

# BEAUTIFUL HEALTHY REFRESHING

for people and the planet



# About this Report

## Report Overview

LG H&H has shared its sustainability management activities on an annual basis through its CSR Report since 2010, and this report is the 9th 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.

## Scope

The reporting period of this Report is from January 1 to December 31, 2017, and it partially contains data pertaining to the last three years to compare changes in trends. Certain data from 2018 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 noted if the scope of certain data is different.

## Standard and Principle

This Report was developed based on the Global Reporting Initiative (GRI) Standards. The SASB Standard, the Ten Principles of UNGC, and the UN SDGs were also considered.

## Assurance

The objectivity and accuracy of the content, data, and standards of the Report were verified by an independent assurance agency, Korean Management Registrar (KMR), in accordance with the agency's verification protocol based on the three principles (comprehensiveness, materiality and responsiveness) of AA1000AS (2008). The assurance report can be found on pp. 98-99.

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# 2017 LG HOUSEHOLD & HEALTH CARE CSR REPORT

## FOCUS ISSUES & BUSINESS CASES



Expanding  
to the Global  
Market

16.p

Strengthening  
Product  
Safety

20.p



Developing  
Products with  
Social Value

28.p



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## CEO Message



### **Greetings to our valued stakeholders,**

I would like to express my sincere gratitude for your loyalty to LG H&H as well as your ongoing support.

2017 was the most challenging year for LG H&H with the business environment taking a sudden turn for the worse after the THAAD deployment issue, which affected the overall cosmetic and household goods industries. While other companies suffered a decrease in sales due to such an unfavorable business environment, LG H&H promoted distinctive premium cosmetic brands such as The History of Whoo and Su:m37° and proactively developed its business in China, achieving a remarkable year-on-year growth and outstanding performance compared to rival companies. 2018 is expected to be another challenging year full of variables, including a slowdown of the economic growth in China, uncertainties in the domestic economy, strengthened protectionism in many countries, and the ever-changing political mood between the two Koreas. We will be dedicated to leading the market in 2018 with a focus on the following core challenges, thereby turning our achievements into a foundation for sustainable growth.

**First, LG H&H will grow into a leading global company in Asia beyond Korea.**

We will reinforce our crisis-resistant design to keep our business sound and stable, regardless of any changes in the external environment. LG H&H will promote the growth of luxury brands and build stronger competitiveness for premium brands in the cosmetic business division. We will also strengthen our overseas business with distinctive new products in the household goods business division, as well as boost our mineral water business in the beverage business division. We will continue to develop new business items to lay the groundwork to become a leading consumer goods company in Asia, going beyond the No. 1 position in Korea.

**Second, we will build a sound foundation to win the trust of consumers and the community.**

We will identify issues associated with quality, safety, the environment, and compliance that threaten stable business operation and take preemptive measures to remove factors that may have negative impact on our business performance and brand values. When it comes to major social issues related to quality, safety and the environment, we will build sufficient capacity with a standard that is stricter than the laws and regulations so that we can earn consumers' trust. We will also check and improve our progress in this area with thorough methods. Through such efforts, we will become a reliable company that enjoys the trust of consumers and the community.

**Third, we will innovate our capacity in manufacturing and R&D.**

We need a production system that maximizes manufacturing productivity and flexibly responds to changes in the paradigm, particularly those that will accompany the Fourth Industrial Revolution. Our new cosmetics manufacturing plant is under construction and is slated to be completed by the end of 2019. It will be established as a "smart factory" with manufacturing capacity that can keep up with industrial and technological changes. Focusing on the LG Science Park, we will combine a wide range of technologies owned by LG's subsidiaries to create synergy, as well as accelerate the development of products with core technologies for the future.

There is a Chinese idiom, "行百里者 半九十里," meaning that ninety li (unit of length) is only half of a hundred-li journey. Keeping this idiom in mind, we will move forward step by step with honesty and humility. We sought to provide the data about our activities and performance of sustainability management achieved together with customers, suppliers, local communities, and employees in a transparent way in our 9th CSR Report.

As a global leader in sustainability management, LG H&H will continue to make efforts to observe the UNGC's Ten Principles and fulfill its social responsibility and roles to help create a better future.

Your continued loyalty and support is greatly appreciated.

Thank you.

May 2018

Suk Cha, CEO & Vice Chairman



# Company Overview

Since its foundation in 1947, LG H&H has permeated every aspect of daily life, helping its customers live beautiful, healthy, and refreshing lives. Based in our Gwanghwamun Headquarters in Seoul, Korea, as well as our subsidiaries in China, Japan, Vietnam, Taiwan, the United States, and Canada, we strive to provide better products and services as we build a special relationship with our customers.

## Company Profile

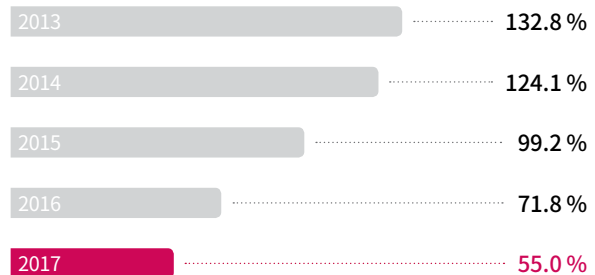
<b>Company Name</b>	LG Household & Health Care Ltd.
<b>Address</b>	LG Gwanghwamun Building, 58, Saemunan-ro, Jongno-gu, Seoul, South Korea
<b>Foundation</b>	January 1947
<b>CEO</b>	Suk Cha
<b>Business Type</b>	Cosmetics, household goods, beverages
<b>No. of Employees*</b>	10,580 (including 2,649 local employees at overseas subsidiaries)
<b>Total Assets</b>	KRW 4,778 billion
<b>Total Capital</b>	KRW 3,082.6 billion
<b>Sales</b>	KRW 6,270.5 billion
<b>Operating Profits</b>	KRW 930.3 billion
<b>Credit Rating</b>	AA+ rated by NICE, Korea Investors Service, and Korea Ratings A1 rated by Korea Investors Service and Korea Ratings (LG H&H separate)

\* Employees of LG H&H, Coca-Cola Beverage, HAITAI htb, and THEFACESHOP and regular employees at overseas subsidiaries

## Debt Ratio

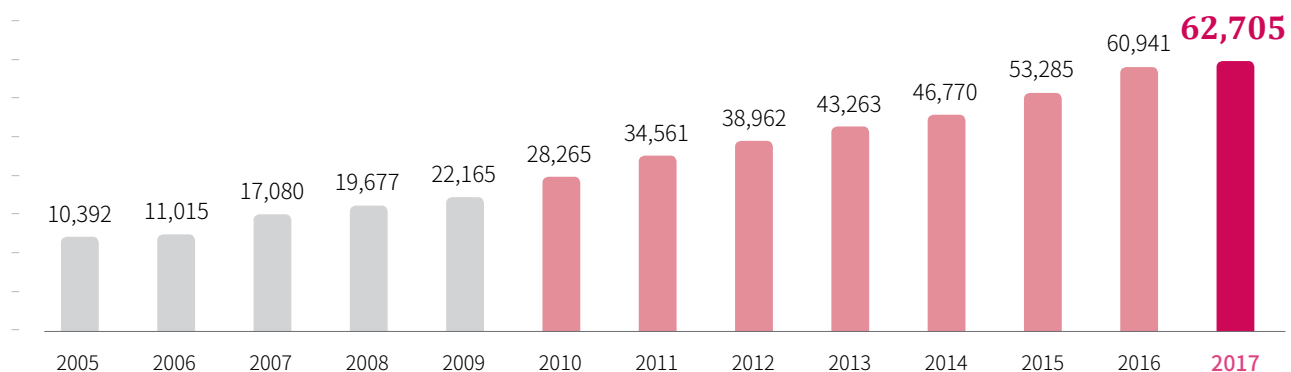
(As of the end of 2017)

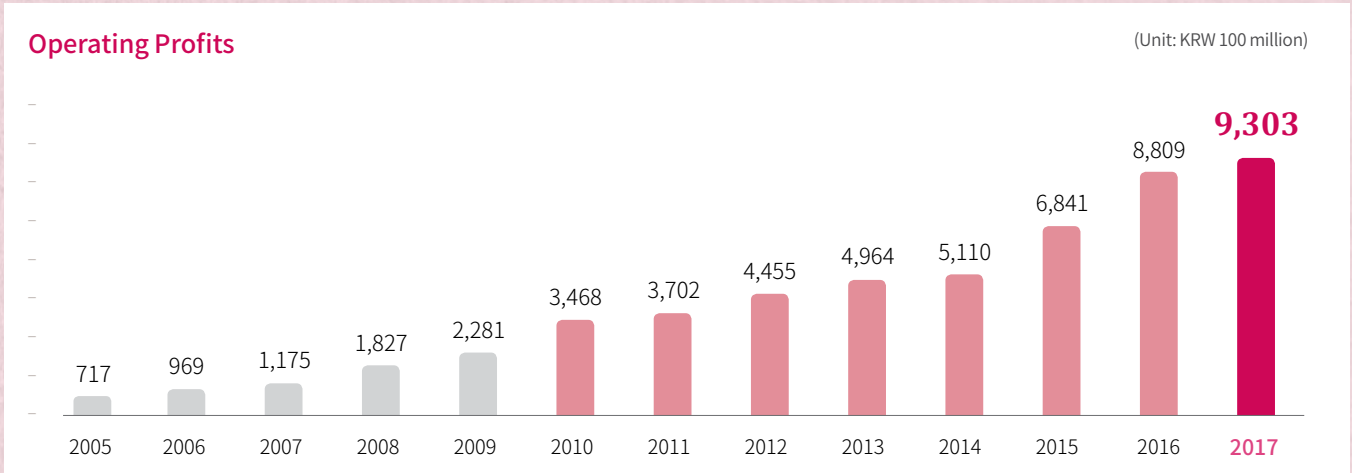
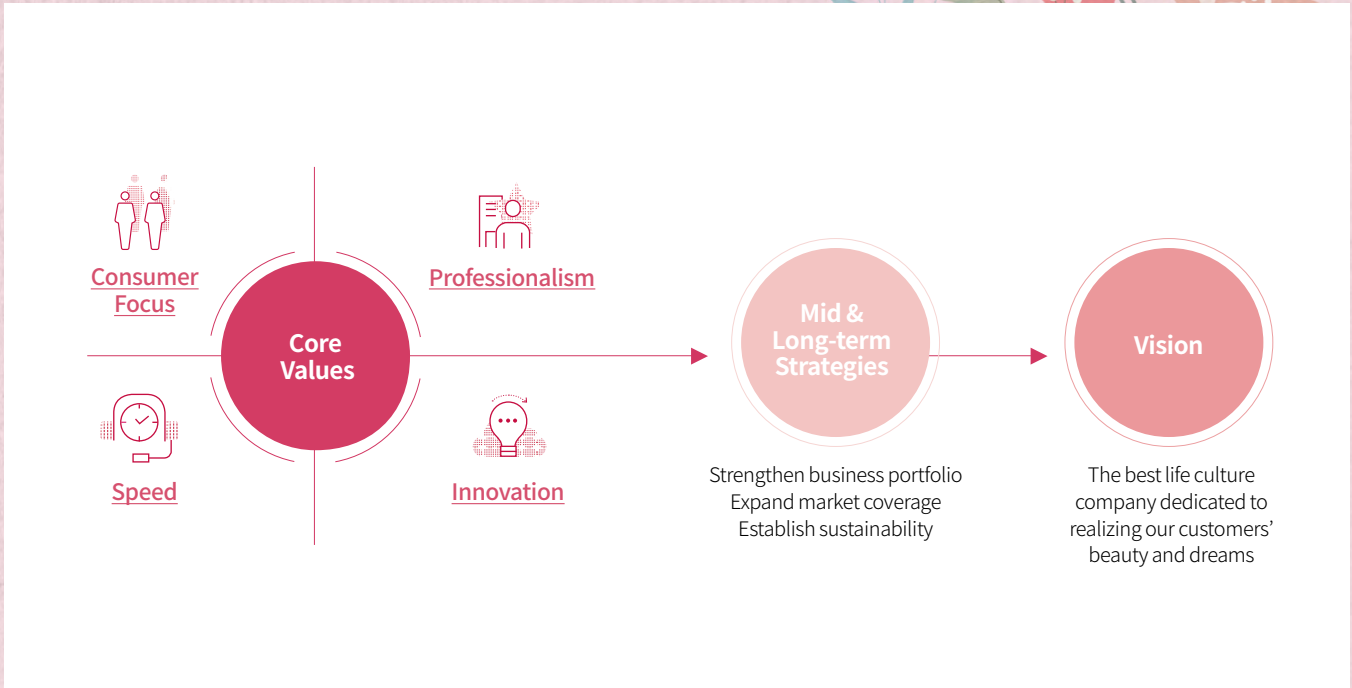
Year-on-year rate **16.8%p** ↓



## Sales

(Unit: KRW 100 million)





## Business Overview

BEAUTIFUL DIVISION

# Beautiful

To move one step closer to our goal of becoming one of the top five cosmetics companies in Asia by 2020, we will accelerate the expansion of our business to the global market, starting by securing a bridgehead to China and the rest of Asia. To build our reputation as a truly global company, we will develop world-class brands with high-quality products to strengthen our luxury brand name and realize healthy beauty.

Su:m37°

1

Ranked first in the category of Korean premium skin care brands most loved by Chinese consumers for two consecutive years



High-functional cosmetic brand with the wisdom of natural fermentation that revitalizes your skin

### Live your dream, change your life

The history of



su:m37°

O HUI

belif

Sooryehan 秀

THE FACE SHOP  
NATURAL STORY

ISA KNOX

VONIN



LACVERT

PASSION & BEYOND

CNP COSMETICS  
자연발효장품



VDL

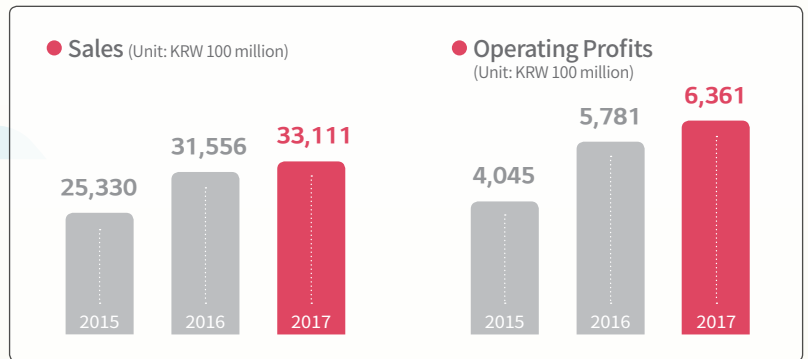
The saga of 秀

tuneage

DermaLift  
RetriCell™ Technology







\*The data for 2015 was reorganized due to the modified classification of business divisions.

The History of Whoo

1



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

Ranked first in the nourishing cream category in the Korea-China Management Awards for three consecutive years

Premium royal brand that combines the secret royal court beauty formula for the queen, oriental medicine and modern science

O HUI

Satisfaction level among flight attendants

96%

Survey of flight attendants  
Target product: O HUI Prime Advancer Ampoule Serum  
Respondents: 50 current flight attendants of Asiana Airlines  
Research firm: SeoWoo&Company  
Period: November 2017



Natural-technology-based cosmetic brand that helps women achieve their ideal skin condition

belif

1



Ranked first in the moisturizing cream category for two consecutive years

True herbal cosmetic brand based on traditional herbal beauty formulas with integrity and truth

Based on the Kantar Worldpanel Survey conducted from January to September 2017 (category of skin care products sold at department stores)



## Business Overview

HEALTHY DIVISION

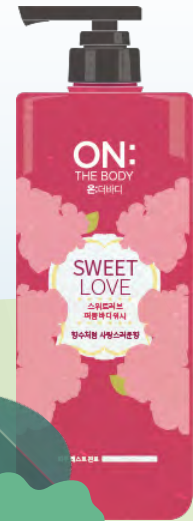
# Healthy

We will continue to reinforce our growth engines by creating new values in the household goods division with products loved and trusted by customers and entering the rapidly-growing healthy supplement market. We will raise our safety standards for all products and explore natural ingredients to develop premium brands, thereby making safer products that consumers can use without any worries.

ON:THE BODY

1

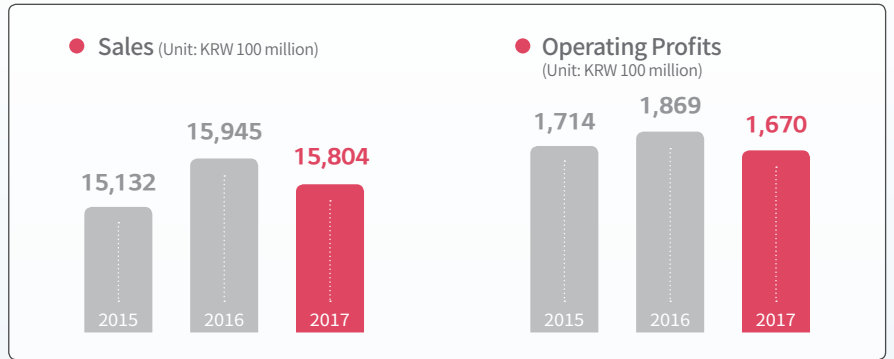
Ranked first in the category of Chinese consumers' favorite premium body wash brands for two consecutive years



Body styling brand that delivers the vitality of pure nature to your skin

### For your healthy life





\*The data for 2015 was reorganized due to the modified classification of business divisions.



PERIOE

1

(Survey data from Nielsen, domestic market)

Ranked first 27 times

A leading total oral care brand that safeguards the oral health of Koreans



Elastine

1

(Survey data from Nielsen, domestic market)

Ranked first for 14 consecutive years

"Elastine brings the benefits of skincare to your hair" Harmony of beauty and hair science

TECH

1

(Survey data from Nielsen, domestic market)

Ranked first for nine consecutive years



Top laundry detergent brand that provides the best laundry solution

## Business Overview

REFRESHING DIVISION

# Refreshing

The Refreshing Division has launched various products through Coca-Cola Beverage, which produces and sells products featuring unique, refreshing flavors in Korea, and HAITAI htb, a beverage company that manufactures products such as Sunkist and Sunny10. We have entered the rapidly-expanding functional beverage and dairy product markets to provide a wide range of products that satisfy the needs of consumers.

Minute Maid

1

Category of beverages containing 1-100% fruit juice; global data; as of 2016

Ranked first in the global market



Global juice brand with 74 years of tradition

GangWon PyeongChangSoo

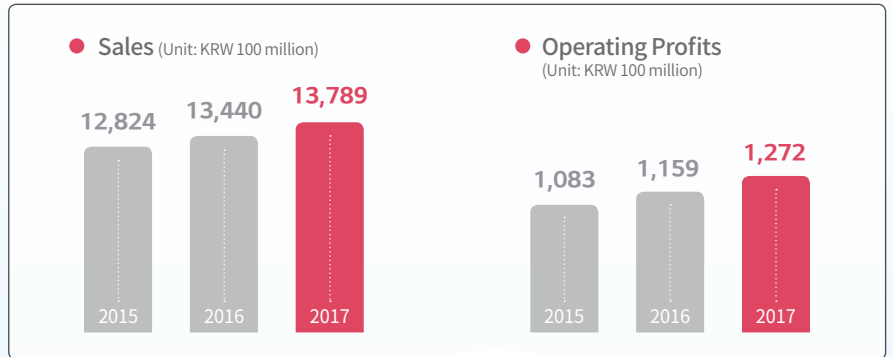
2018 OLYMPIC

Official mineral water of the 2018 PyeongChang Winter Olympics



Mineral water brand that offers the true purity of water





Coca-Cola

1

Sparkling/Coke category; survey data from Nielsen; as of 2017

Ranked first in the global market

Global brand that sells over 1 billion glasses a day



Guronsan

SINCE 1963

Invigorating drink brand with 64 years of tradition

For your refreshing life



# Economic Value Creation

## Business Performance in 2017

We have a well-balanced business portfolio that is stably maintained, regardless of changes in the external environment. Since the THAAD issue that arose in March 2017, the political tension between Korea and China was heightened, leading to an unfavorable business environment due to the drop in the number of Chinese tourists, our major customer group for cosmetic products and household goods. Based on our sound business portfolio, however, we promoted our distinctive luxury brands, such as The History of Whoo and Su:m37°, and expanded our business in China, accomplishing KRW 6,270.5 billion in sales and KRW 930.3 billion in operating profits. In this way, we achieved significant year-on-year growth despite obstacles in the industrial environment.



Sales in 2017	Operating Profits in 2017
KRW <b>6,270.5</b> billion	KRW <b>930.3</b> billion

### Beautiful

Despite the drop in sales in duty-free shops due to the decreased number of Chinese tourists visiting Korea, our brand The History of Whoo proved its global competitiveness with its sales reaching KRW 1.4 trillion based on the continued demand in China. Su:m37° has cemented its position as an emerging luxury brand by releasing new high-priced products and entering the overseas market, thereby achieving KRW 400 billion in sales. In spite of the slump in the domestic market and intensified competition, LG H&H's premium cosmetic brands are dedicated to overcoming the slowdown in the business by redesigning their brand concepts, nurturing major lines, and increasing the efficiency of their stores.



### Healthy

The Healthy Division has cemented its top position in the domestic market by launching distinctive products and constantly developing premium brands. Further, we have released personal care brands focusing on China, while commencing the business under the newly-acquired brands TJI and REACH in Japan, thereby expanding our foundation in the overseas market. We are also exploring new business opportunities with growth potential, such as the pet care business. In response to growing interests and worries about chemical substances, we are focusing on developing eco-friendly products that consumers can use without any worries.



### Refreshing

Despite the trend of an aging population, the price hike of raw materials, and the slump in economic growth, our Refreshing Division has retained its reputation as the top company in the sparkling beverage market through the diverse marketing activities of Coca-Cola Beverage and new Minute Maid Sparkling products. In the non-sparkling beverage market, we proactively promoted our hydrating beverage TORETA and released GEORGIA's premium Cold Brew, strengthening our brand portfolio. We also obtained part of the selling rights of Jeju Samdasoo in the instant beverage market, expanding our foundation for the mineral water business.

### Business Plans for 2018

Our business environment will not be positive in 2018 either, due to China's slow economic growth, uncertainties in the domestic economy, and intensified protectionism around the world. LG H&H will strengthen its crisis-resistant business system so as not to be swayed by external factors. We will continue to lay the groundwork to expand outside of Korea and become a leading company in Asia.



#### Beautiful

We will develop The History of Whoo as a leading luxury brand in Asia, increase the market presence of our next-generation luxury brand Su:m37° in China and other Asian countries, and expand our share of belief in the European and other overseas markets. We will enhance the efficiency of our premium brand business by redesigning brands and channels. We will also focus on developing the major product lines of our core brands to build stronger competitiveness and actively enter the markets in China and other Asian countries.

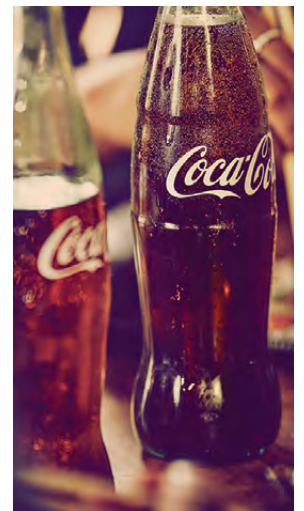
#### Healthy

We are planning to cultivate distinctive premium brands, such as Dr. Groot and ON:THE BODY Spa Therapy, mainly in the Chinese market, and initiate our oral health business with a focus on the REACH brand. We will make efforts to create a basis for future growth by strengthening our competitiveness in the global personal care and home care markets and developing new business opportunities based on the perspectives of consumers.



#### Refreshing

We are preparing to spur the growth of sparkling beverage brands, reinforce our portfolio of non-sparkling beverage brands, and launch our mineral water business. In addition to Coca-Cola Beverage's marketing activities for the Winter Olympics and the World Cup, we will also improve our competitiveness in the non-sparkling category, such as sports drinks and coffee, to strengthen our brand portfolio. We also plan to leverage our capacity to stabilize our new brand Jeju Samdasoo in the mineral water market.





# Focus Issues & Business Cases





## 01

EXPANDING  
TO THE GLOBAL  
MARKET

## Management Approach

## Background

The overall industries are affected by the low growth trend due to the saturation in the domestic cosmetics and household goods market and the crisis in the Chinese market due to international political situations. Major companies do not perceive this trend in the market as a crisis, and rather make the best of their strengths to enter the overseas markets and pioneer emerging markets with their existing products. In particular, companies are focusing on improving the brand leadership and corporate reputation by spreading K-beauty and entering major global markets.

## Principle &amp; Strategy

LG H&H strives to upgrade its business structure so as not to be swayed by changes in the external business environment. Our cosmetics division strengthens its competitiveness of luxury brands, while our household goods division releases unique and distinctive products. The beverage division facilitates the new mineral water business, promoting continued growth to lay the groundwork for becoming a leading consumer goods company in Asia.

Efforts to Enter the  
Major Overseas Markets

## Continued Expansion of Overseas Business

LG H&H operates business in China, Japan, Southeast Asia, and North America based on its competitiveness in the global market. Its portfolio has been strengthened by nurturing luxury brands targeting the Chinese market, and its subsidiary in Malaysia was established at the end of 2017, following those in Vietnam and Singapore and expanding the business in Southeast Asia. In addition, our global brand value is increasing by expanding the business in advanced countries, such as Japan and the United States. We set the ERP (Enterprise Resource Planning) in our subsidiaries and solidify the internal foundation for business by strengthening the management of relationship with customers and improving the training system in preparation for the future.



## 1. China

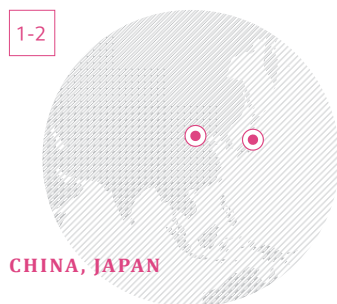
China is a target market with a huge growth potential, taking up the largest share in our overseas sales. We achieved remarkable growth in this market, making a great appeal to Chinese consumers, particularly with products from The History of Whoo. In 2017, we expanded our portfolio with the next-generation luxury brands such as Su:m37°, O HUI, VDL, and belif, and developed stronger competitiveness focusing on premium stores of these brands in large cities. In the household goods division, we are expanding the premium personal care product lines, including Bamboo Salt Toothpaste, ReEn Yungo, and ON:THE BODY. We are also nurturing online channels to allow as many customers as possible to meet our products in a broader range of regions. We opened flagship stores for ReEn Yungo, Bamboo Salt Toothpaste, and ON:THE BODY at an online shopping mall called T-Mall, becoming more competitive online and increasing synergy between our online and offline channels.



## 2. Japan

Japan has the third largest cosmetics market in the world following the United States and China, but it is very challenging for non-Japanese companies to enter this market. In this country, LG H&H has achieved continued growth in the healthy supplement business since 2013 by utilizing a mail-order method. In 2017, we facilitated our cosmetic business focusing on cushion products, and expanded the scope of business by acquiring Japanese household goods company TJI (Toiletry Japan Inc.) and promoting oral care brand REACH. Our cushion products have been well-received by Japanese consumers for their outstanding quality and convenience that significantly shorten make-up application time. We are trying to lead the cushion product market in Japan by increasing our product line-up with a customized formula for customers.

1-2



CHINA, JAPAN



3



SOUTHEAST ASIA

## 3. Southeast Asia

Southeast Asia has all sorts of growth potential and is called the post-China region. We recently opened a subsidiary in Malaysia, following openings in Vietnam and Singapore, to strengthen our local marketing activities. The History of Whoo has been well established as a luxury brand in local top-class department stores in Taiwan and Vietnam, while expanding its scope of business as a premium brand in other neighboring countries such as Singapore, Malaysia, and Thailand. In 2017, we launched Su:m37° as a next-generation brand, increasing our local brand awareness. In the household goods market with a large share taken up by global brands, we are introducing premium brands considering local trends, such as Elastine and ON:THE BODY, for continued growth.

4



NORTH AMERICA



## 4. North America

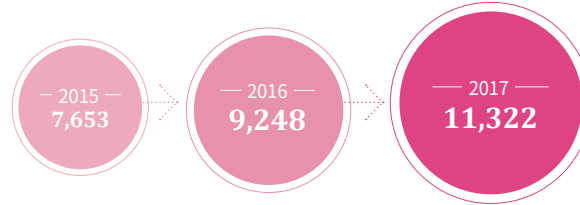
The United States has the largest cosmetics market across the globe. LG H&H strived to introduce its brands to Sephora, a major distributor in the country. We introduced our brands at 148 stores (as of 2016 based on the number of stands exclusively for our brands) and expanded to 207 stores in 2017. Moreover, we are expanding our business in the United States and Canada with a focus on Nature Collection, our nature-oriented cosmetics multi-shop. belif is one of the most popular brands of LG H&H in North America, which has increased its market awareness through SNS, sampling, and collaboration projects. We worked with a famous designer, Prabal Gurung, during New York Fashion Week to promote belif products, while attending the Generation Beauty Event twice in New York and LA to introduce our products and provide samples. We're also expanding SNS marketing activities to increase the effect of brand promotion.

01

EXPANDING TO THE GLOBAL MARKET

Major Overseas Subsidiaries

Overseas Sales in the recent 3 years (Unit: KRW 100 million)



Number of countries	40
Number of overseas subsidiaries	20

\*As of December 31, 2017



CHINA

We will continue to strengthen our marketing and sales capacity and expand the portfolio of luxury cosmetics brands focusing on top-class premium stores in large cities to build local competitiveness. We also build online marketing channels to increase the synergy between online and offline channels.

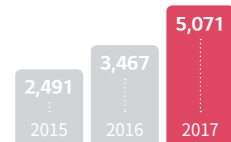
Cosmetics



Household Goods



Sales (Unit: KRW 100 million)



JAPAN

In 2017, we expanded the cosmetic business with a focus on our cushion products, while cultivating the global brand REACH as a professional oral care brand, for which we acquired the business license from Johnson & Johnson.

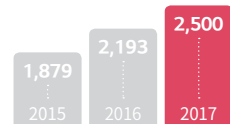
Cosmetics



Household Goods



Sales (Unit: KRW 100 million)

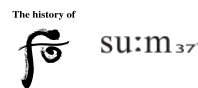




### SOUTHEAST ASIA

We are expanding local marketing activities by opening a new subsidiary in Malaysia, following Vietnam and Singapore. We will solidify our luxury brand image and increase our brand awareness by launching new brands.

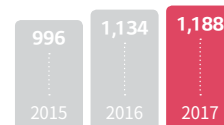
#### Cosmetics



#### Household Goods



Sales  
(Unit: KRW 100 million)



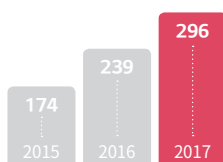
### UNITED STATES

We focus on promoting luxury brands through our nature-oriented cosmetics multi-shop Nature Collection, while proactively entering online and offline markets such as Sephora and Amazon.

#### Cosmetics

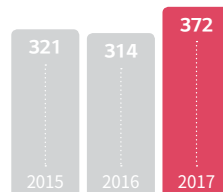


Sales  
(Unit: KRW 100 million)



### CANADA

We are enhancing the competitiveness of our retail business, a major business category of our subsidiary in Canada, through Nature Collection. We are strengthening the basis of our cosmetics business in North America by promoting brands such as THEFACESHOP, belif, and F&P.



02

STRENGTHENING PRODUCT SAFETY

Management Approach

Background

Global companies manage the safety of raw materials and the production process and also pay attention to harmful factors and safety issues that may arise while customers use their products. With growing concerns about the health and safety of customers, the requirements for raw materials and processes are growing stricter, while the consumption of products with high quality and safety standards has expanded. In this context, the stricter safety is an essential factor for consumer goods companies. Even a single mistake could critically impact the trust between a company and its customers.

Principle & Strategy

The cosmetics, beverage and household goods businesses directly affect the healthy life of customers. LG H&H has made full efforts to provide safe and eco-friendly products with higher values by reducing chemical substances and increasing natural ones, thereby enabling customers to use safe products with better ingredients. We implement internal guidelines that are stricter than safety regulations and only release products that conform to such standards, pursuing our philosophy of developing safe products that our customers can use without any worries.

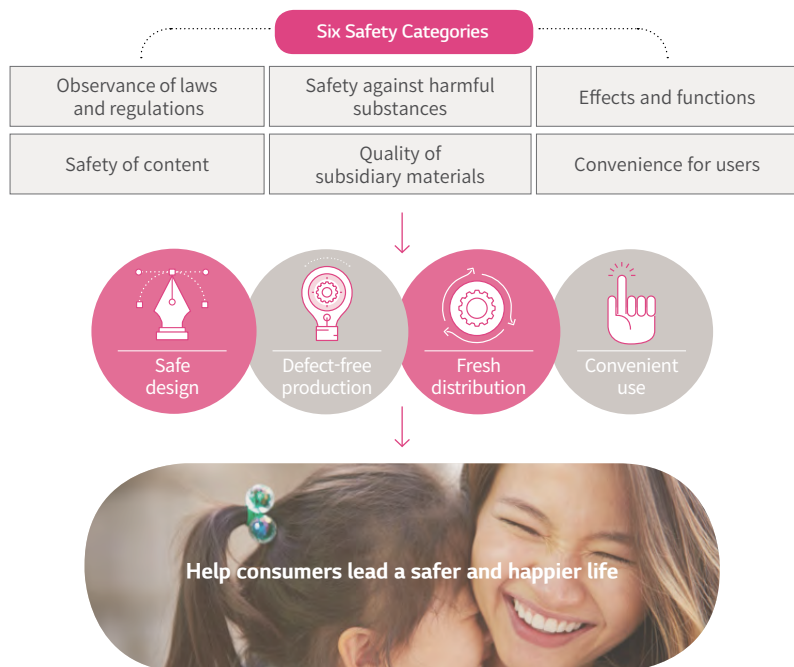
System to Ensure Greater Product Safety

Consumer Reassurance Center

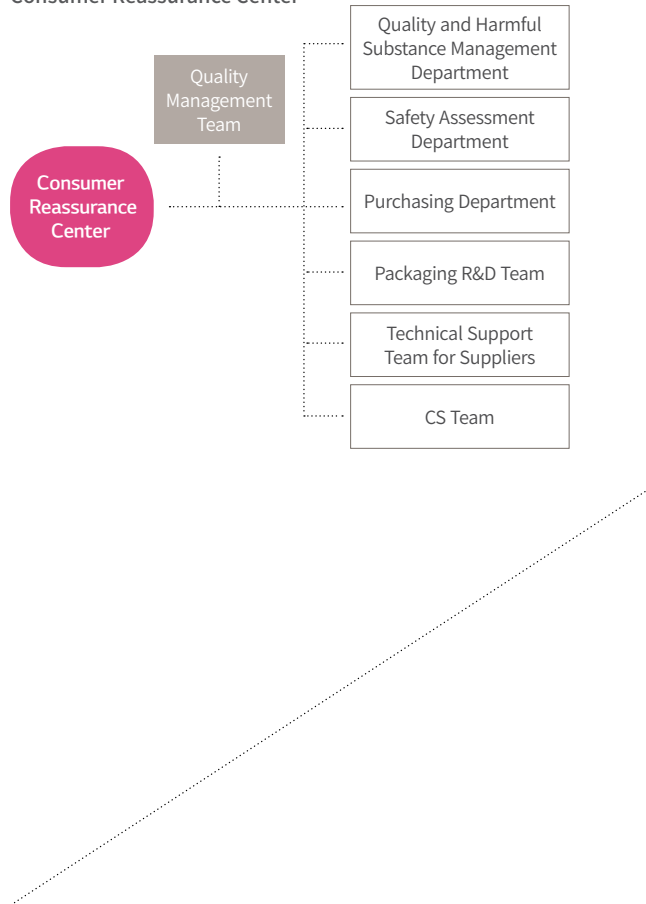
In order to provide safe and reliable products, we opened the Consumer Reassurance Center that manages the safety level across all processes from product development to their use by customers. This Center deals with all affairs related to product safety, including quality issues and harmful substance management. After the establishment of the Center, we organized the system to redesign the work process and enhance the work capacity of employees, while implementing safety standards higher than relevant regulations and society's expectations.

The Consumer Reassurance Center has selected six major safety categories and ensured safe design quality, defect-free production, fresh distribution, and convenience for customers. In addition, the Center examines and improves the quality assurance system across all processes to help consumers lead safer and happier lives.

Strategies of the Consumer Reassurance Center



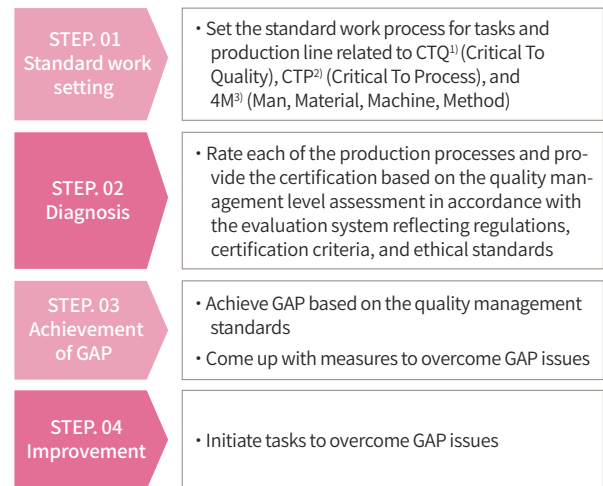
**Organizational Chart of the Consumer Reassurance Center**



**Safe Quality Certification System**

We set the Safe Quality Certification System to enable consumers to easily recognize the certification and manage the safety level within the company through a stringent and systematic method. This is LG H&H's own system that selects evaluation items with criteria stricter than relevant regulations from product development to their use by consumers and applies that criteria to each product.

**Safe Quality Certification System**

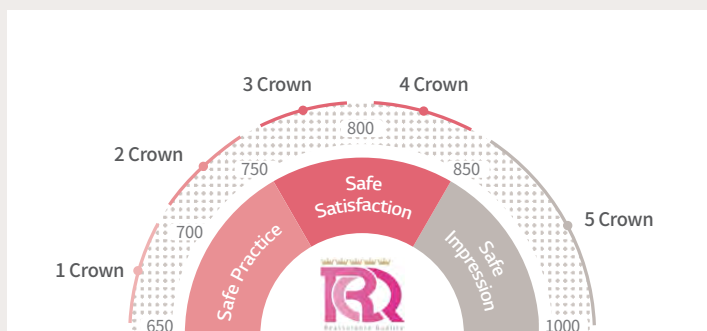


- 1) Factors that have a critical impact on quality
- 2) Management items of the process that decide the quality level
- 3) Factors that have a direct impact on quality

**Operation of Safe Quality Certification System**

We developed and have operated the Safe Quality Certification System to manage the quality level across the overall scope of business management, including domestic and overseas subsidiaries, in a comprehensive way. This system was first applied to our business site in Yeosu in 2017 as a pilot project, and is expected to be introduced across all business sites in 2018. In this system, the certification is classified into five levels (1 Crown to 5 Crown) depending on the score (safe practice, safe satisfaction, safe impression), and is granted to a production line that scores over 650.

**Safe Quality Certification Level**



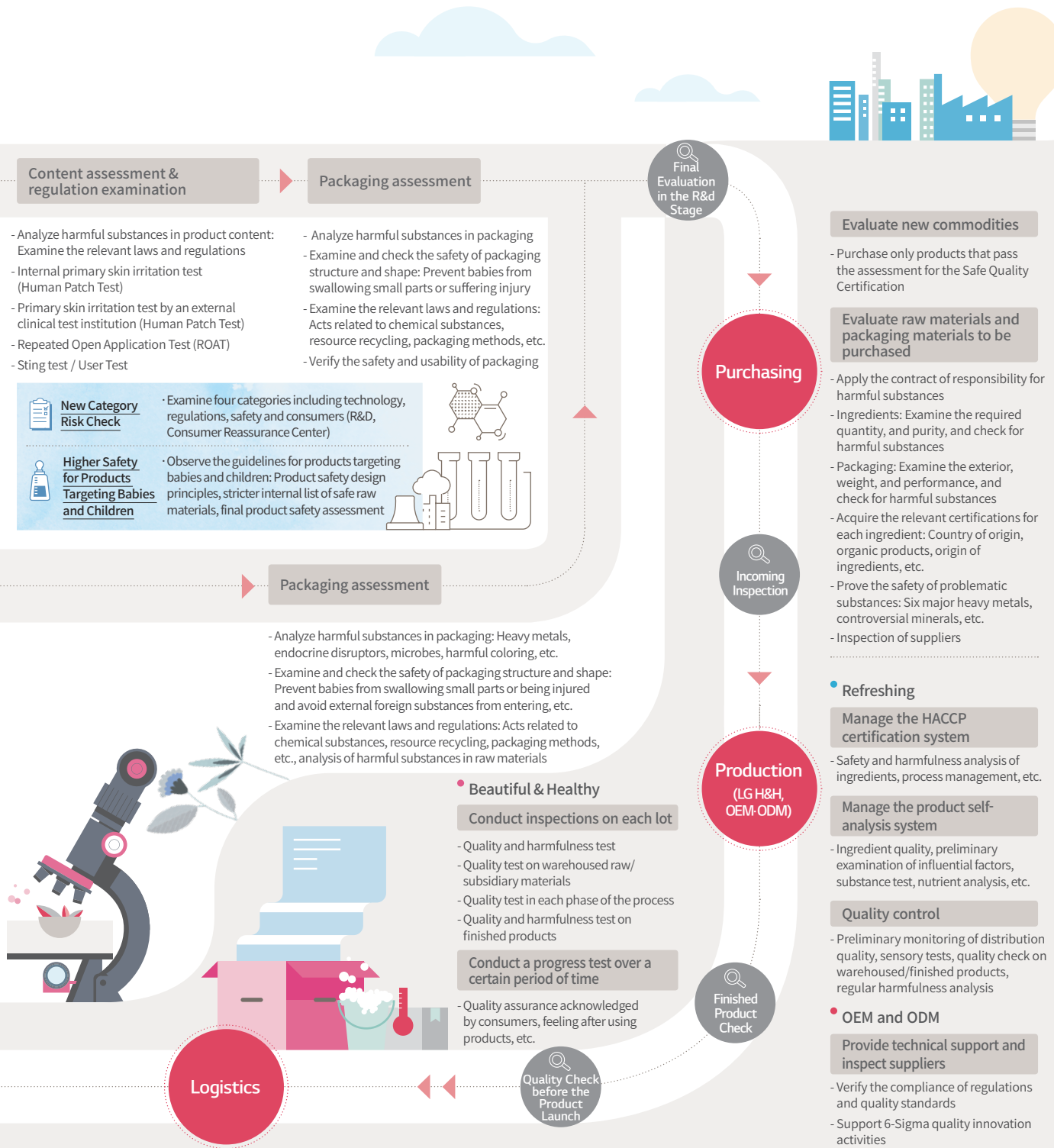
**Safe Quality Certification System for Suppliers**

We established the Safe Quality Certification System for Suppliers to identify the overall safety level of our suppliers and encourage them to improve the safety level and strengthen the assurance system. We will give certification to exemplary suppliers and maintain a long-term and win-win partnership. Based on the assessment result of suppliers, our safe quality experts present challenges for improvement and proper actions, ensuring the capacity of the assurance system to prevent major safety and quality issues.

## Product Life-Cycle Safety Management Process







**Content assessment & regulation examination**

- Analyze harmful substances in product content: Examine the relevant laws and regulations
- Internal primary skin irritation test (Human Patch Test)
- Primary skin irritation test by an external clinical test institution (Human Patch Test)
- Repeated Open Application Test (ROAT)
- Sting test / User Test

**Packaging assessment**

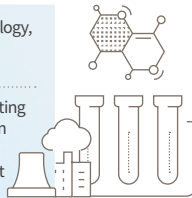
- Analyze harmful substances in packaging
- Examine and check the safety of packaging structure and shape: Prevent babies from swallowing small parts or suffering injury
- Examine the relevant laws and regulations: Acts related to chemical substances, resource recycling, packaging methods, etc.
- Verify the safety and usability of packaging

**New Category Risk Check**

Examine four categories including technology, regulations, safety and consumers (R&D, Consumer Reassurance Center)

**Higher Safety for Products Targeting Babies and Children**

Observe the guidelines for products targeting babies and children: Product safety design principles, stricter internal list of safe raw materials, final product safety assessment



**Packaging assessment**

- Analyze harmful substances in packaging: Heavy metals, endocrine disruptors, microbes, harmful coloring, etc.
- Examine and check the safety of packaging structure and shape: Prevent babies from swallowing small parts or being injured and avoid external foreign substances from entering, etc.
- Examine the relevant laws and regulations: Acts related to chemical substances, resource recycling, packaging methods, etc., analysis of harmful substances in raw materials

**Beautiful & Healthy**

**Conduct inspections on each lot**

- Quality and harmfulness test
- Quality test on warehoused raw/ subsidiary materials
- Quality test in each phase of the process
- Quality and harmfulness test on finished products

**Conduct a progress test over a certain period of time**

- Quality assurance acknowledged by consumers, feeling after using products, etc.

**Purchasing**

**Evaluate new commodities**

- Purchase only products that pass the assessment for the Safe Quality Certification

**Evaluate raw materials and packaging materials to be purchased**

- Apply the contract of responsibility for harmful substances
- Ingredients: Examine the required quantity, and purity, and check for harmful substances
- Packaging: Examine the exterior, weight, and performance, and check for harmful substances
- Acquire the relevant certifications for each ingredient: Country of origin, organic products, origin of ingredients, etc.
- Prove the safety of problematic substances: Six major heavy metals, controversial minerals, etc.
- Inspection of suppliers

**Production (LG H&H, OEM-ODM)**

**Refreshing**

**Manage the HACCP certification system**

- Safety and harmfulness analysis of ingredients, process management, etc.

**Manage the product self-analysis system**

- Ingredient quality, preliminary examination of influential factors, substance test, nutrient analysis, etc.

**Quality control**

- Preliminary monitoring of distribution quality, sensory tests, quality check on warehoused/finished products, regular harmfulness analysis

**OEM and ODM**

**Provide technical support and inspect suppliers**

- Verify the compliance of regulations and quality standards
- Support 6-Sigma quality innovation activities

**Logistics**

**Manage the quality of storage and transport**

- Prevent damage to products, comply with the load standards, manage the FIFO (first in, first out) according to the expiration date, etc.

**Apply the proper management method for each product**

- Temperature, humidity, pest control, etc.

**Check the 5S activities**

- Weekly check on Seiri (Arrangement), Seiton (In Order), Seisoh (Cleaning), Seiketsu (Neat), and Shitsuke (Well Bred)

**Conduct regular education programs for safety and fire prevention**



**Safe Quality Certification System**

- Set the standard work process for tasks and production line related to 4M (Man, Material, Machine, Method)
- Evaluate the objective indicators and observance level regarding the quality factors (CTQ) and process (CTP) of the six safety categories



**Safe Quality Certification System for Suppliers**

- Identify the quality level
- Spread the quality assurance system



Certification

# 02

## STRENGTHENING PRODUCT SAFETY

### Products for Consumer Safety

#### Development of Guidelines for Safety of Products for Babies and Children

A stricter safety assessment is required in the development process of products for babies and children who are more prone to react to minor stimulation. LG H&H established the comprehensive internal safety guidelines that encompass the overall development process of cosmetics and toothpaste products targeting babies and children, as well as raw material management. The assessment employs various standards, including the examination of the safety evaluation reports provided by European organizations and the US FDA, the exposure scenario assessment about the usage pattern of users, and tests on human body cells, skin irritation, and allergic reaction. The data derived from the thorough assessment process are sent to our Consumer Reassurance Center, where experts make the final decision and approve product development and production only when the subject satisfies the internal standards. Thanks to these stringent safety guidelines, we are realizing our philosophy of developing safe products that mothers can purchase without any worries.



**CASE:** Products that Reflect the Safety Guidelines for those Targeting Babies and Children

Babience products are customized for children as they use only safety-verified raw materials based on the thorough risk assessment on all content. The products have fragrance that minimizes allergen and satisfy the standards of the skin irritation tests and eye irritation alternative tests. Some products are proved for its safety by the skin irritation test on infants. In May 2017, Babience Moisturizing Baby Shampoo and Body Wash were granted hygiene certification for cosmetics for children in China by meeting the country's demanding safety standards. We are enhancing Babience's reputation as the science brand for baby safety in the global market. In addition, BEYOND Kids Eco line products use recyclable materials for containers, packaging and printed labels, achieving user safety as well as creating value as eco-friendly products.

### Disclosure of All Contents of Daily Goods with Chemical Substances

In February 2017, the Ministry of Environment (ME), the Ministry of Food and Drug Safety (MFDS), and 17 companies including LG H&H signed the Voluntary Agreement for Safety Management for Daily Goods with Chemical Substances. This agreement is aimed at disclosing all contents of daily goods with chemical substances, such as dishwashing and laundry detergents and air fresheners that can expose their chemical substances to human body, by prioritizing product safety management, while increasing the safety level for consumers with a system that monitors damages to consumers. We have provided information about the content, functions and harmful substances of 28 products identified so far on our website and that of ME, and will apply the system to all products manufactured by suppliers. By disclosing all product ingredients, we will build a reliable relationship with consumers as a transparent and responsible company.



### CASE: Protection of Respiratory Organs against Yellow Dust and Fine Dust

In order to strengthen the skin safety and hygiene level of mask products that are now essential in daily life due to increasing yellow dust and fine dust, we developed Cotton Air Pure Cotton Mask (KF80), a premium product using nonwoven pure cotton without any chemical substances in the lining. This product prevents condensation and provides a pleasant feeling to users by utilizing unbleached pure cotton lining that passed our skin test. Since the product has a functional design for convenience, users can adjust the length of the ear strings so that the mask can fit faces of any shape.



### CASE: Dishwashing Detergent with Natural Ingredients

Keeping up with the consumer demand for detergents using natural ingredients without chemical substances, we provide products of Han-Ip 100%, a natural detergent product line that utilizes natural detergent content with stronger washing, softening, and bleaching effects. Han-Ip 100% Baking Soda is made from baking soda, a natural alkali substance, which is a multifunctional product that can be used for laundry, bathroom cleaning, deodorization of refrigerators, and fruit cleaning. Han-Ip 100% Citric Acid is made from citric acid, a natural acid detergent substance that is even used as a food additive. This product removes water scale in the bathtub and sink and functions as a fabric softener. Han-Ip 100% Hypercapnic Soda uses hypercapnic soda, a major ingredient of oxygen bleach, to provide a stronger bleaching effect. Han-Ip 100% line products are leading safe natural detergent products, establishing a brand image as “magical powders from nature.”



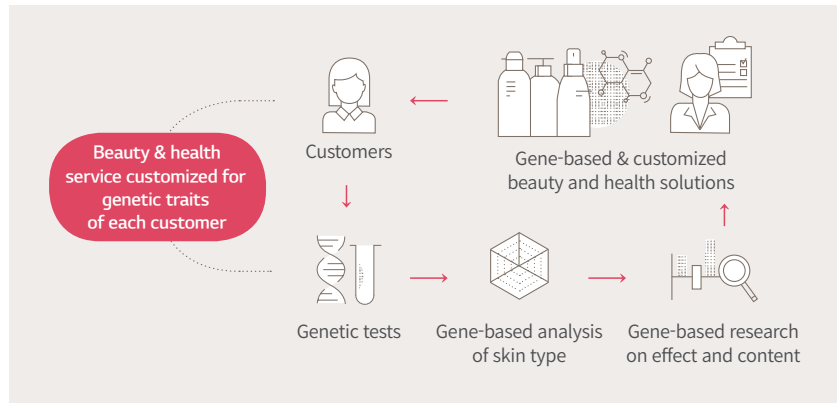
02

STRENGTHENING PRODUCT SAFETY

Solutions for each Type of Customers

CASE: Genetic Information about Skin for Customized Skin Care Service

We need to understand the genetic information related to beauty and health to develop safe and effective customized cosmetic products that reflect the characteristics of each type of skin as well as the current skin condition of customers. In December 2016, LG H&H started to cooperate with gene research company Macrogen to establish a venture called MiGen-story and has conducted a joint R&D project on the genetic traits associated with the characteristics of the skin of Korean people and causes of skin aging. This company, which combines the technological and marketing capacity of the two companies, provides a genetic test service to collect the largest scale of big data in the beauty and health sectors in Korea.



CASE: Cosmetics Service Customized for Customers

We provide a new customized cosmetics service through cosmeceutical brands CNP ReMède and CNP Rx. At our customized stores, we conduct a one-to-one interview done by a professional counselor and a precise diagnosis using skin diagnosis equipment, analyze the skin-related concerns of customers, such as pores, blemishes, wrinkles, skin elasticity, pigmentation, and moisture level, and finally recommend optimized cosmetic products for each customer. The ReMède flagship store provides a customized serum, a mixture of two recommended ingredients combined in a safe mixing machine. This service has been praised by customers with a high level of satisfaction with the skin diagnosis. In the long term, we will combine collected skin diagnosis data and technologies such as AI and IoT to provide a systematized, automated, and customized service for each customer, pioneering new markets and enhancing our global competitiveness.

3-stage Diagnosis & Mixing System

- STEP. 01 - SKIN DIAGNOSIS  
Conduct an interview and overall/local diagnosis
- STEP. 02 - COUNSELING  
Recommend and select products
- STEP. 03 - MIXTURE OF COSMETIC INGREDIENTS  
Provide fresh products by mixing ingredients in real time



**CASE:** Preservative-free, Sterilized Cosmetics Distributed at Room Temperature

LG H&H developed CNP Rx After OP Pure Formula Line with products that do not contain preservatives and any harmful chemical substances for skin. In the early development stage for this product line, we selected ingredients that restrict the growth of microbes and utilized the UHT (Ultra-High Temperature) sterilization method to exclude the entry of microbes in the manufacturing process. In order to prevent the secondary contamination while customers use the products, we apply double-airtight containers. Through these efforts, we could develop products that can be distributed and used at room temperature without preservatives. We even applied for a patent for preservative-free formula technology, which works stably even in the ultra-high-temperature sterilization process.

**CASE:** Hypo-allergenic Functional Shampoo for Customized Care for the Alleviation of Hair Loss

We launched Dr. Groot, a premium shampoo brand that provides customized care for hair loss, which manages the causes of hair loss into two aspects—the scalp and hair. According to the result of a clinical test conducted by an external agency in June 2017, the products of this line reduce two causes of hair loss—dead skin cells and sebum by 30% and 92%, respectively, while tackling the problem of dead ends by 54%. These products do not contain surfactants and silicon, content that may cause scalp troubles. We also apply low-permeation micelle forming technology for a sulfate-free surfactant, reducing scalp irritation. As a hypo-allergenic functional shampoo brand for customized care for the alleviation of hair loss, Dr. Groot was selected as the 2017 best hit product conducted by Seoul Economic Daily and ranked first in the customer satisfaction survey in the second half of 2017 carried out by Sports Chosun, strengthening its position as a new hair loss care brand.

03

DEVELOPING PRODUCTS WITH SOCIAL VALUE

Expansion of Korean Beauty

A Guide for a Beautiful Royal Culture

The History of Whoo is a global brand that has taken its place as a royal culture-based cosmetic brand representing the queen's beauty secrets in Korean traditional medicine and achieved annual sales of KRW 1 trillion 14 years after its launch in 2003. Since 2015, the brand has concluded the agreement for the Cultural Heritage Keeper Project with the Cultural Heritage Administration to enhance brand sustainability and expanded the beauty of Korean royal family and brand value through various activities such as the royal women's cultural event to experience the life of queen at a beautiful palace, royal costume fashion show, royal family media art exhibition, etc. In 2017, The History of Whoo not only conducted a domestic campaign, but also held a royal family relic exhibition and royal costume fashion show at a brand event in Beijing, China to contribute to introducing the beauty of Korean culture to Chinese and other Asian media and opinion leaders who are not familiar with it.



Management Approach

Background

The range of corporate roles expected by customers is gradually expanding from creating economic outcome to addressing social issues. Thus, the various roles of a company are emphasized: they must not only develop eco-friendly products, but also serve society as a medium for cultural diffusion and a significant role for coexistence with local communities. Global enterprises endeavor to create sincere social value by focusing on such social needs and actively utilizing the characteristics of their business.

Principle & Strategy

LG H&H has created social value with sincerity by coexisting with local communities beyond providing simple economic support such as donations. We also strive to reinforce the economy of local communities and deal with environmental issues for the long term by considering waste in the process from production to product launch and releasing green products, which minimize any environmental impact. LG H&H will continue to fulfill social responsibility proactively by listening to social needs and utilizing the company's characteristics.

Modernization of Korean Beauty

As a Korean medicine-based beauty brand reinterpreting the wisdom and secret of traditional Korean medicine in a modern way, Sooryehan makes efforts to promote a variety of Korean beauty products in the global market by focusing on Korean-style beauty. As part of these efforts, the brand launched a product with beautiful lines and colors in collaboration with Park Sul-nyeo, a world-renown hanbok (traditional Korean costume) designer, planned an exhibition of "Scent of Women" at Seoul Museum to showcase the beauty of women in hanbok, and carried out various cultural support activities, including donations. Sooryehan also conducts the "Hanok Byeolgok" campaign to introduce the beauty of hanok (traditional Korean house) and shares the beauty of Korea with more customers.



### Coexistence with Local Communities

#### Creation of Shared Value with Local Communities through Products

LG H&H returns value to local communities by using local ingredients and producing products at the local site to generate more jobs for local residents and revitalize the economy. As products which acquired the Jeju Cosmetic Cert, a certificate for production in Jeju Island, BEYOND Phyto Moisture Jeju Line and Organist Made in Jeju improve product quality by applying high-efficiency ingredients originated from Jeju Island and contribute to developing local industries by creating jobs for local residents. We also launched BEYOND Himalaya, which uses herbal ingredients harvested at a height of 3,000m by local residents in Mugu and Humla, Nepal, and provided an environment to help them to stand on their own feet by offering generic technologies for producing raw materials and 25 mules. In addition, the company manages the supply chain, which used to be operated by unfair trade, and contributes to increasing the income of local residents by helping them receive adequate pay through fair trade.



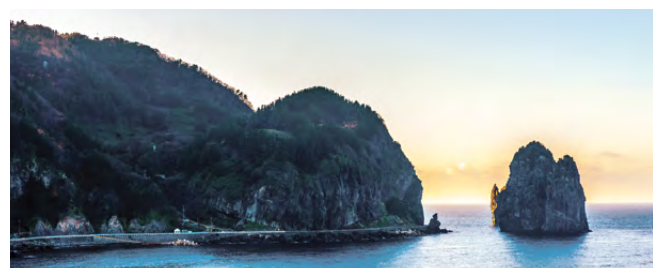
#### Protection of Urban Forests

As an eco-friendly brand of LG H&H, BEYOND conducts a pollution-free life campaign, which represents an alternative campaign for the coexistence between humans and nature. With the concept of “becoming empty of any unnecessary things for the skin and in daily life and filling up with necessities,” the pollution-free life campaign raises consumer awareness. As part of the campaign, the brand is scheduled to conduct the “pollution-free forest campaign” to protect the forests in cities. We aim to realize the value of environmental protection by BEYOND by protecting urban forests, which emerges as an alternative for citizens suffering from air pollution such as fine dust. BEYOND has launched the Seoul Forest Special Edition of its representative products and donated part of the profits for the protection of Seoul Forest to encourage consumers to indirectly protect urban forests.



#### Development of the Local Specialties of Ulleungdo Island

Ulleungdo Island is a volcanic island where the population of approximately 10,000 people reside based on tourism resources such as its beautiful natural landscape, agriculture, and fisheries. The spring water in Ulleungdo Island is volcanic artesian water made by snow and rain permeating the caldera, which is the crater of a volcano, flowing along the underlying bedrock to the ground. It is also first-class clean water rich in dissolved oxygen and minerals such as potassium and silica as well as excellent spring water with a high level of minerals. LG H&H is preparing for the development of spring water by concluding an MOU with the Government of Ulleungdo. Under this agreement, it is expected to not only secure 1,000 tons a day as a new source of water intake and provide consumers with volcanic artesian water from Ulleungdo Island, but it will also revitalize the local economy by helping Ulleungdo to create new jobs, find local specialties, and attract more tourists through product promotion.



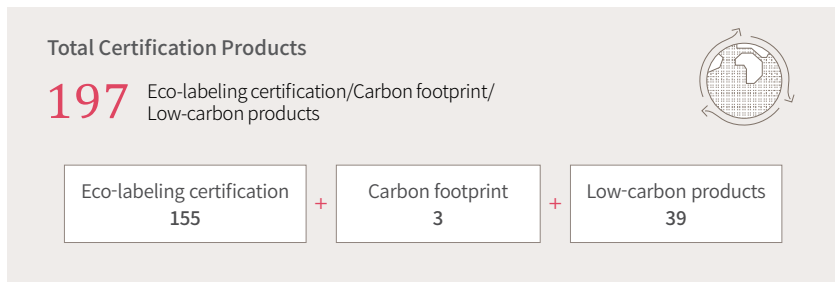
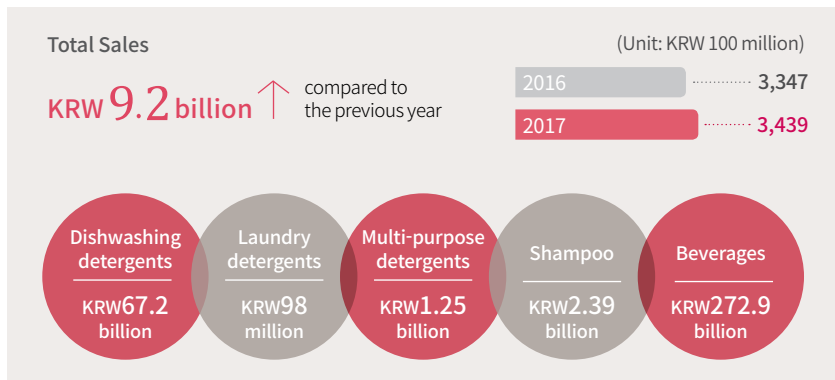
03

DEVELOPING PRODUCTS WITH SOCIAL VALUE

Reduction of Environmental Impact through Products

CASE: Expansion of Products with Eco-Labeling Certification

LG H&H has expanded a range of products with eco-labeling certification, which is only given to eco-friendly products that reduce the use of energy and resources and minimize pollutants at each stage of the entire production process. In 2017, the number of products with eco-labeling certification was 155, which increased by 23% from 126 items in 2016. The sales of green products also grew by 3% from KRW 334.7 billion in 2016 to KRW 343.9 billion in 2017. LG H&H makes every effort to continue eco-friendly management, which not only reduces the environmental impact of products, but also leads to increasing sales.



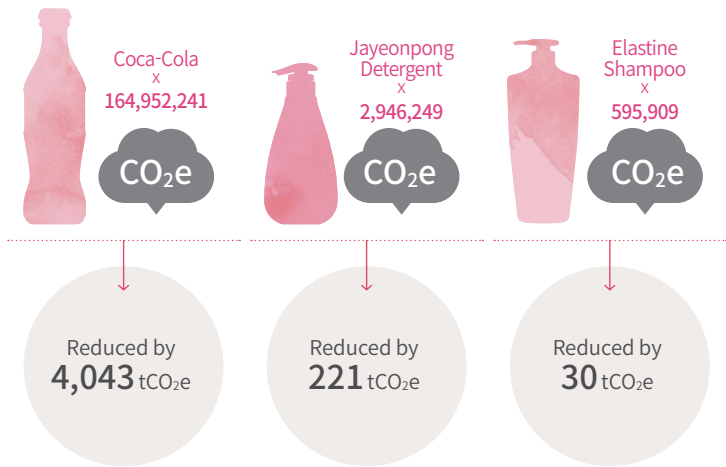
CASE: Eco-Friendly Water-Soluble Sheet Detergent

As many consumers find it difficult to measure the accurate amount of detergent, they inadvertently use a larger amount of detergent than necessary, which causes water pollution. In addition, the large volume of detergent products induces the excessive use of packaging as well as the issue of energy consumption and air pollution due to the transport of products. With the aim of addressing these environmental issues, LG H&H launched high-enriched felt sheet detergent, which is pulled out one by one, for the first time in the world in 2009 and developed felt sheets into 100% water-soluble sheet detergent in 2012. As the water-soluble sheet detergent can be used in sheets for every laundry load, it can prevent excessive detergent use without the need for separate measurement. As the product is light at a weight at 9% of powder and liquid-type detergent for the same amount of laundry and has half the volume, it can also reduce air pollution and energy and resource consumption for packaging and transport. As the sales of soluble sheet detergent in 2017 reached KRW 12.4 billion, which increased by 26% compared to the previous year, this sheet detergent has attracted a positive response from consumers and enjoys continuous growth in sales.



**CASE:** Reduction of Product Carbon Emissions

LG H&H has contributed to cutting national carbon emissions by reducing emissions generated by using our products. We manage carbon emissions in the entire process, including the purchase of raw materials, production, sale, and disposal. In 2017, the company reduced the carbon emissions of Elastine Shampoo, Coca-Cola, and Jayeong Detergent by 4,294 tCO<sub>2</sub>e in total. We also identified the amount of carbon emissions reduction in each product through low-carbon certification. Thus, LG H&H implements its social responsibility by striving to cut the impact of corporate activities on the environment.



\* Calculation: Reduced emissions X Number of bottles sold



**CASE:** Use of Naturally Fermented Ingredients as an Alternative to Microbeads

LG H&H commits itself to minimize any harmful chemicals for our body and environment by developing good toothpaste genuinely desired by consumers. In 2017, the company released the Bamboo Salt Toothpaste with Natural Fermentation, which uses water-soluble and naturally fermented grains instead of plastic microbeads, which are not easily soluble in water and threaten the marine ecosystem by flowing into the sea and river. Naturally fermented grains are refined by fermenting glucose from corn and have safe ingredients, which are even used in food. As we use these grains rather than abrasive substances, vulnerable consumers such as elderly people and children, who are sensitive to stimuli, can use the product more comfortably and safely. LG H&H will continue our research for developing better products to ensure consumer health and protect the environment.

# 03

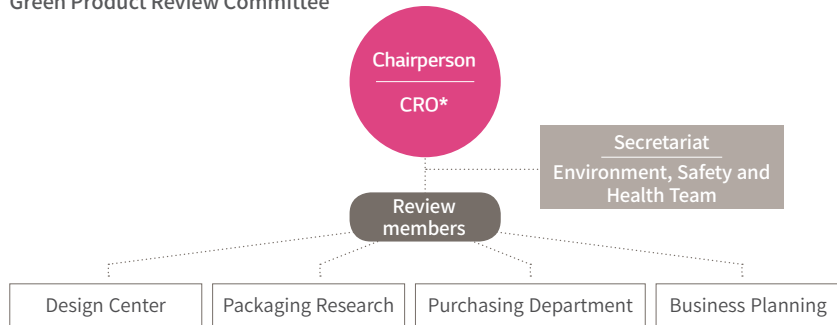
## DEVELOPING PRODUCTS WITH SOCIAL VALUE

### Efforts to Reduce Waste from Products

#### Establishment of Green Packaging System

LG H&H operates the Green Product Review Committee to settle company-wide green management. With the CRO as the chairperson, the committee is composed of the environment and safety team, design team, packaging research team, purchase team, and business planning team and carries out activities from the pre-development stage, including proposing green packaging and suggesting and reviewing green level issues. By finding and executing ideas for sustainable packaging, LG H&H fulfills its responsibility and role as a green company.

#### Green Product Review Committee



\* CRO: Chief Reassurance Officer

#### Application of the Green Packaging Guide

LG H&H operates the Green Packaging Guide to develop and apply packaging in consideration of the environment from the stage of product development. As the unique rating scale by LG H&H, the Green Packaging Guide evaluates the eco-friendly level of a product before the launch by classifying the weight, volume, material, and recyclability of packaging in points. We classify products into Green Level 1 to 3 and manage and improve products in a systematic way. When any Green Level 3 product cannot be improved, a separate decision-making process is made.

#### Effect of the Application of Green Level\*



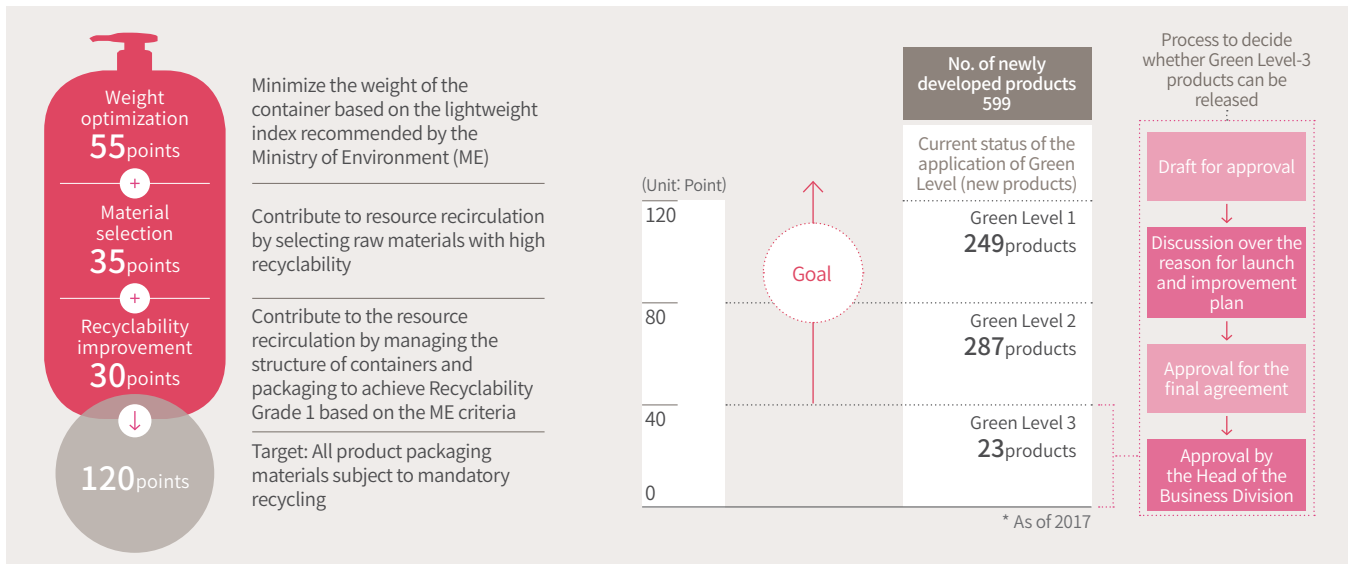
**KRW 745 million**  
Saving purchase cost/  
logistics cost



**KRW 97 million**  
Reduction of the mandatory  
burden for recycling

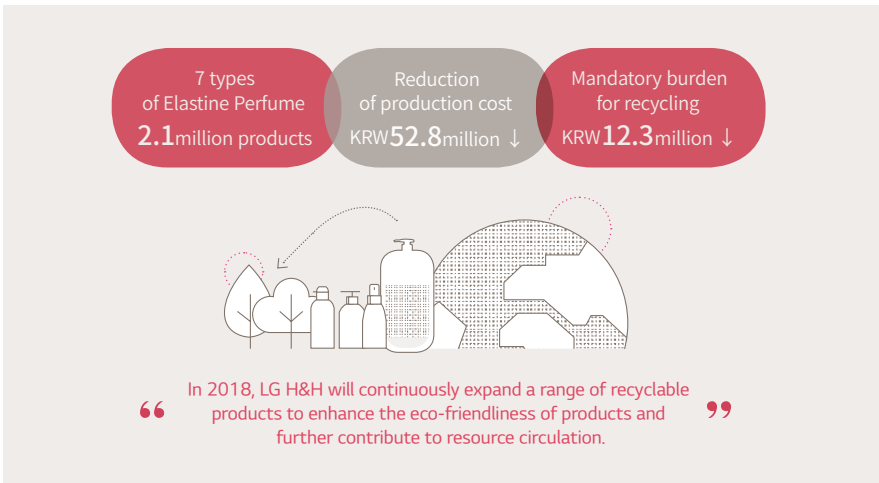
\* Effect calculated based on the sales of the previous year

#### Green Packaging Guide



**CASE:** Improvement of Recycling by Using a Transparent PET Bottle

To ensure more efficient recycling of waste containers left after the use, LG H&H applies the Green Packaging Guide and enhances structural recyclability and material selection. Opaque PET bottles, which are being used in many products, need to be separately processed in each color at the recycling stage, which reduces the efficiency of recycling. From 2016, LG H&H has applied a transparent PET bottle for four homecare products among products whose safety is not impacted by direct sunlight. In the last year, we improved a colored PET bottle, which was used in seven types of Elastine Perfume, to a transparent PET. Through this improvement in recyclability, the Elastine Perfume achieved not only a reduction of the mandatory burden for recycling by approximately KRW 12 million, but also saved production costs worth of KRW 52.8 million. In 2018, we will continuously expand a range of potential products to enhance the eco-friendliness of products and further contribute to resource circulation.



**CASE:** Excellence Prize for Eco-Friendly Packaging

To improve the existing way of using adhesives on the sealing sticker for cushion foundation products, LG H&H has developed the Heating Sealing System, which does not use any adhesive. As the sticker is applied by heat without any separate adhesive, the Heat Sealing System not only ensures the same sealing effect, but also serves as eco-friendly packaging to secure consumer safety. In recognition of this eco-friendly innovation, the system received the excellence prize in the 7th Green Packaging Award.

03

DEVELOPING PRODUCTS WITH SOCIAL VALUE

Promotion of Customer Health

CASE: Vitality of Life Created by Craftsmanship

As a premium health functional food brand, the Daily Life Garden is the fruit of LG H&H's knowhow and technology based on long-time research on nature, science, and health and provides customized solutions for each age, including basic nutrition products, red ginseng products, diet products, and nutrition products for children. Hwanghudan, launched in 2017, comes in a small pill with various ingredients: 6-year fermented red ginseng concentrate, which is easily absorbed in a body thanks to the fermentation by lactic acid bacteria from kimchi, other fermented substances as auxiliary ingredients such as fermented porcine placenta extract and fermented antler extract, and rare ingredients which are difficult to get in daily life such as aloeswood, cornus fruit, and Korean angelica root. As a soft chewable pill that can be taken without water, this product enhances both efficiency and convenience in intake and reflects the philosophy of Daily Life Garden, allowing consumers to enjoy healthy and precious ingredients at any time in an easy and simple way.



CASE: Double-Function Product for Improving Eye Health and Memory

Japanese consumers have recently shown great interest in functional products that improve memory. According to recent research results, 80% or more of memory information or over is from visual information, and increased fatigue of the eyes caused by the use of PC or smartphones can have an effect on consumers' memories. Everlife, LG H&H's Japanese health food brand, has developed EYEKNOW as a double-function product for taking care of the reduced function in the brain and eyes for aging and external stimuli based on market demands and recent research results. EYEKNOW's main ingredients are ginkgo leaves and bilberry extract, which are known to have remarkable effects in improving eye health and brain function as well as memory through many research cases. Consumers can now simply take high-concentrated functional ingredients in a small dose. As a functional product accredited by the Consumer Affairs Agency of Japan, EYEKNOW inspires confidence by making public information on the functionality and safety of the product. In the first year of launch in 2017, the product achieved sales of JPY 170 million.



**CASE:** Open Innovation Activity for Strengthening Capabilities in Dermatology and Technology of Korean Medicine



**2003 ~**

Through continuous open innovation activities, LG H&H not only produces products with the concept of Korean medicine, but also internalizes high-level Korean medicine technology.

**2006 ~ 2016**

Since 2006, LG H&H has operated the Korean Medicine Research Society, which is continuously expanding. It has developed dermatological theories by combining traditional Korean medicine and modern dermatology in cooperation with domestic colleges of traditional Korean medicine, relevant companies, and the Shanghai University of Traditional Chinese Medicine. As a result, we have improved the dermatological effects and developed distinctive formulas containing traditional Korean medicinal features.

**2017**

In 2017, LG H&H conducted a survey and medical examination by Korean medicine doctors with the Korean Medicine Research Society. Through this activity, we classified the standard for distinguishing the skin characteristics of normal people and people with less stamina and established a theory to improve skin aging by replenishing skin's energy. We also established a Korean medicine ingredients management system with OBM Lab, a company specialized in Korean medicine extract ingredients, to secure reliability in Korean medicine ingredients and deal with production process and analytical markers for identifying components and boosting extract efficiency.

Korean medicine technology by open innovation applies to the products of LG H&H's representative royal court-based Korean medicine cosmetic brand, The History of Whoo, which is highly acclaimed by middle-aged women who are worried about skin aging. In 2017, sales of KRW **1,400** billion were recorded by the single brand of The History of Whoo.

# 03

## DEVELOPING PRODUCTS WITH SOCIAL VALUE

### Reinforcement of the Capabilities of Suppliers

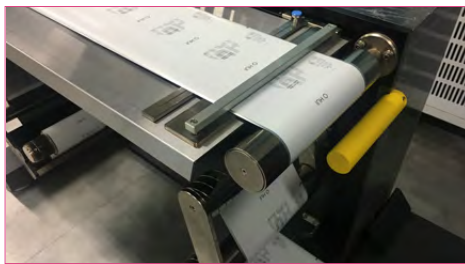
#### Development of Joint Technology with Suppliers

In the rapidly changing business environment, joint responses made together with suppliers create synergistic effects between mutual parties and allows them to deal with the market swiftly and efficiently. LG H&H continues implementing joint development with suppliers for mutual profit and practical win-win growth. We first improve financial stability by providing suppliers with funds for technology development so that the capabilities of suppliers for technology development, which serve as the foundation for product competitiveness, can be reinforced to take the initiative in market-leading technology. In this way, we strive to secure a stable market when we achieve success in technology development.



#### CASE: Localization of Spray Guns

Despite being one of the major subsidiary materials for daily supplies, spray guns used to be imported, usually at high prices, from overseas suppliers due to the quality difference from domestic products. LG H&H has secured competitiveness in price by reducing the cost for purchasing subsidiary materials and begun localization for stable supply management. We developed higher-quality spray gun subsidiary materials by improving spray quality in the characteristics of existing imported products and applying a leakage prevention structure. Through these efforts, LG H&H secures reasonable pricing by saving 20% in the price of subsidiary materials. The company can then provide consumers with excellent products at a reasonable price through the stable procurement of domestic products and quality control.



#### CASE: Application of Digital Printing

As existing package printing requires the manufacturing of a copper plate and film and minimum quantities for order, it was difficult to flexibly make changes in time, cost, and change in production quantity. To address these issues, LG H&H explores printing technologies adequate for small-quantity batch production and utilizes them in the manufacturing process at outsourcing suppliers. We use digital printing that allows printing with just a design file, and we only manufacture the intended quantity swiftly and without preparation. This can reduce the ratio of loss by up to 60% and has a low environmental burden and disposal cost.

### Social and Environmental Value Products

LG H&H makes every effort to spread social and environmental value products by considering the three aspects of customers, society, and the environment. These considerations include the safety and health of customers, social benefits, and alleviation of environmental impact. In 2017, the sales of social and environmental value products were KRW 1,324.9 billion, which account for 21% of total sales.



### 01. Safety and Health of Customers



Improved safety

Babience BOSCP: MOISTURIZING



Organic

BEYOND True Eco



Low-sugar

TORETA



Enhanced nutrients

Babience

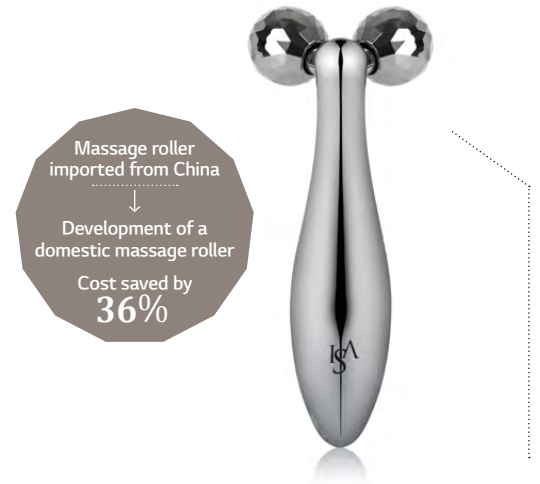
**CASE: Localization of Expensive Imported Foaming Pumps**

LG H&H has set a common goal with suppliers based on the Performance Sharing Project and developed products with enhanced convenience in use. Since 2015, we have cooperated with DARIN, a company producing pumps for cosmetics and daily necessities and set the common goal of localizing expensive imported foaming pumps. Foaming pumps, which are mostly used in hand wash products, are highly difficult to produce, which was why they were exclusively imported from a Japanese company. LG H&H and DARIN began to jointly develop technology by drawing ideas, making a mold and providing support for technology and funds, and they finally succeeded in the mass production of a foaming pump to produce more delicate foam than the Japanese product. Through the performance sharing-project, both companies achieved win-win growth: DARIN secured new technology and sales and received a citation from the Prime Minister in 2016, while LG H&H raised its competitiveness in production cost.



**CASE: Development of a Low-Priced Massage Roller**

As more customers are interested in home care, the need for a massage roller at a reasonable price is also increasing. To meet those needs, LG H&H has developed a domestic massage roller at a competitive price. The product developed by LG H&H is a localized product whose assembly process is simplified through an independent product structure. Compared to massage rollers imported from China, our product saved costs by 36% and has no patent infringement element, thanks to independent development (Patent No. 10-2017-0031727).



**02. Social Benefits**

 <p>Co-development with SMEs <u>Yehwadam White Ginseng Collagen Pearl</u></p>	 <p>Cooperation with the local community <u>ORGANIST Jeju Shampoo</u></p>
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**03. Alleviation of Environmental Impact**

 <p>Waste reduction <u>Saffron</u></p>	 <p>Energy saving <u>Coca-Cola</u></p>	 <p>Water protection <u>Jayeonpong</u></p>
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# Sustainable Management



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CSR Strategy &  
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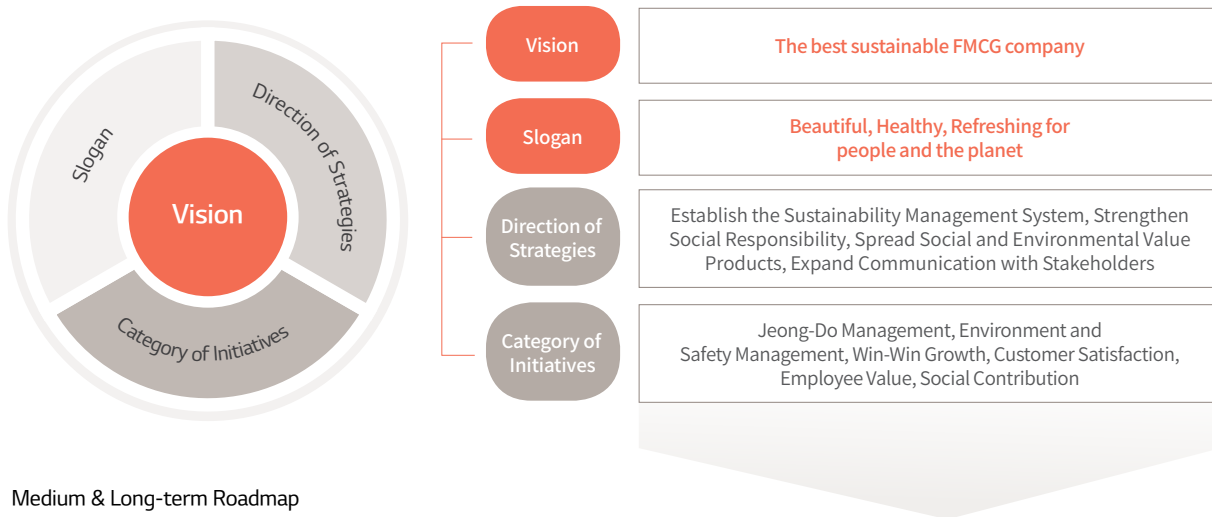
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Win-Win Growth

## CSR Strategy & Roadmap

LG H&H has established medium and long-term CSR strategies and carried out a wide range of activities to achieve its CSR vision and become the Best Sustainable FMCG\* Company that creates social values. Since the company set the first medium and long-term CSR strategies and roadmap in 2015, it has disclosed the data about major performances and progress.

\*FMCG: Fast Moving Consumer Goods



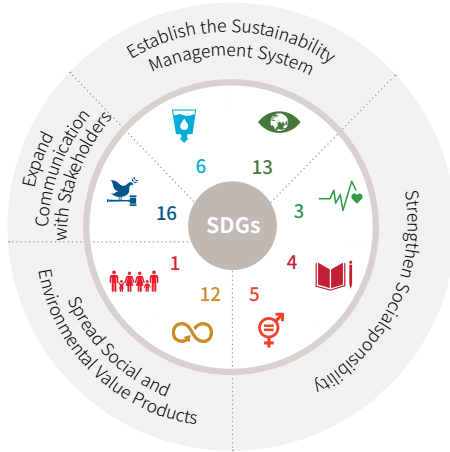
### Medium & Long-term Roadmap

Category of Initiatives	Core Management	2017 Plan		2017 Performance	
Jeong-Do Management Environment and Safety Management	Expansion of Jeong-Do Management to overseas subsidiaries	Strengthen the Jeong-Do Management activities for overseas/acquired subsidiaries		Conducted the local training and workshop programs in four subsidiaries in the Chinese region (China, Taiwan, Vietnam, Singapore)	
	Response to climate change	GHG emissions intensity: 0.069tCO <sub>2</sub> e/product-ton		GHG emissions intensity: 0.075tCO <sub>2</sub> e/product-ton	
	Water management	Water intensity: 2.04tons/product-ton		Water intensity: 2.13tons/product-ton	
	Waste management	Waste intensity: 12.539kg/product-ton		Waste intensity: 12.384kg/product-ton	
Win-Win Growth	Zero-accident management	Normal use rate of safety covers: 100%		Normal use rate of safety covers: 100% (8,945 cases)	
		Improvement rate of near miss: 100%		Improvement rate of near miss: 100% (4,826 cases)	
		Environmental safety diagnosis (16 business sites)		Underwent the environmental safety diagnosis done by an external agency (33% of the total business sites; 1,174 cases detected for improvement; under implementation in 2017-2019)	
Customer Satisfaction	Health care	Develop the management program for cerebrovascular and cardiovascular diseases		Considered a cerebrovascular/cardiovascular disease check-up package	
		Introduce a psychological counseling program		Operated a pilot prevention/management program (prevention guide provided to 1,508 persons; 326 persons took the care and management program)	
Employee Value	Amount of financial support	KRW 34.6 billion in financial support (5% increase from 2016)		KRW 32.25 billion in financial support	
	No. of technical support cases	180 technical support cases (business management system and smart factory added)		174 technical support cases	
Social Contribution	Safe quality of suppliers	Establish an activity framework for the Safe Quality Certification System for Suppliers		Secured the Safe Quality Certification System for Suppliers (ensuring their system and capacity for the assessment)	
	VOC collection and management	Reduce the customer complaint rate by 5.5% (compared to 2016)		Reduced the customer complaint rate by 6.4% (compared to 2016)	
Social Contribution	VOC recurrence prevention	Conduct the zero-prolonged-complaint project (resolving 14 themes of complaints)		Conducted the zero-prolonged-complaint project (resolving 14 themes of complaints)	
	Preliminary management for quality improvement	Conduct the company-wide quality innovation project activities (29 themes)		Conducted the company-wide quality innovation project activities (29 themes implemented; 16 cases completed; 11 cases carried forward; 2 cases withdrawn)	
Social Contribution	Employee Diversity	Secure human resources with in-depth knowledge of local cultures and languages		Operated a program for hiring international students living in Korea	
	Capacity Building of Employees	Continue to conduct the global human resource development program		Operated the global human resource development programs (GEC, GECC)	
Social Contribution	Spreading of the corporate culture and core values	Carry out systematic harmonizing activities of the headquarters' system for overseas subsidiaries		Introduced the ERP system in overseas subsidiaries (China, Taiwan, Hong Kong, Singapore)	
	Borrowed Earth School	Share common values and resolve a gap in the perception between the management and employees through active communication		Established and operated the employees' committee, and developed and conducted a workshop for facilitating the group	
Social Contribution	Shiny PERIOE	Increase the number of participants to over 20,000 students at about 100 schools across the country		Provided the education program for 27,088 students at 151 schools (accumulated figure)	
		Launch PERIOE's musical for children and continue to provide a dental health education program		Launched PERIOE's musical for children and provided a dental health education program to 1,930 students at 15 organizations (accumulated figure: 11,040 students)	

“ We will exert all efforts to contribute to creating social values as a global corporate citizen. ”

Contribution to SDGs

LG H&H considered the characteristics of its business, plans for future business, threatening factors and other business management conditions, and the medium and long-term CSR strategies to derive the correlation between such factors and the UN SDGs. Based on our medium and long-term CSR strategies, we hope to contribute to achieving the UN SDGs that are common challenges across the world.



Category of SDGs	Relevant Activities
6 Clean Water and Sanitation	Environment and Safety Management: Water management, waste management, harmful chemical substance management
13 Climate Action	Environment and Safety Management: Energy and GHGs
3 Good Health and Well-being	Social Contribution: Shiny PERIOE, Borrowed Earth School, BEYOND Eco Life Campaign
4 Quality Education	Social Contribution: THEFACESHOP HIMANGO support program
5 Gender Equality	Employee Value: Ratio of female employees
12 Responsible Consumption and Production	Social Contribution: Global Eco Leader
1 No Poverty	Development of Products with Social Value: BEYOND Himalaya Line
16 Peace, Justice, and Strong Institutions	Jeong-Do Management






KPIs

2018 Plan	2020 Plan
<ul style="list-style-type: none"> <li>Monitor and check risks at overseas subsidiaries</li> <li>GHG emissions intensity: 0.070tCO<sub>2</sub>e/product-ton</li> <li>Water intensity: 2.08tons/product-ton</li> <li>Waste intensity: 11.463kg/product-ton</li> <li>Maintain a 100% normal use rate of safety covers</li> <li>Introduce a trial system for automated safety cover monitoring</li> <li>Improvement rate of near miss: 100% (5 cases per worker)</li> <li>Undergo the environmental safety diagnosis done by an external agency (66% of the total business sites)</li> <li>Introduce a cerebrovascular/cardiovascular disease check-up package and operate a prevention program</li> <li>Expand the psychological counseling program (establishing more counseling centers within our business sites and increasing the number of beneficiaries)</li> <li>KRW 36.3 billion in financial support (5% increase from 2017)</li> <li>190 technical support cases (5% increase from 2017)</li> <li>Materialize the activities for the Safe Quality Certification System for Suppliers (evaluation of 143 suppliers and improvement of unreasonable issues)</li> <li>Reduce the customer complaint rate by 5% (compared to 2017)</li> <li>Operate a regular monitoring system for core quality indicators (14 themes)</li> <li>Work on quality innovation tasks to create customer values (10 themes)</li> <li>Challenges for 2018 have not been selected yet, falling short of the evaluation standard (5 cases of new themes; 11 cases carried forward)</li> <li>Conduct the safe quality diagnosis across all production lines (305 lines at 13 plants)</li> <li>Strengthen the recruiting activities to hire local human resources that are useful for local business, including overseas Koreans and international students from Korea</li> <li>Expand the global human resource development program (Japanese capacity building course, regional expert course, etc.)</li> <li>Systematize the HR operation process for overseas subsidiaries (China, Japan)</li> <li>Establish a communication system for a strong bond and develop practices</li> <li>Expand a summer camp for college students</li> <li>Increase the number of participants in the dental education program for children through a musical</li> </ul>	<ul style="list-style-type: none"> <li>Establish a system for improvement challenges at overseas subsidiaries</li> <li>GHG emissions intensity: 0.055tCO<sub>2</sub>e/product-ton</li> <li>Water intensity: 1.59tons/product-ton</li> <li>Waste intensity: 10.554kg/product-ton</li> <li>Introduce a safety cover monitoring system across all business sites</li> <li>Stabilize the culture of observing the safety code of conduct</li> <li>Maintain the improvement rate of near miss at 100%</li> <li>Upgrade the human resource development system for the environmental safety diagnosis (10 employees in 5 fields)</li> <li>Conduct an internal environmental safety diagnosis</li> <li>Stabilize a cerebrovascular/cardiovascular disease check-up package</li> <li>Continue to operate the psychological counseling program</li> <li>KRW 40 billion in financial support</li> <li>210 technical support cases</li> <li>Stabilize the Safe Quality Certification System for Suppliers (supporting 24 suppliers to obtain the certification)</li> <li>Reduce the customer complaint rate by 5% (compared to the previous year)</li> <li>Operate a regular monitoring system for core quality indicators and continue to work on improvement activities</li> <li>Select and deal with new challenges for quality innovation</li> <li>Obtain the Safe Quality Certification across all production lines</li> <li>Stabilize the Safe Quality Certification System</li> <li>Expand the pool of overseas human resources</li> <li>Continue to upgrade the global human resource development program</li> <li>Systematize the HR operation process for overseas subsidiaries (Southeast Asia, North America, etc.)</li> <li>Share values for Global One LG H&amp;H and build a common system</li> <li>Expand the program as an educational/cultural experience program with the participation of families</li> <li>Expand the dental education program combined with cultural events across the country</li> </ul>

## Sustainability Value Chain

LG H&H is dedicated to creating values for stakeholders, including employees, customers, local communities, and the environment, across all processes related to its products, from R&D and planning to recycling and disposal.

### INPUT VALUE

<b>Economy</b> 	
Asset KRW 4,778 billion	Capital KRW 3,082.6 billion
<b>Customer</b> 	
R&D investment	KRW 119.8 billion
<b>Employee</b> 	
Number of employees (domestic) 7,931 persons	Education/training expense KRW 7.6 billion
<b>Environment</b> 	
Energy intensity 1.524 GJ/product-ton	Water intensity 2.13 tons/product-ton
Environmental investment	KRW 6.1 billion
<b>Community</b> 	
Number of suppliers 834 companies	Expense of purchasing from suppliers KRW 2,389.3 billion
Social contribution investment KRW 23.9 billion	Number of employee volunteers* 629 persons
*Non-consolidated	






### VALUE CHAIN

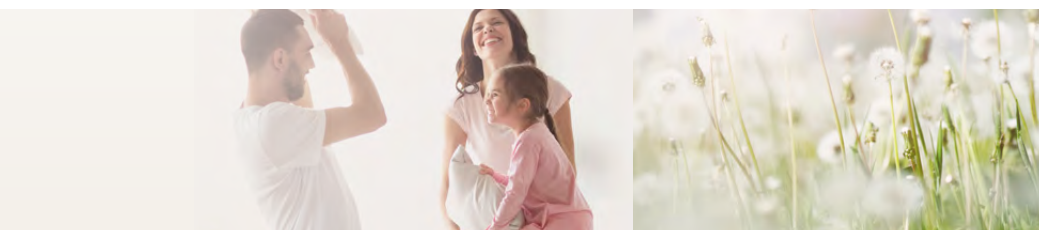


“ We are dedicated to creating sustainable values across the entire scope of the business value chain. ”



VALUE CREATION

<b>Economy</b> 	
Sales KRW 6,270.5 billion	Operating profits KRW 930.3 billion
Total distribution to stakeholders KRW 5,194.9 billion	Debt-to-equity ratio 55.0%
<b>Customer</b> 	
Sales of social and environmental value products KRW 1,324.9 billion	Personal information leakage 0
Number of certified eco-friendly product lines 197	Customer complaint rate 4.3ppm
<b>Employee</b> 	
Number of new employees	351 persons
Industrial injury rate	0.22%
Trainees of global expert training programs	76 persons
<b>Environment</b> 	
GHG emissions intensity 0.075 tCO <sub>2</sub> e/product-ton	Waste intensity 12.384 kg/product-ton
<b>Community</b> 	
Win-Win Growth Index* First Class	Number of beneficiaries of social contribution* 32,037 persons
*Non-consolidated	



# 01

## Employee Value

“  
 LG H&H puts our highest value on  
 the respect for human dignity.  
 ”

### CSR Background

Employee value is one of the essential factors for a company to achieve continued growth. We need to respect the unique value of employees, while providing them with opportunities to develop various forms of expertise and strengthen their capacity. Through these efforts, the company and human resources need to grow together.

### Our Commitment

Based on a fair and open recruiting process, we operate a program to select human resources and help them learn a wide range of knowledge and build their capacity. We maximize the values of employees, embrace their diversity, and pursue our management philosophy, “Respecting Human Dignity.”



Mandatory employment quota of the disabled

100%

\*Non-consolidated



Ratio of female employees

55%

\*Non-consolidated



Training expense per employee

KRW 1.26 million

\*Non-consolidated



Agendas for the employees' committee

86 cases



E-Academy course

1,194 courses

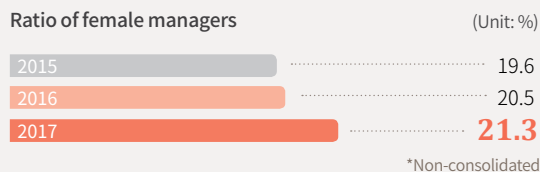
## Diversity of Employees

### Fair Recruiting Process

In 2017, LG H&H introduced a one-to-one intensive attitude evaluation interview to develop a fair recruiting process that evaluates an applicant's practical competence and capacity rather than educational background. In the three-stage interview, we take enough time to evaluate each of applicants and verify their capacity that can fit each job of the company, thereby hiring employees through a challenging process. This system has been well-received by applicants because they can take sufficient time with interviewers during which they are evaluated in a fair process in a comfortable atmosphere and they can increase their awareness of the company and check how well they are matched to the job. We will continue to subdivide the requirements and capacities for each job and conduct a more challenging verification process to increase the fairness of the recruiting procedure.

### Recruiting Female Employees

In 2005, LG H&H introduced the female-employee-friendly management method to respect the human rights of its employees and pursue diversity within the company. In connection with the characteristics of our business, in which women are the main target customer group for cosmetics and households goods, we actively hire female employees. As a result, the ratio of female employees has been on the rise since 2005, now reaching 55% as of 2017. We also try to create a working environment where both male and female employees respect each other through various programs, including the prevention of sexual harassment at work, words and actions education, and desirable gathering practices. We are increasing the satisfaction level of female employees by operating a daycare center and enabling them to freely go on maternity/parental leave and maintain their work-life balance. Furthermore, we prevent the career interruption of female employees due to marriage and childrearing, while operating the female employee development roadmap for each job to cultivate female leaders in the long term. Thanks to these efforts, we were able to achieve re-certification of the Best Family Friendly Management granted by the Minister of Gender Equality and Family in 2017.



### CASE: Job Creation for Retired Employees and the Elderly

LG H&H rehires those who retired from the company due to the age-limit and dispatches them to positions that require years of experience and expert capacity, taking the initiative in employing aged human resources. In the production sector, such retired people are rehired when their experience and know-how are needed. At the supplier support team, newly organized in 2017, those who retired from LG H&H play the role of a consultant to use their experience and know-how in providing technical support and quality observance training to suppliers. We will find more opportunities for the elderly employees to participate in the company, fulfilling our responsibility as a social enterprise.

## Global Diversity

Operating businesses at home and abroad, LG H&H makes efforts to understand the culture and customs of each country and meet the demands of a variety of customers. With the expanding scope of the global market, we try to hire international students living in Korea who are fluent in Korean and have in-depth knowledge about non-Korean languages and cultures. These employees are trained at our headquarters and later dispatched to overseas subsidiaries, playing the role of a mediator between the headquarters and overseas subsidiaries. We are planning to strengthen overseas human resource development activities to hire Korean people living overseas and international students from Korea who are useful for overseas business.



## Employment of the Disabled

We operate Bright World, our subsidiary which is a sheltered workplace for the disabled, to fulfill our social responsibility, create jobs for the disabled, and increase their employment. At our business site in Cheongju, we expanded businesses such as a cafeteria, cleaning, and toll processing for packaging free cosmetic giveaways with a total of 57 employees with disabilities who work hard at the plant, 82.5% (47 persons) of which are severely disabled people. In 2017, we achieved 100% of the mandatory quota of employees with disabilities within only two years since our establishment, a first for the entire LG Group. We are trying to create an environment where employees can understand and get along well with each other, regardless of disabilities. To create a stable and pleasant workplace for the disabled, we operate the complaint management system and the one-to-one counseling service for all employees, while supporting managers to obtain certificates of safety/health management and supervision. We are planning to develop a training program for the capacity building of the disabled.

### Corporate Culture

#### Building No.1 Dignity Culture with mutual respect and Consideration

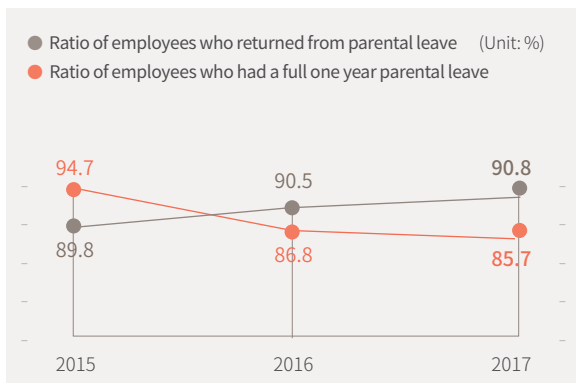
In order to actualize a corporate culture with respect and compassion, we conduct the Top Dignity Education Program every year. Since 2012, this annual program has been carried out for all employees to swiftly respond to changes in the external environment, reduce internal risks, and enable employees to respect and be considerate to each other. This program deals with the code of conduct to prevent the abuse of authority and sexual harassment based on respect and compassion between different departments and employees and to respect non-Korean employees and those with disabilities. Promoting the code of conduct for leaders and employees and spreading our corporate culture, which promotes smart working practices, meetings and reporting procedures, and work-life balance, we continue to create a healthy corporate culture to maintain the reputation of LG H&H.

Code of conduct for mutual respect and Consideration

- Eradication of the abuse of authority and sexual harassment
- Respect of diversity (non-Korean employees, those with disabilities)
- Smart working practices
- Work-life balance

### Work-life Balance

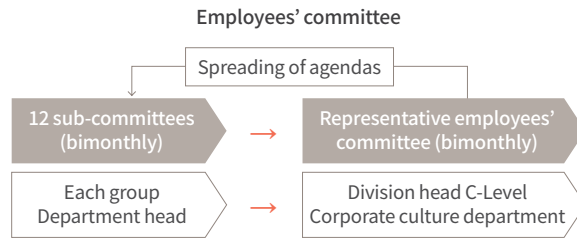
We make sure that our employees can maintain a work-life balance as they focus on work during the working hours and concentrate on their personal life after work, thereby enabling them to give their best ideas and performance. We implement the flexible time system, in which employees can select one out of five options for their working hours with the nine-to-five system as a default. We also run the company-wide simultaneous vacation system, a monthly or biweekly system where all employees can take a day off without worrying about troubling others. Employees are encouraged to go on parental leave to prevent the career interruption of female employees and enable them to show their capacity, regardless of whether they have children.



\*Non-consolidated

### Employees' Committee

The employees' committee enables employees to express their opinions to the management in a bottom-up system and let them understand the direction of the company's business. In 2017, we subdivided the previously single committee into 12 groups for open communication and effective opinion sharing among all employees. With group leaders playing a key role, the committee is comprised of 12 group leaders and 85 members. Each group holds a regular meeting, and the representative employees' committee implements various activities to improve the corporate culture, conduct company-wide campaigns, hold communication events with diverse themes, and give proposals for improvement. In 2017, a total of 86 agendas were discussed in the committee, which have been all resolved.



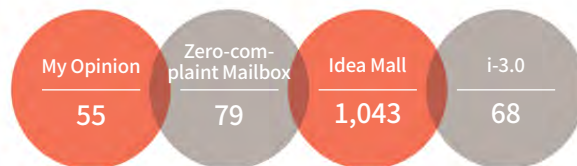
#### Agenda of Employees' Committee

Agenda	Number of cases	Agenda	Number of cases
Improvement of the systems	25	Improvement of communication	8
Improvement of the working environment	13	Improvement of the corporate culture	7
Proposal of education programs	11	Improvement of IT	6
		Others	16

### Online Idea Sharing Space

We have a variety of spaces on our intranet to facilitate idea sharing and communication among employees in a bottom-up system. Channels such as "My Opinion" and "Zero-complaint Mailbox" are operated to collect productive proposals from employees, thereby embracing their opinions about any inefficient and unsatisfactory aspects of the company and enabling the relevant department to swiftly provide feedback. In addition, we have systems such as the Idea Mall and i-3.0 to look for our employees' innovative ideas and apply them in our business. Every month, those who provide brilliant ideas are granted small prizes to encourage them to give as many ideas as possible.

#### Proposals from online idea sharing spaces (Unit: case)





## Employee Capacity Building

### Marketing Case Study Course

We operate the marketing case study course for team members and junior marketing staff (assistant managers) to help them build practical marketing capacity and gain insight. This customized education program covers marketing theories, internal successful cases, and joint problem solving and provides employees with a wide scope of perspectives through case study training with internal and external experts. Employees internalize what they learn from discussion and explore ideas to apply to their actual work. In 2017, the program was conducted based on the cases of The History of Whoo and belief. A wide range of themes will be handled in this program.

### Cultivating Global Experts

We develop human resources equipped with capacity for global communication and business strategy design. The training program includes foreign language classes for global business tasks, as well as background knowledge and planning capacity building for making strategies for the overseas market. Participants need to undergo the presentation session with their own business proposal to complete the course, which enables employees to apply what they learn to their actual work.

### Number of trainees in the global expert training program in 2017

Category	Number of trainees
English coaching class	21
GEC(Global Expertise Course)	24
GECC(Global Expertise Course in Chinese)	18
LG MBA	7
Global MBA	3
Regional expert	3 (2 in China, 1 in Japan)

### Various E-learning Courses

We offer diverse e-learning courses to enable employees to take education courses when it is convenient for them. In particular, L-lemon for sales and promotion staff has been designed with consideration for the characteristics of the industry, providing courses about skills that employees can immediately apply to their actual work.

### E-Academy

# 1,194 courses

Foreign languages, leadership, humanities/liberal arts, expert job fields



## Human-rights-based Management

### 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 identify what to improve and check if the relevant aspects have actually been improved according to the pre-determined schedule. In 2017, we conducted the self-assessment at 12 business sites and 24 suppliers, and detailed inspections on 6 of them. As a result, we designed 10 improvement plans for 4 business sites and 2 suppliers, and then checked if they actually resolved those problems.

## Labor-Management Relations

LG H&H aims to build a cooperative labor-management relationship in which both sides respect each other on equal footing and fulfill their own responsibilities in accordance with the relevant laws and principles. We have organized the company-wide employees' committee and subcommittee of each business division, holding regular meetings to improve the understanding of employees about the business environment and inform them about changes within the company. Various communication channels, including My Opinion and Zero-complaint Mailbox, are resolving the issues of employees, thereby creating a faithful labor-management partnership with smooth communication. In the employees' committee in 2017, we discussed and addressed measures to improve the satisfaction level of employees, and shared their concerns about the management of the company, including the expansion of plants.

### CASE: Good Labor-Management Culture Award

HAITAI htb has maintained a labor-management relationship of mutual trust in which both sides respect each other in a strong bond. There have not been any disputes so far since its foundation in 1973. In 2017, both sides held the Tripartite Social Responsibility Fulfillment Agreement Ceremony and pledged to make concerted efforts to create more jobs for the youth, avoid the abuse of temporary positions, and improve the working environment of small and medium-sized companies. In this cooperative labor-management culture, the company was selected by the Ministry of Employment and Labor as an exemplary company with a win-win labor-management culture that reinforces corporate competitiveness. Based on this achievement, we will continue to build a more mature labor-management culture.



HAITAI htb selected as a company with an exemplary labor-management culture

# 02

## Customer Satisfaction

“

LG H&H pursues customer-centered business management.

”

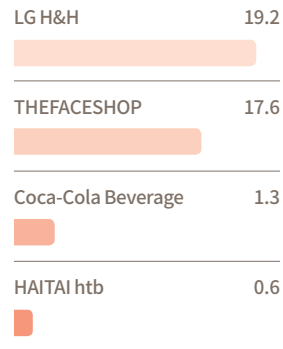
### CSR Background

Customer satisfaction is an important factor in maintaining existing customers, attracting new ones, and strengthening brands. The scope of values that customers expect from products has expanded: they not only want positive effects from products, but they also expect positive social and environmental impact, including safe quality and eco-friendly raw materials.

### Our Commitment

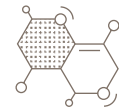
We have facilitated quality improvement activities to ensure safe quality for consumers and respond to changes in the future in an active and preemptive way. In addition, we have strengthened communication with customers to identify their needs and reflect them in our product development process and services.

Customer complaint rate (ppm)



Improve unreasonable aspects through quality diagnosis

365 cases



Rate of quality achievement through the quality innovation project

131%



Rate of response to customer inquiries in 20 seconds

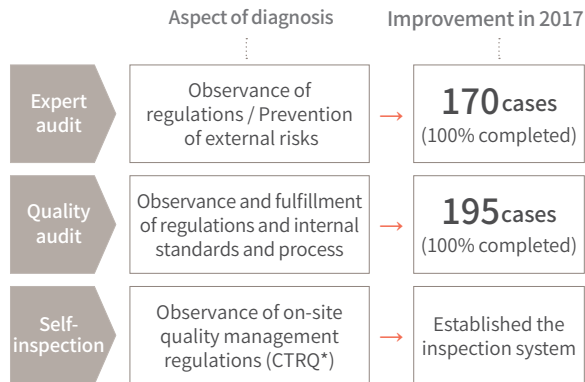
82%



## Quality Management

### Quality Diagnosis

LG H&H runs the product quality diagnosis system to prevent quality-related risks and continuously improve the quality of our products. This system is aimed at increasing the efficiency of quality-related tasks, preventing internal and external quality issues, checking the observance level of relevant regulations and internal management standards, and exploring improvement measures. It consists of the preventive diagnosis and post-diagnosis of quality issues. In 2017, we conducted a quality diagnosis on a regular basis on the production, quality, and logistics systems, found a total of 365 unreasonable cases, and tackled all these problems.

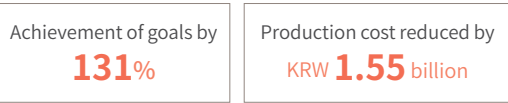


\*CTRQ: Critical to Reassurance Quality

### Quality Innovation Project

We implement a system to support employees to explore quality innovation projects aimed at securing continuous competitive advantages in quality and provide rewards for successful performances. We also invite external professional consultants to provide the progress analysis and solutions in each stage in a collective training program to employees participating in such projects. To date, 55% out of 29 themes suggested were completed, and the rest that are in progress will be finalized in 2018. Completed projects achieved the goal by 131%, resulting in four cases of intellectual rights including patent application.

#### Key performance of quality innovation project

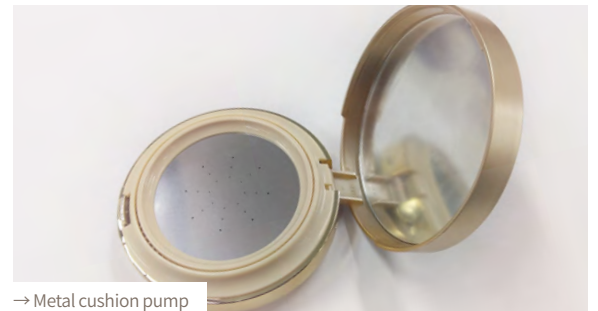


Performance	<ul style="list-style-type: none"> <li>Quality achievement compared to the goal: 131%</li> <li>3 cases of patent application, 1 case of utility model application</li> </ul>
Additional outcome	<ul style="list-style-type: none"> <li>Reduction in production cost: Annually KRW 1.55 billion</li> <li>Enhancement of productivity: 13.2% through a shortened process</li> </ul>

## Reduction of Customer Complaints

### Enhancement of Product Satisfaction Level with an Upgraded Metal Cushion Pump

We modified the structure of the makeup cushion product into a metal cushion pump to increase convenience. The previous airless pump container caused much friction, leading to the deformation of components due to the formula of the content. Sometimes the pumping container did not work and the content did not come out, so it was difficult to diversify the formula. To address these problems, we minimized the friction area by modifying the piston method, resulting in an enhanced metal cushion pump structure. With this new container, we can enhance the user convenience as well as customers' satisfaction level.



→ Metal cushion pump

## Communication with Customers

### Customer Service

In order to provide a quick response to inquiries from customers through the call center, we maintain a rate of quick response, 20 seconds, at over 80%, and strengthen the kindness level of our call center employees through the internal counseling monitoring and coaching program. The CS team in charge of the company-wide customer information center selects particular information out of VOCs that are useful for product and service improvement, and then delivers them to the relevant departments to reflect them in products. In 2017, we selected over 50 opinions and shared them across the company to improve the quality of products.



# 03

## Social Contribution

“

The world becomes more beautiful when you share love.

”

### CSR Background

Companies' social contribution activities have shifted from simple charity and donations to addressing problems by connecting their characteristics and strategies with social issues. These activities have evolved to generate economic benefits and increase social values at the same time, creating a virtuous circle for the whole of society, not just for their own good.

### Our Commitment

LG H&H's social contribution activities reflect the characteristics of its business. Beyond a simple donation, its social contribution activities are expanding by increasing the values of the members of society. Such activities are classified into several categories, including health, education and sharing, and provide support focusing on the particular fields where the activities are needed.



Investment in social contribution activities  
**KRW 23.9 billion**



Number of employee volunteers / Total hours  
**629 persons / 7,351 hours**



Number of beneficiaries  
**32,037 persons**



Number of beneficiaries of Beautiful Sharing Pack  
**5,629 households**



Number of participants in Borrowed Earth School  
**27,088 persons (accumulated)**



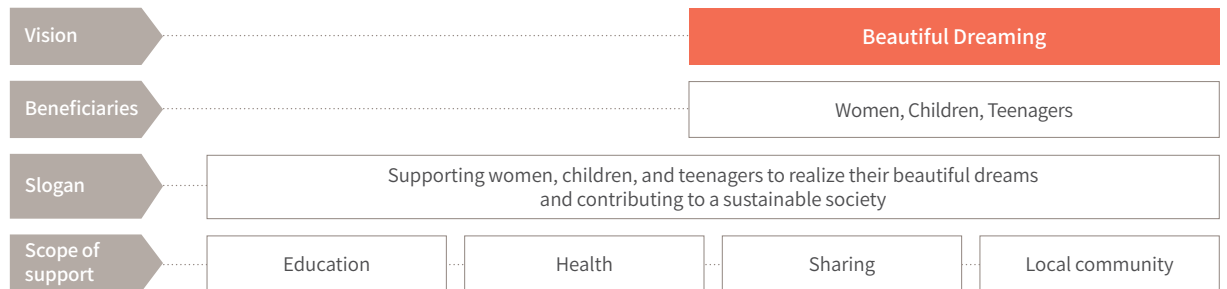
Number of participants in PERIOE Kids School  
**210,112 persons (accumulated)**

\*Non-consolidated

LG H&H contributes to society by putting into practice a healthy civic spirit. Our social contribution activities correspond to the direction of our business aimed at helping customers lead healthy, beautiful and refreshing lives, with a focus on support for women and teenagers. We try to double the effect of such activities through selection and concentration, and partnerships with specialized organizations, rather than a one-time donation.

### Social Contribution System

LG H&H's social contribution activities are aimed at strengthening the links with business and increasing the influence on making changes in the local community.



#### Shiny PERIOE, a Dental Health Education Program for Children

We initiated this program believing that starting good toothbrushing habits during childhood ensures healthy teeth for the rest of your life. Utilizing PERIOE, the No. 1 toothpaste brand in Korea, we have carried out PERIOE Kids School since 2004 for about 210,000 children until 2017. In 2017, we added a musical with a theme related to the dental health of children to the program to help them learn good toothbrushing routines in a more intriguing way. We visit kindergartens and provide accurate knowledge about dental health to teachers and parents as well as children with dramatic contents and help them truly feel the need for dental care. We plan to operate the dental health education program titled Shiny PERIOE with the musical for about 8,000 participants over the year.

hygiene. We visit kindergartens to perform the musical, where the lead character Bomi, who hates toothbrushing, tries unique dishes of various countries with friends from all over the world and experiences their toothbrushing culture. Bomi learns good toothbrushing habits and puts them into practice. From the second half of 2017, we have performed the musical for 1,930 children at 15 kindergartens.

#### PERIOE Kids School

**2,555** locations  
**210,112** children

(accumulated data)



#### Shiny PERIOE, the First Dental Health Education Musical for Children in the Industry

Shiny PERIOE is the first health education musical for children in the industry that combines cultural contents such as a musical with healthy habits essential for children, including dental health and

#### Musical

**1,930** children at  
**15** kindergartens



→ Shiny PERIOE, a health education musical for children



We visited  
**151** schools



**27,088**  
students participated in this program



**725**  
LG H&H employees donated their talent, participating as lecturers

**01**

**Borrowed Earth School Campaign with Creators**

Collaborating with individual media creators, whose job is promising and popular among teenagers, we provided opportunities for the education program to those who cannot participate in the program in person and encouraged them to become more interested in this campaign. The media contents are available on YouTube.

**Borrowed Earth School**

LG H&H's Borrowed Earth School is the first environment, science and habit education program in Korea that helps you improve basic habits that anyone can learn but have not yet done so. In this program, teenagers look back on themselves to see if they have any bad habits that may cause pollution and waste resources in eight courses and learn good habits. The program consists of these eight courses and one career education course, which is different from current ones, featuring creative contents to let teenagers find their dreams and talent. In order to disseminate this good habit education program for teenagers, we signed an MOU with the Ministry of Education and local education offices to facilitate the Free Semester System, while cooperating with an environmental NGO, Ecomomkorea.

**Nine Courses**



01 Face-washing



02 Toothbrushing



03 Shampooing



04 Handwashing



05 Dishwashing



06 Laundry



07 Waste Sorting



08 Beauty Expert



09 Junior Marketer



**02** Handwashing Habit Education

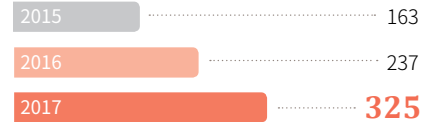
For the health and hygiene of teenagers in response to fine dust, yellow dust, and infectious diseases caused by environmental pollution, we selected the handwashing habit education course as an optional subject and conducted it at most middle schools that operated the Borrowed Earth School.

**03** Expansion of Participation of Employees

LG H&H employees participate in the Borrowed Earth School as lecturers. Using their day-offs granted for volunteer activities, a growing number of employees participated in this program (163, 237 and 325 employees in 2015, 2016 and 2017, respectively), enhancing their awareness and increasing opportunities to be a part of social contribution activities.

Expanded participation of employees

(Unit: person)



**04** College Student Reporters of the Borrowed Earth School

We selected 17 college students as reporters for the Borrowed Earth School, playing their role in four categories as editors, photographers, video content producers and designers. The reporters promote the program through SNS channels, such as the official website and blog, Facebook and Instagram, by visiting the venues of the program, covering each case and planning/producing relevant contents from various angles.



→ College student reporters of the Borrowed Earth School

**05** Class Visit Program for Supervisors from the Gangwon Education Office

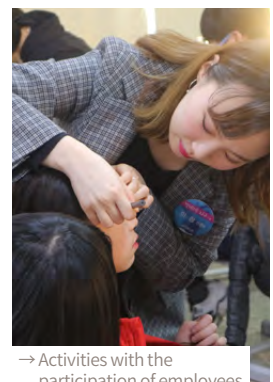
We held a class visit program for about 20 supervisors from the Gangwon Education Office to explore programs for the Free Semester System in Gangwon-do. We conducted a presentation session about the overall program with information about how the Borrowed Earth School could be included in the public education curriculum, the manual development and design theories in cooperation with the educational technology team from Ewha Womans University, the reaction of students, and know-how needed for the operation of the program. The supervisors also visited classes and experienced the program.



→ Class visit program for supervisors from the Gangwon Education Office

**06** Mom Supporters

We organized the supporter group consisting of mothers to expand the opportunities to participate in society for women whose career placed their career progress on hold. The supporters participate in the program as instructors, consulting teenagers about skin care and their careers.



→ Activities with the participation of employees

2017 Participation in Global Eco Leader



**300**  
persons  
Eco Leaders

**26**  
persons  
Eco Mentors

07 Global Eco Leader

Global Eco Leader is a program for nurturing teenage environmental leaders and providing a wide range of environmental knowledge and experience, which commenced in 2014 with UNEP, the Ministry of Environment, and Ecomomkorea. The program helps participants to become global leaders in the future by encouraging them to end bad habits and drive meaningful changes at home and school and in the local community. In 2017, 300 Eco Leaders, consisting of elementary, middle, and high-school students, and 26 Eco Mentors participated in this program under the theme of climate change and sustainable growth. We upgraded it to a sustainability growth education program where participants can understand that environmental issues are associated with all other political, social and economic issues and address such issues from relational, future-oriented, and long-term perspectives.



→ Global Eco Leader completion ceremony



→ Beautiful Sharing Pack activities



→ Sponsorship for the Seoul Eco Film Festival

08 Sponsorship for Seoul Eco Film Festival and Support for HIMANGO

THEFACESHOP, a nature-oriented cosmetic brand, is deeply interested in environmental issues and carries out various social contribution activities related to the environment of the Earth that we have to protect. In 2017, the brand officially sponsored the Seoul Eco Film Festival, the largest event of its kind in Asia, to draw public attention to the significance of nature and the severity of environmental pollution. It gave away movie vouchers to customers who had a receipt after buying products at the THEFACESHOP stores across the country, helping various stakeholders form a new perspective on environmental issues. Since 2010, THEFACESHOP has also conducted THEFACESHOP HIMANGO Aid Program in cooperation with HIMANGO, a non profit organization, for residents in impoverished areas in the Republic of South Sudan in Africa to help them stand on their own feet. We assisted the foundation of HIMANGO Village, an education center that provides local residents with self-reliance education and support for livelihood, while constructing the HIMANGO Elementary School to give local children opportunities for education. In Korea in 2017, we carried out the HIMANGO Day Event for sharing love and making friends, a campaign to empathize with the underprivileged and share a considerate mindset.



Accumulated number of employee participants

**1,900**  
persons



Accumulated number of beneficiaries

**70,000**  
households

09 Beautiful Sharing Pack

Beautiful Sharing Pack is a sharing event that we conduct jointly with the Beautiful Store. This event commenced in 2004 to give over 900 gift sets to the underprivileged in local communities. The event is usually carried out just before the Lunar New Year Holiday every year, in which volunteers bring sharing packs and visit underprivileged people in person, extending holiday greetings and sharing love. In 2017, we provided more than 110,000 gift packages, including 22 daily necessities and blankets, to 5,629 households where grandparents are solely responsible for the care of children or where elderly people live alone.





Moments at which all people become one through the Olympics with Coca-Cola



# 04

## Environment and Safety Management

“

What we make becomes culture.  
We will create a safe and clean work environment.

”

### CSR Background

Regulations related to environment protection and energy have been tightened, while the roles of companies in the environmental sector, including GHG emissions reduction and biodiversity conservation, are taken into account in the evaluation of their values. Accordingly, companies now have to minimize their environmental impact across all production processes. Moreover, growing attention is being paid to the impact of the work environment on the safety of employees and those of suppliers, and therefore we must thoroughly manage business management activities in order not to cause any negligent accidents.

### Our Commitment

LG H&H sets a target to reduce its environmental impact across all production processes and reinforces environmental management in its business sites to reduce GHG emissions and energy consumption and manage water resources. We also operate various safety and health programs to ensure the physical and mental health as well as the safety of our employees and those of suppliers. LG H&H is dedicated to fulfilling its responsibilities by controlling its impact on the environment and workers at business sites.



Normal use rate of safety covers

100%



Improvement rate of near miss

100%  
4,826 cases



GHG emissions intensity

0.075  
tCO<sub>2</sub>e/product-ton



Water intensity

2.13  
tons/product-ton



Rate of ISO certification maintained

75%




## Environment and Safety Management System

We manage risk factors associated with the environment and safety risks in our newly organized Environment and Safety Department. We have the Environment, Safety and Health Team in charge of planning under the Environment and Safety Department and the Logistics Environment and Safety Part in charge of relevant affairs in the field of logistics and sales. We classify the business site environment and safety group into six teams and parts to manage relevant issues at our business sites. Each year, LG H&H supports the environment and safety activities at its domestic and overseas subsidiaries, such as THEFACESHOP, CNP and Zenisce in the cosmetic business division and its subsidiaries in China (Beijing and Hangzhou) and Vietnam, for their observance of local regulations.

## Medium and Long-term Strategies for Environment and Safety Management

We have organized the project TF to strengthen our environment and safety management capacity and set medium and long-term operational plans and made a roadmap that will be applied by 2020. Through this project, we have identified major risks related to the environment and safety across the company, designed our medium and long-term strategies, operational plans, and direction for human resource development, and made progress in creating eco-friendly, accident-free business sites. With our medium and long-term strategy roadmap, we will focus on implementation by 2020, examine the progress each year, and actively address our loopholes.

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

Category	KPI	2017	→ 2018	→ 2019	→ 2020	Achievement Plan
 Accident-free work environment	Normal use rate of safety covers	100% (8,945 cases)	100% (8,984 cases)	Operation stabilization	System upgrade	<ul style="list-style-type: none"> <li>Install safety equipment for abnormal covers</li> <li>Establish and operate a monitoring system</li> <li>Stabilize and upgrade the operation of the system</li> </ul>
	Number of industrial accidents (including those at in-house suppliers)	22 cases	7 cases	1 case	0	<ul style="list-style-type: none"> <li>Strengthen the subcontractor monitoring system</li> <li>Set a monitoring system</li> <li>Stabilize and upgrade the operation of the system</li> </ul>
	Improvement rate of near miss	100% (4,826 cases)	100% (7,395 cases)	100%	100%	<ul style="list-style-type: none"> <li>Monitor the current status of each business site</li> <li>Reflect the improvement rate of near miss in the KPI for the head of each department</li> <li>Ask a regular employee to identify and tackle five near miss</li> </ul>
 Green management	Green level application rate	98%	98%	100%	100%	<ul style="list-style-type: none"> <li>Build a monitoring IT system</li> <li>Analyze existing products and identify the current status</li> </ul>
	Sales of green products	KRW 343.9billion (163 commodities)	KRW 360billion (178 commodities)	KRW 378 billion	KRW 396.9 billion	<ul style="list-style-type: none"> <li>Expand the application of eco-friendly marks and low-carbon product certifications</li> </ul>
	GHG emissions intensity (tCO <sub>2</sub> e/product-ton)	0.075	0.070	0.060	0.055	<ul style="list-style-type: none"> <li>Conduct activities to reduce energy consumption at each business site</li> </ul>
	Water intensity (ton/product-ton)	2.13	2.08	1.74	1.59	<ul style="list-style-type: none"> <li>Conduct activities to reduce water consumption at each business site</li> </ul>
 System	ESH system use rate	Preparation for establishment	Establishment of the system	Operation stabilization	System upgrade	<ul style="list-style-type: none"> <li>Identify the current status and establish the system</li> <li>Stabilize and upgrade the system</li> </ul>
	Rate of ISO certification maintained (14 business sites)	75%	89%	100%	100%	<ul style="list-style-type: none"> <li>Shift the standards of environment /safety certification</li> <li>Obtain environment and safety certification for 14 business sites</li> </ul>

## Energy and GHGs












### Energy Consumption

We make efficient use of energy in accordance with guidelines for managing targets for GHG emissions and energy use. We try to lower energy consumption by replacing raw materials requiring heavy energy consumption with alternatives and reducing LNG through plumbing.

### Cases of Reduced Energy Consumption

We upgrade installations at our business sites and replace old equipment with new ones to increase energy efficiency, while continuously making investments in response to climate change.

### Cases of Reduced Energy Consumption

Energy Reduction	Reduction in GHG emissions (tCO <sub>2</sub> e)	Savings (KRW 10,000)
 Reduced power consumption by installing blowers for removing moisture on products (electricity) <b>203 MWh</b>	95	2,501
 Reduced power consumption by improving the process control (electricity) <b>120 MWh</b>	56	1,321
 Diagnosed and replaced steam traps (steam) <b>465 ton</b>	55	1,690
 Simplified processes by changing raw materials (electricity) <b>107 MWh</b>	50	1,330
 Reduced steam consumption by rationalizing processes (steam) <b>411 ton</b>	49	1,644
 Recycled surplus steam in the anaerobic digestion tank (LNG) <b>20,270 Nm<sup>3</sup></b>	45	6,500
 Reduced power consumption by changing empty container drying method (electricity) <b>120 MWh</b>	43	1,279
 Increased the efficiency of boilers by removing scale in pipes (LNG) <b>18,843 Nm<sup>3</sup></b>	42	1,168
 Increased the efficiency of power consumption by replacing lighting with LED lamps (electricity) <b>14 MWh</b>	7	209
 Simplified the processes by changing raw materials (LNG) <b>2,050 Nm<sup>3</sup></b>	5	128
 Increased the efficiency of power consumption by managing maximum energy consumption (electricity) <b>5 MWh</b>	2	4,055

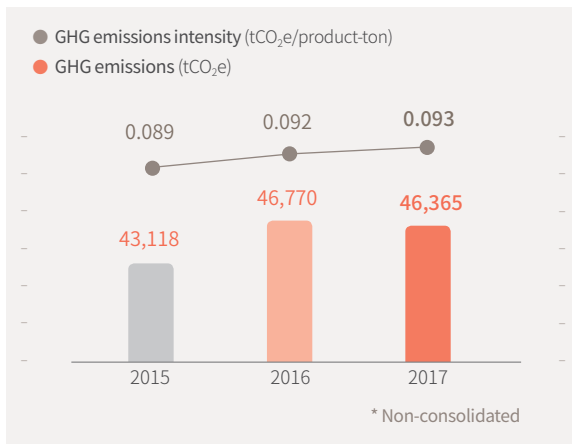
### GHG Emissions

With abnormal weather occurring across the globe, there is growing attention to climate change among consumers. In response to such a phenomenon, each of our business sites makes various plans to reduce GHG emissions, increasing the efficiency of existing installations and introducing high-efficiency equipment with continued investment. In 2017, we reduced GHG emissions by 447 tCO<sub>2</sub>e and energy consumption by 10 TJ in 11 cases. With these efforts, we improved GHG emissions intensity by 2% compared to the previous year, from 0.077 to 0.075.



[TARGET 2020] GHG emissions intensity

**0.077** tCO<sub>2</sub>e/product-ton



**CASE:** Installation of a Solar Power System at the Science Park in Magok

The LG Science Park is an eco-friendly, energy-saving R&D complex with a combination of advanced energy solution technologies. We installed high-efficiency solar modules on the rooftop of the research building, and the generated power is used within the building. The center is expected to reduce energy consumption by 143 tCO<sub>2</sub>e.

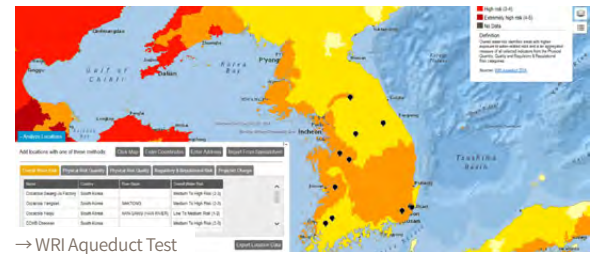


→ Solar power system at Science Park in Magok

### Water

#### Water-related Risk Management

Coca-Cola Beverage and HAITAI htb, where water takes up more than 80% in the total use of raw materials, have conducted the raw water vulnerability test every five years since 2012. We analyze and evaluate the supply chain of raw materials, concerns, water quality, national water supply and protection policies, and future prospects for sustainable use of water resources. In 2017, we organized the raw water management team at each business site to effectively carry out the test, while strengthening our capacity for managing the raw water vulnerability through pre-education programs. In addition, we undergo the WRI Aqueduct test across all business sites to identify and manage the current and future water stress in our business sites.



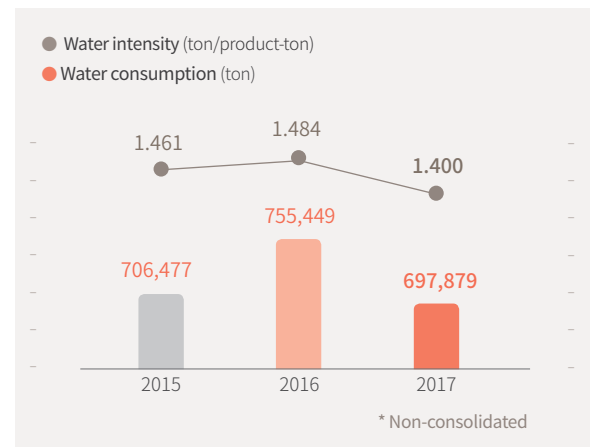
#### Water Consumption

The water consumption by LG H&H and Coca-Cola Beverage decreased due to the year-on-year reduction in production by 2.1% and 6.8%, respectively. On the contrary that of HAITAI htb jumped by 17% due to a 29% increase in the production of liquid sugar and aseptic products compared to the previous year.



[TARGET 2020] Water intensity

**0.998** ton/product-ton



## Wastewater

### Wastewater Management

We upgraded facilities and added new installations to reduce pollutants in wastewater discharged during the water use and product manufacturing stage. For instance, we have reduced the amount of discharged pollutants by expanding anaerobic digestion tanks at our business site in Cheonan. Our business site in Cheongju installed cohesive chemical mixers, reducing the consumption of chemicals by 8%, increasing the efficiency of chemical cohesion treatment, and contributing to effective waste treatment.



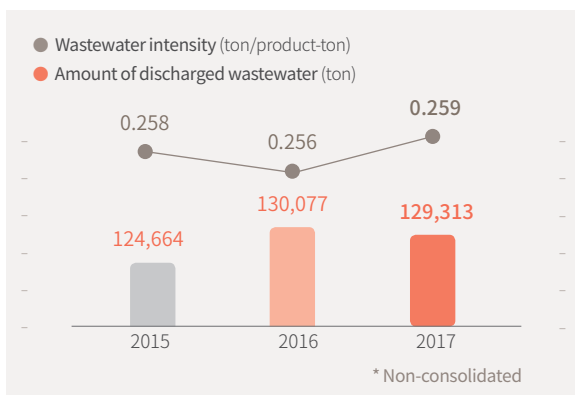
→ Expanded anaerobic digestion tanks at our business site in Cheonan

### Amount of Discharged Wastewater

We lowered the amount of discharged wastewater by 1% and the wastewater intensity by 4% compared to the previous year by continuously upgrading relevant facilities and reducing wastewater from emission sources. At the Yangsan Plant of Coca-Cola Beverage, we shifted the wastewater discharge method from direct discharge to discharge through sewage treatment facilities, reducing the amount of wastewater discharged to surface water by 11.6%. Wastewater discharged from HAITAI htb's plant in Cheonan increased by 18% due to the normal operation of the process for manufacturing liquid sugar and aseptic products, while its wastewater intensity dropped thanks to increased facility efficiency with expanded anaerobic digestion tanks.



[TARGET 2020] Wastewater intensity  
**0.205 ton/product-ton**



## Waste

### Waste Management

We make continuous efforts to reduce the failure rate in the production process to minimize the amount of waste. We also facilitate the recycling of waste by conducting a regular waste sorting education program.

### Amount of Waste

Our business site in Yangsan upgraded a wastewater treatment method from direct discharge to discharge through sewage treatment facilities, reducing sludge and waste. Our business site in Cheongju increased the recycling rate by shifting a sludge treatment method from landfill to recycling.

## Chemical Substances

### Chemical Substance Management System

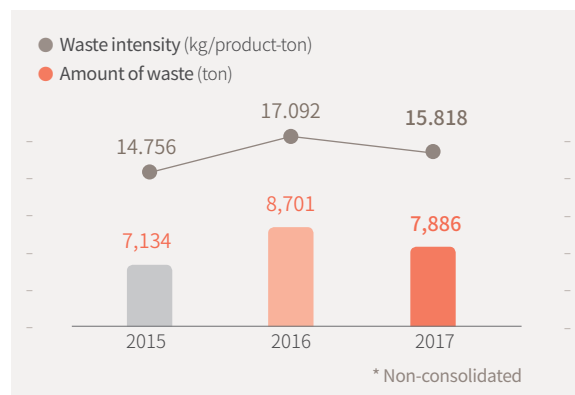
We prevent regulation-related risks by improving the management system where raw materials can pass through the customs clearance only when the registration number of imported chemical substances is entered in accordance with relevant regulations. We also completed data collection and research on 8,877 composites for 575 flavoring elements (as of June 2017) to increase reliability of the system. In 2018, we will strengthen the raw material management system at OEM suppliers, in which the raw material mix process can be generated only when information about the contents of raw materials is entered by the researcher in charge.

### Odor Management

Our business site in Yeosu alleviates odor from wastewater treatment facilities and reduces damage to surrounding areas. We reduced the odor concentration by 95.5% by sealing the top of aeration tanks and installing odor-reducing facilities within the business site.



[TARGET 2020] Waste intensity  
**9.875 kg/product-ton**



### Industrial Safety & Health Activities

#### Goal of Achieving 100% Normal Use Rate of Safety Covers

Due to the characteristics of the manufacturing-based business, there are always potential risks of people becoming caught in machines, equipment and logistics installations. In order to avoid such major accidents in advance, we have tried to achieve a 100% normal use rate of safety covers that prevent the operation of machines to protect workers when their safety covers are open. The facility operation department takes charge of daily self-checks on safety covers, while the safety department conducts inspections, reducing such accidents from 3 cases in 2016 to zero in 2017. In 2018, we plan to fundamentally prevent negligent accidents by applying the lock-out and tag-out system to the switches of machines at our business sites in Cheongju, Ulsan and Onsan, avoiding accidents caused by miscommunication that may start machines during the inspection process.

#### Minimization of Negligent Accidents at Business Sites

Since construction projects are carried out by an external workforce with insufficient understanding of the relevant business site, there are high chances of major damage when any risks and accidents occur due to new workers, equipment and substances. LG H&H operates preemptive work risk assessments and a work approval system to ensure safety before, during and after the work process.

#### Safety Culture Campaign for Employees

We have conducted a basic safety compliance campaign to spread the safety culture. We use standing signboards at the entrances and cafeterias of our business sites where many people come and go to promote basic safety rules. We analyzed 4,826 near miss and identified their causes to improve the process, preventing the recurrence of such accidents.



→ Safety covers applied in our business site in Yeosu

### Industrial Safety and Health Committee

We organized the Industrial Safety and Health Committee consisting of the same number of members from both labor and management to hold a quarterly meeting to encourage the labor union to participate in the compliance of safety and health rules and find new ideas for improvement.

### ISO Certification

For transparent and high-quality environment and safety management that conforms to global standards, we obtain and retain the environmental management certification (ISO14001) and safety and health certification (OHSAS18001) for major business sites. We independently evaluate the overall system through the environment and safety diagnosis, and undergo evaluation by external experts to maintain the ISO certification. According to the result of the latest evaluation, there was no major inadequate aspect. We immediately improved minor problems to stabilize the operation of the system.

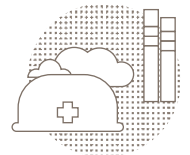
Environmental management certification  
ISO14001

11 business sites



Safety and health certification  
OHSAS18001

10 business sites



→ Lock-out and tag-out (LOTO) storage box

### Industrial Safety and Health Activities for Suppliers

We have an industrial safety and health committee for in-house suppliers to support their safety and health system. We share and discuss relevant issues, provide education programs about amended laws and regulations, and help them abide by such regulations. We also open our safety and health education rooms, health care center, fitness center, and shower rooms to employees of suppliers, assisting their training and health care activities and increasing their satisfaction level.

### In-house Psychological Counseling Center for Mental Health

LG H&H operates a psychological counseling program to present stress management guidelines for employees, find any mental issues in the early stages, and help them maintain their mental health. Our counseling center operates at our business site in Anyang, focusing on call center staff who deal with emotional labor. To increase the awareness of psychological counseling and help employees better understand it, we invite renowned experts as special lecturers, and enable our employees to comfortably use the center anytime in our completely confidential counseling system. In 2017, the counseling use rate reached 96% with 4.3 out of 5 points in the satisfaction level. We will continue to expand the program to help our employees live healthy daily lives.

### Education and Training for CPR

We carried out 18 training sessions for CPR and the use of AEDs (Automated External Defibrillator), which are the basics of safety education, for 1,187 employees. For swift and effective training, we utilized 23 sets of dummies and AED training kits. We also provide leaflets for visitors on the guidelines and rules for preventing cardiac arrest, creating a safe work environment in our business sites. We will continue to provide training programs for employees to enhance their emergency response capacity.

### Management of Cerebrovascular and Cardiovascular Diseases

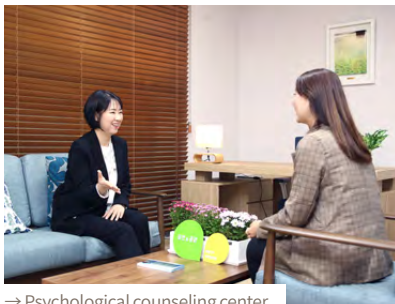
For the management of cerebrovascular and cardiovascular diseases, we had 326 employees aged 45 or over fill out the health management plan and undergo counseling and checkups with doctors. In 2018, we will expand the scope of subjects for health checkups and employ the cerebrovascular and cardiovascular disease checkup package that is supposed to be conducted every five years. We will operate the intensive care program targeting employees who need to be careful about or have a risk of four major diseases as diagnosed in the checkup, helping them to prevent sudden heart attacks or cerebral infarctions.

### Pleasant Health Enhancement Program

We carried out health education programs under eye-catching themes selected by a survey. A total of seven lectures were conducted with themes such as four trigrams constitution, musculoskeletal system, cancers, good dietary habits, and laughter, and over 400 employees attended these events. They especially liked the dietary habit lecture consisting of demonstration and practice, which provided them with opportunities to relax.



→ CPR training program



→ Psychological counseling center



→ Health education programs for employees



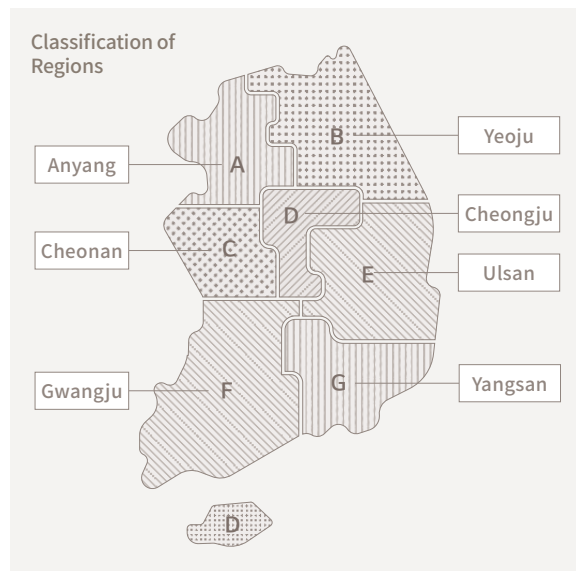
→ Dietary habit lecture for employees



## Emergency Response Activities

### Regional Response System

LG H&H has reinforced its emergency response capacity across the company related to the environment and safety by establishing the Regional Emergency Response System, aimed at immediately responding to accidents at its 90 business sites, including logistics facilities and research centers, throughout the country. We classified business sites into seven regions and let the business site in charge support the environment and safety affairs in the relevant region and visit the facilities in the case of an emergency. With this system, we enhanced the response capacity of logistics facilities that are relatively lacking in resources.



### Training for the Chemical-substance-related Emergency Response

LG H&H has built the emergency response system regarding chemical substances at its business sites and strictly manages relevant accident risks through training sessions. We have strengthened the response procedures from prevention to early detection, prevention of spreading, and early recovery to minimize the impact of accidents, by holding regular training sessions and evaluations.



→ Training for chemical-substance-related emergency response

## Eco-friendly Logistics and Centers

### Upgraded Logistics System

Recognizing the significance of the role of logistics and response from the aspect of customers, we shorten the transport and delivery routes, expand joint transport and delivery, reduce packaging materials and waste, and strengthen communication with customers in the logistics system. Keeping up with the trend of the Fourth Industrial Revolution, we plan to introduce a logistics system that can upgrade the operation of logistics by increasing the automation level of warehousing and shipping based on our know-how of logistics and utilizing an advanced picking system.

### Safe Logistics

We undergo a regular environment and safety diagnosis carried out by an external agency for logistics centers, in which the level of our product management and logistics centers is evaluated. In 2017, we improved facilities and work environment in 227 cases, trying to maintain the highest quality of logistics. We also conduct the 2-hour monthly safety and prevention education program to create safe business sites for employees.

### Logistics Efficiency Enhancement for Minimizing Environmental Load

We are establishing the logistics system that minimizes our environmental impact regardless of internal and external environmental changes and increasing uncertainties, by continuously optimizing the operation of logistics in each field, including process improvement, transport and unloading.

### Effect of eco-friendly logistics activities

**KRW 4.58 billion in total**



Improve the operational process of logistics centers	→	2.21
Shorten transport routes and increase the size of vehicles	→	0.69
Improve the efficiency of delivery	→	1.68

# 05

## Win-Win Growth

“

LG H&H pursues co-existence with suppliers.

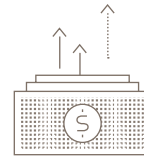
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### CSR Background

The relationships between a company and its suppliers are evolving from simple business relationships for supply to partners for win-win growth. It is now deemed that companies are responsible for handling negative issues emerging in the supply chain, such as non-payment of wages and human rights violations, and such issues have an adverse impact on corporate values. In this context, we need to lay the groundwork for supporting and cooperating with suppliers to grow together, recognizing them as key partners.

### Our Commitment

In pursuit of win-win growth with SME suppliers, LG H&H establishes implementation plans and examines performance in a systematic management system in the fields of fair opportunities, financial support, technical workforce support, and expansion of education. We support our suppliers to make them consider sustainability as an important corporate social responsibility and reflect it in the overall business management.



Financial support for win-win growth

KRW **32.25** billion



CSR assessment of suppliers

**192** cases



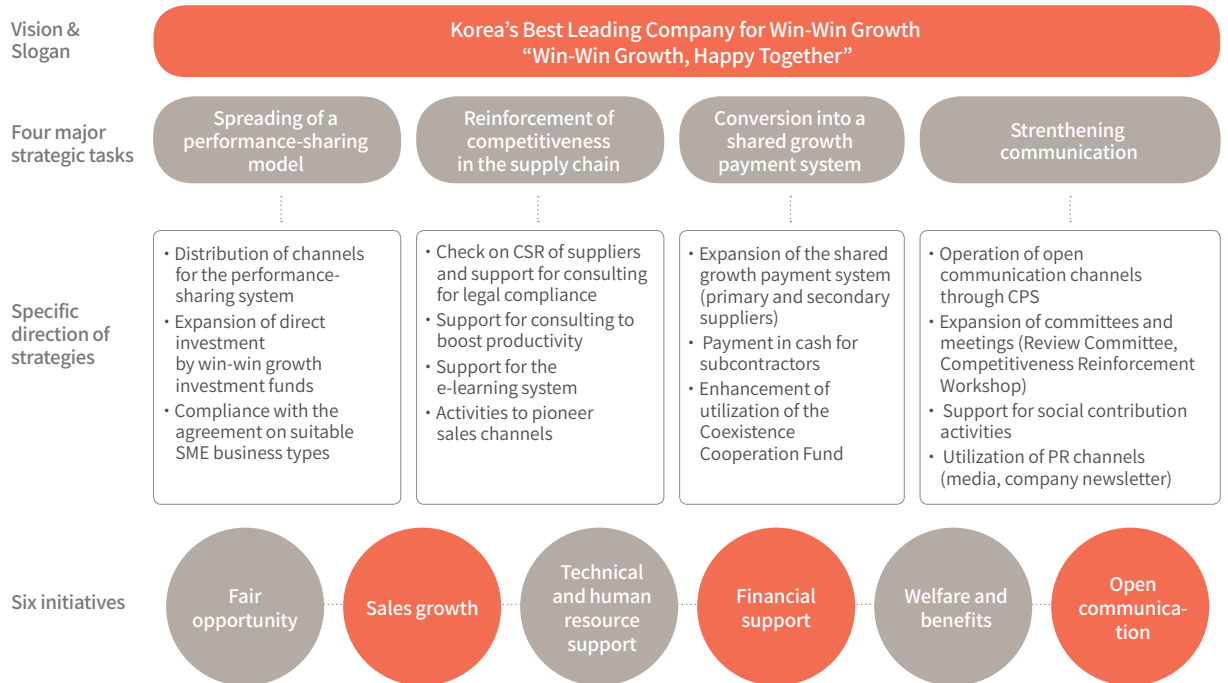
Win-Win Growth Index

**The First Class**

for three consecutive years

\*Non-consolidated

## Vision and Strategic System for Win-Win Growth



### Fair Opportunity

#### Fair Opportunities for Participation

Since 2012, we have operated the Convergent Purchasing System to provide our suppliers with fair opportunities. For fair transactions, we classify suppliers according to the features of raw materials they supply and give all registered suppliers opportunities for bidding. We have a series of process steps from contract signing to order placement, order reception, supply and payment, which are managed through an interactive agreement procedure and disclosed in a transparent management system. We have remarkably simplified the process, so that any company that wants to make a deal with us can register itself on our system and submit a proposal for its products.

#### Report of Unfair Transactions and Operation of Communication Channel

We have a proposal and reporting channel where our suppliers can report unfair transactions, a system for protecting the rights of suppliers as partners. In addition, we try to expand communication with suppliers through the Open Forum in the procurement portal system to improve work practices and receive their suggestions for win-win growth.

### Sales Growth

#### Domestic Market – Technology Proposal Fair

We hold the technology proposal fair to explore new ideas about technologies between suppliers and help them commercialize such technologies. Through this event, our suppliers can communicate with the relevant departments at LG H&H, such as marketing, sales and R&D, to find development measures, while we actively provide support to make such ideas lead to an actual increase in sales. In 2017, we conducted the technology proposal fair six times, generating KRW 3.22 billion of new sales at 34 suppliers.

#### Overseas Market – Application for Participation in International Beauty Fairs

We support SME suppliers to participate in various international beauty fairs where they can learn the trends of the global cosmetic market. In 2017, our suppliers applied for participation in three fairs, and they won contracts worth KRW 1.27 billion. Moreover, in the first technology proposal fair held by our subsidiary in China in 2017, we introduced exemplary suppliers in Korea. LG H&H plays the role of bridgehead for export to help its suppliers go beyond the saturated domestic market and find a breakthrough to enter overseas markets.

## Technical and Human Resource Support

### Technical Support for Suppliers

In 2017, we organized the technical support team for suppliers to actively provide them with technical support. We dispatch experts to provide them with guidelines for improving quality and productivity, preventing their productivity from being undermined by unstable equipment and an increased failure rate in the case of relocation or facility expansion.

### Support for Suppliers in Obtaining Management System Certifications

In order to upgrade the quality, environment, safety and health management system of suppliers and to nurture experts for them, we help them to obtain and retain certification for environmental management (ISO 14001) and that for safety and health (OHSAS18001). In 2017, we provided five suppliers with 100% of expenses for certification evaluation and consulting, helping them receive nine certifications.

### Support for Productivity-enhancing Consulting for Suppliers

We provide SME suppliers with an adequate consulting program to improve their productivity. Since 2014, we have supported over 10 suppliers every year. In 2017, we assisted 13 suppliers, accomplishing KRW 1.36 billion of financial performance that was useful for their business management.

### Protection of Technologies Developed by Suppliers

We protect technologies developed by suppliers through a joint patent application and technology escrow system. Under the management system, we prohibit requiring their technical materials in principle to protect their intellectual properties. Requesting their technical materials is allowed by making an official request only when there is an unavoidable reason.

Category	Support performance in 2017
Support for design and engineering	98 cases including engineering supervision, joint development and test molds
Activity for performance sharing	22 cases of fair performance management for cooperative tasks
Activity for coexistence and cooperation	15 cases including management of the environment, safety and health in business sites
Consulting for improving productivity	18 cases including innovation in manufacturing and management system certification
Technology protection program	21 cases including support for technology escrow for 15 companies

## Financial Support

### Improved Payment for Subcontractors

With the goal of enhancing financial management conditions in the subcontract line, LG H&H pays 100% in cash for its subcontractors three times a month within ten days of finishing the work. In case of any important issue such as a national holiday or economic slump, we additionally shorten the period of payment for subcontractors to improve their business management environment. We apply the same rule to the beneficiary selection process in the win-win growth support system, so that the rules can be applied even to secondary suppliers without direct contracts with LG H&H.

### Shared Growth Payment System

LG H&H has introduced and expanded the Shared Growth Payment System, in which secondary, tertiary and quaternary suppliers can also be paid under the same conditions. This system offers advantages of not having any burden of security or risk of bankruptcy in series for suppliers because they do not have the right of resource. They can also reduce financial expenses in utilizing bill discounts. In 2017, shared growth payment worth of KRW 585.7 billion was made for 438 primary suppliers, as well as KRW 14.4 billion for secondary and tertiary suppliers.

### Financial Support System

LG H&H manages the Coexistence Cooperation Fund, a loan system managed 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 Korea Foundation for Cooperation of Large & Small Business, Rural Affairs, an institution specialized in win-win growth. In 2017, we introduced the system specifically for affiliated stores, expanding the scale of financial support.



#### LG Coexistence Cooperation Fund

Support KRW **30.99** billion  
for **61** companies



#### Non-Interest Direct Loan

Support KRW **0.71** billion  
for **8** companies



#### Win-Win Growth Investment Fund

Support KRW **0.55** billion  
free of charge

## Welfare and Benefit

### Education Support for Suppliers' Employees and their Families

LG H&H provides e-learning and correspondence learning programs to suppliers' employees and their families. We also encourage their children to participate in the Borrowed Earth School conducted by LG H&H, where teenagers can learn eco-friendly habits.

### Support for the Work-Life Balance of Suppliers

We run the welfare mall, where employees of suppliers can purchase products under the same conditions as LG employees, while supporting expenses to expand staff lounges and other welfare facilities to companies that win prizes in the supplier innovation contest. We also give away sports game vouchers to suppliers. In 2018, we plan to provide tickets for games on weekends for suppliers outside the metropolitan area.

### Support for the Social Contribution Activities of Suppliers

Since 2015, we have carried out "Happy Together Campaign with LG H&H" to support the social contribution activities of suppliers for local communities. If our suppliers select particular welfare facilities in the region and conduct volunteer activities, we provide goods worth KRW 5 million, spreading the volunteering culture and supporting the expansion of communication channels with local communities.

## Open Communication

### Proactive Communication

LG H&H builds mutual trust with suppliers through various communication channels, listening to their complaints and motivating them. We operate the Win-Win Growth Review Committee, CEO Academy, and Competitiveness Reinforcement Workshop on a regular basis targeting over 140 suppliers.

Category	Number of meetings	Content	Current status of composition
Win-Win Growth Review Committee	Four times a year	Deliberating on subcontract and win-win growth issues	2 non-executive personnel, 5 representatives of suppliers, 3 LG internal committee members
CEO Academy	Twice a year	Sharing the procurement policy	139 representatives of suppliers
Competitiveness Reinforcement Workshop	Four times a year	Sharing the procurement policy	139 employees of suppliers

### Win-Win Growth Support System for Secondary Suppliers or Under

#### Financial support

- Support 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 the Win-Win Growth Review Committee by suppliers

- Operate the meeting of suppliers' representatives for the review of major issues associated with subcontract and win-win growth
- Two out of five executive companies are secondary suppliers.

#### Support for consulting

- Provide support for three or more secondary suppliers a year through productivity innovation partnerships and the industrial innovation movement



→ CEO Academy in 2017

## CSR Assessment and Management for Suppliers

LG H&H makes efforts with its suppliers to address potential risks through their CSR assessment.

### Targets

Core suppliers are supposed to have maintained a deal with LG H&H for longer than one year with the annual transaction amount worth KRW 200 million or more. Some suppliers can be included if they have a significant impact on the quality of products regardless of transaction amount. In 2018, we will reorganize the target companies and criteria to apply the safe quality system to the supply chain.

### Assessment Criteria

We conduct a comprehensive assessment to select new suppliers for raw and subsidiary materials and products and decide whether to retain partnership with existing suppliers. New suppliers are selected when they score 70 points or over in the quality management (40%) and CSR (60%) evaluation. In terms of existing suppliers, we evaluate them in several categories: an annual on-site inspection (CSR, technical capacity, plant management), quality performance, rate of meeting deadlines, compliance with rules, win-win growth, credit rating, and customer complaints. We apply different proportions of scores depending on the type of suppliers and break off business relations with those rated Level D (under 70 points) in the comprehensive assessment. Those with high scores are granted incentives when the beneficiaries of the win-win growth support system are selected. In 2018, we will build a new evaluation system with the safe quality certification checklist and amended CSR checklist.

### Amendment of the CSR Checklist for Suppliers

The previous CSR checklist consisted of 64 questions in the fields of governance, environment/energy, safety/health, Jeong-Do Management, labor/human rights, customers, and local communities. In order to consider the efficiency of the examination and focus on risks, we reduced the number of categories to 40 and clarified the explanation of questions, basic grounds and rating criteria to help suppliers try self-checks and smoothly undergo the on-site assessment.

## CSR Assessment for Suppliers

LG H&H has set the code of conduct for suppliers with 28 items in four categories, including labor, human rights, the environment, safety, fair transaction, and personal information protection that are part of our corporate responsibilities. This code of conduct is available on the website of the procurement system. We conduct an annual on-site inspection to enable suppliers to pay more attention to CSR and comply with relevant principles. Based on the annual plan, we visit suppliers, check potential CSR risks, and reflect the result of the CSR on-site assessment in the comprehensive assessment of suppliers, thereby reducing risks. In 2017, we carried out the CSR on-site assessment for 235 suppliers, including 9 new suppliers, 202 suppliers for cosmetics and daily products, and 24 suppliers for beverage products. As some aspects including human rights, environment and safety were found inadequate in the assessment, we recommended that all relevant suppliers (100%) tackle such shortcomings.

### CSR assessment for suppliers

**192 companies**  
(5 new companies)

\*Non-consolidated



### Third-party CSR Assessment

Aside from the annual on-site inspection, we selected seven suppliers and carried out a third-party pilot assessment in 2017. We employed the amended CSR checklist and on-site inspection staff. With this third-party assessment, we increased the expertise and objectivity of the CSR assessment, while providing more diverse information and aspects for improvement related to CSR. In the on-site inspection, the establishment of the code of ethics, the operation of the grievance arbitration process, and the provision of safety education programs were found inadequate. We provided a result report to each supplier and recommended they address all loopholes. In 2018, we will set the standards to select suppliers with a significant influence on LG H&H and conduct a third-party assessment for ten suppliers every year, expanding the scope of assessment even further.

### CASE: Supplier Shinwoo Discusses Coexistence with LG H&H

We can tear down the invisible wall between large companies and SMEs.

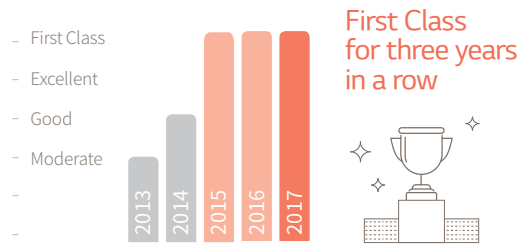
Shinwoo Korea Co., Ltd. started supplying containers for cosmetic products to LG H&H in 1989 and we have maintained a business relationship over many years. As the sales in the cosmetic business division of LG H&H soared remarkably from 2013, those of Shinwoo also jumped, achieving KRW 40 billion in sales of packaging materials for cosmetic products. As the company expanded its headquarters in 2017, however, some quality issues including the increase in the failure rate emerged. To manage the relevant risks, Shinwoo participated in the productivity innovation partnership program conducted by LG H&H and found a turning point. As a result, the company was selected as an exemplary supplier of LG H&H and even won the Win-Win Growth Committee Chairperson Prize in 2017.



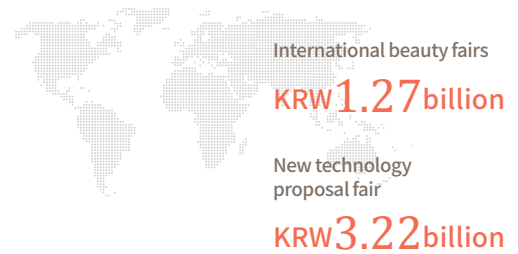
CEO Yeong-gyu Kim

# WIN-WIN GROWTH, HAPPY TOGETHER

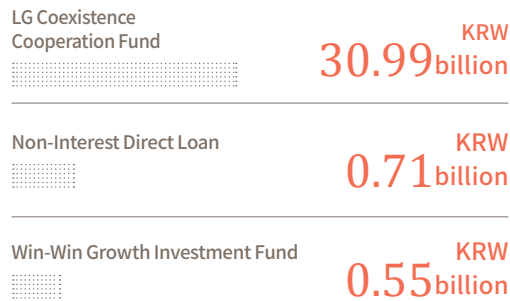
## Result of the Win-Win Growth Index Assessment: Achieved First Class for three consecutive years



## Support for pioneering overseas markets (2017)

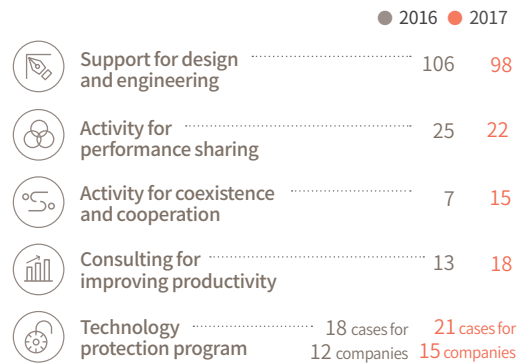


## Financial support for suppliers (2017)

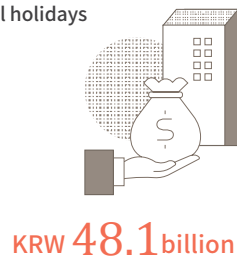


\*Based on the amount executed as of late December 2017

## Technical support for suppliers (Unit: case)



## Early payment for subcontractors before national holidays (2017)



## Welfare and benefits (2017)

Happy Together Campaign (social contribution activity support)

**Twice**

Taking e-learning and book-learning courses for suppliers

**1,258 persons**

Summer camp for the children of suppliers' employees

**9 persons, 2 days 1 night**

Use of the welfare mall for suppliers' employees

**451 cases, KRW 45 million**

\*Non-consolidated

# Governance





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Governance

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Jeong-do  
Management

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Risk Management

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Stakeholder  
Engagement

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Materiality Test

“We will pursue transparent business management based on healthy governance structure.”

## Governance

### BOD Operation

LG H&H has the governance structure whereby it can ensure the independent and transparent decision-making rights of the Board of Directors (BOD) and conduct efficient business management activities based on checks and balances. The board consists of two inside directors, one non-executive director, and four outside directors, who are appointed in a transparent procedure in the general meeting of shareholders. Outside directors provide professional opinions about major decision-making agendas from the aspect of sustainability management, while taking charge of evaluation and examination on the company's performance based on their independency. The regular meeting of the board is held according to the annual plan, and additional meetings are held if any urgent agenda item needs to be decided. In order to avoid any conflict of interests, the voting rights of any director who has an interest in a certain agenda is limited pursuant to the Commercial Act and the BOD regulations. In 2017, a total of eight meetings were held, and the average attendance rate of the outside directors was 91.4%.

### BOD Members

Category	Name	Year of initial appointment	Position
Inside Director(s)	Suk Cha	2005	CEO, Chairperson of BOD
	Sung Huh	2016	CFO, Director
Non-executive Director	Joong-shik Suh	2018	Director

\*As of March 2018

Category	Name	Year of initial appointment	Position	Career field
Outside Director(s)	Lee-seok Hwang	2013	Member of the Outside Directors Nomination Committee, Chairperson of the Audit Committee	- Finance and accounting - Corporate governance and audit
	Sang-lin Han	2013	Member of the Outside Directors Nomination Committee and the Audit Committee	- Consumer goods marketing - Distribution and service management
	In-soo Pyo	2014	Member of the Audit Committee	- Trade with China and international trade - Fair trade and anti-dumping
	Jae-wook Kim	2017	Director	- Marketing channel and e-commerce - Supply chain management

\*The chairperson of the Outside Directors Nomination Committee will be appointed later since the previous one resigned.  
\*An outside director appointed as the chairperson of the Audit Committee plays the role of independent senior outside director.

### Meetings of BOD and Subcommittees

Category	No. of meetings	Attendance rate	Major decisions in 2017
BOD	8	91.4%	- Approval for the capital reduction of Coca-Cola Beverage - Approval for the acquisition of Tai Guk Pharm - Approval for the 2018 business plan
Audit Committee	5	100%	- Evaluation of the operation of the internal monitoring system - Result of the internal control of overseas subsidiaries and plans for stricter management
Outside Directors Nomination Committee	2	100%	- Appointment of the chairperson of the Outside Directors Nomination Committee - Approval for the recommendation of outside director candidates

\*The BOD meeting is conducted when 70% of the attendance rate is met.

### Remuneration Policy for the Directors and Audit Committee

Directors are provided with a basic salary total amount of which is and a 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 rules set by the BOD. Directors are evaluated within a certain limit based on the company's financial performance of the previous year as well as their fulfillment of medium and long-term expectations, leadership, contribution to the company, and other non-quantitative indicators. The remuneration of outside directors and members of the Audit Committee is provided within the remuneration limit with the approval from the BOD.

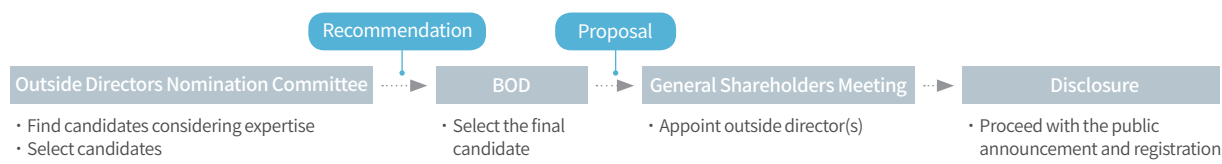
### Audit Committee

The Audit Committee operates in accordance with the Commercial Act as well as the Financial Investment Services and Capital Markets Act. The committee comprises three outside directors without special relationships with LG H&H based on the relevant rules to ensure their independence. One of the members must be an expert in accounting or audits, independently performing the roles of designing the internal audit plans and handling auditing affairs. The committee has the right to request the business report from the BOD or examine the assets of the company for auditing tasks. It can also ask for expert consultation at the company's expense. In 2017, the committee meeting was conducted five times, achieving a 100% attendance rate.

### Outside Directors Nomination Committee

LG H&H operates the Outside Directors Nomination Committee to recommend candidates for outside directors in accordance with the Commercial Act. As a subcommittee of the BOD, the committee nominates 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. From the 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—two outside directors and one non-executive director—with outside directors holding a majority, ensuring fairness and independence in the operation of the committee and appointment of outside directors.

### Outside Directors Nomination Process



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

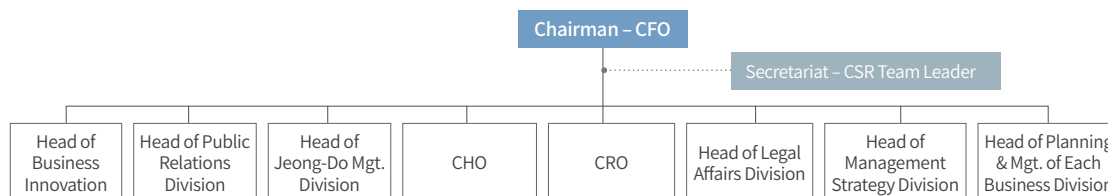
“  
A person who is in a special relationship with LG H&H is not allowed to be appointed as an outside director to prevent any conflict of interest and ensure independence within the BOD.  
”

- 1 Any director, executive officer, or employee of the company who currently involved in the company management, or a director, audit officer, executive officer, or employee of the company who has served as a senior managing director within the past two years
- 2 The largest shareholder, his/her spouse, lineal ascendant, or descendant
- 3 If the largest shareholder is a corporation, any director, audit officer, executive officer, or employee of the corporation
- 4 A spouse, lineal ascendant or descendant of any director, audit officer, or executive officer
- 5 A shareholder with a major influence on business management of the company, his/her spouse, lineal ascendant, or descendant
- 6 Any director, audit officer, executive officer, or employee of the company's parent company or subsidiary
- 7 Any director, audit officer, executive officer, or employee of a corporation that is a partner or has an important stake in the company
- 8 Any director, audit officer, executive officer, or employee of another corporation at which a current director, executive officer, or employee of the company serves as a director or an executive officer.
- 9 Any director, executive officer, or audit officer of two or more companies in addition to the company
- 10 A person who violated laws and regulations and was removed or dismissed from his/her position within the past two years
- 11 A person whose balance from transactions with the company is KRW 100 million or over

The current ratio of outside directors is 57%, which satisfies the requirement of the Commercial Act. We may maintain or increase the ratio to let them monitor and check our business management with no particular limit.

### CSR Committee Operation

LG H&H holds quarterly meetings of the CSR Committee, a decision-making body for company-wide coordination and activity planning related to CSR 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.



### Shareholders



Foreign investors

46.0%



LG Corp.

34.0%



Domestic institutional investors

12.2%



Treasury stock

6.1%



Private investors

1.6%

“LG H&H manages potential risk factors to ensure stable growth.”

## Risk Management

### Integrated Risk Management System

LG H&H operates an integrated risk management system that reflects the characteristics and strategies of its business to prevent and manage potential risks that could emerge in the company’s overall business. We classify potential risks into four categories—strategic, hazardous, financial and operational risks—and define specific types of each risk. According to the characteristics of business, the relevant departments or the companywide risk management department takes charge of monitoring and responding to the relevant risk factors.



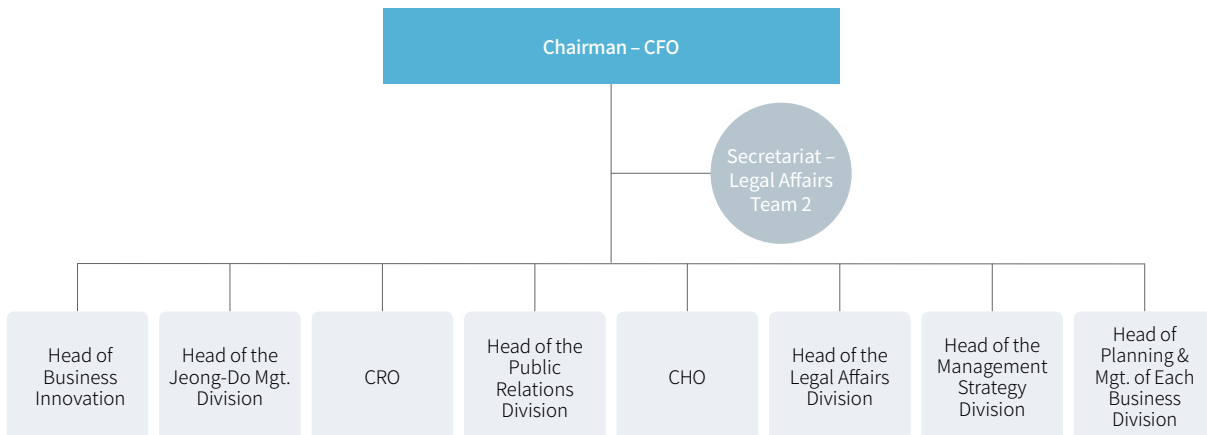
### Compliance Committee

We operate Compliance Committee meeting four times a year to comply with the relevant rules and address risk factors across the company regarding compliance-related risks which are attracting attention at home and abroad. The committee shares key points in risk inspection and current issues and discusses the direction of improvement measures. Consisting of the CFO of the company as the chairman, the head of the Business Innovation, Public Relations and Jeong-Do Management divisions, etc., the committee manages risk factors regarding compliance issues in various fields.

### Preventive Management Committee

Along with the Compliance Committee, we organized the Preventive Management Committee in 2017 to carry out risk management activities in detail related to business management. The committee prevents risks that may arise in business management, such as investment in facilities, equity investment, capital management, information security, and accounting management. It also responds effectively to relevant issues, and conducts practical and preemptive activities to avoid the recurrence of similar cases of risk.

### Organizational Chart of the Compliance Committee



### Compliance Risk

It is widely accepted at home and abroad that compliance risk management is an essential element of corporate management. Damage to the corporate reputation and management costs caused by compliance violations are both on the rise. LG H&H prevents and manages compliance risks in advance in the overall management tasks, avoiding any loss in the aspect of finance and management.

#### Compliance Risk Inspection

We identify the current status of tasks associated with legal affairs and examine compliance risks at the headquarters as well as overseas subsidiaries, including those in Japan and Taiwan. At overseas subsidiaries, the number of contract reviews and requests for legal opinion has increased, and they have reduced risks by setting a contract management process and guidelines to check issues related to each agenda. Particular types of contract agreement documents frequently prepared are rearranged based on the standard contract agreement format, increasing work efficiency. We plan to expand the compliance risk inspection to other overseas subsidiaries.

#### Global Legal Affairs System (GLAS)

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. We are preparing to introduce this system to overseas subsidiaries for their efficient management of legal affairs. In 2017, the GLAS was introduced to our subsidiary in China for the first time as an overseas subsidiary. Those in Beijing, Shanghai, and Hangzhou are stabilizing the method of handling legal affairs by using this system. The use of the system is expected to grow with the expansion of our business in China. Other overseas subsidiaries will gradually employ the GLAS with their IT environment and growing demand.

#### Compliance Newsletter

LG H&H publishes and shares a bimonthly newsletter about compliance trends and issues to instill in its employees a law-abiding spirit. In 2017, various contents were shared, including the Fair Transactions in Subcontracting Act, the Fair Agency Transactions Act, the Product Liability Act, the Personal Information Protection Act, and the Fair Transactions in Franchise Business Act.

### Internal Accounting Control System

LG H&H has operated its strict Internal Accounting Control System since 2006 to secure transparency in business operation, the reliability of information and to 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 147 control activities. In this way, the system can be used to conduct control assessments in the categories of purchasing, production, sales, financial report, etc. In 2017, we set the standard management system to prevent financial risks in advance, while building the monitoring system for abnormal signs of financial information and enhancing the reliability of financial statements.

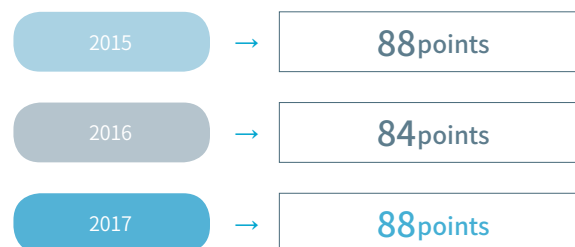
#### Internal Control Assessment of Overseas Subsidiaries

To ensure the reliability of consolidated financial statements when applying the Act on External Audit of Stock Companies to domestic companies, we carried out the internal control assessment for overseas subsidiaries in Shanghai, Beijing, Hangzhou, Vietnam and Taiwan. In 2017, we also examined the adequacy of financial data and the internal control state in the overall management at subsidiaries in Japan, Taiwan and Singapore.

#### Assessment Results of the Internal Accounting Control System

According to the results of the assessment, LG H&H found that all control systems had operated exactly as designed without any problems. We also underwent the third-party assessment, and external auditor (EY Han Young) stated that LG H&H's Internal Accounting Control System had been effectively managed as of December 31, 2017.

#### Result of the Law-abiding Awareness Survey among Employees



### Compliance with Fair Trade Standards

#### Programs for Willing Compliance with Fair Trade Standards

To observe the relevant regulations and achieve a culture of fair trade, we conduct an internal inspection once a year or more on the R&D, purchasing and sales departments. In 2017, we focused on managing three categories of transactions—subcontractors, sales outlets, and franchises. In terms of trade with subcontractors, we introduced the database program to eradicate unreasonable requests for technical materials from suppliers and remove the potential risks of extortion of technologies, a major issue in the industry. In terms of transactions with sales outlets and franchises, we tackled unreasonable work practices and distributed the fair trade manual to ensure a transparent and fair business relationship in transactions.

#### Ethical Provision of Product Information

LG H&H established its ethical declaration for labeling and advertising—our pledge to earn our customers’ trust in our services and products by providing accurate information. It is an advanced form of declaration that reflects our company’s strict internal standards, which go beyond the legal ones, regarding various information that is provided with products and advertisements. We also set the detailed ethical labeling and advertising guidelines to put into practice the declaration, increasing the transparency and reliability of product information. Only content that is approved by discussion between the quality assurance, product management, and regulation departments and R&D centers under the product labeling and advertising inspection system can be used in actual labeling and advertising.

### Personal Information Protection

#### Reinforcement of the Personal Information Protection System

We maintain our personal information protection system to avoid data leakage from internal sources, hacking and malicious code. We have upgraded the e-mail monitoring system, strengthened personal information leakage monitoring with the encrypted communication monitoring system, and introduced the digital forensic solution to improve our investigation capacity in the case of security incidents. In 2018, we will enhance the data leakage monitoring system, reinforcing security activities with the participation of not only relevant departments but also all employees.

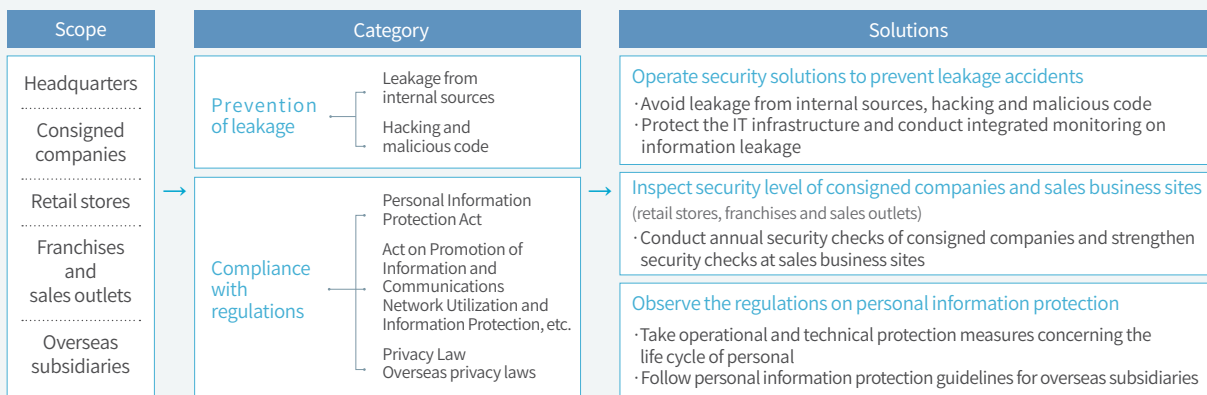
#### Improvement of the Personal Information Management System

We continuously upgrade the personal information management system to reduce risks of leakage. We ask our personal information management supplier for the data disposal check document every month. We also removed the ID check process in the sign-up stage to minimize the personal information that is collected, while expanding the scope of the ISMS certification obtained in 2014 from 42 to 95 systems and renewing the certification. We set the personal information protection guidelines for overseas subsidiaries and extended the security management scope to overseas subsidiaries. The personal information protection level will be enhanced by following the guidelines. We are now gradually establishing the security management system of consigned companies and applying the security solution at sales sites starting from department stores. In 2018, we will create a more efficient management system by applying the online check system to department stores, rather than manual inspections.

#### Number of data examination cases in 2017



#### Personal Information Management System



Potential Risks

LG H&H leverages strategic response approaches against newly emerging risks to turn potential risks of the company into opportunities.

Risks caused by the spreading of individual media

Category	Details
Description	· Since product promotion contents spread through a wide range of online media, such as individual businesses and SNS, it is crucial to upgrade marketing and promotion strategies and ensure even higher product quality.
Impact on business	· Biased opinions of unspecified individuals may rapidly spread through online media, affecting the sales of products. · Abnormal ways of using products set by consumers can be shared online, causing the company to have an unexpected responsibility for products.
Response	· It is necessary to monitor biased opinions and incorrect usage of products spreading across online media, such as individual media and SNS, and take the results into consideration during the product development stage. · The company needs to prepare a risk examination process for new categories, in which risks in various aspects are discussed and reviewed to launch products in a new field.

Risks of collective actions of consumer groups due to damage caused by products

Category	Details
Description	· When harmful chemical substances are used in the production process, it may have a direct/indirect impact on the health of customers.
Impact on business	· Our business may encounter a slump due to class actions or boycotts by consumers. · The reputation of our brands can be undermined due to consumers' decrease in trust regarding product safety.
Response	· The use of harmful substances should be avoided through the safe quality management across all production processes. · The Consumer Reassurance Center, a company-wide integrated group, should monitor and prevent relevant risks in a systematic manner.

Tax Payment Policy

Complying with tax laws and fulfilling the responsibilities of various tax payments are part of the social responsibilities of a company. 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 obligations both at home and abroad.

Disclosure of Tax Payment Records

We provide corporate tax information in the audit report publicly announced on DART (Data Analysis, Retrieval and Transfer System) run by the Financial Supervisory Service (dart.fss.or.kr). We disclose the standards for calculating corporate tax expenses, deferred tax assets, liabilities, the details of corporate tax expenses, and tax rates 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 taxes using the consolidated tax return system, and the subsidiaries included in tax filing are THEFACESHOP, HAITAI htb, Bright World, and Ulleung Chusan Yongcheonsu Drinking Water Development Co., Ltd. Within the framework of the tax deduction and exemption system and the consolidated tax return system, we strenuously try to minimize the tax burden and maximize shareholder values.

Fulfillment of Tax Payment Obligations

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 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 payments including corporate taxes based on local regulations and submit a variety of documents requested by the local tax authorities with the support of our headquarters.

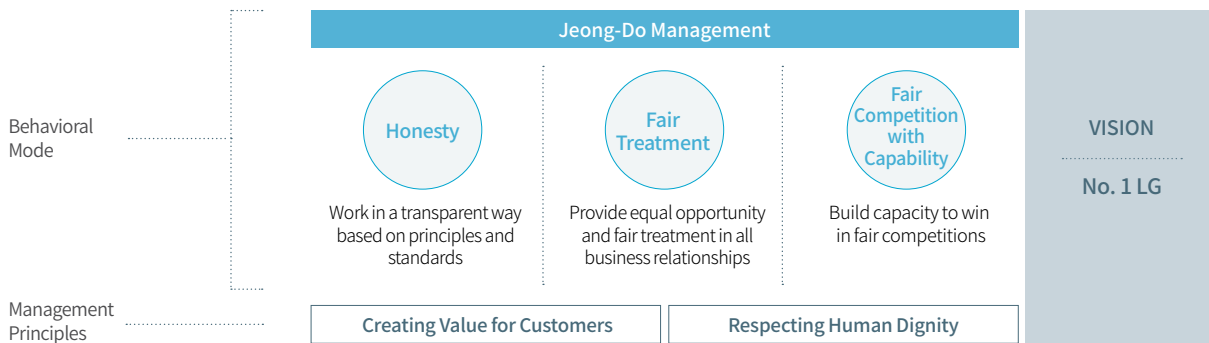
Performance in 2017

- Upgraded the e-mail monitoring system
- Established the encrypted communication monitoring system
- Introduced the digital forensic solution
- Conducted a hacking simulation for the personal information processing system and removed loopholes
- Checked the security level of 58 consigned companies and 3,500 business sites
- Extended the scope of ISMS certification (42 ⇒ 95 systems)
- Asked the consigned company for processing personal information for a monthly data disposal check document
- Set the personal information protection guidelines for overseas subsidiaries

“We will earn respect by pursuing healthy corporate ethics.”

## Jeong-Do Management

LG H&H implements Jeong-Do Management to become an admired company that pursues healthy corporate ethics and fulfill its responsibilities to customers, suppliers, shareholders, employees and society. We operate the Ethical Affairs Team in charge of systematic Jeong-Do Management activities and the Management Diagnosis Team in charge of regular diagnosis and relevant risk management. We have also designated employees in charge of Jeong-Do Management at each overseas subsidiary to increase employees’ awareness and create a culture of Jeong-Do Management.



### Code of Ethics

We have enacted and implemented the code of ethics as the criteria of desirable behaviors and value judgment among all employees. In 2017, with social trends such as tightened anti-corruption laws, we modified the contents and system of the code of ethics to help employees better understand them. The handbook of the code of ethics, available in Korean, English and Chinese, is shared with all employees.

### Contents of the Code of Ethics

Chapter 1. Responsibilities and Obligations to Customers	We highly value the opinions of our customers in the belief that they form the very basics of our business. We seek to secure unconditional trust from our customers by continuously providing them with practical values.
Chapter 2. Fair Competition	Our global business activities conform to the relevant laws and regulations of the host nations. At the same time, we employ only fair and just means in securing our competitive advantage in the global market.
Chapter 3. Fair Transactions	All business transactions will occur based on the principles of fair competition with equal opportunities for all entities to participate. We build trust and cooperative relationships through fair and transparent transactions. Such relationships are built with a long-term perspective for mutual growth.
Chapter 4. Basic Ethics for Employees	Based on honesty and fairness, LG employees establish the correct values and fulfill their duties through continuous self-development and fairness in performance.
Chapter 5. Corporate Responsibilities to Employees	LG respects the human dignity of its employees and provides fair treatment based on their abilities and performance. LG also fosters creativity among its employees.
Chapter 6. Responsibilities to Society and Country	LG contributes to national welfare and social development through rational business expansion providing stable growth as a corporation and protecting stockholders’ interests.



## Company-wide Dissemination of Jeong-Do Management

### Jeong-Do Management Education and Promotion

Our company-wide Jeong-Do Management education programs and promotion activities are aimed at enhancing knowledge about Jeong-Do Management and helping employees to internalize it. In 2017, we conducted the Jeong-Do Management sharing session for executives and heads of business divisions, discussing major issues and violation cases and strengthening the prevention and management in each division. In addition, we expanded the education programs for groups in the blind spot, such as overseas subsidiaries and acquired subsidiaries, through online/offline education programs for local employees in China and Vietnam, those for acquired domestic subsidiaries, and those for production line employees at plants and sales employees at duty-free shops. Further, we spread the Jeong-Do Management culture by holding the Jeong-Do Management education programs and meetings and issuing newsletters. We will improve awareness of Jeong-Do Management among employees further by reinforcing regular communication, education and promotion.

### Jeong-Do Management Education

Education program	Target	No. of actual participants	No. of sessions
Jeong-Do Management education led by leaders of each division	All employees	All employees	1
Jeong-Do Management sharing session for executives and heads of business divisions	116	88	3
Local education for our subsidiary in Vietnam	54	54	1
Local education for our subsidiary in China	321	280	4
Local video education for our subsidiary in China	325	314	2weeks
Training of new employees of acquired subsidiaries (CNP, Zenisce, K&I)	54	51	4
Education for production line employees at plants and sales employees at duty-free shops	763	763	3
Education for CEOs of suppliers and raw material sales outlets	149	148	2

## Stabilize the Jeong-Do Management Culture

### Written Pledge for Jeong-Do Management

All employees of LG H&H write a pledge to put into practice Jeong-Do Management as part of their efforts to create a transparent and fair Jeong-Do management culture. The written pledge includes their will to abide by the company's code of ethics and pursue Jeong-Do Management in the work process. Our suppliers also need to submit the written pledge as part of the contract agreement. In this way, our employees and suppliers promise to observe LG's code of ethics and implement Jeong-Do Management.

### Training of Employees in Charge of Overseas Subsidiaries

LG H&H designates and trains employees in charge of Jeong-Do Management for nine overseas subsidiaries to provide the foundation, on which our overseas subsidiaries can autonomously carry out relevant activities. In 2017, we held a workshop for employees in charge of Jeong-Do Management at four subsidiaries (China, Taiwan, Vietnam, Singapore), and shared relevant issues and information about activities at each business site, considering the global business environment. We also enable subsidiaries to conduct such activities through mutual benchmarking.

## Cyber SINMUNGO

We operate Cyber SINMUNGO as a corruption reporting 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 wrongdoing. We also implement our Internal Report Invigoration System that extenuates penalties in the case of voluntary reporting, thereby eradicating corruption and misconduct.

### Progress of Cyber Report Handling

■ Reports by employees ■ Complaints of suppliers ■ Customer complaints ■ Others



## Bribery Report System

We send a biannual notice to all employees as well as suppliers about the anti-bribery campaign. In accordance with the code of ethics, LG H&H employees never receive money or other gifts from stakeholders regardless of reason. When someone offers money or gifts, employees should politely refuse and return them, and if impossible, they should report the case to the Ethical Affairs Team. Reported money and gifts are donated to welfare organizations or sold in the internal bidding events. The profits from the events are used for social contribution activities.

## Voluntary Report System

The Voluntary Report System is aimed at reinforcing transparent and fair Jeong-Do Management to encourage employees to tackle problems within the company by themselves, and prevent minor cases from developing into serious issues. We facilitate the voluntary report system by extenuating penalties and adjusting the level of disciplinary actions in the case of voluntary reporting and protecting informants.

### Voluntary reporting cases



## Stakeholder Engagement

LG H&H classifies its stakeholders with a major impact on its business management into customers, suppliers, employees, local communities, shareholders/investors, and government/public institutions/associations. We proactively embrace their opinions and reflect them in our CSR activities, thereby maintaining active communication. We also identify the demands of each group of stakeholders and apply them in our medium and long-term CSR strategies through regular communication channels

### Stakeholder Engagement Channels

Customers	
Communication Channel	Frequency
Website of the company and brands	Always
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
Key activities: Conducting feedback surveys on products and service	

Suppliers	
Communication Channel	Frequency
Integrated purchase channel	Always
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
Key activities: Promoting win-win growth with suppliers	

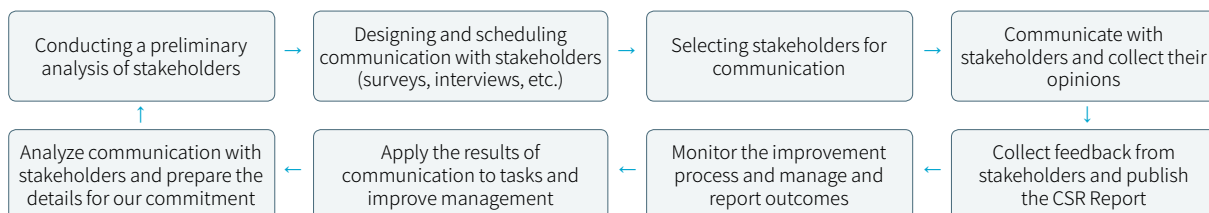
Executives & Employees	
Communication Channel	Frequency
Intranet and complaint-handling programs	Always
Idea Innovation i-30	Always
Company newsletter	6 times/yr.
Company Meeting	Quarterly
Industrial Safety Committee	Quarterly
Meetings with specific levels of employees	Half-yearly
Satisfaction surveys of employees	Annually
CSR surveys of employees	Annually
Employees Committee	Bimonthly
Employee meeting in each division	Always
Labor-Management Committee at each business site	Quarterly
Beauty Division manager meeting	Monthly
Key activities: Conducting opinion surveys on management strategies and implementation	

Local Communities	
Communication Channel	Frequency
Expert panel meetings	2 times/yr.
Community committees	2 times/yr.
Social contribution programs	Annually
CSR surveys of community	Annually
Public affairs	Irregularly
Launching events for the press	Irregularly
Key activities: Engaging in the decision-making process for the development of the local community	

Shareholders & Investors	
Communication Channel	Frequency
IR website	Always
IR Roadshow	1-2 times/qtr.
General meetings of shareholders	Annually
Business reports	Annually
Conference	Irregularly
Key activities: Engaging in the strategic decision-making process related to businesses	

Government, Public Institutions & Associations	
Communication Channel	Frequency
Korea Industrial Safety Association	Monthly
Recycling associations	Quarterly
Asia Carbon Footprint Seminar	Annually
Korea Fire Safety Association	Annually
Korea Environmental Industry & Technology Institute	Irregularly
Government challenges and conferences	Irregularly
Key activities: Participating in the decision-making process related to government policies	

### Stakeholder Engagement Process



Panel Discussion


LG H&H conducts panel discussions to identify the expectations of experts in each field and reflects them in CSR activities. In 2017, we held meetings three times under various CSR-related themes. In the meeting in March 2018, we invited an expert in the Vietnamese market and discussed measures to understand the local culture and respect diversity in the case of overseas business. We will embrace the various perspectives of experts and stakeholders to enhance our CSR activities.

Key Activities of Panel Discussion

**CASE:** 3<sup>rd</sup> Panel Discussion in 2017 – Exploring Measures for Supporting Suppliers Entering the Chinese Market

In cooperation with Korean experts in the Chinese market and relevant networks, we held a panel discussion with experts in overseas business to help suppliers entering the Chinese market.


External experts	Area of expertise	Suggestion
Yong-min Choe, Department Head (Institute for International Trade)	Market conditions in China	Strategies for entering the Chinese market and considerations for marketing
Sang-hyeon Kim, Vice President (Seven Consulting)	International business management strategies	Strategies for localization in China
Gyeong-ha Park, CEO (MK China)	Strategies for entering overseas markets	Measures for entering the Chinese market through a joint venture
Jae-man Hwang, Director (Panda Korea)	Online market	Strategies for entering the online business platform in the Chinese regions



**CASE:** 1<sup>st</sup> Panel Discussion in 2018 – Discussion of Management Measures for Labor and Human Rights in Business Sites

We examined risks associated with labor and human rights in domestic and overseas business sites and discussed what to improve in LG H&H to prevent risks with experts in the Vietnamese market and labor and human rights.

External experts	Area of expertise	Suggestion
Yu-gyeong Jeong, PhD (Southeast Asia Research Center at Hankuk University of Foreign Studies)	Market conditions in Vietnam	Sharing of information about labor environment in Vietnam
Seung-yeong Lee, Department Head (DNV GL)	Due diligence of labor and human rights	Issues associated with labor and human rights in China and Vietnam and monitoring methodology
Seong-yeong Jin, Steering Committee Member (Center for Corporate Social Responsibility)	Government human rights policies	Direction of human-rights-based management at home and abroad and requirements
Gang-san Lee, Certified Labor Attorney (Taegwang Labor Law Firm)	Labor law	Trends of labor and human rights at home and abroad and the characteristics of relevant laws



## Materiality Test

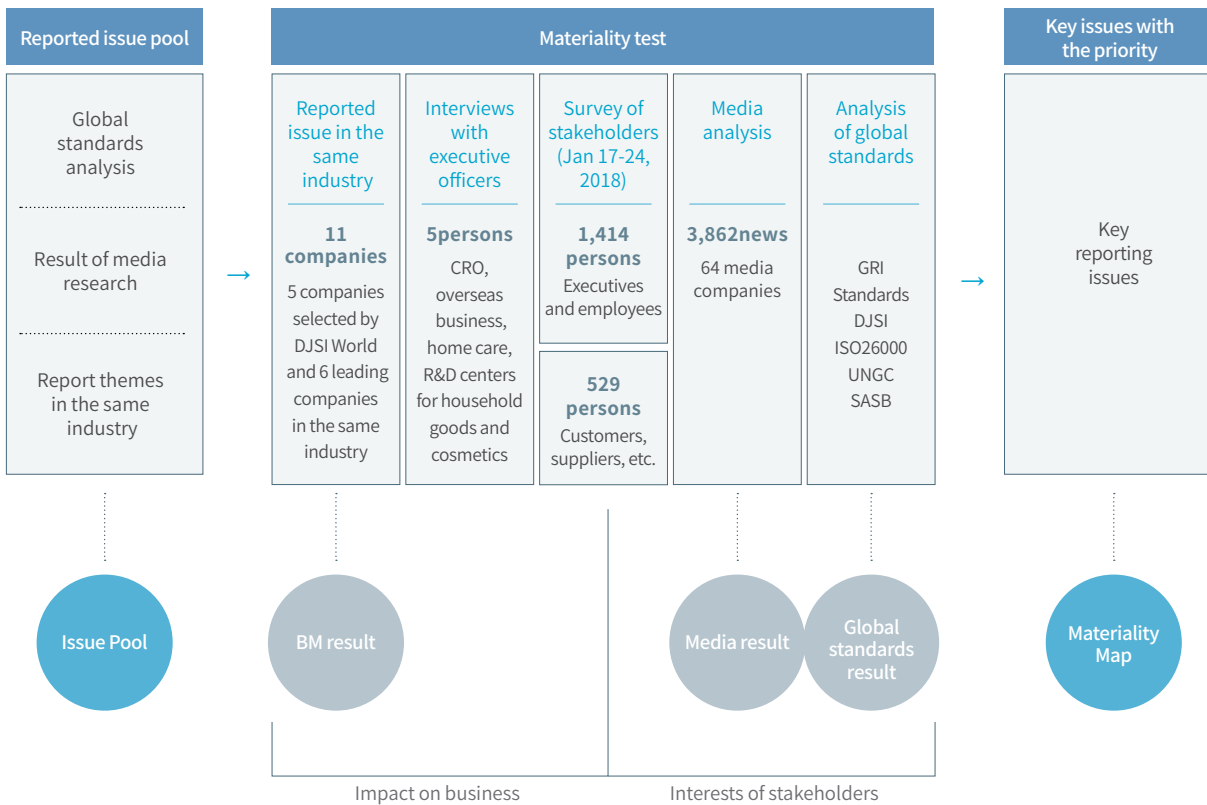
### Materiality Test Process

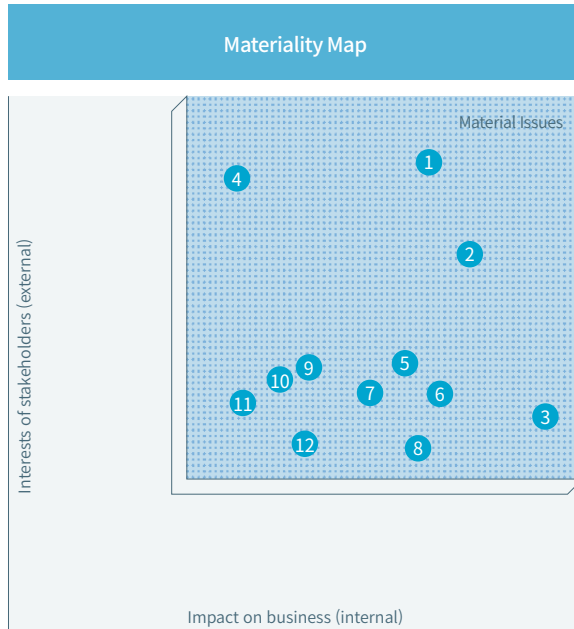
LG H&H examines economic, social, and environmental issues to find critical issues that may affect the company's business. We also undergo the materiality test process to reflect the various expectations and interests of stakeholders as well as domestic and overseas business conditions. First of all, 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 considering the interests of internal stakeholders as well as financial impacts such as cost, revenue and risk. To examine the expertise of these issues, we conduct the CSR Committee meeting for discussion and listen to the opinions of expert panels. We

report these issues by classifying them into Focus Issues and Sustainable Management.

### Materiality Test Standards

We select material issues by analyzing internal factors through the surveys of employees and suppliers, benchmarking of companies in the same industry, and interviews with executive officers with decision-making rights, and measure the relevance of each issue to medium and long-term strategies, the characteristics of the company, and Jeong-Do Management. To check the relevance to external factors, we analyze the issues in a comprehensive method based on the impact of the interests of external stakeholders, social issues, and regulations by using the results of surveys of customers and public institutions, media research, and global industrial indices.












- ### Material Issues
- #### Issues
- 1 Launch new products by expanding R&D and investment
  - 2 Improve product safety
  - 3 Reduce the environmental impact of product packaging
  - 4 Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
  - 5 Expand the development of eco-friendly products
  - 6 Strengthen the handling and management of hazardous substances
  - 7 Manage the treatment and utilization of waste through reuse and recycling
  - 8 Reduce GHG emissions
  - 9 Strive for stringent ethical management and anti-corruption
  - 10 Continuously expand the target overseas markets
  - 11 Enhance the brand leadership and corporate image
  - 12 Enhance the features/health-related effects of products

- ### Material Issues Household goods and cosmetics
- #### Issues
- 1 Launch new products by expanding R&D and investment
  - 2 Improve product safety
  - 3 Reduce the environmental impact of product packaging
  - 4 Expand the development of eco-friendly products
  - 5 Manage the treatment and utilization of waste through reuse and recycling
  - 6 Reduce GHG emissions
  - 7 Strengthen the handling and management of hazardous substances
  - 8 Strive for stringent ethical management and anti-corruption
  - 9 Strengthen the safety and health of employees
  - 10 Reduce water consumption and protect water resources from each source
  - 11 Maintain work-life balance (welfare benefits, family-friendly systems, etc.)
  - 12 Continuously expand the target overseas markets

- ### Material Issues Beverages
- #### Issues
- 1 Launch new products by expanding R&D and investment
  - 2 Reduce the environmental impact of product packaging
  - 3 Improve product safety
  - 4 Reduce GHG emissions
  - 5 Expand the development of eco-friendly products
  - 6 Manage the treatment and utilization of waste through reuse and recycling
  - 7 Reduce water consumption and protect water resources from each source
  - 8 Strive for stringent ethical management and anti-corruption
  - 9 Strengthen the safety and health of employees
  - 10 Strengthen the handling and management of hazardous substances
  - 11 Continuously expand communication with local communities
  - 12 Maintain work-life balance (welfare benefits, family-friendly systems, etc.)

Material Issues Reporting Method

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

	GRI Aspect	Material Issues	Impact		
			Cost	Revenue	Risk
FOCUS ISSUES	 Economic Performance	Continuously expand the target overseas markets		○	
		Enhance brand leadership and corporate image		○	
	 Customer Health and Safety	Improve product safety			○
		Strengthen the handling and management of hazardous substances			○
	 Products and services	Expand the development of eco-friendly products		○	
		Reduce the environmental impact of product packaging	○		
		Enhance the features/health-related effects of products		○	
Launch new products by expanding R&D and investment			○		
SUSTAINABLE MANAGEMENT	 Diversity and Equal Opportunity	Maintain work-life balance (welfare benefits, family-friendly systems, etc.)		○	
	 Effluents and Waste	Manage treatment and utilization of waste through reuse and recycling	○		
	 Emissions	Reduce GHG emissions			○
	 Anti-Corruption	Strive for stringent ethical management and anti-corruption			○

### Contents of the Report

“Focus Issues” are reported more in detail through the relevant business cases and performance of LG H&H in 2017, while “Sustainable Management” is constantly managed through reporting on the overview and overall system of the company.

Reported Issues	Relevance	Major Stakeholders
Expanding to the Global Market	Business can be stably operated regardless of external changes in the business environment by upgrading the business structure and entering overseas markets.	Customers, Employees, Suppliers, Local Community
Strengthening Product Safety	Products such as cosmetics, household goods and beverages have a direct impact on the safety of customers, so these products should be deemed and managed with the goal of making safe and healthy products from the production stage.	Customers, Employees, Suppliers
Developing Products with Social Value	The company can create social values and tackle issues by developing new products that reflect social needs and launching products to create shared values with local communities.	Customers, Employees, Suppliers, Local Community
Customer Satisfaction	The company should meet the expectations of consumers with continued improvement of product quality and accurately identify customer demand through proactive communication and opinion sharing.	Customers
Social Contribution	The company can expand its social contribution by connecting social issues with its characteristics and strategies beyond simple charity and donation.	Customers, Local Community, Government/Public Institutions/Associations
Win-Win Growth	The foundation for win-win growth can be created when the company considers its suppliers as partners for mutual growth and conducts various joint activities.	Suppliers
Employee Value	Improved working conditions for respecting the diversity of employees and maximizing their values can enhance their satisfaction level and create a corporate culture for mutual growth.	Employees
Environment and Safety Management	Reduced environmental impact across all production processes can address global environmental issues and build trust with customers and other stakeholders.	Customers, Employees, Suppliers, Local Community, Government/Public Institutions/Associations
Governance	Disclosure of business management status in a transparent and fair method can increase the reliability of the company.	Customers, Employees, Shareholders/Investors, Government/Public Institutions/Associations
Risk Management	Prevention of potential risk factors and immediate response can boost stable, sustainable growth.	Customers, Employees, Shareholders/Investors, Suppliers
Jeong-Do Management	The company can grow into an admired one with exemplary practices when observing corporate ethics and fulfilling social responsibilities.	Employees, Shareholders/Investors, Suppliers

# Appendix



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## Economic Performance

### Financial Statement

(Unit: KRW million)

Category	LG H&H [Consolidated]		LG H&H [Non-consolidated]		Coca-Cola [Consolidated]		TFS [Consolidated]		HAITAI htb [Separate]	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>I. Current assets</b>	1,424,610	1,513,346	773,514	950,324	315,721	235,618	123,333	123,929	77,468	72,317
Cash and cash equivalents	338,852	386,194	105,356	224,276	161,428	75,404	15,707	29,439	2,733	2,351
Short-term finance balance	26,900	16,900	16,900	16,900	-	-	-	-	-	-
Accounts and notes receivable	469,646	522,800	329,564	395,212	90,509	93,572	34,471	34,506	24,252	25,865
Other bonds	23,259	16,719	19,985	21,912	4,630	4,238	8,677	4,922	2,937	2,935
Inventories	535,886	546,906	289,393	283,339	56,145	57,758	61,170	52,406	46,133	40,578
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Non-current assets as held for sale	-	-	-	-	-	-	-	-	-	-
Other current assets	30,067	23,827	12,316	8,686	3,009	4,647	3,308	2,657	1,413	588
<b>II. Non-current assets</b>	3,077,553	3,264,623	2,316,391	2,534,840	471,122	500,725	190,064	176,271	328,407	316,255
Long-term finance balanced	26	26	17	17	6	6	3	3	0	-
Other long-term bonds	91,008	87,533	39,353	43,291	9,830	9,009	37,813	32,643	4,243	4,131
Available-for-sale financial assets	5,790	46,609	4,902	45,720	788	788	1	1	-	-
Stocks for subsidiaries	-	-	1,449,855	1,458,419	-	-	-	-	-	-
Stocks for affiliates and joint companies	57,898	55,515	21,268	16,487	-	-	-	-	-	-
Deferred tax assets	6,570	17,013	30,728	40,609	3,834	1,008	16,860	15,813	11,831	7,666
Property	1,463,778	1,616,594	615,345	746,638	441,895	466,388	40,358	32,816	308,030	301,178
Investments in properties	28,481	27,067	21,709	21,484	1,607	1,579	2,088	1,948	2,645	1,660
Goodwill	-	-	-	-	4,176	4,176	42,269	44,814	195	195
Intangible assets	1,419,911	1,392,799	129,853	150,289	8,933	8,840	50,312	47,130	1,462	1,367
Other non-current assets	4,090	21,468	3,361	11,887	55	8,930	361	1,103	-	58
<b>Total assets</b>	<b>4,502,162</b>	<b>4,777,970</b>	<b>3,089,905</b>	<b>3,485,164</b>	<b>786,844</b>	<b>736,343</b>	<b>313,397</b>	<b>300,200</b>	<b>405,875</b>	<b>388,572</b>
<b>I. Current liabilities</b>	1,146,890	1,244,057	674,498	849,775	152,386	136,613	118,080	110,983	113,458	93,363
<b>II. Non-current liabilities</b>	734,433	451,296	539,546	275,645	31,098	13,128	8,085	6,530	31,547	37,464
<b>Total liabilities</b>	<b>1,881,323</b>	<b>1,695,353</b>	<b>1,214,043</b>	<b>1,125,420</b>	<b>183,484</b>	<b>149,741</b>	<b>126,165</b>	<b>117,512</b>	<b>145,006</b>	<b>130,827</b>
Capital stock	88,589	88,589	88,589	88,589	50,000	25,000	1,018	1,018	87,737	87,737
Capital surplus	97,326	97,326	97,326	97,326	48,072	22,527	64,314	64,314	153,702	153,702
Retained earnings	2,539,476	3,044,977	1,759,570	2,243,400	505,331	571,030	118,704	115,177	19,958	16,833
Accumulated other comprehensive income	-92,400	-132,784	1,005	1,057	-	-	-4,461	-5,478	-	-
Other reserves	-100,633	-101,039	-70,628	-70,628	-	-31,955	7,657	7,657	-526	-526
Non-controlling interests equity	88,482	85,548	-	-	-	-	-	-	-	-
<b>Total capital</b>	<b>2,620,840</b>	<b>3,082,616</b>	<b>1,875,861</b>	<b>2,359,744</b>	<b>603,403</b>	<b>586,602</b>	<b>187,233</b>	<b>182,688</b>	<b>260,870</b>	<b>257,745</b>






## Income Statement

(Unit: KRW million)

Category	LG H&H [Consolidated]		LG H&H [Non-consolidated]		Coca-Cola [Consolidated]		TFS [Consolidated]		HAITAI htb [Separate]	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Sales revenue	6,094,059	6,270,464	3,660,953	3,784,444	1,143,227	1,196,467	649,809	567,352	295,805	327,870
Costs of goods and services sold	2,434,038	2,460,927	1,464,465	1,506,928	627,680	673,246	207,115	187,814	203,619	237,103
Gross profit or loss	3,660,021	3,809,536	2,196,488	2,277,516	515,547	523,221	442,694	379,537	92,186	90,767
Selling and administrative expenses	2,779,085	2,879,187	1,542,326	1,580,916	404,233	397,312	397,916	363,668	87,673	89,326
Restructuring expenses	-	-	-	-	-	-	-364	-	-	-
Operating income	880,937	930,349	654,161	696,600	111,314	125,909	45,142	15,869	4,512	1,441
Finance income	4,116	4,286	49,790	142,790	1,820	1,018	422	319	82	70
Finance expenses	20,168	15,427	26,282	16,156	26	21	616	977	706	1,083
Other non-operating profit and loss	-119,399	-59,102	-60,314	-55,818	-1,114	-107	-10,957	-15,359	-1,821	-799
Profit and loss regarding equity method	7,250	1,299	-	-	-	-	-	-	-	-
Income loss before income taxes expenses	752,736	861,404	617,356	767,415	111,994	126,800	33,991	-148	2,066	-371
Corporate tax	173,496	242,855	108,196	171,757	26,911	30,183	9,596	5,130	1,088	4,154
Net income or loss	579,240	618,550	509,160	595,659	85,084	96,617	24,395	-5,278	978	-4,526

## Domestic/Overseas Economic Value Distribution

(based on domestic Company/subsidiaries and subsidiaries in China and Japan as of 2017)

Employees	Government	Suppliers	Local Community & NGOs	Shareholders & Creditors
				
<b>KRW 696.7 billion</b>	<b>KRW 264.1 billion</b>	<b>KRW 4,334 billion</b>	<b>KRW 30.8 billion</b>	<b>KRW 160.9 billion</b>
* Wages, bonuses, benefits, severance pay, education and training expenses	* Corporate taxes and other taxes	* 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	* Dividend payout ratio 25% (LG H&H, non-consolidated)

## Environmental Performance

### Major Environmental Index

Category	Company/ subsidiary	Unit	Domestic			Overseas					
			2015	2016	2017	Company/ subsidiary	Unit	2015	2016	2017	
Production volume	LG H&H	Ton	483,476	509,087	498,548	Beijing, China	Ton	7,344	8,519	10,352	
	Coca-Cola	Ton	698,023	710,181	662,000	Hangzhou, China	Ton	695	739	516	
	HAITAI htb	Ton	368,905	381,810	491,339	Dong Nai, Vietnam	Ton	1,952	1,894	1,788	
	Total	Ton	1,550,405	1,601,078	1,651,887	Total	Ton	9,991	11,153	12,656	
Energy	Consumption	LG H&H	TJ	924	992	1,004	Beijing, China	TJ	20	21	23
	Intensity		GJ/product-ton	1.912	1.949	2.013		GJ/product-ton	2.680	2.485	2.251
	Consumption	Coca-Cola	TJ	864	874	889	Hangzhou, China	TJ	5	5	4
	Intensity		GJ/product-ton	1.238	1.230	1.343		GJ/product-ton	7.193	6.763	8.299
	Consumption	HAITAI htb	TJ	536	550	626	Dong Nai, Vietnam	TJ	13	13	13
	Intensity		GJ/product-ton	1.452	1.440	1.273		GJ/product-ton	6.881	6.795	7.477
	Consumption	Total	TJ	2,324	2,416	2,518	Total	TJ	38	39	41
	Intensity		GJ/product-ton	1.499	1.509	1.524		GJ/product-ton	3.815	3.501	3.236
GHG	Emissions	LG H&H	tCO <sub>2</sub> e	43,118	46,770	46,365	Beijing, China	tCO <sub>2</sub> e	1,020	1,097	1,207
	Intensity		tCO <sub>2</sub> e/product-ton	0.089	0.092	0.093		tCO <sub>2</sub> e/product-ton	0.139	0.129	0.117
	Emissions	Coca-Cola	tCO <sub>2</sub> e	45,696	47,849	46,324	Hangzhou, China	tCO <sub>2</sub> e	892	913	837
	Intensity		tCO <sub>2</sub> e/product-ton	0.065	0.067	0.070		tCO <sub>2</sub> e/product-ton	1.283	1.235	1.622
	Emissions	HAITAI htb	tCO <sub>2</sub> e	22,470	28,852	31,424	Dong Nai, Vietnam	tCO <sub>2</sub> e	728	691	717
	Intensity		tCO <sub>2</sub> e/product-ton	0.061	0.076	0.064		tCO <sub>2</sub> e/product-ton	0.373	0.365	0.401
	Emissions	Total	tCO <sub>2</sub> e	111,284	123,471	124,113	Total	tCO <sub>2</sub> e	2,639	2,690	2,761
	Intensity		tCO <sub>2</sub> e/product-ton	0.072	0.077	0.075		tCO <sub>2</sub> e/product-ton	0.264	0.241	0.218
Water	Consumption	LG H&H	Ton	706,477	755,449	697,879	Beijing, China	Ton	7,949	9,273	19,102
	Intensity		Ton/product-ton	1.461	1.484	1.400		Ton/product-ton	1.082	1.088	1.845
	Consumption	Coca-Cola	Ton	1,856,706	1,883,868	1,710,408	Hangzhou, China	Ton	8,770	9,668	5,232
	Intensity		Ton/product-ton	2.660	2.653	2.584		Ton/product-ton	12.617	13.077	10.143
	Consumption	HAITAI htb	Ton	730,093	959,405	1,115,665	Dong Nai, Vietnam	Ton	42,385	30,923	30,067
	Intensity		Ton/product-ton	1.979	2.513	2.271		Ton/product-ton	21.716	16.324	16.813
	Consumption	Total	Ton	3,293,276	3,598,722	3,523,952	Total	Ton	59,104	49,864	54,401
	Intensity		Ton/product-ton	2.124	2.248	2.133		Ton/product-ton	5.916	4.471	4.298
Waste water	Emissions	LG H&H	Ton	124,664	130,077	129,313	Beijing, China	Ton	6,359	5,372	12,774
	Intensity		Ton/product-ton	0.258	0.256	0.259		Ton/product-ton	0.866	0.631	1.234
	Emissions	Coca-Cola	Ton	1,029,731	1,063,677	971,312	Hangzhou, China	Ton	3,411	2,600	2,151
	Intensity		Ton/product-ton	1.475	1.498	1.467		Ton/product-ton	4.907	3.517	4.170
	Emissions	HAITAI htb	Ton	275,812	452,199	530,107	Dong Nai, Vietnam	Ton	33,906	24,651	24,054
	Intensity		Ton/product-ton	0.748	1.184	1.079		Ton/product-ton	17.372	13.013	13.451
	Emissions	Total	Ton	1,430,207	1,645,953	1,630,732	Total	Ton	43,676	32,623	38,979
	Intensity		Ton/product-ton	0.922	1.028	0.987		Ton/product-ton	4.372	2.925	3.080
COD	Total amount	LG H&H	Ton	9.9	11.8	8.6	Beijing, China	Ton	0.7	0.1	0.2
	Intensity		kg/product-ton	0.021	0.023	0.017		kg/product-ton	0.095	0.015	0.020
	Total amount	Coca-Cola	Ton	15.0	12.5	9.4	Hangzhou, China	Ton	0.8	0.8	0.7
	Intensity		kg/product-ton	0.021	0.018	0.014		kg/product-ton	1.202	1.055	1.314
	Total amount	HAITAI htb	Ton	1.6	4.8	11.0	Dong Nai, Vietnam	Ton	2.4	1.8	0.1
	Intensity		kg/product-ton	0.004	0.013	0.022		kg/product-ton	1.251	0.937	0.081
	Total amount	Total	Ton	26.5	29.1	19.6	Total	Ton	4.0	2.7	1.0
	Intensity		kg/product-ton	0.017	0.018	0.012		kg/product-ton	0.398	0.241	0.081
Waste	Total amount	LG H&H	Ton	7,134	8,701	7,886	Beijing, China	Ton	167	178	194
	Intensity		kg/product-ton	14.756	17.092	15.818		kg/product-ton	22.688	20.931	18.769
	Total amount	Coca-Cola	Ton	13,661	10,332	8,525	Hangzhou, China	Ton	26	45	74
	Intensity		kg/product-ton	19.571	14.549	12.878		kg/product-ton	36.686	60.569	144.218
	Total amount	HAITAI htb	Ton	2,404	2,452	4,045	Dong Nai, Vietnam	Ton	71	168	191
	Intensity		kg/product-ton	6.517	6.423	8.233		kg/product-ton	36.564	88.565	106.58
	Total amount	Total	Ton	23,199	21,486	20,457	Total	Ton	263	391	459
	Intensity		kg/product-ton	14.963	13.420	12.384		kg/product-ton	26.373	35.046	36.290

## Water Recycling

Company/Subsidiary	Category	Unit	2015	2016	2017
LG H&H	Amount of recycled water	Ton	59,937	61,649	50,797
	Recycling rate	%	8.5	7.5	7.3
Coca-Cola	Amount of recycled water	Ton	239,627	209,347	202,900
	Recycling rate	%	12.9	11.1	11.9
HAITAI htb	Amount of recycled water	Ton	46,900	19,825	26,674
	Recycling rate	%	6.4	2.1	2.4

## Waste Treatment in 2017

	Category	Unit	LG H&H	Coca-Cola	HAITAI htb	Total
Designated waste	Amount of recycled waste	Ton	2,977.6	77.3	3.8	3,058.7
	Amount of incinerated waste	Ton	1,295.9	5.7	2.0	1,303.6
	Amount of buried waste	Ton	1.9	0.4	0.0	2.3
	Others	Ton	2.7	0.0	0.0	2.7
	Total amount	Ton	4,278.0	83.3	5.8	4,367.1
General waste	Amount of recycled waste	Ton	2,026.8	8,332.7	3,992.6	14,352.1
	Amount of incinerated waste	Ton	1,265.2	109.3	10.4	1,384.9
	Amount of buried waste	Ton	315.9	0.0	36.5	352.4
	Others	Ton	0.0	0.0	0.0	0.0
	Total amount	Ton	3,607.9	8,442.0	4,039.5	16,089.4

## Expenses for Environmental Protection in 2017

	Category	Unit	LG H&H	Coca-Cola	HAITAI htb	Total
Environmental investment		KRW million	1,795	4,108	151	6,054
Environmental expenses		KRW million	4,226	1,311	622	6,158

## Amount of Water Intake in 2017 by Source

	Category	Unit	LG H&H	Coca-Cola	HAITAI htb	Total
Water supply*		Ton	462,224	1,350,720	744,611	2,557,555
Ground water		Ton	155,991	250,788	371,054	777,833
River water		Ton	79,664	108,900	-	188,564
Total amount		Ton	697,879	1,710,408	1,115,665	3,523,952

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

## Amount of Recycled Containers

	Category	Unit	2015	2016	2017
LG H&H		Ton	14,186	18,683	19,229
Coca-Cola		Ton	38,447	42,178	43,958
HAITAI htb		Ton	7,295	11,425	11,850

\*The previous data have been modified due to changes to calculation standards.

## Social Performance

### Total Employees

Category		Unit	2015	2016	2017
Total		Persons	7,927	8,090	7,931
Gender	Male	Persons	5,118	5,206	5,157
	Female	Persons	2,809	2,884	2,774

\*The previous figures have been modified due to the exclusion of advisors and outside directors.

### Detailed Status of Employees

Company/subsidiary	Category	Unit	2015	2016	2017	
LG H&H	Total	Persons	4,346	4,549	4,415	
	Gender	Male	Persons	1,915	2,026	1,988
		Female	Persons	2,431	2,523	2,427
	Employment Type	Permanent	Persons	4,009	4,321	4,294
		Temporary	Persons	337	228	121
	Job Category	Office work	Persons	2,154	2,311	2,261
		Manufacturing	Persons	743	761	754
	Diversity	Sales	Persons	1,449	1,477	1,400
		Disabled	Persons	34	32	32
		Veterans	Persons	62	66	69
	Foreigners	Persons	20	25	24	
Coca-Cola	Total	Persons	2,380	2,339	2,348	
	Gender	Male	Persons	2,248	2,212	2,218
		Female	Persons	132	127	130
	Employment Type	Permanent	Persons	2,092	2,086	2,079
		Temporary	Persons	288	253	269
	Job Category	Office work	Persons	587	591	593
		Sales	Persons	999	990	982
	Diversity	Manufacturing	Persons	281	280	280
		Heavy equipment handling	Persons	220	222	221
		Disabled	Persons	57	54	55
	Veterans	Persons	49	52	55	
	Foreigners	Persons	1	0	0	

Company/subsidiary	Category	Unit	2015	2016	2017	
HAITAI htb	Total	Persons	776	819	802	
	Gender	Male	Persons	712	754	740
		Female	Persons	64	65	62
	Employment Type	Permanent	Persons	708	723	714
		Temporary	Persons	68	96	88
	Job Category	Office work	Persons	217	234	230
		Manufacturing	Persons	193	213	219
	Diversity	Sales	Persons	297	275	264
		Disabled	Persons	14	15	19
		Veterans	Persons	7	6	6
	Diversity	Persons	0	0	0	
TFS	Total	Persons	425	383	366	
	Gender	Male	Persons	243	214	211
		Female	Persons	182	169	155
	Employment Type	Permanent	Persons	418	380	366
		Temporary	Persons	7	3	0
	Job Category	Office work	Persons	416	359	335
		Manufacturing	Persons	0	20	30
	Diversity	Disabled	Persons	5	4	5
		Veterans	Persons	8	9	7
		Diversity	Persons	1	0	0

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

### Employee Education & Training

Company/Subsidiary	Category	Unit	2015	2016	2017
LG H&H	No. of participants	Persons	26,905	28,839	26,326
	Training hours per employee	Hours	70.3	63.5	59
	Training expense per employee	KRW	1,427,235	1,240,640	1,265,042
Coca-Cola	No. of participants	Persons	6,533	9,197	8,565
	Training hours per employee	Hours	12.3	12.3	13
	Training expense per employee	KRW	134,640	100,829	108,759
HAITAI htb	No. of participants	Persons	615	446	1,949
	Training hours per employee	Hours	3.9	2.9	11
	Training expense per employee	KRW	102,865	105,265	97,782
TFS	No. of participants	Persons	7,117	7,568	2,545
	Training hours per employee	Hours	104.6	137.1	99
	Training expense per employee	KRW	1,260,665	1,167,898	1,074,779

### Parental Leave

Company/Subsidiary	Category	Unit	2015	2016	2017
LG H&H	No. of reinstated persons/No. of persons applicable for reinstatement	Persons	106/118	105/116	138/152
	No. of persons who have worked for a year after returning/No. of persons applicable	Persons	72/76	92/106	90/105
Coca-Cola	No. of reinstated persons/No. of persons applicable for reinstatement	Persons	4/4	3/3	3/4
	No. of persons who have worked for a year after returning/No. of persons applicable	Persons	1/1	4/4	2/3
HAITAI htb	No. of reinstated persons/No. of persons applicable for reinstatement	Persons	2/2	2/2	6/7
	No. of persons who have worked for a year after returning/No. of persons applicable	Persons	1/2	1/2	2/2
TFS	No. of reinstated persons/No. of persons applicable for reinstatement	Persons	11/13	17/17	13/15
	No. of persons who have worked for a year after returning/No. of persons applicable	Persons	9/10	8/11	15/17

## Job Creation in 2017

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	TFS
Male	Persons	61	25	26	9
Female	Persons	223	1	1	5
Total	Persons	284	26	27	14

\* Figures of those who were hired as permanent positions and temporary workers who became permanent staff in the year.

## Turnover in 2017

Category	Unit	LG H&H	Coca-Cola	HAITAI htb	TFS	Total
Male	Persons	52	9	33	7	101
Female	Persons	214	1	6	15	236
Total	Persons	266	10	39	22	337

\*The data is based on voluntary turnover of permanent employees.

## Labor Union Membership Rate

Category	Unit	2015	2016	2017
LG H&H	%	22.5	22.4	35.3
Coca-Cola	%	96.6	95.8	97.2
HAITAI htb	%	77.9	75.1	81.3
TFS	%	N/A	N/A	N/A

## Lost-Time Injuries Frequency Rate (LTIFR)

Company/ Subsidiary	Category	Unit	2015	2016	2017
LG H&H	Employees	Case/M Work Hour	0.77	0.42	0.54
	In-house suppliers	Case/M Work Hour	2.75	1.98	1.96
Coca-Cola	Employees	Case/M Work Hour	1.41	2.88	2.25
HAITAI htb	Employees	Case/M Work Hour	1.86	3.52	1.20
TFS	Employees	Case/M Work Hour	0.00	0.00	0.00

## Occupational Illness Frequency Rate (OIFR)

Company/ Subsidiary	Unit	2015	2016	2017
LG H&H	Case/M Work Hour	0.00	0.00	0.00
	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

\*The previous data have been modified due to changes to calculation method of the number of employees.

## Industrial Accidents

Company/Subsidiary	Category	Unit	2015	2016	2017	
LG H&H	No. of Cases	Male	Case	3	3	2
		Female	Case	4	1	3
		Subtotal	Case	7	4	5
	Accident Rate	Male	%	0.16	0.15	0.10
		Female	%	0.16	0.04	0.12
		Subtotal	%	0.16	0.09	0.11
Coca-Cola	No. of Cases	Male	Case	7	13	11
		Female	Case	0	1	0
		Subtotal	Case	7	14	11
	Accident Rate	Male	%	0.31	0.59	0.50
		Female	%	0	0.79	0
		Subtotal	%	0.29	0.60	0.47
HAITAI htb	No. of Cases	Male	Case	3	6	2
		Female	Case	0	0	0
		Subtotal	Case	3	6	2
	Accident Rate	Male	%	0.42	0.80	0.27
		Female	%	0	0	0
		Subtotal	%	0.39	0.73	0.25
TFS	No. of Cases	Male	Case	0	0	0
		Female	Case	0	0	0
		Subtotal	Case	0	0	0
	Accident Rate	Male	%	0	0	0
		Female	%	0	0	0
		Subtotal	%	0	0	0

\*The previous data have been modified due to changes to the calculation method of the number of employees.

## Supply Chain Spending Analysis in 2017

Country	Purchase Amount (KRW 100 M)	Ratio (%)
Korea	21,715	90.9
China	499	2.1
Japan	353	1.5
Other Asian countries	650	2.7
Europe	296	1.2
North America	275	1.2
South America	74	0.3
Oceania	31	0.1

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

## Number of Suppliers in 2017

Business Division	Type	Number of Suppliers
Beautiful	Products	149
	Raw Materials	251
	Subsidiary Materials	188
Healthy	Products	115
	Raw Materials	224
	Subsidiary Materials	147
Refreshing	Products	38
	Raw Materials	143
	Subsidiary Materials	52

## Social Contribution Investment and Volunteer Work Hours

Category	Unit	2016	2017
Social contribution investment	Total	KRW million	19,324
Cash		KRW million	13,960
	Investment in kind	KRW million	5,364
Indirect cost		KRW million	515
Volunteer work hours		Hours	6,956

\*LG H&H, non-consolidated

## Memberships of Associations in 2017

Green Company Council	Korea Cosmetic Association	Korea Health Supplements Association	Emergency Plan Council of the Ministry of Knowledge and Economy
Korea Industrial Safety Association	Korea Society of Cosmetics and Cosmetology	Seoul Bar Association	Korea Economic Research Institute
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 2017

Title	Award	Institution for Assessment/Award
The 54 <sup>th</sup> Annual Trade Day Export Tower	Awarded the 400 Million US Dollar Export Tower	Ministry of Trade, Industry and Energy
All-Asia Executive Team Best CEO	Ranked 2 <sup>nd</sup> in Best CEOs of Asian Consumer Goods Companies	Institutional Investor
All-Asia Executive Team Best IR	Ranked 3 <sup>rd</sup> in Best IRs of Asian Consumer Goods Companies	Institutional Investor
2017 Win-Win Growth Index	First Class for three consecutive years	Korean Commission for Corporate Partnership
Prize awarded by SEMES as the best company in 2017	Citation of the Minister of SMEs and Startups	Ministry of SMEs and Startups
Dow Jones Sustainability Index	Listed in the DJSI Asia-Pacific for eight consecutive years	S&P Dow Jones Indices, RobecoSam, KPC
KOREA STAR AWARDS 2017	Korea Package Technology Company Association Prize in Green packaging	Ministry of Trade, Industry and Energy
The 7 <sup>th</sup> Green Packaging Awards 2017	Excellence award – Cushion foundation of THEFACESHOP	Korea Environment Packaging Promotion Institute
Responsibility & Management Quality Award	Grand prize of Management Quality (Coca-Cola Beverage)	Social Responsibility & Management Quality Institute
Best Korea Brands 2018	Selected as one of the top 50 companies with brand power in 2017	Interbrand

## Management System Certification in 2017

Category	ISO 14001	ISO 9001	OHSAS 18001	HACCP	KS	Green Company
LG H&H	Cheongju · Ulsan · Onsan · Beijing · Vietnam	Cheongju · Ulsan · Onsan · Naju · Beijing · Vietnam	Cheongju · Ulsan · Beijing	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 · Iksan	Cheonan · Pyeongchang · Cheorwon · Iksan	Cheonan · Iksan	N/A	Cheonan



## GRI Index

### GRI Standards Index (Core Option)

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	203-1	Infrastructure investments and services supported	51-55		●
	203-2	Significant indirect economic impacts	28-37		●
Energy	MA		56		●
	302-1	Energy consumption within the organization	58-59, 90		●
	302-2	Energy consumption outside of the organization	58-59, 90		●
	302-3	Energy intensity	58, 90		●
	302-4	Reduction of energy consumption	58, 90		●
Water	MA		56		●
	303-1	Water withdrawal by source	59-60, 91		●
	303-2	Water sources significantly affected by withdrawal of water	59-60, 91		●
	303-3	Water recycled and reused	59-60, 90-91		●
Emissions	MA		56		●
	305-1	Direct (Scope 1) GHG emissions	100-102		●
	305-2	Energy indirect (Scope 2) GHG emissions	100-102		●
	305-3	Other indirect (Scope 3) GHG emissions	100-102		●
	305-4	GHG emissions intensity	59, 90		●
	305-5	Reduction of GHG emissions	58-59, 90		●
Effluents and Waste	MA		56		●
	306-1	Water discharge by quality and destination	90		●
	306-2	Waste by type and disposal method	91		●

Topic-Specific Standards					
Topic	Index	Indicators	Page	Remarks	Independent Assurance
Employment	MA		44		●
	401-1	New employee hires and employee turnover	93		●
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	45-47		●
	401-3	Parental leave	92		●
Occupational Health and Safety	MA		56		●
	403-1	Workers representation in formal joint management-worker health and safety committees	93		●
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	57, 93		●
	403-3	Workers with high incidence or high risk of diseases related to their occupation	61-62		●
Customer Health and Safety	403-4	Health and safety topics covered in formal agreements with trade unions	57, 61-62		●
	MA		20		●
416-1	Assessment of the health and safety impacts of product and service categories	21-27		●	
Other Standards					
Topic	Index	Indicators	Page	Remarks	
Strategy	102-15	Key impacts, risks, and opportunities	2-3		
Ethics and Integrity	102-17	Mechanisms for advice and concerns about ethics	78-79, 103-105		
Governance	102-22	Composition of the highest governance body and its committees	72-73		
	102-23	Chair of the highest governance body	72-73		
	102-24	Nominating and selecting the highest governance body	72-73		
	102-25	Conflicts of interest	72-73		
	102-26	Role of highest governance body in setting purpose, values, and strategy	72-73		
	102-27	Collective knowledge of highest governance body	72-73		
	102-28	Evaluating the highest governance body's performance	72-73		
	102-29	Identifying and managing economic, environmental, and social impacts	72-73, 106		
	102-30	Effectiveness of risk management processes	74-77		
	102-31	Review of economic, environmental, and social topics	74-77, 80-81		
	102-32	Highest governance body's role in sustainability reporting	73, 82		
	102-34	Nature and total number of critical concerns	82-85		
	102-35	Remuneration policies	72		
	102-36	Process for determining remuneration	72		
Economic Performance	201-2	Financial implications and other risks and opportunities due to climate change	56, 59		
	201-4	Financial assistance received from government			N/A
Market Presence	202-2	Proportion of senior management hired from the local community			93% (392/422persons)
Procurement Practices	204-1	Proportion of spending on local suppliers	94		
Anti-corruption	205-1	Operations assessed for risks related to corruption	74-79		
	205-2	Communication and training about anti-corruption policies and procedures	74-79		
	205-3	Confirmed incidents of corruption and actions taken	74-79		
Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	74-79		
Materials	301-3	Reclaimed products and their packaging materials	32-33, 91		
	306-3	Significant spills			No significant spills
Environmental Compliance	307-1	Non-compliance with environmental laws and regulations			No Significant Incidents
Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	68		
	308-2	Negative environmental impacts in the supply chain and actions taken	68		
Labor/Management Relations	402-1	Minimum notice periods regarding operational changes	47		
Training and Education	404-1	Average hours of training per year per employee	92		
	404-2	Programs for upgrading employee skills and transition assistance programs	46-47		
	404-3	Percentage of employees receiving regular performance and career development reviews	47		
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	92		
	405-2	Ratio of basic salary and remuneration of women to men			No difference in basic salary by gender
Non-discrimination	406-1	Incidents of discrimination and corrective actions taken			No such incidents
Freedom of Association and Collective Bargaining	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	47		
Human Rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	47		
Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	52-54		
	413-2	Operations with significant actual and potential negative impacts on local communities			N/A
Supplier Social Assessment	414-1	New suppliers that were screened using social criteria	68		
Customer Health and Safety Marketing and Labeling	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services			No Significant Incidents
	417-2	Incidents of non-compliance concerning product and service information and labeling			No Significant Incidents
	417-3	Incidents of non-compliance concerning marketing communications			No Significant Incidents
Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data			No complaints or breaches
Socioeconomic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area			No Significant Incidents

## UNGC & 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.

Aspects	Contents	LG H&H system and policy	Relevant activity	Page
<b>Human rights</b>				
Principle 1.	Businesses should support and respect the protection of internationally proclaimed human rights.	<b>Code of Ethics</b> Chapter 1. Responsibilities and Duties for Customers 1. Respecting Customers	LG H&H prohibits gender/background discrimination, forced labor, etc., and respects human rights of individual employees.	78-79
Principle 2.	Businesses make sure that they are not complicit in human rights abuse.	Chapter 5. Responsibilities for Executives and Employees 2. Fair Treatment		44-47
<b>Labor rules</b>				
Principle 3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	<b>Knowhow for Operating the Labor management Council Code of Ethics</b> Chapter 5. Responsibilities for Executives and Employees 1. Respecting Human Beings 2. Fair Treatment	LG H&H continuously makes extensive efforts to train employees into autonomous and creative talented people.	44-47, 103
Principle 4.	Businesses should eliminate all forms of forced and compulsory labor.			
Principle 5.	Businesses should abolish child labor effectively.			
Principle 6.	Businesses should eliminate discrimination in respect of employment and occupation.			
<b>Environment</b>				
Principle 7.	Businesses should support a precautionary approach to environmental challenges.	<b>Code of Ethics</b> Chapter 6. Responsibilities for the Country and Society 4. Environmental Protection · Policy on Environmental Health and Safety · Regulations on Environmental Management	LG H&H continues to carry out activities enhancing environmental value by considering environmental impacts on the supply chain by business activities.	56-63
Principle 8.	Businesses should undertake initiatives to promote greater environmental responsibility.			
Principle 9.	Businesses encourage the development and diffusion of environmentally friendly technologies.			
<b>Anti-corruption</b>				
Principle 10.	Businesses should work against corruption in all its forms, including extortion and bribery.	<b>Code of Ethics</b> 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.	72-79

### 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	●	●	58-59
	Water management	●	●	59-60
Social	Health and nutrients	●	●	20-27, 48-49
	Transparent labeling and marketing	●	●	48-49, 78-79
Business Model	Management and innovation of packaging cycle	●	●	20-27
	Product composition safety		●	20-27
	Management of supply chain	●	●	68
Governance	Business Ethics		●	78-79

\*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

### To the Readers of 2017 LG H&H CSR Report:

#### Foreword

Korea Management Registrar Inc.(hereinafter “KMR”) has been requested by of LG Household & Health Care Ltd. (hereinafter “LG H&H”) to verify the contents of its 2017 CSR Report (hereinafter “the Report”). LG H&H is responsible for the collection and presentation of information included in the Report. KMR’s responsibility is to carry out assurance engagement on specific data and information in the assurance scope stipulated below.

#### Scope and standard

LG H&H describes its efforts and achievements of the corporate social responsibility activities in the Report. KMR performed a Type 2, moderate level of assurance using AA1000AS (2008) as an assurance standard. KMR’s assurance team(hereinafter “the team”) evaluated the adherence to Principles of Inclusivity, Materiality and Responsiveness, and the reliability of the selected GRI Standards indices as below, where professional judgment of the team was exercised as materiality criteria.

- GRI Reporting Principles
- Universal Standards
- Topic Specific Standards
  - Management approach of Topic Specific Standards
  - Economic Performance: 201-1, 201-2, 201-4
  - Market Presence: 202-2
  - Indirect Economic Impacts: 203-1, 203-2
  - Procurement Practices: 204-1
  - Anti-Corruption: 205-1, 205-2, 205-3
  - Anti-Competitive Behavior: 206-1
  - Materials: 301-3
  - Energy: 302-1, 302-2, 302-3, 302-4
  - Water: 303-1, 303-2, 303-3
  - Emissions: 305-1, 305-2, 305-3, 305-4, 305-5
  - Effluents and Waste: 306-1, 306-2
  - Environmental Compliance: 307-1
  - Supplier Environmental Assessment: 308-1, 308-2
  - Employment: 401-1, 401-2, 401-3
  - Labor/Management Relations: 402-1
  - Occupational Health and Safety: 403-1, 403-2, 403-3, 403-4
  - Training and Education: 404-1, 404-2, 404-3
  - Diversity and Equal Opportunity: 405-1, 405-2
  - Non-Discrimination: 406-1
  - Freedom of Association and Collective Bargaining: 407-1
  - Human Rights Assessment: 412-1
  - Local Communities: 413-1, 413-2
  - Supplier Social Assessment: 414-1
  - Customer Health and Safety: 416-1, 416-2
  - Marketing and Labeling: 417-2, 417-3
  - Customer Privacy: 418-1
  - Socioeconomic Compliance: 419-1

This Report excludes a data and information of joint corporate, contractor etc. which is outside of the organization, i.e. LG H&H, among report boundaries.

#### Our approach

In order to verify the contents of the Report within an agreed scope of assurance in accordance with the assurance standard, the team has carried out an assurance engagement as follows:

- Reviewed overall report
- Reviewed materiality test process and methodology
- Reviewed sustainability management strategies and targets
- Reviewed stakeholder engagement activities
- Interviewed people in charge of preparing the Report

### Our conclusion

Based on the results we have obtained from material reviews and interviews, we had several discussions with LG H&H on the revision of the Report. We reviewed the Report's final version in order to confirm that our recommendations for improvement and our revisions have been reflected. When reviewing the results of the assurance, the assurance team could not find any inappropriate contents in the Report to the compliance with the principles stipulated below. Nothing has come to our attention that causes us to believe that the data included in the verification scope are not presented appropriately.

- Inclusivity  
Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability  
- LG H&H is developing and maintaining stakeholder communication channels in various forms and levels in order to make a commitment to be responsible for the stakeholders. The assurance team could not find any critical stakeholder LG H&H left out during this procedure.
- Materiality  
Materiality is determining the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions, and performance of an organization or its stakeholders.  
- LG H&H is determining the materiality of issues found out through stakeholder communication channels through its own materiality evaluation process, and the assurance team could not find any critical issues left out in this process.
- Responsiveness  
Responsiveness is an organization's response to stakeholder issues that affect its sustainability performance and is realized through decisions, actions, and performance, as well as communication with stakeholders.  
- The assurance team could not find any evidence that LG H&H's counter measures to critical stakeholder issues were inappropriately recorded in the Report.

### Recommendation for improvement

We hope the Report is actively used as a communication tool for stakeholders and recommendation for improvements.

- LG H & H reports specific economic, social and environmental performance in order to maintain lasting relationship with stakeholders. In the future, increase the sustainability of the organization and expand the product range of safety and quality certification systems of supplier and social environment values. It is recommended that to upgrade the personal performance compensation system for sustainability performance to incorporate key performance indicators that are relevant to the situation.

### Our independence

With the exception of providing third party assurance services, KMR is not involved in any other LG H&H's business operations that are aimed at making profit in order to avoid any conflicts of interest and to maintain independence.



AA1000  
Licensed Assurance Provider  
000-129

*E. J. Hwang*

May, 15th, 2018  
CEO Eun Ju Hwang

## 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 2017 (“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. 2016-255 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 2018 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3. 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 CO<sub>2</sub> 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 2017 were confirmed as below;

(Unit: ton CO<sub>2</sub> equivalent.)

LG Household & Health Care	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Subtotal	Other indirect emissions (Scope 3)	Total emissions
Year 2017	8,222	38,144	46,365	3,738	50,103

\*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  $\pm 1$  tCO<sub>2</sub>.

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



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

2nd May 2018  
Seoul, Korea

## 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 2017 ("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. 2016-255 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), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 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 2018 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3. 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 CO<sub>2</sub> 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 2017 were confirmed as below;

(Unit: ton CO<sub>2</sub> equivalent.)

Coca-Cola Beverage	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Subtotal (Scope 1&2)	Other indirect emissions (Scope 3)	Total emissions
Year 2017	23,224	23,100	46,324	398	46,721

\*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  $\pm 1$  tCO<sub>2</sub>.

\*\*Total emissions = Scope 1 + Scope 2 + Scope3 (include waste disposal)



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

2nd May 2018  
Seoul, Korea

This Assurance Statement is valid as of the date of the issuance (2nd May 2018). 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 2017 (“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 ‘Greenhouse Gas and Energy Target Management Scheme (Notification No. 2016-255 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), Energy indirect emissions (Scope 2 emissions) and other indirect emissions (Scope 3 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 2018 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3. 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 CO<sub>2</sub> 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 2017 were confirmed as below;

(Unit: ton CO<sub>2</sub> equivalent.)

HAITAI htb Co., Ltd.	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Subtotal	Other indirect emissions (Scope 3)	Total emissions
Year 2017	14,642	16,782	31,424	141	31,564

\*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  $\pm 1$  tCO<sub>2</sub>.

\*\*\*Total emissions = Scope 1 + Scope 2 + Scope3 (include waste disposal)



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

2nd May 2018  
Seoul, Korea

This Assurance Statement is valid as of the date of the issuance (2nd May 2018). Please note that this Assurance statement would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions of HAITAI htb Co., Ltd. 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.



## 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

<b>A. Prohibition of discrimination</b>	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>B. Humane treatment</b>	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.
<b>C. Prohibition of forced labor</b>	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.
<b>D. Child labor and protection of pregnant women</b>	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.
<b>E. Working hours</b>	Working hours and days shall not exceed hours permitted by laws and regulations.
<b>F. Wage and welfare</b>	All payments for suppliers shall comply with all labor-related legislations concerning minimum wage, overtime working hours and legal welfare.
<b>G. Freedom of association</b>	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

<b>A. Industrial safety</b>	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>B. Industrial hygiene</b>	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.
<b>C. Preparation for emergency</b>	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.
<b>D. Industrial accident and disease</b>	All suppliers shall establish the process to prevent, manage, track and report industrial accidents and occupational diseases.
<b>E. Hygiene, food, and housing</b>	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

<b>F. Physical labor</b>	authority for entry (security).  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.
<b>G. Safety maintenance of mechanical facilities</b>	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.

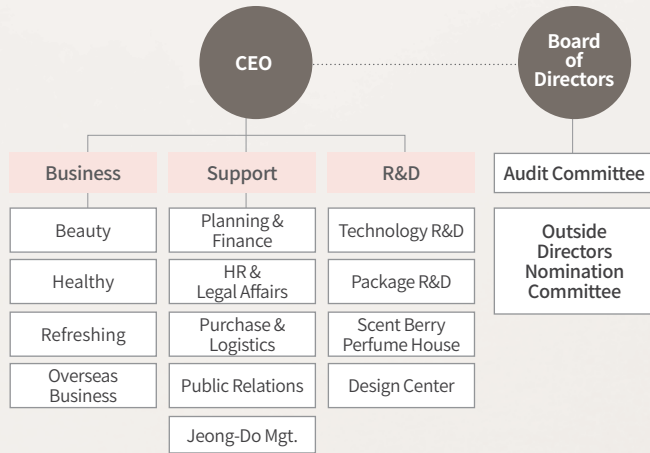
### 3. Environment

<b>A. Environmental licensing and reporting</b>	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>B. Hazardous substances</b>	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.
<b>C. Solid waste and effluent</b>	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.
<b>D. Air pollution</b>	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.
<b>E. Prevention of pollution and reduction of resource use</b>	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.
<b>F. Regulation on materials in products</b>	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.
<b>G. Effort to develop sustainable products</b>	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

<b>A. Jeong-Do Management</b>	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>B. Fair trade</b>	All suppliers shall prohibit any unfair trade and comply with the regulations on fair trade to protect consumers' rights and interests.
<b>C. Identity protection</b>	All suppliers shall develop and operate a program to ensure confidentiality of whistleblowers and guarantee their protection.
<b>D. Legal and ethical purchase of raw materials</b>	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.
<b>E. Protection of intellectual property rights</b>	All suppliers shall respect all intellectual property rights and protect the rights in case of transferring technical know-how. All information on LG H&H shall be protected safely.
<b>F. Protection of personal information</b>	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.
<b>G. Responsibilities of suppliers</b>	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.

**Organizational Chart**



**Committee**

CSR Committee	CCM Operation Committee
Compliance Committee	Investment Deliberation Committee
Green Product Review Committee	Subcontract Internal Deliberation Committee
Preventive Management Committee	Win-Win Growth Review Committee
Safety Ethics Committee	

**Major Domestic and Overseas Subsidiaries**

**Domestic** (Unit: %)

Domestic	Location (HQ)	Share	Domestic	Location (HQ)	Share
Coca-Cola Beverage	Yangsan, Korea	90	Zenisce	Chuncheon, Korea	70
THEFACESHOP	Seoul, Korea	100	Bright World	Cheongju, Korea	100
HAITAI htb	Seoul, Korea	100	OBM LAB	Daejeon, Korea	70
Hankook Beverage	Namwon, Korea	100	LG Farouk Co.	Seoul, Korea	50
CNP Cosmetics	Seoul, Korea	100	MiGenstory	Seoul, Korea	50
K&I	Seoul, Korea	60	Tai Guk Pharm Co., Ltd.	Buyeo, Chungcheongnam-do	78.3

**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 H&H HK LIMITED	Hong Kong, China	80
THEFACESHOP(SHANGHAI) CO., LTD	Shanghai, China	100
LG Household & Health Care (Taiwan) Ltd.	Taipei, Taiwan	100
LG VINA Cosmetics Company Limited	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
Toiletry Japan Inc.	Osaka, Japan	70
TFS Singapore Private Limited	Singapore	100
FRUITS & PASSION BOUTIQUES INC	Quebec, Canada	100
Questeam Sdn. Bhd.	Malaysia	100

**Domestic Business Sites**

<b>LG H&amp;H</b>	Headquarters in Seoul	<b>HAITAI htb</b>	Business site in Cheorwon
	Business site in Cheongju		Business site in Pyeongchang
	Technology R&D Institute in Daejeon		Business site in Cheonan
	Business site in Naju		Business site in Iksan
	Business site in Ulsan		<b>THEFACESHOP</b> Business site in Incheon
<b>Coca-Cola Beverage</b>	Business site in Onsan	<b>Zenisce</b>	Business site in Chuncheon
	Business site in Yeosu	<b>Hankook Beverage</b>	Business site in Namwon
	Business site in Gwangju	<b>Tai Guk Pharm Co., Ltd.</b>	Business site in Buyeo
	Business site in Yangsan		Business site in Hyangnam
			Business site in Gochang

# 2017 LG HOUSEHOLD & HEALTH CARE CSR REPORT

## Cover History



This report is printed with soy ink and printed on the paper made of materials from well-managed, FSC™-certified forests and other controlled sources.

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 **LG Household & Health Care**