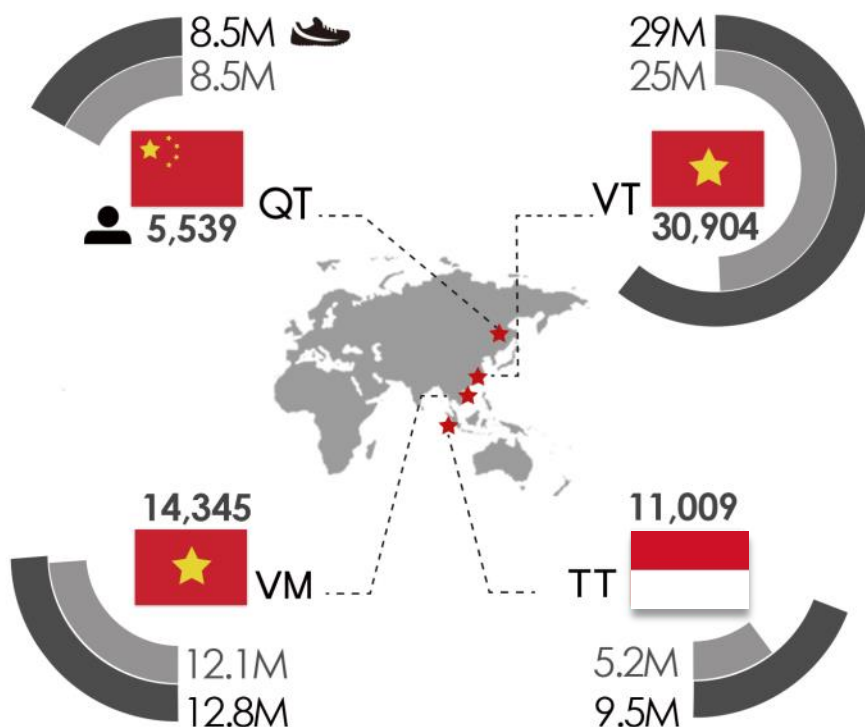
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Overseas Production Plants

■ :FY16

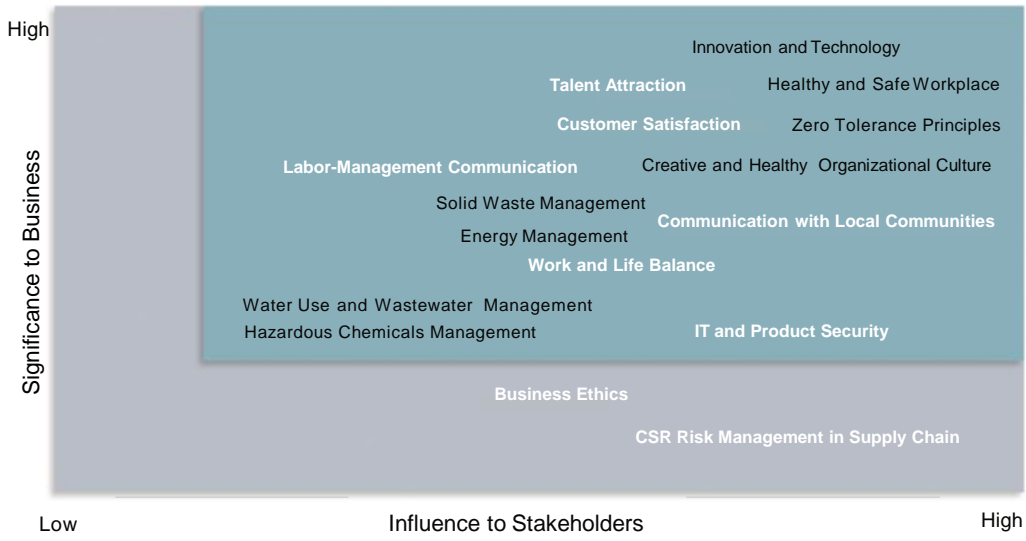
■ :FY15

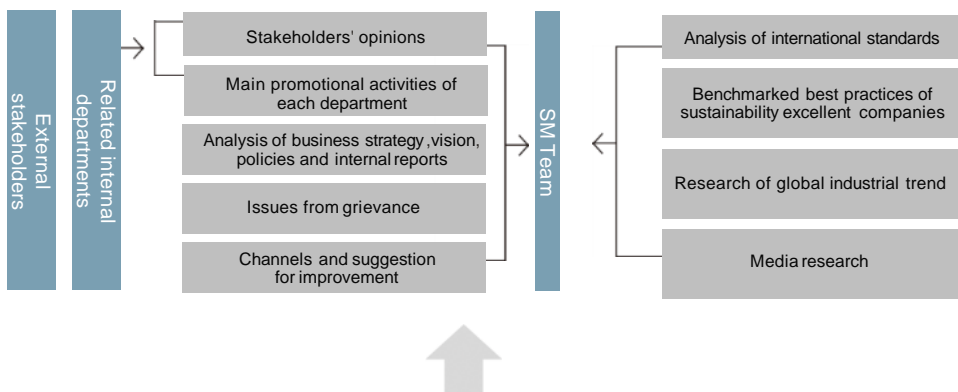


Materiality Assessment

TaeKwang has conducted materiality assessment to identify and select topics for this sustainability report. We evaluated materiality of sustainability topics based on significance to business impacts and influence to evaluation and decision making of stakeholders.

STEP 1. Communication with stakeholders	Each department collected proactively stakeholders ' opinions through communication channels and identified their needs.
STEP 2. Review and analysis of internal data	SM Team extracted business and sustainability issues through conducting interviews with each department , analyzing business strategy and reviewing each department' policies and internal reports.
STEP 3. Analysis of external environments & benchmarking sustainability issues	SM Team sorted sustainability issues through benchmarking UNGC 10 Principles, GRI Guidelines, best practices of good sustainability companies, industrial trend analysis of global companies, interviews with department team leaders, and analysis of the corporate business strategy.
STEP 4. Identification of potential sustainability issues for TaeKwang	Potential issues in terms of significance to TaeKwang's business were selected through reflecting internal and external stakeholders' opinions and analysis of external business environment.
STEP 5. Identification and prioritization material	Core issues among potential issues were ranked by materiality assessment based on significance to business and influence to stakeholders.





STEP 6.
Review validity of the materiality

Review the balance and rationality of economic, environmental and social impacts of the selected core issues, collect data related to the Issues and write the report.

STEP 7.
Communication with internal stakeholders

SM Team and related departments review sustainability activities and performances and report to the management.
Re-establish sustainability promotional direction and goals based on feedbacks from external stakeholders.

Five Material Issues	Pages	Reporting Topics
Innovation and Technology (Global competitiveness)	29-31	Innovative product development and promotion of automated production
Safe workplace	25-27	Health and safe workplace
Creation of environmental values	15-22	Water, Energy, Hazardous chemicals, Solid waste
Zero Tolerance Principles	28 42	HSE & labor impact monitoring Supply chain compliance audit
Creative and Healthy Organizational Culture	32-35 42	Non-discrimination on hiring & promotion Diversity and fair opportunities Work-life balance of employees

Corporate Governance

Business Ethics

TaeKwang aims to respond proactively to rapidly changing business environment and enhance the corporate values by implanting fair and transparent culture of ethical management. In the second half of 2015, TaeKwang established a Business Ethics Evaluation Index, which is included as a KPI at each subsidiary to manage business ethics systematically at the group level. The Evaluation Index assesses business ethics leadership and its supporting system, and behavior of the employees. We have provided trainings to employees from internal ethics trainers and external ethics experts, and promoted a business ethics campaign for our suppliers.

UN Global Compact Anti-Corruption Initiative

TaeKwang, a member of the UN Global Compact and the Fair Player Club of the Global Compact Network Korea, has pledged to conduct business complying with anti-corruption law and codes of conduct by signing the Fair Player Pledge, together with 60 other corporate representatives, governmental agencies, and industry associations in January 2016. TaeKwang is building a culture of ethical management and is promoting collective actions for fair and anti-corruption activities externally.

Fair Play Anti-corruption Pledge

1. Top management of a company shall promote establishment of an ethical culture.
2. A company shall commit to manage anti-corruption risks from the company's business operation.
3. A company shall commit to strengthen business ethics' capabilities of its employees.
4. In cooperation with all stakeholders of a company's business operation, the company shall commit to implement transparent and fair business activities.
5. Through a Collective Action of corporations, governmental agencies and civil society, a company shall support to establish fair and clean business environment.



Security

Product Security



Based on interests and supports from the management and employees regarding product security, TaeKwang has put our best efforts to protect our product design and proprietary technology. To minimize product security risks and to maintain the trust with our stakeholders, we hired security specialists and have strived to enhance and strengthen product security awareness among the employees by hosting a security poster competition and publishing monthly security newsletter.



Monthly Security Newsletter
Published in Five Languages



Product Security Poster Contest (Mar.2016)
Total 246 Posters Registered and
22 Posters Awarded

Information Technology Security

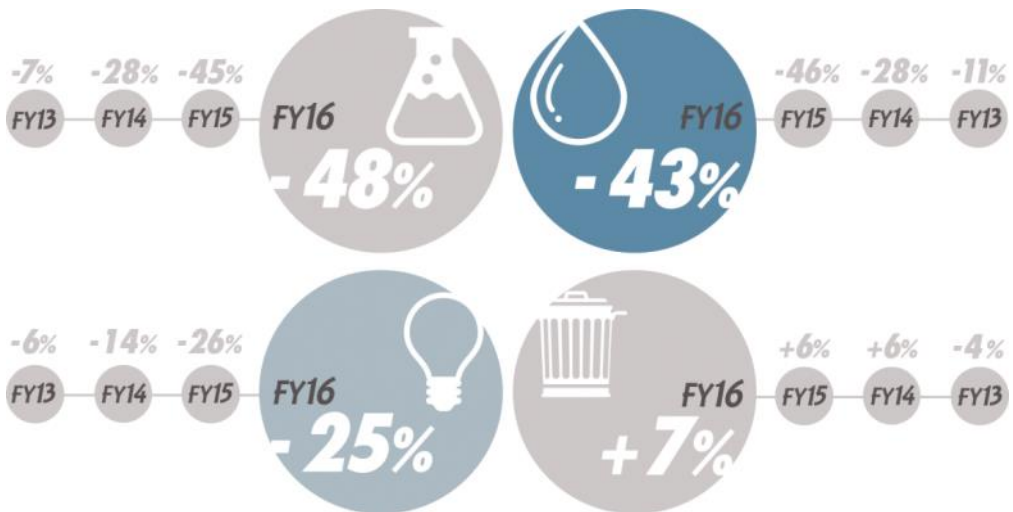


Together with in-house information security experts, TaeKwang have provided a safe network environment with firewall, intrusion detection system, spam prevention system, and etc.

Also we protected the company's data using Digital Rights Management and endpoint protection solutions.

Environment Performance

Environment KPI



(*FY12 base)

TaeKwang Environment KPI From FY13 To FY16

Hazardous chemical input 48% ↓ **Water usage 43% ↓**
Energy use 25% ↓ **Generated solid waste 7% ↑**

All employees of TaeKwang have collaborated to minimize environmental impacts by reducing by-products from shoes manufacturing through TPM, suggestion activity, and etc. We have identified potential environmental issues in our plants, developed solutions to resolve the issues, and implemented the ideas to improvement actions.

We decreased energy consumption by establishing a visual Energy Management System, insulating pipelines and facilities, and converting energy source from steam to electricity.

We reduced usage of hazardous chemical substances through replacing solvent based chemicals with water based chemicals and worked together with our clients to practice

Zero Discharge Hazardous Chemical (ZDHC). Also we have worked closely with our suppliers to communicate importance and compliance of the Restricted Substance List (RSL).

Moving forward, TaeKwang will continue to focus on solid waste management. We will stride to search for innovative ways to reduce solid wastes from manufacturing processes and reuse and recycle our resources more efficiently.

Energy

' Electric Power Monitoring System', a Visible Energy Management

During the second half of 2015 , an Electric Power Monitoring System (EMS) was installed in the whole plants, including the offices in TT. This is to promote energy saving activities based on effectively analyzed and reliable data of electric power use across the whole plants through in-house developed monitoring system. After the EMS was installed in VM in the first half of 2016 , energy usage is tracked and managed through real-time energy use monitors that demonstrate visualized energy use in the plants.

[Features]

- Visual Energy Map that allows to manage electricity usage of all plants in one place
- Red alert when active power reaches 80% of maximum power capacity
- Real time tracking of electricity usage and analysis of energy use data on weekly and monthly basis
- Tracking plant or equipment in overloading power supply
- **TaeKwang tailored program developed by our talented employees**

[Benefits]

- Prevent fire accidents and safety accidents from overloading power supply
- Increase in efficiency with proper energy distribution and energy balances among equipment and facilities
- Raise employees' awareness on energy saving
- Energy reduction by managing standby and waste energy



Electric Power Monitoring System in VM

Mini-INTERVIEW



L:Yong-Moon Kang (Equipment Team)
R: Jae-Ryun Ohn (Modernization Proliferation Team)

Mr. Kang Yong-Moon and Mr. Ohn Jae-Ryun are the hidden champions who developed the EMS based on their expertise , with passion and strong drive to succeed. Although Mr. Kang and Mr. On, who have background of Electric Engineering and Electronic Engineering respectively, work in different teams, they have shown a great synergy of collaboration as working together for the EMS development project.

What was the most challenging part while developing EMS?

We had to convince our bosses the necessity of developing EMS. However, once after the decision for the development was made, we received substantial supports from the management. Moreover, the management recognized the effectiveness of the System upon the successful installation of the EMS, and the satisfaction level from internal users was high.

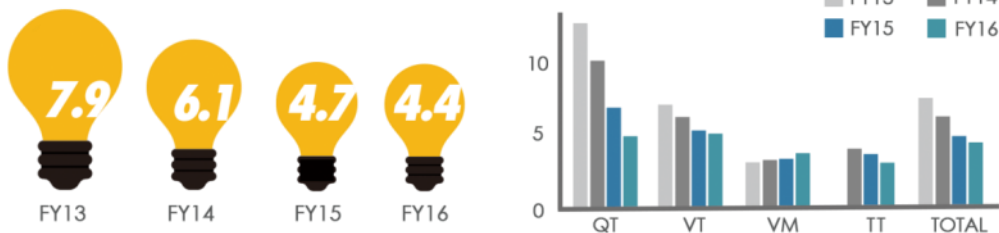
What is the strength of in-house developed EMS compared to external electric power monitoring software?

First of all, this EMS is a tailor-made system for TaeKwang that is applicable to changed layout or process in our factories. Secondly, development and maintenance of the System cost only one tenth of external software. Lastly, we could educate mechanic engineers and plant managers about electricity safety while we were working on the EMS installation.

For further upgrade of the System and utilization of the System to water use monitoring, what kinds of support do you need?

This System is applicable not only to water usage but also to solid waste and chemical substances management. We hope the users utilize the System actively to identify electricity use in real-time, instead of managing data manually, and provide lots of feedback to us. We also anticipate continuous interests and supports from the management to upgrade the System.

Energy consumption (Kwh/ pair)



The total energy consumption has decreased 8% per pair compared to the last year. This performance was achieved by energy-saving campaigns led by energy leaders in each plant, increase energy efficiency on machines and equipment, and energy tracking and improvement activities. QT used to be the top energy consumer among overseas factories; however, QT has shown continuous reduction in energy use by converting to high efficiency energy source, replacing outdated equipment and conducting TPM (Total Productive Management) activities.

Renewable Energy Use

TT and VM have used solar power to heat water for outsole and injection phylon rinsing. The solar power is also used in water heating system for canteens and dormitory. VT is preparing to install solar power generators. We are seeking for other renewable energy sources.

T2 uses the photovoltaic (PV) energy. We reduced 24.9 tons of CO₂ emissions from using the PV power for the last two years.



Generated PV Power in T2

Converting to LED Lights

We try to provide adequate illumination to all workers in the workplaces. LED lights have been installed in new buildings and extension works, and some of inefficient lightings has been converted to LED lights to maintain the same luminance while using less energy.

Energy Experts

We foster energy experts, who manage, analyze, and report energy monitoring system at each factory. The energy experts receive regular training on renewable energy, energy saving, and automated equipment and lead energy reduction activities.

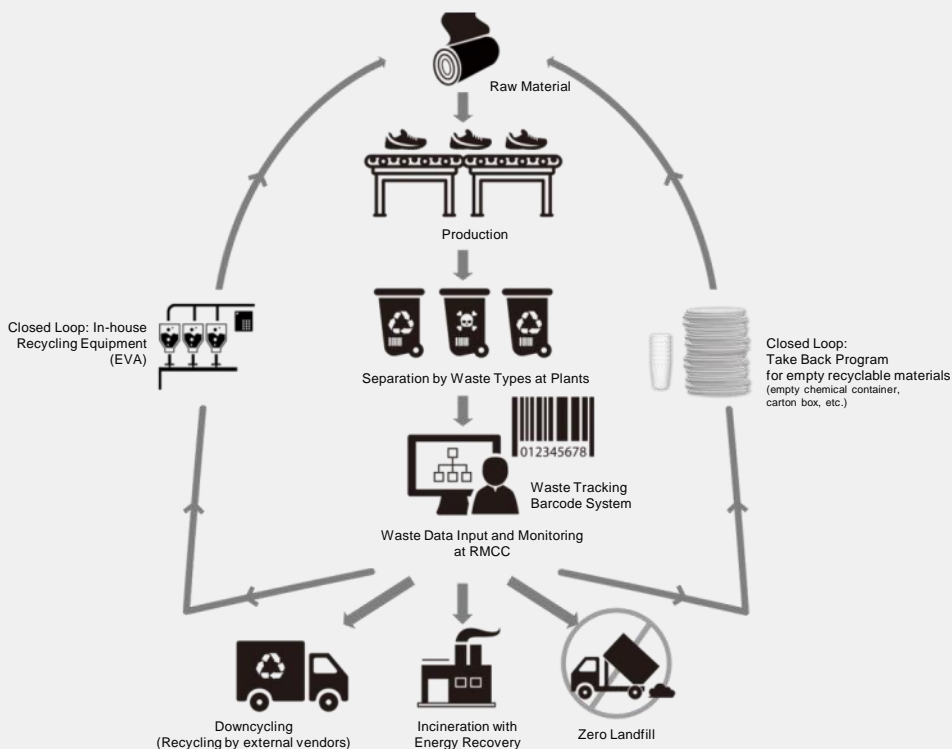
Solid Waste

We have continued reducing solid waste generation from the manufacturing. We separate wastes by types, collect them at designated places, and reuse recyclable wastes as best we can. For examples of Closed Loop System, some wastes such as EVA are processed at an in-house grind facility and the EVA powder is added to raw materials for production to the extent that does not affect the property of materials. In addition , some other reusable wastes are sent to downcycling vendors. For non-recyclable wastes, we outsource the disposal to authorized energy recovery incineration operators. We try to apply our innovative DNA to footwear design and manufacturing to decrease waste generation.

Production Waste Management System

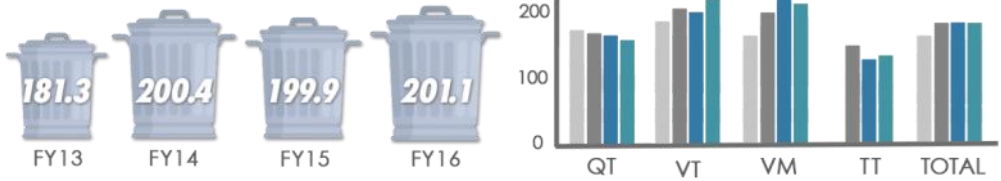
Solid wastes generated from each production plants are separated into approximately 40 different types, measured, and transferred to the Recyclable Material Collection Center (RMCC) in each factory. Waste management personnel at the RMCC re-measure the transferred wastes and store them by zones classified by downcycling , in-house recycling, Take-back program, and incineration for energy recovery. Generated wastes in the factories are tracked and managed by a barcode system. TaeKwang has promoted reuse and recycle of wastes.

[Solid Waste Management Flow Chart]



Waste Generation [g/pair)

FY13 FY14
FY15 FY16



Waste generation is the most difficult environmental challenge we face. This is the time that we need to collect innovative ideas not only to reduce wastes but also to recycle the wastes in new ways .

Waste Reduction

Smart Window Tooling Technology: This technology has minimized raw material input, defective goods , wastes and repetitive mold repairs. This tooling is re-designed to form an air bag window of outsole directly by eliminating a removal process of extra core material that filled inside of the window.



Brush Cutting Program

Instead of disposing the whole brush used in primer and cement, we cut these chemical contaminated brush heads and dispose. The brush sticks are reused with a new brush head. Approximately 88% of the total amount of waste brush is reduced in this way and accordingly hazardous waste generation is reduced as well.



Automation

As footwear manufacturing is a labor-intensive industry, the competence and skills of workers have great effects on shoes quality and work efficiency. We introduce automation system to have a higher consistent quality and a better productivity, and to minimize negative environmental impacts. For a cutting process of textiles, we introduced automation machines that are equipped with laser replacing blades for cutting textiles. We optimized textile cutting and reduce d textile scraps by 6%.

Closed-loop System

In-house Recycling

- We grind EVA scraps in our own facility and mix the EVA powder with new raw materials. Last year , 65% of EVA scraps were recycled and reused in production.
- VT has expanded closed loop system by introducing liquid nitrogen grinding equipment. Some of the defective heel counters were frozen then broken down into small particles. The particles are ground into fine powder and mixed with raw materials to put into production again.
- The leftover rubbers from mold process are collected and combined with new rubber materials.



[Liquid Nitrogen Grind Equipment in VT]



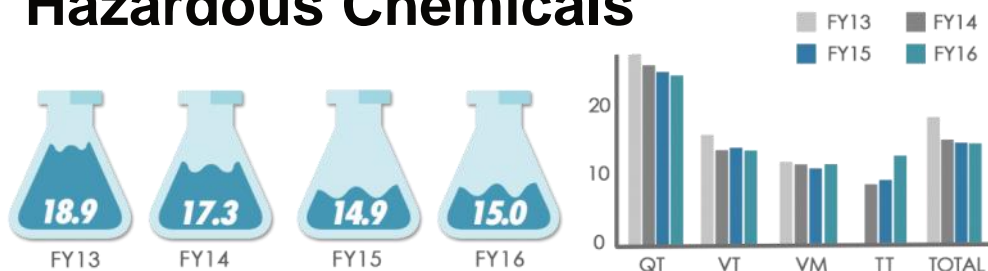
[Recycling Rubber Scrap from Outsole Cutting]

Empty Container Take Back Program

VT asks suppliers to take back hazardous chemical containers and refill the containers with new chemicals. Since we started this program in 2014, we have reduced 5 tons of hazardous waste per month.



Hazardous Chemicals



TaeKwang complies with Manufacturing Restricted Substances List (MRSL). MRSL is based on the strictest global laws and regulations on hazardous chemicals. In addition, some other hazardous chemicals that are not regulated currently are included in the list based on our client's request. Our Material team and Chemical engineering team test total content of hazardous chemicals when new materials arrive. These teams try to replace hazardous chemicals with safer chemicals that do not harm our employees, consumers and environments. As an example, we have gradually replaced solvent based rubber cement and primer with water-based alternatives. Additionally, the Molding Team in T2 eliminated processes using cement and primer.

Zero Discharge of Hazardous Chemicals (ZDHC): We use MRSL to communicate with textile and chemicals suppliers to comply with MRSL to prevent use of hazardous chemicals and to control discharge of the chemicals into natural environment. We provided internal and external RSL training to employees to let them participate in ZDHC actively.

Cold Fusion Mold: We created a new process that manufactures one midsole by bonding two parts without using rubber cement or primer. This is an innovative change compared to the conventional bonding work. We have decreased chemical consumption by introducing the Cold Fusion Mold process.



Before Using Cold Fusion
Bond midsole part with primer and cement

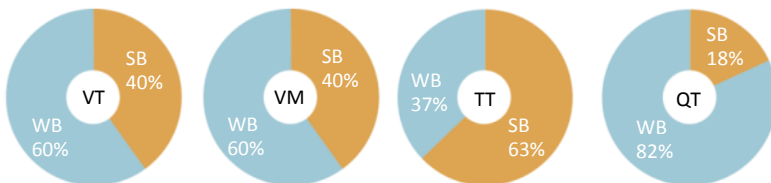


Cold Part Rotary Machine




DMP Pylon
Eliminated the bonding process

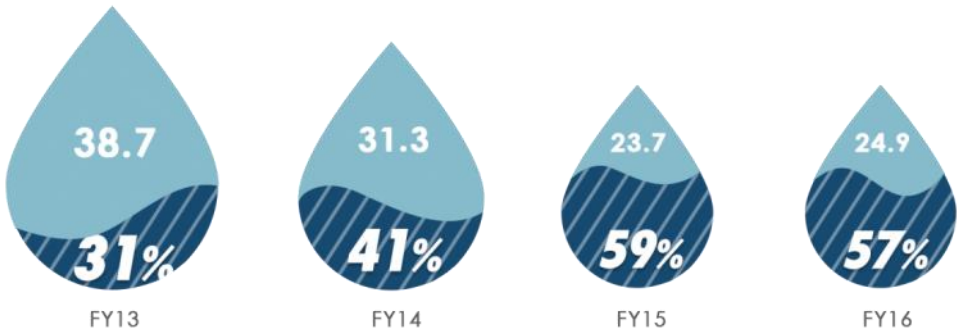
Expansion of Water Based Ink in Screen Printing: In the screen printing process, we use 60% of water-based ink. We are expanding usage of water-based ink gradually.



[Usage of Water (WB) and Solvent Based (SB) Inks in Screen Printing at Each Factory]

Water

Water Consumption [L/pair]
 : Recycled Water



Water usage recorded 24.9L/pair in this year which is 5% increase compared to the last year. We treat wastewater discharged from restrooms, canteen, and production at in-house waste water treatment plant. Approximately 57% of the treated water is reused for gardening and flushing water in restrooms. We monitor water quality in timely manner.

Building Additional Wastewater Treatment Plant (WWTP) in VM

VM is building an additional WWTP to increase the current capacity from 1,000 m³/d to 1,300 m³/d will increase not only wastewater treatment volume but also supply of recycling water in the factory.

Water Consumption Monitoring

We are installing additional water gage in factories to monitor water consumption at canteen, toilet and printing process and etc. We will use detailed water data collected to identify priority for water saving and establish water saving targets.



Social Performance

“ **Safety** is considered a **unchangeable value** in the organization, not a priority ”

We will do our best efforts to establish a safe workplace.

Safety is a matter of our precious lives and a fundamental of our happy and healthy society. So we set Safety Management to the corporate value and we are putting our best efforts to build safe workplaces. We will invest in hiring more safety personnel and installing safety facilities. We will upgrade overall safety management system to settle down the culture of safety. Through these measures, we will realize world-class safety culture. I will practice this first.

We will practice environment-friendly management.

Every year, we conduct energy saving and carbon emission reduction activities. Last year, we increased energy efficiency by 9.5%. Replacing hazardous materials with more environmental-friendly substances and improvement of working environment have continued this year. Managing wastes from the production and recycling of these wastes are the environmental area we have to gather ideas to solve these issues. The way we are heading to can be a challenging road; however, we will shape an eco-friendly company which minimizes environment impacts from product design to production.

We will grow together with communities.

We will continue to build relationship with local communities through various social contribution activities.



Donald Nam
General Manager, VT

Building a Culture of Safety

Our employees are the vital contributors to the growth of TaeKwang. We strive to make the safe factory that all of our stakeholders, including our employees, can return to their home in healthy conditions. We have strengthened our Health, Safety and Environment (HSE) strategy and principles to raise safety as an unchangeable value not as a priority.

HSE Vision

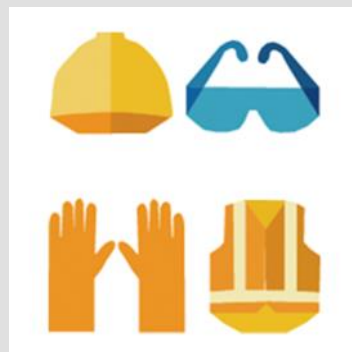
We work safely, promote wellness, and protect the environment.

HSE Mission

Establish a safe, productive environment where employees excel and care for each other in a risk-free workplace

Principles

- All injuries, occupational illnesses, safety and environmental incidents are preventable.
- All levels of management are directly accountable for HSE.
- Safety is a condition of employment.
- Training is must be conducted thoroughly for work safely.
- All deficiencies must be corrected promptly.
- Employee and contractor safety commitment is requirement.
- Everyone has the right to refuse working under unsafe conditions.
- Everyone is obligated to raise safety concerns to their manager.
- Excellence in safety leads to excellence in business.
- Safety attitude off-the-job is as important as on-the-job.
- We are all accountable for conforming with and deploying our HSE Value and Principles.



All our factories reviewed own resources and capabilities for safety management. We declared this year as the 'Year of Safety Culture' and held a Safety Pledge to commit practice from leadership to employees by reminding their ownership and responsibility. We initiated STAR (Stop, Think, Act, Review) campaign of finding and correcting unsafe conditions or behaviors. STOP6 (Safety TaeKwang Oaccident Project 6) is one of our factories' plans to identify and solve the most significant safety issue. The best safety achievement in this year is enhancement of standards for our contractors and suppliers, visitors, and reinforcement of the traffic safety in the factories.

Safety Strategy and Safety Culture (3P)

PEOPLE

- Resource Plan for effective Risk Management
- Capability Build-up/Ownership & Accountability

PLANT

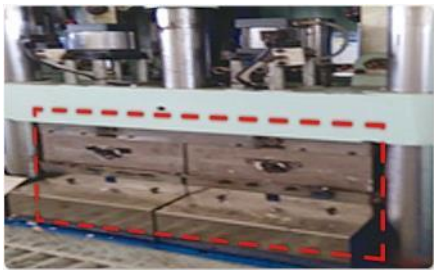
- STAR campaign (Stop, Think, Act, Review)
- STOP6 (Safety TaeKwang a-accident, Project 6)

PROCESS

- Integrated Management System
 - Upgrade safety policy and procedure
 - Safety Declaration
- Corporate audit/third party assessment

Identification and Improvement of Risks

TaeKwang has strengthened safety inspections to make safer workplaces. Particularly, machine safety has received great attentions as we started to introduce automation equipment. We evaluate risks of new machine and improve safety of existing machine. For example, internal HSE auditors found that workers kept picking up shoes parts falling behind of press machines, although this behavior is not allowed. To prevent accidents due to repetitive violation of the rules, safety covers were installed for all press machines.



Before and After Installation of Safety Cover on Press Machine

Safety Actions for Culture of Safety

To build safety culture in the organization, we have to prioritize actions to find and resolve root causes that led to unsafe behaviors, instead of taking disciplinary actions to those who handle their work dangerously. TaeKwang practices the following safety actions everyday in every corner of the operation.

- Communicate company values
- Demonstrate leadership
- Clarify required and expected behaviors
- Engage and own safety accountabilities and responsibilities
- Increase hazard/risk awareness and preventive behaviors

Supply Chain Compliance

The sustainability practice of our suppliers is the foundation that firms and strengthens our sustainable development. We cooperate with our suppliers to support their HSE and labor compliance. We will work with a fewer but more socially responsible suppliers.

New Supplier Audit

TaeKwang conducts New Supplier Audits for newly registered suppliers. We visit the suppliers and inspect their documents and workshops. If any non-compliance is found, corrective action is recommended. Once the improvement is made, we visit them again to confirm the final compliance.

Supplier Training

For existing suppliers, we share our experiences and provide education on business ethics and compliance on HSE and labor.

Regular Audit on Waste Treatment Vendors

Our Sustainable Manufacturing Team audits waste treatment vendors to assure their legal treatment practices regularly.



Supply Chain Compliance Audit

Mini-INTERVIEW



Jun-Yong Choi
(You Young Co., Ltd., Managing Director)

YouYoung Textile, Material Supplier

We experienced challenging times to implement corrective actions pointed out by a recent third party compliance audit. Although we tried different ways to solve and we invited an external consultant, we could make the last chance to pass the audit with TaeKwang SM Team's help. The Team advised us how to apply legal requirements and shared their compliance experiences. We learned that improvement in working environment, HSE management, workers' benefits are very important as much as marketing and technology development. We are also experiencing increased employees' satisfaction in the company. We will study the compliance contents to understand it better together with TaeKwang.

" Innovation in the Manufacturing and Workers' Changed Roles "

In QT, we promoted a variety of sustainability activities with all of our employees. We added great talents in the field of automation, safety management, and graphic design in our growth pool. Additionally, we have implemented advanced LEAN management in the Modernization Center and expand it into the existing production lines.

We build the LEAN-based management for HSE, energy, and human resources management and continue to eliminate and change unnecessary practices. QT is creating a value of transparent management based on trust and respect.

All TaeKwang employees are encouraged to enhance their working environment with ownership while decreasing safety and health hazards, and environmental and energy impacts to shape a more sustainable TaeKwang. Let's make a happy family, inspirational workplace, and harmonized community.



Jonny Shin
General Manager, QT

Modernized Manufacturing

Innovation of Manufacturing Method

The Chinese market is a substantial challenge to us to sustain our growth and profits due to rising labor costs and living costs, higher education level, and lack of manpower derived from the One-Child Policy among many other issues. Transitioning from the conventional labor-intensive footwear manufacturing, our research and investment in automation will drive the productivity increase and growth while lessening impacts from local social and economic features and workers' proficiency.

New automation machines will not only optimize the productivity and efficiency, but also reduce resource input. We consider efficient use of energy, reduction of hazardous chemicals use and machine safety more carefully when we introduce new machines. In addition, we introduce machines equipped with safety device after analyzing and minimizing risks and hazards from machine design.

Future talents and workforces who will lead the innovation of manufacturing will be workers who are having both expertise and various competences, and passion to participate in the innovation. We believe we can achieve our goals with the workforces who are multi-technicians in charge of several processes, involving proactively in production and safety, and working in exciting and safe workplaces. Therefore, we run education programs to foster multi-technicians. The verified optimization equipment at our Modernization Center will be introduced to factories in Indonesia and Vietnam.

Leadership

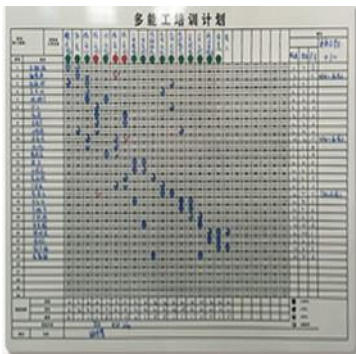
Leader, as the key element of transformation and success, supports each member to develop their capacity and spread the corporate strategies and policies across the organization. To do this, the General Manager and managers of core departments in QT were trained on how to embed LEAN in daily duties at the LEAN Training Center in Sri Lanka. What they learned are implemented in the workshops in QT to diminish inefficiencies through discussions with the workers. The roles and responsibilities of leaderships are also standardized and documented to realize efficient management and operation.

People

Skilled Workers and Multi-Technicians: QT promotes all workers to have more than one skill and hires workers based on their skills and proficiency. We also educate line manager and team leader candidates about people management skills. Statue boards displaying proficiency and skills of each of the workers are placed in the workshops to allow easy re-arrangement of workforce depending on production models and quantities.

Continuous Improvement: From listening the workers' voice carefully, we can bring better quality, environmental and safety performances as well as higher production. We encourage our workers to participate in continuous improvement via various suggestion channels and reward for 'the best suggestion of this month'.

Quality Circle: The difference of Quality Circle compare to the current Kaizen suggestion activities is that workers organize their own team, choose a topic, and brainstorm to find solutions for improvement. This is an activity to make workers realize they have a critical role in TaeKwang and to let them acknowledge their contribution to the Company.



[Individual Worker's Function Chart]



[Board of Kaizen Suggestion Activities]

Process

Relief Team: We organize a Relief Team for the MC and operate the Relief Team across the factory. In case of absence of workers or lack of manpower due to production model and environmental changes, the Relief Team composing of multi-technicians and experienced workers supports to solve production loads. During slow season, the Team members coach and educate other workers so that overall product quality can be improved.

Process Optimization: Synchronized production system reduces spaces by combining production lines or optimization, and for storing unnecessary materials or product transfer. In this way, we are able to utilize spaces more efficiently. The flexibility for converting process outline by model change can be increased. It means that producing a pair is to be proceeding along the line of one space. Therefore, we can save the producing time and improve communication with each process teams.

5S and TPM: With 5S and TPM activities, we provide pleasant working environment, prolong durability of equipment, and prevent occupational accidents.

"VM values **PEOPLE** as the top priority "

Healthy and happy employees make the company healthy. They lay the foundation firmly for the future growth.

VM has embraced our employees as one family and strived to grow together. We also have endeavored to educate and train the employees for their competency development and to be a continuous learning organization.

In recent years, we have grown corporate size and increased product quality substantially. This is the result of every employee's hardworking. Our future growth should sprout from our **competencies** not from external forces.

In order to do that, we have to foresee next five or more years and build our expertise in talent management and development, sustainable manufacturing, and automation as well as productivity and product quality.



JK Jeong, General Manager, VM

Human Resources Strategy

Innovative TaeKwang People

Today's TaeKwang is the result of the endless dedication of TaeKwang People. Talented people join the company and perform their capabilities to create great return to the company, and the corporate profit returns back to the employees and local societies. We have seen this positive economic circulation we made for the four decades. We will continue to develop TaeKwang People to be global leaders.

BE THE EMPLOYER OF CHOICE

ATTRACT	DEVELOP	RETENTION	OPERATIONS
What does T2 offer me?	What is my career path?	Why should I stay?	HRM Role
T2 PROVIDES THE BEST CAREER OPTION FOR ME	I HAVE PROFESSIONAL GROWTH OPPORTUNITIES	MY COMPANY CARES	WE HAVE A SCALABLE HRM FOUNDATION
T2 Brand	T2 offers extensive operator, technical and management training & career opportunities	Active participation in my professional development, personal welfare, the environment and the community where I live	Support and enable HRM strategy execution by entire management team
Compensation package is Industry competitive	Excellent exchange programs between HQ PCC and offshore factory locations	Fair and Competitive incentive and performance reward programs	Strategic business partner with other functional teams with advanced data timing and analysis.
Clear and comprehensive on-boarding program			T2 HR leads standardization in training, tools, systems, etc.
Diverse Recruiting Channels			Achieve and sustain Silver HRMAT rating

Hiring Diverse Talents

TaeKwang recruits and hires boundless excellent talents to accept more innovative ideas. We embrace diversity to create synergies by collaborating the employees' experiences, specialty, and passion. T2 has hired a total of 16 global talents from the USA, Vietnam, Canada, China, and France. We work together with the Human Resources Development Service of Korea (K-Move) and Daewoo Research Institute (Global Young Business Manager) not only for talent recruitment but also for contribution to solve youth unemployment in Korea. TT, VT and VM employed 10 Korean talents, who have local language skill and good understanding on local culture and local business manners.

This is what a Young Leader tells us...

In February 1997, Mitchell Lee joined TaeKwang as a fresh graduate, and will celebrate his 20th anniversary next year. Mitchell is **ready to lead** the company with his in-depth knowledge and broad expertise of shoe manufacturing through his diverse work experiences from technology innovation to category development. He said "I realized that I was running in a marathon that I did not intend to run. Thanks to Mr. Park YG, Mr. Sohn IJ, and Mr. Kim JM, my mentors and coaches who have kept me challenged and encouraged me to keep running. I would like to share with my colleagues what I have learned from my mentors."

If you ask me what type of leader I'd like to be...

I want to promote our organization's growth by finding opportunities and solving problems with my colleagues and supporting their career development. I want to be a leader who provides a clear direction where this organization is going by identifying internal capabilities and external business changes. Furthermore, I want to be an inspirational leader to create an innovative corporate culture that embeds technologies.

I would like to work like in this way continuously.....

I have built trust with our clients in many ways by proactively communicating with them about our challenges and solutions. In the process of working through those challenges with our partners, we developed trust for each other and formed stronger bonds. I believe **transparency** is the key to establish trust with partners and it is the foundation of a sustainable business.

In 2015, TaeKwang achieved US\$ 1.17 billion in revenue. We were recognized externally for our rapid growth. In the next 5 to 10 years, we will focus on human capital development and create a vibrant corporate culture. We will attract top talents, enhance their competencies and properly compensate for their performance. A transformative corporate culture that encourages taking reasonable risks and learning from our mistakes will be the key to continue an **exciting innovation** journey. I will render each TaeKwang employee to join in this journey, communicate and cooperate so we can be a greater TaeKwang.



Mitchell Lee, General Manager, T2 PCC

Fostering Talent

Fostering Functional Successors and Core Talents for Leadership Bench

TaeKwang has established a succession plan to continue the corporate growth and to ensure smooth leadership change. Also, we are operating a mid-to-long term core talent development for functional successors. The selected functional successors and core talents are receiving capacity building programs and one-on-one coaching program from external coaches.

Employee Exchange Program

Every year, T2 invites local managers from Vietnam, China and Indonesia for their capacity and skill training that lasts two to three months in T2 teams, including Development, Chemical Engineering, Human Resources, and etc. In 2015 and in 2016, 27 and 12 local managers, respectively, built up their work related skills in T2.

Core Mandatory Session		Leadership Session		Job Function	
Promoted employees, experienced new hires training		New comer on / offline training		Legal compliance	
Fresh graduate orientation		Diversity / Conflict Management		Lean Lego Simulation	
Legal compliance / Corporate policies, etc.		Project management		Legal compliance	
TK Way		Problem solving skills		New comer on / offline training	
		Meeting & presentation skills		Shoes Academy	
		Business manners		In-house trainer	
				Language classes	
				Global business communication	
				PM School External courses	
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"TaeKwang **grows together** with our workers and local communities"

A three-year-old TT is a strongly growing corporation. The last three years we laid the foundation of HSE and labor Compliance with a motto, the most transparent management system, by learning best practices of three other factories. Problems always will happen. However, the best way to deal with the problems is collaborating altogether to build systems with collectively found solutions. Based on these systems, we will take our first step to achieve the Beyond Compliance, which is the higher standard of the Compliance.

I think the most important thing for new factory is the first greeting with internal and external stakeholders and the development of its relationship. Internally we focus on our employee to develop their competency and enjoy working in the safe environment. Externally we concentrate on growing together with our communities.

We were looking for how to grow well altogether by meeting and discussing with our stakeholders. Therefore, we will participate in addressing issues in the communities such as road reconstruction, donation for flood victims and scholarship program in neighboring schools. We will continuously build up our relationships with local communities. In the factory, we will try to not only minimize the environmental impact caused by manufacturing but also ensure to provide safe workplaces. Please show your affection to the growth of TT.



MK Lim, General Manager, TT

Leading Regional Economy

TT's Strategic Social Contribution Activities from Hiring to Supporting Local Talents

Indonesia government is working on a new bill of mandating corporate social responsibility. This is the second case following Indian government's legislation that mandates businesses to contribute certain portion of their profits on CSR activities.

Before institutionalize the CSR program, TT has already practiced voluntary social contribution activities. We have donated approximately USD 40,000 annually to help local communities.



[Scholarship Award for High School Students in Subang Region]

Scholarship for High School and College Students

TT has awarded USD 24,000 annually to high school and college students in Subang and Bandung regions since 2013. Also, TT offers full-time jobs to our scholarship awardees. Selected students with diverse majors, including mechanic, electric engineering, computer science, accounting and business administration from seven local high schools are awarded scholarship. One graduate has joined in the Product Development Team this year. In addition, TT has awarded nine college students in Bandung for the past two years. Eight of the awardees will join TT upon their graduation in August 2016. TT is planning to increase the size of scholarships and select outstanding students, who are given priority to join our company after graduation. We will create a positive feedback loop that supports local talents and in turn let them lead the local economy.

Employee and Community Engagement in TT

Success of a factory in new place is guaranteed from a growth direction of forming a harmony with local communities and minimizing negative impacts to neighboring environments.

It has been three years since TT started manufacturing. Externally, we have been having meetings with 15 Subang regional organizations, such as youth groups, village heads, the Minister of Labor, and civic groups. Internally, we listen to the voice of our workers and labor unions to grow together with them.

As the biggest factory in Subang, TT works hard not only to provide economic benefits, but also to become the most proud partner to local people.



Forum with Local Communities in IT



Analysis of Stakeholders' Interests and Needs

To form good relationships with local stakeholders, we sponsor them officially and make contribution transparently. To make our employees happy we will provide a clean and safe workplace and fair compensation and great benefits to them. We will be the proud factory that our employees introduce us to their friends and family members.

Mini-INTERVIEW

HERproject Leaders: Fina, Susi, Tita, Taryati (Peer Educators)

What was the most challenging part to share what you have learned with your team?

Team members were particularly interested in topics of food calories and proper usage of PPE, they asked lots of detailed questions so some of them were difficult to answer. Sometimes, they asked health related questions other than what we've learned. This is because they're very enthusiastic to learn about self-development.

We wish to have more gatherings to embrace their passion.

How do this project and sharing experience help you?

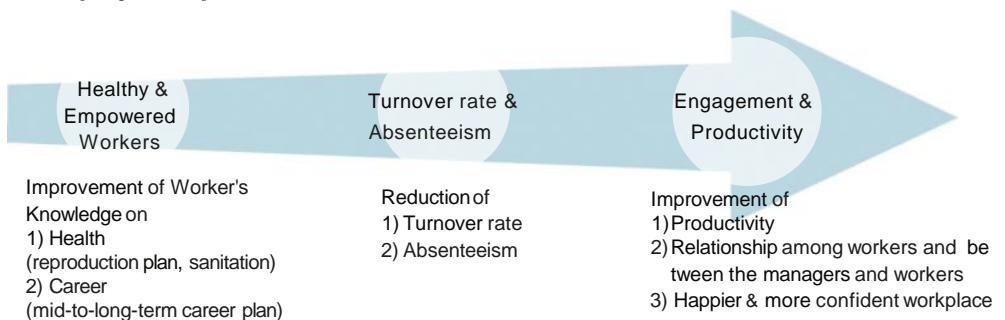
As leaders, we became closer to our members, more confident, and improved our communication skills. As a new Team Leader at work, HERproject role helps us to know our members and other teams. I believe it has also helped our team to win the 'Team of the Month'.



HERproject, Employee Health Improvement & Capacity Building Program

This safety and health education program is to help female workers develop their career and balance work and life. It also helps individual worker to have confident ownership in her workshop and at home. Their changed awareness and attitude will lead them to engage in their professional roles. Since T T started the HERproject in January 2016, we have provided training on food nutrition, usage of Personal Protection Equipment (PPE), and personal hygiene.

HERproject Impacts



What kinds of changes happen to team members during the project?

Our team members regularly wear their PPE without supervisors' instruction. We can also see them practicing proper hand washings at break time. They seem more confident to speak up if there is any facilities need for sanitation and health.



HERproject members: Epi, Dewi, Bella, Risna

What is like the atmosphere of team meeting?

We feel free to ask questions. The language is 'our language' so we can understand easily.

What is the most meaningful content you've learned from your team leader?

Information on ideal body weights, wrong diet practice and the danger of not wearing PPE were good to learn.

Which contents that you've learned applied to your family or your personal life?

We try to eat more balanced nutrition now and we don't believe in the health myths anymore

We are chatting about the topics we just learned with our colleagues, and sharing them to others who are not a HERproject member.

Community Social Contribution

Jeongsan Scholarship Foundation awarded USD 25,000 to support 50 university students (T2)

Golden Heart Fund (VT)

Lovely Hand Fund (VT)

Provided scholarship and stationery for 21 outstanding students in neighboring middle schools (TT)

Groundbreaking ceremony for building Vietnam TaeKwang Phu Quoc Technical Institution (PQTI) (Open in Sep. 2017)



Winner of Excellent Environmental company from the Environmental Agency of Tay Ninh Province (VM)

Excellent Fire Safety Award (VM)



Medical voluntary activities in Tay Ninh, Vietnam
(A total of 35 volunteers: for 3 days doctors, nurses & volunteers treated 1,313 local people) (VM)



Installed playground roof for neighboring kindergarten (VM)

Installed drinking water filters in primary and middle schools (VM)

Tree Planting on the Earth Day (VM)



Tree Planting



Medical Volunteering in VM



Groundbreak Ceremony of PQTI

TaeKwang has continuously volunteered and supported our communities so we can grow together with local communities.



- Family Day (VT, VM)
- 21st Anniversary Festival (VT)
- TaeKwang Football Cup (VT, VM)
- Mercy House (VM)
- TaeKwang Vina Kindergarten (VT)



- Minister Award of the National Safety Ministry on Firefighting Day (T2)
- Winner of the Green Brand Award (VM)



- Goods donation to Gimhae Social Welfare Center
- Car donation to Gimhae Association for the Disable
- Donated 10 reproductive cows to low-income families in Vintan and Tantu communities (VT)
- Donated 12 sheep to local communities (TT)
- Blood donation by average 200 employees for every three months (TT)



Kindergarten in VT



Jeongsan Scholarship Ceremony



Sheep Donation in TT

UNGC 10 Principles and Practice

Human Right	protection of internationally proclaimed human rights.	In accordance with our Zero Tolerance Principles, we are monitoring any violations of forced labor, under aged labor, physical, and sexual abuses, failure to pay wages, and the impact on HSE. Also we are providing regular training to prevent any occurrence of the violations.
	Business they are not complicit in human right abuses.	
Labor	Business should uphold the freedom of association and the effective recognition of the right to collective bargaining,	Through various communication channels such as the labor union, suggestion system, grievance box, and Free Talk with Leadership, we hear the voice of our employees. We improve the working environment with introduction of various benefits.
	the elimination of all forms of forced and compulsory labor,	
	the effective abolition of child labor and	
Environment	the elimination of discrimination in respect of employment and occupation.	We have managed the environmental performances after 2012. From product development to improvement of process and equipment, and waste recycling, all employees are striving to minimize negative impacts on natural environment.
	Business should support a precautionary approach to environmental challenges	
	undertake initiatives to promote greater environmental responsibility; and	
Anti-corruption	encourage the development and diffusion of environmentally friendly technologies.	We add each KPI on the performance evaluation criteria of ethical management. Every year, we provide business ethics education for our employees and education on compliance with the governmental fair trade legislation for suppliers.
	Business should work against corruption in all its forms including extortion and bribery.	

A total of 375 organizations, including private companies, universities, NGOs and etc., are the current membership of the UN Global Compact Network Korea. Private companies are accounted to 157 members and these profit-oriented organizations are encouraged to disclose their Communication on Progress (COP), which demonstrate their efforts to implement the UNGC 10 Principles. The best sustainability practices of 17 companies were selected and published in a book, 'Collective Actions of UNGC Korean Companies in Support of SDGs'. This book was distributed at the UN Global Compact Leaders' Summit 2016 that representatives of companies, NGOs, UN and governments attended in New York in June 2016. TaeKwang's efforts on energy saving waste reduction and recycling, hazardous chemicals reduction and wastewater recycling were presented in the book.



[TaeKwang's Sustainability Activities Presented in Collective Actions of UNGC Korean Companies in Support of SDGs]

www.unglobalcompact.kr





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.



We printed TaeKwang Sustainability Report 2016 on the FSC (Forest Stewardship Council) certified paper with soybean-based ink.