

Beautiful Healthy Refreshing

for people and the planet



2016 LG H&H CSR REPORT

CEO Message	02
Company Overview	04
Business Overview	06

Focus Issues & Business Cases



Strengthening Product Safety

Eco-friendly Product Development

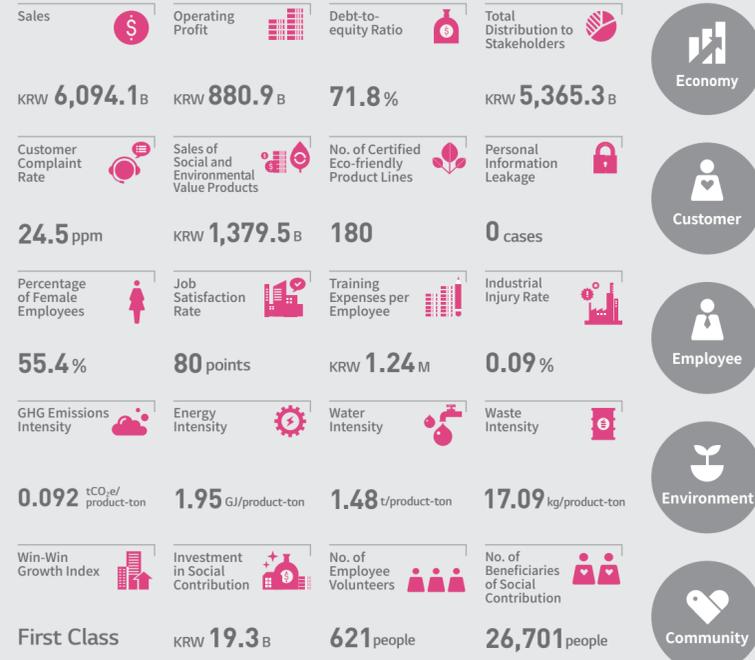
Developing Products with Social Value

Sustainability Management

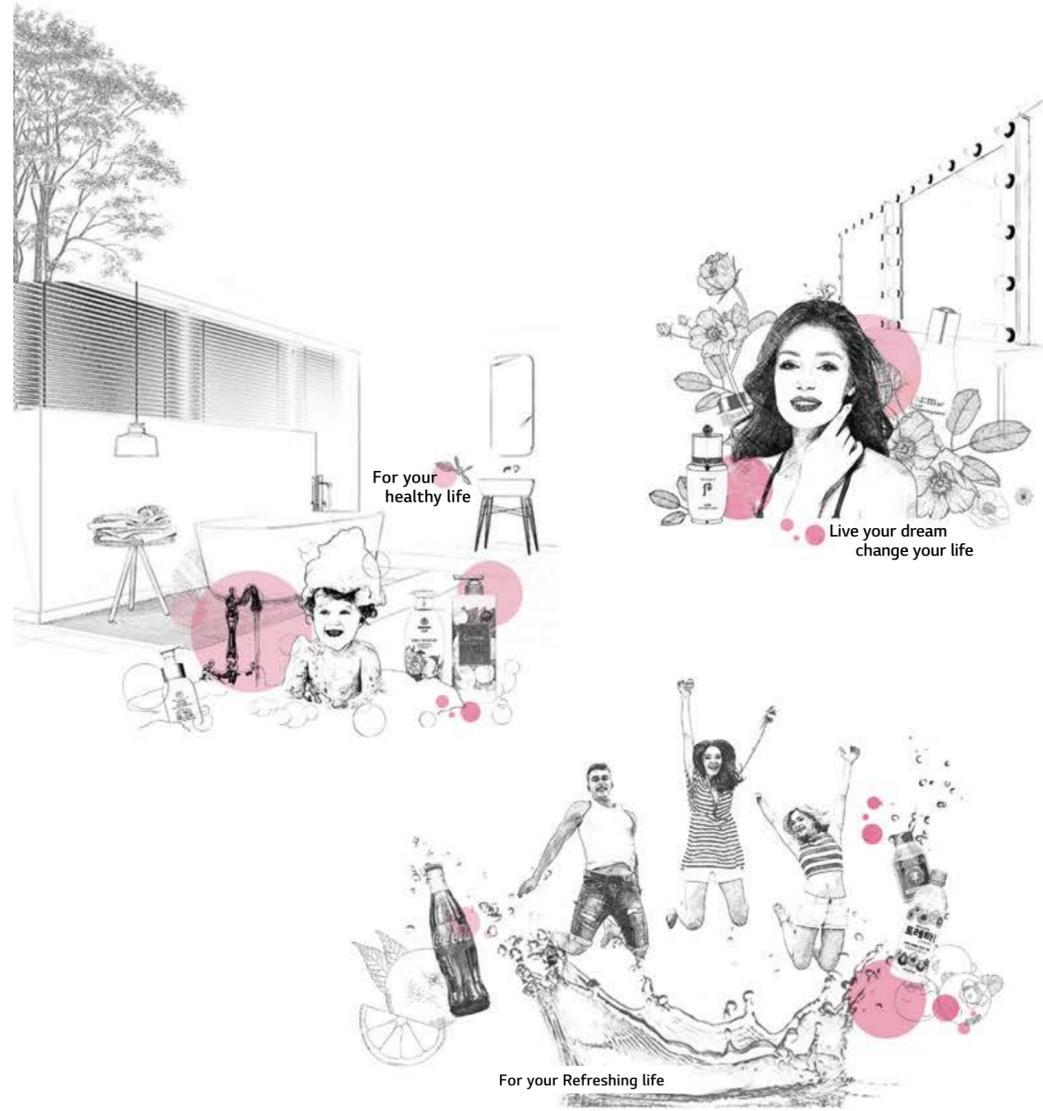
CSR Strategy & Roadmap	Economic Value Creation	Employee Value	Customer Satisfaction	Social Contribution	Environment and Safety Management	Win-Win Growth
30	32	34	38	40	44	50

Governance	Appendix
Governance 56	Economic Performance 72
Risk Management 58	Environmental Performance 74
Jeong-Do Management 62	Social Performance 76
Stakeholder Engagement 64	GRI Index 79
Materiality Test 66	UNGC & UN SDGs & SASB 83
Independent Assurance Statement 84	
GHG Emission Verification Statement 86	
Human Rights Policy 89	
Supplier Code of Conduct 90	

2016 CSR KEY FIGURES



● Data for Economy are consolidated, while data for Customer, Employee, Environment, and Community from LG H&H are non-consolidated.



Beautiful
Healthy
Refreshing
for people and the planet



Greetings to our valued stakeholders,

LG Group celebrates its 70th anniversary this year. We were founded in 1947 when we released Lucky Facial Cream, the first cosmetic product in Korea. We'd like to express our sincere thanks to our customers for their loyalty and support.

All of us at LG H&H are driven by our sense of duty to help our customers discover their own beauty and realize their dreams. Although we've achieved much over the last seven decades by striving to explore new challenges, we continue to push forward. Step by step, we will grow into a sustainable company that has create value for the people for more than a century.

2016 was a year of rampant uncertainty both at home and abroad. Nevertheless, LG H&H set clear goals and made concerted efforts to eventually accomplish our best performance every quarter. By sticking to our principles, we further developed trust with consumers in terms of product safety.

Our company also fulfills its corporate social responsibility by listening to various opinions and addressing shortcomings through regular communication with internal and external stakeholders. LG H&H earned the honor of being awarded the Presidential Citation for win-win growth of large/medium/small companies, and we were recognized as a First-Class Company in the Win-Win Index for two years in a row. We've also been included in the Dow Jones Sustainability Index for seven consecutive years, and placed in the top list of Asia CSR Ranking.

Although the internal and external business environment this year is still unclear and it's difficult to predict changes, we'll continue to make progress through our commitment to lead the market and overcoming obstacles.

Upgrading
the level of
business
structure

The economy of China, one of our major markets, will continue to slow down. The uncertainty in the global economy will also increase due to the ramping up of protectionism around the world. Nevertheless, LG H&H will reorganize its business divisions for continued growth and achieve satisfactory performance by establishing and implementing strategies customized for each business division. We will create higher values, even from the same work we've always done, to achieve sustainable outcomes. Our entire company will also work to improve our business through consolidating our company structure and enhancing our fundamental business value.

Strengthening
social
responsibility
with sincerity

When it comes to upholding our principles, we at LG H&H are uncompromising-especially when it comes to quality and safety. We will further build customer trust through safety standards based on high ethical criteria, and establish a quality control system so that our principles are strictly observed throughout the entire process. We will also continue to pursue win-win growth by supporting our suppliers so that they can become healthy companies that create good products.

The Borrowed Earth School, our business-related program that trains students to adopt an eco-friendlier lifestyle, has been recognized as an exemplary educational project for the Free Semester Program in middle schools. We will expand the program to reach students in remote and isolated areas, as well as those in large cities, and provide them with more educational opportunities.

Sharing values
with stakeholders
through
communication

By communicating with customers, shareholders, employees, suppliers, and other stakeholders in diverse ways, we will share and expand our company's value with society. We will achieve this through our sustainability management activities, including manufacturing of goods, ensuring product safety, and creating work-life balance through our corporate culture. We'll also realize win-win growth with suppliers, a safe and clean environment, human-centered Jeong-do Management, and meaningful social contribution.

Great things can happen from small changes in common things. In 2017, LG H&H will make small changes that will lead our company to achieve great goals. The 2016 LG H&H CSR Report, our 8th published report, provides transparent information and the performance data of our sustainability management activities, which we pledge to implement for our customers, suppliers, local communities, and employees.

As a global leader in sustainability management, LG H&H will comply with the Ten Principles of the UN Global Compact. We'll continue to commit our utmost efforts to fulfill our social responsibility and roles to create a better future. We greatly appreciate your continued loyalty and support.

Thank you.

May 2017
Suk Cha, CEO & Vice Chairman

Company Overview

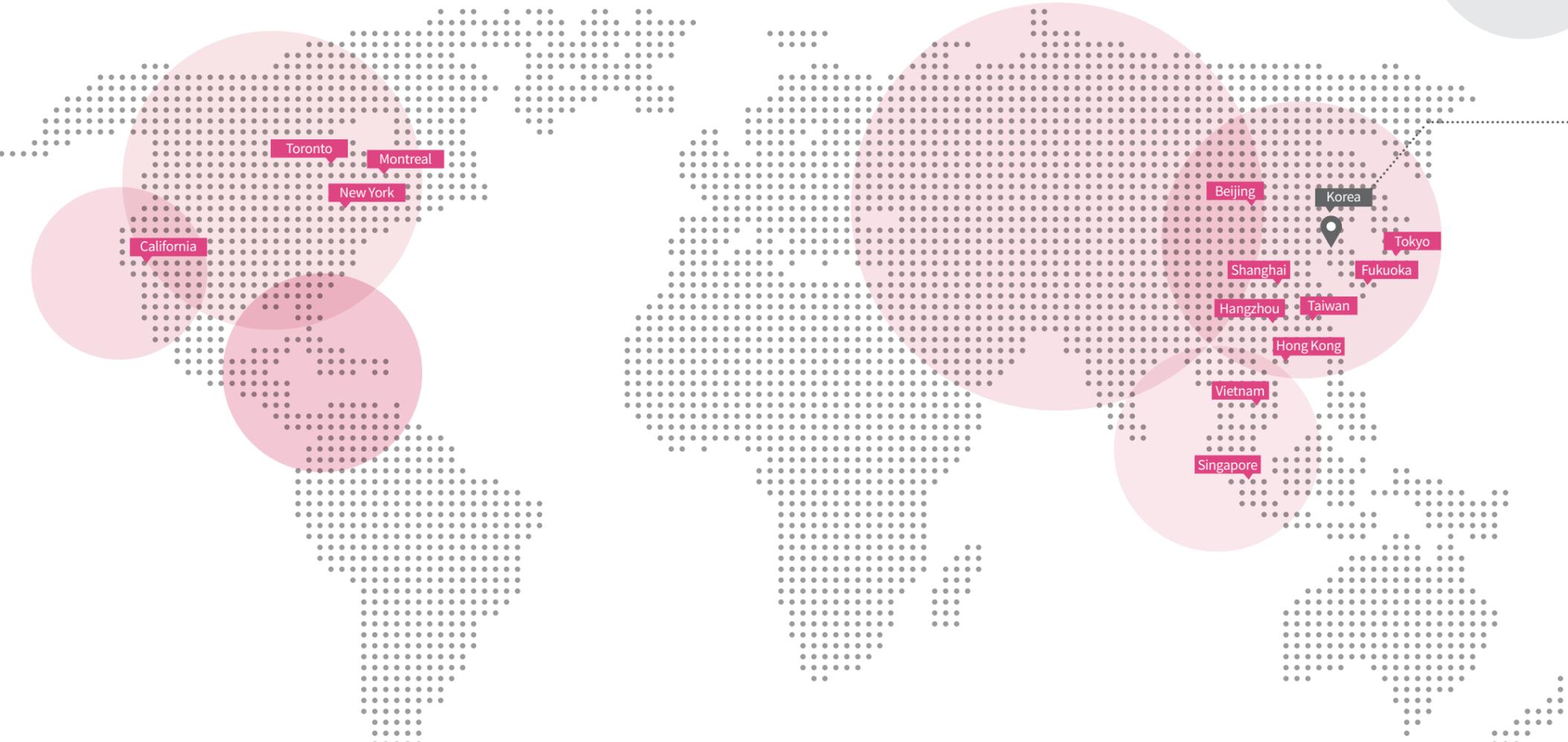
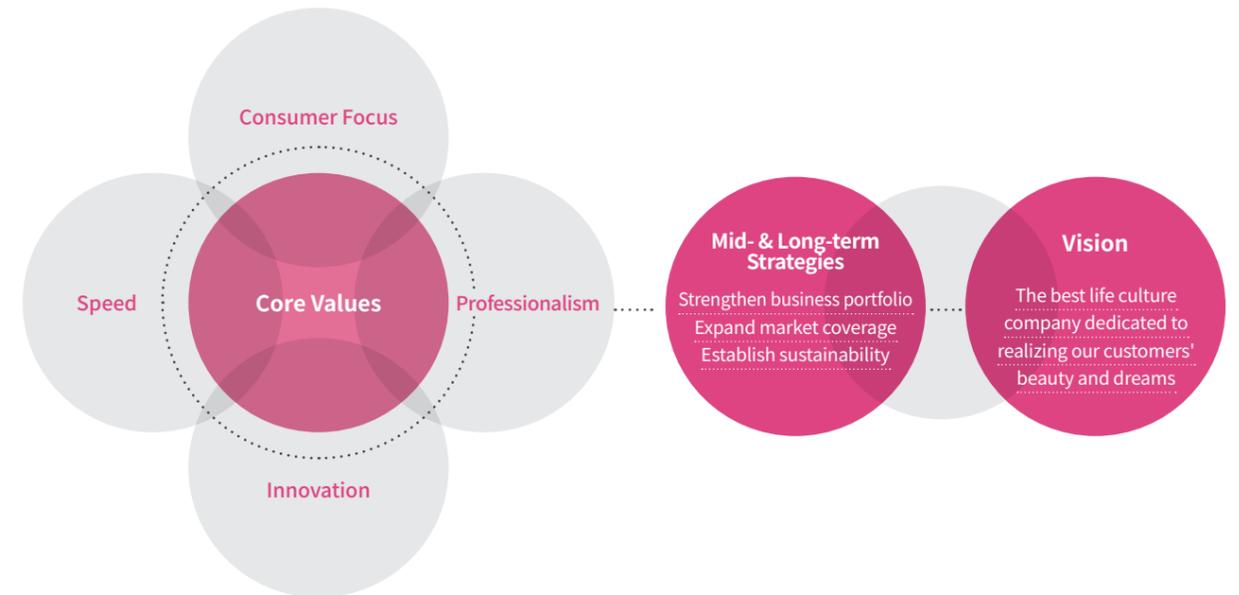
Since its foundation in 1947, LG H&H has strived over the last seven decades to help consumers live beautiful, healthy, and refreshing lives. Based in our Gwanghwamun Headquarters in Seoul, Korea-as well as our subsidiaries in China, Vietnam, Taiwan, Japan, and the United States-our 10,437 employees continuously strive to provide better products and services all over the world.

Company Profile

Company Name	LG Household & Health Care Ltd.
Address	LG Gwanghwamun Building, 58 Saemunan-ro, Jongno-gu, Seoul, South Korea
Foundation	January 1947
CEO	Suk Cha
Business Type	Cosmetics, household goods, beverages
No. of Employees	10,437 (including 2,335 local employees at overseas subsidiaries)
Total Assets	KRW 4,502.2 billion
Total Capital	KRW 2,620.8 billion
Sales	KRW 6,094.1 billion
Operating Profits	KRW 880.9 billion
Credit Rating	AA+ bond rating, A1 CP rating (LG H&H separate)

*Consolidated

Company Vision



Domestic Business Sites

LG H&H	Headquarters in Seoul Business site in Cheongju Technology R&D Institute in Daejeon Business site in Naju Business site in Ulsan Business site in Onsan
Coca-Cola Beverage	Business site in Yeosu Business site in Gwangju Business site in Yangsan
HAITAI htb	Business site in Cheorwon Business site in Pyeongchang Business site in Cheonan Business site in Iksan
THE FACESHOP	Business site in Incheon
Zenisce	Business site in Chuncheon
Hankook Beverage	Business site in Namwon

Major Domestic and Overseas Subsidiaries

Domestic (Unit: %)		
Domestic	Location (HQ)	Share
Coca-Cola Beverage	Yangsan, Korea	90
THEFACESHOP	Seoul, Korea	100
HAITAI htb	Seoul, Korea	100
Hankook Beverage	Namwon, Korea	100
CNP Cosmetics	Seoul, Korea	86
K&I	Seoul, Korea	60
Zenisce	Chuncheon, Korea	70
Bright World	Cheongju, Korea	100
OBM LAB	Daejeon, Korea	70
LG Farouk Co.	Seoul, Korea	50

Overseas (Unit: %)		
Overseas	Location (HQ)	Share
Beijing LG Household Chemical	Beijing, China	78
Hangzhou LG Cosmetics	Hangzhou, China	81.7
LG Household & Health Care Trading (Shanghai)	Shanghai, China	100
LG Household & Health Care Cosmetics R&D (Shanghai) Co., Ltd.	Shanghai, China	100
LG Household & Health Care (Taiwan) Ltd.	Taipei, Taiwan	100
LG VINA Cosmetics Co., Ltd.	Ho Chi Minh, Vietnam	60
LG Household & Health Care America Inc.	New Jersey, U.S.A.	100
Ginza Stefany Inc.	Tokyo, Japan	100
Everlife Co., Ltd.	Fukuoka, Japan	100

Business Overview

Beautiful

Live your dream
change your life



After the launch of its first product, Lucky Facial Cream, in 1947, the Beautiful Division restarted its cosmetics business in 1984 with the DeBON brand. Since then, it has recorded incredible annual growth, and it is now one of the top global cosmetics companies. To realize the healthy beauty and dreams of consumers around the world, we will move forward as we pursue our goal of providing high quality and creating the best brands in the global market.



The History of Whoo



Achieved an annual sales of KRW 1 trillion in the shortest period of time

Ranked first in the domestic anti-wrinkle functional essence category for five consecutive years

Based on the Kantar Worldpanel surveys from 2011 to 2015 (category of prestigious cosmetic brands sold at department stores)

Su:m37°



Level of satisfaction for skin improvement

Target product: Secret Essence, Respondents: 100 women aged 25 - 35, Research firm: SeoWoo&Company

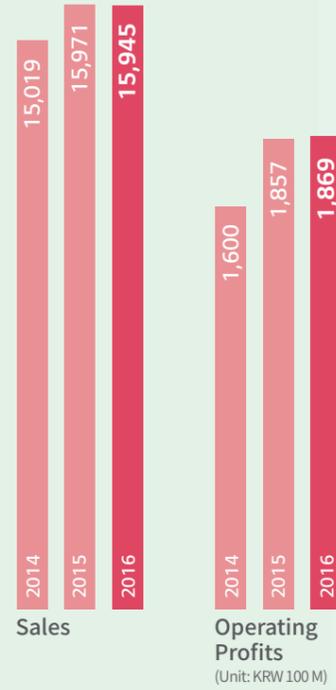
belif



1
No. 1 moisturizing cream brand

Based on the Kantar Worldpanel survey conducted from January to September 2016 (category of prestigious cosmetic brands sold at department stores)

Business Overview



Healthy

For your healthy life



The Healthy Division focuses on adding convenience and greater health to people's lives by providing various popular household goods with new value, such as toothpaste, shampoo, body wash, detergent and diapers. We plan to continuously create innovative, premium products with differentiated, high-functional features.



PERIOE



1
Top-selling
toothpaste brand
Based on the 2016 survey
data from Nielsen
(domestic market)

Elastine



1
Top-selling
shampoo brand
Based on the 2016 survey
data from Nielsen
(domestic market)

Saffron



1
Top-selling fabric
softener brand
Based on the 2016 survey
data from Nielsen
(domestic market)

Business Overview



Refreshing Division

The Refreshing Division intends to offer the best beverages that satisfy consumers' needs for health and taste through Coca-Cola products featuring unique, refreshing flavors and HAITAI htb products such as Sunkist and Sunny10. In response to the rise in demand for functional beverages and healthy supplements, we will offer nutritious, high value-added products that the existing beverages market is unable to offer.



Coca-Cola



1
No. 1
in global sales
Based on the 2016
survey data from Nielsen

GEORGIA



1
Top-selling canned
coffee brand in the
global market
Based on the 2016
survey data from Canadean

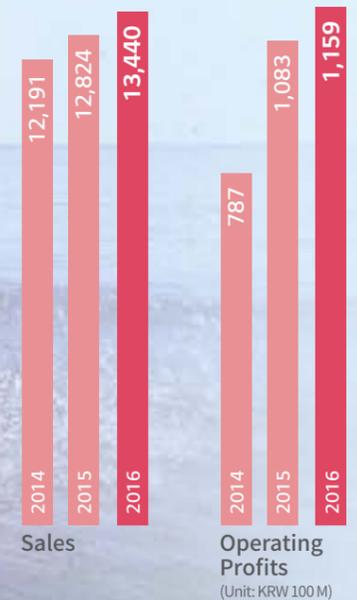
Sunkist



125 year
Fruit beverage brand
with 125 years of history



Refreshing
For your Refreshing life



Focus Issues & Business Cases

STRENGTHENING PRODUCT
SAFETY

14

ECO-FRIENDLY PRODUCT
DEVELOPMENT

|

DEVELOPING PRODUCTS
WITH SOCIAL VALUE

27

Strengthening Product Safety

Background

As a company that provides a wide range of products used in daily life with direct and indirect effects on the human body, LG H&H prioritizes the safety and health of consumers. We carefully choose every single raw material, and find fundamental solutions for consumers' daily lives to address their complaints about existing products, promoting the safety and health of our customers.

Principle & Strategy

We have continued our efforts to present a variety of values through our products for environment and society. We've established the Consumer Reassurance Center to alleviate consumers' concerns over product safety, a recently highlighted social issue, and conduct systematic safety verification throughout the entire production process so that we only provide products that consumers can trust.

Interview



Jae-min Ryu, CRO
Consumer Reassurance Center

We have built our companywide system-which extends far beyond just a temporary activity for improvement-to produce safe and reliable products for our consumers. Based on this system, we will develop, purchase, and manufacture only safe products.

Efforts to Reinforce Product Safety

Endeavor to Develop Safe Products Targeting Babies and Children

It is essential to commit greater effort to secure safety in the development of products intended for babies and children since they are vulnerable than adults. We implement internal examination to set specific development guidelines for cosmetics and oral care products targeted at babies and children under 13, such as baby lotions and toothpastes. We focus on safety verification for all aspects, from the selection of raw materials to the evaluation of finished products. In the raw material selection phase, we meticulously conduct inspection on regulated substances as well as controversial ingredients.

Product Made from Natural Ingredients: PERIOE SAFE Kids Toothpaste

Concerns of consumers over the excessive use of chemical substances in products is growing, and the demand for products made from natural ingredients is also on the rise. To meet the demand of consumers, LG H&H developed PERIOE SAFE Kids Toothpaste, a mild and reliable product that contains only natural ingredients. According to a toxicity test on oral cells, the product alleviates irritation by 80% compared to other toothpaste products, and minimizes the irritation that toddlers and preschoolers may experience when brushing their teeth.



Production by Bacteria-free Manufacturing Process: Introduction of Aseptic Line

We introduced the Aseptic Line-a beverage manufacturing facility using a bacteria-free filling process method-which minimizes the destruction of nutrients in beverages and preserves the natural taste and flavor of ingredients by quickly sterilizing the content at a temperature as high as 138°C. PET containers and bottle caps are sterilized, and the aseptic manufacturing process in the closed chamber, which blocks external air, prevents the content from spoiling. This system enables the company to maintain the hygiene and freshness of products and manufacture safe and reliable beverages. We have the capacity to annually produce 100 million bottles of beverages, and we apply this process to Babience Liquid Milk for Babies. We are planning to improve this facility in 2017 to expand its application to functional beverages.

Trustworthy Science for Babies: Babience by Herringbone Basic Wet Wipe

To develop a wet wipe that mothers can use without any worry, LG H&H improved its existing wet wipe product with a liquid formula containing only food additives by applying a non-scented technology that alleviates the smell of raw materials other than fragrance in 2016. We further enhanced the product's quality so that customers can be satisfied with even its visual aspects and presentation. We make sure that the product is free of 15 chemical substances and produced through our 7-phase micro-water-purifying system. Under our brand philosophy of "Baby Science for Babies," we also conduct tests for the presence of microbes and harmful substance, and implement a verification process by domestic/overseas certification institutions.



Babience by Herringbone Basic Wet Wipe



**A New Process Minimizing Skin Irritation:
ISA KNOX Phyto Pro-RETINOL Wrinkle Oil**

As a growing number of people are sensitive to skin irritation due to environmental factors these days, diverse development is being focused on the minimization of harmful substances. Membrane emulsification technology, which is generally utilized in the pharmaceutical sector, enables the formation of emulsion without using an emulsifying agent that can be irritating to sensitive skin. LG H&H is the first company that applied this process to cosmetics. ISA KNOX Phyto Pro-RETINOL Wrinkle Oil stabilizes the phyto pro-retinal oil using large particles (200µm) without an emulsifying agent, thus minimizing the use of harmful elements and visualizing active components. In this way, we are able to make this product more reliable for consumers. In our testing, in which we apply the product to human skin, its irritation index in the primary test was 0. It also proved to be helpful for reducing average and deeper wrinkles and brightening wrinkled skin. We have applied for a patent for this new process and formula technology, and its registration evaluation is ongoing. This product was introduced on "Get It Beauty," a popular beauty TV show in Korea, in 2016. It was also ranked second in sales in Nature Collection, a beauty select shop that promotes healthy beauty derived from nature, strengthening its position in the market as a safe and effective cosmetic product.



**A Product with Minimal Harmful Elements:
ORGANIST Jeju**

We launched ORGANIST Jeju, a safe and reliable shampoo containing nutrients from ingredients that naturally grew in Jeju's clean natural environment. It is free of sulfate surfactant and silicone that may be harmful to hair and scalps. This product does not include more than ten controversial substances, such as silicone, sulfate surfactant, paraben, synthetic coloring, animal-derived ingredients, mineral oil, triclosan, benzophenone, phenoxyethanol, isothiazolinone, and petroleum-based surfactant. Instead, it uses ingredients that are harmless to the human body. As a result of consideration and tests for product improvement, we developed a formula that minimizes harm to the human body, reducing skin irritation by 70% and hair damage by 20%, and our application for the patent for this formula is under evaluation. In 2016, this product topped the list of shampoos in the Beauty Award conducted by Hwahae, an app that provides consumers with ingredient information for cosmetic products and user reviews. This achievement proves that ORGANIST has been recognized for its brand presence and authenticity, and it is unrivalled in the natural product category in the domestic hair product market.



Homecare products that 'Pursue a Philosophy'

LG H&H's Homecare products that 'Pursue a Philosophy' deliver the company's sincere philosophy, "Cherish Target Objects of Our Products, Cherish the Planet and Nature, Cherish People the Most." This homecare line includes laundry and dishwashing detergents, fabric softeners and cleaning products. Thoroughly inspected safe raw materials and formulas are applied to each product, and they are distributed without preservatives and other chemical substances. The use of harmful elements is minimized by utilizing natural and plant-derived surfactants.



Brand Philosophy
"Cherish Target
Objects of Our Products"
"Cherish the Planet
and Nature"
"Cherish People
the Most"

-  **Free of controversial chemical substances**
We excluded fluorescent whitening agents, artificial coloring, and petroleum-based surfactants as part of our sincere consideration for humans.
-  **100% plant-derived cleaning elements**
We used safe ingredients from palm oil rather than artificial chemical substances.
-  **No animal testing**
Upholding our brand philosophy, we cherish both humans and nature.
-  **Reduced skin irritation**
We tried to alleviate irritation to skin by minimizing the use of chemical substances, using plant-derived ones instead.

Stringent Control of Harmful Substances throughout the Entire Business Process

Establishment of Chemical Substance Management System

The issue of a humidifier disinfectant with harmful substances, which caused numerous deaths and illnesses, brought public attention to the importance of safety control for chemical substances. LG H&H laid the groundwork for safety control by building its own chemical substance management system that enables thorough inspection of raw materials and ingredients, avoiding the use of harmful substances in its products. We designed the monitoring system to target over 270,000 types of substances, which are subject to the 1,403 regulation items in 79 countries around the world, including Korea. Information about newly regulated substances is updated each month. We systematized the screening process of regulated raw materials and ingredients in accordance with global standards, and computerized the statistical survey of the volume of distributed products and inquiry into these products to see which substances are contained in which products, as well as the amounts of substances in these products. The use of substances regulated outside Korea is also limited, and some ingredients that are controversial at home and abroad are excluded as well. We accumulate the data of such controversial substances for each product, and examine them with the data of restricted substances.

Key Functions of Chemical Substance Management System



*Separate examination of raw materials associated with controversial issues at home and abroad

Management Plan for Safe Quality Certification System and Safety Index

Recognized for its excellence in product quality and manufacturing plants, LG H&H has obtained and retained domestic and overseas certifications, including ISO9000, CGMP¹⁾, and HACCP²⁾. We are planning to enforce stricter safety standards for consumers in the quality evaluation and control solutions provided by our existing system and certification process, and develop the Safe Quality Certification System and the Safety Index for more thorough inspection and management. In 2017, we will identify the consumer demand for quality and factors that provide reliability, set the quality control standards that will be met by manufacturers, and establish our enforcement manual and assessment guide. Based on these efforts, we will introduce this new system and index to our business sites in 2018, and systematize and standardize them like an authorized certification system.

- 1) Cosmetics Good Manufacturing Practice
- 2) Hazard Analysis and Critical Control Point

Reinforcement of Technical Support for Suppliers

Competitiveness in quality is largely affected by the quality of raw materials and subsidiary materials, such as containers and packaging provided by suppliers. Since the early stage of our business, we have provided suppliers with training and support to improve the quality of their manufacturing plants and products. In 2014, we even enhanced our existing activities through technical collaboration and investment support aimed at win-win growth. With the commencement of the Consumer Reassurance Center, we are planning to organize an internal expert group that will supervise more systematized technical support for suppliers to improve their quality. Major technical support activities include the stabilization of the quality of suppliers' new products in the early stage, precise diagnosis of hazards to quality, and the Six Sigma quality innovation program. We started these activities for suppliers of cosmetics and beverage-related items and raw/subsidiary materials in 2017, and we will expand the scope of support and beneficiary suppliers by 2019.

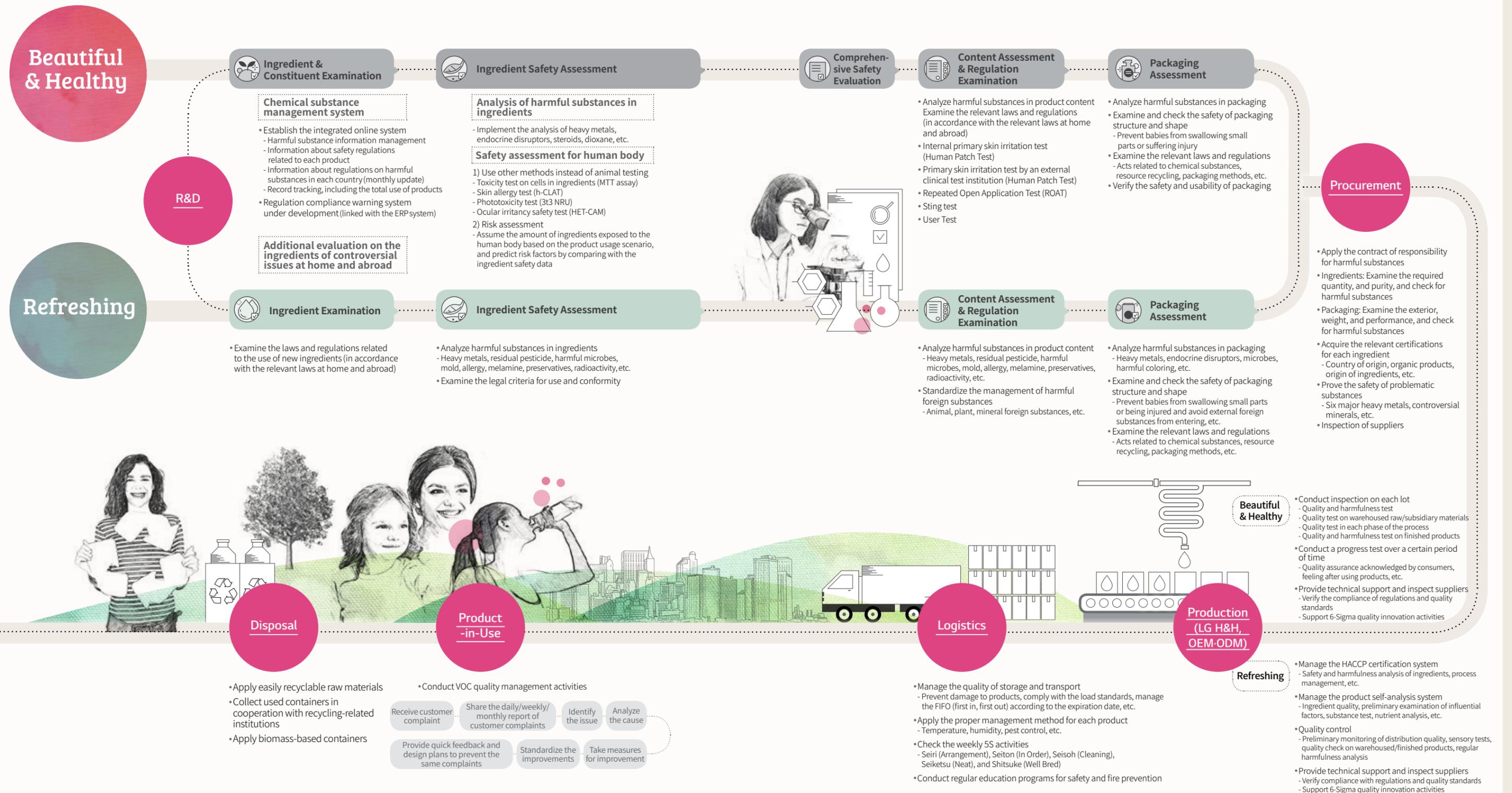
Establishment of the Consumer Reassurance Center

We established the Consumer Reassurance Center in February 2017 by focusing LG H&H's companywide capacity to secure consumer safety, which is currently a pressing social issue. The center is a specialized organization that controls the quality of all products-including raw/subsidiary materials, finished products, items provided by suppliers, and imported products-throughout the entire process from development to distribution to ensure that consumers can trust our products. The center implements stricter, ethical quality standards that exceed compliance with the regulations and practices. We will develop and operate our independent quality certification system as one of our company's core challenges.



Commencement and quality vision announcement ceremony at the Consumer Reassurance Center

Product Safety Management Process



Eco-friendly Product Development

Background

As the public and consumer awareness of eco-friendly products is growing, companies must manage the environmental impact of their products in a systematic way, considering factors such as carbon footprint, biodegradation, and recyclability. In the household good, cosmetics, and beverage industries, a large amount of resources are used for products as well as packaging. Greater efforts are therefore required to lessen the environmental impact of packaging materials.

Principle & Strategy

LG H&H is committed to reducing the environmental impact generated over the entire process from product planning to R&D, manufacturing, distribution, sales, use, and disposal. In response to the demand of consumers for environmentally friendly products, the company takes a wide range of actions, including the expansion of EDP (Environmental Declaration of Products) and the eco-labelling system, improvement of carbon footprint, and application of Green Packaging.

Interview



Eun-hee Lee,
Team Leader
Ecosian

LG H&H systematically manages the environmental impact of the process of product use, including the control of pollutants in the production phase. The company has been recognized for its eco-friendliness over the entire process—from the selection of raw materials to production, use, and disposal—by acquiring the green and low-carbon certifications for products. This recognition proves LG H&H continued efforts to develop environmentally friendly products.

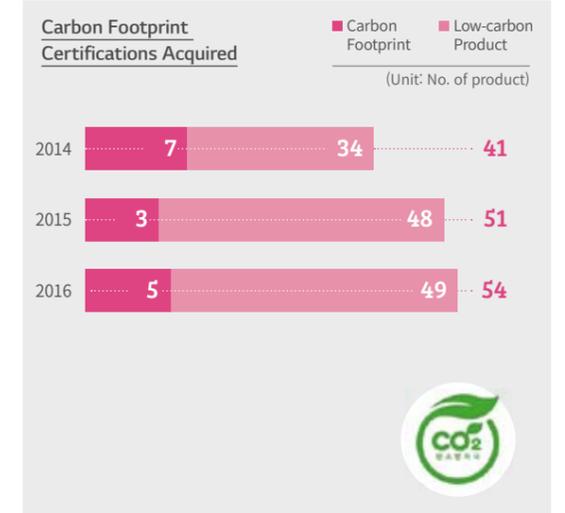


Efforts to Reduce Carbon Footprint through Products

Attaining Even More Carbon Footprint Certifications

A growing number of consumers are concerned about carbon footprint and the other environmental aspects of products. In response, LG H&H is striving to provide different and unique values by operating an optimal system to reduce the environmental impact generated in all processes from product planning to disposal, including GHG emissions. We received the carbon footprint certification for Coca-Cola (500mL PET) in 2009 for the first time in the domestic beverage market by participating in the pilot project, followed by another certification in 2014 for the carbon footprint verification system for the liquid cleaning product line, the first certification in this product category. In 2016, our Elastine Damage Care Shampoo (780mL) became the first to obtain the low-carbon certification¹⁾ in the shampoo category, while PyeongChangSoo (500mL & 2L) was granted the carbon footprint certification. All our efforts led to us attaining even more carbon footprint certifications, from 20 cases in 2013 to 54 cases in 2016.

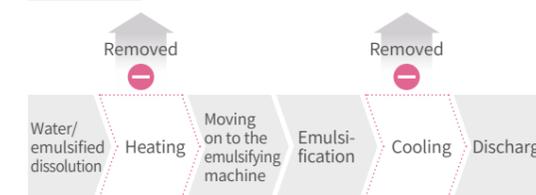
1) Among the products with the carbon footprint certification, the one that reduces its carbon emissions to a lower level than the average of the same kind of products



A Process Reducing Energy Consumption: BEYOND Phyto Aqua Line

LG H&H applies a cold process—which does not require heating to high temperatures following by cooling—to the BEYOND Phyto Aqua Line to reduce energy consumption in the manufacturing process. We developed an emulsification system that excludes the use of an emulsifying agent and wax, and it produces stable emulsifying particles at room temperature. This system enabled us to minimize the destruction of active components caused by high-temperature processes and reduce the consumption of energy used in heating and cooling water by 90%. We could also shorten the process time by 30% by simplifying our manufacturing process.

Cold Process



Reduced Social Carbon Emissions: Elastine & Coca-Cola

The reduction in carbon emissions from products commonly used in daily life not only helps companies but also all of society to reduce carbon footprint. We invested in facilities to enhance the energy efficiency in each phase, including pre-manufacturing, manufacturing, and disposal, and reduced the carbon emissions generated by Elastine Shampoo (Maximizing Volume, Intensive Damage Care, Deep Moisturizing) and Coca-Cola (500ml PET). Through these efforts, we contributed to reducing the carbon emission¹⁾ in society by 64tCO₂e and 4,080tCO₂e for our Elastine Shampoo and Coca-Cola products, respectively.



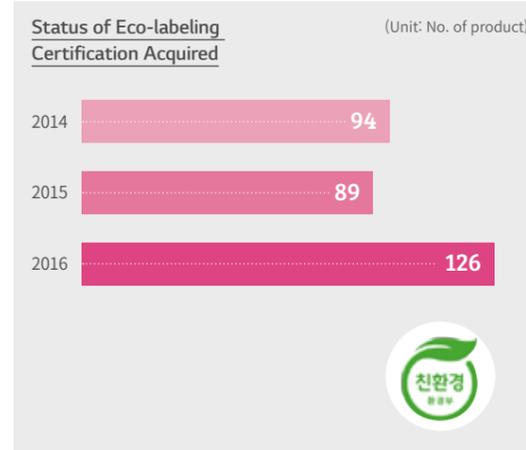
Elastine Shampoo		Coca-Cola	
Carbon footprint certification	Carbon emissions (gCO ₂ e/bottles)	Carbon footprint certification	Carbon emissions (gCO ₂ e/bottles)
2013 - 2016	725	2012 - 2015	225
2016 - 2019	674	2015 - 2018	200.5
Reduction	51	Reduction	24.5

1) Calculation: Reduced emissions * Number of bottles sold

Efforts to Manage Water Resources in the Use of Products

Eco-labeling Certification

LG H&H has exerted efforts to develop process from manufacturing, distribution, use, and disposal. Surfactant, a major ingredient of dishwashing and laundry detergents products that conform to the KS with lower environmental impact over the entire and cleaning products, helps to effectively remove oil and water stains, but it also lowers the self-purifying function of water by generating a membrane and foam on the water surface. To address this problem, we designed products to minimize water pollution caused by the use of dishwashing and laundry detergents that require a large amount of water in purification and to be easily decomposed by microorganisms. The number of our products granted the eco-labeling certification soared by 42% from 89 in 2015 to 126 in 2016.



Fast Rinse: ON:THE BODY the Natural Body Wash

Consumers complain that body wash products are slippery and hard to rinse, though they are better at moisturizing than soaps. If the content of soap is added to body wash to speed up rinsing, the pH level of products becomes higher than that of skin, making them unsuitable for all family members to share. To overcome these complaints and the limits of existing products, we developed a new surfactant formula. ON:THE BODY the Natural Body Wash is a slightly acidic pH shampoo that features a better moisturizing effect than soaps and a speedy rinse with an optimal formula, protecting the health of your skin. According to the rinse speed test, the product showed a 20% improvement compared to existing products.



First Step towards 100% Return of Water: Korea-specific Water Return Project

The Water Return Project initiated by Coca-Cola is a global water protection program designed to return the same amount of water used in the production of beverages to local communities and nature in various ways. In Korea in March 2017, the private sector (Coca-Cola), the government World Wildlife Fund and the organizing committee of the 2018 Pyeongchang Winter Olympics, and local community (the Gangwon provincial government, the Korea National Park, and the Eco Green Campus (Samyang Ranch)), signed an MOU and commenced the Korea-specific Water Return Project in connection with the Pyeongchang Winter Olympics. Our goal is to continue the project for the benefit of our nation, even after the Olympics, and achieve 100% return of water by 2025. Major objectives include securing water resources for the surrounding ecosystem and improving the diversity of habitats, focusing on pasture land through natural wetland vegetation in Samjeong Lake and planting shrubbery. We will improve the biodiversity in the region and protect habitats by creating sustainable water resources for the local community and manage the basin of Jilmoe Swamp and Samjeong Lake in an integrated method during and after the Olympics.



Efforts to Reduce Waste due to Products

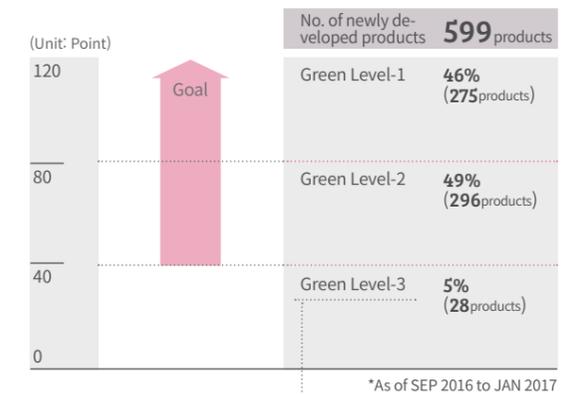
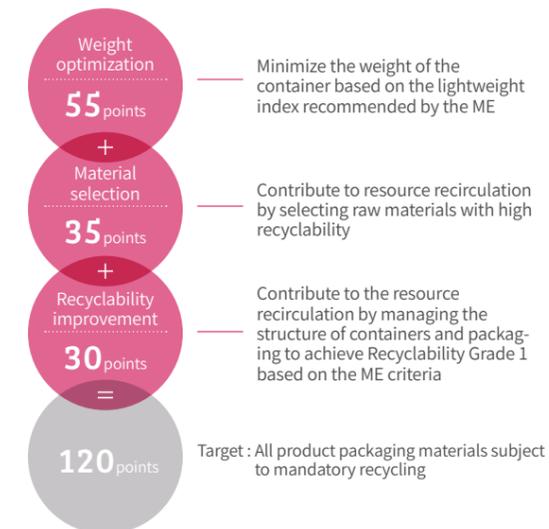
Development of Green Packaging Guide

LG H&H has continued efforts to employ an efficient method for developing eco-friendly containers in the product development phase. We designed and distributed the Green Packaging Guide that classifies the containers of products to be developed into different grades according to three factors (weight, raw material, and recyclability) and assigns marks for them, enabling a more objective assessment of eco-friendliness. We continue to manage our products at each grade and enhance the eco-friendliness of them. Advanced countries, such as Europe and Japan, have already established various regulations on the recyclability of containers. LG H&H will establish its position as a leading eco-friendly company that takes the initiative in the development of green containers and packaging in the market. An economic effect is also expected by reducing the mandatory burden under the Environmental Charging System.

Application of Green Packaging Guide

The Green Packaging Guide includes a range of standards presented by the Ministry of Environment (ME) to help the relevant departments develop environmentally friendly products, even from the development phase. Product packaging is ranked according to their weight, raw materials, and recyclability for the evaluation of their eco-friendliness. We classify them into Green Level-1 to 3, and manage and improve the products in a systematic way. Green Level-3 product packaging is reported to the CEO on a monthly basis, and a special decision-making process is required in case it is impossible to apply the Green Level to a certain product packaging.

Green Packaging Guide



Process to decide whether Green Level-3 products can be released



Packaging Materials with Improved Recyclability

LG H&H strives to address hindering factors in the recycling process to enhance the recyclability of containers and the eco-friendly image of products.

Products in Colorless PET Containers with Water-soluble Label Adhesive Applied

We apply colorless PET containers and label material that is easily soluble in water to homecare products that 'Pursue a Philosophy' to enhance recyclability. Recyclable, colorless PET containers can reduce the mandatory burden under the Environmental Charging System by 38% compared to colored PET containers. We also use a water-soluble adhesive so that the labels can be easily removed by washing, thus reducing the burden in the recycling process. For implementing these innovations, we won the prize awarded by the President of KAPPE in the 11th Future Packaging Technology Award conducted by the government. LG H&H will expand the use of colorless PET containers and water-soluble label adhesives while minimizing the use of colored PET containers.



Developing Products with Social Value

Background

Consumers' expectations for products are always changing. Their preferences for quality and design, as well as the demand for social value, are evolving. Society has grown to care about the impact that products can have. LG H&H is always earnestly striving to meet these consumer expectations.

Principle & Strategy

LG H&H carries out various activities to create social values from production to sales. We develop specialized products to boost the growth of local communities and pass on traditional Korean culture. We also create value by cooperating with a range of external stakeholders through open innovation that pushes boundaries.

Interview



Ji-hyun Lee,
Head of Secretariat
Ecomomkorea

LG H&H provides a diversity of products that can create social value. If we provide the information that matters most to consumers-including product safety, functions specifically designed for the disadvantaged, and social impact-more consumers will recognize and better understand LG H&H products.



Products Designed to Pass on Traditional Korean Culture

To promote traditional Korean culture, LG H&H develops products with upgraded quality through collaboration with experts from various fields. Our company goes beyond just enhancing the function of products.

Whoo Hwanyu State Guest Set, a Recreation of Royal Culture with Traditional Techniques

We developed the Whoo Hwanyu State Guest Set by collaborating with a human cultural asset to pass on the traditional royal culture. The lacquerware box inlaid with mother-of-pearl, also known as najeonchilgi, increases in value as time goes by, and it is truly product of careful craftsmanship. This product package was designed to reproduce and promote traditional techniques that were commonly used to make royal furniture and jewelry boxes. It was completed through collaboration with Master Artisan Dae-hyeon Son, Seoul Intangible Cultural Heritage No. 1 and the first master craftsman of Korean natural lacquering (called ottchil in Korean). This product demonstrates LG H&H's effort to maintain and spread traditional Korean culture.



Dae-hyeon Son, Seoul Intangible Cultural Heritage No. 1
Whoo Hwanyu State Guest Set

Babience Weaning Food, Succeeding Traditional Recipes

LG H&H launched Babience Weaning Food in cooperation with Bok-sun Han, a cuisine researcher and an expert in Korean royal court culinary art. We referred to historical literature, including Domundaek (an old book about Korean local food specialties), and carefully selected ingredients based on where they were produced. We then made contracts with particular areas to enhance the quality of our product. Further, we reinforced the product's functional aspect through retort sterilization. We applied our proud traditional Korean royal court cuisine and local specialties to the product development process, attracting attention from consumers and providing them with an opportunity to enjoy royal court cuisine.



Bok-sun Han,
a cuisine researcher

Babience
Weaning Food

Products Designed to Boost Local Community

Jeju Cosmetics Certification

Our BEYOND Phyto Moisture Jeju Line and Organist Made in Jeju are products certified by Jeju Special Self-Governing Province. They offer enhanced quality since they use high-efficacy ingredients grown in Jeju-one of the cleanest areas in Korea. They are also produced in the Jeju region, contributing to the growth of regional industries, in cooperation with local residents. The use of moisturizing and nourishing ingredients, such as volcanic bedrock water, led to the achievement of Jeju Cosmetic Cert, the certification for products produced in Jeju Island. We also cooperate with local small and medium-sized enterprises (SMEs) to create jobs for local residents and facilitate the growth of regional industries.



BEYOND Phyto
Moisture Jeju Line

ORGANIST
Made in Jeju

Creation of Value Shared with Underprivileged Regions: BEYOND Himalaya Line

The BEYOND Himalaya Line features products made from herbs harvested by local residents of Mugu and Humla, Nepal. These products not only boast excellent efficacy, but also create value that is shared with impoverished areas. By signing an MOU with Good Neighbors in June 2014, LG H&H has developed new cosmetic ingredients based on quality herbs provided by local residents, while providing them with generic technologies for producing raw materials and 25 mules, helping them to economically stand on their own feet. We have also contributed to increasing the income of local residents, who used to sell their products to middlemen at low prices, by helping them get adequately paid through fair trade.



BEYOND Himalaya Line

A Product with Enhanced Functions Based on Consumer Demands

Removal of Body Oils Stuck in Textiles: Laundry detergent Fiji

As a result of LG H&H's continued efforts to develop new technologies for laundry detergents, the company launched Fiji, a product that can meet the expectations of consumers for white and clean laundry quality by removing body oils in textiles that causes clothes to turn yellow and smelly. We applied the surfactant with the enhanced function of penetrating textiles to more easily remove body oils. We also use seven types of enzymes that can get rid of only body oils and stains, eliminating all residual contamination. This is a premium detergent designed to increase consumer satisfaction, and it also prevents clothes from getting recontaminated by the initially removed body oils and stains.

Laundry detergent Fiji



Anti-aging Fermented Oil from Microbial Metabolisms: Su:m37° Secret Oil

We developed Su:m37° Secret Oil, which contains fermented mor-tierella oil generated by microorganisms, rather than a simply fermented plant oil. We applied hybrid reverse-micelle emulsifying technology that can stabilize water-soluble ingredients four times better than existing oil products. This results in an anti-aging oil with a much lighter and fresh feeling. By utilizing fermented oil produced through microbial metabolisms, we developed an optimal formula for natural oil that isn't silicone-based, and it has a proven effect on improving elasticity and skin lifting by 4.5% and 2.5%, respectively, after four weeks of use. The results of consumer surveys in Korea and China also show the product's increased global competitiveness.

Su:m37° Secret Oil



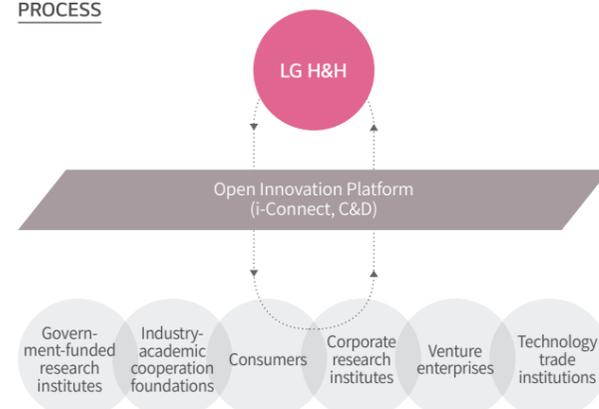
Result of consumer surveys in Korea and China

Establishment of Open Innovation System

We are swiftly and effectively responding to rapidly-changing market demands by running the Open Innovation System, which connects with external knowledge and technologies for development (C&D: Connect & Develop), in addition to our internal R&D efforts. On i-CONNECT¹⁾, the open innovation website, we collect over 100 suggestions each year for patented technologies and business cooperation, and then we review and apply them to our products.

1) iconnect.lgcare.com

OPEN INNOVATION PROCESS



Open Innovation Case

LG H&H founded the Chungbuk Center for Creative Economy & Innovation in 2016 to select excellent technologies from local SMEs in Chungcheongbuk-do, establish manufacturing facilities, and support commercialization, thereby assisting the development of new and promising products that will lead K-Beauty trends. For example, FanipinKorea was chosen in the New Technology Proposal Meeting, a program for exploring new technologies, for its outstanding process of uniformly coating non-woven fabric sheets with clay, cream, and gel. By combining LG H&H's paste-type cream formula and FanipinKorea's mask sheet coating technology, we launched the O HUI Miracle Moisture Ampoule & Cream Mask. The cream closely adheres to skin as it covers the face, delivering an excellent moisturizing effect.

O HUI Miracle Moisture Ampoule & Cream Mask



Social and Environmental Value Products

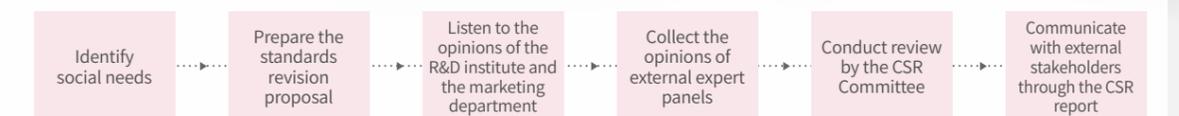
LG H&H set the standards for Social and Environmental Value Products by considering three aspects: safety and health of customers, social benefits, and alleviation of environmental impact.

Safety & Health of Customers		Improved safety PERIOE SAFE Kids Toothpaste	Organic BEYOND True Eco	Low-sugar TORETA	Enhanced nutrients Babience
Social Benefits		Co-development with SMEs Yehwadam White Ginseng Collagen Pearl	Cooperation with local community BEYOND Phyto Moisture	Targeting particularly vulnerable consumers Han-lp Detergent with 1/2 Less Amount	
Alleviation of Environmental Impact		Waste reduction Saffron Refill	Energy saving Jayeonpong	Water protection Bathroom Cleaner with a Philosophy	

Standards for Social and Environmental Value Products

There is a growing awareness in society that is driving the pursuit of eco-friendliness, health, social values, and happiness, and the demand of consumers for products with social and environmental values is also on the rise. LG H&H has been considering the environment in its product development since 1998. We have come up with our own standards for Social and Environmental Value Products in 2016 based on safety, environmental impact, and social values to keep up with rapidly-changing external conditions and meet consumer demand. We reflected the different opinions of employees and external experts in the process of developing our standards, and will continue to listen to their opinions to improve the criteria for our products and processes.

Standards Setting Process



Social and Environmental Value Products

The sales of Social and Environmental Value Products reached KRW 1,379.5 billion as of 2016, accounting for 23% in the company's total sales. Based on the newly established standards, the scope of these products has expanded compared to the past, leading to remarkable growth in the proportion of these products' sales.



Sustainability Management

CSR STRATEGY & ROADMAP

ECONOMIC VALUE CREATION

EMPLOYEE VALUE

CUSTOMER SATISFACTION

SOCIAL CONTRIBUTION

ENVIRONMENT AND SAFETY MANAGEMENT

WIN-WIN GROWTH

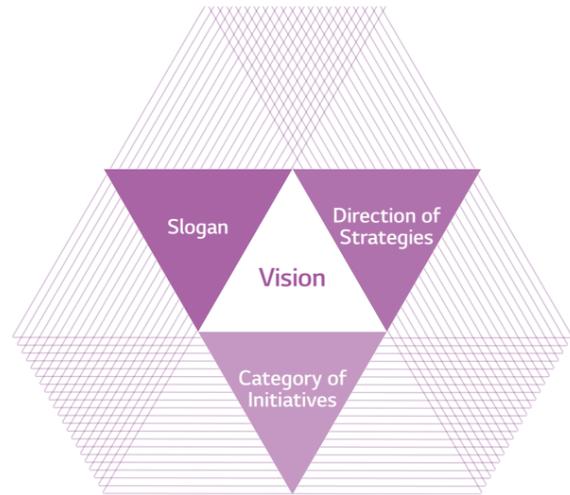
30

53

CSR STRATEGY & ROADMAP

LG H&H is committed to fulfilling its social responsibility to achieve its CSR vision and become the Best Sustainable FMCG¹⁾ Company. We established our medium and long-term CSR roadmap and annual goals for core issues in 2015. We are now carrying out activities associated with the core management issues in each initiative category selected to accomplish our goals for 2018.

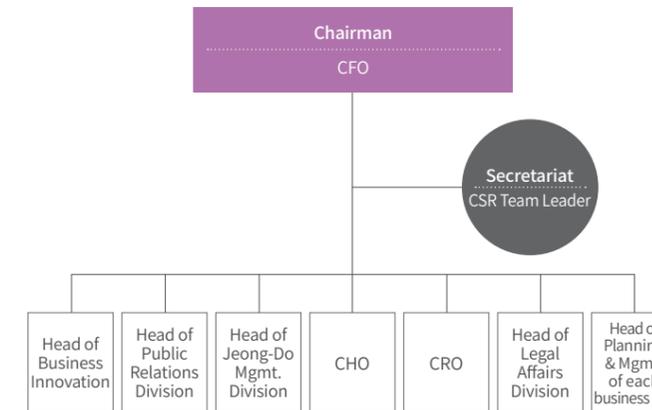
1) Fast Moving Consumer Goods



Vision	The best sustainable FMCG company
Slogan	Beautiful, Healthy, Refreshing for people and the planet
Direction of Strategies	Establish the sustainability management system, Strengthen social responsibility, Spread Social and Environmental Value Products, Expand communication with stakeholders
Category of Initiatives	Jeong-Do Management, Environment and Safety Management, Win-Win Growth, Customer Satisfaction, Employee Value, Social Contribution

CSR Committee Operation

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



Key Agendas of CSR Committee

Schedule	Agendas
Q1	<ul style="list-style-type: none"> Report on the CSR initiatives for 2016 Materiality Test for the CSR report Establishment plan for the chemical substance management system Operational plan for Creative Economy & Innovation
Q2	<ul style="list-style-type: none"> Comparison of performances for the CSR report Proposal for reorganization of the win-win growth evaluation Improvement plan of the sustainable packaging TF
Q3	<ul style="list-style-type: none"> Harmful substance management plan Report on the result of the sustainable packaging TF Sharing of CSR corporate diagnosis
Q4	<ul style="list-style-type: none"> Operation of Creative Economy & Innovation Progress of the chemical substance management system

Medium- & Long-term Roadmap

Category of Initiatives	Core Management Issues	2016		2017 Plan	2018 Plan
		2016 Plan	2016 Performance		
Jeong-Do Management	Spreading of Jeong-Do Management to overseas subsidiaries	<ul style="list-style-type: none"> Evaluate the Jeong-Do Management activities of the presidents of overseas subsidiaries 	<ul style="list-style-type: none"> Expanded the application of the Jeong-Do Management assessment system to 7 overseas subsidiaries 	<ul style="list-style-type: none"> Strengthen the Jeong-Do Management activities for overseas/acquired subsidiaries 	<ul style="list-style-type: none"> Expand the Jeong-Do Management activities for major stakeholders, including sales outlets and suppliers
Environment and Safety Management	Response to climate change	<ul style="list-style-type: none"> GHG emissions intensity: 0.076tCO₂e/product-ton 	<ul style="list-style-type: none"> GHG emissions intensity: 0.077tCO₂e/product-ton 	<ul style="list-style-type: none"> GHG emissions intensity: 0.069tCO₂e/product-ton 	<ul style="list-style-type: none"> GHG emissions intensity: 0.064tCO₂e/product-ton
	Water management	<ul style="list-style-type: none"> Water intensity: 2.206tons/product-ton 	<ul style="list-style-type: none"> Water intensity: 2.248tons/product-ton 	<ul style="list-style-type: none"> Water intensity: 2.04tons/product-ton 	<ul style="list-style-type: none"> Water intensity: 1.89tons/product-ton
	Waste management	<ul style="list-style-type: none"> Waste intensity: 14.236kg/product-ton 	<ul style="list-style-type: none"> Waste intensity: 13.420kg/product-ton 	<ul style="list-style-type: none"> Waste intensity: 12.539kg/product-ton 	<ul style="list-style-type: none"> Waste intensity: 11.603kg/product-ton
	Safety culture index	<ul style="list-style-type: none"> Conduct the safety culture index assessment and initiate the safety culture improvement activities 	<ul style="list-style-type: none"> Designed the safety culture index and implemented the assessment Expanded the operation of negligent accident prevention activities across the company 	<ul style="list-style-type: none"> Conduct the safety culture index assessment and expand the safety culture improvement activities 	<ul style="list-style-type: none"> Enhance the safety culture index with active participation of employees
Health care		<ul style="list-style-type: none"> Operate the health counselling center and the exercise class all year round 	<ul style="list-style-type: none"> Ran the quarterly health counselling center and the weekly exercise class 	<ul style="list-style-type: none"> Develop and introduce the preventive early detection program for cerebrovascular and cardiovascular diseases 	<ul style="list-style-type: none"> Operate the prevention program for cerebrovascular and cardiovascular diseases (risk group management)
		<ul style="list-style-type: none"> Establish the post management process of health check-ups 	<ul style="list-style-type: none"> Established the health care index and the post management process Completed the establishment of the health care goal setting system for employees 	<ul style="list-style-type: none"> Stabilize the post management process of health check-ups 	<ul style="list-style-type: none"> Strengthen the capacity of managing work-related stress and conduct campaigns to raise awareness
Win-Win Growth	Amount of financial support No. of technical support cases	<ul style="list-style-type: none"> KRW 32 billion of financial support 150 technical support cases 	<ul style="list-style-type: none"> KRW 33 billion of financial support 169 technical support cases 	<ul style="list-style-type: none"> KRW 34.6 billion of financial support (5% increase from 2016) 180 technical support cases (business management system and smart factory added) 	<ul style="list-style-type: none"> KRW 36.3 billion of financial support (5% increase from 2017) 190 technical support cases (about a 5% increase from 2017)
Customer Satisfaction	VOC collection and management	<ul style="list-style-type: none"> Reduce the customer complaint rate by 3% (compared to 2015) 	<ul style="list-style-type: none"> Reduced the customer complaint rate by 6.1% (compared to 2015) 	<ul style="list-style-type: none"> Reduce the customer complaint rate by 5.5% (compared to 2016) 	<ul style="list-style-type: none"> Reduce the customer complaint rate by 5% (compared to 2017)
	VOC recurrence prevention	<ul style="list-style-type: none"> Resolve long standing complaints and improve the quality of products 	<ul style="list-style-type: none"> Stabilized the quality of household goods (complaint rate reduced by 22%) Addressed the prolonged complaints about beverages (complaint rate reduced by 23%) 	<ul style="list-style-type: none"> Conduct the zero prolonged complaint project (resolving 14 themes of complaints) 	<ul style="list-style-type: none"> Operate the regular monitoring of the core quality index and continue improvement
	Preliminary management for quality improvement	<ul style="list-style-type: none"> Operate the quality issue prevention and diagnosis system Establish the customer complaint forecast system 	<ul style="list-style-type: none"> Conducted preventive diagnosis (10 times in Korea and twice at overseas subsidiaries) and accident diagnosis (5times) Promoted the prevention campaign and distributed the management instructions 	<ul style="list-style-type: none"> Conduct the companywide quality innovation project activities (29 themes) Introduce the safety quality certification system and conduct the safety index assessment 	<ul style="list-style-type: none"> Continue to conduct the activities to address quality innovation project themes and build the IT system Stabilize the safety certification system
Employee Value	Spreading of core values of corporate culture	<ul style="list-style-type: none"> Develop and understand the core values of the corporate culture at overseas subsidiaries and plant floor 	<ul style="list-style-type: none"> Carried out LGWay education for overseas subsidiaries and field employees, as well as corporate culture improvement activities 	<ul style="list-style-type: none"> Create the corporate culture system at overseas subsidiaries and plant floor 	<ul style="list-style-type: none"> Secure the capacity for self-operating the corporate culture at overseas subsidiaries and plant floor
Social Contribution	Borrowed Earth School	<ul style="list-style-type: none"> Increase the number of participants to 12,000 students at about 60 middle schools across the country 	<ul style="list-style-type: none"> Held the program for 12,031 students at 60 middle schools across the country 	<ul style="list-style-type: none"> Increase the number of participants to over 20,000 students at about 100 middle schools across the country and arrange the space for the program 	<ul style="list-style-type: none"> Expand the space for the program and include it in social contribution activities in China
	Global Eco Leader	<ul style="list-style-type: none"> Train 300 environmental leaders from 60 Global Eco Leader teams 	<ul style="list-style-type: none"> Trained 370 environmental leaders from 70 Global Eco Leader teams 	<ul style="list-style-type: none"> Expand the UNEP global program of the Global Eco Leader Project 	<ul style="list-style-type: none"> Continuously operate the UNEP global program of the Global Eco Leader Project

Economic Value Creation

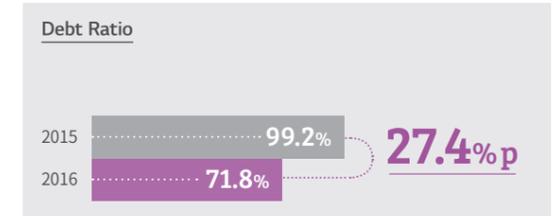
Financial Performance

Key Management Performance

LG H&H recorded over KRW 6 trillion in its total sales, thanks to the remarkable growth in the cosmetic division and the stable increase in the sales of household items and beverages. We also accomplished record-high operating profit and net profit. Despite various internal and external variables in the market, our company showed stable growth in quarterly sales and operating profit based on the balanced business portfolio consisting of cosmetics, household goods, and beverages, achieving incredible outcomes. Our luxury brand, the History of Whoo, posted KRW 1 trillion in sales in 14 years since its launch-this is the fastest a domestic single cosmetic brand has reached that figure. We concentrated our capacity on establishing our cosmetics and household items with a premium image and minimized external impact to secure a business structure that enables continued growth. In 2016, our sales reached KRW 6,094.1 billion, with an operating profit of KRW 880.9 billion and net profit of 579.2 billion.

Debt Ratio & Credit Rating

The inflow of abundant cash attributed to increased sales, reducing the debt ratio from 99.2% as of the end of previous year to 71.8%. The company's credit rating assessed by the Korea Investors Service was also upgraded from AA to AA+, thanks to our continuously improved financial stability, dominant position in the market, and stable business structure.



Business Performance in 2016

Affected by the expanded duty-free shop channels and the growth in our business in China due to a growing number of tourists from the Chinese region and their preference for K-Beauty, The History of Whoo recorded KRW 1 trillion in sales in the shortest period of time for a single cosmetic brand based in Korea. As Su:m37°, our next-generation brand for the luxury business, also showed remarkable growth, we achieved noteworthy performance with our luxury brands.

We expanded our presence in local premium department stores in China and Southeast Asia and carried out marketing activities suitable for the image of each luxury brand to increase the brand recognition of our products. We optimized our capacity and strengthened sales capability by reorganizing the sales workforce for department stores, while establishing our global training team to nurture top-level sales employees and maximize customer satisfaction.

In North America, our belif brand established its position in Sephora as a leading K-Beauty brand with the True Cream Aqua Bomb. We also launched this brand in Canada at the end of 2016, reinforcing the foundation of our business in North America.

In the premium sector, we operated business in the global market in Asia, the American Continent, and the Middle East by focusing on THEFACESHOP. We also strengthened business capacity with marketing activities optimized for each country and their conditions. In 2016, we concentrated on promoting cushion foundation products, leading to an increase in performance by over 110%.

Although the domestic market of household goods is stagnant and slowing down, LG H&H has reinforced its dominant position in the market by launching new products with a natural concept and expanding premium products. To overcome the limitations in the domestic market, we are preparing to step into the personal care product market in the Chinese region.

In the Chinese market, we are focusing on personal care products, such as oral care and hair care items. With PERIOE Pumping Toothpaste and Yungo Shampoo, we strengthened our brand portfolio and are now recognized as a leading Korean premium personal care business. We also attempted a structural shift from highly competitive discount stores and sales outlets to highly value-added H&B and online channels. As a result, we could see growth in sales as well as in profitability.

In Japan, we expanded the range of our homecare products such as fabric softeners and detergents. We also expanded our business to new markets in Thailand and Africa, while reorganizing stagnant business in countries with market potential, such as Iran, to seize new opportunities.

Although mature beverage market continuously shows a low-growth trend in Korea, we consolidated our dominant position in the sparkling beverage category, achieving both sales growth and profitability.

In the sparkling beverage category, we accomplished notable growth by increasing competitiveness based on the differentiated campaign for Coca-Cola and Sprite and strengthening the premium image of Seagram's sparkling water.

In the non-sparking beverage category, we launched Toreta to secure a new growth engine and focused on marketing for GEORGIA GOTICA, to reinforce our capacity.

We invested in the production sector and increased our operational efficiency in logistics to improve cost competitiveness by installing the Aseptic Line and enhancing our supply capacity for the stable provision of various products and mass production of quality items.

Business Plan for 2017

With The History of Whoo, a leading brand of our luxury business, we will strengthen our portfolio with next-generation brands such as Su:m37° and belif to accelerate our growth in the luxury brand business. In the premium business, we will reinforce our competitiveness by upgrading major brands and cultivating popular products. We also plan to focus on growing channels, including online and H&B. We are laying the groundwork for business in Asia by facilitating our business in China, especially with luxury brands, and promoting our business in Japan, while preparing to expand our overseas business.

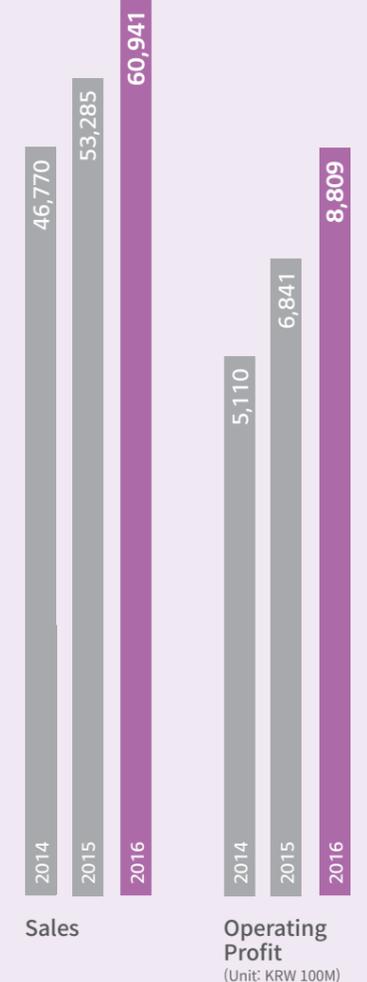
We will invigorate marketing activities outside Korea for the belif brand to expand its presence in Sephora, enter chains in Canada, and increase sales in existing branch retail stores. We will reinforce the position of THEFACESHOP in strategic regions such as Asia, the Middle East, and the American Continent through marketing and CRM activities, while successfully launching Yehwadam and Dr. Belmeur and continuing to boost the sales of cushion foundation products.

In regard to our household item business, we will strengthen our top position in the market by diversifying our portfolio and overcoming the limitations in the stagnant domestic market. In the personal care business, we will promote the premium image of our products and stabilize our dominant market share by highlighting the natural concept of our products and releasing high-efficacy items. In the homecare business, we will cultivate safe and reliable products and develop differentiated new products for continued growth.

In the overseas market, we will continue to expand the scope of business areas with shampoo, body care, and oral care items. In the Chinese region, we will reinforce the portfolio of the Yungo brand with proved potential, while expanding our business by launching premium brands, such as Elastine and ON:THE BODY. We will also diversify the portfolio of Reach, an oral care brand that we acquired at the end of last year, to stabilize its business in China, Japan, Thailand, Australia, and New Zealand.

To attain a stronger top position in the sparkling beverage category, we plan to carry out differentiated marketing activities. In the non-sparking beverage category, we will launch new products to supplement our brand portfolio for continued growth. The sugar syrup plant in which we completed investment last year is expected to contribute to strengthening quality and stabilizing prices since it will be applied to our in-house manufactured products. We will continue to make investments and increase our logistics efficiency for cost competitiveness.

Sales & Operating Profit (Consolidated)



01 Employee Value



Link to SDGs

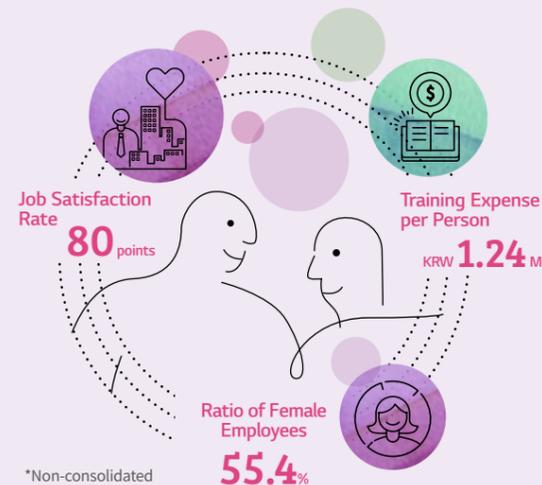
CSR Background

Improving employee value is essential to secure the sustainability of a company. Companies should foster social values and fulfill their responsibility as leading enterprises for all members of the company by strengthening the capacity of employees through education, protecting basic human rights, and respecting diversity.

Our Commitment

LG H&H operates a wide spectrum of programs to respect the diversity of employees and help them build their capacity, putting its management philosophy, "Respecting Human Dignity," into practice. The company has also enacted and enforced our human rights policy to embrace and maximize all values for employees.

Key Performance Indicators (KPIs)



Performance Summary & 2017 Objectives

● Achieved ◐ Partially achieved or ongoing ○ Not achieved

Key Issues	Performances in 2016	Level of Achievement	Plans for 2017	Target Timing
Secure the diversity among employees	Developed appropriate tasks and increased the employment of the disabled	◐	Continue to increase the employment of the disabled by expanding the scope of tasks for them	Year-long
	Hired talent with a high level of linguistic and cultural knowledge (Global MBA)	◐	Operate the recruiting program for non-Korean international students in Korea to secure talent for overseas subsidiaries	Year-long
Corporate culture	Laid the groundwork for establishing the organizational culture of ONE LG H&H (at overseas subsidiaries and plant floor)	●	Find and expand the application of Best Practices of the corporate culture of ONE LG H&H at overseas subsidiaries and plant floor	Year-long
	Promoted field-driven innovative activities (Idea Mall)	●	Establish the foundation for upgrading the way of work	Year-long
Strengthen the capacity of employees	Strengthened the talent cultivation system through tasks led by field work leaders	●	Continue to hire and train young and talented human resources in preparation for future business	Year-long
	Expanded the talent pool for overseas business by continuing the global talent cultivation program	●	Keep finding talent for overseas business and securing a human resource pool by expanding the global talent cultivation program	Year-long
	Secured talent for expanding the range of target overseas markets (global duty-free shops, online channels, etc.)	●		
Labor-management relations	Expanded the system of the headquarters to subsidiaries in the Chinese region and Southeast Asia to systematize the HR system	●	Continue to carry out the systematic harmonizing activities under the volunteer program system for overseas subsidiaries	Year-long
	Created a rational and practical win-win relationship between labor and management	◐	Build a rational relationship between labor and management based on principles and standards	Year-long

Employee Diversity

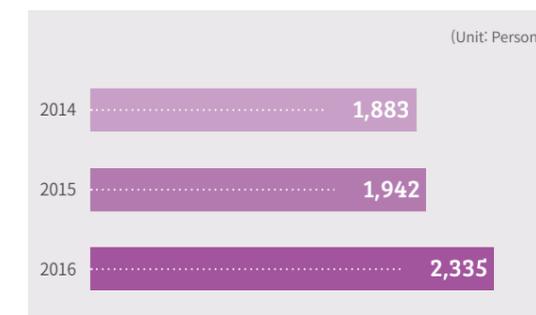
Open Recruitment

Since 2015, LG H&H has hired a certain portion of employees based on unique "Unconventional Talent", which is our open employment strategy to secure the right people for LG H&H and respond to the fast-changing market trends and various needs from multiple aspects. We hope to find applicants with unique experiences and an entrepreneurial mindset, such as explorers, communicators, and entrepreneurs. In the document screening phase, we evaluate applicants based only on the essay they write about their own special stories to identify their job capacity and potential, regardless of their educational background and language skills. We make efforts to increase the fairness of the recruiting process by subdividing the requirements for each job and strictly verifying talent.



Global Talent

As the scope of the global market expands, LG H&H is committed to securing global core talent with language skills and cultural knowledge. For instance, we are fostering the recruitment program for those who have an MBA, a Master's degree, or a PhD from overseas universities. We have also continued the global talent cultivation program to enlarge the pool of human resources for overseas business. At overseas subsidiaries, we employ local talent for the position of the president of each overseas subsidiary and assign tasks for managing sojourning employees and local human resources, thereby expanding our localization strategies.



*The number of local regular employees

Female Talent

We introduced the Female-Employee-Friendly Management Method in pursuit of realizing employee diversity. Considering that most of our products are targeted toward women, we actively hire female talent. As a result, the proportion of female employees in the company has been on a steady rise since 2005. We have also created a work environment where both male and female employees are considerate to each other. We prevent sexual harassment at work, conduct education programs for positive language use and behavior, and create a desirable get-together culture. Operating a day care center in the company and allowing employees to apply for maternity/parental leave without any worry helps them maintain their work-life balance and enjoy job satisfaction. As of 2016, the proportion of female managers was 20.6% (non-consolidated), while that of female employees was 55.4% (non-consolidated), which was higher than 37.8%, the average of large companies according to the data released by the Ministry of Employment and Labor.

Employment of the Disabled

In accordance with the Act on Guarantee of Promotion of Convenience of Persons with Disabilities, the Aged, Pregnant Women, Etc., the Korea Employment Agency for the Disabled selects the "Desirable Workplace of the Year" from among sheltered workplaces for the disabled across the country. Bright World, LG H&H's subsidiary founded in the business site in Cheongju, won the prize granted by the Minister of the Employment and Labor as it was chosen as the best workplace only in a year since its foundation. Bright World provides a variety of services to our business site in Cheongju, managing a cafeteria, a snack bar, as well as book lending, steam car wash, cleaning, and welfare facilities. Moreover, we added the toll processing business for GWP cosmetics packaging to the business portfolio of Bright World in August 2016 and hired 18 more people with disabilities, expanding their professional value. Bright World will continue to improve the quality of life of the disabled by operating the certificate achievement program for helping them develop job skills and capacity and providing them with work-related counselling and field trip programs.



Corporate Culture

Adequate Working Hours for Work-Life Balance

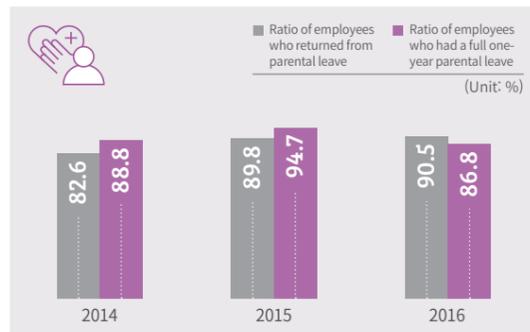
Starting with the going-and-leaving-work-on-time system in 2005, LG H&H has implemented our companywide simultaneous vacation system, a monthly or biweekly system where all employees can take a day off without worrying about troubling others, and the flexible time system, where employees can choose one of five types of working hours. These systems are aimed to encourage employees to achieve performance by focusing on more valuable work during working hours, while fully enjoying their life without interference after work. Life with balance serves as a driving force for employees to relax and tap into their creativity.



Operation of the flexible time system

An Ideal Workplace for Women

LG H&H strives to create an ideal workplace for women that recognizes and evaluates each employee based on his or her competence regardless of gender. It is particularly important for LG H&H to create an environment where female talent can show their capability without barriers since our products are closely associated with female consumers. In this regard, we recommend maternity/parental leave to prevent our female employees from having their careers stalled and help them naturally return to work.



*Non-consolidated

IDEA MALL — a Channel to Embrace Ideas from Field Workers

We opened the Idea Mall on the company's intranet to swiftly respond to even minor changes in consumers' ideas about our products and encourage employees to suggest values that consumers may overlook. We share what field workers see and feel with all employees in real time. This is part of our activities to foster the field-driven corporate culture, which led to 2,121 ideas suggested in 2016 alone.

Global One LG H&H Corporate Culture

As a global company operating overseas business in eight countries, LG H&H spreads its own organizational culture and way of work to local employees at overseas subsidiaries. As part of that effort, we conduct the LG Way (basic value of LG H&H) and corporate culture education programs at our subsidiaries in the U.S., Canada, China, Japan, Vietnam, and Singapore. We designated the staff in charge of corporate culture, who would play the role of protecting and developing the organizational culture at each subsidiary, encouraging them to voluntarily promote the corporate culture. Last October, we invited the staff in charge of corporate culture at overseas subsidiaries and held a workshop to share the result and know-how of relevant activities at each subsidiary. These events will be continued in 2017.



Global One LG H&H corporate culture workshop

2016 Columbus Project

Following last year's project, we ran the Columbus Project in 2016, providing employees with an opportunity to take on a new challenge for the growth of themselves and the company. Three employees selected in the 2nd Columbus Project were granted the paid vacation up to three months and KRW 10 million as support funds. They conducted projects with creative themes as follows: "Beauty AlphaGo," which applies IoT to cosmetics, "Training for Alternative Test Method to Animal Testing" for establishing the safety and harmfulness assessment process, and "Foam Control Training" that determines preferences for the emotional quality of products.

Type	Theme
Address a business-related issue	Beauty AlphaGo : A study of the method to connect cosmetics with IoT, mobile, and 3D printing
Obtain expertise	Taking the training program at Sofia University in Bulgaria : Learning the foam control technique and suggesting its application to products Identifying and learning the latest trends in alternative test methods to replace animal testing for the risk and harmfulness assessment in EU (Switzerland, Belgium, and Germany) : Learning techniques for alternative test methods to replace animal testing and suggesting their application to the assessment process

Employee Capacity Building

Global Expert Training: GEC & GECC

We operate the GEC (Global Expertise Course) and GECC (Global Expertise Chinese Course) to cultivate talent for our global business by training them to develop global communication capacity and conducting overseas business case study education. Since 2013, each program has been run each year, targeting all employees. Participants are selected based on interviews and recommendation from each division. Those with high scores are registered to the global talent pool and can be chosen with priority for the core talent cultivation course and the sojourning employee selection process. These programs include the advanced English course required for global business, as well as training to seize opportunities for overseas business and make proposals. At the end of the courses, the participants deliver a presentation for executives about business plan proposals, becoming talent who are excellent at practical tasks.

Number of Trainees in the Global Expert Training Program in 2016

	(Unit: Person)
English Coaching Class	62
GEC	16
GECC	16
LG MBA	7
Global MBA	3
Regional Expert	2

Education with Participation of Employees: Reading Odyssey

The Reading Odyssey Program is aimed to develop human resources who can find new business opportunities and come up with creative ideas. We provide participants with opportunities to gain various experiences and develop new perspectives, while carrying out lectures with internal and external experts and discussion programs using books. We gather participants on the company bulletin board regardless of job and position, and the program is operated on a six-month basis. The members of the program read a predetermined book every month, develop an idea that can be applied to business, and share what they learn with other colleagues. The themes of the program were online and China in the first half of 2016, and color marketing and nature marketing in the second half. A total of 100 employees completed this course.



Reading Odyssey

Human Rights-based Management

Principles of Human Rights-based Management

LG H&H has enacted and enforced the human rights policy based on LG's management philosophy "Respecting Human Dignity." The human rights policy is comprised of eight categories: prohibition of discrimination, humane treatment, prohibition of forced labor, women and child labor, working hours, wage and welfare, freedom of association, and protection of personal information. The policy conforms to labor-related laws and regulations in each country and region, and implies our willingness to put into practice the human rights principles in the UN Human Rights Committee's Universal Declaration of Human Rights, the Guiding Principles on Business and Human Rights, and the Dhaka Principles. We promote our policy to both employees and suppliers at home and abroad to promote and uphold the advanced human rights and labor policy.

Labor & Human Rights Assessment and Inspection

For the risk management of labor and human rights affecting sustainability management in direct and indirect ways, we conduct the monitoring and inspection of labor and human rights at our subsidiaries and suppliers with production facilities at home and abroad. We carry out the annual risk assessment and monitoring of labor and human rights at domestic and overseas production facilities, while conducting inspection on a regular basis. We identify what to improve and check if the relevant aspects have actually been improved according to the predetermined schedule. In 2016, we conducted the risk assessment and monitoring at 12 business sites and detailed inspections on 5 of them. As a result, we designed the improvement plan for 4 business sites and check if they actually resolved those problems.

Labor-Management Relations

In order to address employees' hardships and share common concerns over business management, we listen to the opinions of our employees through multiple channels, and inform them of any changes in the management of the company. In 2016, we organized the independent committee of employees at each division, established the plan to improve the LG Way index, the basis for the mindset and behavior that employees should have, and carried out relevant activities. Major improvements include the introduction of the funeral assistance service to lessen the burden on employees and help them hold funerals without any problems.

Labor-Management Communication Channel

Category	Frequency	Details
Employee Committee	Quarterly	Listen to VOE from the representatives of employees in each group, identify current issues, and find solutions
Divisional Committee	Bimonthly	Check the atmosphere at each workplace and listen to VOE through the divisional channel
Beauty Consultant Committee	Quarterly	Listen to VOE from sales employees, identify current issues, and find solutions
Labor-Management Committee at each business site	Quarterly	Identify issues associated with improvement of work environment and safety and health based on surveys at each business site, and provide feedback with solutions
Divisional Employee Meeting	Yearly	Conduct the divisional employee meeting chaired by the head of the division, and provide feedback for each agenda

02 Customer Satisfaction



CSR Background

The satisfaction of customers leads to securing and maintaining customers and affects the brand value. Accordingly, customer satisfaction is one of the fundamental elements that facilitate the sustainable growth of a company. Companies must identify and meet rapidly-changing customer needs, as well as constantly strive to provide quality products.

Our Commitment

We strengthen communication with customers to embrace and reflect customer opinions in the development of products and services. We also conduct customer-oriented quality improvement and innovation activities to enhance product safety, thereby increasing the level of customer satisfaction and product quality.

Key Performance Indicators (KPIs)

Customer Complaint Rate (ppm)



Performance Summary & 2017 Objectives

● Achieved ◐ Partially achieved or ongoing ○ Not achieved

Key Issues	Performances in 2016	Level of Achievement	Plans for 2017	Target Timing
Quality control	Operated the Quality Improvement Committee	●	Continue to address quality issues and prevent their recurrence	Year-long
	Conducted the pre/post quality diagnosis	●	Introduce the safe quality certification system and conduct the safety index assessment	Year-long
	Inspected the distribution centers of beverage products (Coca-Cola/HAITAI htb)	●	Continue to conduct the quality control diagnosis	Year-long
	Focused on monitoring of major suppliers (domestic/overseas)	●	Conduct the precise quality diagnosis of suppliers Establish the technical support system for quality innovation activities	Year-long Year-long
Customer complaint rate reduction activities	Improved the quality of beverages by addressing longstanding complaints	●	Conduct the zero prolonged complaint project (resolving 14 themes of complaints)	Year-long
	Reduced complaints of customers by securing the safe quality of H&B products	●		
	Focused on improving high risk claims	●	Build the companywide quality innovation activity system	Year-long
Communication with customers	Received VOCs and strengthened the system	●	Upgrade the VOC system	Year-long

Quality Control

Quality Diagnosis

We operate the Quality Diagnosis System as part of the activities to prevent quality-related risk factors and secure our competitive edge in quality. Based on this system, we carry out the preliminary quality diagnosis in the manufacturing and logistics sectors and the post quality diagnosis of major quality-related incidents. In 2016, we expanded the preliminary diagnosis that evaluates the compliance of quality-related regulations and the management of quality system to the other departments related to manufacturing and logistics. Based on these activities, we identified about 50 key issues and carried out post management. In 2017, we will introduce the Safe Quality Certification System and conduct the Safety Index Assessment as a demonstration, thereby strengthening our diagnosis activities from the aspect of consumer safety.

Key Quality Improvement

Our focus is on identifying core challenges that urgently need improvement for better quality and addressing the problems through collaboration between relevant departments. In the household item sector, we focused on the suppliers' products with a high customer complaint rate, including toothbrushes, hair coloring products, and detergents. To resolve relevant problems, we organized the TFT for improvement, consisting of our marketing and R&D departments and the staff from suppliers. This work resulted in a year-on-year decrease in the customer complaint rate of suppliers' products by 22%. In 2017, we will show remarkable improvement of quality through diverse activities focusing on the Consumer Reassurance Center, including the zero-longstanding complaint project, introduction of 6-Sigma for quality innovation of suppliers, and organization of companywide quality innovation TFT.

Customer Complaint Rate Reduction

As part of our activities to lower the customer complaint rate, we run the regular VOC monitoring system, conduct post management to prevent the recurrence of issues, highlight issues related to key product quality, and carry out activities for improvement. In addition, we find frequent cases based on the customer complaint analysis, and promote the preventive campaign and distribute management guidelines. As a result, the customer complaint rate dropped by over 10% compared to the previous year (non-consolidated). In 2016, we started conducting weekly and monthly monitoring of customer claims. We have added the daily report to the list of activities for 2017 to swiftly address the factors triggering customer complaints. To prevent claims, we also analyzed the previous trend in complaints and find out what to do for quality improvement-this requires management and assigning the appropriate priority depending on the timing. We distributed relevant training materials in advance to increase employee awareness. Our quality committee holds regular meetings to maintain a close cooperative relationship with relevant departments to identify and address quality issues.

Communication with Customers



Consumer-centered Management Certification

To become "the best life culture company dedicated to realizing our customers' beauty and dreams", our management vision, and establish our consumer-centered management system, we introduced Consumer-centered Management Certification. This system evaluates whether a company organizes all activities focusing on consumers and constantly improves relevant management activities. To acquire this certification, we enacted internal diagnosis and came up with strategies with the TFT in 2016. We also carried out the consumer-centered management education program, developed a manual, and prepared accomplishment reports. Such efforts helped LG H&H, THEFACESHOP, Coca-Cola Beverage Co., and HAITAI htb to achieve this certification, all at the same time.



Housewife monitoring agents

For 25 years since 1993, LG H&H has operated the L-sumer program for consumer monitoring. L-sumer is an abbreviation for LG H&H and prosumer, whose purpose is to listen to and reflect various VOC in the new product development process of cosmetic brands. We conduct a total of 36 monitoring events each year, dividing the monitoring agents with a great interest in cosmetics into age groups, from 20s to 40s. Trend surveys, new product evaluation, and monitoring are carried out over the entire product development process. Opinions and evaluation result are reflected in new products to be released. For household goods, we seek advice from housewives as monitoring agents. We hold regular housewife monitoring events in the first and second half of the year, for a total of 8 times a year. We will select the 26th monitoring agent group in the first half of 2017.

03 Social Contribution



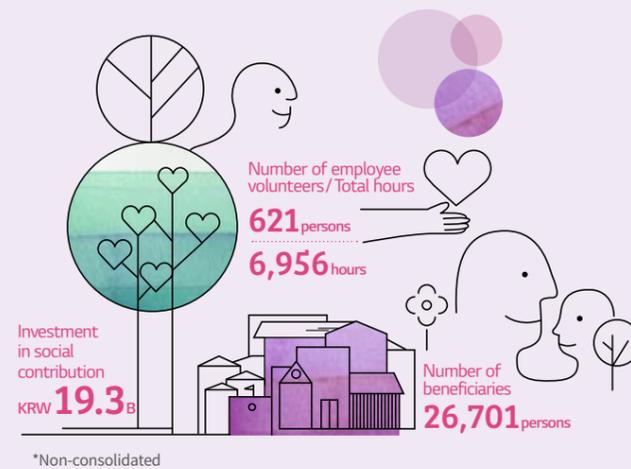
CSR Background

Corporate social contribution is evolving into the method that uses the characteristics and expertise of a company to contribute to addressing social issues in the local community beyond donations to charity. A company should focus on social contribution activities that can resolve social problems, as well as play a role as a corporate citizen as demanded by various stakeholders in our local community.

Our Commitment

LG H&H avoids giving just one-time financial support; instead, we use a selection and concentration strategy to choose beneficiaries, determine the support method based on an effectiveness analysis, and then multiply the effect of that support through partnership with specialized organizations. We classify social contribution activities into four types—education, health, sharing and local community—to improve the effectiveness. Our activities correspond to the direction of our business, and are targeted at our key customers—women and teenagers.

Key Performance Indicators (KPIs)

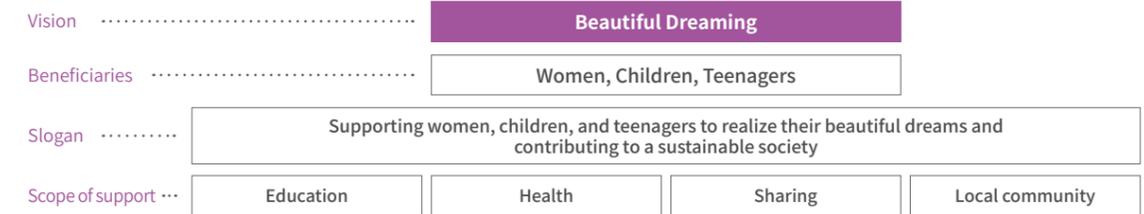


Performance Summary & 2017 Objectives

Key Issues	Performances in 2016	Level of Achievement	Plans for 2017	Target Timing
Reinforce the link between social contribution activities and business	Expanded the Borrowed Earth School to middle schools across the country	●	Strengthen the content of the Borrowed Earth School and expand education for remote farming and fishing villages	Year-long
	Expanded the Global Eco Leader's Resource Circulation Campaign	●	Expand the Global Eco Leader's UNEP activities "Climate Change and Sustainable Society"	Year-long
	Expanded the O HUI Circle Camp	●	Expand the O HUI Circle activities	Year-long
	Continued the PERIOE Kids School education programs for oral health for kids, and facilitated the gum health campaign	●	Stabilize the performance campaign for oral health and hygiene education programs of PERIOE Kids School	Year-long
Expand the influence on changes in local community	Increased the support for the underprivileged by expanding strategic donation	●	Increase the support for the underprivileged by expanding strategic donation	Year-long
	Expanded the benefits for local community by distributing the Community Chest Korea at the national level	●	Expand the benefits for local community by distributing the Community Chest Korea at the national level	Year-long
	Increased the number of beneficiaries of the health checkup support for female breadwinners of singleparent households	●	Increase the number of beneficiaries of the health checkup support for female breadwinners of single-parent households	Year-long
	Contributed to and expanded the cultural asset restoration project based on the cooperation between Whoo and the Cultural Heritage Administration	●	Contribute to and expand the cultural asset restoration project based on the cooperation between Whoo and the Cultural Heritage Administration	Year-long
	Increased the support for multicultural families by expanding the HIMANGO Village project and increasing HIMANGO kindergartens	●	Increase the support for multicultural families by expanding the HIMANGO Village project and increasing HIMANGO kindergartens	Year-long

Social Contribution System

LG H&H's social contribution activities are aimed to strengthen the link with business and increase the influence on making changes in local community.



Borrowed Earth School

Borrowed Earth School is Korea's first converged habit education program, where teenagers learn eco-friendly habits and think about their future careers. In this program, participants can look back on themselves, thinking if they have any bad habits that may cause pollution and waste resources in daily life. We signed an MOU with the Ministry of Education and local education offices to invigorate the Free Semester Program in 2015. Since then, we have conducted the program in cooperation with Ecomomkorea, an environmental NGO. In 2016, we visited more than 60 middle schools across the country, including Seoul, Incheon, Chungcheongnam-do, and Daejeon, and offered classes to about 12,000 students.

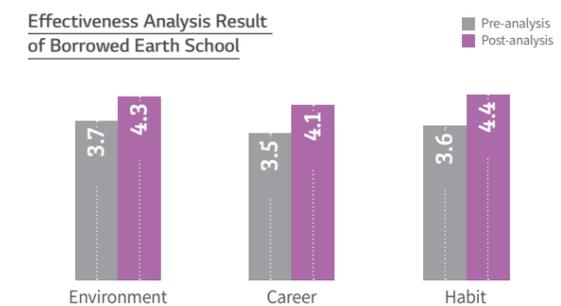
Expansion of Education for Students in Remote Areas

In cooperation with the Chungcheongnamdo Office of Education, we offered the 2015 - 2016 common education course for middle schools in remote farming and fishing areas in Chungcheongnam-do. Uniting small schools with fewer opportunities for education, we provided over 1,500 students with education opportunity for four to eight weeks.

Job Training for Teachers in Cooperation with the Seoul Metropolitan Office of Education

To help teachers to build expertise and strengthen teaching capability for the Free Semester Program, we conducted the job training program for over 30 teachers in cooperation with the Seoul Metropolitan Office of Education. We included the nine subjects of the Borrowed Earth School in this job training program, helping the participants better understand the significance of good habits and career planning.

Effectiveness Analysis Result of Borrowed Earth School



*For about 2,000 students at 5 middle schools in 2016

**Designed by the team led by Myung-hee Kang, an educational technology professor at Ewha Womans University

Employees' Mentoring for Future Career

After completing the preliminary training course, LG H&H's employees participate in this program as lecturers. They motivate students to learn green habits and provide career mentoring, thereby creating a place for communication with teenagers and helping them plan their futures.

9 Subjects



Global Eco Leader

Global Eco Leader is a program for nurturing teenage environmental leaders, which commenced in 2014 with UNEP, the Ministry of Environment, and Ecomomkorea. The program supports participants to become global leaders in the future by encouraging them to end bad habits and driving meaningful changes at home and school and in local community. In 2016, 370 Eco Leaders, consisting of elementary, middle, and high school students, and 27 Eco Mentors participated in this program under the theme of circulation of resources. We carried out the education program and campaign for circulation of resources at schools and in villages, and encouraged them to participate in creating sustainable society and make changes in their local community.

Total satisfaction level	Satisfaction level assessment
77.8 points	74.3 Intriguing aspect of program
	81.0 Fulfillment of the roles of mentors
	78.8 Personal achievement



PERIOE Kids School

PERIOE Kids School is one of LG H&H's social contribution activities, designed to promote basic knowledge about oral health to not only children but also kindergarten teachers and parents. This program is operated four or five times a week, visiting about 200 kindergartens and daycare centers each year. Since 2004, the program has been run for 2,407 times in total by 2016. For the past 13 years, 199,072 participants received a basic oral health education. Dental hygienists from LG H&H have visited various facilities for children across the country, provided dental hygiene education, and taught the correct ways of tooth brushing, thus helping kids to learn good habits in their childhood.

Selection of Exemplary Kindergarten for Tooth brushing Education

To celebrate the Oral Health Day (June 9th) and support an educational institution with excellent tooth brushing environment, we select one as an exemplary kindergarten for tooth brushing education each year. A total of nine kindergartens have been selected to date. We provide a signboard indicating the exemplary kindergarten for tooth brushing education and a year supply of oral care products to the winner. We also offer the yearly oral health education program for ten years.



Exemplary Kindergarten for Tooth brushing Education — Eunyeong Kindergarten



Hyeon-ju Kim, Director of Eunyeong Kindergarten

I always thought that oral health education for children is crucial, but didn't know how to teach them. Then I met a teacher from PERIOE Kids School, who provided a solution to my concern. This teacher provided a meaningful experience for us by using visual materials to teach kids in an easier way. After the program, our children started to brush their teeth in the correct way after eating, a major change that showed the effectiveness of this program.



THEFACESHOP HIMANGO Aid Program

THEFACESHOP HIMANGO Aid Program

In 2011, we commenced the THEFACESHOP HIMANGO Aid Program in cooperation with HIMANGO, a non-profit organization, to help local residents in Southern Sudan in Africa, who are suffering from food shortage in a barren land. We provided local residents with mango tree seedlings free of charge, with which they can secure food and a new source of income. We also assisted the foundation of HIMANGO Village, an education center that offers vocational training for adults and academic education for children. At HIMANGO Village, about 130 residents are taking education courses, including carpentry and construction, English, and sewing. To support continued education for the graduates of the HIMANGO Kindergarten, we established the HIMANGO Elementary School in 2015, and 240 students were provided with opportunities for education in 2016. Furthermore, we put HIMANGO coin banks at the THEFACESHOP stores across the country to use the donations from customers and part of the sales profits as the fund for this program. We raised over KRW 1.2 billion in funds by utilizing HIMANGO coin banks.

Cultural Heritage Keeper Project by The History of Whoo

LG H&H contributes to conserving traditional Korean culture and exploring its value by sponsoring the Cultural Heritage Keeper Project by The History of Whoo. In 2016, we provided financial support for the maintenance of Tongmyeongjeon in Changgyeonggung Palace and various events. By conducting the Royal Culture Campaign designed to share the value of royal women culture, we also supported the culture sharing program, including the media art exhibition "Queen, Walking along the Four Seasons," the Court Women Culture Exhibition, the photo exhibition "Four Seasons of Queen," and the special concert of Haegeum-a traditional musical instrument. Furthermore, under the agreement with the Cultural Heritage Administration for the Cultural Heritage Keeper Project, we have sponsored people or organizations holding intangible cultural heritage with our cosmetic products to appreciate their efforts to inherit traditional culture and cultural heritage.



Cultural Heritage Keeper Project by The History of Whoo



Coca-Cola Kids Green Leadership

Coca-Cola Kids Green Leadership

Starting in 2011 in cooperation with the Korea Green Foundation, the Coca-Cola Kids Green Leadership Course is an environmental educational program for children, where kids participate in field trips to a wetland and ecosystem experience. In 2016, the program was conducted four times in the Waterside Ecology Park in Godeok, the Joeeosae (Spoonbill) Island in Songdo, a mud flat in Seocheon, and the Suncheon Bay, nurturing about 160 Green Leaders. We selected eight Best Green Leaders based on the participation rate and the expert evaluation of their environment conservation essays, and provided them with an opportunity to visit the Mai Po Wetlands in Hong Kong.

04 Environment and Safety Management



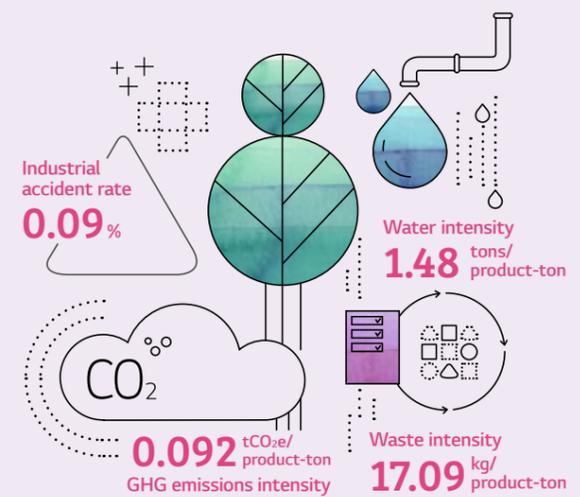
CSR Background

A range of environmental issues are causing damage to the world, and companies are responsible for voluntarily taking actions to minimize environmental impact. As public concerns over the safety of employees and those of suppliers are growing, companies must consider the safety and health of members of society as a critical issue and strictly manage them.

Our Commitment

Based on the company's medium and long-term strategy for environment and safety management, LG H&H sets annual goals to lessen environmental impact by reducing GHG emissions and energy consumption and effectively managing water resources. We try to create a safe work environment throughout all business activities, while promoting the physical and mental health of employees by providing health enhancement programs. We are also committed to fulfilling our social responsibility in the overall business value chain through our safe and healthy win-win cooperation program with suppliers.

Key Performance Indicators (KPIs)



*Non-consolidated

Performance Summary & 2017 Objectives

● Achieved ● Partially achieved or ongoing ○ Not achieved

Key Issues	Performances in 2016	Level of Achievement	Key Issues	Plans for 2017	Target Timing
Enhance safety and health of employees	Conducted preliminary health checkups and strengthened the post management of health risk groups	●	Fundamentally prevent accidents by normalizing safety sensors	Check the normal use rate of safety sensors	Year-long
	Carried out the safety culture index assessment and promoted the safety culture improvement activities	●	Improve the aspects that may cause near misses	Identify near misses and strengthen the improvement rate management	Year-long
	Managed environmental and safety accidents	●	Improve the aspects that may cause industrial accidents (including construction by subcontractors)	Build and operate the subcontractor monitoring system	Year-long
Minimize the environmental impact in the entire process	Conducted the ESH Assessment (focused management of medium and long-term goals for environment and safety)	●	Increase the sales of products with ecofriendly certification	Increase the achievement of ecolabelling and low-carbon certification for products	Year-long
			Reduce environmental impact	Reduce GHG emissions Reduce water consumption	Year-long
Manage chemical substances	Established the chemical substance management system	●	Increase the achievement of ISO certification	Expand the retention rate of ISO certification	Year-long
			Reduce environmental and safety risks	Reduce the violation of environmental and safety regulations to zero	Year-long

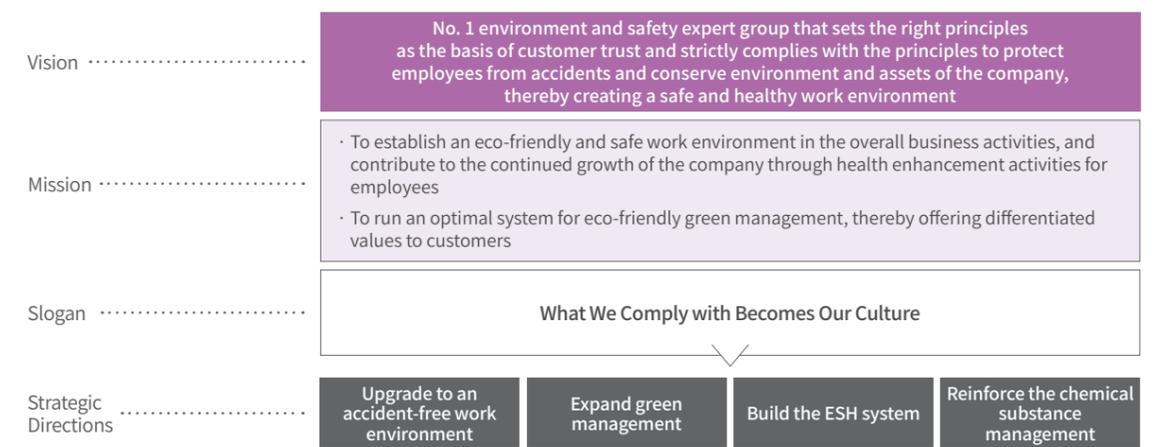
Environment and Safety Management System

Establishment of Environment and Safety Management System

LG H&H's environment and safety management system is divided into the HES Team-the supervising group at the headquarters-and the environment and safety department of each business site. The HES Team sets the medium and long-term direction for growth by reflecting the requirements according to changes in internal and external management environment. The team also monitors regular issues at the company level, and supports each business site to handle technical issues or hardships. The environment and safety department of each business site takes charge of environment and safety activities and manages relevant issues. In addition, the working-level environmental safety meeting and the companywide Environmental Safety Committee are operated to discuss issues of each business site and support the achievement of goals with adequate performance, thereby reinforcing the power of execution in the environmental safety activities. We will continue to hold the Environmental Safety Committee meeting and the working-level environmental safety meeting and consolidate the management system to make decisions about environment and safety-related issues and identify problems in practical tasks.

Medium- and Long-term Strategy & Roadmap for Environment and Safety Management

LG H&H has newly established the vision of the environment and safety management group and set the medium and long-term strategy to promote the four major strategy directions.



Medium- and Long-term Roadmap for Environment and Safety Management

Category	Key Challenges	Achievement Plan	2017	2018	2019	2020
Upgrade to an accident free work environment	Fundamentally prevent accidents by normalizing safety sensors	Create and operate the safety sensor monitoring system	Normal use rate inspection completed by 100%	System establishment	Operation stabilization	System upgrade
	Improve the aspects that may cause near misses	Identify near misses and strengthen the improvement rate management	Risk reduced by 100%	Risk reduced by 100%	Risk reduced by 100%	Risk reduced by 100%
	Improve the aspects that may cause industrial accidents (including construction by subcontractors)	Build and operate the subcontractor monitoring system	13 cases	7 cases	1 cases	0 cases
Expand green management	Increase eco-friendly products	Increase the sales of products with eco-labelling and low-carbon certification	KRW 353.6 B	KRW 371.3 B	KRW 389.8 B	KRW 409.3 B
	Minimize environmental impact	Reduce GHG emissions (tCO ₂ /product-ton)	0.069	0.064	0.060	0.055
		Reduce water consumption(tons/product-ton)	2.04	1.89	1.74	1.59
Build the ESH system	Increase the achievement of ISO certification	The retention rate of ISO certification (14 business sites)	75%	89%	100%	100%
Reinforce the chemical substance management	Reduce environmental and safety risks	Reduce the violation of environmental and safety regulations to zero	0 cases	0 cases	0 cases	0 cases

Energy & GHG

Energy Consumption

LG H&H manages energy consumption in accordance with the Administrative Guideline for the Greenhouse Gas and Energy Target Management System. The energy consumption in 2016 increased from the previous year, and major causes include the expanded manufacturing facilities and increased output in our business site in Cheongju, the new logistics center for cosmetics in Cheonan, and the installation of the aseptic line and liquid sugar process facilities in our business site in Cheonan. We try to reduce energy consumption by decreasing the output of non-sparkling beverages that require a large amount of energy and replacing the existing bulbs with LED ones at the warehouses in Yeosu and Gwangju.

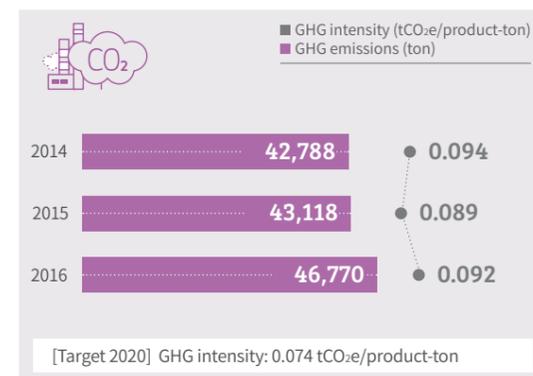
Cases of Reduced Energy Consumption

Our focus of management is on increasing energy efficiency in response to climate change in a systematic way. We effectively reduce energy consumption by investing in efficiency improvement, including upgrading facilities in our business sites and replacing old equipment with new ones.

Category	Reduction	Reduction (tCO ₂ e)	Investment (KRW M)	Annual savings (KRW M)
Replaced with high-efficiency LED lighting	Electricity 271 MWh	126	143	35
Replaced with new RGB line refrigerant pipes	Electricity 153 MWh	71	49	21
Replaced old transformers with new ones	Electricity 89 MWh	41	50	12
Conducted the precise diagnosis of steam tram in all plants	LNG 17,740 Nm ³	39	22	12
Replaced with new heat exchangers	LNG 19,866 Nm ³	44	53	19
Installed small boilers	LNG 24,490 Nm ³	54	167	13

GHG Emissions

GHG emissions are calculated in accordance with Korea's emissions trading statement guideline. LG H&H's business site in Ulsan and Coca-Cola Beverage's business site in Yeosu are subject to the Greenhouse Gas and Energy Target Management System run by the government. Each business site carries out various activities to reduce GHG emissions.



*Non-consolidated

Water

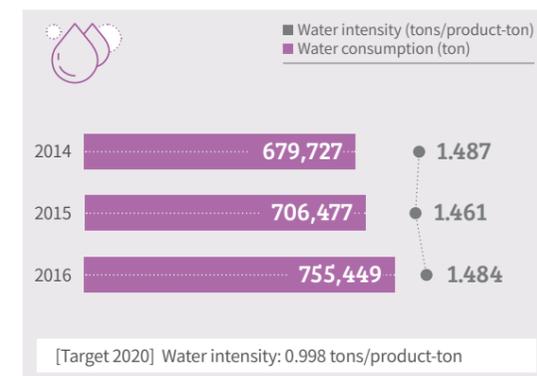
Water Resource Risk Management

Each of our business sites has conducted activities in response to the risk factors to water resources. Coca-Cola Beverage and HAITAI htb conduct the vulnerability assessment of raw water resources on a five-year basis, targeting their beverage manufacturing facilities. We also manage the status of water consumption and relevant risk factors based on the raw water protection plan developed by Global Coca-Cola. We analyze raw water resources and evaluate water quality, the government policies and regulations, and stakeholders through the vulnerability assessment of raw water resources. Based on that, we designed and managed our own raw water protection plan, which includes the composition of the raw water management team and the management of vulnerability and stakeholders. In addition, we employ the assessment method presented by the World Resource Institute to identify the overall physical and regulatory requirements of each business site with manufacturing facilities. This assessment enables us to recognize the continuity of business affected by water and the impact of water shortage, while identifying the limited intake of water in our business sites due to flooding and drought.

Source of water intake	Year-on-year change in water intake		
	LG H&H	Coca-Cola Beverage	HAITAI htb
Surface water	7% ↓	52% ↓	-
Groundwater	16% ↓	3% ↓	24% ↑
Water supply	36% ↑	16% ↑	61% ↑
Total	11% ↑	1% ↓	42% ↑

Water Consumption

Water consumption is calculated based on the water bill or flowmeter of our domestic business sites. The water consumption in 2016 increased from the previous year. The water consumption in our business site in Cheongju grew because the previous diaper production facility was transformed into a production facility for shampoo and body care products. Business site in Cheonan also used more due to the newly introduced aseptic production process and liquid sugar manufacturing process. In Yeosu, the increased amount of water was used for cleaning due to the stricter water management standards for improving the quality of the manufacturing process.



*Non-consolidated

Wastewater

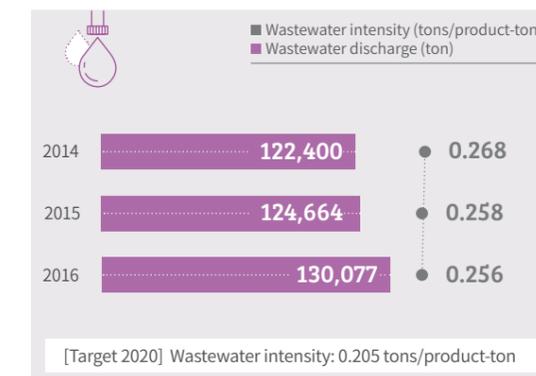
Wastewater Management

We have constantly invested in the efficiency enhancement for treatment of discharged wastewater and pollutants. Our business site in Cheongju installed the microbubble generation devices to remove floating matters and other pollutants more efficiently, leading to a 2% increase in treatment efficiency. It also created a safe and healthy work environment by reducing power consumption and noise with high-efficiency equipment. The business site in Yeosu utilizes anaerobic digestion chambers to reduce the amount of pollutants discharged. We handle waste gas generated by anaerobic digestion, collecting thermal energy by using the heat recovery system to reduce energy consumption.

Where to discharge wastewater	Year-on-year change in discharged wastewater		
	LG H&H	Coca-Cola Beverage	HAITAI htb
Surface water	-	11% ↓	70% ↑
Local government & industrial wastewater treatment facilities	4% ↑	67% ↑	2% ↓
Total	4% ↑	3% ↑	64% ↑

Wastewater Discharge

We strictly treat wastewater discharged from our business sites at our own or external treatment facilities to prevent water pollution. In 2016, the volume of discharged wastewater increased from the previous year due to a variety of reasons. In Cheongju, the output of pumping toothpaste increased, and the treatment of the diaper manufacturing process, which used to be consigned to an external company, is now handled by the business site itself, leading to an increase in wastewater. The raw materials of glycerin process were replaced by other materials in Ulsan, while the non-sparkling beverage manufacturing process was also modified for quality improvement in Yeosu. In Cheonan, the facilities for the aseptic system and liquid sugar manufacturing process were newly established. All these changes triggered an increase in discharged wastewater.



*Non-consolidated

Waste

Waste Management

To reduce waste generated in our business sites, we reduced the weight of packaging materials in the product development phase, while managing the amount of waste through the defect rate control in the production phase. Generated waste is not incinerated or buried, but used as resources through recycling and resource recovery, increasing our recycling rate. For instance, the Yeosu Plant installed anaerobic digestion chambers in its wastewater treatment facility, reducing the amount of sludge, a major kind of waste, by 9.3% from the previous year.



Waste Discharge

We make efforts to reduce waste discharge in a variety of ways, while preventing pollution in the surrounding areas due to the leakage of stored waste. In the business site in Cheongju, the amount of waste increased temporarily due to the disposal of samples for product testing and long-term stock. In Cheonan, waste discharge in 2016 went up from the previous year due to the newly introduced aseptic production process and liquid sugar manufacturing process. The same applied to the business site in Ulsan, which modified the waste treatment method to improve the safety of our glycerin production process.



*Non-consolidated

Industrial Safety & Health

Accident-free Environment & Safety Management

LG H&H sets key challenges to achieve an accident-free level, and conduct monthly, quarterly, and half-yearly monitoring to accomplish these goals. Each year, we identify risk factors in six categories-system, machinery, electricity, process, fire prevention and environment-in cooperation with internal and external experts, and improve what is lacking in each category. The number of improvement cases were 2,400 from 2014 to 2016, with KRW 12.7 billion of investment. The yearly internal/external expert diagnosis has helped the company to meet the tightened standards for facilities with possibility of fire and leakage, old machinery issue handling, and explosion of boilers, and enjoy positive effects including the improvement of responsive capacity in an emergency.

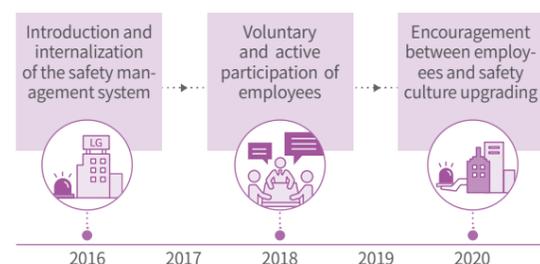
Accident-free Construction Safety Management

In terms of construction by subcontractors, the possibility of accident may increase if relevant information, including the number of workforce, equipment and materials to be used, is not properly shared between the relevant departments. In response, LG H&H has an emergency communication network to enable the main gate security team, the purchase order team, and the environment and safety team to cooperate closely with each other. Based on this system, we comply with the construction safety management requirements by sharing construction plans, strengthening the access control of the security team for the main gate, and checking safety issues before and during construction. We also prevent severe accidents in advance, including fire, risky machinery, and falling equipment.

Safety Culture Dissemination

We conduct activities to spread safety culture, including the risk diagnosis of machinery and other hardware as well as exercising extra caution in dangerous tasks. According to the research on 27 items in 4 categories, including safety awareness, participation, responsibility and roles, execution and communication, the level of our safety culture falls in the phase of "Introduction and Internalization of the Safety Management System". Based on this result, we increased the safety awareness of employees, set responsibilities and roles, conducted safety and health enhancement programs, and improved our communication system. We will continue this effort to encourage the voluntary and active participation of employees by 2018.

Safety Culture Dissemination Roadmap



Near Miss Prevention

We operate the field-driven improvement system with participation of employees to prevent near misses. We manage the improvement rate for preventing near misses, targeting all subsidiaries and business sites. The result is then reflected in the individual and team performance evaluation to find out more about our risk behaviors and situations. We will take the initiative in establishing safety culture with the voluntary participation of employees, while strengthening safety culture to create synergy through the training program for better sensitivity to risk factors.

Stress Prevention Program

With growing social concerns over stress and employees' demand, LG H&H runs stress prevention programs at the company level. For sales employees and managers who directly communicate with customers, we provide a job stress prevention class (2 hrs., 8 sessions) and a physical and mental healing program (2 days, 3 sessions) conducted by professional psychology counsellors, thereby preventing mental diseases. In 2017, we are planning to operate a mental care center at two of our business sites as a demonstration and open a regular class at the company's training center to expand the stress prevention programs. Through these efforts, we will support our employees to have a positive mindset and lead healthy and happy lives.

Health Enhancement Program

We run the health enhancement programs with various themes, including quitting drinking and smoking, as well as special exercise and diet. The programs are aimed at balancing health by avoiding bad habits, including the lack of physical activity and consumption of high-sodium food, and creating a healthy work environment. The program promotes the right way of walking based on walking posture analysis, while highlighting the significance of a low-salt diet.



Suppliers' Activities for Industrial Safety & Health

The effort of safety and health management based on a consensus with suppliers for industrial accident prevention is an essential element for preventing accidents in business sites. For a safe work environment for suppliers, LG H&H supports the risk assessment and technologies, selects and offers safety shields suitable for each task, and provides human resources and material support required for addressing harmful risk factors. We also conduct the monthly win-win cooperation group meeting to provide timely and effective support to improve our suppliers' autonomous safety and health management capacity.

Emergency Response

Emergency Response System

In 2016, we reinforced the emergency response manual to classify the gravity of accidents, including injury in the research, production and logistics sectors, fire and explosion, and leakage, and improve our time-based response capacity. We designed a manual that illustrates time-based key actions for each response team, such as the accident handling team and recovery assistance team, ensuring that no necessary tasks are neglected. We also strengthened our emergency handling capacity by establishing the external emergency communication system with public offices and specialized hospitals. Dividing our domestic business sites into seven regions, we have the head of each business site provide expert techniques and work support for each region, thereby enhancing our emergency response capacity. We will commit our full efforts for prevention, while responding to emergency situations in a systematic way to minimize damage and swiftly restore normalcy.

Joint Drill of Chemical Substance Leakage Handling

To increase the safety awareness regarding chemical substance handling and protect human and assets in emergency, LG H&H conducts joint drills with public offices. The business site in Gwangju carried out the chemical substance collection drill with the 119 special rescue team under the Gwangju Fire Department. We applied the pipe leakage scenario in the case of injecting sulfuric acid into the tank in the wastewater treatment facility, and conducted various themes of training: controlling an accident scene, installing the chemical substance fence, collecting the substances using absorbent papers, spraying counteragent, and handling designated waste. We will continue to promote safety awareness and preparation for emergencies and regularly conduct these drills.

Eco-friendly Logistics & Relevant Centers

In the logistics sector, we are committed to enhancing our logistics response capacity for fast-growing channels and product categories, such as online channels, considering the latest changes in the logistics/distribution trend and environment. In this regard, we have continued the integrated operation of logistics bases and enhanced the efficiency of transport and delivery to reduce environmental load and reinforce our eco-friendly logistics system. We concentrate our capacity on creating the eco-friendly logistics center, including the design of the integrated logistics center in Technopolis in Cheongju and the new warehouse in Yeosu, as well as the introduction of high-efficiency LED lighting for energy saving and the use of zero-fumes electronic forklift trucks.

Safe Logistics

Our business site in Cheonan has been equipped with the temperature and pest control facilities by expanding and moving the warehouse for Babience products. We have also implemented the high-quality logistics management by applying the management standards from storage to logistics customized for the characteristics of products. In the beverage division in 2016, we focused on carrying out the Back to the Basic campaign as part of the activities for improving the logistics environment and protection of products. The management of products and logistics centers and compliance with safety rules help us reinforce the system for product safety enhancement.

Logistics Cost Reduction

We secure competitiveness in logistics by integrating the operation of logistics bases and increasing the efficiency of transport and delivery for rational logistics. In addition, the synergy of the integrated logistics bases and the shortened transport routes have reduced environmental load, improving the efficiency of our eco-friendly logistics system.

(Unit: KRW 100 M)

Category	Cost Reduction
Integrated operation of logistics bases	9.3
Shortened transport routes	5.2
Increased efficiency of delivery	16.5
Total	31.0



05 Win-Win Growth



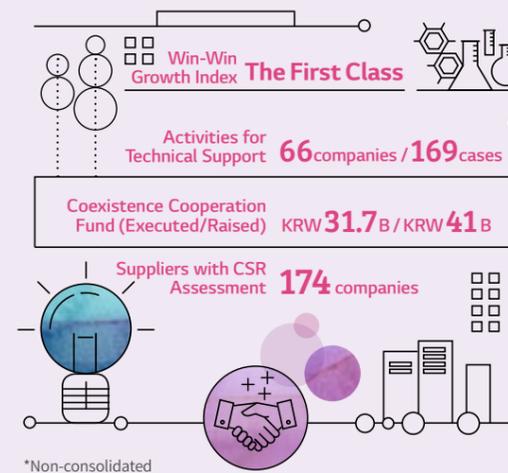
CSR Background

Relationships between companies and suppliers have recently changed from simple transactional relationships to the form of future-oriented win-win growth based on multiple forms of support. To fulfill this role, companies should carry out an extensive range of activities from support to stabilize the management of suppliers to internalization of CSR.

Our Commitment

The individual support system, which was introduced by phase to address any problems of SME suppliers in sectors such financial support, expansion of sales channels, and technical and human resource support, has been further systemized and come to maturity. As win-win growth is important to LG H&H's growth strategy, we strive to fulfill our responsibility as a partner to prepare for the next generation, including launching an advanced management system for suppliers and providing support for establishing a smart factory infrastructure.

Key Performance Indicators (KPIs)



Performance Summary & 2017 Objectives

● Achieved ◐ Partially achieved or ongoing ○ Not achieved

Key Issues	Performances in 2016	Level of Achievement	Plans for 2017	Target Timing
Open communication	Conducted the CEO Academy (half-yearly)	●	Conduct the CEO Academy (half-yearly)	Mar, Nov
	Held the Win-Win Growth Review Committee meetings (4 times a year)	●	Hold the Win-Win Growth Review Committee meetings (quarterly)	Quarterly
	Visited suppliers (purchasing director and other employees in charge, 6 times a month)	●	Visit suppliers (purchasing director and other employees in charge, 6 times a month)	6 times a month
	Conducted workshops for enhancing the competitiveness of suppliers (half-yearly)	●	Conduct workshops for enhancing the competitiveness of suppliers (half-yearly)	Feb, Oct
Sales growth	Adjusted raw and subsidiary materials in connection with exchange rates	●	Adjust raw and subsidiary materials in connection with exchange rates	Monthly
	Increased the amount of money spent on purchases from suppliers by 1% or higher	●	Increase the amount of money spent on purchases from suppliers by 1% or higher	Year-long
Technical and human resource support	Provided technical support (66 companies, 169 cases)	●	Provide technical support (180 cases; management system certification and smart factory included)	Year-long
Financial support	Maintained the ratio of cash payment for subcontractors at 100%	●	Maintain the ratio of cash payment for subcontractors at 100%	Year-long
	Raised KRW 41 billion of Coexistence Cooperation Fund	●	Raise KRW 41 billion of Coexistence Cooperation Fund	Year-long
Fair opportunity	Achieved 100% completion rate of the CSR Assessment of major suppliers	●	Achieve 100% completion rate of the CSR Assessment of major suppliers	Year-long
	Achieved 100% completion rate of the Purchase Assessment of major suppliers	●	Achieve 100% completion rate of the Purchase Assessment of major suppliers	Year-long

Vision and Strategic System for Win-Win Growth

LG H&H has established our vision system to achieve a sustainable growth with suppliers in a longer-term perspective. Based on six major sectors and four strategic tasks, we make great efforts to accomplish our slogan of "Win-Win Growth, Happy Together" and vision of becoming "Korea's Best Leading Company for Win-Win Growth." For instance, LG H&H selected 125 SMEs as suppliers for fostering win-win growth in 2016 and is providing support for consulting to improve the level of the management system for administration, quality, environment, safety, and health.

Vision & Slogan

Korea's Best Leading Company for Win-Win Growth
"Win-Win Growth, Happy Together"

Four Major Strategic Tasks

- Spreading of performance-sharing model**
 - Distribution of channels utilizing performance sharing system
 - Expansion of direct investment by win-win growth investment funds
 - Compliance with the agreement on suitable SME business types
- Reinforcement of competitiveness in the supply chain**
 - Support for legal compliance by checking CSR and consulting for suppliers
 - Support for consulting to boost productivity and e-learning system
 - Activities to pioneer sales channels
- Conversion into shared growth payment system**
 - Expansion of shared growth payment system (primary and secondary suppliers)
 - Payment of cash for subcontracts
 - Enhancement of utilization of Coexistence Cooperation Fund
- Reinforcement of communication**
 - Transparent operation of communication channels through CPS
 - Expansion of committees and meetings
 - Support for social contribution activities by suppliers
 - Utilization of PR channels (media, company newsletter)

Initiatives



Open Communication

Proactive Communication for Win-Win Growth

LG H&H makes constant effort to make close partnership take root based on the culture of fair trade. As part of these efforts, we operate the Win-Win Growth Review Committee, CEO Academy, and Competitiveness Reinforcement Workshop to ensure pre-communication with suppliers for core decision-making issues, including major subcontract issues and enactment of win-win growth system.

Category	Number of meetings	Content	Current status of composition
Win-Win Growth Review Committee	4 times a year	Deliberating on subcontract win-win growth issues	2 non-executive personnel, 5 representatives of suppliers, 3 LG internal committee members
CEO Academy	2 times a year	Sharing procurement policy Training for management knowhow Collecting opinions	125 representatives of suppliers
Competitiveness Reinforcement Workshop	2 times a year	Sharing procurement policy Developing a model for cooperation Analyzing market trends	125 employees from suppliers

Sales Growth Support

Spreading of Performance Sharing System

LG H&H introduces and operates the performance sharing system to ensure transparent management of cooperative tasks with suppliers. We set the common targets with suppliers, make joint efforts, discuss the method of distributing performance results, and conclude contracts in advance. In 2016, we performed 25 cases (tasks) and 57 tasks in total. With this system, sales of 11 suppliers were increased by approximately KRW 18 billion in the previous year. Any relevant issues are registered and managed in the performance sharing system comprehensive management system by the Foundation of Collaboration of Conglomerates and SMEs for Agriculture and Fishery.

Domestic Sales Channel: Supplier Technology Proposal

LG H&H regularly holds an exhibition where ideas for new excellent technologies are directly introduced not to procurement staff members, but to staff members in marketing, sales, and R&D. As this is an open platform for all companies, whether an idea can be exhibited is determined by a certain review. For any selected items, both expenses required to launch a product and exclusive authority for supply are provided free of charge. In 2016, Supplier Technology Proposals were held by six times, and new sales of KRW 4.41 billion were generated from a total of 29 suppliers.

Overseas Sales Channel: Support for Participation in Global Expos

LG H&H not only encourages suppliers to enter the overseas market beyond a saturated domestic market, but also supports small and mid-sized suppliers to participate in a global beauty expo as a bridge of export by experiencing the global cosmetics market trend. Especially, in 2016, we supported 25 suppliers to attend a total of 3 expos and brought the exports worth of KRW 240 million. For the last two years, new overseas sales of KRW 1.8 billion were generated.

Technical & Human Resource Support

Consulting Support for Management System Certification

With the aim of leading the advancement of management system of suppliers for quality and environment and cultivating specialists, LG H&H has supported suppliers to acquire the certificate of good cosmetics and quality management standard (CGMP, Cosmetic Good Manufacturing Practice). From 2017, we started to offer the total expense of consulting for internal and external specialists and certificate review to five companies in preparation of cosmetics quality (ISO22716), environmental management (ISO14001) and safety and health (OSHAS18001).

Advisory Support for Technical & Human Resource for Improvement of Productivity

LG H&H operates the business for supporting improvement of productivity, which is optimized to the environment of SMEs, in order to raise competitiveness of suppliers. Since 2014, distinguished people in the industry and LG H&H specialists have participated in consulting as advisors for 10 - 13 primary, secondary, and tertiary small and mid-sized suppliers each year.

Co-ownership of Patents and Technology Escrow

For cooperative development business with suppliers, LG H&H proactively utilizes the technology escrow system to protect the unique technology of SMEs. When it comes to technical materials created in the development process, we determine such materials with the principle of application of joint patent depending on the level of contribution. We have recently disclosed our patents for SMEs through Chungbuk Center for Creative Economy & Innovation.

Category	Support
Support for design and engineering	106 cases including engineering supervision, joint development and test mold
Activity for performance sharing	25 cases of fair management of performance for cooperative tasks
Activity for coexistence and cooperation	7 cases including management of environment, safety and health in business sites
Consulting for improving productivity	13 cases including advisory support for innovation in manufacturing and management
Technology protection program	18 cases including technology escrow for 12 companies

Financial Support

Improved Payment for Subcontractors

With the goal of enhancing the conditions of financial management in the subcontract line, LG H&H has reduced the payment period to pay cash within ten days after finishing the work to three times a month from October 2016. In case of any important issue such as national holiday or economic hardship, we additionally shorten the period of paying for subcontract and prevent any financial difficulty for SMEs in advance to consider suppliers as our partners in our corporate activities.

Shared Growth Payment System

In terms of payment for transaction, LG H&H has launched and expanded Shared Growth Payment System to prevent any unfair treatment for not only primary suppliers, but also secondary, tertiary, and quaternary suppliers in the upper supply chain. The Shared Growth Payment System offers the advantages of not having any burden of security and risk of bankruptcy in series for suppliers. This because they do not have the right of resource and cannot reduce financial expenses in utilizing bill discounts. In 2016, shared growth payment worth of KRW 407.2 billion was made for 394 primary suppliers as well as KRW 7.4 billion for secondary and tertiary suppliers.

Financial Support System

LG H&H manages the Coexistence Cooperation Fund, a loan system by a finance institution, to support technology development and fair investment for suppliers. We also carry out financial support activities to lend the fund directly without interest and support suppliers' investment issues by donating funds for win-win growth investment to the Foundation of Collaboration of Conglomerates and SMEs, an institution specialized in win-win growth.

Financial support system	Performance in 2016	Notes
LG Coexistence Cooperation Fund	KRW 31.67 B	Loan with charge
Non-Interest Direct Loan	KRW 710 M	Loan free of charge
Win-Win Growth Investment Fund	KRW 550 M	Support free of charge

CSR Assessment and Management for Suppliers

CSR Assessment for Suppliers

LG H&H has launched about 60 checklists in the CSR sector and evaluated the level of sustainable management by suppliers. As core suppliers are determined based on the level of annual purchase amount worth KRW 200 million or over, any selected suppliers experience comprehensive assessment, including annual on-site assessment. On-site assessment is composed of corporate governance, environment and energy, safety and health, Jeong-Do Management, labor and human rights, customers and local community sector in addition to receiving consulting advice. This assessment aims to identify any potential risks in the supply chain in advance by monitoring items, which need to be observed and managed by SMEs.

Follow-Up Measures for Suppliers CSR Assessment

LG H&H divides suppliers into four grades-A, B, C and D-based on the result of the comprehensive supplier assessment determined by suppliers CSR assessment. Excellent suppliers in the grade of A and B are given incentives for being prioritized in selecting a target for support in various win-win growth system programs. For suppliers in the grade of C and D, we issue a request of improvement or statement of warning depending on each issue. If such improvement is not made in a grade period of one year, we review suspension of transaction with the supplier.

No. of companies for CSR assessment	Follow-up measures for suppliers CSR assessment
174	8 No. of suppliers scoring lower than 70 points
	8 No. of suppliers scoring lower than 70 points and that agree to improve
	0 No. of suppliers scoring lower than the criteria level and that lose the contract

*Non-consolidated (for existing suppliers)

Fair Opportunity

Equal Opportunity for Participation and Operation of Fair Bidding Process

To ensure transparent and fair management in selecting suppliers, LG H&H opens the criteria and procedures for selection in the procurement portal system and manages the process to select suppliers based on the fair assessment procedure. Suppliers are 100% selected by electronic bidding to secure transparent management in the bidding procedure and should strictly comply with a pre-agreement for detailed content by notification for bidding. It is not allowed for anyone to browse the content from the beginning to the end of bidding.

Win-Win Growth Proposal Channel and Compensation System for Reporting Unfair Cases

LG H&H collects simple grievances, proposals for cooperation, and unfair cases, which can occur in transaction, by operating a proposal and reporting channel for suppliers on a regular basis. In addition to this system, we receive suggestions for improving work practice and cooperation for win-win growth through the "Open Forum" in the procurement portal system.

Welfare & Benefit Support

Summer Camp for the Children of Employees

LG H&H provides suppliers' employees with cyber training free of charge on a monthly basis. For employees' children, we support them to participate in the "Borrowed Earth School" held by LG H&H. This is the process of fostering eco-friendly daily routine for young people by utilizing the period of vacation.

Work & Life Balance

To help suppliers' employees to strike a balance between work and life, LG H&H provides support for watching sports games and offers books free of charge through "Reading Communication." In 2016, we encouraged suppliers to have a welfare system specialized in each company by providing companies accepted in the supplier innovation contest with expenses for expanding rest facilities.

Win-Win Growth Support System for Secondary Suppliers or Under



Financial support

LG H&H supports secondary suppliers by determining the size in consideration of priority for Coexistence Cooperation Fund of KRW 11 billion and Non-Interest Direct Loan of KRW 1.1 billion.

Participation in Win-Win Growth Review Committee by suppliers

In the meeting of suppliers' representatives for the review of major issues in subcontract and win-win growth, two companies among a total of five executive companies are secondary suppliers.

Consulting support for improving productivity

With the industrial innovation movement, LG H&H provides three to four companies a year with various forms of support, from improvement of manufacturing and environment to investment in facilities, to improve their quality and productivity.

Efforts to Revitalize the Economy in Chungbuk

LG H&H supports talented human resources in cosmetics companies and relevant college departments in Chungbuk for K-Beauty Global, a part of the Chungbuk Creative Economy Business. In 2016, as we invested KRW 3 billion and established "Chungbuk Creative Economy Support Foundation," LG H&H has contributed to promoting local win-win growth and cooperation by supporting new technology for small and mid-sized cosmetics companies, establishing sales and distribution channels and cultivating human resources.

Core Business	Name	Details	Key Performance
Finding a new technology	New technology presentation	Holding a new technology presentation for local SMEs to find a new technology and develop a new product	· Promoted for 114 local companies · Received 22 cases of technology from 13 companies
	New technology proposal desk	Regular support program to enhance the completion of products by providing technical consulting	· Supported technology for a sheet mask in the new concept
Making business from a new technology	Provision of joint research technology	Creating products by conducting joint research on the technology discovered and providing a new technology	· Supported assessment of efficacy for 11 cases (8 companies) · Reviewed and prepared making products by company's brand
	Support for distribution of facility funds	Providing support for expenses and distribution to develop a product from the technology discovered	· Supported investment in facilities worth of KRW 270 million (3 companies) · Supported products to the road shop (1 company)
Scholarship business	Scholarship for academic excellence	Recruiting excellent students in the cosmetics-related departments in a local college	· 46 students for the scholarship for academic excellence
	Scholarship for talent and specialty	Finding outstanding human resource by holding a contest for ideas about cosmetics	· 28 students for the scholarship for talent and specialty
	Stepping stone for employment	Offering job opportunities by giving job training and hands-on training to students in the cosmetics-related department of a local college	· Provided scholarships of KRW 74 million in total · Managed database for scholarship students

Governance

GOVERNANCE

RISK MANAGEMENT

JEONG-DO MANAGEMENT

STAKEHOLDER ENGAGEMENT

MATERIALITY TEST

56

69

Governance

BOD Operation

LG H&H operates the Board of Directors (BOD) to secure its transparency as the top decision-making body of the company and conduct business management activities based on checks and balances. The board consists of experts in various fields, including two inside directors, one non-executive director, and four outside directors. It provides professional opinions about major decision-making agendas from the aspect of sustainability management based on its independency, while performing evaluation and examination on the company's performance. The regular meeting of the board is held according to the annual plan, and additional meetings are held if any urgent agenda needs to be decided. In order to avoid any conflict of interests, any director who has interest in a certain agenda loses his/her rights to vote in accordance with the Commercial Act and the BOD regulations. In 2016, a total of seven meetings were held, and the average attendance of the outside directors was 93%.

BOD Members

Category	Name	Major Career	Gender	Position
Inside Director(s)	Suk Cha	CEO & Vice Chairman, LG H&H	Male	Chairman of the BOD
	Sung Huh	CFO & Vice President, LG H&H	Male	Director
Non-executive director(s)	Joo-hyung Kim	President, LG Economic Research Institute	Male	Chairman of the Outside Directors Nomination Committee
Outside director(s)	Lee-seok Hwang	Professor of Business School, Seoul National University	Male	Chairman of the Audit Committee
	Sang-lin Han	Professor of Business School, Hanyang University	Male	Member of the Audit Committee
	In-soo Pyo	Attorney, BAE, KIM & LEE LLC.	Male	Member of the Audit Committee and the Outside Directors Nomination Committee
	Chai-bong Hahm	President, Asan Institute for Policy Studies	Male	Director, Member of the Outside Directors Nomination Committee

BOD Meetings

Year	No. of Meetings	Attendance Rate of Outside Directors	Major Decisions
2014	8	90.6%	- Established the Outside Directors Nomination Committee and the regulations - Approved the equity acquisition of CNP Cosmetics - Reported the evaluation of the effectiveness of the compliance control system
2015	8	87.5%	- Approved the equity acquisition of Future Co., Ltd. - Approved the investment in new facilities of the R&D Center at LG Science Park - Approved the medium and long-term management strategies
2016	7	93%	- Approved the reappointment of CEO - Approved the acquisition of assets of Reach - Reported the foundation of a joint venture with Macrogen

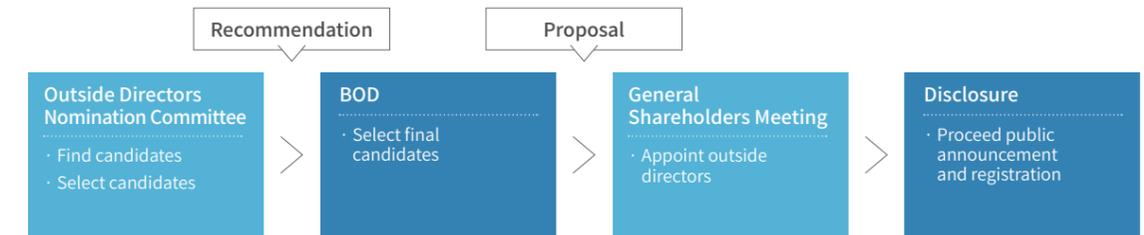
Remuneration Policy for the Directors and Audit Committee

Directors are provided with the basic salary, determined below the remuneration limit set by the general shareholder's meeting, and bonus based on the management performance of the company. Their bonuses are decided by the BOD based on their performance in accordance with the special bonus regulation in the Executive Remuneration Policy. Directors are evaluated based on the company's financial performance of the previous year as well as their fulfillment of medium and long-term expectations, leadership, and contribution. The remuneration of outside directors and members of the Audit Committee is provided below the remuneration limit with approval from the BOD.

Outside Directors Nomination Committee

LG H&H applies the strict criteria of disqualification to outside directors to secure their independency as defined by the Commercial Act. The Outside Directors Nomination Committee under the BOD nominates the candidates for outside directors by considering their expertise in each of the economic, environmental, and social sectors without special restrictions such as gender, race or national origin. Among nominees, the final candidate is decided by the BOD and appointed as an outside director in the general meeting. The Outside Directors Nomination Committee consists of three members, with outside directors holding a majority.

Outside Directors Nomination Process



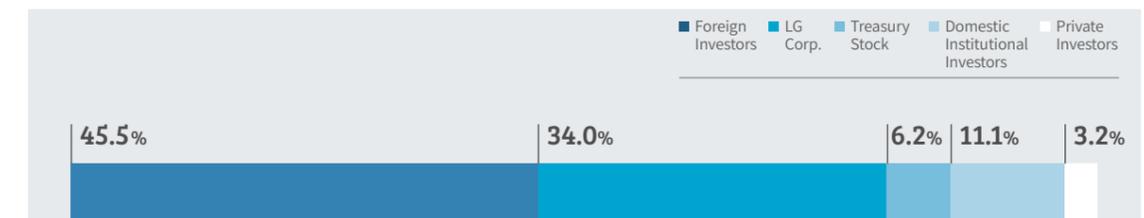
Restrictions on the Qualification of Outside Directors for Ensuring the Independence of the BOD

- Any director, executive director, or employee of the company who currently serves as a senior managing director, or an director, audit director, executive director, or employee of the company who has served as a senior managing director within the past two years
- The largest shareholder, his/her spouse, lineal ascendant, or descendant
- In case the largest shareholder is a corporation, any director, audit director, executive director, or employee of the corporation
- A spouse, lineal ascendant or descendant of any director, audit director, or executive director
- Any director, audit director, executive director, or employee of the company's parent company or subsidiary
- Any director, audit director, executive director, or employee of a corporation that is a partner or has an important stake in the company
- Any director, audit director, executive director, or employee of another corporation at which a current director, executive director, or employee of the company serves as a director or an executive director

Audit Committee

LG H&H operates the Audit Committee in accordance with the Commercial Act as well as the Financial Investment Services and Capital Markets Act. The committee comprises three outside directors based on the relevant rules, independently performing the roles of designing the internal audit plans and handling auditing affairs. The committee has the right to make a request for the business report to the BOD or examine the assets of the company for auditing tasks. It can also ask for expert consultation at the company's expense. The committee conducted five meetings in 2014, 2015, and 2016, respectively.

Shareholders

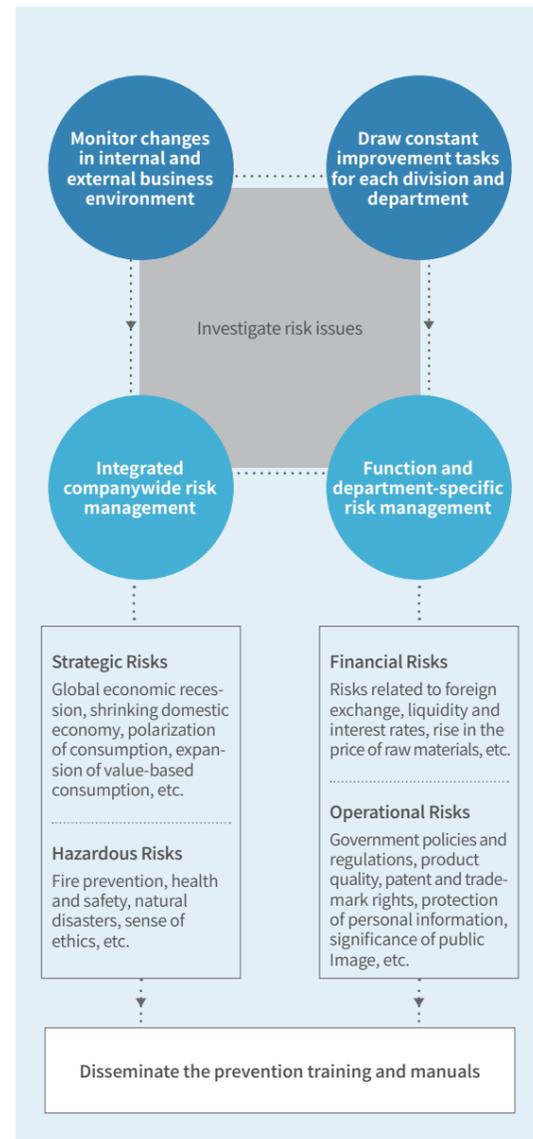


Risk Management

Integrated Risk Management System

LG H&H operates the integrated risk management system to prevent and manage potential risks that could emerge in the company's overall business. Through the management process, we classify potential risks into four types: strategic, financial, operational, and hazardous risks. According to this classification, the relevant departments or the companywide risk management department will take charge of monitoring and responding to the relevant risk factors.

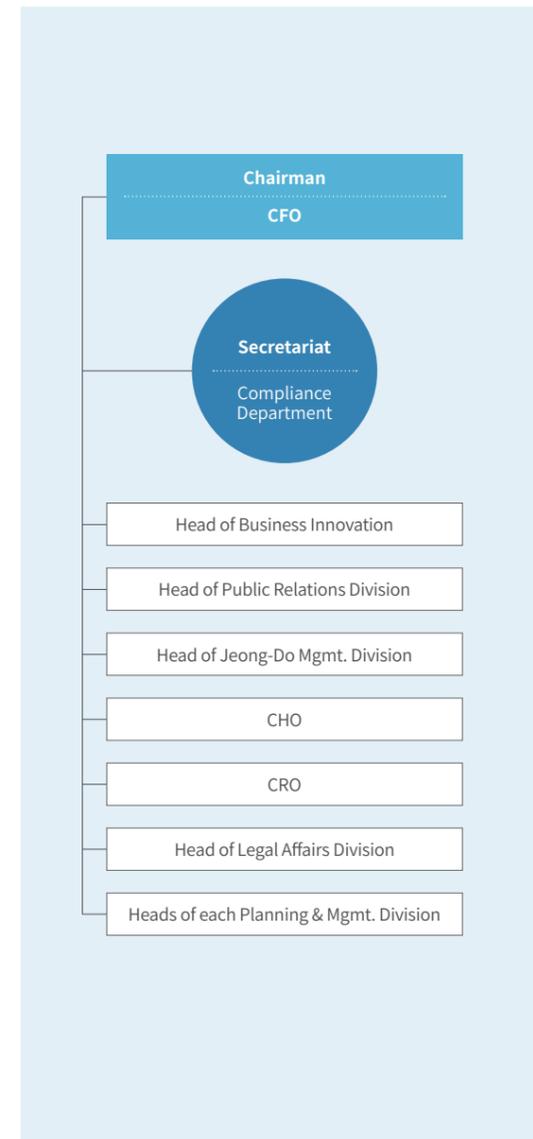
Integrated Risk Management Process



Compliance Committee

We operate the Compliance Committee meeting four times a year to respond efficiently to relevant issues across the company. The committee shares key points in risk inspection and current issues and discusses the direction of improvement measures as practical responses. Consisting of the CFO of the company as the chairman, the heads of the Business Innovation, Public Relations and Jeong-Do Management divisions, etc., the committee manages risk factors regarding issues in various fields.

Organizational Chart of Compliance Committee



Compliance Risk

The number of compliance-related issues around domestic and global companies is on the rise, and their impact on enterprises is growing as well. As the regulations and penalties have become stricter in each country, the management cost for dealing with such risks is also rising. LG H&H has strived to minimize economic and operational damage to its business due to the negligent management of compliance risks by implementing annual preliminary management activities against compliance-related risk factors.

Compliance Risk Inspection

LG H&H identifies major compliance-related issues that may affect the overall business of the company, and conducts on-site inspections to deal with each risk. In 2016, we inspected the company's subcontractors in the HR sector, while rechecking the risk factors in the business sites where we conducted inspection in 2015 in the personal information protection sector. In the environment and safety sector, we conducted inspection on major five plants to prevent any large-scale explosion or gas leakage. Such risk inspection activities are reported annually to the BOD under the theme of effectiveness assessment of the compliance control system. We will expand our inspection activities to other sectors and overseas subsidiaries, while constantly addressing and preventing risks. We are also creating the compliance-based corporate culture through education.

Details of Compliance Risk Inspection

Category	Target	Details of Inspection
HR and labor practices	Subcontractors at our business sites	Re-inspection and additional inspection to check if our subcontractors have completed improvement
Personal information	Headquarters, promotion suppliers, stores	Re-inspection of collection, use, and disposal of personal information
Environment and safety	Major five business sites	Inspection of environment and safety of major plants

Compliance Newsletter

LG H&H publishes the compliance newsletter that covers the latest compliance-related issues, including the Improper Solicitation and Graft Act and the prevention of trade secret theft and misuse of technical materials. The newsletter includes information about risks of laws that employees may violate during work.

Education for the Improper Solicitation and Graft Act

With the enforcement of the Improper Solicitation and Graft Act in 2016, LG H&H conducted our education program for all employees at the headquarters, plants and business sites. The program covered the issues associated with the objectives of the act, subjects, and the prohibition of improper solicitation and graft. We provided major contents through the compliance newsletter and company newsletter and on the company's intranet, encouraging employees to voluntarily abide by the act.

Global Legal Affairs System (GLAS¹⁾)

LG H&H introduced the GLAS to manage a wide range of legal issues in a more systematic and efficient way in the entire scope of business. The system was designed to provide various languages and enable the integrated management of overseas subsidiaries, pursuing the company's goal of strengthening global capacity based on the expansion of overseas business. Through this system, we strictly manage legal and compliance risk factors in the overall management of the company, including contract review, various legal consultation, performance, and management of domestic and overseas law suits, and management of deposit cases. In 2017, we have commenced the GLAS for our subsidiaries in China, and will expand the system to Taiwan, Japan, Vietnam, and the American continent, providing systematic legal services.

1) GLAS: Global Legal Affairs System

Internal Accounting Control System

LG H&H has operated our strict Internal Accounting Control System since 2006 to secure the transparency in business operation and reliability of information and enhance the soundness of our work processes. In accordance with the Act on External Audit of Stock Companies and the criteria of the system, it was designed with 14 compliance control systems and 135 control activities. In this way, the system can be used to conduct control assessment in the categories of purchasing, production, sales, financial report, etc. In 2016, we unified the internal control assessment processes of Coca-Cola Beverage and HAITAI htb, which began implementing ERP, to increase the consistency of the internal control assessment processes by subsidiaries.

Internal Control Assessment of Overseas Subsidiaries

To ensure the reliability of consolidated financial statements when applying the Act on External Audit of Stock Companies to domestic listed companies, we additionally carried out the internal control assessment for four overseas subsidiaries in Beijing, Hangzhou, Vietnam, and Taiwan. In 2016, we made a guide book, intended to provide standards for the internal control activity inspection in overseas subsidiaries, and distributed it to 11 subsidiaries. We selected our subsidiaries in Singapore and Vietnam and conducted on-site inspections there.

Assessment Result of the Internal Accounting Control System

According to the result of the assessment, LG H&H found that all control systems had been operated exactly as designed. The company's external auditor (EY Han Young) also stated that LG H&H's Internal Accounting Control System has been effectively managed as of December 31, 2016. Based on a thorough evaluation and screening, LG H&H won the 17th Audit Award, a prize granted by the Korea Listed Companies Association and the Korean Institute of Certified Public Accountants (KICPA) to companies and individuals who showed exemplary and efficient audit activities for the past year.

Fair Trade Risk

LG H&H conducts thorough internal risk prevention activities for fair transactions in the market. We make the information on our products public and examine them in a stricter way from the ethical aspect to enhance our company's reliability.

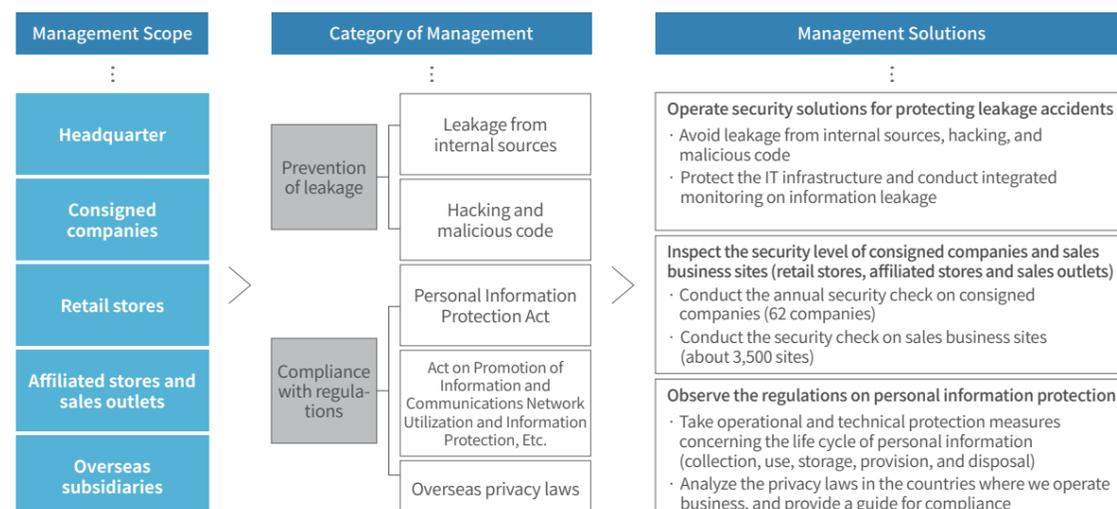
Programs for Willing Compliance with Fair Trade Standards

To observe the relevant regulations and realize fair competition, we have classified the categories for inspection such as fair trade issues and collusion, trade practices in the sales department, and transactions with subcontractors. We conduct an internal inspection once a year or more on the marketing, sales, and purchasing departments. In 2016, to realize win-win growth with suppliers and the value of coexistence management, we carried out efforts, including the analysis, management guideline design, and education for technical materials shared between LG H&H and suppliers, to prevent technology theft that may occur during transactions with suppliers. The technical material management manual has been developed and distributed.

Fair Product Information Provision

In 2016, LG H&H established our ethical declaration for labelling and advertising-it is our pledge to earn our customers' trust in our services and products. It is an advanced form of declaration that reflects our company's strict internal standards, which go beyond the legal ones, to increase the reliability and transparency of various information that is provided with products and advertisements. Only content that is approved by discussion among the quality assurance, product management, and regulation departments and R&D institute under the product labelling and advertising inspection system can be used in actual labelling and advertising.

Personal Information Management System



Personal Information Protection Risk

The protection of personal information of customers is critical to maintain their trust in us. LG H&H manages and protects our customers' personal information from two major aspects: prevention of data leakage and compliance with regulations.

Reinforcement of Personal Information Protection System

We have our personal information protection system to avoid data leakage from internal sources, hacking and malicious code. In 2016, we established and expanded the access control system for our servers and database to strengthen the access control of personal information. We've also built a log monitoring system for the use of personal information, monitoring the use of customers' personal information. In 2017, we will reinforce the investigation of security accidents and the control of routes for leakage and block hacking by establishing and improving four systems.

Management Improvement of Customers' Personal Information and Scope Expansion

In order to fundamentally reduce the leakage of customers' personal information, LG H&H set the security inspection clauses that should be complied with in all sales channels, including the disposal of unnecessary personal information, and applied them to over 3,500 retail stores, affiliated stores and sales outlets. In 2017, we are planning to cease the use of identity verification in the sign-up process to minimize the collection of personal information. We will also apply our security management system to consigned companies and build the security solution at all sales channels, thereby systematizing the management of personal information over the entire scope of business. We will extend the range of security management to overseas subsidiaries, managing personal information in a more responsible way.

Tax Payment Policy

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

Disclosure of Tax Payment Records

We provide the corporate tax information in the audit report publicly announced on DART (Data Analysis, Retrieval and Transfer System) run by the Financial Supervisory Service. We disclose the standards for calculation of corporate tax expense, deferred tax assets, liabilities, the details of corporate tax expense, and tax rate in the financial statement and annotations in the audit report.

Tax Deduction & Exemption System

LG H&H makes full use of the tax deduction and exemption system in accordance with the tax law in Korea. We file corporate tax using the consolidated tax return system, and the subsidiaries included in tax filing are THEFACESHOP, HAITAI htb, Future Co., Ltd, and Bright World. Within the framework of the tax deduction and exemption system and the consolidated tax return system, we exert enormous effort to minimize the tax burden and maximize shareholder value.

Fulfillment of Tax Payment Obligation

In terms of international transactions with overseas subsidiaries, LG H&H applies the reasonable transfer pricing policy that corresponds to the tax law in Korea and the transfer price guidelines. We also fulfill our obligation of submitting the integrated report on international transactions from the 2016 business year in accordance with BEPS (Base Erosion and Profit Shifting), designed to prevent tax avoidance by multinational companies. As we operate local offices or subsidiaries in the U.S., China, Japan, Taiwan, and Vietnam, we fulfill our duty of tax payment including the corporate tax based on local regulations and submit the required documents with the support of our headquarters.

Potential Risk

LG H&H takes strategic measures in response to risks newly emerging in the business management environment, turning potential risks into opportunities.

Detection of Harmful Substances in Products

Category	Details
Description	A risk of harmful substances detected in products, which affects the safety of consumers
Impact on business	<ul style="list-style-type: none"> Damage to the reputation of the company and product brand image due to consumer distrust Loss of business due to the class action and boycott of consumers
Response	<ul style="list-style-type: none"> Exclude the use of harmful substances by establishing the product safety management process in the entire scope of business Initiate the systematic monitoring and prevention activities across the company by organizing the Consumer Reassurance Center

Misuse of Suppliers' Technical Materials

Category	Details
Description	A risk emerging due to the misuse of technical materials with economic values for the company or a third party
Impact on business	<ul style="list-style-type: none"> Legal sanctions due to the violation of fair trade standards Undermine long-term cooperative relationships with suppliers that have promising technologies
Response	<ul style="list-style-type: none"> Conduct the employee awareness improvement education by using the Compliance Newsletter Protect technologies for a collaborative development project through the joint patent registration and technology escrow

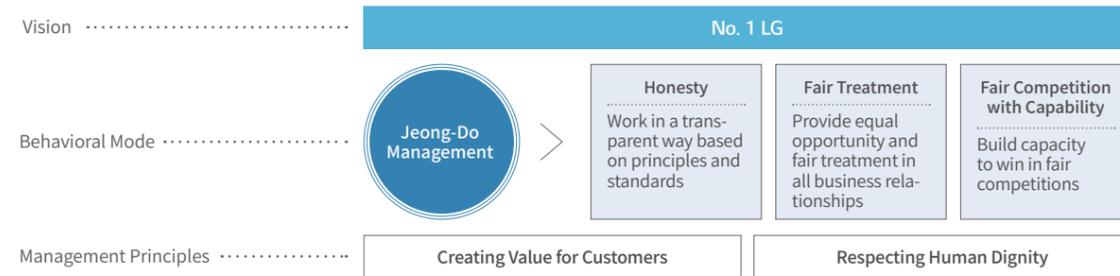
Employees' Violation of Improper Solicitation and Graft Act

Category	Details
Description	A risk from improper solicitation and bribery that violate the relevant laws and regulations
Impact on business	<ul style="list-style-type: none"> Legal sanctions due to the violation of the Improper Solicitation and Graft Act Damage to the reputation of the company by operating business in an unfair way
Response	<ul style="list-style-type: none"> Conduct education programs for employees by providing the information about the Improper Solicitation and Graft Act through the Compliance Newsletter, company newsletter, and intranet

Jeong-Do Management

Jeong-Do Management System

LG H&H puts into practice LG's behavioral mode, Jeong-Do Management, for fair competition with competence that is nurtured through ethical management. Our Jeong-Do Management Division implements Jeong-Do Management in a systematic way. To become a sustainable company with a leading position in the market, we enhance our employees' awareness of Jeong-Do Management at home and abroad based on honesty, fair treatment, and fair competition with capability, while carrying out business risk prevention activities.



Companywide Dissemination of Jeong-Do Management

Education & Campaign for Jeong-Do Management Culture

LG H&H conducts the education program for employees led by the heads of divisions or higher-ranking leaders each year. In 2016, we carried out education programs focusing on the cosmetics division and the 12-session course for local employees in overseas subsidiaries in five countries, all for the practical internalization of Jeong-Do Management. We also distribute the campaign newsletter to share the value of Jeong-Do Management and enhance the ethical awareness of employees.

Jeong-Do Management Education¹⁾

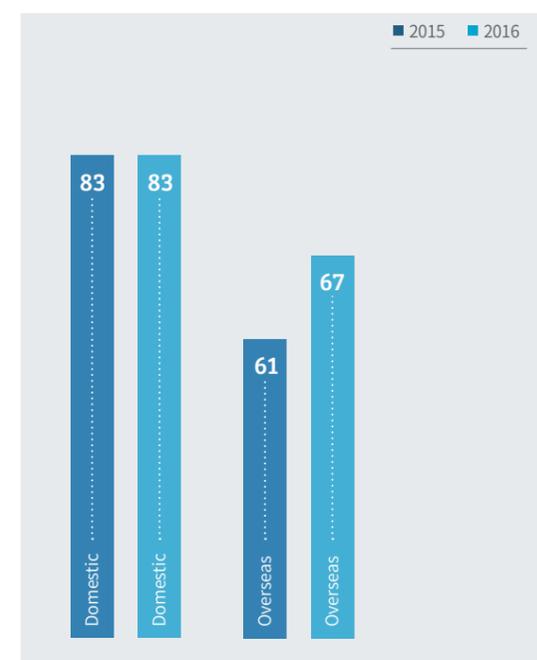
Education for employees	No. of participants	No. of sessions
Jeong-Do Management education led by leaders of each division: For all employees	All employees	-
First-class Jeong-Do Management education: For team leaders or higher	208	2
BC job category in the duty-free shop division: For all employees	375	11
Department stores & duty-free shops: For sales employees	100	2
Department stores & duty-free shops: For new sales employees	162	4
THEFACESHOP: For sales employees	86	2
Beverage Division: For the sales job category	158	5
Education for overseas subsidiaries (office jobs)	No. of participants	No. of sessions
Vietnam	180	3
Singapore	47	2
Canada	47	3
U.S.	24	2
Taiwan	66	2
Education for suppliers	No. of participants	No. of sessions
For CEO or president of suppliers	127	1
For sales employees of suppliers	153	12

¹⁾100% of the employees subject to the education program targeting employees and overseas subsidiaries completed the program.

Awareness of Jeong-Do Management

LG H&H conducts the Jeong-Do Management awareness survey to identify the awareness of Jeong-Do Management among employees and find solutions for areas where there are weaknesses. According to the survey result, the Jeong-Do Management survey index at overseas subsidiaries increased from the previous year, implying that the awareness of overseas employees has improved.

Changes in the survey index at home and abroad



Expansion of Jeong-Do Management Assessment System to Overseas Subsidiaries

LG H&H runs the Jeong-Do Management Assessment System to measure and evaluate the relevant activities of each group of the company. Since 2016, we have expanded the scope of assessment to the leaders as local staff of overseas subsidiaries as well as all executives and heads of divisions in the domestic subsidiaries.

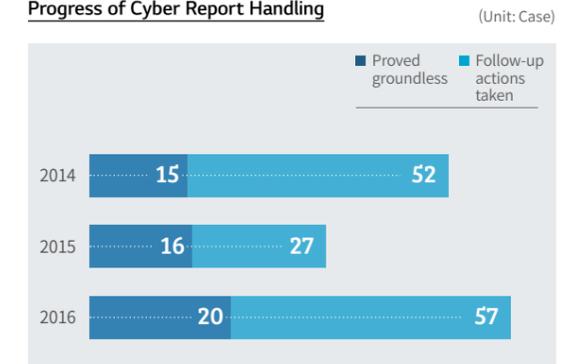
Invigorated Operation of Ethical Affairs Team of Overseas Subsidiaries

With the expansion of overseas business, we conducted the workshop for employees in charge of Jeong-Do Management from seven overseas subsidiaries to provide the foundation for relevant activities. We embraced their opinions for Jeong-Do Management-related issues at each business site with consideration for global business environment, shared the current issues at home and abroad, and provided education programs for the staff in charge, with participation by eight employees from seven countries. In 2017, to establish the Jeong-Do Management culture in overseas subsidiaries, we will constantly communicate with the Ethical Affairs Team in each division and continue relevant activities.

Cyber SINMUNGO

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

Progress of Cyber Report Handling



*Severe disciplinary actions against 66 employees, light penalties against 60 employees in 2016 (subsidiaries included)

Corruption Report Reward System

The Corruption Report Reward System was designed to strengthen the transparency and responsibility of our business and eradicate corruption and wrongdoings that harm customer values. We call meetings of the Review Committee to grant rewards to those who report corruption cases.

Internal Report Invigoration System

The Internal Report Invigoration System is aimed to reinforce transparent and fair Jeong-Do Management and prevent minor cases from developing into serious issues. We are making efforts to facilitate the internal report by extenuating penalty and adjusting the level of disciplinary actions in the case of voluntary reporting and protecting informants.

Business Risk Prevention & Support for Competitiveness Enhancement

Support for Enhancement of Jeong-Do Management Competitiveness in Domestic Business

LG H&H strives to strengthen its Jeong-Do Management competitiveness, both in existing and new businesses. For existing businesses, we proposed a measure to secure Jeong-Do Management competitiveness for suppliers, including web design, call center, and sales outlets, to increase the business competitiveness of online channels with high growth potential and profitability. We also suggested the integrated operation of online channels to create synergy between online sales groups, which used to be dispersed in each business division. For new businesses, we conducted the management diagnosis of Zenisce, which became one of our subsidiaries through an M&A. Based on that, we improved the aspects that could create synergy effects, while supporting capacity building for aspects with insufficient internal capacity through the work sharing meeting with LG H&H.

Establishment of Support System for Risk Prevention at Overseas Subsidiaries

LG H&H prevents risks related to Jeong-Do Management that may emerge in overseas business. In 2016, we inspected compliance risks in our overseas subsidiaries and immediately improved issues we detected in cooperation with the legal department. We also designated the task of supporting overseas business as the critical tasks of the relevant department at our headquarters to prevent any blind spots in the field-specific management of overseas subsidiaries. In 2017, we will cooperate with CFO and relevant department to establish the regular monitoring system for major risks in overseas subsidiaries.

Stakeholder Engagement

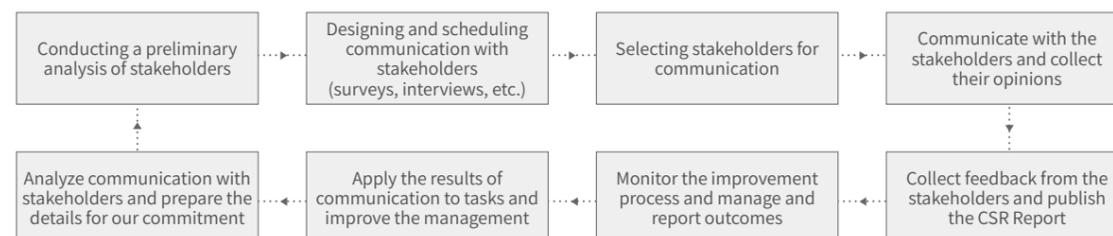
Stakeholder Engagement

LG H&H listens to the opinions of various stakeholders and reflects them in our CSR activities. We also encourage the participation of stakeholders and identify potential issues based on the stakeholder engagement process to achieve the medium and long-term CSR vision. Moreover, we find out the expectations and requirements of each stakeholder group on a regular basis, while operating the stakeholder engagement channels to reflect them in business activities.

Stakeholder Engagement Channels

Stakeholder Group	Communication Channel	Frequency	Key activities
Customers	Website of the company and brands	Always	Key activities: Conducting surveys of feedback on products and services
	CS Portal, VOC, Call Center	Always	
	Complaints and feedback from customers	Always	
	Consumer monitoring	3 times/mo.	
	Housewife monitoring agents	8 times/yr.	
	Brand awareness and satisfaction level surveys	6 times/yr.	
	CSR surveys of customers	Annually	
Suppliers	Integrated purchase channel	Always	Key activities: Promoting Win-Win Growth with suppliers
	Jeong-Do Management channel	Always	
	Win-Win Growth Committee of suppliers	4 times/yr.	
	CEO Academy of suppliers	2 times/yr.	
	Technical support for suppliers	Always	
	CSR survey of suppliers	Annually	
	Meetings with managers of sales outlets	Annually	
Executives & Employees	Intranet and complaint handling programs	Always	Key activities: Conducting surveys of opinions on management strategies and implementation
	Idea Innovation i-30	Always	
	Company newsletter	6 times/yr.	
	Company Meeting	Quarterly	
	Labor-Management Committee, Employees Committee	Quarterly	
	Industrial Safety Committee	Quarterly	
	Meetings with specific levels of employees	Half-yearly	
Satisfaction surveys of employees	Annually		
CSR surveys of employees	Annually		
Local Community	Expert panel meetings	2 times/yr.	Key activities: Engaging in the decision making process for the development of local community
	Community committees	2 times/yr.	
	Social contribution programs	Annually	
	CSR surveys of community	Annually	
	Public affairs	Irregularly	
	Launching events for the press	Irregularly	
Shareholders & Investors	IR website	Always	Key activities: Engaging in the strategic decision-making process related to businesses
	IR Roadshow	2 times/yr.	
	General meetings of shareholders	Annually	
	Business reports	Annually	
	Conference	Irregularly	
Government, Public Institutions & Associations	Korea Industrial Safety Association	Monthly	Key activities: Participating in the decision-making process related to government policies
	Recycling associations	Quarterly	
	Asia Carbon Footprint Seminar	Annually	
	Korea Fire Safety Association	Annually	
	Korea Environmental Industry & Technology Institute	Irregularly	
	Government challenges and conferences	Irregularly	

Stakeholder Engagement Process



Panel Discussion

LG H&H conducts the panel discussion to identify the expectations of experts in each field and reflects them in CSR activities. Since 2016, we have held meetings three times a year under various CSR-related themes. In the meeting in March 2017, we discussed the reestablishment of the standards for sustainable products, continuing the discussion from 2016. We will embrace various perspectives of experts and stakeholders to enhance our CSR activities.

History of Panel Discussion



1st Panel Discussion in 2017

LG H&H conducted the 1st panel discussion of the year in March 2017 to listen to expert opinions about the reestablishment of the standards for sustainable products. Panels from various fields, including the academic world, civic group, rating agency, consulting firm, etc., who have expertise in sustainable products, attended the discussion. They provided various perspectives on the reestablishment of the standards for sustainable products so that such products can meet social needs. We discussed a range of detailed themes, including changes to names of sustainable products and the establishment of standards.

Participants

LG H&H Heon-yeong Park, Executive Director of Public Relations Division

Panels



Key Opinions



Materiality Test

LG H&H identifies Focus Issues (important issues that require our focus) by examining economic, social, and environmental changes that affect our products and business management.

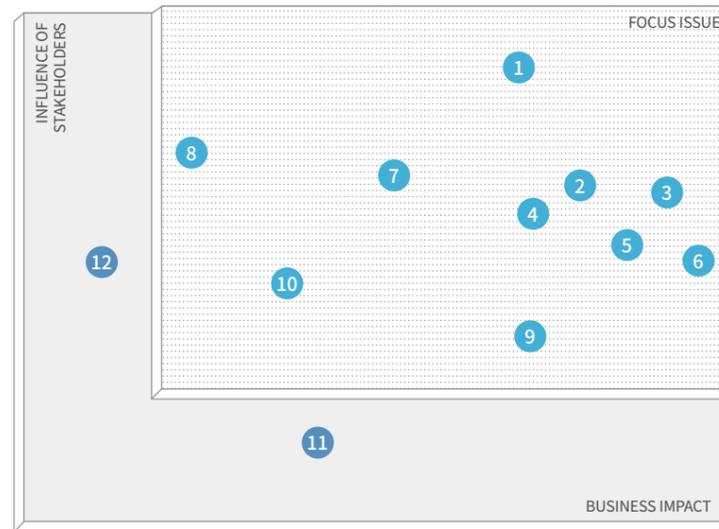
Materiality Test Process

LG H&H examines economic, social, and environmental issues to find out critical issues that may affect the company. We identify significant issues by considering their influence on our business as well as the influence on stakeholders by each issue. First of all, we select issues by examining global issues including the UN SDGs (UN Sustainable Development Goals), those suggested by international and nonprofit organizations, and external effects detected in the business process, and they are managed in our pool of issues. The significance of these issues is evaluated by analyzing other companies in the same industry and embracing opinions from internal stakeholders. We select key issues by comprehensively considering the result of evaluation of financial impact such as cost, revenue and risk. For their systematic management, we divide the issues into those for the divisions of cosmetics and household goods and those for the beverage division. To examine the expertise of these issues, we conduct the CSR Committee meeting for discussion and listen to opinions of expert panels. We report these issues by classifying them as Focus Issues and Fundamental Issues.



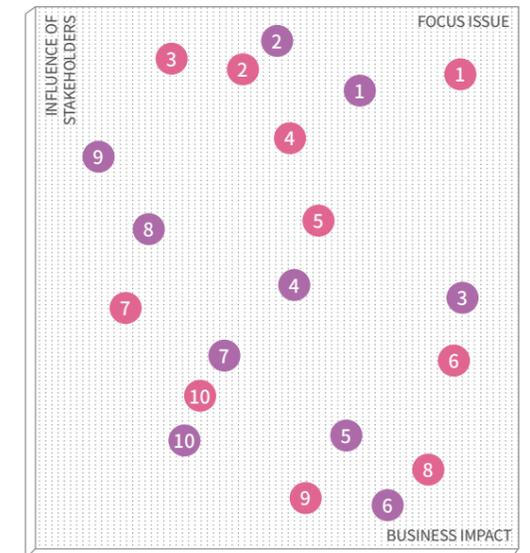
Materiality Test Result

- Material Issues**
- 1 Improve product safety
 - 2 Launch new products by expanding R&D and investment
 - 3 Increase the number of eco-friendly products
 - 4 Strengthen the handling of hazardous substances and safety management
 - 5 Enhance features/health-related effects of products
 - 6 Enhance the brand leadership and corporate image
 - 7 Maintain work-life balance
 - 8 Expand communication with suppliers and invigorate communication channels
 - 9 Reduce environmental impact of product packaging
 - 10 Manage the treatment and utilization of waste through reuse and recycling
 - 11 Manage the sustainability management of suppliers (CSR)
 - 12 Reduce GHG emissions



- Beautiful & Healthy**
- 1 Improve product safety
 - 2 Strengthen the handling of hazardous substances and safety management
 - 3 Launch new products by expanding R&D and investment
 - 4 Maintain work-life balance
 - 5 Enhance the brand leadership and corporate image
 - 6 Reduce environmental impact of product packaging
 - 7 Manage the treatment and utilization of waste through reuse and recycling
 - 8 Increase the number of eco-friendly products
 - 9 Enhance features/health-related effects of products
 - 10 Reduce GHG emissions

- Refreshing**
- 1 Maintain work-life balance
 - 2 Improve product safety
 - 3 Increase the number of eco-friendly products
 - 4 Enhance features/health-related effects of products
 - 5 Reduce environmental impact of product packaging
 - 6 Enhance the brand leadership and corporate image
 - 7 Launch new products by expanding R&D and investment
 - 8 Expand communication with suppliers and invigorate communication channels
 - 9 Manage the sustainability management of suppliers (CSR)
 - 10 Strengthen the handling of hazardous substances and safety management



Material Issues Reporting Method

LG H&H reorganized material issues derived from the Materiality Test into the Reported Issues according to the relevance and impact. The Reported Issues were categorized as "Focus Issues" and "Fundamental Issues" based on the level of significance.

"Focus Issues" are reported more in detail through the relevant business cases and performance of LG H&H in 2016, while the "Fundamental Issues" are constantly managed through reporting on the overview and overall system of the company.

	GRI Aspects	Division		Material Issues	Impact			Reported Issues	Relevance	Major Stakeholders	Page
		Beautiful & Healthy	Refresh-ing		Cost	Revenue	Risk				
FOCUS ISSUES	Customer Health and Safety	■	■	Improve product safety			■	Strengthening product safety	Since cosmetics, household goods, and beverages have a direct influence on consumers, it is necessary to identify and manage consumers' health and safety as key issues.	Customers, Employees, Suppliers	14~19
		■	■	Strengthen the handling of hazardous substances and safety management			■				
	Products and Services	■	■	Increase the number of eco-friendly products		■		Developing eco-friendly products	There must be active R&D efforts for eco-friendly products to conserve the environment and reduce the use of resources, thereby alleviating the environmental burden by the company.	Customers, Employees, Suppliers	20~23
		■	■	Reduce environmental impact of product packaging	■						
		■	■	Launch new products by expanding R&D and investment		■					
		■	■	Enhance features/health-related effects of products		■					
FUNDAMENTAL ISSUES	Labelling of Products and Services	■	■	Enhance the brand leadership and corporate image		■		Customer satisfaction	Active communication and acceptance of opinions will improve customer satisfaction and further lead to the coexistence with customers.	Customers	38~39
	Employment, Diversity and Equal Opportunity	■	■	Maintain work-life balance		■		Employee value	Improvement of working conditions and welfare of employees will increase the satisfaction level of them and enhance productivity. And capacity building of employees is required to respond to the globalization of the market.	Employees	34~37
	Supplier Assessment for Environment, for Labor Practices, for Human Rights and Impacts on Society	■	■	Expand communication with suppliers and invigorate communication channels		■		Win-win growth	Establishment of partnership with suppliers will help the company build trust with them. Providing support to suppliers in various ways will lead to mutual growth in the long term.	Suppliers	50~53
			■	Manage the sustainability management of suppliers (CSR)			■				
	Wastewater, Waste and Water	■	■	Manage the treatment and utilization of waste through reuse and recycling	■			Environment and safety management	Environment and safety management will resolve and prevent global environmental issues, while building trust with customers and other stakeholders.	Customers, Local Community, Government/Public Institutions/Associations	44~49
				Reduce GHG emissions			■				
	Energy and Emissions	■		Reduce GHG emissions				Governance and BOD operation	Disclosure of information about fair and systematic management will enhance the transparency of the company.	Customers, Employees, Shareholders/Investors, Government/Public Institutions	56~57
								Risk management	Prevention of and immediate response to potential risk factors will minimize damage and loss.	Customers, Employees, Shareholders/Investors, Suppliers	58~61
							Jeong-Do Management	The company can become exemplary, leading, and transparent by complying with the management philosophy of LG Group, pursuing ethical management.	Employees, Shareholders/Investors, Suppliers	62~63	

Appendix

- ECONOMIC PERFORMANCE
- ENVIRONMENTAL PERFORMANCE
- SOCIAL PERFORMANCE
- GRI INDEX
- UNGC & UN SDGs & SASB
- INDEPENDENT ASSURANCE STATEMENT
- GHG EMISSION VERIFICATION STATEMENT
- HUMAN RIGHTS POLICY
- SUPPLIER CODE OF CONDUCT

72
|
91

ABOUT THIS REPORT

Report Overview

LG H&H has annually shared its sustainability management activities through its CSR Report since 2010, and this Report is the 8th CSR Report. The CSR Report is used as a communication channel that transparently discloses the company's performance and reflects stakeholders' opinions on business activities.

Period and Scope

The reporting period of this Report is from January 1 to December 31 of 2016, and it partially contains data of the last three years to compare changes in trends. Certain data from 2017 is included, depending on its importance.

The scope of this report encompasses the headquarters of LG H&H and its domestic and overseas subsidiaries, including Coca-Cola Beverage, HAITAI htb, and THEFACESHOP. We marked if the scope of certain data is different. The data of HAITAI htb's business site in Iksan was included from 2015.

Standard and Principle

This Report was developed based on the Core Option of the Global Reporting Initiative (GRI) G4 Guideline. In order to identify material issues in relation to the relevant industry, the issues in beverages, cosmetics, and household goods of the Sustainability Topics for Sector of GRI, the SASB Standard, the Ten Principles of UNGC, and the UN SDGs were considered.

Assurance

The objectivity and accuracy of the contents, data and standards of the Report were verified by the independent assurance agency, DNV GL, in accordance with the agency's sustainability report verification protocol VeriSustain™, which reflects ISAE3000 and other international criteria, and the Core Option of GRI G4 Guidelines. The assurance report can be found on pp. 84-85.

Economic Performance

Financial Statement

(Unit: KRW M)

Category	LG H&H [consolidated]		LG H&H [non-consolidated]		Coca-Cola [consolidated]		TFS [consolidated]		HAITAI htb [separate]	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	I. Current Assets	1,424,610	1,331,133	773,514	788,198	315,721	233,249	123,333	146,546	77,468
Cash and cash equivalents	338,852	396,938	105,356	189,104	161,428	87,948	15,707	43,128	2,733	8,693
Short-term finance balance	26,900	30,900	16,900	16,900	-	9,000	-	-	-	-
Accounts and notes receivable	469,646	419,715	329,564	281,817	94,241	82,483	34,471	36,096	24,252	21,509
Other bonds	23,259	16,422	19,985	21,933	1,248	7,013	8,677	6,997	2,937	3,000
Inventories	535,886	441,258	289,393	265,192	56,145	43,784	61,170	57,189	46,133	30,866
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Non-current assets as held for sale	-	-	-	-	-	-	-	-	-	-
Other current assets	30,067	25,900	12,316	13,253	2,660	3,022	3,308	3,135	1,413	2,843
II. Non-current assets	3,077,553	2,883,504	2,316,391	2,164,355	471,122	436,810	190,064	171,129	328,407	306,641
Long-term finance balance	26	1,027	17	18	6	6	3	3	0	1,000
Other long-term bonds	91,008	87,238	39,353	48,238	9,830	9,558	37,813	27,953	4,243	3,334
Available-for-sale financial assets	5,790	5,153	4,902	4,265	788	788	1	1	-	-
Stocks for subsidiaries	-	-	1,449,855	1,547,351	-	-	-	-	-	-
Stocks for affiliates and joint companies	57,898	48,125	21,268	18,268	-	-	-	-	-	-
Deferred tax assets	6,570	39,259	30,728	37,208	3,834	3,700	16,860	13,208	11,831	12,099
Property	1,463,778	1,290,065	615,345	441,164	441,895	414,405	40,358	38,128	308,030	285,394
Investments in properties	28,481	29,643	21,709	21,935	1,607	1,634	2,088	2,100	2,645	3,569
Goodwill	-	733,065	-	-	4,176	4,176	42,269	41,759	195	195
Intangible assets	1,419,911	647,202	129,853	44,595	8,933	2,467	50,312	46,945	1,462	1,050
Other non-current assets	4,090	2,727	3,361	1,313	55	76	361	1,031	-	-
Total assets	4,502,162	4,214,637	3,089,905	2,952,553	786,844	670,059	313,397	317,675	405,875	373,551
I. Current liabilities	1,146,890	1,159,458	674,498	764,404	152,386	138,361	118,080	108,069	113,458	90,968
II. Non-current liabilities	734,433	939,836	539,546	726,437	31,054	13,848	8,085	8,616	31,547	21,678
Total liabilities	1,881,323	2,099,294	1,214,043	1,490,841	183,441	152,209	126,165	116,685	145,006	112,645
Capital stock	88,589	88,589	88,589	88,589	50,000	50,000	1,018	1,018	87,737	87,737
Capital surplus	97,326	97,326	97,326	97,326	48,072	48,072	64,314	64,314	153,702	153,702
Retained earnings	2,539,476	2,066,245	1,759,570	1,345,541	505,331	419,779	118,704	133,564	19,958	19,993
Accumulated other comprehensive income	-92,400	-118,168	1,005	1,704	-	-	-4,461	-5,563	-	-
Other reserves	-100,633	-96,696	-70,628	-71,449	-	-	7,657	7,657	-526	-526
Non-controlling interests equity	88,482	78,047	-	-	-	-	-	-	-	-
Total capital	2,620,840	2,115,343	1,875,861	1,461,712	603,403	517,851	187,233	200,990	260,870	260,905

Income Statement

(Unit: KRW M)

Category	LG H&H [consolidated]		LG H&H [non-consolidated]		Coca-Cola [consolidated]		TFS [consolidated]		HAITAI htb [separate]	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Sales revenue	6,094,059	5,328,492	3,660,953	3,031,336	1,143,227	1,081,169	649,809	629,075	295,805
Costs of goods and services sold	2,434,038	2,226,175	1,464,465	1,259,869	627,680	609,043	207,115	203,270	203,619	186,643
Gross profit or loss	3,660,021	3,102,317	2,196,488	1,771,467	515,547	472,126	442,694	425,805	92,186	93,950
Selling and administrative expenses	2,779,085	2,418,222	1,542,326	1,308,368	404,233	371,293	397,916	365,034	87,673	86,884
Restructuring expenses	-	-	-	-	-	-	-364	995	-	-
Operating income	880,937	684,095	654,161	463,099	111,314	100,833	45,142	59,775	4,512	7,066
Finance income	4,116	7,606	49,790	8,514	1,807	1,773	422	618	32	498
Finance expenses	20,168	35,680	26,282	36,087	0	7	616	737	534	354
Other non-operating profit and loss	-119,399	-17,571	-60,314	-6,547	-1,127	-812	-10,957	-21,695	-1,943	-1,196
Profit and loss regarding equity method	7,250	6,326	-	-	-	-	-	-	-	-
Income loss before income taxes expenses	752,736	644,777	617,356	428,979	111,994	101,786	33,991	37,961	2,066	6,014
Corporate tax	173,496	174,414	108,196	123,018	26,911	23,783	9,596	19,807	1,088	-13,047
Net income or loss	579,240	470,362	509,160	305,961	85,084	78,003	24,395	18,154	978	19,061

Economic Value Distribution in 2016 (Domestic)

(Unit: KRW 100 M)

Employees	LG H&H	3,599	Government	LG H&H	1,261
	Coca-Cola	1,942		Coca-Cola	382
	HAITAI htb	500		HAITAI htb	47
	TFS	472		TFS	113
	*Wages, bonus, benefits, severance pay, education and training expenses			*Corporate tax and other taxes	
Suppliers	LG H&H	24,760	Local Community & NGO	LG H&H	209
	Coca-Cola	8,599		Coca-Cola	11
	HAITAI htb	2,339		HAITAI htb	16
	TFS	4,836		TFS	32
*Expenses for raw and subsidiary materials, outsourced processing costs, equipment investment, costs for external service companies, commission of stores, advertising and marketing costs, promotion costs		*Costs for activities for social contribution, associations and academic conferences			
Shareholders & Creditors	LG H&H	1,430	Subsidiaries in Japan (GSI, Everlife Co., Ltd.)	Suppliers	606
	Coca-Cola	-16.2		Employees	297
	HAITAI htb	5		Creditors	1
	TFS	398		Government	118
*Dividend payout ratio 24% (LG H&H, non-consolidated)		Local Community & NGO		3	

Economic Value Distribution in 2016 (Overseas)

(Unit: KRW 100 M)

Subsidiaries in China (Shanghai, Hangzhou, Beijing)	Suppliers	1,394	Subsidiaries in Japan (GSI, Everlife Co., Ltd.)	Suppliers	606
	Employees	210		Employees	297
	Creditors	-4		Creditors	1
	Government	86		Government	118
	Local Community & NGO	7		Local Community & NGO	3

*Distribution for the government includes the corporate tax and other taxes.

Case Study — Social & Environmental Values of Laundry Detergents

LG H&H not only achieves financial performance, but also creates social and environmental values through its management activities. Each chapter of this report shows the result of our activities aimed at creating social and environmental values over the entire management process. In particular, we would like to introduce the quantified data of economic, social and environmental values of laundry detergent products, one of the leading business categories of the company, through impact valuation. We conducted impact valuation on several laundry detergent brands¹⁾, using internal accounting data, the result of life cycle assessment, and domestic/overseas research materials. The resulting values are classified into the economic²⁾, social³⁾ and environmental⁴⁾ categories, and expressed as positive (+) or negative (-) effects.

When only financial performances of the assessed brands are considered, the total sales and operating profits amount to KRW 57.8 billion and 8 billion, respectively. According to the result of impact valuation for measuring the economic, social and environmental impacts of the brands, it is estimated that we have created additional values worth KRW 16.5 billion. LG H&H's laundry detergent products provide economic values to the government and investors, while contributing to enhancing the hygiene level of society. However, the products also have a negative impact on the environment, emitting greenhouse gases and substances that cause eutrophication.



Environmental Performance

Major Environmental Index

Category	Domestic					Overseas					
	Company /Subsidiary	Unit	2014	2015	2016	Company /Subsidiary	Unit	2014	2015	2016	
Production volume	LG H&H	Ton	457,091	483,476	509,087	Beijing, China	Ton	6,977	7,344	8,519	
	Coca-Cola	Ton	690,638	698,023	710,181	Hangzhou, China	Ton	639	695	739	
	HAITAI htb	Ton	363,010	368,905	381,810	Dong Nai, Vietnam	Ton	2,253	1,952	1,894	
	Total	Ton	1,510,738	1,550,405	1,601,078	Total	Ton	9,869	9,991	11,153	
Energy	Consumption	LG H&H	TJ	924	924	924	Beijing, China	TJ	21	20	21
	Intensity	LG H&H	GJ/product-ton	2.002	1.912	1.949	Beijing, China	GJ/product-ton	3.068	2.680	2.485
	Consumption	Coca-Cola	TJ	860	864	874	Hangzhou, China	TJ	5	5	5
	Intensity	Coca-Cola	GJ/product-ton	1.246	1.238	1.230	Hangzhou, China	GJ/product-ton	7.825	7.193	6.763
	Consumption	HAITAI htb	TJ	372	536	550	Dong Nai, Vietnam	TJ	13	13	13
	Intensity	HAITAI htb	GJ/product-ton	1.024	1.452	1.440	Dong Nai, Vietnam	GJ/product-ton	5.612	6.881	6.795
GHG	Consumption	Total	TJ	2,147	2,324	2,416	Total	TJ	39	38	39
	Intensity	Total	GJ/product-ton	1.421	1.499	1.509	Total	GJ/product-ton	3.957	3.815	3.501
Emissions	Emissions	LG H&H	tCO ₂ e	42,788	43,118	46,770	Beijing, China	tCO ₂ e	1,109	1,020	1,097
	Intensity	LG H&H	tCO ₂ e/product-ton	0.094	0.089	0.092	Beijing, China	tCO ₂ e/product-ton	0.159	0.139	0.129
	Emissions	Coca-Cola	tCO ₂ e	45,317	45,696	47,849	Hangzhou, China	tCO ₂ e	738	892	913
	Intensity	Coca-Cola	tCO ₂ e/product-ton	0.066	0.065	0.067	Hangzhou, China	tCO ₂ e/product-ton	1.155	1.283	1.235
	Emissions	HAITAI htb	tCO ₂ e	19,035	22,470	28,852	Dong Nai, Vietnam	tCO ₂ e	679	728	691
	Intensity	HAITAI htb	tCO ₂ e/product-ton	0.052	0.061	0.076	Dong Nai, Vietnam	tCO ₂ e/product-ton	0.302	0.373	0.365
Water	Emissions	Total	tCO ₂ e	107,140	111,284	123,471	Total	tCO ₂ e	2,526	2,639	2,690
	Intensity	Total	tCO ₂ e/product-ton	0.071	0.072	0.077	Total	tCO ₂ e/product-ton	0.256	0.264	0.241
Consumption	Consumption	LG H&H	Ton	679,727	706,477	755,449	Beijing, China	Ton	16,003	7,949	9,273
	Intensity	LG H&H	Ton/product-ton	1.487	1.461	1.484	Beijing, China	Ton/product-ton	2.294	1.082	1.088
	Consumption	Coca-Cola	Ton	1,912,402	1,856,706	1,883,868	Hangzhou, China	Ton	8,759	8,770	9,668
	Intensity	Coca-Cola	Ton/product-ton	2.769	2.660	2.653	Hangzhou, China	Ton/product-ton	13.707	12.617	13.077
	Consumption	HAITAI htb	Ton	643,549	730,093	959,405	Dong Nai, Vietnam	Ton	50,500	42,385	30,923
	Intensity	HAITAI htb	Ton/product-ton	1.773	1.979	2.513	Dong Nai, Vietnam	Ton/product-ton	22.419	21.716	16.324
Waste	Consumption	Total	Ton	3,235,678	3,293,276	3,598,722	Total	Ton	75,262	59,104	49,864
	Intensity	Total	Ton/product-ton	2.142	2.124	2.248	Total	Ton/product-ton	7.626	5.916	4.471
Emissions	Emissions	LG H&H	Ton	122,400	124,664	130,077	Beijing, China	Ton	12,802	6,359	5,372
	Intensity	LG H&H	Ton/product-ton	0.268	0.258	0.256	Beijing, China	Ton/product-ton	1.835	0.866	0.631
	Emissions	Coca-Cola	Ton	1,083,530	1,029,731	1,063,677	Hangzhou, China	Ton	2,955	3,411	2,600
	Intensity	Coca-Cola	Ton/product-ton	1.569	1.475	1.498	Hangzhou, China	Ton/product-ton	4.624	4.907	3.517
	Emissions	HAITAI htb	Ton	218,850	275,812	452,199	Dong Nai, Vietnam	Ton	36,673	33,906	24,651
	Intensity	HAITAI htb	Ton/product-ton	0.603	0.748	1.184	Dong Nai, Vietnam	Ton/product-ton	16.281	17.372	13.013
COD	Emissions	Total	Ton	1,424,780	1,430,207	1,645,953	Total	Ton	52,430	43,676	32,623
	Intensity	Total	Ton/product-ton	0.943	0.922	1.028	Total	Ton/product-ton	5.313	4.372	2.925
Waste	Amount	LG H&H	Ton	10.7	9.9	11.8	Beijing, China	Ton	3.5	0.7	0.1
	Intensity	LG H&H	kg/product-ton	0.023	0.021	0.023	Beijing, China	kg/product-ton	0.503	0.095	0.015
	Amount	Coca-Cola	Ton	15.0	15.0	12.5	Hangzhou, China	Ton	0.6	0.8	0.8
	Intensity	Coca-Cola	kg/product-ton	0.022	0.021	0.018	Hangzhou, China	kg/product-ton	0.971	1.202	1.055
	Amount	HAITAI htb	Ton	1.6	1.6	4.8	Dong Nai, Vietnam	Ton	1.5	2.4	1.8
	Intensity	HAITAI htb	kg/product-ton	0.004	0.004	0.013	Dong Nai, Vietnam	kg/product-ton	0.668	1.251	0.937
Waste	Amount	Total	Ton	27.3	26.5	29.1	Total	Ton	5.6	4.0	2.7
	Intensity	Total	kg/product-ton	0.018	0.017	0.018	Total	kg/product-ton	0.571	0.398	0.241
	Amount	LG H&H	Ton	7,084	7,134	8,701	Beijing, China	Ton	221	167	178
	Intensity	LG H&H	kg/product-ton	15.497	14.756	17.092	Beijing, China	kg/product-ton	31.676	22.688	20.931
	Amount	Coca-Cola	Ton	13,690	13,661	10,332	Hangzhou, China	Ton	22	26	45
	Intensity	Coca-Cola	kg/product-ton	19.822	19.571	14.549	Hangzhou, China	kg/product-ton	33.975	36.686	60.569
Waste	Amount	HAITAI htb	Ton	2,638	2,404	2,452	Dong Nai, Vietnam	Ton	61	71	168
	Intensity	HAITAI htb	kg/product-ton	7.267	6.517	6.423	Dong Nai, Vietnam	kg/product-ton	27.011	36.564	88.565
	Amount	Total	Ton	23,411	23,199	21,486	Total	Ton	304	263	391
	Intensity	Total	kg/product-ton	15.497	14.963	13.420	Total	kg/product-ton	30.760	26.373	35.046

*Figures were modified due to the change in the data standards of the subsidiary in Hangzhou.

Water Recycling

Company/Subsidiary	Category	Unit	2014	2015	2016
LG H&H	Amount of recycled water	Ton	59,565	59,937	61,649
	Recycling rate	%	8.67	8.48	7.54
Coca-Cola	Amount of recycled water	Ton	274,571	239,627	209,347
	Recycling rate	%	14.36	12.91	11.11
HAITAI htb	Amount of recycled water	Ton	42,872	46,900	19,825
	Recycling rate	%	6.66	6.42	2.07

*Figures were modified due to the change in the data standards of the LG H&H'S business site in Cheongju.

Waste Treatment in 2016

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	Total	
Designated waste	Amount of recycled waste	Ton	3531.4	5.7	2.5	3,539.6
	Amount of incinerated waste	Ton	1014.0	8.3	3.3	1,025.6
	Amount of buried waste	Ton	24.9	0.6	0.1	25.6
	Others	Ton	0.6	0.0	0.0	0.6
	Total amount	Ton	4,571.0	14.6	5.8	4,591.4
General waste	Amount of recycled waste	Ton	1,047.3	10,127.0	2,339.7	13,514.0
	Amount of incinerated waste	Ton	1,810.3	190.6	68	2,069.1
	Amount of buried waste	Ton	1,272.8	0.0	38.6	1,311.4
	Others	Ton	0.0	-	-	0.0
	Total amount	Ton	4,130.3	10,317.5	2,446.6	16,894.5

Expenses for Environmental Protection in 2016

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	Total
Environmental investment	KRW M	2,670	9,222	3,097	14,989
Environmental expenses	KRW M	4,111	1,760	560	6,431

Amount of Water Intake in 2016 by Source

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	Total
Water supply*	Ton	458,992	1,328,504	513,917	2,301,419
Ground water	Ton	197,470	382,209	445,434	1,025,113
River water	Ton	98,987	173,155	-	272,142
Total amount	Ton	755,449	1,883,868	959,351	3,598,674

*Water supply includes water used for industrial and residential purposes.

Amount of Recycled Containers

Company/Subsidiary	Unit	2014	2015	2016
LG H&H	Ton	14,017	14,911	14,186
Coca-Cola	Ton	36,496	38,383	38,477
HAITAI htb	Ton	6,451	7,298	7,295

Amount of Green Purchasing

Company/Subsidiary	Unit	2014	2015	2016
LG H&H	KRW M	12,103	10,517	10,564
Coca-Cola	KRW M	1,364	2,306	1,620
HAITAI htb	KRW M	3	5	3

Social Performance

Total Employees

Category		Unit	2014	2015	2016
Total		Persons	7,722	7,938	8,102
Gender	Male	Persons	5,190	5,128	5,216
	Female	Persons	2,538	2,810	2,886

Detailed Status of Employees

Company/ Subsidiary	Category	Unit	2014	2015	2016	
LG H&H	Total	Persons	4,006	4,352	4,558	
	Gender	Male	Persons	1,856	1,921	2,034
		Female	Persons	2,156	2,431	2,524
	Employment Type	Permanent	Persons	3,720	4,007	4,323
		Temporary	Persons	286	345	235
	Job Category	Office work	Persons	1,967	2,160	2,320
		Manufacturing	Persons	738	743	761
	Diversity	Sales	Persons	1,301	1,449	1,477
		Disabled	Persons	36	34	32
		Veterans	Persons	58	62	66
		Foreigners	Persons	9	20	25
	Coca-Cola	Total	Persons	2,432	2,380	2,340
		Gender	Male	Persons	2,288	2,248
Female			Persons	144	132	127
Employment Type		Permanent	Persons	2,117	2,092	2,086
		Temporary	Persons	315	288	254
Job Category		Office work	Persons	590	592	594
		Manufacturing	Persons	1,345	1,287	1,244
Diversity		Heavy Equipment Handling	Persons	281	281	280
		Sales	Persons	216	220	222
		Disabled	Persons	56	57	54
		Veterans	Persons	49	49	52
Foreigners		Persons	1	1	0	
HAITAI htb		Total	Persons	877	780	820
	Gender	Male	Persons	807	716	755
		Female	Persons	70	64	65
	Employment Type	Permanent	Persons	751	711	723
		Temporary	Persons	126	69	97
	Job Category	Office work	Persons	222	221	235
		Manufacturing	Persons	204	193	213
	Diversity	Sales	Persons	325	297	275
		Mechanic, etc.	Persons	126	69	97
		Disabled	Persons	17	14	15
		Veterans	Persons	9	7	6
	Foreigners	Persons	-	-	-	
	TFS	Total	Persons	407	426	384
Gender		Male	Persons	239	243	214
		Female	Persons	168	183	170
Employment Type		Permanent	Persons	399	418	380
		Temporary	Persons	8	8	4
Job Category		Office work	Persons	407	413	364
		Manufacturing	Persons	-	13	20
Diversity		Disabled	Persons	5	5	4
		Veterans	Persons	7	8	9
		Foreigners	Persons	2	1	0

*Due to the characteristics of the FMCG business, temporary employees are mostly sales staff. They are provided with opportunities to become a permanent position after a certain period of time, considering the characteristics of each company.

Employee Education & Training

Company/Subsidiary	Category	Unit	2014	2015	2016
LG H&H	No. of participants	Persons	27,691	26,905	28,839
	Training hours per employee	Hours	73.3	70.3	63.5
	Training expense per employee	KRW	1,166,265	1,427,235	1,240,640
Coca-Cola	No. of participants	Persons	4,417	6,533	9,197
	Training hours per employee	Hours	8.6	12.3	12.3
	Training expense per employee	KRW	103,225	134,640	100,829
HAITAI htb	No. of participants	Persons	363	615	446
	Training hours per employee	Hours	2.0	3.9	2.9
	Training expense per employee	KRW	73,025	102,865	105,265
TFS	No. of participants	Persons	6,856	7,117	7,568
	Training hours per employee	Hours	105.1	104.6	137.1
	Training expense per employee	KRW	1,285,230	1,260,665	1,167,898

Parental Leave

Company/Subsidiary	Category	Unit	2014	2015	2016
LG H&H	Rate of reinstatement	%	82.6	89.8	90.5
	Rate of parental leave maintained for a year	%	88.8	94.7	86.8
Coca-Cola	Rate of reinstatement	%	50.0	100.0	100.0
	Rate of parental leave maintained for a year	%	66.7	100.0	100.0
HAITAI htb	Rate of reinstatement	%	66.7	100.0	100.0
	Rate of parental leave maintained for a year	%	66.7	50.0	50.0
TFS	Rate of reinstatement	%	90.9	84.6	100.0
	Rate of parental leave maintained for a year	%	90.9	90.0	72.7

Job Creation in 2016

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	TFS
Male	Persons	146	199	110	8
Female	Persons	342	10	2	16
Total	Persons	488	209	112	24

Retired Employees in 2016

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	TFS	Total
Male	Persons	55	242	86	26	409
Female	Persons	187	9	0	25	221
Total	Persons	242	251	86	51	630
Retirement Rate	%	5.6	10.7	10.5	13.3	8.0

*The data of LG H&H is based on that of permanent employees.

Supply Chain Spend Analysis

Category	Purchase Amount(KRW 100 M)	Ratio(%)
Korea	19,469	81.3
Southeast Asia	1,006	4.2
China	448	1.9
Japan	329	1.4
Europe	321	1.3
North America	304	1.3
Other Countries	2,075	8.7
Total	23,955	100.0

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

Number of Suppliers

Business Division	Type	Number of Suppliers
Beautiful	Products	119
	Raw Materials	237
	Subsidiary Materials	176
Healthy	Products	115
	Raw Materials	230
	Subsidiary Materials	164
Refreshing	Products	26
	Raw Materials	168
	Subsidiary Materials	87

Labor Union Membership Rate

Company/Subsidiary	Unit	2014	2015	2016
LG H&H	%	23.8	22.5	22.4
Coca-Cola	%	96.3	96.6	95.8
HAITAI htb	%	77.1	77.9	75.1
TFS	%	N/A	N/A	N/A

Industrial Accidents

Company/Subsidiary	Category	Unit	2014	2015	2016	
LG H&H	No. of Cases	Male	Case	-	3	3
		Female	Case	1	4	1
		Subtotal	Case	1	7	4
	Accident Rate	Male	%	-	0.16	0.15
		Female	%	0.05	0.16	0.04
		Subtotal	%	0.02	0.16	0.09
Coca-Cola	No. of Cases	Male	Case	8	7	13
		Female	Case	-	-	1
		Subtotal	Case	8	7	14
	Accident Rate	Male	%	0.33	0.29	0.59
		Female	%	-	-	0.79
		Subtotal	%	0.33	0.29	0.60
HAITAI htb	No. of Cases	Male	Case	3	3	6
		Female	Case	-	-	-
		Subtotal	Case	3	3	6
	Accident Rate	Male	%	0.34	0.38	0.79
		Female	%	-	-	-
		Subtotal	%	0.11	0.38	1
TFS	No. of Cases	Male	Case	-	-	-
		Female	Case	1	-	-
		Subtotal	Case	1	0	0
	Accident Rate	Male	%	-	-	-
		Female	%	0.25	-	-
		Subtotal	%	0.25	0	0

Lost-Time Injuries Frequency Rate (LTIFR)

Company/ Subsidiary	Category	Unit	2014	2015	2016
LG H&H	Employees	Case/M Work Hour	0.12	0.77	0.42
	In-house Supplier	Case/M Work Hour	1.25	2.75	1.98
Coca-Cola	Employees	Case/M Work Hour	1.58	1.41	2.88
HAITAI htb	Employees	Case/M Work Hour	1.64	1.85	3.52
TFS	Employees	Case/M Work Hour	1.18	0.00	0.00

Occupational Illness Frequency Rate (OIFR)

Company/ Subsidiary	Unit	2014	2015	2016
LG H&H	Case/M Work Hour	0.00	0.00	0.00
Coca-Cola	Case/M Work Hour	0.00	0.00	0.00
HAITAI htb	Case/M Work Hour	0.00	0.00	0.00
TFS	Case/M Work Hour	0.00	0.00	0.00

Government Subsidy in 2016

Project Title	Government Agency	Amount (KRW M)	Notes
Development of Traditional Medicine-based Management Technology for Atopic Dermatitis	Ministry of Science, ICT and Future Planning	30	Sep 2016 to Aug 2017

Memberships of Associations in 2016

Company/Association	Association Name	Association Name	Association Name
Green Company Council	Korea Cosmetic Association	Korea Health Supplements Association	Korea Economic Research Institute
Korea Industrial Safety Association	Korea Society of Cosmetics and Cosmetology	Seoul Bar Association	Emergency Plan Council of the Ministry of Knowledge and Economy
Korea Fire Safety Association	Fair Competition Federation	Korea International Trade Association	Federation of Korean Industries
Korean Association of Occupational Health Nurses	Organization of Consumer Affairs Professionals in Business	Korea Intellectual Property Protection Association	Korea Chamber of Commerce and Industry
Korean Standards Association (KSA)	Korea Industrial Safety Association	Korea Patent Attorneys Association	UN Global Compact
Society of Cosmetic Scientists of Korea	Korea Listed Companies Association	KISANHYUP	CSV Society
Association Internationale pour la Protection de la Propriete Intellectuelle	Korea Intellectual Property Association	Korea Customs Logistics Association	Korea Chemicals Management Association
Korea Industrial Technology Association	Korea Products Safety Association	American Chamber of Commerce in Korea	Korea Food Industry Association

Major External Assessment and Awards in 2016

Title	Award	Institution for Assessment/Award
The 53 rd Annual Trade Day Export Tower	Awarded the 500 Million US Dollar Export Tower	Ministry of Trade, Industry and Energy
2016 Large and SME Win-Win Growth	President's Commendation on Benefit Sharing field	Korean Commission for Corporate Partnership
Received Excellent-rating on Win-Win Growth Index Assessment	Won Grand Prize on Win-Win Growth	Korean Commission for Corporate Partnership
Selected as a Fair Trade Exemplary Company	Ranked AAA in the Compliance Program	Fair Trade Commission
2016 Win-Win Growth Index	First Class for two consecutive years	Korean Commission for Corporate Partnership
Dow Jones Sustainability Index	Listed in the Asia-Pacific Region for seven consecutive years (category of household goods)	S&P Dow Jones Indices / RobecoSAM / KPC
17 th Auditing Grand Prize	Financial Supervisory Advice Governor's Commendation	Korea Listed Companies Association / The Korean Institute of Certified Public Accounts
14 th MoneyToday IR Grand Prize	Awarded Most Excellent IR Company in Life Culture field	Moneytoday
3 rd Porter Prize for Excellence in CSV	Awarded for Excellence in project propagation field	The Institute for Industrial Policy Studies / Dong-A Ilbo
2016 The World's Most Innovative Companies	19 th in the whole chart, second in the industry	Forbes
2016 The Comfortable Workplace of the Year	Minister of Employment and Labor Award (The Standard Workplace for the Disabled)	Ministry of Employment and Labor / Korea Employment Agency for the Disabled

Management System Certification in 2016

Category	ISO 14001	ISO 9001	OHSAS 18001	HACCP	KS	Green Company
LG H&H	Cheongju · Ulsan · Onsan	Cheongju · Ulsan · Onsan · Naju	Cheongju · Ulsan	N/A	Cheongju · Ulsan	Cheongju · Ulsan
Coca-Cola	Yeosu · Yangsan · Gwangju	Yeosu · Yangsan · Gwangju	Yeosu · Yangsan · Gwangju	Yeosu · Yangsan · Gwangju	N/A	Gwangju
HAITAI htb	Cheonan · Pyeongchang · Cheorwon	Cheonan · Pyeongchang · Cheorwon	Cheonan · Pyeongchang · Cheorwon	Cheonan · Iksan	N/A	Cheonan

GRI INDEX

GRI G4 Index (Core Option)

GENERAL STANDARD DISCLOSURE					
Aspects	Index	Contents	Page	Remarks	Independent Assurance
Strategy and Analysis	G4-1	The statement from the most senior decision-maker about the organization's sustainability	2-3		●
	G4-2	The organization's mission, vision, and values	4		●
Organizational Profile	G4-3	The name of the organization	4		●
	G4-4	The primary brands, products, and services	6-11		●
	G4-5	The location of the organization's headquarters	4		●
	G4-6	The number and name of the countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	4-5, 32-33		●
	G4-7	The nature of ownership and legal form	4, 56		●
	G4-8	The markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	5, 32-33		●
	G4-9	Scale of the organization (i.e. number of employees, operations, net sales, etc.)	4-5		●
	G4-10	The total number of employees	4, 76		●
	G4-11	The percentage of total employees covered by collective bargaining agreements	77		●
	G4-12	The organization's supply chain	53, 73		●
	G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain		No significant changes	●
	G4-14	The precautionary approach or principle is addressed by the organization	89		●
	G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	78-85		●
G4-16	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization	78		●	
Identified Material Aspects And Boundaries	G4-17	All entities included in the organization's consolidated financial statements or equivalent documents	72	Business Report p.49-51	●
	G4-18	The process for defining the report content and the Aspect Boundaries	66-69		●
	G4-19	All the material Aspects identified in the process for defining report content	66-69		●
	G4-20	Aspect Boundary, for each material Aspect, within the organization	68-69		●
	G4-21	Aspect Boundary, for each material Aspect, outside the organization	68-69		●
Stakeholder Engagement	G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements		Any restatements were commented separately	●
	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	66-69, 70		●
	G4-24	List of stakeholder groups engaged by the organization	64		●
Report Profile	G4-25	Basis for identification and selection of stakeholders with whom to engage	64		●
	G4-26	Organization's approach to stakeholder engagement	64-65		●
	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and the organization's response to them	64-65, 68-69		●
	G4-28	Reporting period (such as fiscal or calendar year) for information provided	70		●
Governance	G4-29	Date of most recent previous report (if any)		2016.5	●
	G4-30	Reporting cycle (such as annual, biennial)	70		●
	G4-31	Provide the contact point for questions regarding the report or its contents	93		●
	G4-32	Report the 'in accordance' option the organization has chosen (including GRI Index, External Assurance Report, etc.)	70		●
	G4-33	The organization's policy and current practice with regard to seeking external assurance for the report	70-71, 79-88		●
Ethics and Integrity	G4-34	The governance structure of the organization, including committees of the highest governance body	56, 92		●
	G4-56	The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	62-63, 90-91		●

SPECIFIC STANDARD DISCLOSURE					
Aspects	Index	Contents	Page	Remarks	Independent Assurance
Environmental	Energy	DMA	44		●
		EN3	74		●
		EN5	74		●
		EN6	46		●
		DMA	44		●
		EN8	75		●
Water	Emissions	EN10	75		●
		DMA	44		●
		EN15	86-88		●
		EN16	86-88		●
		EN18	74		●
Effluents and Waste	Supplier Environmental Assessment	EN19	46, 74		●
		DMA	44		●
		EN22	47, 74		●
		EN23	47, 75		●
Supplier Environmental Assessment	Supplier Environmental Assessment	EN24		No significant spills	●
		DMA	50		●
		EN32	53		●
Supplier Environmental Assessment	Supplier Environmental Assessment	EN33	53		●
		EN33	53		●

Labor Practices and Decent Work					
Aspect	Index	Contents	Page	Remarks	Independent Assurance
Employment	DMA		34		●
	LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	77		●
	LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	35-37		●
	LA3	Return to work and retention rates after parental leave, by gender	36, 76		●
Diversity and Equal Opportunity	DMA		34		●
	LA12	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	76		●
Supplier Environmental Assessment	DMA		50		●
	LA14	Percentage of new suppliers that were screened using labor practices criteria	53		●
Human Rights					
Supplier Human Rights Assessment	DMA		50		●
	HR10	Percentage of new suppliers that were screened using human rights criteria	53		●
Social					
Supplier Assessment for Impacts on Society	DMA		50		●
	SO9	Percentage of new suppliers that were screened using criteria for impacts on society	53		●
	SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	60-61, 53		●
Product Responsibility					
Customer Health and Safety	DMA		38		●
	PR1	Percentage of significant products and services categories for which health and safety impacts are assessed for improvement	14-19		●
Product and Service Labeling	DMA		38		●
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		No Significant Incidents	●
	PR5	Results of surveys measuring customer satisfaction	38		●

The FPSD of GRI is only applied to Coca-Cola Beverage and HAITAI htb.

Aspect	Index	Contents	Page	Remarks	Independent Assurance
Social Labor/management relations	FP3	Percentage of working time lost due to industrial disputes, strikes and/or lock-outs	-	N/A	
Labor/management relations	FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards	-	100%	

G4 General & Specific Standard Disclosures Full List

GENERAL STANDARD DISCLOSURE					
Aspect	Index	Contents	Page	Remarks	Independent Assurance
Strategy and Analysis	G4-2	Description of key impacts, risks, and opportunities	61, 66-69		
Governance	G4-38	Composition of the highest governance body and its committees (Executives or non-executives, Independence, Tenure on the governance body, Number of each individual's other significant positions and commitments, and the nature of the commitments, Gender, Memberships of under-represented social groups, Competences relating to economic, environmental, and social impacts, Stakeholder representation)	56-57		
	G4-39	Whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organization's management and the reasons for this arrangement)	56		
	G4-40	The nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	56-57		
	G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	57		
	G4-42	The highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	56-57		
	G4-48	The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material aspects are covered	30-31, 66		
	G4-49	The process for communicating critical concerns to the highest governance body	66-67		
	G4-50	The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	66-69	Reported throughout the Report	
	G4-51	The remuneration policies for the highest governance body and senior executives		Business Report p. 306-307	
	G4-52	The process for determining remuneration	56		
Ethics and Integrity	G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	62-63		
	G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	62-63		

SPECIFIC STANDARD DISCLOSURE					
Aspect	Index	Contents	Page	Remarks	Independent Assurance
Economic					
Economic Performance	EC1	Direct economic value generated and distributed	4, 32-33, 73		
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	44, 46		
	EC4	Financial assistance received from government	78		
Market Presence	EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation		No difference in wages by gender	
	EC6	Proportion of senior management hired from the local community at significant locations of operation		92% (356/386 persons)	
Indirect Economic Impacts	EC7	Development and impact of infrastructure investments and services supported	40-43		
	EC8	Significant indirect economic impacts, including the extent of impacts	40-43, 50-53		
Procurement Practices	EC9	Proportion of spending on local suppliers at significant locations of operation	77		
Environmental					
Products and Services	EN27	Extent of impact mitigation of environmental impacts of products and services	14-17, 20-23, 73		
	EN28	Percentage of products sold and their packaging materials that are reclaimed by category	23, 75		
Compliance	EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		No fines or non-monetary sanctions	
Transport	EN30	Significant environmental impacts of transporting products and other goods and materials of the organization's operations, and transporting members of the workforce	49		
Overall	EN31	Total environmental protection expenditures and investments by type	75		
Labor Practices and Decent Work					
Labor/Management Relations	LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	37		
Occupational Health and Safety	LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	77-78		
	LA8	Health and safety topics covered in formal agreements with trade unions	48		
Training and Education	LA9	Average hours of training per year per employee by gender, and by employee category	37, 76		
	LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	76		
Equal remuneration for women and men	LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation		No difference in basic salary by gender	

UNGC & UN SDGs & SASB

UNGC Communication on Progress

As LG H&H joined the UNGC (Global Compact) in November 2012, our company has reinforced voluntary efforts to comply with ten major principles in four major sectors including human rights, labor, environment, and anti-corruption.

SPECIFIC STANDARD DISCLOSURE					
Aspect	Index	Contents	Page	Remarks	Independent Assurance
Human Rights					
Non-discrimination	HR3	Total number of incidents of discrimination and corrective actions taken		No such incidents	
Freedom of Association And Collective Bargaining	HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	37		
Social					
Local Communities	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs		100%	
	SO2	Operations with significant actual and potential negative impacts on local communities		N/A	
Anti-corruption	SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	58-63		
	SO4	Communication and training on anti-corruption policies and procedures	58-63		
	SO5	Confirmed incidents of corruption and actions taken	58-63		
Anti-competitive Behavior	SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	58-63		
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		No violations	
Grievance Mechanisms for Impacts on Society	SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	63		
Product Responsibility					
Marketing Communications	PR6	Sale of banned or disputes products	39		
Customer Privacy Communications	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		No complaints or breaches	

The FPSD of GRI is only applied to Coca-Cola Beverage and HAITAI htb.

Aspect	Index	Contents	Page	Remarks	Independent Assurance
Eco-nomy Procurement/Sourcing Practices	FP1	Percentage of purchased volume from suppliers compliant with company's sourcing policy	-	100%	
	FP2	Percentage of purchased volume which is verified as being in accordance with credible, internationally recognized responsible production standards, broken down by standard	-		

Aspects	Contents	LG H&H system and policy	Relevant activity	Page
Human rights				
Principle 1.	Businesses should support and respect the protection of internationally proclaimed human rights	Code of Ethics Chapter 1. Responsibilities and Duties for Customers	LG H&H prohibits gender/background discrimination, forced labor, etc., and respects human rights of individual employees.	62-63
Principle 2.	Businesses make sure that they are not complicit in human rights abuse.	Chapter 5. Responsibilities for Executives and Employees 2. Fair Treatment		34-37
Labor rules				
Principle 3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Knowhow for Operating the Labor management Council Code of Ethics Chapter 5. Responsibilities for Executives and Employees	LG H&H continuously makes extensive efforts to train employees into autonomous and creative talented people.	34-37, 89
Principle 4.	Businesses should eliminate all forms of forced and compulsory labor.			
Principle 5.	Businesses should abolish child labor effectively.	1. Respecting Human Beings		
Principle 6.	Businesses should eliminate discrimination in respect of employment and occupation.	2. Fair Treatment		
Environment				
Principle 7.	Businesses should support a precautionary approach to environmental challenges	Code of Ethics Chapter 6. Responsibilities for the Country and Society	LG H&H continues to carry out activities enhancing environmental value by considering environmental impacts on the supply chain by business activities.	44-49
Principle 8.	Businesses should undertake initiatives to promote greater environmental responsibility.	4. Environmental Protection		
Principle 9.	Businesses encourage the development and diffusion of environmentally friendly technologies	· Policy on Environmental Health and Safety · Regulations on Environmental Management		
Anti-corruption				
Principle 10.	Businesses should work against corruption in all its forms, including extortion and bribery.	Code of Ethics Chapter 2. Fair Competition 2. Legal Compliance Chapter 4. Basic Ethics for Executives and Employees 4. Fair Implementation of Work	LG H&H, based on Jeong-Do Management, practices ethical business activities and fair trade with its suppliers.	58-63

UN SDGs

LG H&H conducts in order to achieve the SDGs that Unite Nations presents. Activities associated with SDGs are promoted as above. Details about SDGs can be checked on the homepage(<http://sustainabledevelopment.un.org>).

Aspects	SDGs Goals	Relevant activity	Page
Goal 1.	End poverty in all its forms everywhere	Developing Products with Social Value - Creation of Value Shared with Underprivileged Regions: BEYOND Himalaya Line	25
Goal 3.	Ensure healthy lives and promote well-being for all at all ages	Social Contribution - PERIOE Kids School, Borrowed Earth School	42
Goal 4.	Ensure inclusive and equitable quality education and promote life long learning opportunities for all	Social Contribution - THEFACESHOP HIMANGO Aid Program	43
Goal 5.	Achieve gender equality and empower all women and girls	Employee Value - Ratio of Female Employees	34
Goal 6.	Ensure availability and sustainable management of water and sanitation for all	Environment and Safety Management - Minimizing Environmental Impact by Water Resource Risk Management, Waste Management, etc	44-47
Goal 12.	Ensure sustainable consumption and production patterns	Developing Products with Social Value - Creation of Value Shared with Underprivileged Regions: BEYOND Himalaya Line Social Contribution - Global Eco Leader, Coca-Cola Kids Green Leadership	25, 42-43
Goal 13.	Take urgent action to combat climate change and its impacts	Environment and Safety Management - Energy & GHG	46
Goal 16.	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	Jeong-Do Management	62-63

Sustainability Accounting Standards Board (SASB)

The SASB has established the guideline for announcement regarding corporate sustainability and standard on accounting to help the U.S. and foreign companies to report cases to the Securities and Exchange Commission (SEC).

Aspects	Issues	Non-alcohol beverage sector	Household and personal product sector	Page
Environment	Energy management	●	●	44-47
	Water management	●	●	44-47
Social	Health and nutrients	●	●	14-19, 38-39
	Transparent labeling and marketing	●	●	38-39, 62-63
Innovative	Management and innovation of packaging cycle	●	●	14-19
	Product composition safety	●	●	14-19
Governance	Management of supply chain	●	●	56-57

*The non-alcohol beverage sector is applied to Coca-Cola Beverage and HAITAI htb, while the daily and personal product sector is applied only to LG H&H.

INDEPENDENT ASSURANCE STATEMENT

Introduction

LG Household & Health Care Ltd. (“LG Household & Health Care”) commissioned DNV GL Business Assurance Korea, Ltd. (“DNV GL”), part of DNV GL Group, to undertake independent assurance of 2016 LG Household & Health Care CSR Report (the “Report”). The directors of LG Household & Health Care have sole responsibility for the preparation of the Report. DNV GL’s assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith.

Scope of assurance

The scope of assurance includes a review of sustainability activities and performance data over the reporting period from 1st January to 31st December 2016. This also includes:

- Evaluation of adherence to the principles for defining the sustainability report content as set forth in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 4.0
- Evaluation of the process for determining material aspects for reporting and the management approach to material issues and the process for generating, gathering and managing the quantitative and qualitative data in the Report.

Basis of our opinion

We’ve performed our work using DNV GL’s assurance methodology VeriSustain^{TM1)}, which is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000). We provided the limited level of assurance. The audit was carried out from April and till May 2017. The site visits were made to the headquarters of LG Household & Health Care and main subsidiaries in Korea. We undertook the following activities as part of the assurance process:

- challenged the sustainability-related statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls;
- interviewed representatives from the various departments;
- conducted document reviews, data sampling and interrogation of supporting databases and associated reporting systems as they relate to selected content and performance data;
- reviewed the materiality assessment report.
- Site visits to LG Household & Health Care Anyang, Onsan factory, Coca-Cola Beverage Company factory in Gwangju, HAITAI htb Co., Ltd. Factory in Iksan and testing data gathering process.

Limitations

The engagement excludes the sustainability management, performance and reporting practices of LG Household & Health Care’ subsidiaries, associated companies, suppliers, contractors and any third-parties mentioned in the Report. DNV GL did not interview external stakeholders as part of this Assurance Engagement. Economic performance based on the financial data is cross-checked with internal documents, the audited consolidated financial statements and the announcement disclosed at the website of Korea Financial Supervisory Service (<http://dart.fss.or.kr>) as well as LG Household & Health Care’s website (www.lgcare.com). These documents, financial statements and the announcements are not included in this Assurance Engagement. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organization were applied. The baseline data for Environmental and Social performance are not verified, while the aggregated data at the corporate level are used for the verification. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Conclusion

On the basis of the work undertaken, nothing comes to our attention to suggest that the Report does not properly address the adherence to the Principles for defining report content in GRI G4. In addition, nothing comes to our attention to believe that the Report does not meet the GRI G4 - ‘Core’ option of reporting. Further opinions with regards to the adherence to the Principles are made below;

• Stakeholder Inclusiveness

LG Household & Health Care has identified internal and external stakeholder groups such as Customers, Employees, Shareholders/ Investors, Subcontractors and Suppliers, Local community, Government/State-owned organization/Industry association. LG Household & Health Care engages with the stakeholders at the company and business unit levels through various channels. The examples of approaches to engage with selected stakeholders and relevant organizations are described in the Report. Meeting with expert panel group consisting with professors and various experts from the industry and consulting firms to seek the advice on sustainability management is considered as a good practice.

• Sustainability Context

The stakeholders can review LG Household & Health Care’s mid and long term strategy about CSR(Corporate Socially Responsibility) from the Report. LG Household & Health Care addresses how material issues grouped into 14 key aspects are managed and what was achieved in 2016, which would help the stakeholder understand the management approaches toward the material aspects.

• Materiality

LG Household & Health Care has conducted the materiality assessment to prepare the Report. Internal and external stakeholder survey has conducted to rate the material issues and 12 material issues are prioritized accordingly. For systematically management, all material issues are managed separately by Beautiful & Health division and the Refreshing division. The audit team has reviewed the materiality assessment process and noted relevant material issues prioritized from the process are addressed in the Report.

• Completeness

The Report has covered sustainability performances of LG Household & Health Care and management approach to material issues for the reporting period. The reporting boundary includes the operations over which LG Household & Health Care implements management control and subsidiaries in Korea. Nothing comes to our attention to believe that the Report does not cover material issues derived from materiality assessment.

• Accuracy and Reliability

The audit team has sampled data and tested accuracy. Data owners could demonstrate the origin of the data and interpret the data processed in a reliable manner. The data was identifiable and traceable. Based on the test, the intentional error or misstatement is not noted from the data and information disclosed in the Report.

Competence and Independence

DNV GL Business Assurance is part of DNV GL Group and a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. Our environmental and social assurance specialists are present in over 100 countries. The assurance work was performed by independent team which meets DNV GL’s competence requirements. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. The audit team has complied with DNV GL Code of Ethics during the assurance engagement.



In Kyoon Ahn
Country Representative
DNV GL Business Assurance Korea, Ltd.

May 2017
Seoul, Korea

1) The VeriSustain protocol is available upon request at DNV GL Website (www.dnvgl.com/assurance/reporting/verification.html)

GHG EMISSION VERIFICATION STATEMENT (LG Household & Health Care)

Introduction

DNV GL Business Assurance Korea Ltd. (“DNV GL”) was commissioned by LG Household & Health Care Ltd. (“LG Household & Health Care”) to verify the LG Household & Health Care’s Greenhouse Gas Inventory Report for the calendar year 2016 (“the report”) based upon a reasonable level of assurance. LG Household & Health Care is responsible for the preparation of the GHG emissions data on the basis set out within the ISO 14064-1:2006 and the ‘Greenhouse Gas and Energy Target Management Scheme (Notification No. 2014-186 of Ministry of Environment)’. Our responsibility in performing this work is to the management of LG Household & Health Care only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

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

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

Verification Approach

The verification has been conducted by DNV GL from April through May 2017 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2006. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a reasonable verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

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

Conclusions

Based on the above verification core elements, it is DNV GL opinion that the data and the information reported in the GHG assertion are free of errors, omissions and misrepresentations providing a fair and balanced quantification, in compliance to the above reported verification criteria. The GHG Emissions of LG Household & Health Care for the year 2016 were confirmed as below;

(Unit: ton CO₂ equivalent.)

LG Household & Health Care	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Subtotal	Other indirect emissions (Scope 3)	Total emissions
Year 2016	7,571	39,199	46,770	4,898	51,667

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO₂.

**Total emissions = Scope 1 + Scope 2 + Scope3 (include commuter bus and waste disposal)

In-Kyoon Ahn Country Manager
DNV GL Business Assurance Korea Ltd

11th May 2017
Seoul, Korea

This Assurance Statement is valid as of the date of the issuance (11th May 2017). Please note that this Assurance statement would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions of LG Household & Health Care is subsequently brought to our attention.

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

GHG EMISSION VERIFICATION STATEMENT (Coca-Cola Beverage Company)

Introduction

DNV GL Business Assurance Korea Ltd. (“DNV GL”) was commissioned by Coca-Cola Beverage Company (“Coca-Cola Beverage”) to verify the Coca-Cola Beverage’s Greenhouse Gas Inventory Report for the calendar year 2016 (“the report”) based upon a reasonable level of assurance. Coca-Cola Beverage is responsible for the preparation of the GHG emissions data on the basis set out within the ISO 14064-1:2006 and the ‘Greenhouse Gas and Energy Target Management Scheme (Notification No. 2014-186 of Ministry of Environment)’. Our responsibility in performing this work is to the management of Coca-Cola Beverage only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

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

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

Verification Approach

The verification has been conducted by DNV GL from April through May 2017 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2006. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a reasonable verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

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

Conclusions

Based on the above verification core elements, it is DNV GL opinion that the data and the information reported in the GHG assertion are free of errors, omissions and misrepresentations providing a fair and balanced quantification, in compliance to the above reported verification criteria. The GHG Emissions of Coca-Cola Beverage for the year 2016 were confirmed as below;

(Unit: ton CO₂ equivalent.)

Coca-Cola Beverage	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Total emissions
Year 2016	25,777	22,072	47,849

*In order to report the GHG emissions as an integer, the rounded number on the statement might be different from the number on the system with ± 1 tCO₂.

**Total emissions = Scope 1 + Scope 2

In-Kyoon Ahn Country Manager
DNV GL Business Assurance Korea Ltd

11th May 2017
Seoul, Korea

This Assurance Statement is valid as of the date of the issuance (11th May 2017). Please note that this Assurance statement would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions of Coca-Cola Beverage is subsequently brought to our attention.

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

GHG EMISSION VERIFICATION STATEMENT (HAITAI htb Co., Ltd.)

Introduction

DNV GL Business Assurance Korea Ltd. ("DNV GL") was commissioned by HAITAI htb Co., Ltd. ("HAITAI htb Co., Ltd.") to verify the HAITAI htb Co., Ltd.'s Greenhouse Gas Inventory Report for the calendar year 2016 ("the report") based upon a reasonable level of assurance. HAITAI htb Co., Ltd. is responsible for the preparation of the GHG emissions data on the basis set out within the ISO 14064-1:2006 and the 'Greenhouse Gas and Energy Target Management Scheme (Notification No. 2014-186 of Ministry of Environment)'. Our responsibility in performing this work is to the management of HAITAI htb Co., Ltd. only and in accordance with terms of reference agreed with them. DNV GL expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance statement.

Scope of Assurance

The emissions data covered by our examination comprise Direct emissions (Scope 1 emissions) and Energy indirect emissions (Scope 2 emissions) from HAITAI htb Co., Ltd. boundary of the report;

- Organizational boundary for reporting: Domestic business sites of HAITAI htb Co., Ltd. - Factory (Cheonan, Pyeongchang, Cheorwon, Iksan), Business Logistics

Verification Approach

The verification has been conducted by DNV GL from April through May 2017 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2006. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a reasonable verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

- We have reviewed and verified the HAITAI htb Co., Ltd.'s GHG inventory report (Excel based)
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions

Based on the above verification core elements, it is DNV GL opinion that the data and the information reported in the GHG assertion are free of errors, omissions and misrepresentations providing a fair and balanced quantification, in compliance to the above reported verification criteria. The GHG Emissions of HAITAI htb Co., Ltd. for the year 2016 were confirmed as below;

(Unit: ton CO₂ equivalent.)

HAITAI htb Co., Ltd.	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Total emissions
Year 2016	14,198	14,654	28,851

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



In-Kyoon Ahn Country Manager
DNV GL Business Assurance Korea Ltd

11th May 2017
Seoul, Korea

Human Rights Policy

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

1. Prohibition of Discrimination

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

2. Humanitarian Treatment

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

3. Prohibition of Forced Labor

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

4. Women and Labor of Children

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

5. Working Hours

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

6. Wage and Welfare

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

7. Freedom of Association

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

8. Protection of Personal information

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

Supplier Code of Conduct

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

1. Labor Conditions and Human Rights

A. Prohibition of discrimination	In the operation of human resource system including employment, promotion, compensation and training opportunities, all suppliers shall strive to prevent their employees from being discriminated on the grounds of nationality, race, age, gender, sexual orientation, disability, pregnancy, religion, membership of political organization and/or labor union, and marital status.
B. Humane treatment	All suppliers shall respect all workers and not treat them in any severe and inhumane way including sexual harassment and abuse, corporal punishment, mental and physical coercion, verbal abuse, and irrational restriction at work.
C. Prohibition of forced labor	All suppliers shall not use the labor of workers against their free will with their mental and/or physical freedom restricted by means of assault, threat, and confinement. All labor shall be based on free will. All suppliers shall not require workers to hand over their identification card, passport, and/or work permission card issued by the government on condition of employment. Both suppliers and workers shall write and keep a copy of the labor agreement.
D. Child labor and protection of pregnant women	All suppliers shall not employ children for any kind of job position. In accordance with 138 of ILO Convention, Convention concerning Minimum Age for Admission to Employment (1973), “children” signifies those under the age of 15 or those who do not exceed the school-leaving age. If a different age of children is stipulated in the regional laws and regulations, a lower age shall be applied, and such minimum age for work is determined by laws and regulations. Young workers under the age of 18 and pregnant employees shall be excluded from hazardous or dangerous tasks limited by legislations. All suppliers shall comply with the working conditions such as the limitation of age for work in accordance with the ILO (International Labour Organization) convention ratified by each country.
E. Working hours	Working hours and days shall not exceed hours permitted by laws and regulations.
F. Wage and welfare	All payments for suppliers shall comply with all labor-related legislations concerning minimum wage, overtime working hours and legal welfare.
G. Freedom of association	All suppliers shall ensure workers to have the freedom of association and membership in the labor union and recognize the workers’ rights to select a representative and join the labor union. All employees shall be entitled to openly communicate with the management about working conditions with no fear of retaliation, threat, and harassment.

2. Safety and Health

A. Industrial safety	All suppliers shall eliminate any physical risk and safety risk elements and take preemptive measures to prevent accidents and occupational diseases. Such risks shall be controlled by appropriate design, engineering and administrative control, preventive repair, safe work procedure, and continuous safety drills. In case risks cannot be sufficiently controlled by using these means, workers shall be provided with proper and well-maintained personal protective gears.
B. Industrial hygiene	All suppliers shall identify, evaluate and manage any exposure of chemical, biological, and physical factors to employees. All suppliers shall prevent workers from being excessively exposed to these factors by using technical or administrative control devices. In case risks cannot be sufficiently controlled by using these means, workers shall be provided with proper and well-maintained personal protective gear.
C. Preparation for emergency	All suppliers shall minimize any damage by identifying and assessing the emergency and its state if one happens and implementing emergency measures and response procedure.
D. Industrial accident and disease	All suppliers shall establish the process to prevent, manage, track and report industrial accidents and occupational diseases.
E. Hygiene, food, and housing	All suppliers shall provide employees with a clean toilet, drinking water, hygienic food cooking, storage, and dining facilities. An employee dormitory for suppliers or third-party agents shall be maintained to be clean and safe, and it will have the appropriate emergency exits, heating and ventilating devices, proper personal spaces, and reasonable authority for entry (security).

F. Physical labor	All suppliers shall identify, assess, and control any exposure of physical labor risk to employees. Such physical labor includes manual labor, tasks to lift heavy materials or items repetitively, tasks that require standing for a long time, and repetitive assembly work or tasks requiring a high level of physical energy.
G. Safety maintenance of mechanical facilities	All suppliers shall evaluate the risk in safety of production facilities or other facilities. All suppliers shall provide physical guards, devices for safety, and protective wall. In case any employee gets wounded by facilities, maintenance work shall be conducted for the facilities.

3. Environment

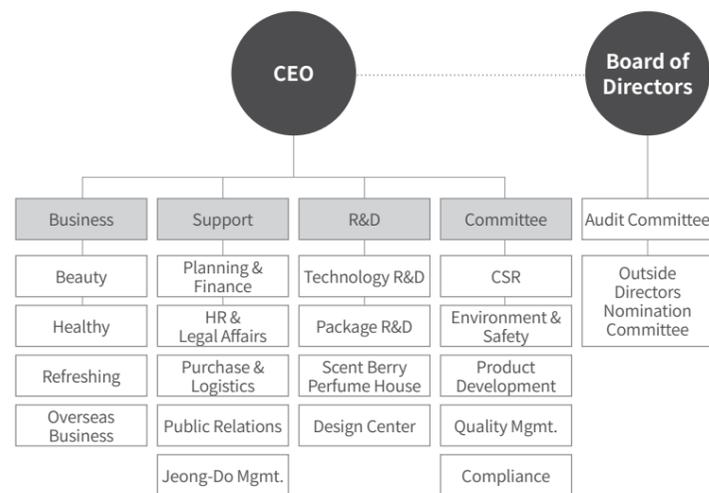
A. Environmental licensing and reporting	All suppliers shall acquire and maintain any required environmental licenses (e.g. emission management and registration) and reflect the latest revised content at all times. All suppliers shall comply with the requirements of operation and reporting in the licensing process.
B. Hazardous substances	All suppliers shall identify any compounds and other substances, which cause risk in safety in case of emission to the environment, and manage the safe treatment, transfer, storage, use, recycling, reuse and processing of these substances.
C. Solid waste and effluent	If necessary for the relevant laws and regulations, all suppliers shall identify, monitor, control, and handle any solid waste and effluent generated in the industrial process for operation and hygiene facilities before emission.
D. Air pollution	If necessary for the relevant laws and regulations, all suppliers shall identify the characteristics of any volatile organic compounds generated in the manufacturing process or aerosol, corrosive agents, fine powder, ozone layer-depleting substances, and combustion by-products in the process before emission and monitor, control, and handle such substances.
E. Prevention of pollution and reduction of resource use	Various wastes such as effluent and energy shall be reduced or removed from pollutants or by using the method of changing the production, maintenance, and facility process, replacing or conserving raw materials, and recycling and reducing raw materials. All suppliers shall make efforts to minimize environmental contamination by reducing the usage of water in the manufacturing and packaging process and using eco-friendly materials.
F. Regulation on materials in products	All suppliers shall comply with any relevant laws and regulations and customer requests with regard to the prohibition and restriction of certain substances, including the label of recycling and treatment.
G. Effort to develop sustainable products	All the products and services provided shall comply with legal regulations by local government. All suppliers shall strive to develop sustainable products, which improve environmental friendliness and energy efficiency.

4. Others

A. Jeong-Do Management	All suppliers shall ban any corruption act such as bribery and embezzlement, including gifts, by policy in accordance with LG H&H policy on Jeong-Do Management and continuously crack down and monitor corruption. All transactions shall be transparent and accurately recorded in the account book.
B. Fair trade	All suppliers shall prohibit any unfair trade and comply with the regulations on fair trade to protect consumers’ rights and interests.
C. Identity protection	All suppliers shall develop and operate a program to ensure confidentiality of whistleblowers and guarantee their protection.
D. Legal and ethical purchase of raw materials	All suppliers shall identify the source and origin of raw materials distributed in the supply chain, check if such materials are acquired by any illegal and unethical way (disputed mineral, illegal wood) and guarantee legal acquisition.
E. Protection of intellectual property rights	All suppliers shall respect all intellectual property rights and protect the rights in case of transferring technical knowhow. All information on LG H&H shall be protected safely.
F. Protection of personal information	All suppliers shall systemically protect personal information of all stakeholders (including suppliers, clients, customers, and employees). All suppliers shall also comply with the laws and regulations for protecting personal information and information security in collecting, storing, processing, transmitting, and sharing personal information.
G. Responsibilities of suppliers	All suppliers for comprehensive purchase assessment shall submit the results of self-diagnosis based on CSR evaluation table. All suppliers shall recommend sub-suppliers to observe this Code and conduct evaluation.

2016 LG H&H CSR REPORT

Organizational Chart



We thank those who aided in developing the CSR Report.

Published in May 2017 Published by Suk Cha Designed by Reddotbranding
 LG H&H CSR Team 12F, LG Gwanghwamun Bldg., Saemunan-ro 58, Jongno-gu,
 Seoul, Korea

Cover History



LG Household & Health Care CSR Team

Tel. 02-6924-6038

Fax. 02-6924-6197

E-mail. lgsr@lgcare.com

www.lgcare.com



This report was printed on eco-friendly paper using soybean oil ink.