

T2

SUSTAINABILITY REPORT 2017



TAEKWANG



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

We welcome feedback on its contents.



We printed Taekwang Sustainability Report 2017 on the FSC (Forest Stewardship Council)
certified paper with soybean-based ink.

COVER STORY

The cover page footprint graphic represents TaeKwang's commitment to taking positive and competitive steps towards modernization, speed, flexibility and our talented employees journey. The smaller icons, within the graphic, are also used throughout our sustainability report to represent our people, environment and community.

ABOUT THIS REPORT

REPORTING PRINCIPLE

Reported material issues in accordance with the GRI G4 Guidelines

REPORTING SCOPE

Headquarters (Andong, Gimhae, Gyeongsangnamdo, S. Korea),
Overseas Production Factories (QT, VT, VM, TT), and Major Suppliers

REPORTING PERIOD

June 2016 ~ May 2017 (January 2016 ~ December 2016 for Financial information)
Presented more than three years consecutive data

REPORTING FREQUENCY

Annually (First report published in 2013)

DISCLOSURE

Homepage <http://www.tkgroup.co.kr>

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Product Security and Information Security

Management Message



JM, I think we made great achievements with our employees by working diligently on the motto of **Innovation Management** last year. How about evolving our strategy to include the topic of **Future Competitiveness**?

- Chairman YC Park -

I absolutely agree with you, sir. We would also like to praise our employees who have achieved quality excellence with product innovation, automation and technology, despite the difficult global environments, this past year. Our **Future Competitiveness** will also require us to truly stabilize and sustain our **Safety and Quality** this year and going forward."

- CEO JM Kim -



I believe **Speed and Flexibility** will also enable our Future Competitiveness in our challenging market.
We must constantly develop and produce innovative products and technologies, and build a "stronger organization" that adds speed and flexibility to our core competitiveness.
It won't be easy to move forward, of course, but I strongly believe we can develop ourselves to the next level.

- T2 General Manager Mitchell Lee -

CEO's Message

Dear TaeKwang Friends and Stakeholders,

I am pleased to share our 5th 2017 Annual Sustainability Report with you as we work towards our Vision: "The Undisputed Leader in Global Manufacturing". We had another consecutive year of strategic progress and business growth as a proud partner. We increased our CY16 Gross Revenues to over KRW 1.55 trillion, which is an increase of 18% over the previous year. We are very thankful and proud of our employees for their various contributions to our business growth. We also produced almost 64M pairs in FY17 which was another new growth milestone for us.

Of course all of this success is only possible through our people. We are very fortunate to have over 68k committed and talented employees across 4 geographic locations including Korea, China, Vietnam and Indonesia who work tirelessly in creating and producing some of the most innovative products in our industry. All of this requires a commitment to our people and we are working hard to forge stronger relationships with our employees and their communities through grassroots activities such as EWB surveys, community enhancement programs, as well as other impactful Beyond Compliance projects. We have also made significant Safety investments in people and environment this past year to further safeguard our employees in the workplace through training, awareness and accountability as we continue to improve and elevate our Culture of Safety.

We are also working hard to improve our overall Culture and create a Zero Tolerance workplace environment that supports and respects diversity in people and ideas, regardless of background, sex, race, religion and orientation. We continued to provide in education, awareness and coaching of our employees in the importance of our TK Values and everyone's role in contributing to a positive company culture and will continue to evolve our culture into sustainable global standards.

Due to these and many other efforts, I am proud to announce our largest factory (VT) located in Vietnam attained "SILVER" Sustainability rating and is highlighted by the fact that we are one-of-five our customer's partners out of 500+ to attain this sought after level. I want to recognize and thank all team members for the hard work and commitment to help us achieve this milestone and look forward to one of our next factories to attain this level of excellence.

Many thanks to all of our employees and stakeholders, who continue to be critical to our growth as we look forward.

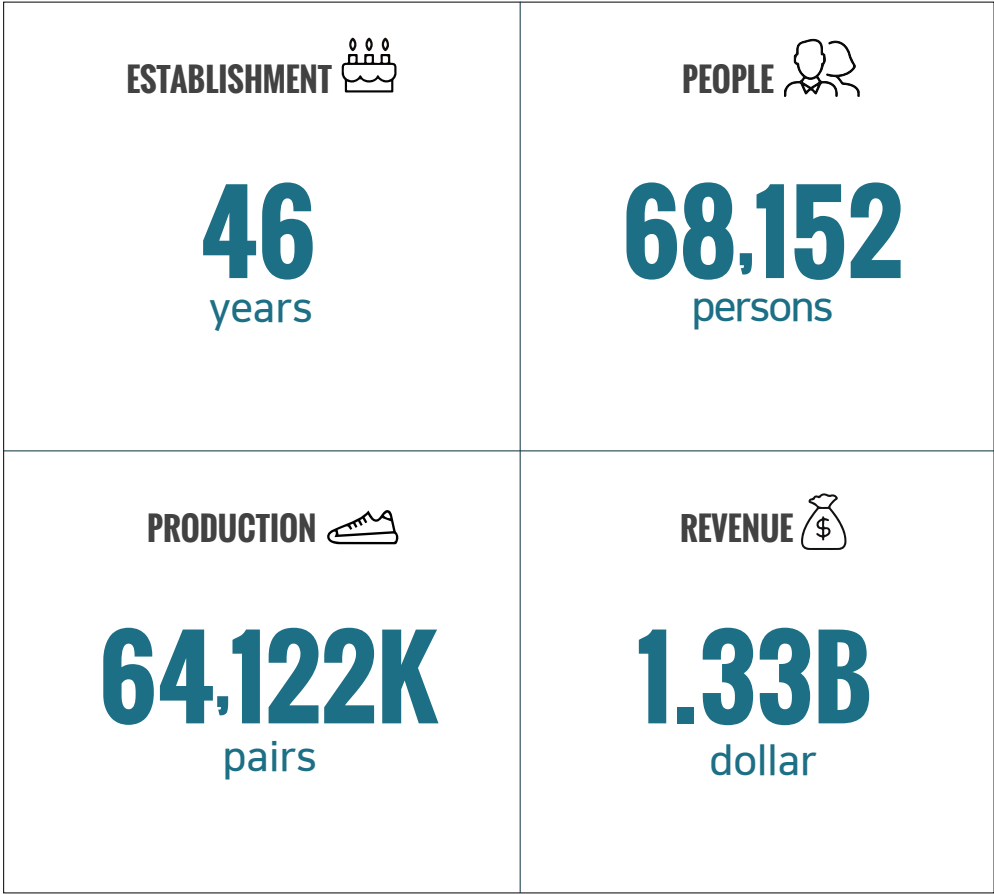
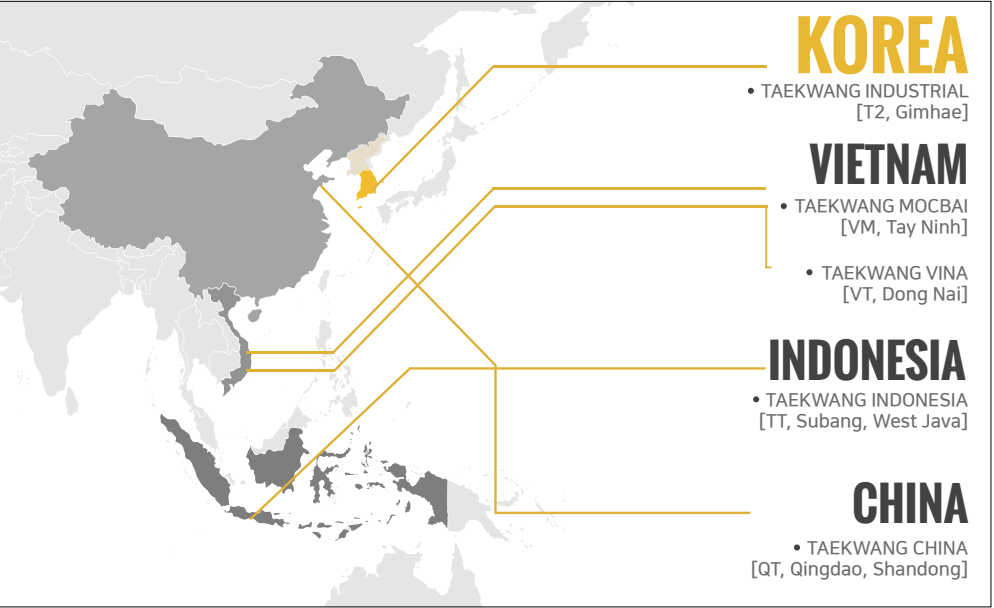
Sincerely

JM Kim
CEO/President

Introduction of TaeKwang

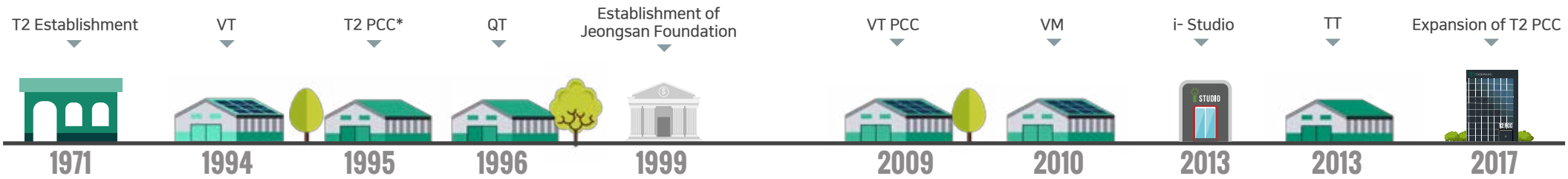
TaeKwang Industrial Co., Ltd., ("TaeKwang") was founded in 1971 to manufacture and export shoes. The head office (T2) is located in Andong, Gimhae, Gyeongsangnam-do, South Korea, and has four overseas production factories (VT, QT, VM, TT).

T2 establishes business and marketing strategies on behalf of the overseas factories and conducts ordering activities. In addition, T2 develops shoes technologies and makes shoe samples. The overseas factories produce received shoe models, which are assigned based on their strengths such as technological capability and production capacity. Today, more than 68,000 TaeKwang people develop, create, and produce more innovative shoes than ever before.



Milestone

*PCC: Product Creation Center



Business Overview



T2 PCC KOREA

1,057 persons



VT PCC VIETNAM

276 persons

Based on the best technology, TaeKwang has grown as the best shoe company leading the industry as a partner of the global sports brand.

We have developed new products at PCCs, constructed a division system that mass-produces the developed products at overseas factories, and operates two PCCs in Korea and Vietnam. In addition to the PCC, T2 also has Innovation Team to apply innovative ideas to our products and R&D Team for manufacturing automation. TaeKwang produces and supplies the best performance and lifestyle footwear to the world with the constant technology development and quality innovation since its establishment.

TaeKwang will continue to make the leap to become the undisputed leader in global manufacturing.



VT VIETNAM



32,902 person



33,423 person

TaeKwang Vina
[VT, Dong Nai]



FY16 30,449,409 pair

FY17 32,224,584 pair

Located in Dong Nai Province, Vietnam, VT is the 23-year-old factory in the Bien Hoa Industrial Zone, just 40 minute drive away from Ho Chi Minh. It is the largest factory, producing over 50% of our overall group production volume, and has the second product development center. VT is focusing on not only quantitative growth but also qualitative growth including localization through employee engagement and empowerment. VT is also the benchmark for our Culture of Safety.



QT CHINA



8,248 person



7,477 person

TaeKwang China
[QT, Qingdao, Shandong]



FY16 8,531,927 pair

FY17 7,856,824 pair

QT is the 22-year-old factory located in Lexi City, Qingdao, China. It manufactures high-tech products. To promptly respond to a sharp change in the Chinese market (rising labor costs, difficulty of manpower supply due to one-child policy, concentration of high-skilled workforce in big cities), it is the time to reinforce our workforce strategy. QT has accelerated LEAN-based automated manufacturing and more focused on developing craftsmanship and multi-skilled employee.



VM VIETNAM



14,345 person



14,207 person

TaeKwang Mocbai
[VM, Tay Ninh]



FY16 12,896,238 pair

FY17 13,440,029 pair

VM is located in a two-hour drive from Ho Chi Minh. Most of the residents around VM are engaging in rice-farming. They also have a strong village community. Since it started production in 2010, VM has worked hard to improve its employees' capability and soft skills required for corporate and organizational culture. VM is further focusing on increasing workers' engagement and capacity building through LEAN education to find problems and improve themselves.



TT INDONESIA



11,009 person



11,712 person

TaeKwang Indonesia
[TT, Subang, West Java]



FY16 9,508,575 pair

FY17 10,600,143 pair

TT is located in Subang, western java, 160 km away from Jakarta airport. From the starting of the operation in September 2014, TT has grown up fast together with the local community. TT is the biggest company and the most desired company to work in Subang. To attract qualified/experienced middle management, TT devotes its efforts to finding and fostering talented people through providing scholarship in connection with schools in Bandung area.

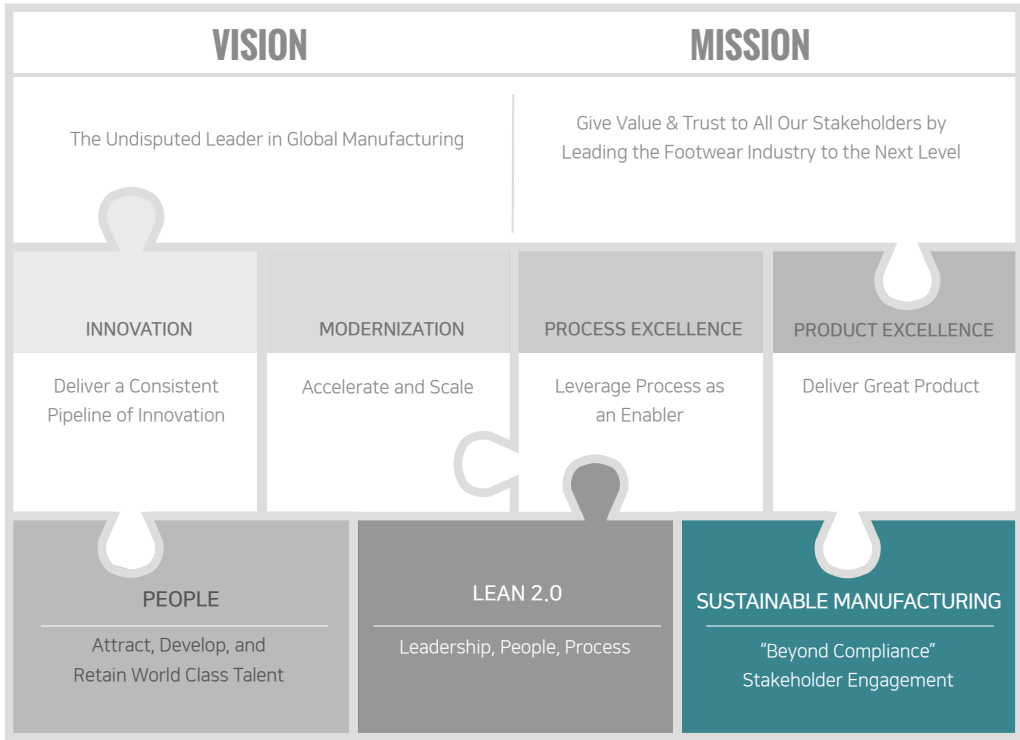
Business and Sustainable Manufacturing Strategy

Vision 2021

Our vision is to become “The Undisputed Leader in Global Manufacturing”.

Our strategic plan includes foundational elements for successful business and enablers for sustainable growth as a company. We are quick to respond to our changing Business Environments through our Innovation Center, which goes beyond the conventional manufacturing process and technology, and with bold Investment in Automation, and a focus on Best Product Quality.

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



Sustainable Manufacturing Strategy

TaeKwang aims to become “the Most Desirable Workplace and the Best Responsible Corporate Citizen”. Under this mission, we established five pillars, which are strategic human resources, health and safety, energy, environment, and LEAN. These pillars stand on the foundation of ‘Transparency’ and ‘Integrity’, ‘Diversity’ and ‘Mutual Respect’, and ‘Community Support’. TaeKwang supports the UN Sustainable Development Goals through our sustainable manufacturing strategy and implementation and promotes harmonized growth between each production factory and its local society.



Background

Business usually starts with a founder's challenges and grows up on the basis of values. Once a company grows to a certain level, it needs management by regulation. And for further leap, it requires management by corporate culture. As a global footwear manufacturing company, our organization consists of employees who have a diverse set of backgrounds and values. In order to become 'the Undisputed Leader in Global Manufacturing', we need a compass that tells us what we value and how we should behave in desirable ways. That is the Core Value.



Core Values

Top-notch companies with more than a hundred years of history are still alive today because of their own unique corporate culture and value system. To build our direction and identity, TaeKwang has established the TK Way (TaeKwang Way) through the work of deriving value system. To make the value system that everyone can understand and sympathize, we reflected our employees' expectations and thoughts on the value system by analyzing the entrepreneurial spirit of TaeKwang, conducting survey of 1,578 employees at home and abroad, and interviewing each level of employees. In this end, TK Way core values are specified into 'Customer First', 'Mutual Trust', 'Best Pursuit', and 'Creative Innovation'.

Customer First

Create customer satisfaction by preemptively responding to their requests and expectations with customer-first thoughts and behaviors

Mutual Trust

Trust and respect everyone and everywhere

Best Pursuit

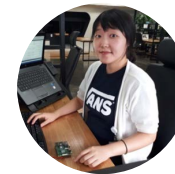
Pursue the best in business, technology, product and human competitiveness and challenge to the world best with strong passion and infinite excellence

Creative Innovation

Secure global competitiveness through innovation of technology, quality, productivity, and costing with creativity and extraordinary ideas

TaeKwang Talents

The 'PEOPLE' are the key to success in becoming the undisputed leader in global manufacturing. TaeKwang has redefined talents and their competencies who will drive our challenges and innovations. The talents what TaeKwang looks for are defined as Professional, Global, and Creative, who has best talents, global competitiveness and creative ideas to break existing framework.



PROFESSIONAL

People who excel the best in their field

► Lee SunYe, Vision Programmer, Modernization Team

I majored in computer engineering and I have worked in TaeKwang for six years. As a vision programmer, I always need self-development by continuous education and research and receiving external consultation. Based on the acquired knowledge, I developed 'cutting algorithm' and 'matching program'. Now I am developing robotic arm pattern that recognizes the sole outline by camera and spray chemicals on the recognized part. In the future, I would like to share my knowledge with new talents and help them acquire a great deal of experiences.



GLOBAL

People who have world-class competencies

► Bui Thi Hong Nhung, Project Manager, Running Team

I majored Korean language in Vietnam and I studied Business Administration at a graduate school in Seoul. I joined TaeKwang in 2015 upon my friend's recommendation. I am a **native Vietnamese speaker and speak English and Korean fluently**. Plus, I am **familiar with Korean culture** which is a great help for me to work in T2. In offshore factories, I can immediately deal with the production problem on site and **communicate more effectively** with the precise contents. I want to fully demonstrate my talents in T2 and grow as the global talent who can create great synergy with whomever I work together by continuously developing my language skills and bringing innovative ideas.



CREATIVE

People who create new values with disruptive ideas

► Ha TaeKyu, Chemical Engineer, Chemical Engineering Team

My experiences in offshore factories have helped me to create new ideas. **Kaizen** and suggestion ideas are developed in the process of **collaborating with many other departments**. Based on my understanding the difficulties of offshore factories, I figure out improvement points or be more active to find out where to improve. Though executing the ideas is difficult, I feel great, proud, and joy when I overcome those difficulties and find breakthroughs. These are the source of my **creativity**. Not to stay with what I have now, I try to travel and spend time with my family, and making **work-life balance** as much as I can.

Sustainability Highlights

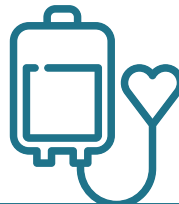
Based on FY17



Resource recycling efforts to minimize environmental impacts
Wastewater reuse 32%
Solid waste recycling 61%



Building 'Mercy House' to improve living conditions of Vietnamese employees and local communities
Total 90 houses were built
(VT 56 houses, VM 34 houses)



A total of **1,032 TaeKwang employees** volunteered **blood donation**



Provided average **40.4 hours** of employee development training per year.
The training includes career development path



Jeongsan Scholarship Foundation awarded scholarships to **1,498 students** KRW 3.77 billion since 2000
Community donation of KRW 2.1 billion



Through safety and health improvement activities, in the last three years
safety accidents more than 60% decreased
work loss accidents 72.3% decreased



Supporting kindergarten, high school, and college tuition for employees' children **230 employees granted** a total of KRW 700 million



VT and TT donated **23 goats and cattle** to support neighboring farmers
VT and VM donated **70 bicycles and 225 helmets** to school kids in their communities



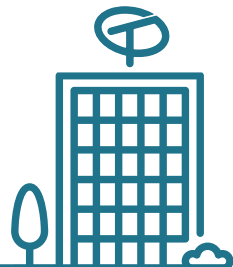
TaeKwang provided medical services to employees and local communities with a Korean hospital and local hospitals. **A total of 4,400 employees and residents** received health check-up



VT won '**Excellent Company Award**' based on five sustainability items
TT named 2nd at '**Corporate Responsibility Award**', the Minister of Small and Medium Business of Indonesia for its active CSR activities



VM selected as 'Excellent Fire Safety Management Company' for the five consecutive years
Taejin (QT satellite factory) recognized as 'Excellent Company for Wastewater Management'



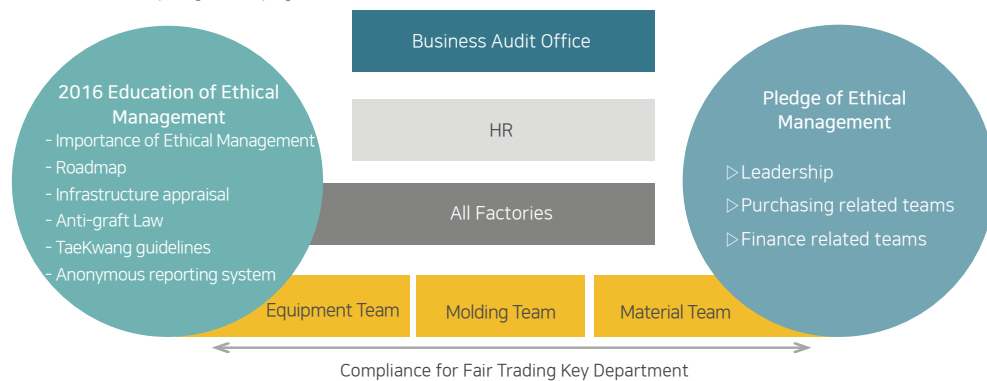
T2 PCC expansion under the themes of 'Art of Movement' and 'Open Communication'

Ethical Management

Compliance Activities

Ethical Management System

TaeKwang's ethical management is composed of vision, charter, code of ethics and practical guidelines. The TaeKwang Ethics Office is under the HR Team of head office and offshore factories. The Business Audit Office holds bi-annual meeting to share and discuss our direction and performance of ethical management. Last year, TaeKwang Ethics Office educated all our employees both at home and abroad on the importance of business ethics and the Anti-graft Law. Key personnel including executives, employees in purchasing and finance related teams that can be frequently exposed to ethical issue have pledged to upright with business ethics.



Engagement with Supplier on Code of Ethics

Every year TaeKwang provides training on our ethics value system, practical guidelines and regulations for reward and punishment, and reporting system to our suppliers and shares business ethics survey results with them.

In October 2016, we surveyed our suppliers to check our ethical management practice. Based on the result, we corrected our problems and established a new policy and regulations on ethics management.



Website of Reporting Ethical Management

Supplier Survey Results

- ▲ Overall level of ethical management good | Need to eradicate request and giving money and valuables
- ▲ Need to improve the business process with suppliers | Share annual survey results
- ▲ Set the disciplinary regulation and practice guidelines (TBD)

Human Right Management

Efforts for Protection of Human Right

Zero Tolerance Guide Book

TaeKwang defines six items that must be observed both inside and outside of workplace as Zero Tolerance principle: prohibition of forced labor and child labor, prohibition of physical and sexual abuse, failure to pay wages, serious health and safety and environmental impacts. We have made a booklet that introduces the regulations with all related cases. We use it as an educational material to prevent any violation in advance and to encourage a greater understanding of our employees, in particular, Korean expats and offshore factories' managers. Zero Tolerance Principle applies equally to all our business partners. The booklet consists of 24 pages and is published in five languages Korean, Vietnamese, Chinese, Indonesian and English for all our factories.



Cross-culture and Anti-harassment Education

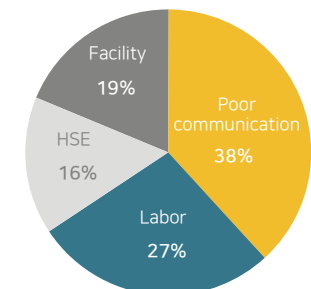
More than 68,000 of TaeKwang people with diverse nationalities and backgrounds work together, there are conflicts and gaps of understanding coming from differences in cultural and personal orientation. Therefore, T2 HR Team has provided cross-culture education for VM and TT Korean expats last year and received good feedback that they learned new perspectives on different cultures. In the second-half of 2017, we plan to conduct anti-sexual harassment education within management skill during overseas expats orientation, and annual regular training for new employee orientation, team leaders, and group leaders in the production departments.

Grievance System

More than 68,000 of TaeKwang people with diverse nationalities and backgrounds work together, there are conflicts and gaps of understanding coming from differences in cultural and personal orientation. Therefore, T2 HR Team has provided cross-culture education for VM and TT Korean expats last year and received good feedback that they learned new perspectives on different cultures. In the second-half of 2017, we plan to conduct anti-sexual harassment education within management skill during overseas expats orientation, and annual regular training for new employee orientation, team leaders, and group leaders in the production department.

CHANNEL

- ▷ 1:1 Interview
- ▷ Grievance box
- ▷ Hotline
- ▷ Gathering with GM
- ▷ Daily Monitoring
- ▷ Regular general meeting



FY17 Top Four Grievance Analysis

Strengthening Product Security

Minimizing security risks is one of the TaeKwang's top priorities to protect our employees, consumers, the company, and the client from internal and external threats. As one security incident can lead to huge damage to the stakeholders, we never stop raising the bar to deal with increasing and more sophisticated security risks.



Employees must go through anti-tailgating security gates at T2 PCC

Improving Product Security Awareness

Employee participation is the key to effectively identifying security risks, thus, we provide training, conduct surveys, and hold security events for improving our employees' awareness throughout the year. Surveys of over 1 percent of employees at each factory in June showed 97 percent of those questioned were well aware of essential security policies, and we will raise it to 100 percent within this year.



Security awareness survey

Hiring and Fostering In-house Experts

Retaining experienced security professionals is vital to keep it tight. In addition to two security managers at the head office with internationally recognized security certifications, CISSP, CISA and CISM, we hired an expert on digital forensics and criminal investigation from U.S. Army. We are also fostering internal security experts by participating in global security conferences with our client and providing professional training and hands-on workshops.



Security managers from all locations with our CEO after completing professional training

Smart Security System

The most sensitive facilities are PCCs in Korea and Vietnam. We implemented "Smart Video Surveillance System" in the PCCs, and the system will automatically detect and alert suspicious activities.



Smart Video Surveillance System

Information Security

Company information transmitted to the outside, decryption records of automatically encrypted files and printing logs are all stored and monitored. Investigations on potential leaks are immediately conducted, and we announce it to all employees to prevent possible leak attempts.



Leak prevention and investigation

Data Protection

Maintaining availability by protecting company data from various malicious code is becoming more important to keep our competitiveness. All of our computer systems are prepared for increasingly intelligent and sophisticated malicious code such as ransomware, and we have not had any reported data loss incidents.



Data protection from malicious codes and attacks

1. Future of Shoe Manufacturing

Speed and Flexibility

The greatest virtues that customer demands us now are the “speed” and “flexibility”. This means that we, as a shoe specialist, need to redirect our strategy to a business model that quickly responds to market changes by creating consumers' desired shoes. These changes in the marketing landscape will require us, as the manufacturer, to shorten lead times and enhance greater flexibility in production. How well we adapt to these changes will decide not only our survival but also a sustainable growth.

Even though leading companies that produces innovative technology and excellent products, often their products and technologies are easily transferred to other factories according to the request of customer. Therefore, we should not only stay at the current status, but also build a “Stronger Organization” as our core competency that embeds speed and flexibility and introduces advanced technologies and manufacturing methods.

Enhanced Quick Response Development Capabilities

Quick Response means implementing shoe development and production in response to rapidly changing market and consumer needs.

In order to keep pace with these changes, TaeKwang has set up three enablers.

- ▶ **Prototype capability** : Product designs can be produced as samples within 24 hours.
For this purpose, functional departments including development, pattern, chemical engineering, mold, and sample production, have enhanced their communication more actively and the work flow has been agile, doubling the production speed.
- ▶ **Flexible production plan** : We have increased the efficiency of sample production by providing flexibility of shift work and commute time.
- ▶ **Cooperation with our customers** : We work even closer than before with our customers to help them make better decisions and reduce lead time from design to sample.

TaeKwang added equipment and technologies while preparing the quick response system, and continues to work on projects to reduce further the lead time among in-house functional teams.

Automation Deployment

We operate the Modernization Center (MC) in China for cutting, stitching, and assembling shoes with automated equipment. The auto cutting machines optimize the cutting yield with the pattern arrangement algorithm, and the auto cementing machines optimize amount of adhesive and spray on vision scanned bonding surface. Through the automated facilities, we can produce consistent quality of products. The automated machines proved at the MC are deployed to the production factories in Indonesia and Vietnam to produce consistent good quality of shoes regardless workers' skill and production location.



▶ Smart Andon

Manually managed data aggregation and analysis method for quality and equipment history may hinder making clear and immediate decisions. Since speed and flexibility are the key enablers for the future shoe manufacturing, the Smart Andon is a system in TT that enables real-time decision-making on quality problems, equipment downtime, and other urgent situations through real-time reporting.

As manufacturing automation is deployed in the footwear industry, these smart tools are used as big data for preventive maintenance activities as well as smooth facility operations. The Smart Andon :

- Allows prompt decision making through real-time data entry and tracking of facility history;
- Reduces unnecessary paper works like reports and e-mail; and
- Utilizes for establishing strategic quality and maintenance plan



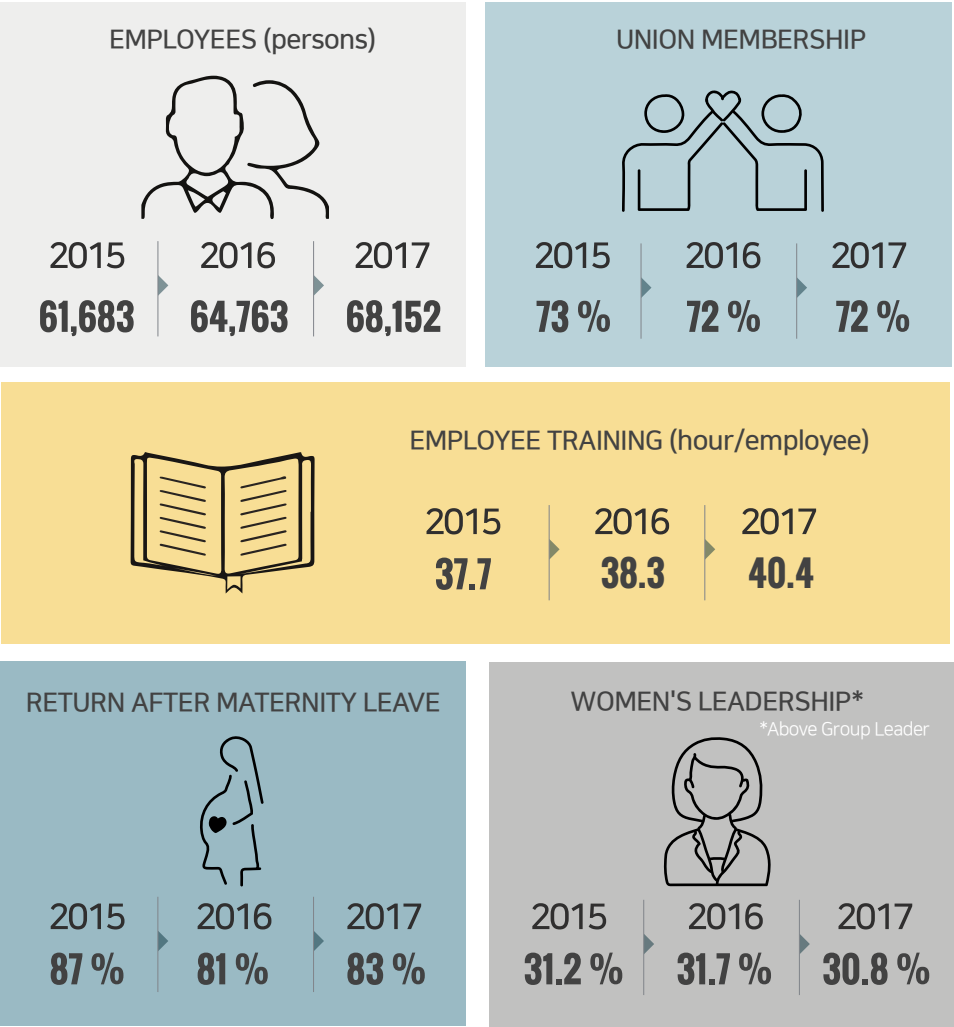
Preparation of Workforce of the Future

Automation in manufacturing methods will change the required competencies of our workers and the way of their work. As technology and automation are accelerated, not only we have different expectation for qualified functional leaders to support workforce of the future, but we also need organizational change to embrace the next millennials. We have defined employee core competencies as problem solving ability, leadership, and communication, which will be used as the basis for recruiting and training curriculum.

2. Strategic HR

People

We pursue qualitative growth rather than quantitative growth in line with the company's strategies. We attract talents that meet the capabilities required by the future industry and provide a platform to the talents to develop themselves. We will make continued efforts to build a corporate culture where the competent TaeKwang people are retained and work proudly through competitive reward opportunity and joy of achievement.



TaeKwang Branding

Homepage Renewal

TaeKwang has opened a revamped homepage (www.tkgroup.co.kr). Under the themes of TaeKwang's craftsmanship, young and dynamic T2 PCC and manufacturing environment, and sports activities, we have designed the homepage that appeals to potential TaeKwang millennials. An English version is added to make it easier for overseas factories to use the website. For recruiting and hiring purposes, we present detailed explanation on each job and department and TaeKwang's ideal talents at the homepage.



TaeKwang homepage is accessible by PC, mobile and tablet device



T2 Expansion

As the TaeKwang organization grew, we expanded T2 PCC building to provide a space of innovation to our employees. Renewed in February 2017, the PCC is the inspirational place motivated from the movements of shoes that run, walk, and always support the lowest position of the body, so that it is faithful to the basics and shines its foundations. It is our space to be filled with cheerful communication and creative thinking.



Sustainability Report

TaeKwang has been publishing the sustainability report since 2013. Our commitment to sustainability and even the lessons learned from trial and error have been transparently communicated with our employees and stakeholders and for better sustainability. The Report is playing an important role in informing young talents who value corporate social responsibility as a channel for indirect experience on our sustainability activities.



Talent Development

Succession Planning

We are pursuing mid- to long-term business strategies for prospect of growth in overseas organizations through local talent development and succession planning.

Talent Aquisition and Fostering



Hi-Po Program

After being selected employees with excellent potentials as Hi-Po talents through rigid screening process and Hi-Po's competency is diagnosed and customized training programs are conducted.



VT Senior Director, **Pham Xuan Tho** is a good example of localization from global talent development program. Since he joined in 1995 as a fresh graduate, Mr. Tho has grown up as one of the core leadership through his continuous development of his career and competencies. He applied the lessons learned from various internal/ external training and education programs into the production and accomplished the quality assurance system. He had done job rotation designed by career development path that resulted in contribution to productivity enhancement and quality improvement for the entire production departments. Now he is leading the factory as the role model of Hi-Po, Succession Plan, and localization.

Talent Retention

Exchange Program

TaeKwang has operated a talent exchange program twice a year from 2016. This program is to offer offshore talents to understand better T2 strategies and align with their works. In 2016, 21 people participated this talent exchange program and seven talents have joined in the first half of 2017. On the other hand, the exchange programs from T2 to offshore factories and between offshore factories are operated as well to enhance understanding of manufacturing flow upon request.

- ▶ 8-week living expenses
- ▶ Training and education programs
- ▶ Cross-cultural programs, one-on-one coaching for learning cultural differences and business process
- ▶ Job messenger roles connecting two countries after returning to the job
- ▶ Multicultural experience and network opportunity with other offshore colleagues



It was great time to learn about my job deeply and various HRD contents for two months in T2 HR Team. After coming back to VT, I started to think and act as a more professional HRD person.

In T2, I participated in a variety of HRD programs including designing training contents, benchmarking allowance for internal trainers to encourage their participation, and preparing the 'Shoes design contest'.

T2 training was great opportunities for me to learn hands-on skills and knowledge as well as inspired me to have a higher passion on my job. I have shared this passion and knowledge with VT HR Team members. Since I returned to VT, I have expanded my job functions to HR planning and audit management based on my improved understanding across the overall HR system. My challenges and goals are leading VT HR Team towards the shared aim and more deeply understanding the topics and system of HR field.

- Ms. Nguyen Thi Hoan, VT HR Team -

Andreas, Head of Department of MM Team, is also a good example of talent development of TT. Upon the college graduation in 2014, Andreas joined TT as an automation engineer and has built his career as an automation equipment specialist. Now he is one of the core talents leading the deployment of automation in TT.



2014

- ▶ Graduated from Bandung Institute of Technology
- ▶ Joined TT in August 2014
- ▶ Training for MM & basic of automation at T2 Head Office in Korea

2015

- ▶ Promoted as Assistant Chief
- ▶ Participated Comelz OKC & Auto Strobel Marking deployment
- ▶ Training for MM machinery, stockfit & assembly line at QT MC in China
- ▶ Training for MM trial & pilot at VT R&D in Vietnam

2016

- ▶ Promoted as Head of Department
- ▶ Joined 3P Event for MC at VH in Vietnam
- ▶ Joined Shoe machinery exhibition in China
- ▶ Participated Lean 2.0 & MMTL program
- ▶ Lead LCA project deployment : AGV, Rotary CO Label Press
- ▶ Participated Auto UV deployment
- ▶ Lead 3P Event for VSM 4 & Auto UV deployment

2017

- ▶ Promoted as Chief, Head of Department
- ▶ Participate Lean 2.0 & MMTL Program
- ▶ Support MCC Preparation & Setup

Organizational Culture

Beloved Company by Its Employees

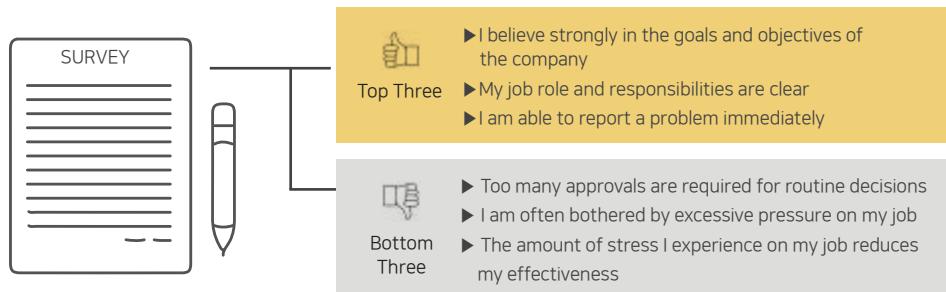
'Mutual Trust and Respect' is one of the core values of TaeKwang. Mutual trust refers to the corporate culture of trusting and respecting each other while communicating cooperatively through appreciation, compliments and encouragement with an open-mind. TaeKwang aims to make the best corporate culture by instilling trust and cooperation among employees across departments. In addition, TaeKwang strives to become a company trusted by its employees. GM Talk is a good example. Every month TaeKwang holds a meeting between GM and employees to form solidarity and to find any difficulties on the shop floor or any personal suggestions in every area of its business. At this meeting, if required, those communications are recorded and the progress status is informed at the next meeting. It has become one of the key communication systems building-up mutual trust in leadership.

Annual Employee Satisfaction Survey

Every year we conduct global employee satisfaction and engagement surveys. This survey includes questions about employees' works, engagement with the company activities, empowerment of decisions, activity with peers and managers, salary satisfaction, and wellbeing and working environments.

Following is the top and bottom three answers from the 2016 Survey :

2016 Employee Satisfaction Survey Results



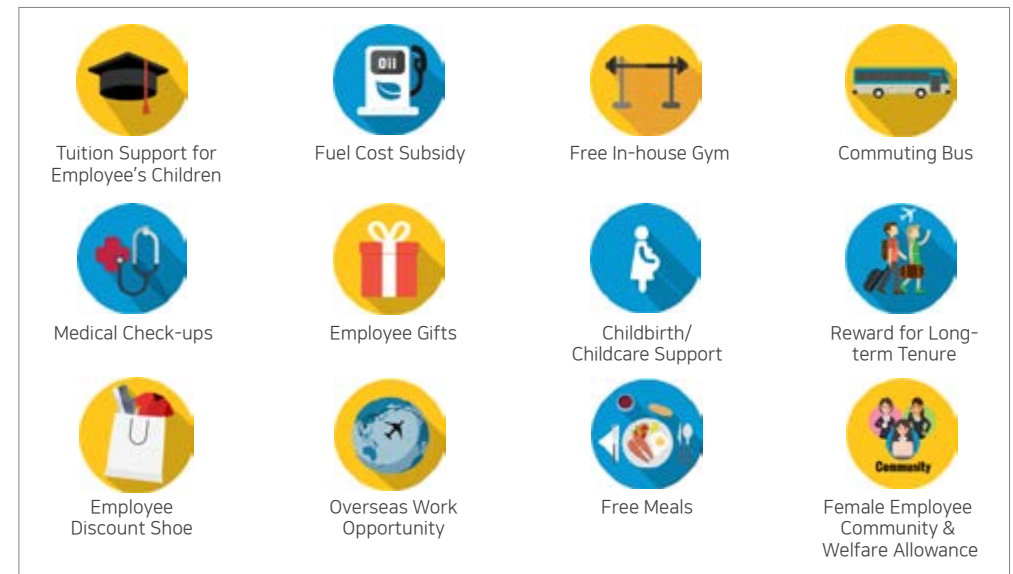
Positive responses derived from the survey results are maintained and shared group-widely. The contents that need improvement are reflected in the corporate policy development by actively collecting opinions from employees.

Flexible Work Environment

TaeKwang has operated a flexible work system from 2014. We are working to build a flexible and performance-oriented culture that is open and free work environments by implementing flexible working hours, parental leave, and business casual attire.

- ▶ **Flexible Work Hour:** T2 employees can choose to work from 7 am to 6 pm according to their child care needs instead of the regular working hour from 8 am to 5pm. There are 21 employees at the head office using this program.
- ▶ **Rewards for Long-term Tenure:** For the employees served 10, 20, and 30 years in TaeKwang, we present refresh travel expenses with plaques.
- ▶ **Childcare Leave and Childcare Support:** We make endeavors to protect motherhood and create a family-friendly work environment. To support employees' stable family life and to prevent career interruption of competent female employees, we encourage the use of the parental leave system, reduce working hours for pregnant workers, operate women's resting rooms and nursing rooms at all workplaces, and pay children allowances.

Welfare Benefits



3. Safe Workplace

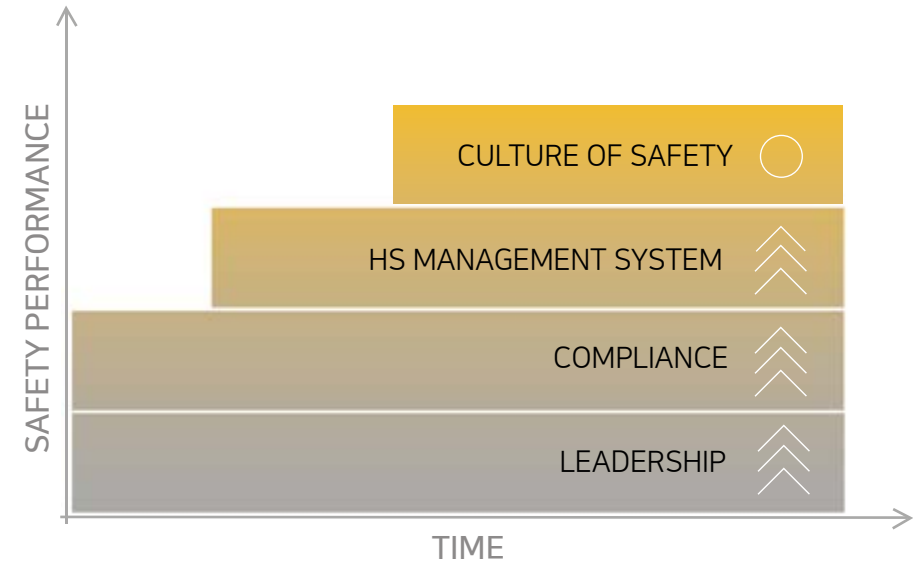
Value Creation Model in Health and Safety

To be the undisputed leader in health and safety (HS), TaeKwang developed the value creation model for all factories; leadership by setting examples, compliance with local safety laws and regulations, solid HS management system, and mature culture of safety.

All TaeKwang factories are spreading the employees' engagement activities such as safety pledge ceremony, and zero accident campaign based on the strong leadership. In addition, we secure HS sustainability with localization by developing the local employees' capacity and skill.

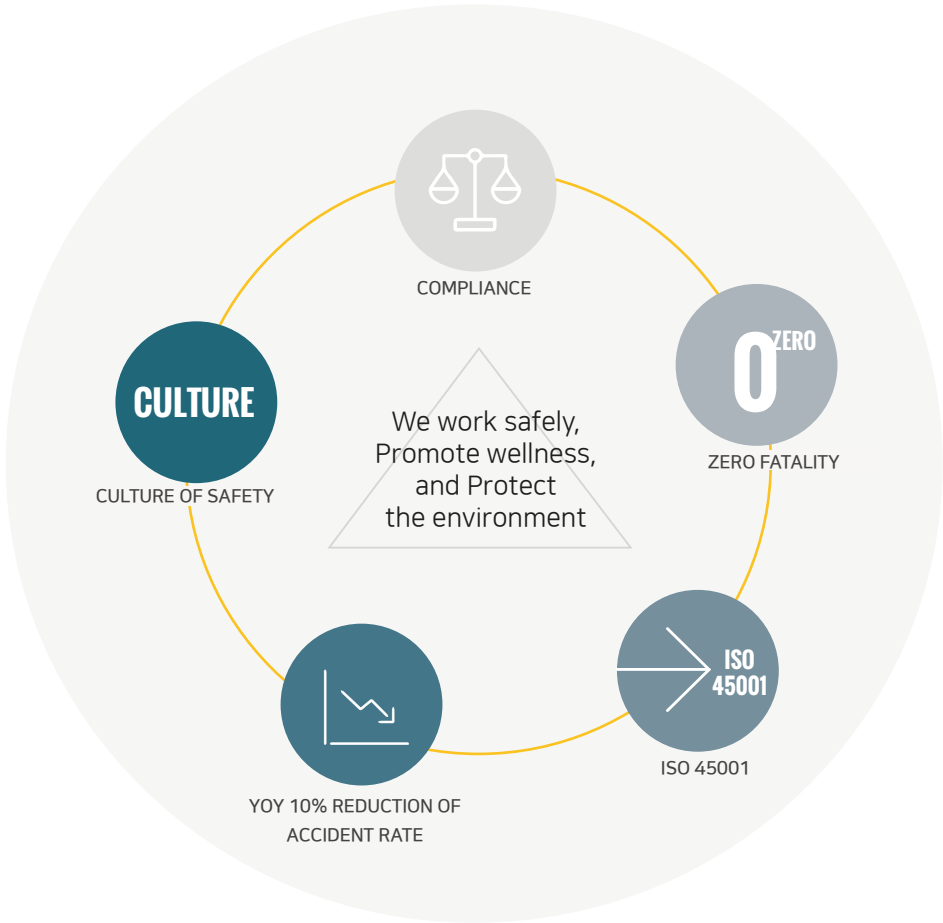
T2 has developed the corporate 2021 HS targets and strategy, provides the training, and audits regularly HS practices of offshore factories.

TaeKwang has achieved better health and safety performances with sound cooperation between the head office and each factory by developing the annual HS plan to meet the 2021 HS targets and implementing it.



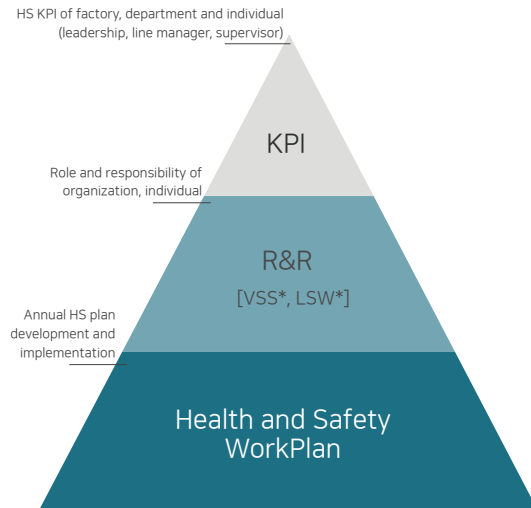
2021 Health and Safety Targets

TaeKwang sets up 2021 Health and Safety Targets to be the undisputed leader in HS into five; **compliance, zero fatality, ISO 45001, year on year (YOY) 10% reduction of accident rate, and culture of safety.**



Leadership by Example

TaeKwang clearly stated the roles and responsibilities of all leaders in order to achieve 2021 Health and Safety Targets, and is always asking the leaders to take initiatives.



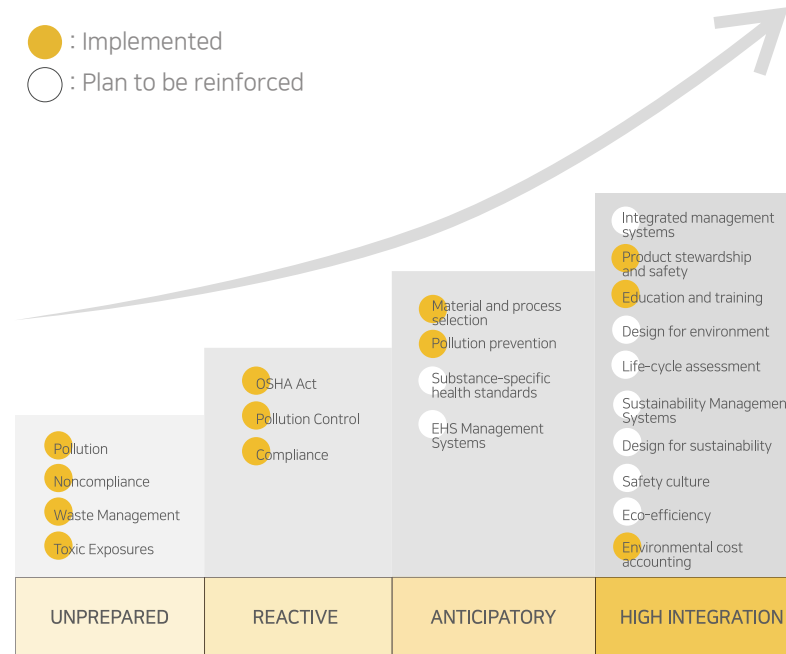
Visual Safety Scorecard (VSS)

All factories make a visual safety scorecard including HS KPI, safety alert and best practices, and share the VSS with all employees through their HSE committee and shop floor HS bulletins. And each GM explains the VSS to all corporate leadership during monthly business performance meeting.

Leader Standard Work (LSW)

Through LSW, we define detailed daily to annual activities for roles and responsibilities of GM to line managers and check their implementations.

● : Implemented
○ : Plan to be reinforced



Health and Safety Management Level

Offshore factories have recently moved on to anticipatory stage from the reactive stage. We devote to training and education to promote HS activities involving all employees including leadership.

Major HS Performances

The RIR is decreased more than 60 percent throughout the continuous improvement for the last three years, especially DART is decreased 72.3 percent. It means that we provide the foundation of HS sustainability by reducing about 400 industrial accidents and 150 lost time accidents every year in all TaeKwang factories.

Definition

Here are the safety indicators which are converted in a case that every 100 workers work in a year :

*RIR (Recordable Injury Rate)

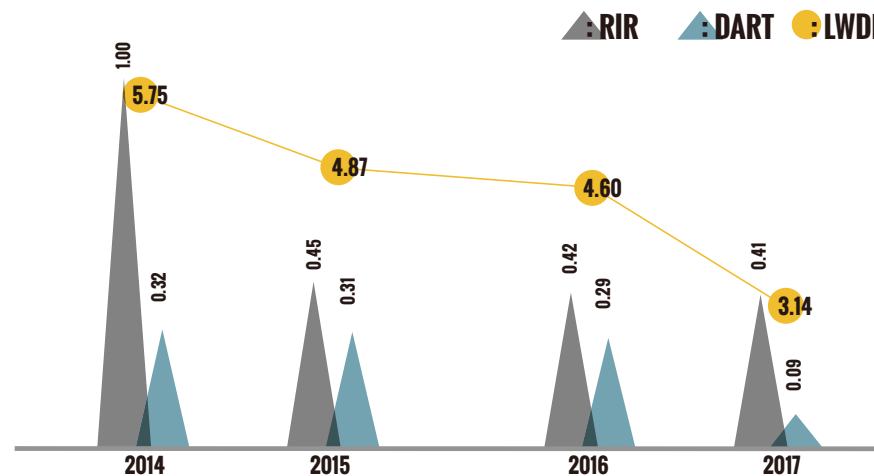
Accident rate with accident needs more than first aid treatment case

*DART (Days Away, Restricted work activity or job Transfer)

Accident rate of lost time cases (away from work) more than 24 hours due to accident

*LWDR (Lost Working Day Rate)

Number of lost days due to an accident



Compliance Activities

Compliance

TaeKwang complies with the stricter HS requirements between local and international.

T2 head office conducted the compliance audit in regular with six categories; chemical management, worker protection, maintenance, fire/emergency response, and HSE management system.

As the results of last year audit, no critical issue was found and each factory tried to find the root cause and improved it.

HS Zero Tolerance





TaeKwang has 'Zero Tolerance Principles' that are the safety regulations which every one including contractors has to comply with them.

- ▲ Contractor Safety Management Procedure
- ▲ Interlock Bypass
- ▲ LOTO
- ▲ Permit To Work Process
- ▲ Traffic Safety

TaeKwang provides training, campaign and safety kaizen program for implementation of Zero Tolerance Principles, and encourages all employees with recognition and award.

Safe Workplace with 3rd Party Consulting

TaeKwang selected the high risk areas based on the accident analysis for the last three years, and conducted 3rd party safety consulting to provide the safe workplace as the below.

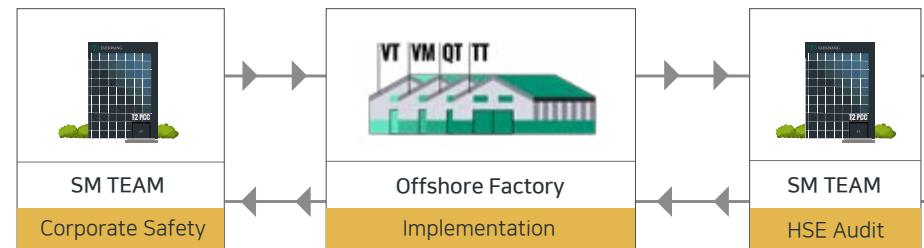
			
FIRE SAFETY	BUILDING SAFETY	MACHINE SAFETY	ELECTRICAL SAFETY
All factories inspected by AON [Nov., 2016]	VT conducted building safety assessment [May 2017] [QT is scheduled in Oct., 2017]	Machine risk assessment by 3 rd party	Electrical facility check with Korea Electrical Safety Corporation [Dec., 2016]
<ul style="list-style-type: none"> ▶ Function test of firefighting facility ▶ Flammable material storage check ▶ Hot work permit system 	<ul style="list-style-type: none"> ▶ Derived the improvement points after the 3rd party consulting for the old buildings more than 20 years 	<ul style="list-style-type: none"> ▶ Consideration of machine safety from design step with vendor JHA (Job Hazard Analysis) training, SOP (standard operation procedure) training for operators ▶ Risk assessment training for maintenance engineers 	<ul style="list-style-type: none"> ▶ Transformer oil test ▶ Thermo-graphic camera ▶ Measurement of grounding resistance ▶ Overload test for each process

Health and Safety Management System

TaeKwang established the 2017 Corporate HS targets; Zero fatality work related, 10% reduction of HS KPI, and formation of HS management system.

Zero Fatality Work Related

We experienced two fatalities of 3rd party construction contractors in offshore factories for the last two years: falling down during steel structure installation and electrical shock during remodeling work of dormitory. In order to prevent serious accidents, TaeKwang selected six high risk works as STOP6. STOP6 program contains the corporate safety standards, PTW (Permit To Work) system, reinforced R&R of GM/supervisors, strengthened corporate HSE audit. T2 SM Team leads STOP6 by supporting the periodical training and HSE audit (twice a year) for all offshore factories and 3rd party contractors.



Provision of Corporate STOP6 Safety Standards

<input checked="" type="checkbox"/> Contractor Safety	Pre-qualification before making contract, PTW system during project, and contractor safety evaluation after project
<input checked="" type="checkbox"/> Electrical Safety	Risk assessment of the electrical facilities, checklist for each equipment and facility, and set up R&R of electrical safety managers
<input checked="" type="checkbox"/> Management of Change	Provided the procedure to consider HSE in case of changing equipment, technology, chemical, facility, procedure, and personnel
<input checked="" type="checkbox"/> LOTO	LOTO (Lock Out Tag Out) procedure to ensure the safety during maintenance work
<input type="checkbox"/> Machine Guarding	Plan in second half of 2017
<input type="checkbox"/> Traffic Safety	

Health and Safety Management System

10% reduction of HS KPI

TaeKwang developed corporate 2021 HS KPI; at least YOY 10% reduction of RIR, DART, and LWDR (refer to page 32).

STAR (Stop-Think-Act-Review) Campaign

We started a STAR Campaign to boom up the safety kaizen and near miss reporting. In last year, we found and improved about 1,500 unsafe behaviors or conditions.



STAR CAMPAIGN

Focused HS Activities of Offshore Factories

VT- GM Safety Walk and 3P 100 Days Zero Accident Campaign

GM and leadership conduct a safety walk every month. VT launched 'Zero Accident Campaign for 100 Days in 3P process', where recorded the highest accidents, and achieved the safe 100 days through active employee engagement.

VM- Safety Improvement Activity Based on Accident Analysis

Through accident analysis, TOP 5 high risk machines were identified and categorized. The identified equipment and machines were installed warning signs and intensively improved.

QT- Job Hazard Analysis and Safety Circle

QT focused on job hazard analysis and safety circle program to remove the hazards with employees' engagement.

TT- Safety Ambassador Program

Employees who have sound knowledge and experiences are designated as Safety Ambassador. The Safety Ambassadors have trained safety awareness programs to Safety Agents who are selected from production departments for safety deployment.



VT GM Safety Walk



VT 3P 100 Days Zero Accident Campaign



TT Safety Ambassador Training



VM change the location of two-hand button

Culture of Safety

'Strong Safety Team', The First Step for High Level Of Safety Culture

TaeKwang recognized that a strong safety team is the first step to create mature safety culture in the organization, thus we restructured by hiring more safety engineers in T2 and offshore factories.

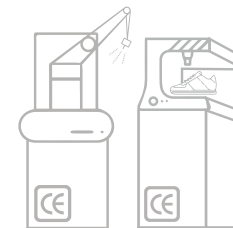
In addition, we reinforced roles and responsibilities of line managers and supervisors and developed the capacity and skills of 130 Safety Agents with Safety Ambassador program across the overseas factories.

Indispensable Future Growth Engine 'Safety'

Footwear industry is under transformation to the modernized manufacturing process from labor intensive one by using the automated equipment and machine. The hazards in modernized manufacturing environments are quite different from the manual manufacturing environments. The accidents in new work environment show different pattern and damage. Thus TaeKwang adopted the safe machine and BBS* program as the indispensable future growth engines for the sustainability of modernized manufacturing environments.

Safe Machine

Providing the safe machine from the design phase is the fundamental approach to protect employees from any machine hazards. TaeKwang is developing a safe machine procedure that allows only safety certified machine. And we are making the best efforts to minimize the human error of operator through JHA, SOP, and competency training.



BBS* Program

The BBS program is the activity to remove the root cause of employee behavior by identifying the unsafe behaviors for each process. We have launched this program since 2016, and will proliferate it to all production processes until 2021.

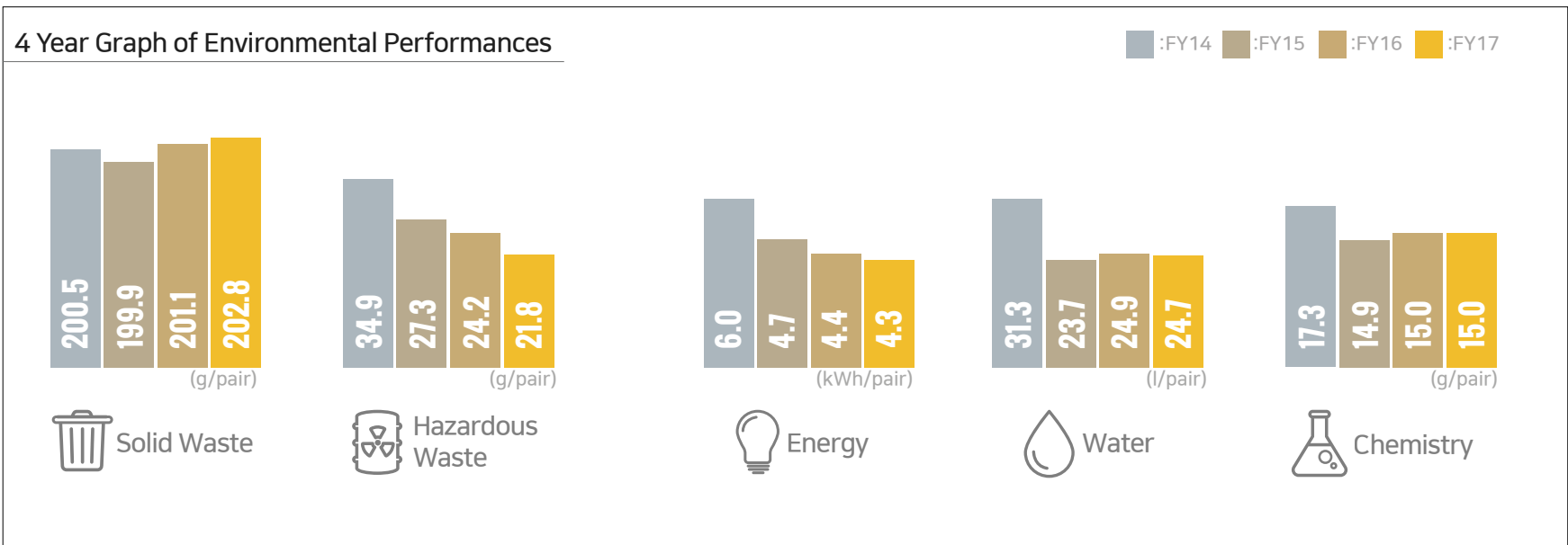


*BBS: Behavior-based Safety

4. Environmental Management

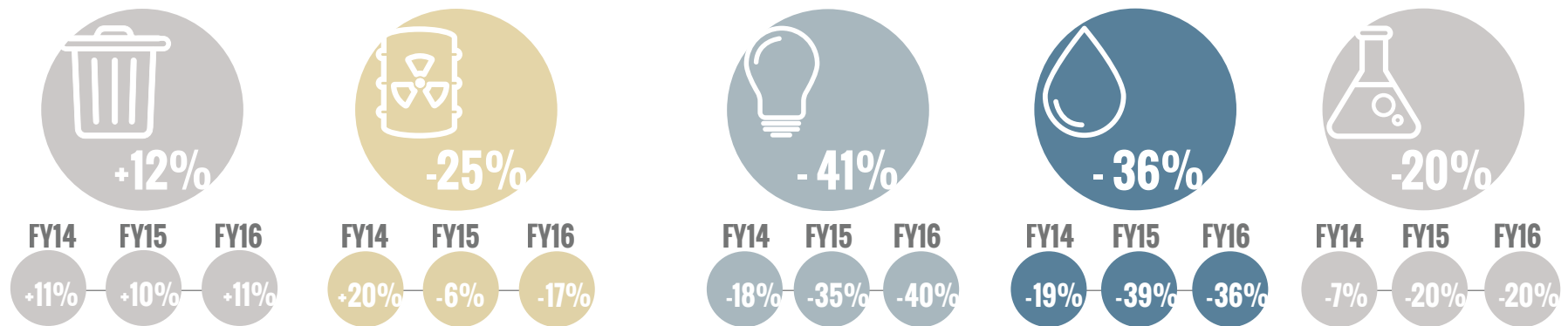
Environmental Management and Performances

TaeKwang has strived to achieve our environmental goals in order to minimize the environmental impact from product design, manufacturing up to waste disposal. TaeKwang has complied with local environmental laws and regulations. In addition, VT, VM and QT have sustained ISO 14001 for implementing more systematic environmental management system. As we believe that we can find future innovation opportunities through proactive environmental management, we set our environmental KPI with solid and hazardous waste, water use, energy and chemistry. Our employees, customers and suppliers are also working together to bring and implement continuous environmental improvement ideas.



Environment KPI Performances

(FY13 baseline)



Solid Waste

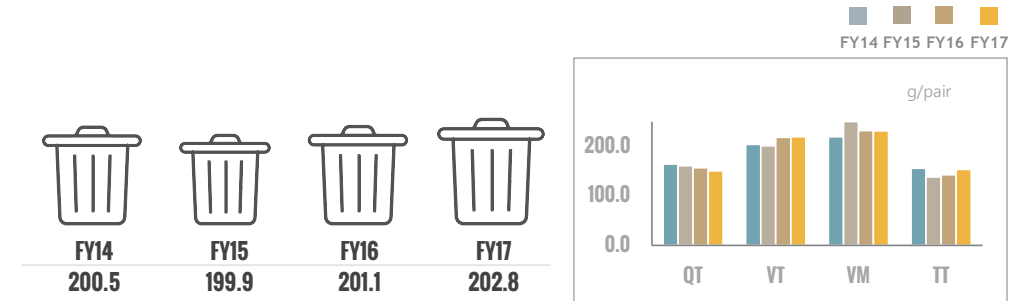
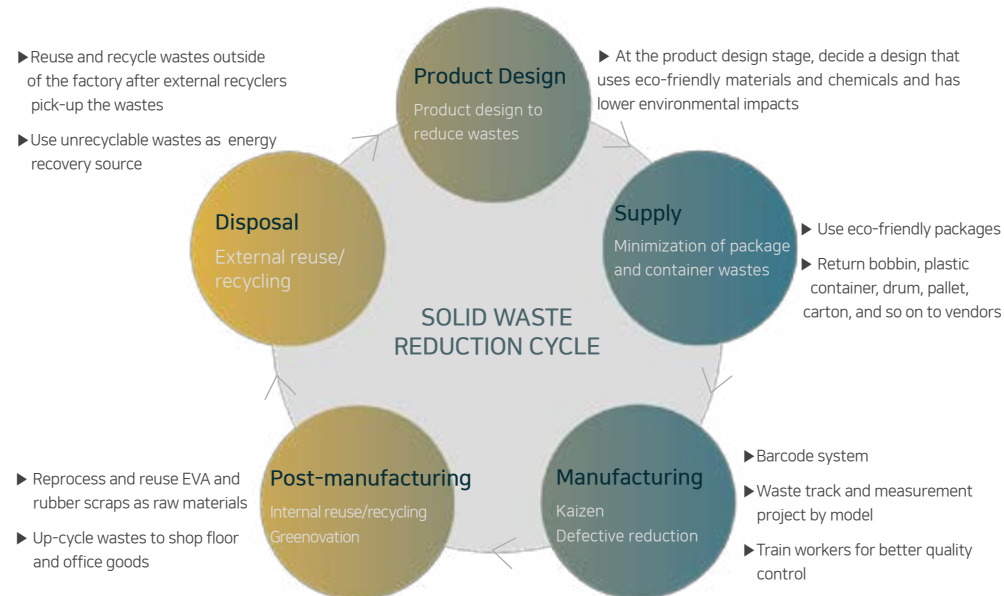
Solid wastes are separated by type at each department and collected at RMCC (Recyclable Material Collection Center). The waste transferred to the RMCC are stored by type, and then either recycled inside the factory/by external recycling vendors or treated as energy recovery source. Solid wastes are mainly generated from scraps of textile cutting process

- Solid waste generation 1% increase in FY17 from FY16
- Main reasons of the increase: EVA and textile scraps generated from new model and design

TaeKwang's solid waste management strategy is pursuing reduction of absolute amount of waste generation while maximizing recycle of generated solid waste. Also we stopped landfill of manufacturing wastes at all factories since April, 2016.

Reduction Efforts of Solid Waste

From product design to waste disposal, we strive to implement various waste reduction activities as follows.



Recycling Rate by Factory in FY17: Group-wide 61%

QT 81% | VT 65% | VM 54% | TT 46%

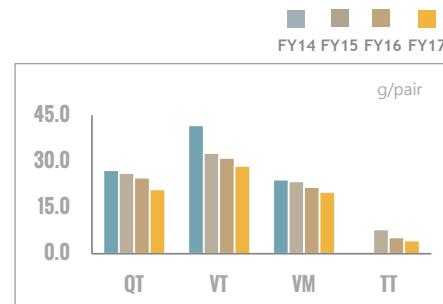
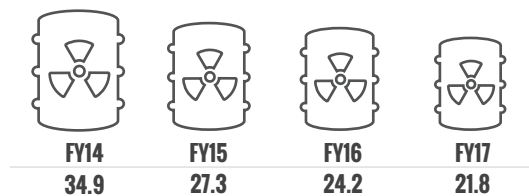
Top 5 Solid Waste and Disposal Method

The types of wastes generated in the factories slightly differ from shoe model, however, generally had following characteristics in FY17:

- The number of generated waste type is more than 50
- Group-wide Top 5 waste materials generated in the factories were 54% of total amount of generated solid wastes and 65% of these Top 5 wastes were reused/recycled
- The wastes are either reused/recycled through in-house recycling, down cycling and closed loop system or used as source of energy recovery

Recycling Method	IN-HOUSE	DOWN CYCLING	CLOSED LOOP	ENERGY RECOVERY
Solid Waste Type (Generation Rate)				
Textile scraps (15%)		10%		5%
Laminated PU scraps (12%)		7%		5%
Rubber scraps (10%)		10%		
Synthetic/Natural leather scraps (9%)				9%
Carton boxes (8%)		8%		

Hazardous Waste



All hazardous wastes are sorted thoroughly out across the entire manufacturing process in order to prevent environmental pollution from mixing them with solid wastes. In addition to reducing chemicals use such as adhesives and contaminated rags, we actively reduce hazardous wastes through system conversion. An example is the method in which the water-based ink from silk print process is rinsed with water and then the treated wastewater is reused in VT (see page Water Use).

- ▶ Hazardous wastes are separated and stored by liquid and solid type
- ▶ Empty chemical containers are returned to suppliers
- ▶ Other hazardous wastes are treated as energy recovery source
- ▶ Hazardous wastes are generated mainly from silk print, airbag dye, and bonding process
- ▶ Hazardous wastes reduced 10% in FY17 compared to FY16



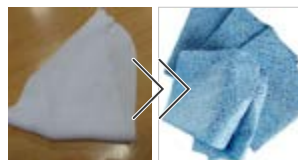
Reduced 90% of hazardous wastes through airbag dye solution recycling (carbon filtering tank + distilling system)



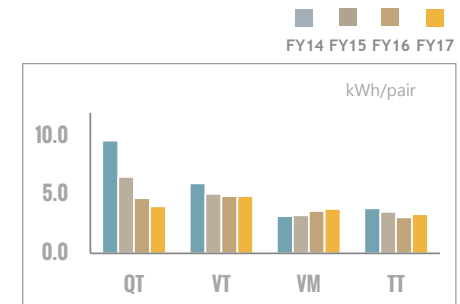
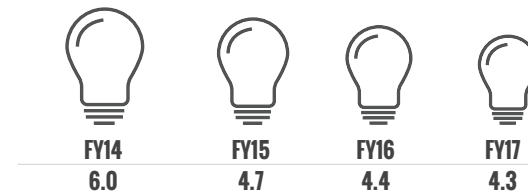
Developed a new chemical container to prevent hardening chemicals by contacting air



Decreased more than 1 ton/month of contaminated rags from inserting recycled waste sponge and diminished 50% by changing cotton to polyester textiles in cleansing rag.



Energy



Energy Committee (SM, TPM, Mechanic Team) in each factory patrols every day to find and fix any energy leakages. The committee also encourages all employees to participate in energy saving activities through Kaizen

- ▶ Energy saved 2% more in FY17 than FY16
- ▶ Mid/outsole manufacturing process require energy-intensive machines and account for about 50-60% of total energy use in the factories

Utilization of Energy Monitoring System (EMS)

TaeKwang EMS is currently installed in VM, TT and VT2. The energy consumption in each plant is visually presented and managed in real-time.

- ▶ Energy patrol activities focus on plants with high energy consumption and promote efficient energy use
- ▶ Based on electric load identified from the EMS, problematic electric panels that cause imbalance of electricity supply are inspected and repaired in advance
- ▶ Electric safety is enhanced and more energy is saved

Energy Saving Activities

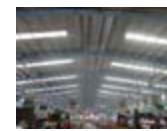
VT	<ul style="list-style-type: none"> ▶ Installed solar thermal system for outsole washing process (44 kWh of electricity are sourced from renewable energy) ▶ Reduced energy use down to 87% from changing motor to servo motors of auto Phylon machine ▶ Saved electricity by installing ceiling sunlight 	TT	<ul style="list-style-type: none"> ▶ Reduced energy cost by avoiding energy peak time (18~22) since November 2016 ▶ Saved 50.9 kW energy per day from daily energy patrol program
	<ul style="list-style-type: none"> ▶ Using oil filtering machine ▶ Machine downtime decrease ▶ Waste oil reduction 		<ul style="list-style-type: none"> ▶ Saved 13 kWh energy through installation of pressure control valve on Phylon machine ▶ Improved insulation of midsole washing tank and ovens



VM Oil Filtering Machine



Waste oil/Filtered oil/Sludge



VT Ceiling Sunlight

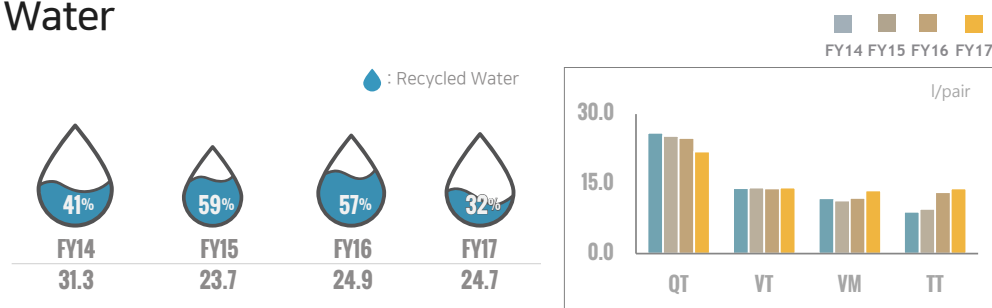


VT Solar Thermal



QT Pressure Control Valve of Phylon Machine

Water



TaeKwang uses municipal tap water as water source.

- ▶ Drinking water and flushing toilets (70%), canteen and kitchen (15%), manufacturing process (10%)
- ▶ Water use decreased 1% compared to last year
- ▶ Main reasons of increase and decrease of water use are:
 - ▷ QT/VT: relocated water pipeline from underground to aboveground the old water pipes and replaced to new water pipe to prevent leak. In this way QT slashed water use sharply
 - ▷ TT: installed water use monitoring system in order to accurately track water consumption by plant
 - ▷ VM: VM relied on to use municipal tap water for flushing toilet and gardening where treated grey water was used during the expansion of wastewater treatment plant (WWTP) due to production capacity increase

Wastewater Reuse

TaeKwang's water management strategy is pursuing reduction of absolute amount of water consumption while maximization of reuse of treated grey water (wastewater).

- ▶ VM, TT, QT operate in-house WWTP
- ▶ VM increased more than 70% of treated grey water use upon the completion of WWTP expansion
- ▶ QT reuses about 20% of treated grey water
- ▶ TT plans to build wastewater treatment plant to reuse treated grey water
- ▶ VT is located in an industrial zone where it does not need to have in-house WWTP but VT constructed WWTP next to silk printing and mid/outsole washing process to reuse treated grey water

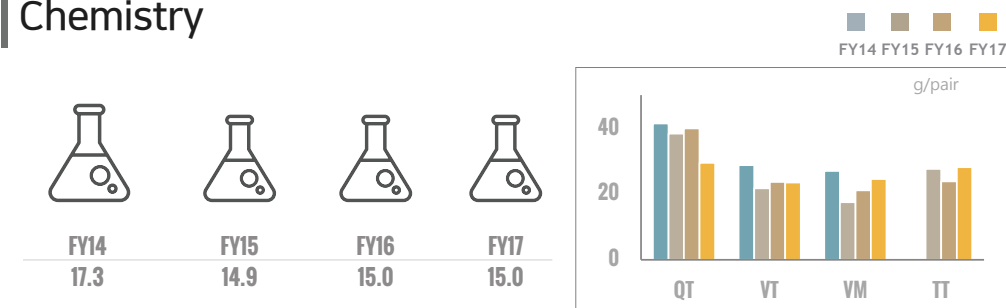


QT/VT Prevention of Water Leak from Pipe



VT Mini-Wastewater Treatment Plant, constructed for grey water reuse

Chemistry

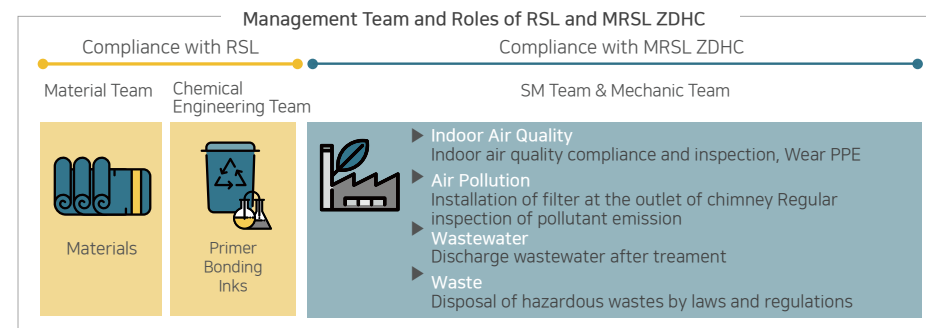


TaeKwang promotes replacement solvent-based chemicals (PDS) with water-based (WB) chemicals, which have less environmental impacts, while reducing overall chemistry consumption. We encourage all employees to participate in Kaizen for minimizing chemical use.

- ▶ PDS are used in primer, adhesive, cleaner, silk printing ink, and hardener, and primers account for more than 50% of total PDS use
- ▶ PDS consumption in FY17 was same with FY16
- ▶ The main reasons for the increase were model change and use of more full-length airbags and synthetic leather
- ▶ Reduction activities are replacement with WB primers for UV process, increase of WB ink use for silk printing together with VT PCC from the product development stage, monitoring PDS consumption and waste in each mixing room and improvement of chemical containers

Restricted Substances List (RSL)

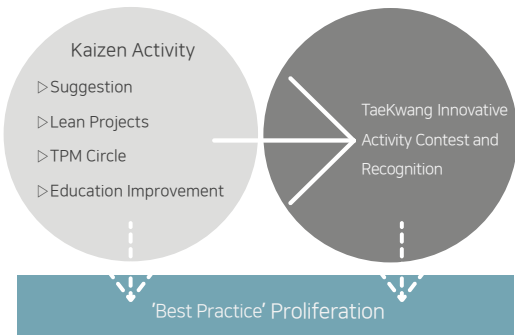
Chemicals used in the production process are strictly complied with the RSL. Material Team and Chemical Engineering Team educate and manage chemicals and material suppliers to comply with the RSL before supplying their products to TaeKwang. The Material Team annually updates and manages the RSL of materials and the Chemical Engineering Team randomly selects materials by color and high risk materials and tests them every month. Purchased materials and products are strictly managed not to harm our employees during the production (Manufacturing RSL). Indoor air quality, air pollutants, wastewater and hazardous wastes are stringently managed as well. We thoroughly prevent the restricted substances and comply with the zero discharge of hazardous chemicals (ZDHC). In addition, we strive to improve the process so as not to use chemicals unnecessarily.



5. LEAN Innovation Activities

Kaizen in TaeKwang

Kaizen is the basis for a continuous LEAN manufacturing for waste elimination. TaeKwang uses Kaizen's standardized methodology to encourage employee participation, resolve production and safety issues, and promote welfare. TaeKwang has been conducting numerous Kaizens since its foundation and Kaizen spirit has been included in the 2021 vision. We will implement more Kaizen to make LEAN more deeply rooted in TaeKwang.



Suggestion System

The Suggestion System is a process of collecting and solving ideas for working environments and welfare from all employees. It includes a platform for suggesting ideas in the shop floor, proposal review, post management, history management, feedback and compensation system. Teakwang operates a BP (Best Practice) system that spreads best practices from this system internally to other factories.



Kaizen Board

The Suggestion executive office accepts proposals through Kaizen boards and boxes posted at each shop floor and supports the implementation of suggestion idea. Monthly, quarterly, and yearly award for excellent suggestion ideas, or "Hall of Fame" board to motivate the employees. In T2, the suggestion system was revised from March 2016, and proposal, evaluation and inquiry are solicited through in-house IT system. In addition, we are raising the participation rate through SMS proposal inquiries, and best practices are shared among employees through various channels including in-house TV.



TaeKwang Innovative Activity Contest

TaeKwang's Innovative Best Practices Sharing Initiative began in 2015 with the TaeKwang Group Circle Innovation Contest. In 2016, we hosted the "TaeKwang Innovative Activity Contest" by expanding the scope of the competition participation to the overall innovation activities. This contest has given us the opportunity to present Innovation Best Practices among the company innovation activities that have been held for a year, and share the achievements of innovation and show thanks for the process and efforts.

In the 2016 Innovation Best Practices presentation, five individuals and six teams from each factory participated in the competition. In the solo session, cases such as automatic cutting machine and outsole process improvement were awarded, and IP improvement and ACE line efficiency improvement were awarded in the group session.



During the one-night and two-day sessions, participants joined in field trips and tours in Korea and had pride in their work and company. The contest also encouraged innovation activities based on good competition and motivated non-participants to voluntarily innovate.

I received active supports from our leadership while I was leading the innovation project. In order to encourage voluntary participation of team members, I evaluated the quality of their work, attitude, and active engagement every month. And I encouraged my team members who showed many improvements with a small gift. During the project, my team members have positively changed their attitude, such as voluntary field improvement. I think active communication between managers and team members was the main motivation. The results of my team's successful activities are spreading throughout production lines and we feel that we have made a positive impact on our factory, QT. It was good to learn about automation and field improvement activities of other factories by participating in the Innovative Activity Contest. I would like to improve communication skill in the future and build more knowledge on automation machine and production line by benchmarking other factories.



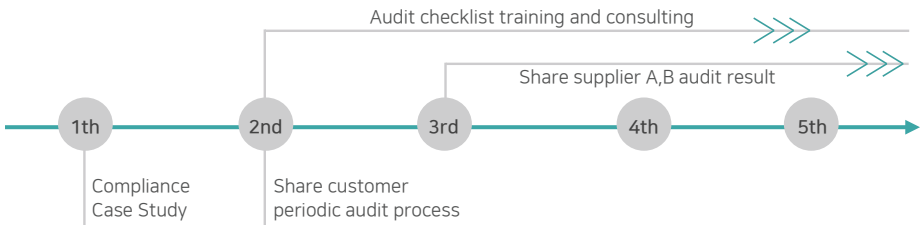
- Su Yu, Innovative Activity Contest The 2nd Winner Team Leader -

6. Supply Chain Compliance

Compliance Support and Audit

Supplier Compliance Community

TaeKwang endeavors to enhance mutual understanding and trust by active communication with our suppliers. Suppliers, customer and TaeKwang are working together to improve suppliers' competitiveness and sustainable management level. We held a formal compliance community meeting for a total of five sessions from January 2016 to May 2017. We provided training and consulting on customer requirements and compliance with social responsibilities such as labor, human rights, environment, safety and health. In addition, we visited the suppliers to find potential risks and improve them, and provided tailored training. Over the course of the year, we have improved our suppliers' understanding on compliance, and all of the suppliers passed the customer's periodic compliance audit.



New Supplier Selection Procedure

TaeKwang assesses new supplier's ESH and Labor practices prior to supplier registration. The assessment tool includes a total of 49 items under labor, environment, safety and health standards and encourages the suppliers to comply with the standards through pre-audit and consulting. When a serious violation is discovered during the audit, the result is communicated to the customer. TaeKwang roles as an advisor to the customer to make a final decision. For example, TaeKwang audited a Company C in Japan and communicated with the customer that the Company C was lack of transparency and commitment for improvement action for the serious findings. After the ESH and Labor assessment is completed, department complete the final registration after quality and process audit to confirm product productivity, quality and stable supply network.

New Supply Chain Registration Audit Section / Detail	
QUALITY, PROCESS	LABOR (9)
- Product management	- Working hour and wage
- Quality check	- Grievance & disciplinary
- Delivery management	- Union
SAFETY, HEALTH (32)	ENVIRONMENT (8)
- Machine guarding, Maintenance	Compliance with relevant laws and government permits
- Hazardous material	
- Fire safety, Sanitation	

Collaboration with Suppliers

Material Team and SM Team of overseas factories strive to actively engage with suppliers to reduce waste generation. In particular, VT Teams are researching various packaging materials to reduce package volume and propose the research results to suppliers. Converting the chemicals supplied in aluminum drums into zippered containers can reduce suppliers' raw material costs as well as packaging waste down to 60-80 percent. We have engaged with our suppliers to make changes through a number of meetings and communication.



Supplier Meeting at VT

AFIRM RSL (Restricted Substances List)

We began applying AFIRM RSL* to materials, chemicals, and finished products instead of our customer's original RSL from January 2017. TaeKwang Chemical Engineering Team trained 50 suppliers in February 2017. The new RSL has been updated with newly regulated chemicals and acceptance, and the supplier's AFIRM RSL compliance has been completed by April.

*AFIRM RSL: Apparel & Footwear International RSL Management Group was established in 2004 by leading US and European brand retailers.



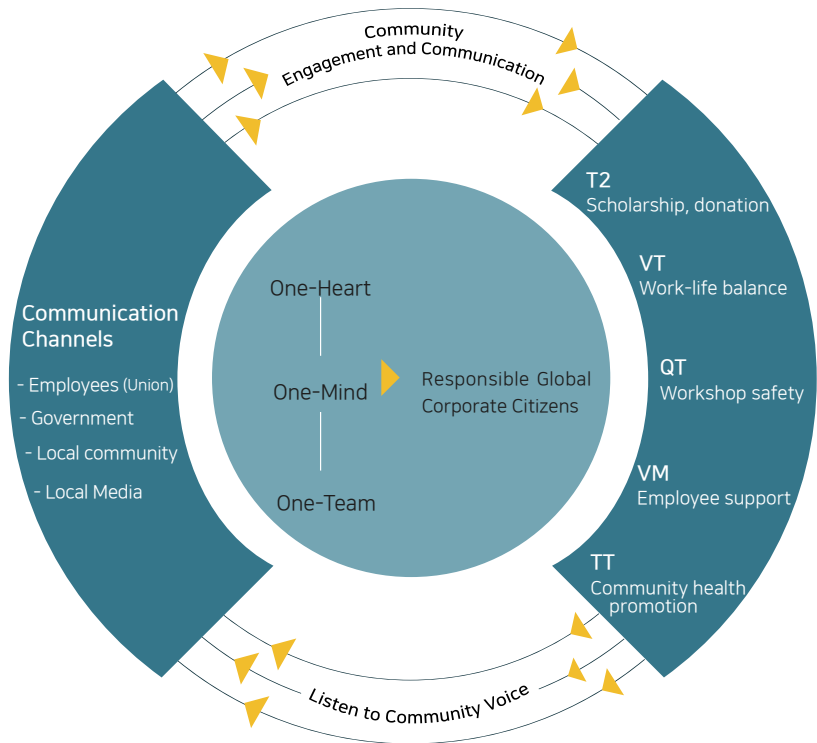
Supplier Compliance Community at T2

We share professional advice and knowledge at the supplier compliance community. What we learned were applied to our shop floors and ESH and labor management. Also, we shared difficulties to apply with all standards. In particular, it was very helpful to having Q&A sessions regarding the standards and cleared ambiguities through mentor-mentee program.

- All Main Suppliers -

7. TaeKwang's Social Responsibility Activities

Community Engagement Performances












As employees are the source of TaeKwang's existence and growth, we have worked to offer more welfare and benefits to our employees. In particular, we do various activities, in order to balance work and life, including family festivals, cultural exchange festivals, building Mercy House, and granting scholarship for employees' children.

The communities around our factories are the foundation of our employees. Since the communities are where the employees and their families reside and are our neighbors, TaeKwang takes responsibilities to expand sustainability management activities into the community.

We support local communities to become healthy through not only creating jobs for locals but also disaster recovery, scholarships for future talents, and medical support for local residents.



	HEALTH AND SAFETY	MONETARY DONATION	CONSTRUCTION	SCHOLARSHIP	EMPLOYEES	GOODS DONATION
Main focus activities	Medical service Gynecological examination Pregnancy and Childbirth Education Child Emergency Evacuation Training and Education Safety Campaign (STAR, STOP6)	Lovely Hand Fund Golden Heart Fund Donations for flood victims	Mercy house Village bridge construction Disaster recovery Drinking water filter installation	Jeongsan Scholarship Foundation Scholarship to employees' children	Home visit of Love Family Tour/Festival TaeKwang football cup TaeKwang Vina Kindergarten	Goats and Cows Warning eyewear for the visually-impaired Bicycle and Safety helmet Trucks and cars
Contribution to SDGs	 		 			 

Medical Service and Cultural Exchange Festival in Subang

After receiving high satisfaction on the medical service, what TaeKwang arranged, from community people and employees at VM in 2016. Another service visited the communities near TT where have relatively low access to medical care in June 2017. Funded by TaeKwang, four medical doctors (pediatrics, cardiologist, orthopedic surgeon, dentist) and 29 volunteers from Korea Changwon Fatima Hospital together with Subang Hospital and local health center provided medical service and had cultural exchange programs. A total of 979 people including TT employees and Subang residents received household goods, such as mosquito nets and toothpaste, free medical treatment and prescription from this medical team. In addition, the medical team and local community experienced Korean and Indonesian cultures through traditional dances, martial arts, and musical performances.



I was very happy that TaeKwang gave medical consultation for its employees and the community! I received a gift, and not only me but also my family got consultation and treatment from a Korean doctor.

I participated in a cultural exchange event with my sister! I had an exciting experience with my sister at the various programs. My younger brother told me that he wants to come to work to TaeKwang later when he is grown up.



Letters of Hope Mailbox to TaeKwang Rose Club

"Rose Club", T2 female employee social group which is boasted with more than 30 years history, collects a certain amount each month and helps the economically-marginalized neighbors in the community.

In particular, we are supporting local children through the Gimhae Social Welfare Center. On the Children's Day in 2017, we participated in an event to fulfill the wishes of the local children submitted to the Gimhae Social Welfare Center through the letter of hope. We presented shoes and school supplies directly to the kids who wrote their dream story.

It was a precious time to share the importance of supporting the children keep on dreaming with "Rose Club" members.



My dream is a cartoon illustrator. I am able to paint my favorite paintings with my favorite color pencils and pastels received from TaeKwang. I will continuously practice painting and will become a famous illustrator in the future.

TaeKwang Vina Kindergarten

"Welcome Kids with The Smile, Take Care of Kids with The Loving Heart"

Based on the needs and expectations of employees to focus on their work and to ensure that their young children receive quality education, VT established the kindergarten in accordance with the global standards. The total capacity of the kindergarten is 500 children, and we have established safe and perfect educational environments including modern facility, free tuition, creative, enthusiastic and well-educated teachers.

There are now 22 teachers and 238 students. The curriculum is designed to develop children's habit of thinking creatively through various activities. We also take care of our children's health by operating our own health center. TaeKwang Vina Kindergarten is attracting not only attentions from our employees but also from local communities.



"When I visited employees' home, I found that some employees who have children experiencing difficulties to pick up their kids after school. Since then, the union suggested the leadership to build our kindergarten and the company agreed on this suggestion. I thank to the company on establishing kindergarten for our employees"

- Mr. Dinh Sy Phuc (VT Representative of Union) -



"Since my daughter attended TaeKwang Vina Kindergarten, I became free from the pressure to pick up my daughter as soon as my work is finished. I can see my daughter at any time via the kindergarten CCTV. My daughter has been more confident and brave through learning from teachers and enjoying playing with her friends. The kindergarten is cheap, and the quality of facilities, education, and meals are very good. I am very happy"

- Ms. Luong Thi Thu Thao (VT Production Employee) -



Appendix

Materiality Assessment

UN Global Compact

UN SDGs

Zero Tolerance Principles

GRI G4 Index

Materiality Assessment

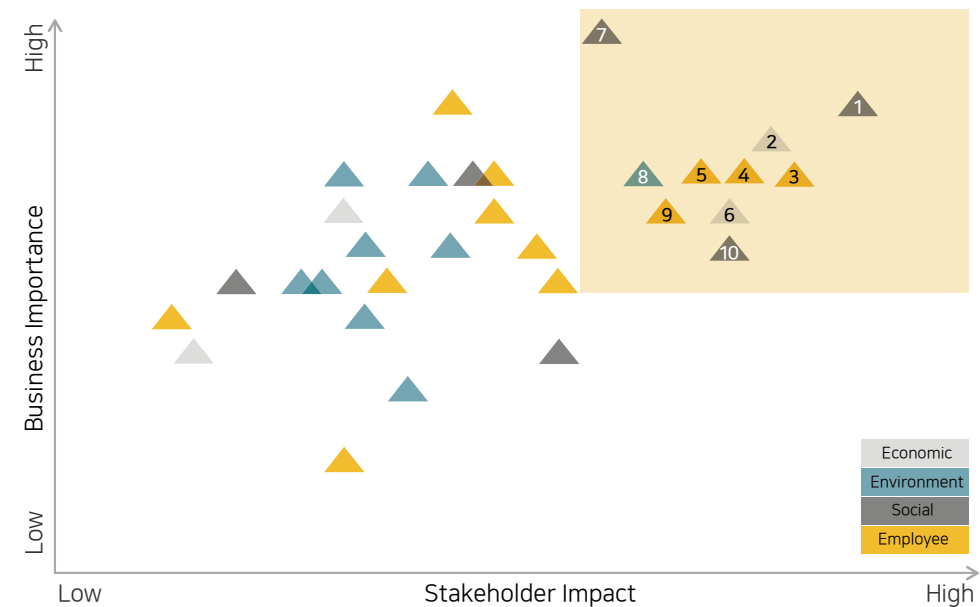
TaeKwang conducted a materiality test to select the subject of the sustainability report. In accordance with the GRI recommended guide on the topic of decision making and composition of contents, we have selected major report topics through materiality evaluation. The significance defined by TaeKwang means the level of relevance in terms of business and sustainability, and its impact on the evaluation and decision-making of stakeholders. We identified 10 issues based on materiality and reflected them in our report.

Materiality Assessment Step

STEP 1. Communication with stakeholders	Each department collected proactively stakeholders' opinions through communication channels and identified their needs.
STEP 2. Review and analysis of internal data	SM Team extracted business and sustainability issues through conducting interviews with each department, analyzing business strategy and reviewing each department's policies and internal reports.
STEP 3. Analysis of external environments & benchmarking sustainability issues	SM Team sorted sustainability issues through benchmarking UNGC 10 Principles, GRI Guidelines, best practices of good sustainability companies, industrial trend analysis of global companies, interviews with department team leaders, and analysis of the corporate business strategy.
STEP 4. Identification of potential sustainability issues for TaeKwang	Potential issues in terms of significance to TaeKwang's business were selected through reflecting internal and external stakeholders' opinions and analysis of external business environment.
STEP 5. Identification and prioritization material	Core issues among potential issues were ranked by materiality assessment based on significance to business and influence to stakeholders.
STEP 6. Review validity of the materiality	Review the balance and rationality of economic, environmental and Social impacts of the selected core issues, collect data related to the Issues and write the report.

Sharing of Internal and External Stakeholder Survey Results

We conducted an opinion survey that was asking TaeKwang's sustainability level and core sustainability issues to our internal and external stakeholders for the preparation of this report. The TaeKwang people who responded to this survey provided us precious opinions where TaeKwang's sustainability has to head. In particular, opinions in regard to the corporate culture, including more open communication and examples by leadership, that we need to improve and create are distinctive amongst others. We have shared the encouraging feedback and critical points from the stakeholders with our leadership and relevant teams and will take actions and gather ideas to improve any weakness we have. All concerns of our stakeholders are not reflected in this report, however, we will take them to improve one by one from now on.



Top 10 Material Issues and Reporting

No	Issue	GRI G4 Aspect (DMA)	Reporting Page	Topic
1	Economic Performance	Economic Performance	5, 7, 21	Future of Shoe Industry
2	TaeKwang's Beyond Compliance	Added Aspect	23-49	All Sustainability Issues except Future of Shoe Industry
3	Fostering Talents and Workforce	Training and Education	23-28	Strategic HR
4	TaeKwang's Compliance	Compliance	15-16	Ethical Management and Human Rights Management
5	Work Balance	Employment	23-28	Strategic HR
6	Future Competitiveness	Added Aspect	21-22	Future of Shoe Industry
7	Suppliers' Compliance	Added Aspect	47-48	Supply Chain Compliance
8	Hazardous Material Management Reinforcement	Effluents and Waste	41, 43	Environmental Management
9	Culture of Safety and reinforcement	Occupational Health and Safety	29-36	Safe Workplace
10	Strategic Community Contribution Activities	Local Communities	49-52	TaeKwang's Social Responsibility Activities

UN Global Compact 10 Principles

TaeKwang has complied with the Ten Principles of the UN Global Compact in the areas of human rights, labor, environment and anti-corruption since we signed the UNGC in 2015. We have reported the COP (Communication on Process) every year and we will continue to not only uphold our basic responsibilities to people and planet, but also establishing the stage for long-term success.



UN GLOBAL COMPACT
COMMUNICATION ON
PROGRESS

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

We welcome feedback on its contents.

Area	Principle	Reporting Page
Human rights	Businesses should support and respect the protection of internationally proclaimed human rights; and	16
	make sure that they are not complicit in human rights abuses.	
Labor	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	23
	the elimination of all forms of forced and compulsory labour;	16, 59
	the effective abolition of child labour; and	16, 59
	the elimination of discrimination in respect of employment and occupation.	8, 16, 59
Environment	Businesses should support a precautionary approach to environmental challenges;	37-44
	undertake initiatives to promote greater environmental responsibility; and	
	encourage the development and diffusion of environmentally friendly technologies	
Anti-corruption	Businesses should work against corruption in all its forms, including extortion and bribery.	15

Sustainable Development Goals(SDGs)

The UN has presented the Sustainable Development Agenda by 2030 with 17 goals and 169 action plans that the international society has to cooperate and solve. The UN SDGs promote the cooperation among governments, businesses and civil society to resolve universe problems including poverty, disease, education, women and children; global environmental problems including climate change and water; and economic and social problems including technology, residence, employment and consumption. TaeKwang has developed and promoted various actions to achieve the SDGs. TaeKwang aims to contribute to continued and fair development of the global society as well as create economic values.



SDGs	TaeKwang's Contribution	Reporting Page
SDG1	No Poverty	48-51
SDG2	Zero Hunger	48-51
SDG3	Good Health and Well-being	29-37 48-51
SDG4	Quality Education	48-51
SDG5	Gender Equality	8, 28, 48-51
SDG7	Affordable and Clean Energy	23-28
SDG8	Decent Work and Economic Growth	21-22, 23-28
SDG9	Industry, Innovation and Infrastructure	45-46
SDG10	Reduced Inequalities	23-28, 59
SDG11	Sustainable Cities and Communities	48-51
SDG13	Climate Action	42
SDG14	Life Below Water	41, 43, 44
SDG17	Partnerships for The Goals	10, 57

Zero Tolerance Principles

	Forced labor <ul style="list-style-type: none">▶ Existence of overtime voluntary registration▶ Extortion passport and/or personal identification of migrant worker▶ Toilet/clinic pass▶ Bonded labor
	Child Labor <ul style="list-style-type: none">▶ Overtime working▶ Assigning job in hazardous working condition▶ Child labor for subcontractor employment▶ Policy and procedure to verify identification
	Physical and Sexual abuse <ul style="list-style-type: none">▶ Verbal and physical abuse (insulting, beating, disrespectful punishment)▶ Unnecessary/unwelcome physical contact▶ Sexual gesture, joke, and message
	Failure to pay wages <ul style="list-style-type: none">▶ Payment delays▶ Miscalculations (include overtime premium)▶ Non compliance of social insurance
	Serious health and safety risks <ul style="list-style-type: none">▶ Substantial probability of death or serious injury▶ Fatality, permanent disfigurement▶ Non compliance of LOTO, electrical safety, and work at height, bypass
	Serious environmental impacts <ul style="list-style-type: none">▶ Discharge of untreated wastewater▶ Inappropriate treatment of waste▶ No air pollution control devices (carbon filter, water bath)

GRI G4 Guidelines

SPECIFIC STANDARD DISCLOSURE					
Aspect	G4	Indicators	Reporting Topics	Reporting Status	Page
ECONOMIC					
Economic Performance	DMA	Disclosure on Management Approach	Future of Shoe Industry	●	21-22
	EC1	Direct economic value generated and distributed	Introduction of TaeKwang	●	5 13-14
ENVIRONMENTAL					
Energy	EN3	Energy consumption within the organization	Environmental Management- Energy	●	42
	EN6	Reduction of energy consumption	Environmental Management-Energy	●	42
Water	EN8	Total water withdrawal by source	Environmental Management- Water	●	43
	EN10	Percentage and total volume of water recycled and reused	Environmental Management- Water	●	43
Effluents and Waste	DMA	Disclosure on Management Approach	Environmental Management	●	38-44
	EN22	Total water discharge by quality and destination	Environmental Management-Water	●	38 43
	EN23	Total weight of waste by type and disposal method	Environmental Management-Solid Waste, Hazardous Waste	●	37
	EN24	Total number and volume of significant spills	Environmental Management	●	39-41
SOCIAL					
Labor Practices and Decent Work					
Employment	DMA	Disclosure on Management Approach	Strategic HR	●	23-28
	LA3	Return to work and retention rates after parental leave, by gender	Strategic HR - Return Rate after Maternity Leave	●	23

SPECIFIC STANDARD DISCLOSURE					
Aspect	G4	Indicators	Reporting Topics	Reporting Status	Page
SOCIAL					
Labor Practices and Decent Work					
Occupational Health and Safety	DMA	Disclosure on Management Approach		●	29
	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	Safe Workplace - Safety Performance Index (RIR, DART, LWDR)	●	31-32
Training and Education	DMA	Disclosure on Management Approach	Strategic HR	●	23-28
	LA9	Average hours of training per year per employee by gender, and by employee category	Strategic HR Average Training Hours	●	23
	LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Strategic HR	●	23
Supplier Assessment for Labor Practices	LA14	Percentage of new suppliers that were screened using labor practices criteria	Supply Chain Compliance	●	47
	LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	Supply Chain Compliance	●	47
Labor Practices Grievance Mechanisms	LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Human Rights Management - Grievance	●	16

SPECIFIC STANDARD DISCLOSURE					
Aspect	G4	Indicators	Reporting Topics	Reporting Status	Page
SOCIAL					
Human Rights					
Non-discrimination	HR3	Total number of incidents of discrimination and corrective actions taken	Human Rights Management - Grievance	●	16
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	Human Rights Management - Union Membership	●	23
Child Labor	HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Human Rights Management - Grievance	●	16
Forced or compulsory labor	HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Human Rights Management - Grievance	●	16
Human rights grievance mechanisms	HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Human Rights Management - Grievance	●	16
Local communities	DMA	Disclosure on Management Approach	TaeKwang's Social Responsibility Activities	●	49-52
	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	TaeKwang's Social Responsibility Activities	●	49-52
Anti-corruption	SO4	Communication and training on anti-corruption policies and procedures	Ethical Management	●	15
	SO5	Confirmed incidents of corruption and actions taken	Ethical Management	●	15
Compliance	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Ethical Management	●	15

