

# **2018 TAEKWANG SUSTAINABILITY REPORT**

**6TH EDITION**





## ABOUT THIS REPORT

We are delighted to present this sixth sustainability report to our stakeholders. In preparation for this report, we conducted a materiality assessment and selected the top seven sustainability topics considered important for our company and key stakeholders. This report provides an in depth look at our sustainability experience and performance that run central to our material topics.

### REPORTING PRINCIPLE

GRI (Global Reporting Initiative) Standards, Core Option

#### ■ Reporting Period

January 2017 – June 2018

\*As of 2018, we are reporting our sustainability data on a calendar year basis.

This report contains additional data on the first half of 2018 for the latest updates on our performance

#### ■ Report Boundary

The scope includes our offshore factories in Vietnam (VT, VM), Indonesia (TT) and China (QT); with some data on our headquarters (T2)

#### ■ Reporting Cycle

Annual reporting

\*The previous report was published in August, 2017.

#### ■ Reporting Assurance

Independent third-party assurance by LRQA verification procedure

#### ■ Contact Information

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# 01 INTRODUCTION

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# LETTER FROM OUR PRESIDENT



JM KIM  
CEO/President

*Jae Min Kim*

*Dear TaeKwang stakeholders,*

As TaeKwang continues to grow as a global manufacturing company, our impact on the environment and society continues to expand as well. We are working to engage with various stakeholders to ensure that not only TaeKwang sustains this rapid growth, but that our customer, employees, environment, suppliers and local communities are also empowered. I am pleased to present our 6th Sustainability Report that highlights our efforts to move forward together on behalf of our employees across Korea, Vietnam, China and Indonesia.

**“OUR BUSINESS GROWTH IS RAPID, ALONG WITH RESPONSIBLE PRACTICES.”**

In the face of global economic instability and industrial transition, TaeKwang has achieved another year of record growth through capacity increase demand, innovative products, expanded manufacturing capabilities and superior quality and delivery performance. The fact that TaeKwang recorded 1.47 billion USD in revenue in 2017 and increased our revenue by 11% against the previous year, and produced 65 million pairs of shoes in 2017 serves as a case in point. The extraordinary point here is that we achieved all of the above while remaining deeply committed to ethical and responsible practices in working with our customer and suppliers. This enabled us to exceed business expectations and give back to the local community stakeholders,

**“OUR WORKFORCE IS EVOLVING FOR THE FUTURE, WHILE REMAINING TRUE TO THE BASICS.”**

TaeKwang’s employees are the foundation of our product creation and manufacturing and not only have we valued them as being on the forefront of our mission- we also make it a point to increase their influence by expanding our workforce. Programs such as Multi-Skill Trainings and the ‘Shoe Academy’ for our employees ensure that we expand cross-functional expertise and increase workforce agility. We also leveraged our experienced employees to help build our workforce at our new facility in Can Tho, Vietnam. We are sensitive to and strive towards ensuring basic human rights and workplace safety. To the degree our attention is focused on such matters, our employees are empowered by them.

**“MINIMAL ENVIRONMENTAL IMPACT”**

We are striving to minimize our environmental footprint while expanding our business by only using what we need, reusing what we’ve used and finding new ways to initially use less. More than 6,371 Kaizen initiatives to reduce environmental footprint in every step of the development and manufacturing process demonstrate a corporate-wide culture to innovate and sustain a clean environment. TaeKwang also aims to include our suppliers in this effort. Keeping in mind that we are part of a complex value chain, TaeKwang remains in open communication with its suppliers to close the loop and minimize its environmental impact throughout the entire lifecycle of the product.

In moving forward and in unity with our stakeholders and in preparing for our next steps, I am proud to say that our foundation for sustainable growth is strong, and our commitment is resolute. I truly thank each of our 79,766 employees for our achievements and believe we can all gain from this momentum to grow even further. We are determined to challenge ourselves both in our approach and our processes to raise the bar beyond what our stakeholders have come to know and expect.

*Thank you*

# TAEKWANG OVERVIEW

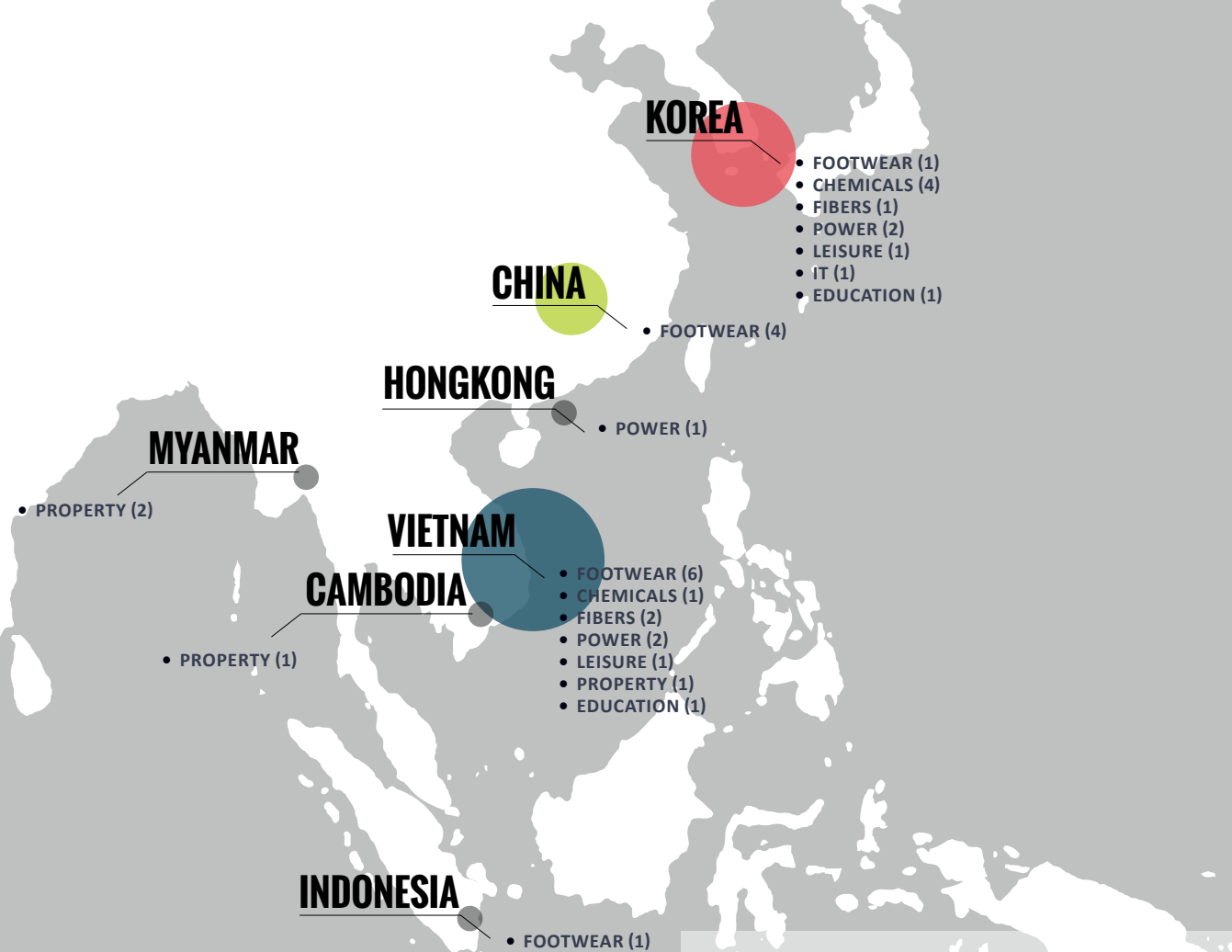
## TAEKWANG GROUP OVERVIEW

### OUR CORE BUSINESS

TaeKwang Group was founded on October 30, 1971. Over the last four decades, TaeKwang Group has grown into a global multi-business company, currently achieving excellence with the leadership of Chairman Park Yeon-Cha across six core business areas: footwear manufacturing, chemicals, fiber, power, leisure and IT. TaeKwang Group will continue to drive growth in its business with excellence in innovation and unparalleled talent.

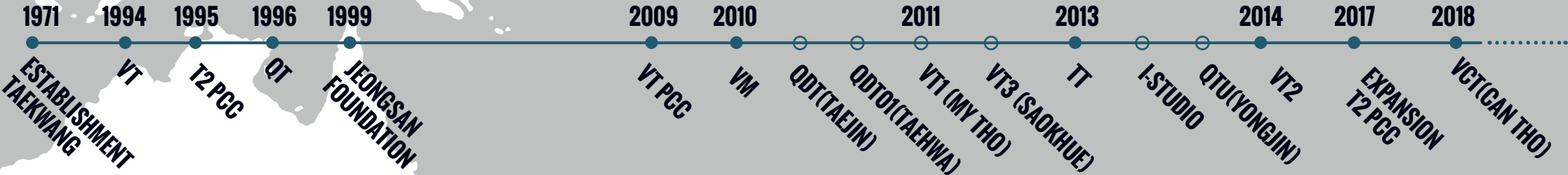
### GLOBAL NETWORK

TaeKwang Group is expanding its overseas markets through both localization and through the exploration of new markets. TaeKwang Group is currently running 34 business sites in seven countries.



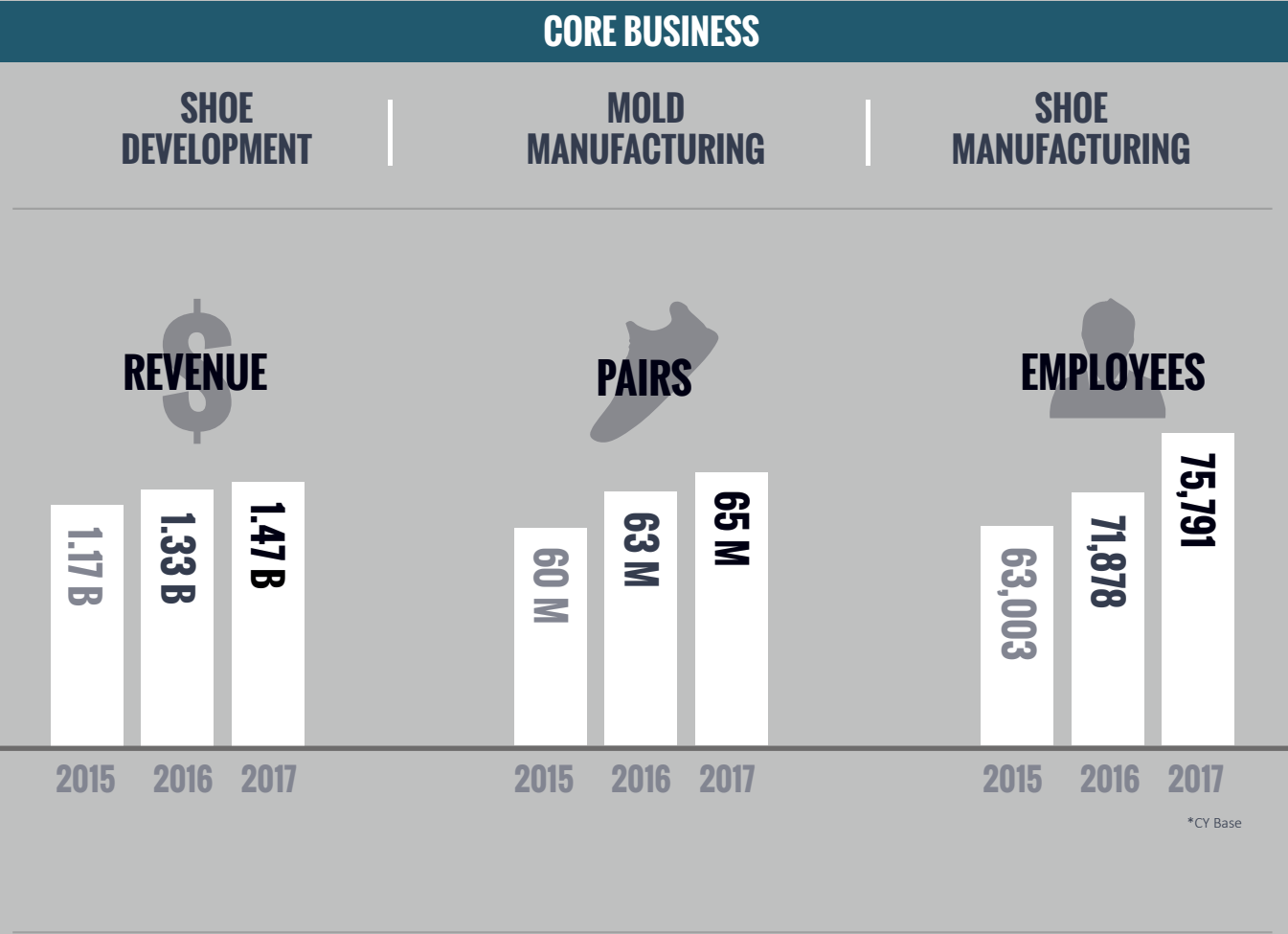
### < CORE BUSINESS ACTIVITY INDEX >

| SEGMENT   | KEY ACTIVITIES  |
|-----------|---|
| Footwear  | Development and Manufacturing of Shoes and Molds          |
| Chemicals | Precision chemical materials, Polybutene-1, Aspen Aerogel |
| Fibers    | Synthetic Fabric, PU Synthetic Leather, Seat Trim Cover   |
| Power     | Thermal Power Plant, Power Plant Operation & Maintenance  |
| Leisure   | Membership Golf Course                                    |
| IT        | Enterprise Resource Planning (ERP), SI, Computer Solution |
| Property  | Building works, Industrial complex construction           |
| Education | Scholarship foundation, Vocational Training school        |



## FOCUS ON TAEKWANG FOOTWEAR

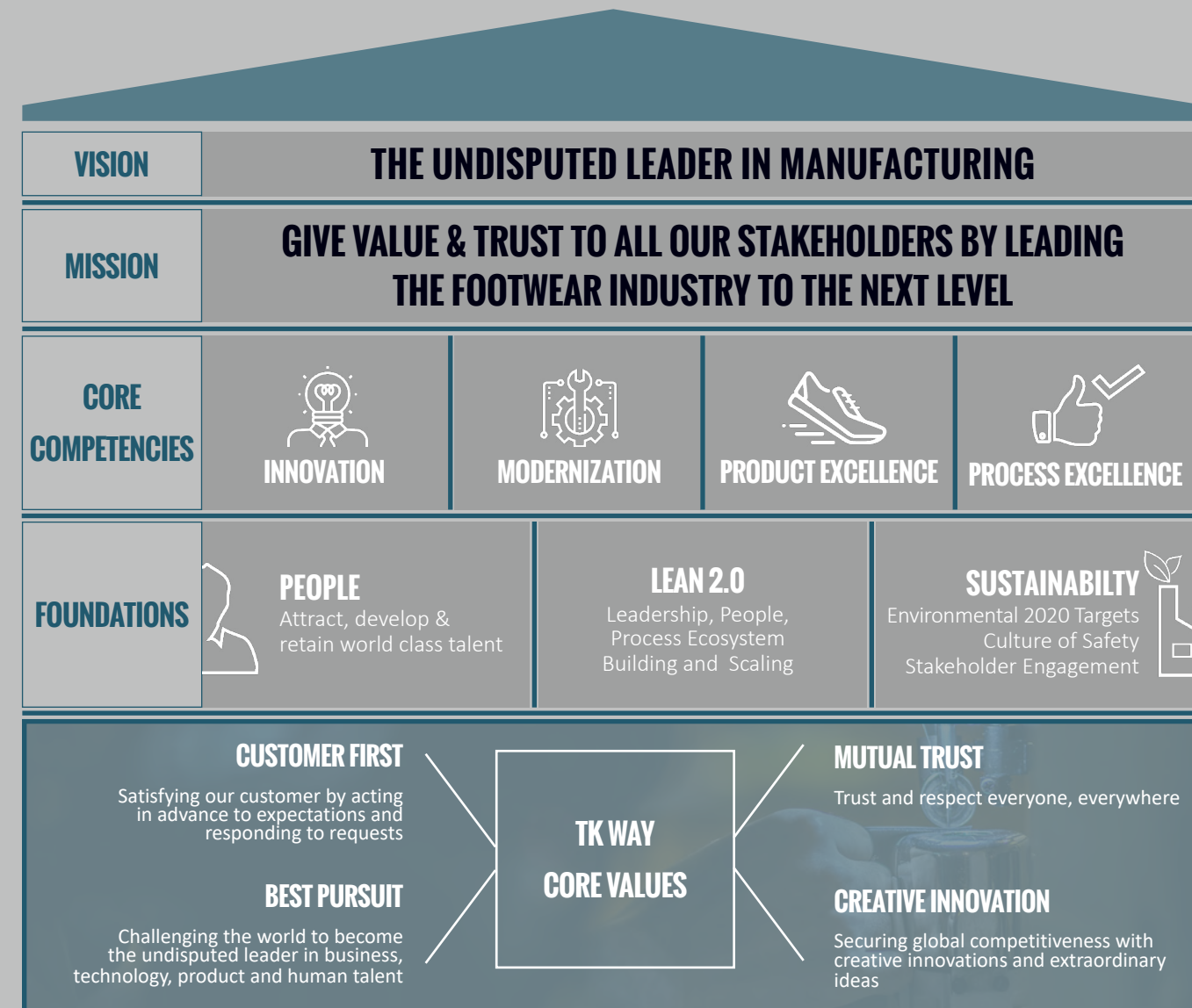
The footwear sector is the core component of the TaeKwang Group. As a footwear manufacturing company, TaeKwang Industrial Co., Ltd., was initially established under the name of Jung-il Industry in 1971. After 47 years of being in the footwear industry, TaeKwang has grown into a leading footwear developing and manufacturing company and a strategic partner of a global sports brand. TaeKwang will continue to strive to be the undisputed leader in global manufacturing grounded in innovative technology and superior quality.



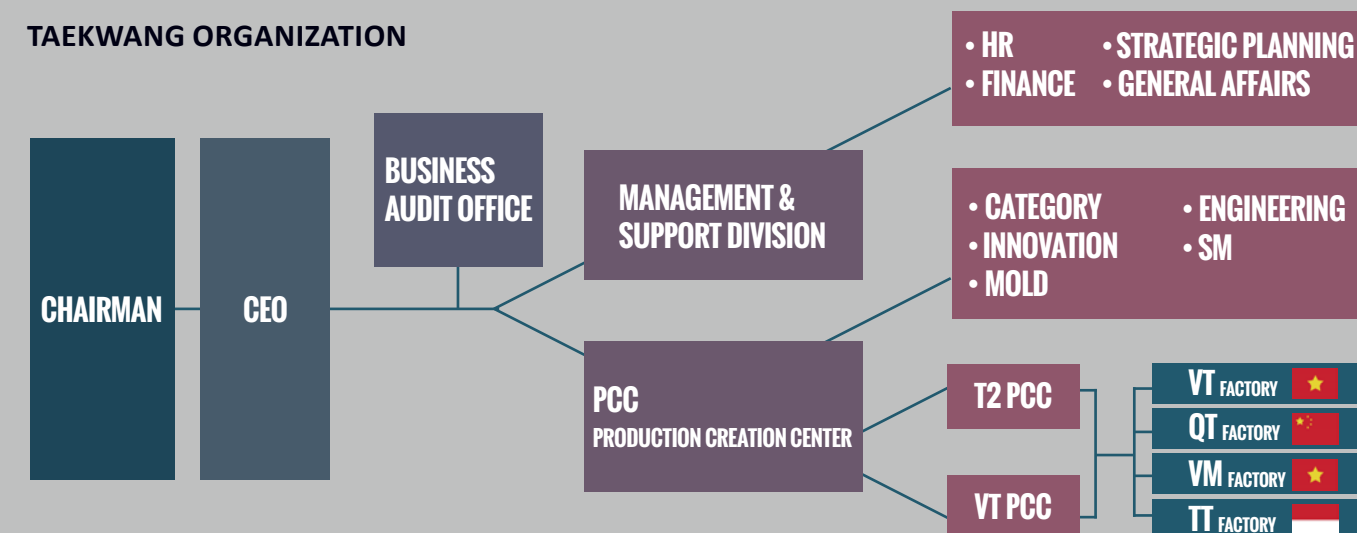
### < TAEKWANG FOOTPRINT >

# TAEKWANG OVERVIEW

## OUR BUSINESS STRATEGY

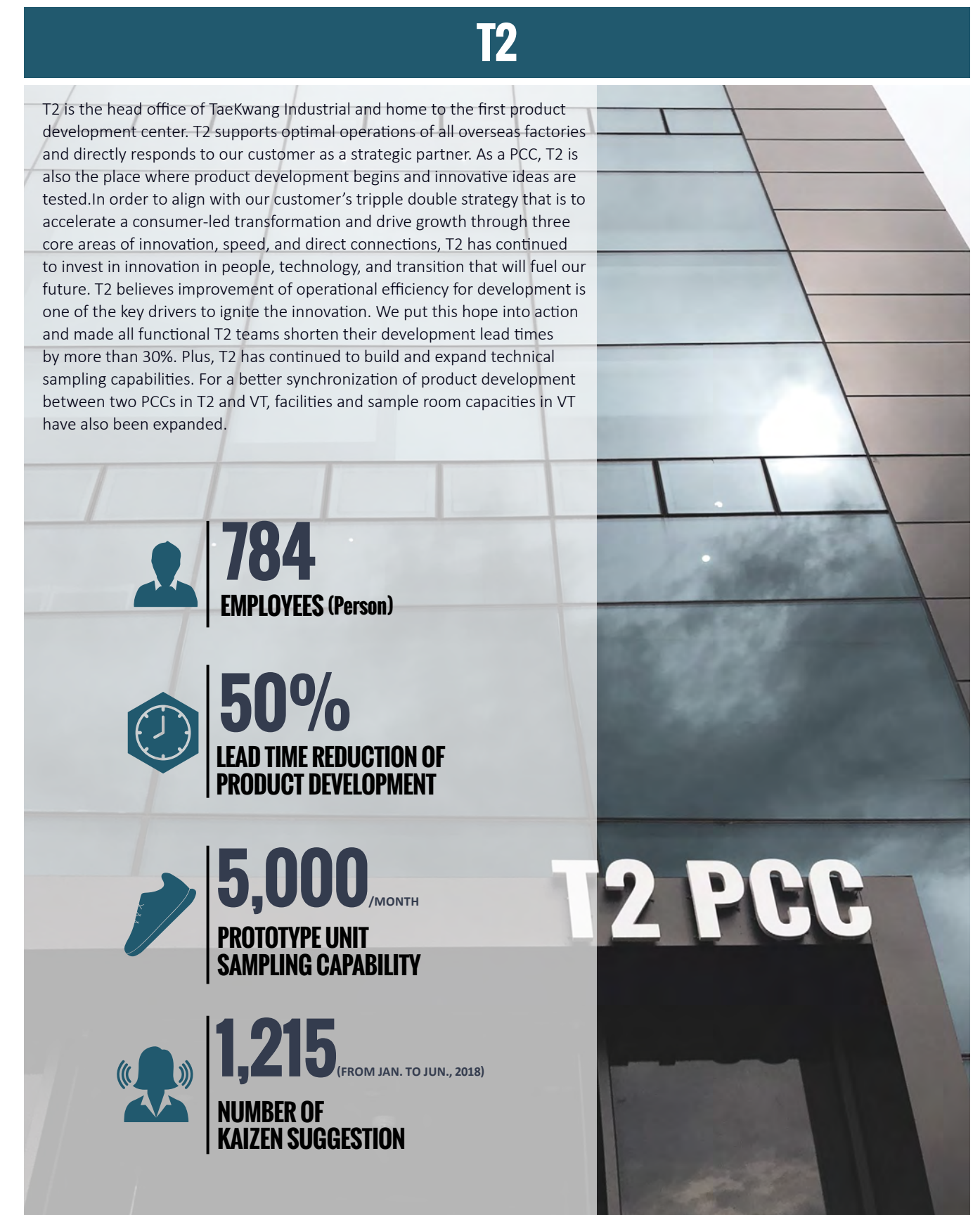


## TAEKWANG ORGANIZATION



# TAEKWANG OVERVIEW

## OUR GLOBAL BUSINESS SITES





# TAEKWANG OVERVIEW

## OUR GLOBAL BUSINESS SITES

VT

Located in Dong Nai, Vietnam, VT was established in July 1994 as our first offshore factory. For the past two decades, VT has acted as a trailblazer for manufacturing innovative products across a variety of product categories and increased its production capacity. As a result, VT is our largest factory, producing more than 50% of our overall production volumes and home to our second product development center. Backed by a new detached factory established in Can Tho, VT aims to lead its leader position in both product development and manufacturing.

EMPLOYEES (Person)

41,243

(AS OF JUNE 2018)

OUTPUT (Pairs)

17,137K

(FROM JAN. TO JUN., 2018)

| SUSTAINABILITY PERFORMANCE        |       |       |       |             |
|-----------------------------------|-------|-------|-------|-------------|
| Category                          | 2016  | 2017  | 2018  | 2020 TARGET |
| Energy use (kWh/pr)               | 4.33  | 3.96  | 3.98  | 3.81        |
| Waste (g/pr)                      | 226.9 | 222.4 | 222.4 | 205.3       |
| Water use (liter/pr)              | 24.8  | 21.3  | 20.7  | 20.7        |
| RIR                               | 0.76  | 0.47  | 0.39  | 0.38        |
| DART                              | 0.16  | 0.09  | 0.11  | 0.08        |
| Absenteeism rate (%)              | 0.05  | 1.31  | 3.01  |             |
| Turnover rate (%)                 | 1.27  | 1.71  | 2.34  |             |
| Organizational Culture Survey (%) | 70.1  | 77.5  |       |             |

7,876

NEW HIRES

1,445

FEMALE MANAGERS

759

LOCAL LEADERS

681

MULTI-SKILLED TEAM MEMBERS

TOP 15

TOP 15 THE MOST SUSTAINABLE COMPANIES IN VIETNAM IN 2016 AND 2017

QT

QT, established in 1996, is located in Lexi City, Qingdao, China. QT is positioned high-tech specialist among TaeKwang factories. Also, QT's sourcing is strategically executed to maximize the production efficiency based on automation and optimized process. Our multi-skilled workforce has gone through an elaborate training curriculum and their craftsmanship has been elevated through internal certification programs. In turn, the workers contribute to craft the best quality of shoes. From a sustainable manufacturing perspective, QT was named one of the best health and safety practice companies in Qingdao City and Shandong Province in 2018. And QT is proactive in recycling solid wastes. Its waste recycling rate has reached up to 85%.

EMPLOYEES (Person)

6,552

(AS OF JUNE 2018)

OUTPUT (Pairs)

4,055K

(FROM JAN. TO JUN., 2018)

| SUSTAINABILITY PERFORMANCE        |       |       |       |             |
|-----------------------------------|-------|-------|-------|-------------|
| Category                          | 2016  | 2017  | 2018  | 2020 TARGET |
| Energy use (kWh/pr)               | 5.59  | 5.33  | 5.76  | 4.82        |
| Waste (g/pr)                      | 153.8 | 147.7 | 133.9 | 135.4       |
| Water use (liter/pr)              | 35.9  | 23.0  | 22.0  | 19.7        |
| RIR                               | 0.28  | 0.25  | 0.57  | 0.38        |
| DART                              | 0.23  | 0.23  | 0.57  | 0.38        |
| Absenteeism (%)                   | 0.59  | 0.44  | 0.50  |             |
| Turnover rate (%)                 | 0.83  | 0.87  | 0.60  |             |
| Organizational Culture Survey (%) | 62.9  | 68.2  |       |             |

272

CRAFTSMANSHIP CERTIFIED

MODERNIZATION CENTER

EXCELLENT COMPANY ON HEALTH AND SAFETY MANAGEMENT

BEST PRACTICE COMPANY IN BEYOND COMPLIANCE OF WASTEWATER STANDARDS



# TAEKWANG OVERVIEW

## OUR GLOBAL BUSINESS SITES

VM

VM started operations in 2009. VM is located in Tay Ninh, Vietnam. From the beginning, VM has been equipped with greener facilities with LEED certified main building, sunlight roof, gardening and recycled restroom water. VM also did its utmost to on fire safety in the workplace. Our annual mandatory attendance fire drills have been acknowledged by local authority and VM built its reputation with the five consecutive years of fire safety records in the region. VM faces several challenges; in particular, talent acquisition and recruiting are the chronic issues. VM's geographical condition that neighbors the Cambodian border where the majority of the local people are farmers, VM has limited sources of workforce. However, these circumstances will be eased by VM's investment in workforce training.

EMPLOYEES (Person)

14,629

(AS OF JUNE 2018)

OUTPUT (Pairs)

7,261K

(FROM JAN. TO JUN.,2018)

| SUSTAINABILITY PERFORMANCE        |       |       |       |             |
|-----------------------------------|-------|-------|-------|-------------|
| Category                          | 2016  | 2017  | 2018  | 2020 TARGET |
| Energy use (kWh/pr)               | 3.90  | 3.72  | 3.52  | 3.40        |
| Waste (g/pr)                      | 242.1 | 229.4 | 193.7 | 215.5       |
| Water use (liter/pr)              | 23.6  | 24.3  | 22.9  | 21.4        |
| RIR                               | 0.43  | 0.35  | 0.27  | 0.26        |
| DART                              | 0.26  | 0.14  | 0.11  | 0.11        |
| Absenteeism (%)                   | 0.47  | 0.29  | 0.34  |             |
| Turnover rate (%)                 | 1.34  | 1.48  | 1.52  |             |
| Organizational Culture Survey (%) | 70    | 78.5  |       |             |

79%

WATER REUSE RATE

LEED GREEN BUILDING CERTIFICATION

EXCELLENT FIRE FIGHTING MANAGEMENT COMPANY IN TAY NINH

THE BEST EFFICIENT USE OF ENERGY COMPANY IN TAY NINH

TT

Located in Subang, Indonesia, TT began full operations in 2014. Although TT is new to this environment, it is the fastest growing factory in Taekwang. As the biggest enterprise in Subang, TT attracts local people. With comprehensive onboarding program that covers manufacturing to sustainability with a training ; TT provides an excellent departure point for newcomers as well as incumbents. Excellent employee benefits to its employees and philanthropic activities in the region have made TT as a proud company to its employees and its communities.

EMPLOYEES (Person)

16,489

(AS OF JUNE 2018)

OUTPUT (Pairs)

6,095K

(FROM JAN. TO JUN.,2018)

| SUSTAINABILITY PERFORMANCE        |       |       |       |             |
|-----------------------------------|-------|-------|-------|-------------|
| Category                          | 2016  | 2017  | 2018  | 2020 TARGET |
| Energy use (kWh/pr)               | 3.12  | 3.68  | 3.85  | 3.77        |
| Waste (g/pr)                      | 151.6 | 164.6 | 203.6 | 194.1       |
| Water use (liter/pr)              | 25.6  | 22.7  | 21.7  | 20.2        |
| RIR                               | 0.48  | 0.28  | 0.11  | 0.12        |
| DART                              | 0.13  | 0.10  | 0.04  | 0.04        |
| Absenteeism (%)                   | 1.9   | 1.39  | 0.94  |             |
| Turnover rate (%)                 | 1.53  | 1.17  | 0.97  |             |
| Organizational Culture Survey (%) | 68.9  | 68.2  |       |             |

43%

INCREASE IN ENTIRE WORKFORCE

280%

INCREASE IN NEW HIRE

114

SCHOLARSHIP BENEFICIARIES IN SUBANG

CORE TALENT TRAINING OPPORTUNITIES



# CORPORATE GOVERNANCE

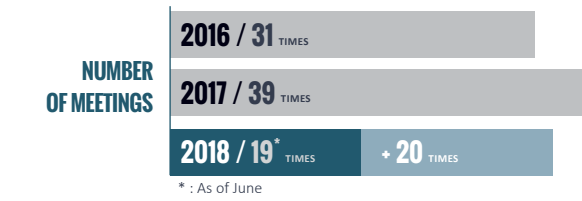
“Corporate governance at TaeKwang is founded on transparent and effective management so that our stakeholders can rely on our business operations. Our internal decision-making process builds sustainable business and enables the company to create long-term value.”

## ADMINISTRATIVE LEADERSHIP MEETING

As sustainability is integrated into each step of TaeKwang’s business operations, sustainability issues are discussed at the leadership level through weekly Key Leadership Meetings. The comprehensive meeting agenda demonstrates that sustainability is integral and connected to all key business factors.

The Key Leadership Meetings were held 39 times in 2017, and an average 90% of key leadership figures attended. These meetings aimed to reinforce and further enhance the foundations already established regarding key values, including process innovation and workforce development. For example, while workplace safety has been and remains to be TaeKwang’s top priority, safety work processes were standardized to ensure on-site performance across all factories. Our leadership continues to discover sustainability issues that are relevant to our changing business and reflects them in meeting agendas accordingly.

### <Administrative Leadership Meeting Performance>



### < 2017-2018 Key Leadership Meeting Agenda >

| Relevant Stakeholder | Agenda  |
|----------------------|---|
| Customer             | <ul style="list-style-type: none"><li>Quality guarantee</li><li>Process innovation</li></ul>  |
| Enviroment           | <ul style="list-style-type: none"><li>HSE performance assessment</li><li>Kaizen activities</li><li>Waste treatment and disposal</li></ul>   |
| Employee             | <ul style="list-style-type: none"><li>Safe machine</li><li>Labor compliance</li><li>Workforce development</li><li>Next-gen female leader coaching</li><li>Ethical management strategy</li></ul> |
| Supplier             | <ul style="list-style-type: none"><li>Optimal sourcing of materials</li><li>Material quality</li></ul>  |
| Local Community      | <ul style="list-style-type: none"><li>Corporate philanthropy</li></ul>  |

## BOARD OF DIRECTORS

The board of directors (BOD), TaeKwang’s highest decision-making body, consists of five directors. The BOD holds authority over major management issues, such as governance, investment and planning, accounting and finance. They also monitor and provide guidance on business operations with significant impacts on corporate management. Currently, TaeKwang’s BOD does not include subcommittees.

| As of December 31, 2017     |        |                                     |                            |               |
|-----------------------------|--------|-------------------------------------|----------------------------|---------------|
| Name                        | Gender | Career                              | Service Year <sup>1)</sup> | Tenure Expire |
| Internal Directors          |        |                                     |                            |               |
| Park, Yeon Cha              | M      | BOD Chairman                        | 45                         | 2021.3.26     |
| Park, Ju Hwan               | M      | VP, Planning<br>TaeKwang Industrial | 8                          | 2020.9.23     |
| External Directors          |        |                                     |                            |               |
| Shin, Jung Hwa              | F      | CEO,<br>Yong-jin Industrial         | -                          | 2020.10.30    |
| Park, Sun Young             | F      | CEO,<br>Aerogel Korea               | 9                          | 2020.8.18     |
| Shin, Yong Woo<br>(Auditor) | M      | CEO,<br>Kyung-bu Construction       | -                          | 2020.03.27    |

1) : Service year at Taekwang

# ETHICAL BUSINESS

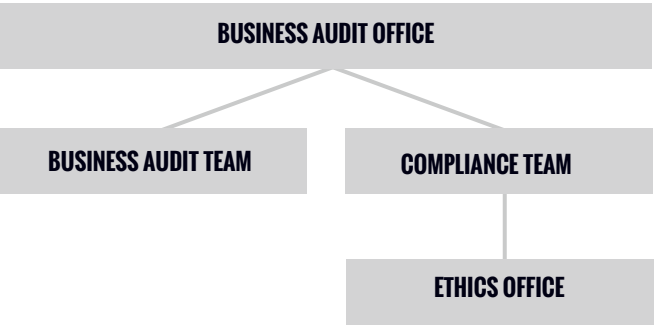
“Sustaining ethical business is the fundamental value of our company and the foremost promise to our stakeholders. From the moment we made this commitment to ethical business, we has remained committed to the highest ethical business standards.”

## COMMITTING TO ETHICAL BUSINESS

In 2005, we declared our commitment to “Realize a global corporate culture based on trust and cooperation.” Based on this vision for our ethical management, we have implemented a corporate code of ethics, charter and practical guidelines. At present, we are enforcing our grievance system and encouraging our employees to pursue active communication regarding ethics violations.

## REINFORCING ROLES AND RESPONSIBILITIES

This year, we began to operate a new team that fully takes charge of managing our compliance issues. Below is our renewed structure of the Business Audit Office. The Business Audit Office oversees ethical business of entire TaeKwang Group. The Ethics Office in T2 and each offshore factory promotes business ethics in their workplace and coordinated ethics training for their employees and suppliers.



The roles of the above teams are to help our employees and suppliers understand and comply with regulations; to monitor compliance risks on a regular basis; and therefore, to prevent any possible corruption within our company. Moreover, the personnel including our leadership members gather altogether at an Ethics Committee biannually to discuss the team’s management status and the risk factors regarding any possible violation in ethical boundaries. The discussion agenda in 2017 included an internal evaluation of our ethical management system, a suppliers’ survey on ethics and a standardizing penalty for violations.

## RESOLVING REPORTED INCIDENTS

### Learning from and Rectifying Mistakes

We implemented an online education program on ethics to reach all our employees at our offshore factories as well as our suppliers in 2017. The online contents included practical guidelines on ethics, violation cases and the Korean Anti-graft Law. Moreover, we have made a mobile website so that people can access the latest information on ethics anytime, anywhere. Through these initiatives, we have endeavored to enforce awareness about corruption and therefore prevent ethical risks in advance.

### Encouraging the Reporting of Incidents

Over the last year, we actively encouraged our employees to report on ethics violations via the reporting channels. Operating a confidential and anonymous system both offline and online, we tried to improve our system’s effectiveness. As a result, the total number of reported cases increased to two compared to zero case the previous year. Moreover, all the cases were resolved accordingly.

### Imposing a Penalty on Incidents

In 2017, two cases were reported at our offshore factories; one of which was confirmed as breach against the internal code of ethics. In the initial stages, we first carefully verified the facts of the reported incidents before calling upon the Disciplinary Committee. Upon a thorough in-depth investigation, the Committee decided to dismiss one of our managers at the offshore factory.

### Evaluating our Performances

In order to discover improvement areas in ethical management, we annually evaluate our performance in ethical leadership, management systems and employee and supplier engagement. In 2017, the average score from the evaluation across T2 and four offshore factories was 81.6 points out of 100 with decrease of 12%p against 2016. This decline came from lax business ethics training and socializing activities for suppliers and lack of proactive sharing of ethical business news throughout the internal corporate homepage. We will demand the applicable factory to improve upon their participation rate in ethics education and supplier engagement activities.



RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

In managing our risks, we actively engage with both our employees and external stakeholders through various channels. According to their feedback along with our business goals and strategies, we carry out an in-depth risk assessment and implement risk treatment measures. Our Strategy Team is in charge of the overall management system; and, each team that is closely related to our core risks participates in managing the risks. A manager from these teams reports on risks to our leadership members on a regular basis and takes charge of resolving the issue with the leadership's guidance.



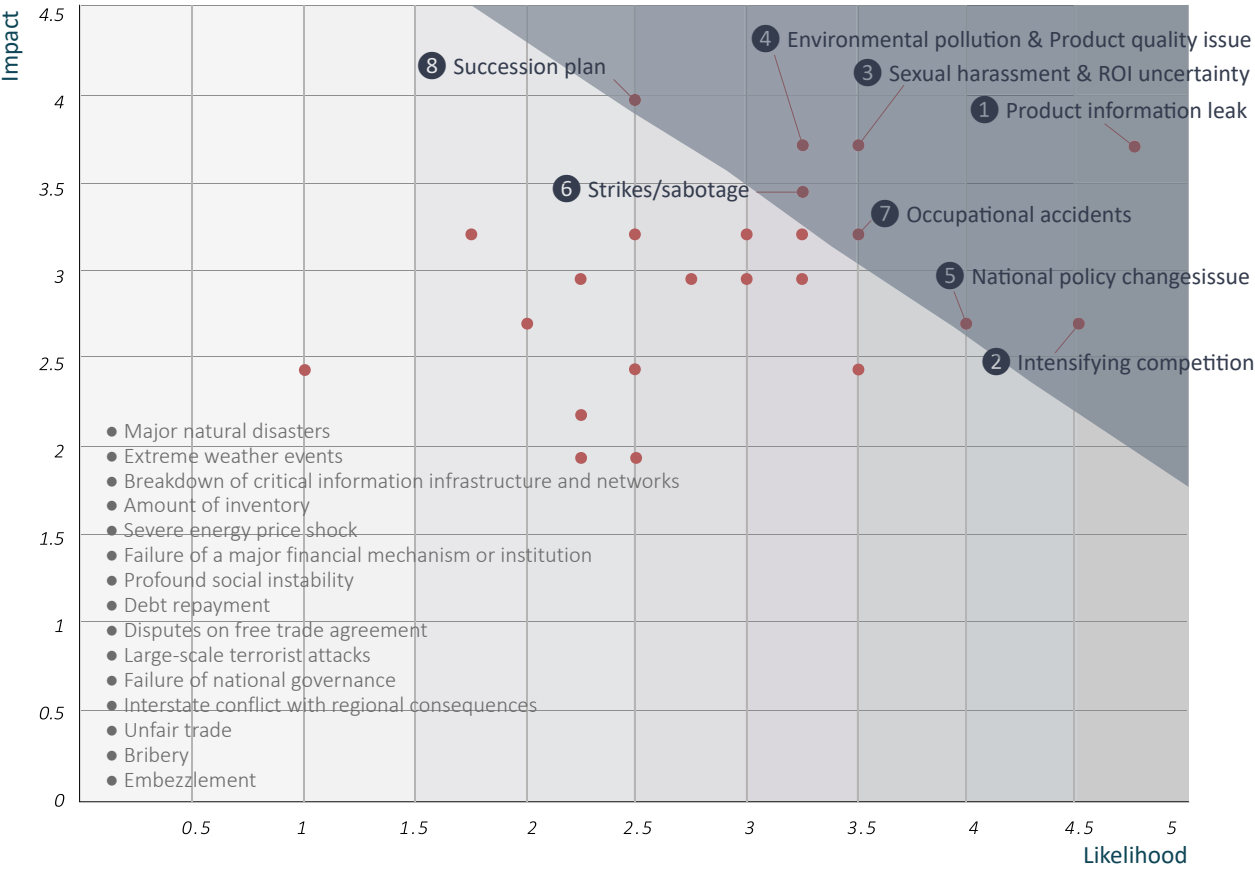
IDENTIFICATION AND ANALYSIS OF KEY RISKS

Based on our stakeholders' feedback and web research on global trends, we first drew a comprehensive list of 51 financial and non-financial risk factors. Upon our meeting with leadership in 2018, we narrowed the list to 29 risk factors that have high relevance to our business. These factors can be categorized into 9 types of risks which cover economic, social, and environmental topics.

| CATEGORY                    | RISK FACTORS   |
|-----------------------------|--|
| Market Risk                 | Intensifying competition   |
| Inventory risk              | Excess inventory, input shortage   |
| Financial risk              | Debt repayment, fiscal crises in key economies, deflation in a major economy, failure of a major financial mechanism or institution, severe energy price shock   |
| Labor and Management risk   | Succession plan, strikes/sabotage, labor conflict  |
| Illegal activity risk       | Unfair trade, embezzlement, bribery, sexual harassment   |
| Safety and Environment risk | Occupational accidents, environmental pollution, extreme weather events, major natural disasters   |
| Product risk                | Product quality issue, product information leak, breakdown of critical information infrastructure and networks   |
| R&D risk                    | ROI uncertainty  |
| Political risk              | Disputes on free trade agreement, enforcement of local regulations, policy changes, failure of national government, interstate conflict with regional consequences, large-scale terrorist attacks, profound social instability |

RISK IMPACT EVALUATION AND OUR RESPONSE

For risk impact evaluation, our leadership members evaluated the likelihood of each of 29 risk factors occurring at TaeKwang and the impact of how the occurrence of these factors would affect TaeKwang's business. This way, we can prioritize the use of our resources for preventing top risks. Through the Risk Impact Evaluation in 2018, we identified top 10 risks to be managed. In the following table, we introduce how we have responded to each of these risks in 2017-2018. Our leadership will continue to monitor and review on our performance and progress on managing these risks.



< Top 10 Risk Factors >

| RISKS                    | OUR RESPONSES FOR RISK AVERSION  |
|--------------------------|--|
| Product information leak | 'Product Security', see page 36-37   |
| Intensifying competition | 'Innovation on Progress and Technology', 34-35   |
| ROI uncertainty          | TaeKwang Industrial Securities Report <sup>1)</sup> 2017 on page 17 about R&D activities |
| Sexual harassment        | 'Human Rights in the Workplace', 50  |
| Product quality issue    | 'High-quality Products', 33  |
| Environmental pollution  | 'Our Environment', 38-47   |
| National policy changes  | Our Third story, 'Value Creation Process', 24-25   |
| Strikes/sabotage         | 'Our People', 50   |
| Occupational accidents   | 'Health and Safety Management', 54-55  |
| Succession plan          | 'Our People', 52   |

1): <http://dart.fss.or.kr/dsaf001/main.do?rcpNo=20180330002258>





02

# TOP BUSINESS STORIES ON VALUE CREATION

- 20 Value Creation Process
- 22 Sustainable Growth of Our People
- 23 Healthier and Happier Community with TaeKwang
- 24 Leverage Regulatory Stringency for a Sustainable Management





► **Total Equity:**  
\$ 659.3 M



► **R&D Investment:**  
\$ 57 M



► **Number of employees:**  
75,791



► **Buildings:**  
\$ 276 M

Basic inputs for realizing our six strategic pillars as well as our stakeholders' expectations vary from R&D investments to employee training costs.

(2017 Data)

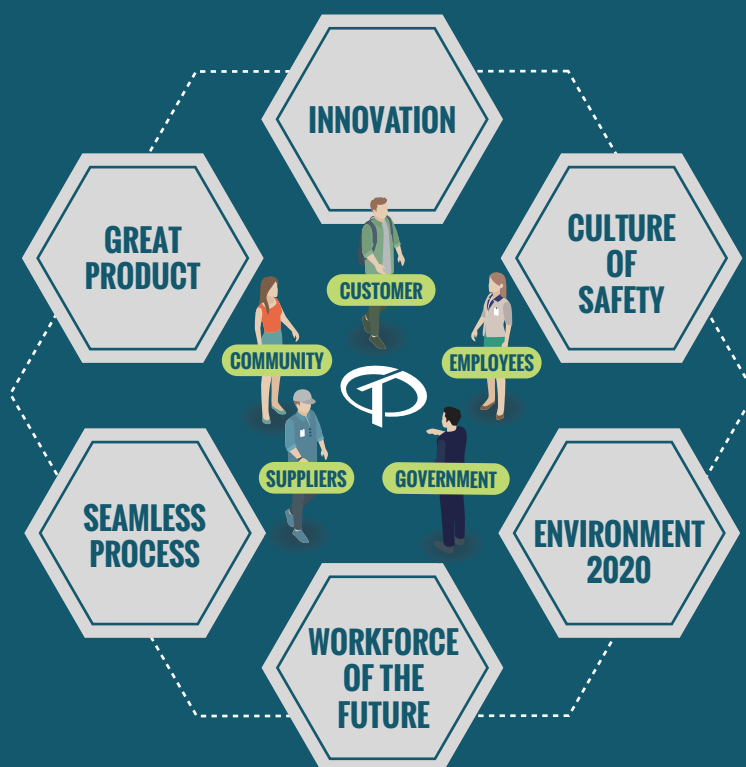
► **Total Liabilities:**  
\$ 1086.2 M

► **Employee training:**  
\$ 1 M

► **Machines:**  
\$ 376.7 M

► **Equipments:**  
\$ 65.6 M

► **Vehicles:**  
\$ 12.9 M



## 6 STRATEGIC PILLARS

- Innovation
- Great Product
- Seamless Process
- Workforce of the Future
- Environment 2020
- Culture of Safety

## STAKEHOLDERS EXPECTATION

- Customer
- Local Community
- Suppliers
- Government
- Employees



TAEKWANG SUSTAINABLE VALUE CREATION TO MAXIMIZE OUR STAKEHOLDER VALUE

# VALUE CREATION

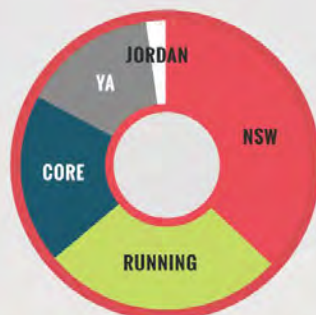


## PRODUCT DEVELOPMENT



We operate PCCs in Korea(T2) and Vietnam(VT) to develop new products under 5 categories. PCCs have developed more than 3,000 different styles of shoes in this year.

### ORDERS FROM CUSTOMER



Each year, we have increased the volume of received order from our customer. We have sustained our business relationship with our global brand for the last 21 years.

### MATERIAL PROCUREMENT



The Material Teams at T2 and offshore factories are in charge of material procurement. Based on Bill of Materials received from our customer, we make orders from our local vendors.

## PRODUCT MANUFACTURING



2

## OFFSHORE FACTORY CONTRIBUTION

We are managing the use of our resources in each manufacturing process to minimize waste, energy and wastewater. Moreover, we are trying to achieve zero accident in our workplaces.



### CUTTING ..... STITCHING ..... STOCKFITTING ..... ASSEMBLING



## COMMUNITY CONTRIBUTION

Starting with benefits for our employees, we are contributing to the sustainable growth of our local community in Korea, Vietnam, Indonesia and China.





# OUTPUT



- Increase in Revenue: 11%
- Recordable Injury Rate (RIR) and work losses (DART) Decreased for the last 3 years
- Number of Beneficiary: 56,000
- Energy Reduction: 1.5% ▼ (YoY)
- Water Reduction: 12% ▼ (YoY)
- Reclaimed / Recycled Water : 33%

# VALUE



## ECONOMY

- Production: 64.8 M pairs
- Revenue: \$ 1.47 B

## PEOPLE

- Employee Benefit: \$ 13.3 M
- Recordable Injury Rate (RIR): 0.40

## COMMUNITY

- Donation: \$ 12.4 M
- Tax: \$ 60 M

## ENVIRONMENT

- Total Solid Waste: 13,247,289 kg
- Total Energy Consumption: 259,840,935 kWh
- Total Water Consumption: 1,443,850,958 m<sup>3</sup>



# VALUE CREATION PROCESS

## OUR FIRST STORY: SUSTAINABLE GROWTH OF OUR PEOPLE

### GROWING AS NATIONAL ENTERPRISES WITH LOCAL HIRES



At TaeKwang, we hire locals as our key workforce and provide a variety of benefits and opportunities, not only to improve our business competitiveness but also to raise locals' standards of living. Reaching 79,766 local hires as of 2018, we have been growing into a 'national enterprise' at four different locations in Korea, China, Vietnam and Indonesia.

When we considering the financial value of salaries, benefits and other key employee investments, we understand the impact we have on the community in that it can reach up to 300,000 and we take not only our employees, but their families into consideration when making such instrumental decisions. For the employees in need, we provide extra financial support through our community fund programs and try to achieve mutual growth without leaving anyone behind. With the advent of career development opportunities, our employees are becoming empowered as true experts in their field; creating a positive impact that expands out into their community.

Since our Vietnamese operation started in 1994, the rate of our hiring has increased more than 10 times. Through past experience, we have learned that job creation is really less about mere financial increase and more about foraging a path to a bright, sustainable future vocation. Job creation is, therefore, our most basic responsibility for which we will continue to expand our business and find every opportunity to make sustainable working place.

**79,766** People

JOBS CREATED  
AS OF JUNE 2018

**17,100** People

NEW HIRES  
IN 2017

**13,130** People

NEW HIRES  
JAN - JUN 2018

**718,128** Hours

NEW EMPLOYEE ORIENTATION  
HOURS JAN - JUN 2018



## OUR SECOND STORY: HEALTHIER AND HAPPIER COMMUNITY WITH TAEKWANG

### OPENING THE GATE OF TAEKWANG VINA HOSPITAL TO LOCAL COMMUNITY IN VIETNAM



In October 2017, the prime minister of Vietnam, Nguyen Xuan Phuc made a visit to our VT factory with other government ministers. This unprecedented event, which was to congratulate our being nominated as Excellent Company for Outstanding Labor Relation, attracted great attention from the local media.

TaeKwang Vina hospital has played a significant role in receiving such remarkable recognition from the government of Vietnam. Established in 2013 to provide timely medical treatment for our employees, our in-house hospital in VT factory has covered service for a cumulative number of 550,000 patients over the past six years. The reason for this large number was due to a fact that we have opened our gate for local community members as well. Our medical service cost 20-30% lower than compared to local clinics had benefited a lot of patients both in and outside our company. Not only that, our hospital run by 58 medical specialists retain six areas of expertise including internal medicine and dental care, along with the most modern medical equipment. Thanks to this affordable and convenient system, 32,000 persons of VT employees are entitled to receive this benefit without needing to take days off or schedule routine medical exams.

Benchmarking our hospital in VT factory, we are planning to build another hospital at VM factory in Mocbai, Vietnam. Without any nearby hospital, our employees in the VM factory could not receive sufficient medical care. Aligned with the need of our employees for medical services, the new hospital will benefit more than 14,000 employees as well as other local community members.

**550,000**

PATIENTS  
BENEFITTED  
SINCE 2013

**\$ 320,000**

SOCIAL COST  
SAVED PER YEAR

**58**

NO. OF MEDICAL  
SPECIALISTS



# VALUE CREATION PROCESS

## OUR THIRD STORY: LEVERAGE REGULATORY STRINGENCY FOR A SUSTAINABLE MANAGEMENT

AWARDED AS AN EXCELLENT COMPANY  
BY CHINESE GOVERNMENT



Finding that severe levels of pollution are plaguing much of the country, China has dramatically strengthened the enforcement of its environmental regulations, along with its health and safety laws. In conducting a series of investigations in about 30 provinces, the government took an intolerant stance against businesses that violate the laws. In 2016, more than 80,000 factories have been shut down across the country.

In the midst of such a sweeping crackdown in China, QT factory in Qingdao successfully maintained operations by stringently complying with local laws. Perceiving the government enforcement as our priority risk factor earlier, we have incorporated our own management system both for environmental issues and for health and safety in workplace. Specifically, we have operated Sustainable Manufacturing Team that takes overall charge of HSE (Health, Safety and Environment) management and coordinates employee engagement initiatives in order to meet our 2020 Targets on HSE. We upgraded facilities for fire prevention and air treatment by investing more than USD 113,000 over the last year.

From such a vigilant response at beyond-compliance level, we were awarded as 'Excellent Company for Best Compliance Practices' in the areas of health and safety and wastewater management by the Chinese government in three consecutive years from 2015. Accordingly, our beyond compliance practices were selected as benchmarking models as benchmarking models that have successfully turned challenges into business opportunities.

### AWARD

EXCELLENT COMPANY  
ON HS MANAGEMENT  
SYSTEM

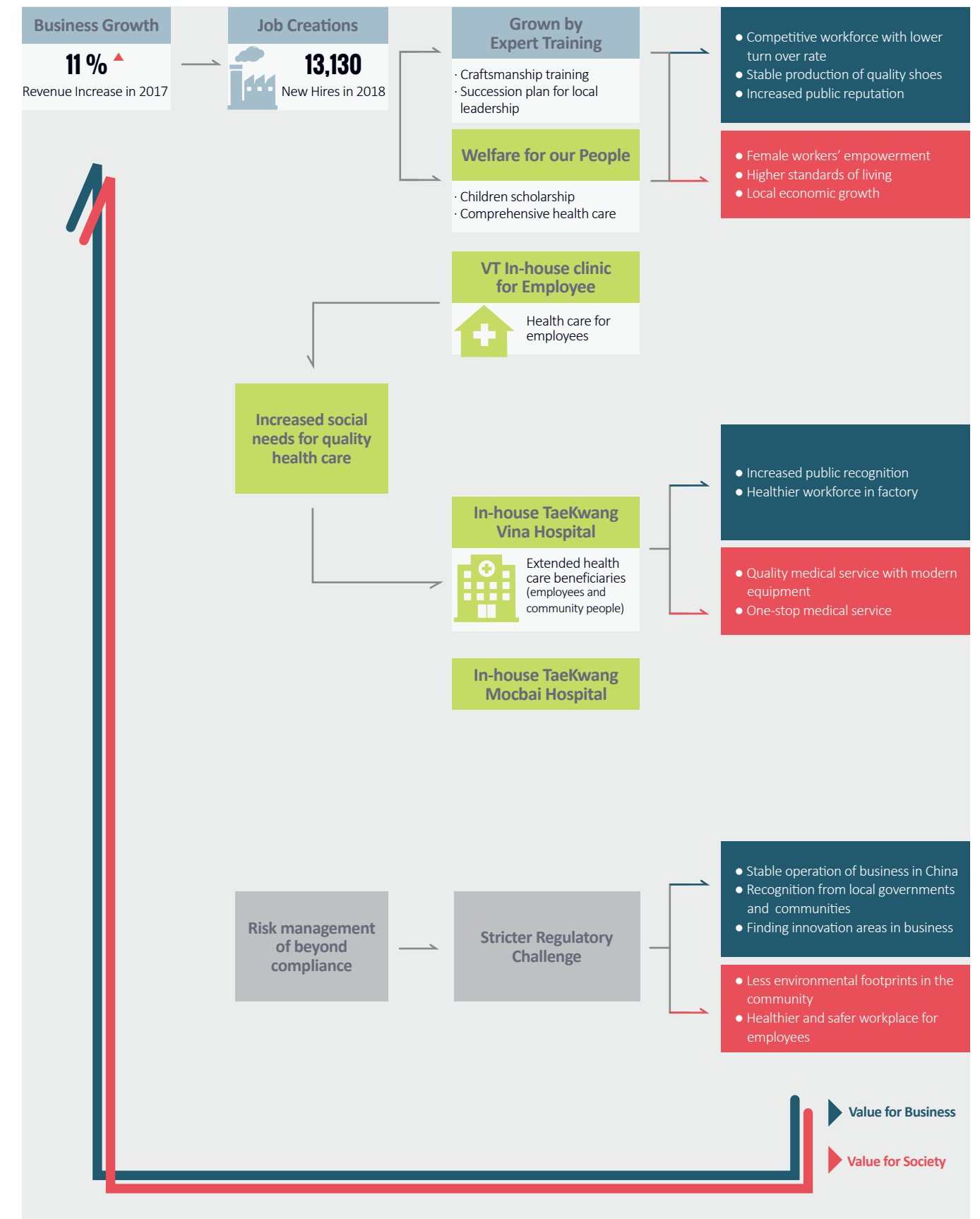
### AWARD

BEYOND COMPLIANCE  
OF WASTEWATER  
STANDARDS

### \$ 26,900

REWARD FROM THE  
CHINESE  
GOVERNMENT

HERE WE SUMMARIZED THE VALUE CREATION PROCESS OF TAEKWANG'S SUSTAINABILITY BUSINESS CASES.







03

## RESPONSE TO STAKEHOLDERS

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- 60 Our Local Community



MATERIALITY ASSESSMENT

We are happy to report on our growth and agility in adapting and fine-tuning our stakeholder relations and business environment. To gain an even more in-depth and insiders’ understanding of the issues and expectations of our stakeholders, we conducted a materiality assessment and deduced from it a set of instrumental material topics. These material topics form the contextual foundation for this report. Not only does it bring to light the beneficial impacts Taekwang has on the economy, environment and society, it also provides an honest and transparent hard look at what areas we could also make improvements in.

MATERIALITY ASSESSMENT PROCESS

| STEP 1: Developing Taekwang’s agenda of 22 topics  |  |  |   |  |
|--|--|--|---|--|
| <b>Media Analysis:</b><br>Derived keywords by analyzing 165 relevant media articles from January 1, 2017 to June 25, 2018. | <b>Benchmarking:</b><br>Identified significant industry-specific issues based on the sustainability reports of global sportswear companies | <b>International Standards:</b><br>Analyzed global initiatives (GRI Standards, ISO 26000, Sustainable Topics for Sectors in Textiles, Apparel, Footwear and Luxury Goods by GRI) | <b>External Initiatives:</b><br>Reflected customer requirements | <b>Previous Taekwang Materiality Assessment:</b><br>Reviewed 2017 materiality assessment results |

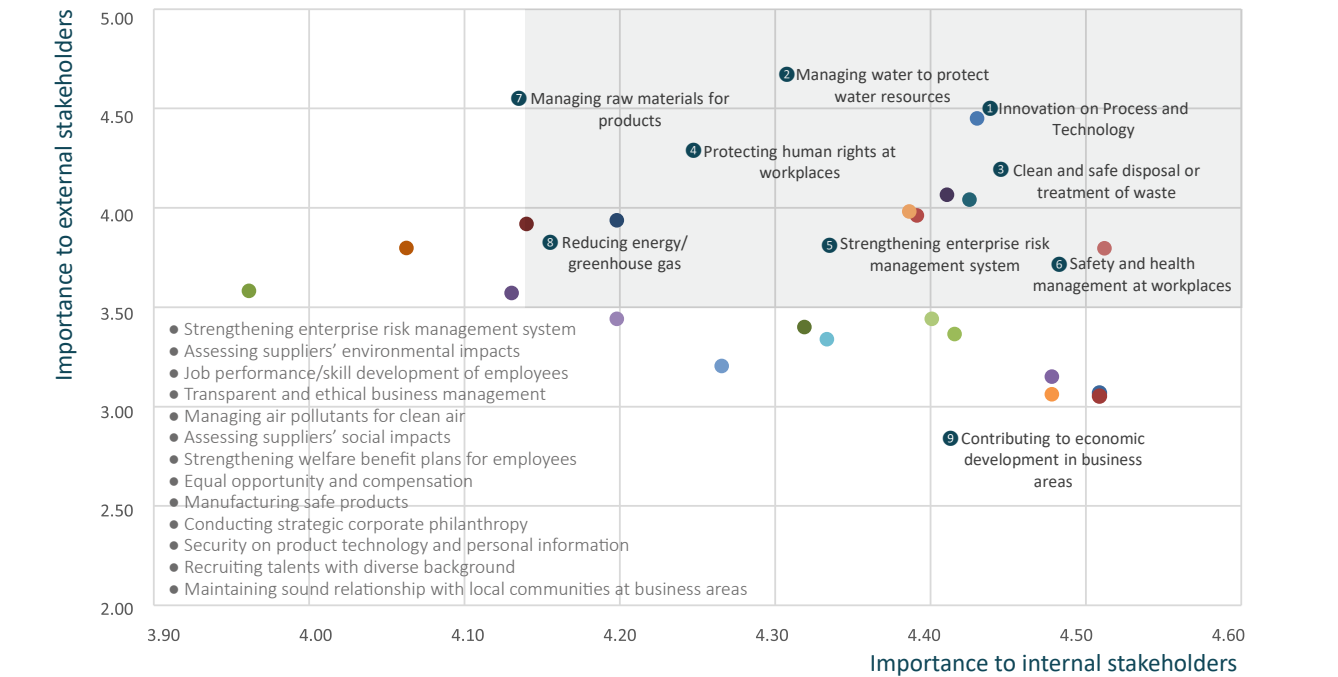
| STEP 2: Assessing significance of topics to our stakeholders  |                       |  |
|---|-----------------------|--|
| To evaluate the importance of business-client, environmental, employee and local community topics, 241 of Taekwang’s key stakeholders <sup>1)</sup> participated in an online survey from June 25th to 30th, 2018.  |                       |  |
| < Stakeholder type >  |                       |  |
| KEY   | STRATEGIC             | OTHER  |
| Leadership & Employees  | Customer<br>Suppliers | Government/ Media/ Institutions<br>Local community |
| <small>1) : We defined our key stakeholders by identifying their involvement in Taekwang based on their level of legal, financial and/or operational responsibilities. We also took into account their influence on our strategy and goal achievement and/or effects imposed by our services, products and business activities.</small> |                       |  |

| STEP 3: Identifying material topics for reporting   |
|---|
| The top eight topics were identified as ‘material’ for reporting from the pool of 22 topics. The materiality matrix on the following page illustrates that both the importance to internal stakeholders (x-axis) and the importance to external stakeholders, media analysis and benchmarking (y-axis) were considered. |

| STEP 4: Validating the final list of material topics for reporting   |
|--|
| Upon identifying the material topics, we implemented a validation process for confirming the final list of material topics. Considering our impact on local communities in foreign countries, we decided to tack on an additional issue: ‘Contributing to economic development in business areas’, which bring the total to nine reported material topics. |

MATERIALITY ASSESSMENT RESULTS

A total of nine topics have been identified as 'material'. These topics are mapped on the materiality matrix below based on the importance they have on internal and external stakeholders.



< Taekwang’s Material Topics and Their Boundaries >

| Rank | Material Issues  | Topic Boundary <sup>1)</sup>                     |                                   | Reporting Page |
|------|--|--|-----------------------------------|----------------|
|      |  | Impact Locations Within Taekwang                 | Impact Locations Outside Taekwang |                |
| 1    | Process and technology Innovation                        | • Product development                            | • Customer<br>• End consumers     | 34-35          |
| 2    | Water management/protection of water resources           | • Manufacturing products                         | • Local community<br>• Government | 45             |
| 3    | Clean and safe waste disposal or treatment               | • Manufacturing products<br>• Managing materials | • Local community<br>• Government | 42-44          |
| 4    | Protection of human rights in the workplace              | • All working processes                          | -                                 | 50             |
| 5    | Strengthened enterprise risk management system           | • All working processes                          | • Customer<br>• Local community   | 16-17          |
| 6    | Health and safety management in the workplace            | • Manufacturing products                         | -                                 | 54-55          |
| 7    | Management of raw materials used in products             | • Managing materials                             | • Customer<br>• Suppliers         | 58-59          |
| 8    | Reduction of energy/greenhouse gasses                    | • Manufacturing products                         | • Local community<br>• Government | 46-47          |
| 9    | Economic development in the business arena <sup>2)</sup> | • All working processes                          | • Local community<br>• Government | 63-65          |

1): According to GRI Standards, a topic boundary is a description of where the impacts occur for a material topic, and the organization’s involvement in those impacts.  
2): This topic is evaluated separately on its importance through our Step 4 validation process .



# OUR CUSTOMER

## OVERVIEW ON CUSTOMER ISSUES

### INTRODUCING OUR CUSTOMER

Our customer is a multinational corporation that designs and offers sporting goods worldwide. We bring the concepts of our customer's shoe design to life – literally transforming their ideas into tangible products through our development and manufacturing capacities. Our roles flex in tandem, creating synergy with our customers to make truly great products. Being a strategic partner as such, we are constantly enhancing our development and manufacturing capacity to boost our customer's growth and ultimately create a positive impact on the end users of our products.

### IDENTIFYING CUSTOMER ISSUES

Our customer has implemented Triple Double Strategy calling for us to double our performance in innovation, speed and consumer connection. As a strategic partner, we have aligned our business strategy and goals with our customer's long-term targets. To achieve mutual goals and deliver unparalleled products in the marketplace, we have been focusing on the following three key customer issues:

1. Innovation on manufacturing process and technology
2. Delivering high-quality products
3. Protecting product security

### COMMUNICATING WITH THE CUSTOMER

We work side by side with our customer at our headquarters and offshore factories so as to develop optimal products together. Not only do we discuss our business strategies and goals; we also brainstorm and sift out solutions for any arising challenges in our development and operation processes. We make it a habit to visit to our customer's headquarters and attend Leadership Meetings to take an earnest look at our performance, R&D investments, and other crucial matters. The following pages will elaborate on the precise follow-up actions we are taking to meet our customer's needs.



**REDUCTION OF MAKING SHOE SAMPLES**  
KEY PERFORMANCES 2018

**15** DAYS  **9** DAYS



**INVESTMENT**  
**FOR R&D PROJECTS (2017)**

**57** MILLION

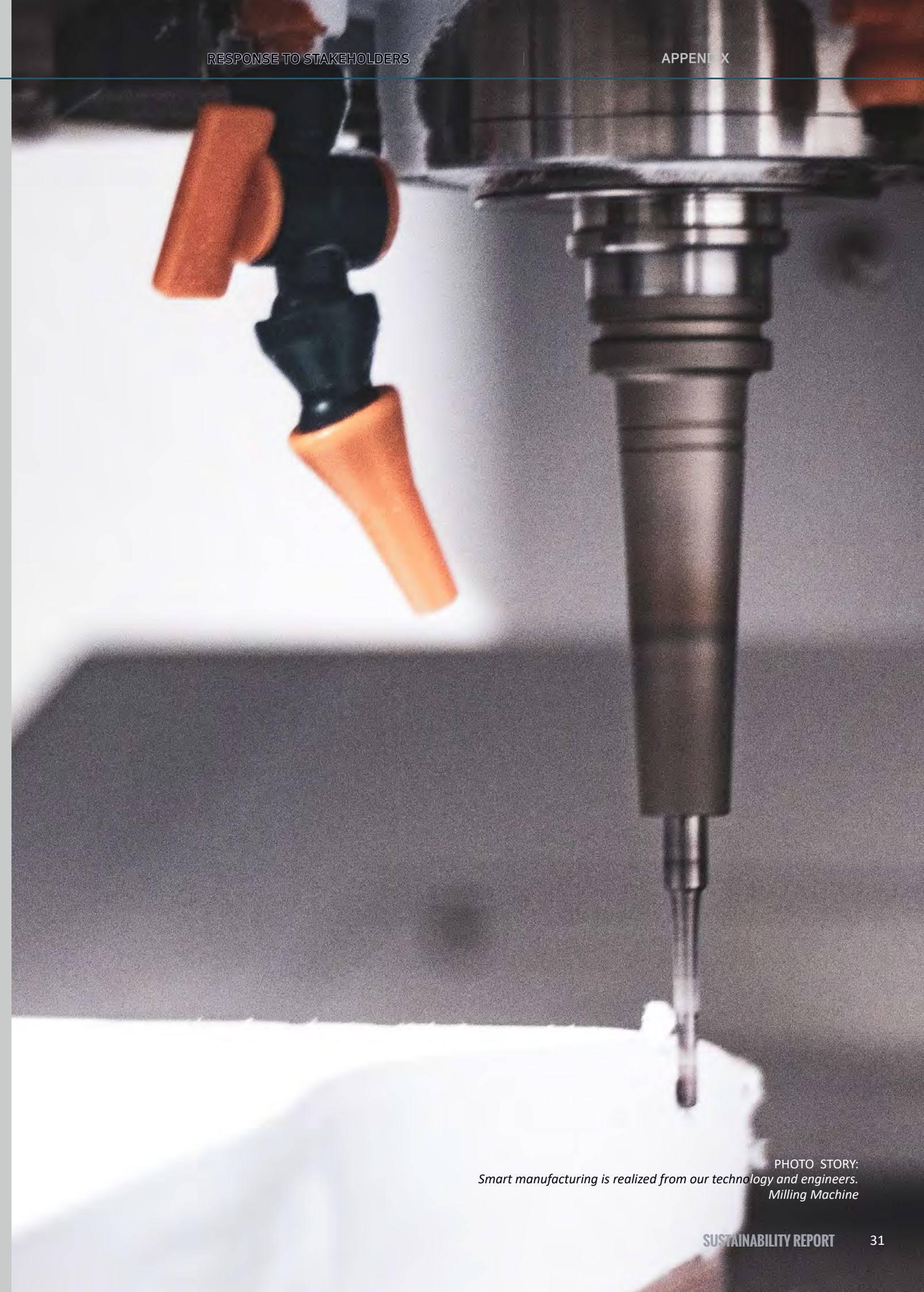


PHOTO STORY:  
Smart manufacturing is realized from our technology and engineers.  
Milling Machine



# OUR CUSTOMER

## STAKEHOLDER INTERVIEW



LAURIE HATCH, PARTNER MANAGER  
NIKE KOREA

1. Please give introduction about yourself and your roles at Nike.

I started my 26-year Nike career in retail and have since worked across manufacturing, product creation and modernization in various locations including the US, China, Indonesia, Brazil and now South Korea. In my current role as General Manager – Partner Management, it is rewarding to focus my attention on working with partners who share our conviction that products made ethically and sustainably are better for people, the planet, and the business.

2. What do you think are the key issues that Nike and TaeKwang’s need to cooperate on for mutual growth?

As I think about our partnership there is a great opportunity to innovate in how we meet consumer demand – to get faster and reduce complexity while continuing to deliver premium products that are innovative, accessible and sustainable. Mutual growth will come from operationalizing the Consumer Direct Offense by elevating capabilities, aligning strategies, expanding innovation and continuing our commitment to sustainability.

3. As TaeKwang’s key stakeholder, what do you think is the most crucial issue that TaeKwang needs to respond to achieve NIKE’s goal?

As a strategic Nike partner of more than 30 years, TaeKwang has tremendously deep talent. Your work on sustainability and transparency has yielded great results, as evidenced by this report. We see our relationship with TaeKwang as a true partnership, characterized by mutual cooperation, and look to continue working hand-in-hand to pinpoint the needs of the evolving consumer and deliver product faster than ever.

### HIGH-QUALITY PRODUCT

*“In doubling our production rate up to 100 million pairs by 2021, we pursue consistent high end products without prolonging lead times.”*

#### DEVELOPING RISK-FREE PRODUCTS

In order to identify and mitigate quality risks in each phase of our development and prior to mass production, we internally conduct a variety of product quality assessments. One of these assessments is known as ‘Seasonal Product Review’, wherein all personnel from relevant teams come together to check the quality, productivity and costing at the development stage of our product cycle.

In addition, we execute a biannual ‘Productivity Review’ at the manufacturing stage and our ‘Category and Quality Teams’ visit offshore factories to examine and enhance the quality of our products to ensure it is aligned to the rigorous standards our customers have come to know and expect. We also operate a real-time ‘Quality Management System’ specially designed to minimize quality risks. With this IT-based system, any and all departments are able to monitor potential problem areas daily through each component and process, and quickly manage risks in advance.

#### COOPERATING WITH OUR VENDORS

Ensuring the quality of raw materials is crucial. We collaborate closely with our suppliers and aim to reduce potential issues involving the quality of our materials.

For maintaining material consistency, we conduct a ‘Seasonal Material Review’ with our vendors. For any quality issue in concern, we suggest areas for improvement, such as on color fastness and bonding. Once our recommendations are made, we follow up to ensure the vendors implement these areas for the following season.

### INSTILLING A SENSE OF CRAFTSMANSHIP AMONG OUR WORKERS

Our workers at the offshore factories are absolutely instrumental in keeping the bar raised on the quality of our products. To produce the finest products, TaeKwang has made it a point to instill within its culture a sense of pride in excellence when it comes to craftsmanship. To this end, we encourage our workers to multi-task and ensure that they are properly equipped with a high-degree of stitching skills. In line with the TK philosophy of continual professional growth, we provide to both new hires and our experienced employees the 4M training (Man, Machine, Material and Method). Main contents of the trainings vary from stitching classic model and mindset for quality checks to case study on other manufacturing companies. As such, our new workers gain in their basic skill set, while our experienced employees fine tune and advance their skills in diversifying and producing quality shoe products.

#### ENHANCING QUALITY CHECKS

For ensuring the quality of our new products, we carry out the ‘Acceptable Quality Level Program’ . Two weeks prior to launches, we produce 12 pairs of products as a test-bed and examine risks to mitigate any issues before they arise. We also implement a monthly ‘Manufacturing Quality Assurance Audit’ on each process.

Besides the quality audits, we also perform a variety of activities that can reinforce workers’ awareness on quality issue. Our quality controllers are stationed at each manufacturing stage to work closely with the workers and find ways to improve quality together. Other activities include peer education, quality mind-set education and a monthly ‘Clean Straight Strong Contest’. All of which can gradually develop our workers’ awareness to the extent where they take ownership on quality of products they make every day.

| CSS Contest Summary in VT |            |         |
|---------------------------|------------|---------|
| Clean                     | Straight   | Strong  |
| Contamination             | Center-off | Bonding |

Total reward in 2017-2018 (Jan-Jun) ▶ \$ 8,550  
Total number of rewarded employees ▶ 36,800

| Top 3 issues found and improved |                    |       |
|---------------------------------|--------------------|-------|
| No. 1                           | No. 2              | No. 3 |
| Untidy thread end               | Over use of cement | Stain |



# OUR CUSTOMER

## INNOVATION ON PROCESS AND TECHNOLOGY

### WHY THE TOPIC IS IMPORTANT

Not only is market demand continually in flux, the cycles for such shifts are shrinking. Thus, agility and expedient action to such needs has become a key issue to both our company and the customer. During the product development and manufacturing cycle, we have had to leverage our flexible processes and agile engineering teams to mirror the shifting customer demands and market conditions.

### HOW WE APPROACH THE TOPIC

For the expedient deliverance of products, we pinpoint specific areas to innovate in our development and manufacturing processes. Specifically, we implement R&D projects for automation and employee Kaizen activities for process optimization to this end.

While each one of our employees participates in innovating their working processes, we have automation engineering and innovation dedicated teams at our headquarters to further maximize our customer’s value with greater products and faster delivery. Furthermore, we have two Product Creation Centers (PCCs) at our headquarters and VT that focus exclusively on product development. Meanwhile, we have increased our investments up to USD 53.6 million, which constitutes 3.7% of our total revenue in 2017.

With all the above resources, we feel confident in achieving the following 2021 innovation targets:

100 MILLION

BUILD CAPACITY

50%

LEAD TIME REDUCTION

### HOW WE ACT ON THE TOPIC

#### Innovating at the Development Stage

Before we produce our products at offshore factories, we undergo a development stage where we create a number of samples for market tests. In order to deliver the final product within these quickly shifting markets, it is imperative we shorten the timeframe involved in this stage. With a goal to reduce our development lead time by 40%, from 15 to 9 days, we had implemented the following machines and systems into our product process in 2017.

Regarding the development of product functions, we have successfully implemented a variety of technologies including air bag coating, a conforming cushioning and a thermal foaming machine.

Here are some examples of our lead time reduction:

|                         |   |
|-------------------------|---|
| Midsole milling machine | <ul style="list-style-type: none"><li>Replacing our traditional molding process for midsole making</li><li>Fast production from design into products and saving time on prefit test</li><li>Enabling quick design review</li><li>Fast and better quality</li></ul> <div>▶ Result: Saving 4 days (13→9 days)</div> |
| Material Barcode System | <ul style="list-style-type: none"><li>Able to search sample materials in the inventory within 2 seconds</li><li>Review history on material change</li><li>BOM Set</li><li>Managing material by each model</li></ul> <div>▶ Result: Saving time and increased accessibility for material management</div>          |
| Pattern Bank            | <ul style="list-style-type: none"><li>Bank representative pattern structures to reduce skill gaps of pattern engineers</li><li>Maintaining consistency on quality</li><li>Saving time on pattern sketch and pattern making</li></ul> <div>▶ Result: 1.5- 2days → 9.5 hours</div>                                  |
| Slab test               | <ul style="list-style-type: none"><li>Saving time on testing adhesiveness and water density</li></ul> <div>▶ Result: Able to complete chemical engineering test within 5 days</div>   |

#### Innovating at Manufacturing Stage

When it comes to manufacturing, modernization is about driving technology in every possible facet of producing a product. At TaeKwang, we have been developing modernization tools right from the beginning of the cutting process all the way to the end of assembling components. By implementing the tools in this ‘end to end process,’ we can both deliver products more quickly and save on our raw material use, labor and conventional tooling. So far, we have implemented a variety of modernization tools, including auto-cutting and auto-cementing. Presently, we are developing more tools to optimize each link individually and amalgamate all functions into one cohesive process.

#### < The Core Modernization Tools at TaeKwang >



|               |   |
|---------------|---|
| CUT           | <ul style="list-style-type: none"><li>Implement laser and oscillating knife technologies</li><li>Yield efficient output and quality</li><li>Simplifies material flow to pre-stitching</li></ul> |
| PRE-STITCHING | <ul style="list-style-type: none"><li>Streamline transition from cutting and pre-stitching</li><li>Eliminate unnecessary steps and process</li></ul>  |
| STITCHING     | <ul style="list-style-type: none"><li>Reduce need for intensive labor</li><li>Improve product consistency</li></ul>   |
| STOCKFIT      | <ul style="list-style-type: none"><li>Implement automated cementing technology</li><li>Reduce labor</li><li>Improve efficiency</li></ul>  |
| ASSEMBLY      | <ul style="list-style-type: none"><li>Implement single side adhesive projects like PUR</li><li>Reduce process and labor by cementing one side</li></ul>   |

### HOW WE EVALUATE OUR PERFORMANCES

We reduced our lead time on product development from 15 days to just 9 days (40%▼) in 2017 through strategy and activities on innovation at the development stage. End to end automation from cutting to assembly process, 64.5 million pairs of shoes were produced in 2017 (YoY 9%▲) and we forecast to achieve our production target, 70 million pairs of shoes, by the end of 2018. We have no doubt that we will meet our 2021 targets, 100 million pairs of shoes.



# OUR CUSTOMER

## PRODUCT SECURITY

*"As protecting our competitive advantage will only become more crucial as we continue to grow, we are tightening our security controls, refining our security management and increasing our security awareness."*

### GROUP-WIDE SECURITY WORKSHOP

When it comes to 'Product Security', there is no sure fire guarantee for perfection. That is why we find it best to open the lines of communication and share ideas and our experience with each other. To align our approaches in implementing group-wide security policies across all our factories and to learn the expertise and best practices from other factories, security managers have been benchmarking and holding in-depth workshops in Vietnam.

### BIOMETRIC AND SOPHISTICATED ACCESS CONTROLS

As ID badges can be easily misused, we find it necessary to use biometric authentication in accessing control to sensitive areas. We are implementing fingerprint and facial recognition as well as anti-passback, two-way access control, alarms for unclosed or forced open doors to the areas we handle innovations and sensitive product information.

### NO BADGES, NO PRINTING

Because sensitive information is often printed but sometimes not retrieved daily, it can easily fall into the wrong hands. To mitigate this risk, product development employees are required to verify their identity by scanning their ID badges at the printers before their documents will be printed out.

### IMPROVING SECURITY AWARENESS

To encourage employee participation in security awareness promotions, we held our second security poster contest, in which 309 security posters were submitted from our factories. There were nine winners and the rewards totaled to USD 3,500. We also provide multiple channels and a financial reward for employees who anonymously report potential security violations, theft and information leaks, and this information is clearly communicated to all employees through emails, posters and signs.

All new employees at each factory are required to complete a security awareness training in which they learn about company security regulations.

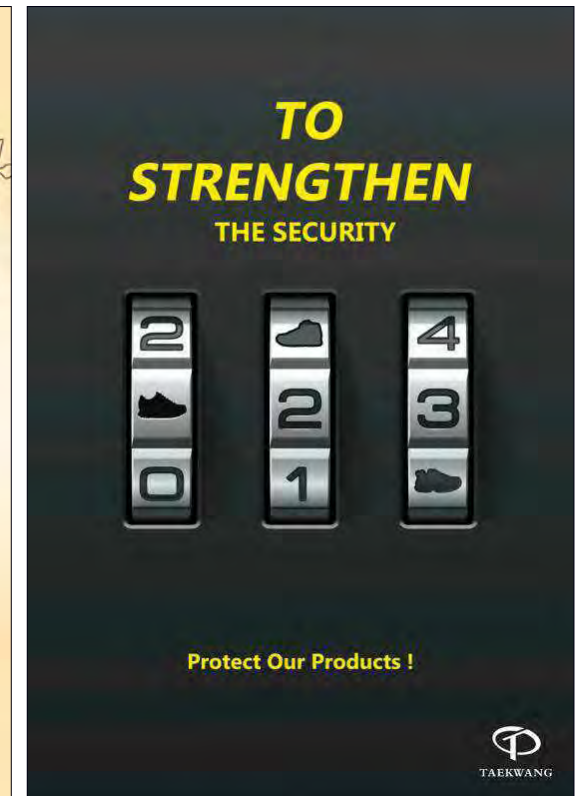
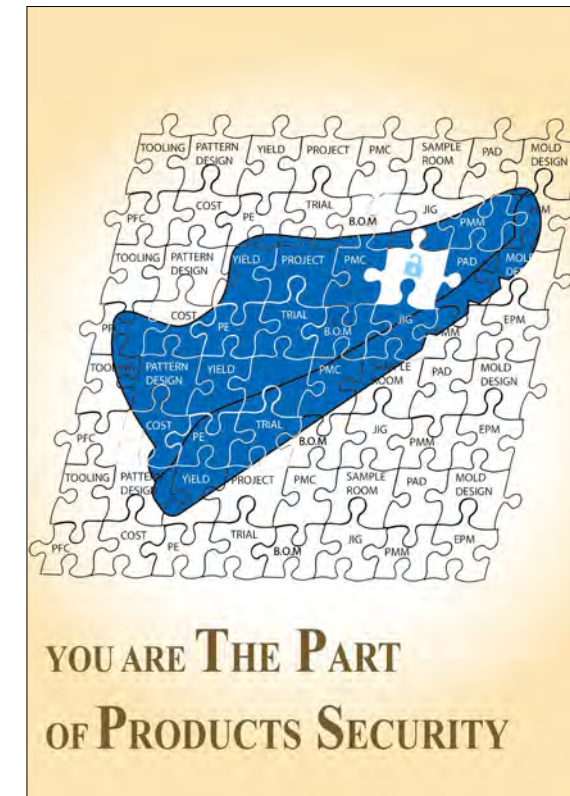
### EASILY ACCESSIBLE AND HIGHLY SECURE COMPANY NETWORK

It is the role of a Company to provide a trustworthy, easily accessible internet network environment for employees to work online securely.

Non-business websites and applications such as P2P and cryptocurrency are filtered to boost network efficiency as well as to prevent malicious codes and cyber-attacks such as DDoS. Also, phishing and worms are blocked to increase the reliability of our network.

### PRODUCT SECURITY POSTERS

Here are the best security posters from across the offshore factories in 2018.





# OUR PLANET

## OVERVIEW ON ENVIRONMENTAL ISSUES

### INTRODUCING THE ENVIRONMENT

It is necessary to have raw material, energy and water for producing a pair of shoes. We have a responsibility to convert these inputs to high-quality finished goods. We are trying to minimize our environmental footprint by keeping these numbers as low as possible. We are facing increasing environmental challenges across the world so we have developed a set of environmental goals and strategies.

### IDENTIFYING ENVIRONMENTAL ISSUES

Based on the consultations with our key stakeholders, we have identified four environmental issues to managed:

- 1. Clean and safe disposal and treatment of waste\*
- 2. Management of water resources
- 3. Reduction of energy and carbon emissions

\*Limit the scope of waste to 'solid waste' in this report considering its significant impact on the environment

### RESPONDING TO ENVIRONMENTAL ISSUES

To adequately understand and manage environmental issues, we actively communicate with our key stakeholders – these include our customers, employees and the local government. In receiving feedback and updates in regard to the environment, we can make improvements in managing the issues. For overall management of the issues, we have established Target 2020 and tracked our performance on waste, water and energy using TaeKwang Sustainable Manufacturing Dashboard System, an internally developed sustainability data management platform. We allocated 10% of annual performance evaluation on individual's sustainability KPIs to encourage employees not only to mearily follows our environmental policy and initiatives but to exceed them. The chart below depicts the roles and responsibilities for each team in our cross-functional efforts to manage environmental issues.

### KEY PERFORMANCE 2018

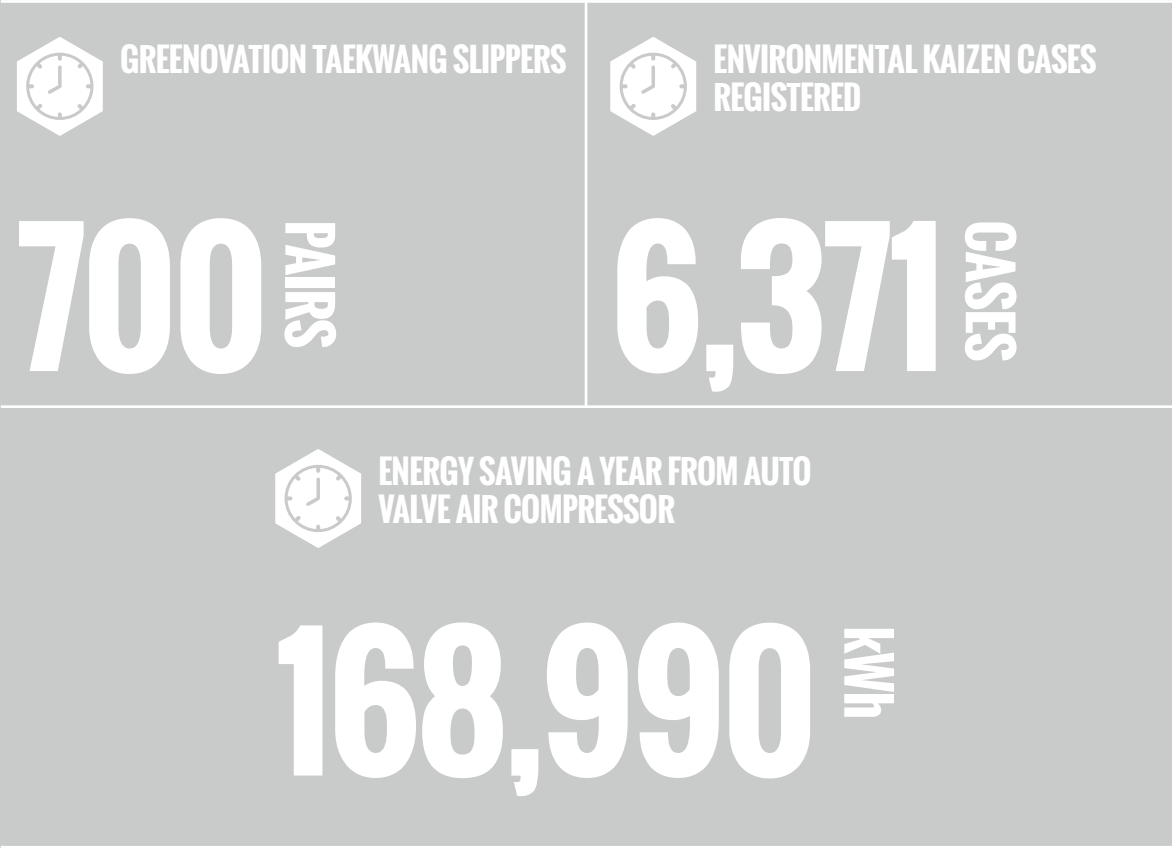


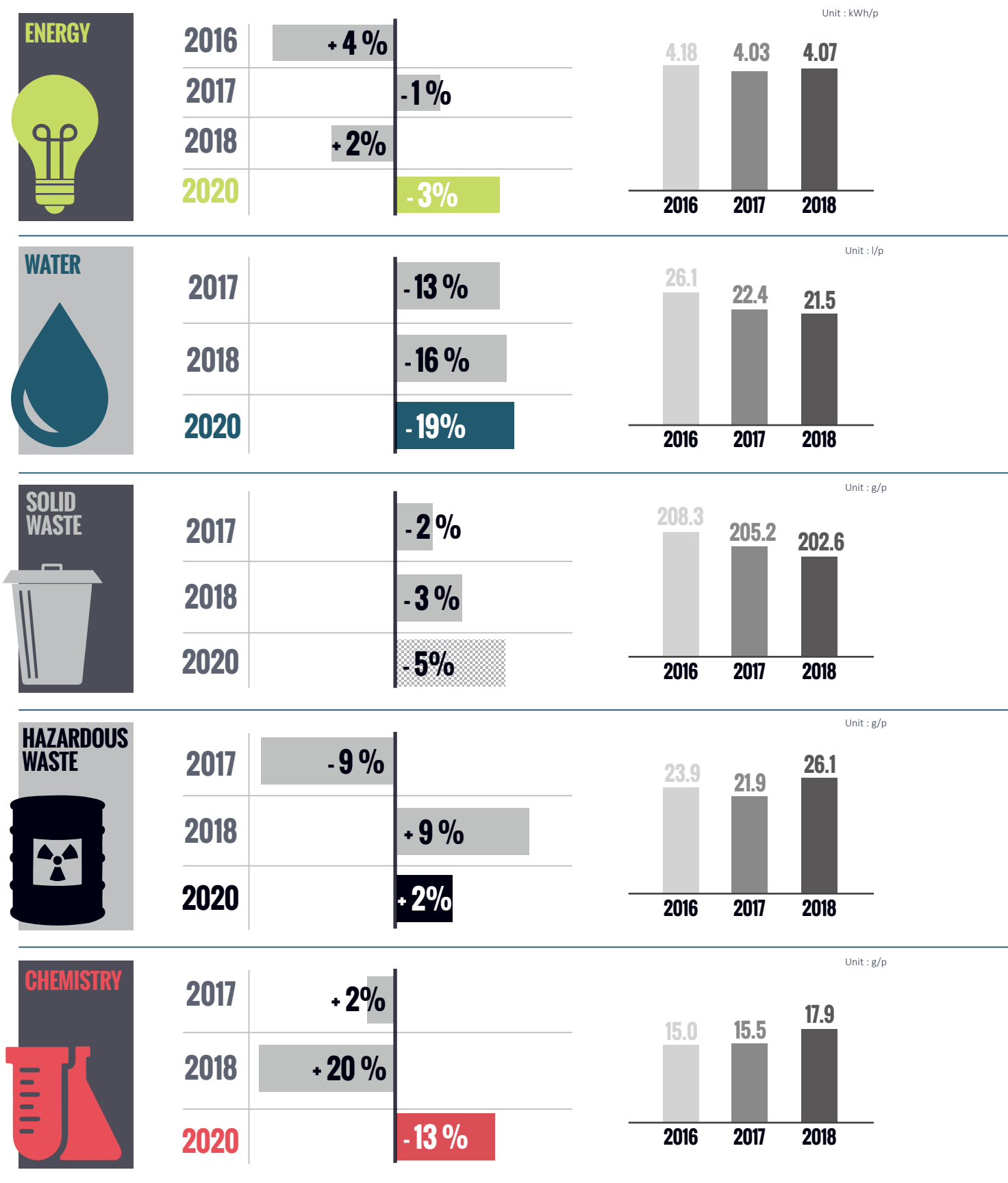
PHOTO STORY:  
*Business opportunities are born from our passion on treating waste as a valuable resource. TaeKwang Slippers made of scraps*





OUR PLANET

ENVIRONMENTAL SUSTAINABILITY PERFORMANCE



\*base year :cy 16 / energy :cy 15

STAKEHOLDER INTERVIEW



JOE DAKIN, DIRECTOR OF ADVISORY SERVICES  
SUMERRA

1. Please tell us a little bit about your company, yourself and your roles in the company.

I am the Director of Advisory Services for Sumerra, an environmental health and safety (EHS) and corporate social responsibility consulting firm. I regularly work with multinational brands, industry groups, and manufacturers on the development and implementation of global EHS programs. I have provided project management, oversight, and technical consulting services in over 15 countries.

Sumerra was created to assist those who are striving to improve working conditions and reduce risks throughout the world. Our foundation is the belief that every worker in every factory should be treated with respect, work in safe conditions and that the surrounding environment and communities should be kept clean and healthy.

2. Which environmental issues do you think are the most challenging in manufacturing industry?

There are many environmental challenges in the manufacturing industry. One important challenge that stands out to me is the concept of Zero Waste. Every year, millions of tons of unrecoverable wastes are sent to landfill or treated by other resource intensive processes such as incineration. Great strides have been made to design and innovate materials, products, and processes that result in less waste; however there is still a long road ahead. Although challenging, creating products and manufacturing processes that result in zero waste or by-products that can be fully upcycled or used as recycled feedstock also presents opportunity for all levels of the supply chain from developing more sustainable materials and products to more efficient manufacturing process and eliminating waste disposal costs.

3. Which environmental issue do you think TaeKwang should put efforts to increase our positive impacts to the environment?

Sustainable Chemistry Innovation. We have also seen great strides with more sustainable chemistry in the footwear industry including reductions in the use of solvent-based chemistry, however there are still

opportunities for improvements and innovation. The move to more sustainable chemistry in about an area in which we exceed other footwear industry peers has the ability to reduce the generation of harmful air pollutants and hazardous wastes as well as create a safer and healthier working environment.

4. Could you add one last comment for TaeKwang that where we are stronger among other footwear industry or any opportunities as leading manufacturing factory?

From my experience working with TaeKwang, I believe their strengths as a leading footwear manufacturer are demonstrated by their proactive approach to managing changes in the manufacturing landscape through commitments to training both workers and management teams on industry trends and best practices, utilizing new manufacturing technologies, and constantly striving for continuous improvement in environmental health and safety.



# OUR PLANET

## WASTE

### WHY THE TOPIC IS IMPORTANT

Along with the problem of its sheer size, generated waste has also given rise to serious pollution problems on air, water and land. In response to this global problem, a growing number of corporations are investing resources in waste reduction. As a manufacturing company, we are also fully aware of our environmental impact from the waste generated in our production cycle. From cutting materials to stockfit processes and defectives, we generate scraps which are classified as solid wastes. By reducing the amount of these solid wastes, we are minimizing our environmental footprint.

### HOW WE APPROACH THE TOPIC

In manufacturing shoes, we generate more than 50 types of solid waste; and the top ten wastes by quantity consists more than 70% of our total amount of waste. If we can tackle these top ten waste sources, we can largely reduce our overall waste.

In tackling the top ten waste sources, we are trying to reduce the impact of wastes and simply recycle more. These efforts are being carried out cross-functionally over manufacturing the processes and by product models, so as to maximize waste reduction. Specifically, all of our employees participate in Kaizen and Greenovation activities to find what we can reduce in our daily operation. By reaching out to our suppliers we can discover additional waste reduction opportunities.

With our approach to waste management as mentioned above, we are striving to achieve our 2018 targets with significant progress towards our 2020 Targets.

|                |                                |                                 |
|----------------|--------------------------------|---------------------------------|
| 2020<br>TARGET | Reducing waste to 197.1 g/pair | Maximizing waste recycling rate |
| 2018<br>TARGET | Reducing waste to 203.8 g/pair |                                 |

### HOW WE ACT ON THE TOPIC

#### Treating Top 10 Wastes

Since 2016, we have focused on managing our top ten waste sources, 77% of the total waste, by consistently reducing waste generated during shoe production. Increasing popularity of textile based models and lower yield patterns contributed to higher textile scraps and laminated polyurethane foams, two of the largest waste items. Increasing shipments from our raw material and component suppliers have resulted in more cardboard wastes, however, we are working with our suppliers to reduce or reuse cardboard boxes. Shoe models with new platforms are challenging and may take several months of trial and error to ramp up production. Despite many factors and reasons, our efforts for reducing our top 10 waste sources have continued and what we have done are shown on the following page.

#### < Waste generation at TaeKwang >

|              | (Unit: g/pair) |       |                   |
|--------------|----------------|-------|-------------------|
| FACTORY      | 2016           | 2017  | 2018<br>(Jan-Jun) |
| QT           | 153.8          | 147.7 | 133.9             |
| TT           | 151.6          | 164.6 | 203.6             |
| VM           | 242.1          | 229.4 | 193.7             |
| VT           | 226.9          | 222.4 | 222.4             |
| Company-wide | 208.3          | 205.2 | 202.6             |

#### < Waste generation by top 10 waste sources >

|   | (As of June 2018) |             |
|---|-------------------|-------------|
| TOP 10 WASTE ITEMS                      | Amount (g/pair)   | Portion (%) |
| Upper Textile Scraps                    | 30.1              | 14.9        |
| Laminated Polyurethane Foam             | 26.2              | 12.9        |
| Synthetic Leather Scraps                | 18.3              | 9           |
| Non-Marking Rubber Flashing             | 16.8              | 8.3         |
| Cartons                                 | 16.7              | 8.2         |
| EVA Scraps                              | 13.7              | 6.7         |
| Sockliner Scraps                        | 12                | 5.9         |
| Phylon Defective Components             | 8.5               | 4.2         |
| Phylon Flashing                         | 8                 | 3.9         |
| Non-Marking Rubber Defective Components | 6                 | 3           |
| Total                                   | 156.3             | 77          |

\*Data coverage: QT, TT, VM, VT

#### Engaging with Our Employees

##### Environmental Kaizen:

All throughout the year, our employees find methods to innovate the manufacturing process and machines through Kaizen activities to minimize any type of waste. The cumulative number of Kaizen cases reached 1,677 within first half of 2018, out of which 878 were implemented in our operation. To increase Kaizen participation, we run an incentive system that provides a monetary reward for every suggested and implemented case. In 2017-18, there were 6,371 environmental Kaizen that involved converting solid wastes into products. Representative Kaizen and innovative cases that contributed to reduce top 10 wastes are as below:

| KAIZEN CASE                        | DETAILS  |
|------------------------------------|--|
| IP ball stopper                    | Pin stopper of IP mold replaced by Ball stopper to reduce midsole defectives and flashing, and ease mold cleaning<br>▶ Reduction of 10-15 seconds of cleaning time 3% of defectives                  |
| Rubber flashing                    | Redesign cutting tools and patterns to reduce outsole rubber flashing for all models   |
| Hand sewing for lamination process | Reduce defective laminated foams by connecting two rolls of textiles with hand-sewing machine during lamination process<br>▶ 96% of textile scrap from lamination process reduced (from 45cm to 2cm) |

##### Greenovation:

We believe everyone in TaeKwang has brilliant ideas to upcycle our waste items. Greenovation is an initiative that helps our recycling idea to implement this belief. Anti-fatigue mats and mouse pads from EVA scraps, security bags from textile scraps, aprons and oversleeves are just a few examples of our Greenovation items. Compared to environmental Kaizen, Greenovation has a wider scope that welcomes any ideas that turns waste items to resources within the factory.



VM made 50 security bags from 5kg of leftover textiles. This is used to carry sample shoes within the factory.

TaeKwang Slippers were created by linking technology and unused raw materials. T2 Engineering team developed a mold for slippers(see page 39), which requires high mold techniques different from molds for shoe bottom mold. IP pallets used to be discarded once they reached expiration date. However, with a great passion for developing new mold technique and using expired IP pallets, the team has tried to find a time experiment making slippers once a certain amount of overdue IP granules are collected. Over 700 pairs of slippers were produced and presented to employees and our customers.

##### Waste by Model:

A variety of factors from design and materials of each component to tools and workers’ experience and skills affect to the generation of wastes. Waste by Model is our initiative to track sources of each model at the workshop to identify what the main drivers are hindering materials converting into high-quality products. Usually high volume productions, new or complicated designs of models are selected. Cross-functional teams including Production, Pattern Engineering and SM have collaborated to measure the amounts of waste from these selective models. Different gaps of material quality and work practices from each model specification are captured during the measurement period. For instance, wider width or thickness of textile materials and dull cutting dies or molds were found to cause b-grade products. These findings were immediately communicated with relevant teams and materials vendors for further improvement. We are planning to utilize Waste by Model data for forecasting the generation of solid waste and waste reduction as we will deepen our understanding on the relationship between model and waste.



# OUR PLANET

## WASTE

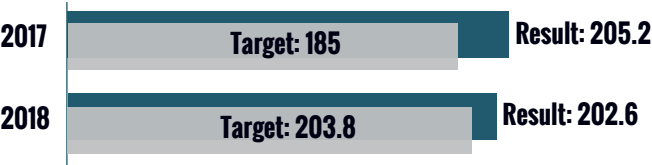
**Engaging with Vendors**  
The Take-Back Program is a TaeKwang initiated vendor engagement program to discover further opportunities to reduce waste. This program has been the best engagement practice that returns leftover items including chemical drums and carton boxes to the vendors for reuse (find more details about our Take-Back Program in 'Our Suppliers'). At present and aside from the initiatives of this program, we are encouraging our vendors to discover new methods to minimize waste. In the course of five meetings with our vendors in 2017, we have suggested a change in packaging, materials and moving towards new types of containers that generate less waste.

**Maximizing Waste Recycling**  
After reducing the maximum amount of waste in the manufacturing processes, we focus on recycling the generated waste at the disposal stage. In 2018, the recycling rate decreased to 52%, from 65% in 2016. This decline was due to the China’s regulation change on recyclable waste import. After China band the importation of recycled goods from the end of 2017, our factories in Vietnam and Indonesia had to halt sending some of their recyclable wastes to recyclers and search for domestic recyclers for those waste products. In keeping with our commitment to maximize our recycling rate, we found two local recycling vendors in Vietnam as alternatives.

| < Recycling rate by each factory > |      |      |                |
|------------------------------------|------|------|----------------|
| FACTORY                            | 2016 | 2017 | 2018 (Jan-Jun) |
| QT                                 | 79%  | 85%  | 79%            |
| TT                                 | 45%  | 47%  | 29%            |
| VM                                 | 54%  | 49%  | 50%            |
| VT                                 | 72%  | 52%  | 57%            |
| Company-wide                       | 65%  | 54%  | 52%            |

| < Recycling Methods >      |    |
|----------------------------|----|
| Recycling Methods          | %  |
| In-House Recycling         | 5  |
| Closed Loop Recycling      | 3  |
| Customer Sponsored Program | 9  |
| Downcycling                | 35 |

**HOW WE EVALUATE PERFORMANCES**  
We evaluate our annual performances against the annual waste reduction target. Model mix and ramp-up time, short life-span of model manufacturing and high tech products are the examples of the constraints that hinder our efforts on reducing waste. Nevertheless, we do our best to convert the input materials to finished goods. So far, we are on track to surpass our 2018 targets. To retain this record, we will continue our cross-functional efforts to reduce defectives and scraps. In regard to recycling, we are currently searching for extra vendors to downcycle our top 10 waste products.

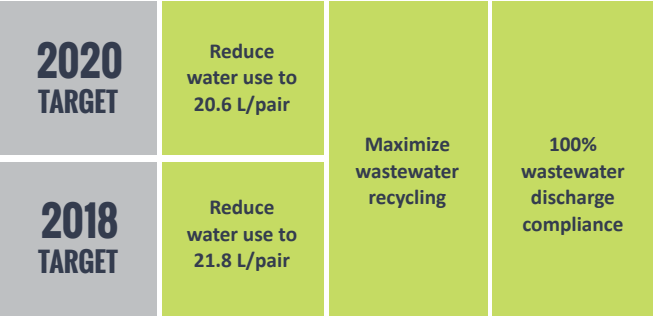


## WATER

**WHY THE TOPIC IS IMPORTANT**  
All around the world, the number of water related issues from severe droughts to frequent flooding are increasing while a more people are losing access to safe drinking water. In such global context, the footwear industry has been challenged to use less water and safely treat wastewater throughout the supply chain. At TaeKwang, we consume around 15% of our water use in the manufacturing process while the rest is consumed for human activities in the workshop, dormitory, canteen or kitchen. Besides reducing the volume of water we use, we remain vigilant about treating wastewater both to reuse and to prevent hazardous substances from entering the nature.

**HOW WE APPROACH THE TOPIC**  
Our first approach to water management is a water-saving activity that reduces water use before it is even consumed. To do this, we assigned a patrol that monitors daily water use by checking on water infrastructures and register ideas from employees on water-saving. Employees also take the initiative in saving water through Kaizen activities and other engagement campaigns. Once water is consumed, we focus on treating wastewater that could either be reused or be discharged into rivers. In regard to water discharge, we strictly comply with our Zero Tolerance Principle that bans discharging hazardous wastewater and also with ZDHC MRSL guidelines that completely restricts the use of certain chemical substances in the manufacturing process.

Through systemically managing our water performance with the approaches above, we strive to achieve our 2018 targets with progress towards Target 2020.



**HOW WE ACT ON THE TOPIC**  
**Minimizing Water Use**  
The most frequent problem when it comes to water use is leaks from faucets, toilets, bidets and pipelines. To solve this problem, QT and VT have moved the water pipeline above ground to easily pinpoint water leaks; in the case of QT, the total water consumption has decreased by 40% after designs of its water pipelines to above ground. Another way to minimize water use is to retrofit devices. After we found that water valve design was at fault, we have been working on replacing old faucets with stronger and higher quality design. Besides improving water infrastructure, raising employee awareness on water use is crucial. Especially as 70% of our total water use is directly consumed by our employees, we are developing water campaigns at each factory for our employees to participate in.

**Reusing Wastewater upon Treatment**  
For water already consumed in our factories, we try to maximize the reuse of water after treatment. Currently, all of our offshore factories operate in-house wastewater treatments plant. To collect gray water for reuse, we have constructed reclamation water facilities at our QT and VM factories. Water reclaimed from these facilities is mainly used for watering gardens and toilets.

| < Water use >      |      |      |                |
|--------------------|------|------|----------------|
|                    | 2016 | 2017 | 2018 (Jan-Jun) |
| Water use (l/pair) | 26.1 | 22.4 | 21.5           |
| Reuse rate (%)     | 44   | 33   | 40             |

\*Total volume of water use is reported on page 70.

**HOW WE EVALUATE PERFORMANCE**  
In 2017-18, we have achieved our annual target on water saving as we reinforced our water patrol. In regard to water quality management, we did not have any non-compliance issues. And we will strictly manage wastewater treatment to respond to a heighten level of compliance.

(Unit: l/pair)  
\* Data period: 2017.1-2018.6





# OUR PLANET

## ENERGY

### WHY THE TOPIC IS IMPORTANT

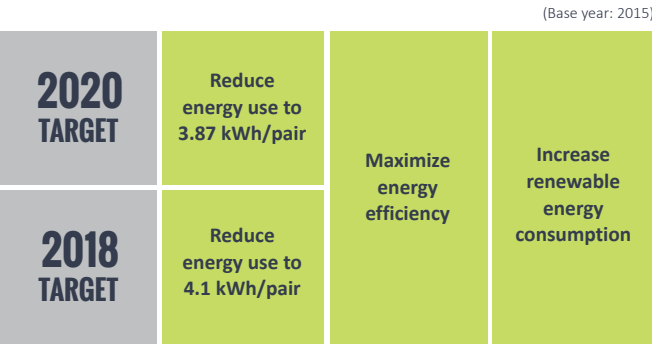
Energy production is one of the largest sources of greenhouse emissions on Earth and higher energy efficiency is a low hanging fruit in energy management. Our overall energy use is increasing. We have been focusing on developing new platform (bottom) which requires new machines. Bottom production process consumes 70% of energy of our total energy use. Until we can perfect our new machines we will incur additional energy use during the development and the trial period. Furthermore, automation can actually increase energy use in their particular production plants because those machines will be working 24-hours a day but overall energy use per pair should be reduced.

### HOW WE APPROACH THE TOPIC

To better manage our energy use in real-time, we have implemented an IT-based Energy Monitoring System (EMS). With regular updates on energy consumption via this system, we have been able to find improvement areas to save more energy.

Another energy-saving approach is to improve energy efficiency in the manufacturing processes and machines. The Kaizen activities undertaken by the employees and equipment optimization have been the most effective in preventing unnecessary energy consumption in our operations.

With our approach to energy management as mentioned above, we are striving to achieve our 2018 targets with progress towards 2020 Targets.



### HOW WE ACT ON THE TOPIC

Finding Opportunities through EMS  
In VM, the local electric grid has been relatively unstable and unbalanced energy use among many plant building and processes. These conditions caused downtime and had fire hazards from overloading power supply. The EMS enabled VM to visually manage energy supply and use. In 2017, based on the analysis of energy use patterns, VM installed an integrated voltage regulator (IVR) to stabilize the electricity supply. Furthermore, VM found an opportunity to save energy by preventing consistent electric leaks from the air compressors, which led to the frequent shortage of compressed air. Taking an initiative to solve this leakage issue, VM installed a pilot auto-valve system in the air compressors to be controlled by a programmable logic controller (PLC) in 2018. This system, which is connected to the EMS, is able to block air to supply to any production that is not in operation. In this way, unnecessary air leakage of air compressors is prevented and the air supply has been improved for the processes in operation.

Raising Energy Efficiency  
Through our Kaizen activities, employees submit energy efficiency improvement ideas for the production processes. The most common idea is to implement an insulation that prevents unnecessary heat loss or gain in our bottom making process. Some of the best Kaizen on energy cases in 2017-18 are outlined below:

| KAIZEN CASE                              | DETAILS   |
|--|---|
| Auto valve of air compressor             | VM installed centrally controlled air compressor valve system in order to block air supply for non-operation time<br>► estimate 168,990 kWh of total annual saving  |
| Servo motor                              | VT installed servo motor into the auto phylon machine and has been able to save 87% in the energy previously consumed from the motor of this machine.   |
| Air tank cleaning and filter replacement | QT measured the pressure loss from the air compressor system and found the air tank valve and filters were blocked. The valve was cleaned and replaced it with a new filter<br>► Estimate 174,035 kWh of total annual energy saving |

Using More of Green Energy  
We are increasing the use of heat pump and solar thermal to heat water for midsole and outsole washing machines. In implementing solar thermal water heater for the IP washing machine at VT, we estimate the total annual saving will be 194,376 kWh. Furthermore, at QT, we have installed heat-pump for three IP washing machines, which is expected to save about 78,000 kWh of total annual energy, which is 53% of reduced energy use of current IP washing machine. QT has conducted the energy efficiency of the heat-pump for IP, phylon, and outsole washing machine. As a result, heat-pump has shown benefit of energy saving for IP and phylon processes. QT will install heat-pump for the rest of phylon and IP machines over the next two years.



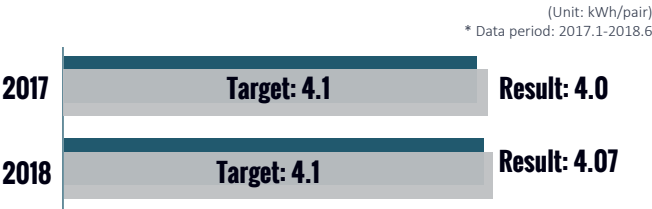
Another energy-saving program continued in 2018 was the installment of a sunlight roof system and replacement of discolored sunlight roof with new panels. In VM, we replaced old sunlight roof system and improved the luminance from 200 to 700 lux in the morning and from 550 lux to 1500 lux in the afternoon.



Discolored Sunlight Roof

### HOW WE EVALUATE PERFORMANCE

We achieved our 2017 goal on energy, and we are working hard to achieve our 2018 goal. To improve our energy performance, we are installing more inverters and servo motors while maximizing air compressor optimization. Energy reduction initiative will continue to be a challenging task while more transition to automation will be carried on.



TT's ramp-up is reflected in the 2018 Energy target



New Sunlight Roof



# OUR PEOPLE

## OVERVIEW ON EMPLOYEE ISSUES

### INTRODUCING OUR EMPLOYEES

Our team is rapidly expanding each year to support our growing business and has increased by 13.6% against last year. Currently, TaeKwang employs 79,766 people, from four countries: South Korea, Vietnam, China and Indonesia, and 72.5% our staff is female. Our workforce growth was especially notable in TT, increasing by 42.5% after a ramping up period and in VT, increasing by 23.7% to support expanded production lines. Not only our robust size, but the capacities of our workforce will continue to be the driving force behind our business- from product development to manufacturing.

### IDENTIFYING EMPLOYEE ISSUES

Based on the consultations with our stakeholders, we identified key issues regarding our employees. The following are the top four issues, in order of significance:

1. Strengthening safety and health management
2. Protecting human rights
3. Enhancing job performance and skill development
4. Recruiting diverse talents

### RESPONDING TO EMPLOYEE ISSUES

To effectively respond to the issues above, TaeKwang maintains a multi-platform communication system that enables two-way engagement, from leadership and management to employees, and vice versa. All of TaeKwang people engages through an inclusive system of channels to ensure the basic rights and freedoms (refer to 'Human Rights in the Workplace'), develop talents needed for our future growth (refer to 'Workforce of the Future') and of course, keep our people safe at the workplaces (refer to 'Health & Safety Management').

### KEY PERFORMANCE 2018

HUMAN RIGHTS EDUCATION FOR

**79,766** PEOPLE

NEW COMERS

**13,130** PEOPLE

SKILL UPGRADING

**24,635** PEOPLE

SAFER PRACTICE (RIR)

**0.09** YOY

### < TAEKWANG INTERNAL COMMUNICATION MAP >

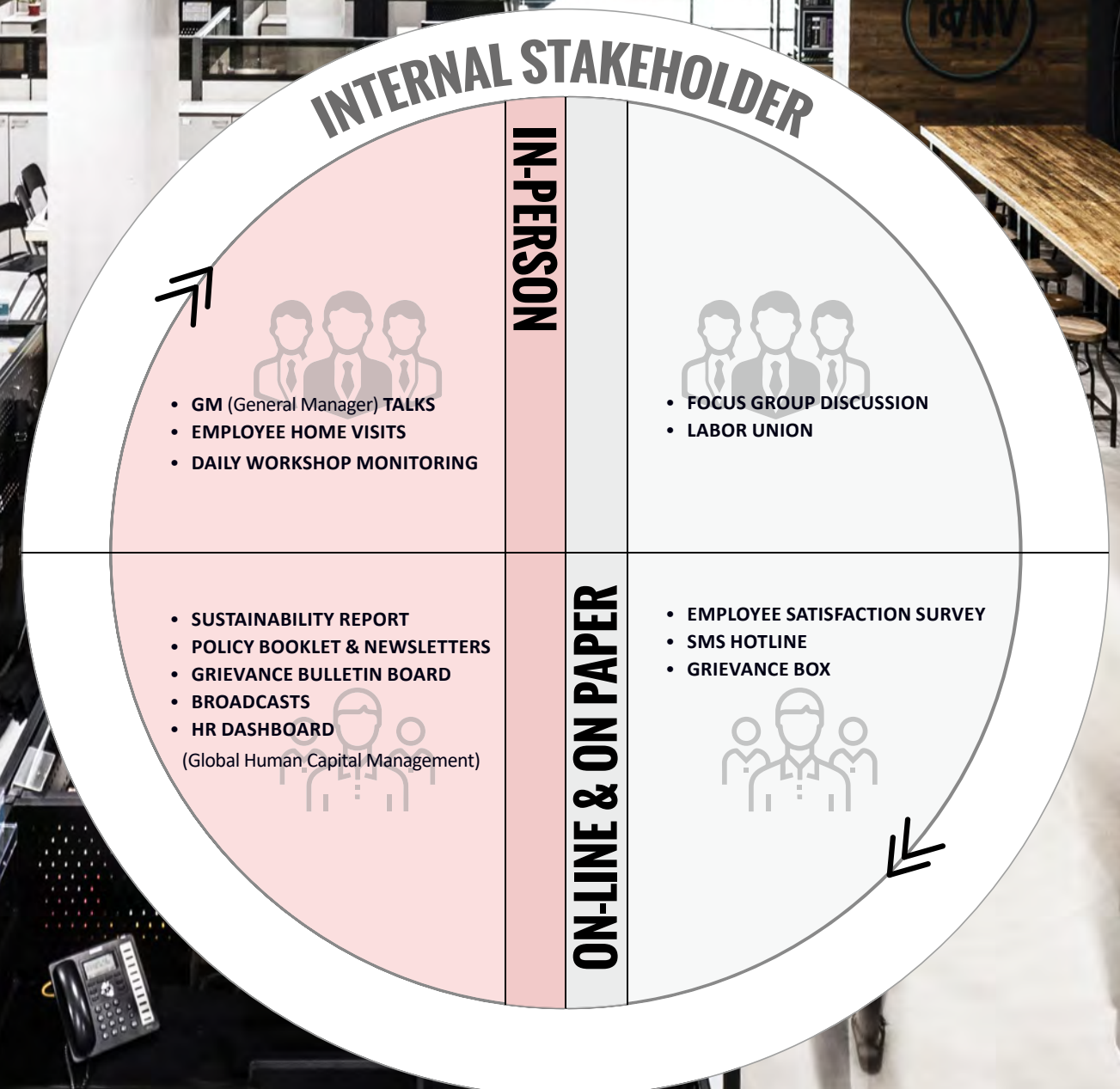


PHOTO STORY:  
Innovative ideas coming from  
open communication and agile workplace.  
T2 PCC



# OUR PEOPLE

## HUMAN RIGHTS IN THE WORKPLACE

### WHY THE TOPIC IS IMPORTANT

Fundamental rights must be ensured in the workplace, especially in shoe manufacturing as a manual labor-intensive industry. More companies are taking a proactive approach by monitoring and preempting risks as well as eliminating the root of violations through due diligence.

### HOW WE APPROACH THE TOPIC

TaeKwang cultivates a corporate-wide culture of mutual respect to strengthen the foundation for human rights protection. We strictly enforce Zero Tolerance Principles<sup>1)</sup> and thoroughly communicate this to our employees. To preempt serious violation risks, we conduct labor monitoring. When violations arise, they are registered through grievance channels. Timely resolutions are made and TaeKwang Group Disciplinary Action<sup>2)</sup> is enforced across all our factories to guarantee fair implementation.

1) Forced labor, child labor, physical and sexual abuse, failure to pay wages, serious health and safety risks, serious environmental impacts  
2) Five major corporate standards of disciplinary action

### HOW WE ACT ON THE TOPIC

#### Socializing TaeKwang's Policies and Values

TaeKwang regularly communicates and reinforces our policies through Mutual Trust & Respect training and Cross-Culture Education. This year, we took a new preemptive approach by launching the 'Smile Badge Campaign.' Managers wore a 'smile badge' to demonstrate their commitment to the respectful and positive treatment of their team members, and exemplary managers were recognized to encourage lasting commitment. We received feedback from participants in TT and VM that the 'smile badge' provided a great opportunity to mindful and reflect on their speech and behavior .

#### < Human Rights Education<sup>1)</sup>>

|                                | 2016   | 2017   | 2018   |
|--------------------------------|--------|--------|--------|
| Hours per person <sup>2)</sup> | 38     | 40     | 34     |
| No. of participants            | 57,613 | 58,937 | 79,766 |

\*Data Coverage: T2, VT, VM, TT, QT

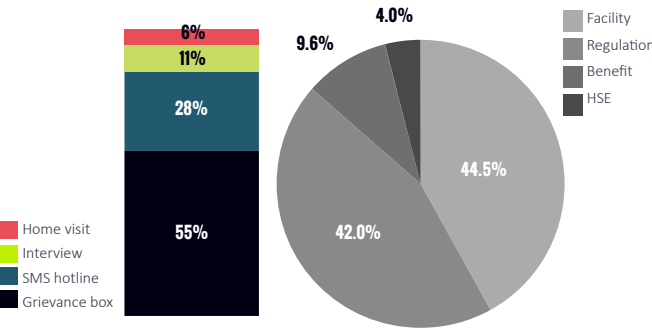
1) Code of Ethics, anti-sexual harassment, information security, health & safety, Zero Tolerance Principles  
2) Hours per person= Total training hours / Total number of participants

#### Resolving Grievances

When grievances are registered at TaeKwang through various channels, they are promptly addressed and disclosed to employees through weekly bulletin publications. Corrective actions are also reported to top management weekly. Issues that demand systematic changes and further investment are assessed by the Grievance Resolution and Labor Management Committees. Through this multi-tier system, our labor unions and top management work together to resolve grievances and deliver the results within 10 days of reporting.

Among various grievance channels, some are more active depending on the culture of each particular factory. For example, QT employees prefer to report grievances directly to the SM Team or their labor union. In VT and VM, suggestions are generally proactively collected by the labor monitoring team who come to the factories in person and through conducting interviews with workers at plants through Daily Workshop Monitoring. Finally in TT, most of grievances are registered through grievance boxes or the SMS hotline and then systematically managed through an IT Grievance System.

#### < Grievance Reporting in TT >



### HOW WE EVALUATE PERFORMANCES

TaeKwang conducts annual third party audits on our labor compliance to assess the protection of basic employee rights. In 2017, the results evidence that all factories had no critical or serious non-compliance issues. We also conduct biannual self-assessments using these third party audit standards, which enable us to keep track of our own level of compliance.

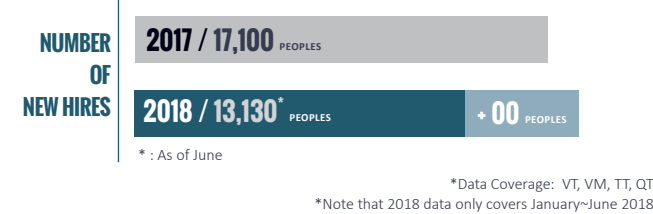
| Key Labor Compliance Assessment Categories |                    |                        |
|--|--------------------|------------------------|
| Forced labor                               | Child labor        | Discrimination         |
| Employment contract                        | Harassment & Abuse | Policy implementation  |
| Timely compensation                        | Working hours      | Freedom of association |

## WORKFORCE OF THE FUTRUE

“People are the driving force behind TaeKwang’s sustainable growth. As we continue to grow faster than ever, we strive to equip, boost and retain our talented employees to take on the future with TaeKwang.”

### EQUIPPING 13,130 NEW HIRES

#### < Number of New Hires >



In 2018, TaeKwang’s workforce grew to support its overall business expansion, specifically a new factory in Can Tho and additional production lines in VT. Our strong foundation of new hire trainings ensured the smooth onboarding of 13,130 new employees to TaeKwang.

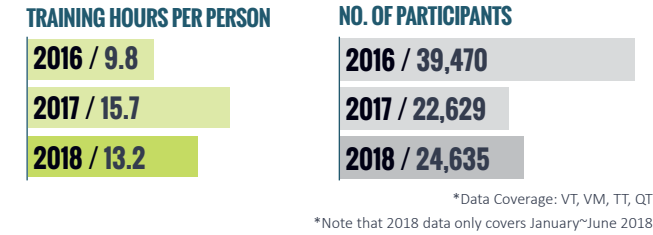
All new employees are required to attend a New Comer Orientation (NCO) and an On-the-Job Training (OJT). These programs address TaeKwang’s core values, but the curriculum are also specialized to match the specific roles and responsibilities of new hires. Upon the completion of the programs, trainees take quizzes to assess their understanding of the topics what they learned and provide feedback on the training content and trainer competence. The results of the quiz and feedback are utilized to measure the effectiveness of the training and to further improve the curriculum.

#### < New Comer Orientation Overview >

| COMMON TOPICS   |   |   |
|---|---|---|
| Product security, basic LEAN, labor principles, health and safety environmental sustainability  |   |   |
| SPECIAL FOCUS BY JOB TYPE   |   |   |
| PCC   | Supervisor  | Team Member   |
| <ul style="list-style-type: none"><li>Shoe making process</li><li>Materials</li><li>Tooling &amp; Pattern</li><li>Chemicals</li><li>Molding</li></ul> | <ul style="list-style-type: none"><li>Health, Safety and Environment management</li></ul> | <ul style="list-style-type: none"><li>Basic TPM (Total Productivity Maintenance and Management)</li></ul> |

### BOOSTING 24,635 MEMBERS OF OUR WORKFORCE

#### < Skill Upgrade Training >



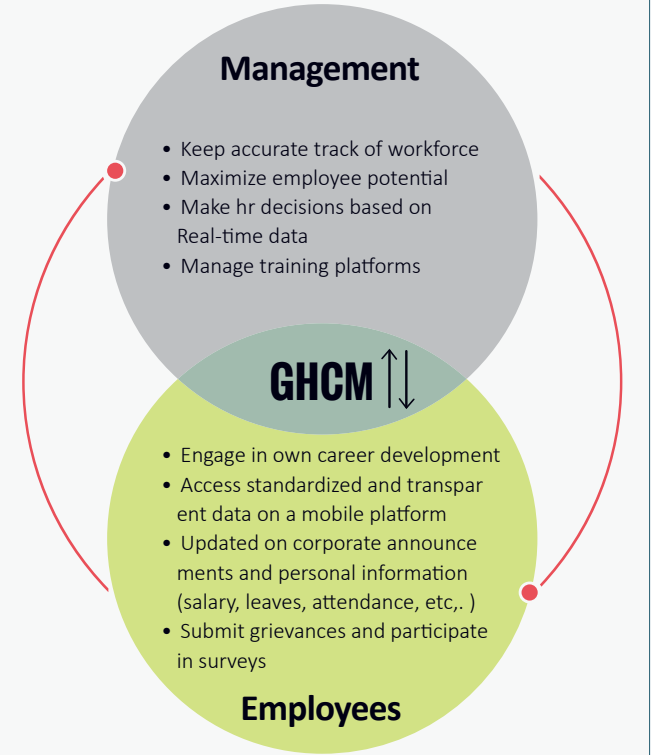
#### Training Our Local Workforce

Our workforce must have the capacities to meet increasing production targets and model varieties. In TT, we encourage multi-skill training through our Craftsmanship Program to develop skilled and agile employees. This program evaluates the on-site skills of team members and leaders based on quality and efficiency. Those who receive a certain score from the evaluation above are certified and publicly recognized as a 'Craftsman' in addition to becoming a candidate to become a Team Leader in the future. So far we have 87 certified Craftsman out of approximately 800 participants in TT.

TaeKwang continues to elevate our multi-skill training system through a company-wide HR management system. This system will enable every employee to access to a standardized list of skills for each job position. We aim to facilitate the management of multi-skill training across our entire workforce in real time and enable employees to plan their careers as well.

#### < TAEKWANG GHCM >

In 2017, TaeKwang launched the Global Human Capital Management (GHCM) system, which enables a standardized approach to managing our entire workforce across all overseas factories. It has already been implemented in T2 and VT, and we are working on integrating the HR system of the remaining factories by 2019.





# OUR PEOPLE

## WORKFORCE OF THE FUTURE

**Innovating Our R&D Talent**  
Product Creation Immersion (PCI) is a unique opportunity to drive innovation in TaeKwang’s products and processes. Last year, 30 project managers (PM) from T2 and VT PCCs were trained at our customer HQs for four to six months. Our PMs were immersed in an in-depth look into the footwear market and development process at customer standards. They also were able to hone in on developing their soft skills, such as networking and communication. Upon returning, the PMs shared the lessons they learned for other PCC peers.

TaeKwang also carries out a program named ‘Shoe Academy’ and ‘PCC Training’ at T2 and VT to enhance a workforce with multi-faceted expertise. These training provide employees with classes to foster understanding across our product development process. The range of classes includes pattern, chemicals, tooling, quality, modernized machines, innovation, material, and LEAN management. These courses are provided by internal trainers who have built expertise in their fields.

< Shoe Training Certified Employees >

|              | 2016 | 2017 | 2018 | Total |
|--------------|------|------|------|-------|
| Shoe Academy | 134  | 151  | 86   | 480   |
| PCC Training | 548  | 547  | 114  | 909   |

RETAINING OUR KEY TALENTS



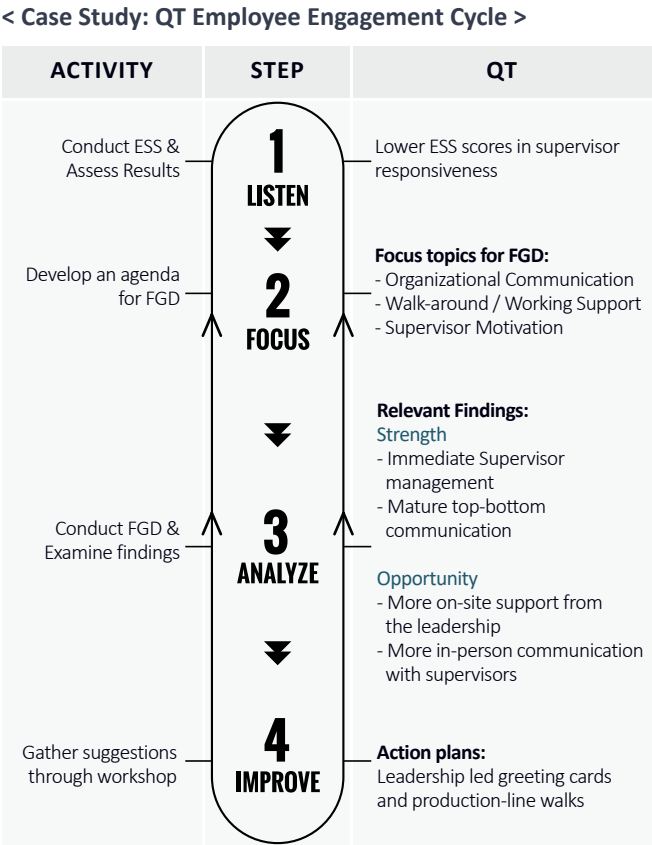
\*Data Coverage: VT, VM, TT, QT, T2

**Developing Local Leadership**  
TaeKwang retains a skilled workforce by discovering and developing talent, regardless of nationality or gender. For overseas factories to sustain stable and deep-rooted growth, local talents and leaders must drive this growth. TaeKwang’s Succession Plan is the first step in our long-term strategy to strengthen our local workforce. We launched a Succession Plan program in 2016, implementing the first phase of localizing top leadership down to middle-managers. In 2018, we developed a group of local talents and included them in the Successor Pool. We will carry out internal assessments to carefully evaluate their core values and leadership capacities. TaeKwang is committed to further cultivating local leaders to fulfill our key positions and expand their roles in the upcoming years.

**Engaging with Employees**  
Monthly General Manager (GM) Talks is a two-way communication platform between top leadership and all employees. GMs share overall business KPIs and factory-specific strategic directions to set a leadership example of transparency throughout every level of our workforce. Employees also provide input regarding their work environment, such as temperature variances or bus commutes. This communication platform is crucial to building trust and encouraging employee engagement.

TaeKwang responds to employee needs through timely improvement activities. Our employees provide feedback through our annual TK Way Organization Culture Survey, Employee Satisfaction Survey (ESS) and Focus Group Discussions (FGD). Survey results are analyzed, and improvement goals are set for each factory. FGD is a core component of ESS that enables a better understanding of the root causes of ESS results and identifies improvement plans.

For example, at QT, relatively lower ESS scores in supervisor responsiveness were identified. The FGD and following workshops enabled us to understand what employees really needed to be improved and carry out an effective action plan. The following page shows in detail the findings from the employee engagement cycle at QT regarding this case.



\* FGD at QT was conducted in December 2017 and the response-plan workshop was held in January 2018.

## STAKEHOLDER INTERVIEW



LE THI KIM THAO, DIRECTOR  
TAEKWANG VINA, PCC PFC TEAM

- 1. Please introduce yourself and your roles at VT PCC PFC.**  
Having grown up together with the company, I started my career at TaeKwang Vina (VT) in 1994 and attended product development training for nine months at T2 PCC where I obtained the knowledge and skills on shoe development, such as the way to improve productivity before shoe production and how to support departments when starting new model production. Currently as VT PCC PFC leadership, I have applied my learned knowledge and experience to build strong and professional PFC team.
- 2. How has your career developed throughout your time with TaeKwang?**  
I have continued to develop my career and capabilities by working in collaboration with various teams. Also, I am supported by the company to improve my career through Craftsmanship program and Succession Plan program. The knowledge and practical skills gained in these programs help me to strengthen my leadership as well as enhance my role and responsibility.
- 3. As TaeKwang’s workforce is growing rapidly to match its expanding business, what are some of the key qualities needing in building an agile workforce?**  
Developing employees’ capabilities is the key to our success. Thus, it is essential to build a flexible organizational structure through professional and sustainable training and mentoring programs. At the same time, it is also necessary to foster strategic minds that can quickly adapt to market conditions and respond to changing customer needs.
- 4. What is your expectation from TaeKwang in cultivating local leaders?**  
I hope the Exchange Learning Program between T2 and overseas factories is further activated, as it could cultivate talented local leaders. The program is also an opportunity to improve employees’ understanding of development needed for our future growth.



# OUR PEOPLE

## HEALTH AND SAFETY MANAGEMENT

### WHY THE TOPIC IS IMPORTANT

The footwear manufacturing industry is transitioning from intensive manual labor to manufacturing automation. As employees increasingly work closely with machines and injury occurrences are changing, different approaches to health and safety (HS) management are required accordingly. To safely produce high quality products in an environment of manufacturing automation, the provision of safe automation machines as well as safe work standards is crucial.

### HOW WE APPROACH THE TOPIC

TaeKwang has systematically managed health and safety practices to meet our 2020 HS Targets: we enforced basic health and safety requirements founded on active leadership, established a HS management system through a third party OHSAS 18001 certification, and engaged all employees in a sound culture of safety.

Moving forward in the transitioning environments in footwear manufacturing, TaeKwang is not only introducing modernized machinery, but also discovering safety risks on-site to improve upon while training our employees on safe practices.

Every year, TaeKwang strives to raise the level of safety awareness in individual employees through training regarding safety risks, accident case studies, on-site work environment assessments and health check-ups.

#### < 2020 Health and Safety Targets >

|             |                                    |             |                  |
|-------------|------------------------------------|-------------|------------------|
| <b>ZERO</b> | <b>ALL</b>                         | <b>100%</b> | <b>10%</b>       |
| FATALITY    | CULTURE OF SAFETY IN ALL FACTORIES | COMPLIANCE  | INJURY REDUCTION |

### HOW WE ACT ON THE TOPIC

#### Leadership Encouraging Safety

TaeKwang emphasizes active involvement from leadership to strengthen its culture of safety. Safety indexes, such as RIR or HS management operations, are included in leadership KPI, both in the annual and five-year targets. These safety performance results are reflected in 5~10 percentage of leadership compensation for all managers, including overseas factory general managers (GM).

Furthermore, near miss rates (NMR) are also incorporated into each department and middle-level manager KPIs to encourage employee participation in HS activities from this year. Consequently, reporting system of near miss cases has been reinforced. Such employee participation in preemptively identifying workplace safety risks has enabled prompt improvement actions and prevention of risk factors leading to injuries.

Our GMs at all our overseas factories also communicate their safety commitment to all managers and team members through the HSE 'New Year Commitment'. GMs pledge their utmost responsibility to workplace safety and lead all employees in pledging their own commitment to HS policies and individual practices in safety.



#### HEALTH AND SAFETY INDEX DEFINITIONS

##### Recordable Injury Rate (RIR):

Rate of injuries with severity greater than first aid treatment; (Injuries\*200,000)/total working hours

##### Days Away, Restricted or Transferred (DART):

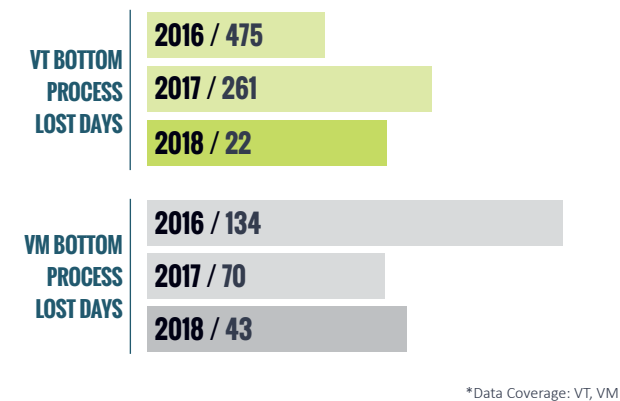
Rate of injuries that cause an employee to cease, restrict or transfer work; (Injuries causing employee to cease, restrict or transfer work \*200,000)/total working hours

**Near Miss Rate (NMR):** Rate of reported events that had the potential to result in injury or illness; (Events with potential to result in injuries\*200,000)/ total working hours

#### Embedding a Culture of Safety

In 2017, VT launched a 100-Day Accident Free Campaign in high-accident process lines to embed a culture of safety. This campaign aims to ultimately prevent accidents by enabling 100% employee participation as well as empowering initiatives and responsibility for each employee's own safety. This program requires GMs to monitor high-risk process sites and encourage safe practices; managers conduct safety assessments and trainings before shifts; and team members participate in assessing the safety of machines to discover safety risks and follow up with actual improvements in safety standards. The 100-Day Accident Free Campaign has been expanded to VM and playing an integral role in strengthening a sound culture of safety. TaeKwang aims to deploy this campaign to a constant corporate level program to embed a culture of safety at all overseas factories.

#### < Decrease in work loss days at VT & VM >



#### Equipping Safe Machines

TaeKwang applies a high standard of Safe Machine requirements to all manufacturing automation machinery: third party safety assessments, safe machine installation assessments, Job Hazard Analysis, Standard Work Processes, and machine usage training.

To effectively eliminate safety risks, TaeKwang established its own standards that prioritize high risk models. We first analyzed three-year accident trends and identified machines with the highest injury occurrence as 'high-risk machines.' Based on the results of the third party safety assessments of these machines, we set safety retrofit machine standards which will be applied to the future procurement of 'high-risk machines' as well as conventional ones. Conventional machines will be improved to match our retrofit standards within the next year.

#### < Safe Machine Progress >

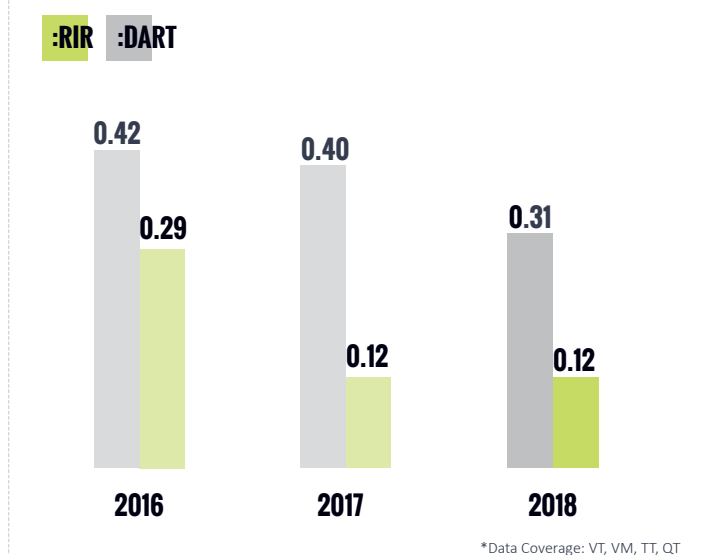
|                             | 2018 |     |     | 2019  |       |
|-----------------------------|------|-----|-----|-------|-------|
|                             | 2Q   | 3Q  | 4Q  | 1Q    | 2Q    |
| No. of safe machines        | 129  | 176 | 202 | 212   | 212   |
| No. of retrofitted machines | 542  | 690 | 950 | 1,225 | 1,534 |

\*Data Coverage: VT, VM, TT, QT

### HOW WE EVALUATE PERFORMANCES

Our health and safety performance demonstrates our constant effort to meet our 2020 Targets. For the last three years, injuries (RIR) and work loss (DART) have decreased. Employee engagement (NMR) in health and safety accidents was 11.97 in 2018.

#### < Trends in Accidents >



By 2020, TaeKwang aims to establish a world class health and safety management system in all overseas factories, and further implant a high level of safety culture.



# OUR SUPPLIERS

## OVERVIEW ON SUPPLIER ISSUES

### INTRODUCING OUR SUPPLIERS

TaeKwang and our suppliers work closely together to produce sustainable and safe products. Our 610 suppliers in eight different countries supply our materials- ranging in textiles, rubber and chemicals. We apply a high standard of compliance to our suppliers, in both their practices and the materials they provide as suppliers are an integral player within our sphere of influence.

### IDENTIFYING HOW TO WORK WITH OUR SUPPLIERS OUR EXPECTATIONS FROM OUR SUPPLIERS

Based on the consultations with our stakeholders, we have identified key issues we expect from our suppliers. The following are the top four issues ranked in order of significance:

- 1. Purchasing and using sustainable materials
- 2. Maintaining transparent and ethical business
- 3. Reducing suppliers’ environmental impacts
- 4. Enforcing suppliers’ social and labor compliance

### RESPONDING TO SUPPLIERS ISSUES

TaeKwang’s communication cycle with its suppliers starts with the registration process and continues throughout the material sourcing process, to the very early stages of product development to ensure that optimal materials for each shoe model are used. Through supplier audits and assessments, we enforce high standards regarding the materials used and the soundness of their practices.

Beyond material matters, we also strive to build a fair and transparent trade culture within TaeKwang’s sphere of influence through mutual growth and strong ethical business relationships with our suppliers. We shared our Code of Ethics with our suppliers during ethical management trainings at each factory, and our 24/7 online whistleblowing website, which guarantees anonymity and protection, is also available. Finally, our suppliers are invited to participate in an annual survey that assesses TaeKwang’s business ethics, so that suppliers can raise concerns regularly.

This comprehensive communication system enables TaeKwang to collaborate with its suppliers to responsibly manage materials and ensure ethical business practices. For further information on how we collaborate with our suppliers, please refer to the following pages.



PHOTO STORY:  
Great product is made of innovative and high quality materials.  
Jeongsan HM Millon



# OUR SUPPLIERS

## BETTER MATERIALS, BETTER SUPPLIERS

### WHY THE TOPIC IS IMPORTANT

High quality materials are an essential component in the creation of high quality products, but the environmental impact, labor compliance and ethical business practices of companies that provide these materials are also becoming increasingly relevant and important.

In the footwear manufacturing industry, major players are driving a movement to manage the entire lifecycle of materials to create sustainable products. As TaeKwang sources its materials from a number of suppliers, it also sets high standards for its suppliers and materials to sustainably grow together.

### HOW WE APPROACH THE TOPIC

TaeKwang works with suppliers that meet our standards from registration, management, material sourcing to waste disposal. During supplier registration and management, we require basic compliance and ethical business commitment. In the material sourcing stage, we assess our suppliers on the sustainability of their operational practices and materials. In the final stages of waste disposal, we encourage our suppliers to collaborate in minimizing environmental impacts by reducing unnecessary waste and maximizing the use of materials.



### HOW WE ACT ON THE TOPIC

Supplier Registration: Compliance is the Baseline

TaeKwang only works with registered suppliers that are assessed and comply above certain levels of our supplier selection criteria. The SHAPE (Safety, Health, Attitude, People, Environment) Audit is TaeKwang’s own comprehensive criteria used to evaluate suppliers regarding their labor, environment, health and safety practices.

### < Key SHAPE Audit components >

| LABOR   | HEALTH AND SAFETY   | ENVIRONMENT  |
|---|---|--|
| <ul style="list-style-type: none"><li>• Working hours, wages</li><li>• Grievances and disciplinary action</li><li>• Union</li></ul> | <ul style="list-style-type: none"><li>• Machine guarding, maintenance</li><li>• Fire safety, sanitation</li></ul> | <ul style="list-style-type: none"><li>• Compliance to environmental regulations</li><li>• Government- issued permits</li></ul> |
|   |   |  |
|   | 2016  | 2017   |
|   | 2018  |  |
| No. of SHAPE Audits   | 10  | 10   |
|   |   | 22   |

\*Data Coverage: T2, VT, VM, QT, TT, including Registration and annual SHAPE Audits

Even after suppliers are registered, SHAPE Audits are regularly conducted to monitor our suppliers and ensure they are on the right track. Over time, TaeKwang has raised compliance standards for chemical management and hazardous waste treatment as well as aspects of human rights, such as the enforcement of working hours.

### Supplier Management: Doing Ethical Business

TaeKwang believes that our suppliers must share and practice our values of ethical business, going beyond matters of material quality. Every year we provide Ethical Business Training for our suppliers as part of our general supplier engagement. This training includes guidance on compliance standards, unethical business reporting and an anonymous reporting system that safeguards whistleblowers. Suppliers also provide feedback on the training to further improve the effectiveness of the training. In 2017, 151 of major suppliers participated in the Ethical Business training and committed to responsible business practices.

### Material Sourcing: Better Materials and Suppliers

Once registered, suppliers are regularly assessed based on the sustainability of company practices and the materials they provide. The TaeKwang Supplier Assessment Criteria is composed of mainly two categories: Better Materials and Better Suppliers. The detailed requirements are not only one-time certifications, but also consistent and on-going efforts in collaboration with TaeKwang, such as closed-loop material management to recycle manufacturing waste and reduce environmental impacts.

### < TaeKwang Supplier Assessment criteria >

| KEY CATEGORIES   | DETAILED REQUIREMENTS   |
|------------------|---|
| Better Materials | <ul style="list-style-type: none"><li>• Recycled content</li><li>• Organic content</li><li>• Water conservation</li><li>• Blend and composite</li></ul>   |
| Better Suppliers | <ul style="list-style-type: none"><li>• International certifications (LEED, ISO 14001, Global Recycled Standard, Better Cotton Initiative)</li><li>• RSL compliance</li><li>• Closed-loop material management</li></ul> |

### Supplier Collaboration: Disposal Treatment

As part of the TaeKwang Supplier Assessment Criteria mentioned above, we support suppliers to minimize their environmental footprint. We collect the scraps of 17 different materials identified as “Closed-Loop Materials” and send them back to the respective suppliers to recycle. In 2018, we returned a total of 216 tons of material scraps to nine vendors. As a result, we reduced our environmental impact by cutting down on waste and efficiently using leftover material in the manufacturing process.

### < Scraps returned to suppliers >

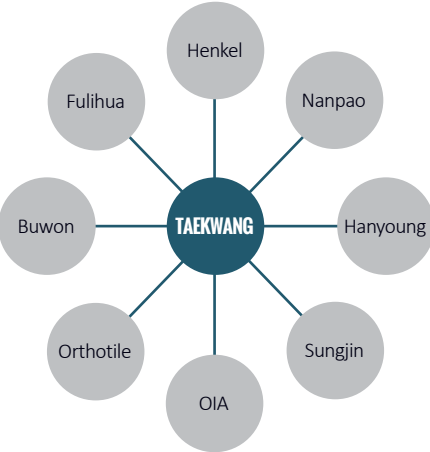
| ITEMS        |               |
|--------------|---------------|
| Heel counter | Cutting board |
| Strobel      | Carton box    |
| Toebox       | Thread spool  |

(Unit : kg)

| TYPE                      | 2016    | 2017    | 2018    |
|---------------------------|---------|---------|---------|
| Total amount of materials | 576,036 | 622,489 | 215,889 |

The ‘Take-Back Program’ is another component within the closed-loop material management requirement. Waste from processes, such as chemical drums, carton pipes and carton boxes, are returned to our suppliers to be reused. In 2018, we returned more than 173 tons of items and significantly reduced the environmental impact of our product’s lifecycle.

### < Take-back Program Participants >



(Unit : kg)

| TYPE          | 2016   | 2017   | 2018 (Jan-Jun) |
|---------------|--------|--------|----------------|
| Carton        | 174170 | 219179 | 106559         |
| Chemical drum | 83323  | 97656  | 47267          |
| Cutting board | 45918  | 37850  | 15805          |
| Thread spool  | 0      | 0      | 2872           |
| Total         | 309411 | 354685 | 172504         |

\*Data Coverage: VT, VM, QT, TT

### HOW WE EVALUATE PERFORMANCE

Our current suppliers are evaluated based on the aforementioned TaeKwang Supplier Assessment Criteria. Over the year of 2017 and 2018, all newly registered suppliers and assigned suppliers from our customer to each factory were audited their sustainability practices by SM team. Minor findings were suggested to correct and no major non-compliance, which is the violations of Zero Tolerance Principles, was found.



# OUR LOCAL COMMUNITY

## INTRODUCING THE LOCAL COMMUNITY

Nearly 80,000 people work at our headquarters and offshore factories in Korea, Vietnam, Indonesia and China; and 72% of these employees are living within 30km of our workplaces. With this local population, the welfare programs we provide for our employees can really make a positive impact on the local communities. Furthermore, we are heading extra programs that benefit the families of our employees and the neighbors in these communities. As such, we are gradually reaching a greater number of local people in the areas of our business operations.

## IDENTIFYING LOCAL COMMUNITY ISSUES

Based on the consultations with our stakeholders, we have found three key approaches (outlined below), to take when engaging with our local community members. In implementing these approaches at all of our factories, we are endeavoring to make a lasting and meaningful impact with our philanthropic programs.

1. Engaging with local communities to maintain sound relationship
2. Conducting strategic philanthropic programs
3. Contributing to local economic development in offshore factories' areas

## RESPONDING TO LOCAL COMMUNITY ISSUES

We define our local community members as two groups: our own employees and the local residents residing near our factories. For the communication of their needs, we operate internal communication channels such as GM talks and employee surveys, while engaging with labor unions and local governments, such as village representatives. After we became a member of the UN Global Compact in 2015, we have implemented UN Sustainable Development Goals (UN SDGs<sup>1)</sup>) and selected five goals to achieve by 2030. In the following pages, we will present our overall commitment to these goals, and take a closer look at the best cases we handled in 2017-2018 to achieve the targets for each goal.

1) A collection of 17 global goals and 169 targets set by the United Nations and the international society to accomplish by 2030.



 BUILDING PHU QUOC COLLEGE

\$ **11** MILLION

 SCHOLARSHIP GRANTEES IN BANDUNG

**114** PERSONS

 INFRASTRUCTURE IN MOCBAI

\$ **764** THOUSAND

PHOTO STORY:  
We are providing for the medical needs of our employees  
and local community members.  
VT Vina Hospital



# OUR LOCAL COMMUNITY

## STAKEHOLDER INTERVIEW



**PARK SUK-BUM, SECRETARY GENERAL  
GLOBAL COMPACT NETWORK KOREA**

**1. Please tell us a little bit about the UNGC Network Korea and its activities to achieve UN SDGs.**

The UN Global Compact is a global initiative that helps companies achieve sustainability while fulfilling corporate social responsibility and adhering to the ten principles of "human rights, labor, environment and anti-corruption". Currently, more than 13,000 companies and organizations from 164 countries in the world are participating. This number includes global fashion companies such as Nike, H&M, Levis, and so on. The UNGC Korea Network supports the achievement of SDGs in domestic companies. Now, about 250 companies and organizations, including TaeKwang, are participating as our members. By holding meetings and conferences, we share the latest trends and best practices of SDGs for CEOs and executives of each company. In addition, we provide various guides for companies by localizing and researching the publications of the headquarters in Korean.

**2. TaeKwang is a global footwear manufacturing company, operating factories in Vietnam, China and Indonesia and Korea. Please let us know if there are any best practices and examples of shoe and apparel companies that TaeKwang can introduce for UN SDGs contribution.**

Supply chain management and transparency are big issues in the global fashion industry. Many consumers who buy products from global shoe and apparel companies raise their eyebrow when it comes to forced and unfair labor at the OEM factory and supplier levels. Initiatives such as the Sustainable Apparel Coalition (SAC) and the Ethical Trade Initiative (ETI) are platforms where companies in the same industry can empower themselves to achieve industrial sustainability that cannot be achieved at the individual enterprise level. Recently, many shoe and apparel companies are joining these initiatives and working together to solve common issues in the industry. TaeKwang is also expected to participate in such initiatives so that it is necessary to grasp the business situation with objective indicators and to work together for better industry development.

**3. TaeKwang has selected five UN SDGs that can make a lasting contribution in future. Please tell us your advice and expectations for TaeKwang.**

First of all, I would like to applaud TaeKwang for having been sought out and selected for five UN SDGs as future goals. I know that TaeKwang has chosen five priority SDGs to assess the various impacts of business activities on SDGs across its value chain and to identify where positive impacts can be extended and where negative impacts can be reduced or prevented. Now, it is necessary to set specific, measurable and timely detailed goals. And, integrating and internalizing these goals into core business are also essential to achieve the SDGs. We hope that TaeKwang will report and communicate these commitments to the outside world and disseminate its efforts to implement SDGs in clients, business partners and communities and encourage them to participate. The UNGC Korea Network will be a sustainable partner and UNGC COP report and this Sustainability Report will be good channels for informing the public on TaeKwang's efforts.

< Community Investment in 2017-2018 >

\$12.4 MILLION

< Number of Beneficiary in 2017-2018 >

56k PERSONS

< Our Commitments to UN SDGs >

|                                       | TARGETS  | KEY PROGRAMS   |
|---------------------------------------|--|--|
| 1 NO POVERTY                          | Reduce at least by half the proportion of men, women and children of all ages living in poverty according to national definitions  | • Lovely Hand Fund<br>• Golden Heart Fund<br>• Donation for flood victims  |
| 3 GOOD HEALTH                         | Achieve universal health coverage, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all | • In-house hospital at VT factory<br>• Health checkup for female employees<br>• Blood donation, HIV AIDS/ Cancer Workshops                             |
| 4 QUALITY EDUCATION                   | Substantially increase the number of youth and adults who have relevant skills for employment, decent jobs and entrepreneurship  | • Jeongsan Scholarship Foundation<br>• Scholarship to employees' children<br>• Vocational college in Phu Quoc, Vietnam<br>• TaeKwang Vina Kindergarten |
| 8 GOOD JOBS AND ECONOMIC GROWTH       | Achieve full and productive employment and decent work for all women and men, and equal pay for work of equal value  | • Scholarship for local students<br>• Night school for employees   |
| 11 SUSTAINABLE CITIES AND COMMUNITIES | Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety  | • Mercy House Village<br>• Disaster recovery<br>• Drinking water filter  |



COMMUNITY IMPACT CASE #1:

FUNDING PROGRAMS FOR LOCAL COMMUNITY

The majority of our factories are located in rural areas with a considerable number of poor households. For immediate action to relieve some of the hardships in the lives of these individuals, we run several funding programs that donate money and other living materials. The recipients vary; they can range from our own employees to the aged and disabled people in the communities.

One of our funding programs is the 'Lovely Hand Fund' which began in 2012. Each month, we raise funds to help employees who have serious diseases to help mitigate their medical burden. Every employee is welcome to contribute to this program. From running this program, we have increased the satisfaction and engagement of our employees in creating a more caring community.

< Lovely Hands Fund >

|                      | 2016   | 2017   | 2018   |
|----------------------|--------|--------|--------|
| Donation (USD)       | 73,668 | 67,509 | 43,028 |
| No. of beneficiaries | 32     | 24     | 16     |

Another program is called the 'Golden Heart Fund' which started in 2003. The 'Golden' in the name signifies the sincere heart of our employees who are willing to raise funds to support their colleague's families. This fund is provided to employees to deal with the bereavement process in the unfortunate event of a family member passing away.

< Donation from Golden Heart Fund >

|                      | 2016   | 2017   | 2018   |
|----------------------|--------|--------|--------|
| Amount (USD)         | 63,560 | 19,305 | 34,725 |
| No. of beneficiaries | 23     | 7      | 13     |



# OUR LOCAL COMMUNITY



## BEST CASE #2:

### TAEKWANG VINA HOSPITAL, IN-HOUSE MEDICAL SERVICE IN VIETNAM

Over the past three years, VM has invited Korean specialists and volunteers to the local community together with the Gyeongnam Medical Association. VM provided an opportunity to receive high-quality treatment and prescriptions from Korean specialists such as pediatrics, cardiology, orthopedics and dentists. Local residents who lacked medical care due to lack of infrastructure were main patients and total 1,645 employees and local residents received a benefit. The satisfaction and pride of employees has also been enhanced in the activities that provide health care by the VM.

Considering the characteristics of the majority of our workforce, i.e., women in their 20s and 30s, we have provided reproductive health check-ups to prevent gynecological complications. This gynecological medical check-up is open to all female employees all year around, so whoever wants to take advantage of this service can receive care from TaeKwang Vina Hospital free of charge. A total of 3,216 female employees in the VT factory received this special medical check-up in 2017. In addition, we provided education geared towards the issues women often face such as psychology, emotional control and pregnancy and childbirth.



Health Check-up for Female Employees at VT



## BEST CASE #3:

### KOREA-VIETNAM VOCATIONAL COLLEGE IN PHU QUOC, VIETNAM

PPhu Quoc is the largest Vietnam Island recognized by UNESCO as a World Biosphere Reserve in 2006. Currently, the Vietnamese government is attempting to ramp up tourism to this island as a vacation destination; thus, making a new and competitive workforce especially pertinent.

TaeKwang has invested USD 11 million in building Phu Quoc Technical Institution, a college opened in September, 2017 with 170 freshmen. The college offers 2-year degrees in five majors such as: hotel management, culinary arts, tourism, beauty care and information technology. Each year, it trains about 350 professionals in these areas. Moreover, some of graduates will immediately be employed at nearby hotels on the island as part of the core workforce in the Vietnamese tourism industry. We believe the school would contribute not only to boosting the education and supporting local economic development but also strengthening the relationship between the two countries.



Class in Phu Quoc Technical Institution



## BEST CASE #4:

### PREPARING COMPETITIVE WORKFORCE IN INDONESIA

Our TT factory in Indonesia is relatively new but a quickly growing one; it recruited a total of 16,694 people in 2018, which is a 280% increase in new hires compared to that of last year. As the numbers indicate, the factory is expanding by large margin and attracting a lot of skilled talents, including technicians and engineers.

Behind this momentum is our scholarship program for students in local universities and vocational schools. Since 2013, we have run this program as a part of our initiatives to prepare local students to become part of our future workforce. From this program, students have received not only financial support for their education, but also a great opportunity for career development. At the same time, our company has been gaining acknowledgment among the local graduates.

Until now, we have constantly increasing the amounts of our scholarships and the number of recipients to benefit both our company and the local economic growth through sustainable job creation. In 2017, we have granted USD 57,548 for 114 students, which are more than double the amount of previous year's.



TT's Scholarship for University Students at Bandung



## BEST CASE #5:

### IMPROVING LIVABILITY IN AHN THANH, VIETNAM

Ahn Thanh is a local village 2km away from our VM factory in Vietnam. The total population of Ahn Thanh amounts to 10,214, and 10% of these individuals are employed by VM and most of the residents are farmers. In discovering ways to improve lives of our local communities and enhance reputation of our VM factory, we began a Ahn Thanh village development project.

To search out truly vulnerable areas in the village, VM had been communicated with Ahn Thanh stakeholder committee members, including village heads and an agricultural department leader from Tay Ninh Province Government.

Over the course of several meetings, we identified that a lack of basic infrastructure was one of the most pressing problems. Accordingly, we started to construct village infrastructure; this included roads, gates for agricultural waterways, water pumps, electricity, and other needed structures. The project took three years to complete, from September 2014 to December 2017. A total of USD 764,112 in construction payments were made to the village, which undoubtedly brought much joy to the daily lives of those in the village



VM's Infrastructure Investment for Ahn Thanh Village





04

# APPENDIX

|    |                                  |
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| 68 | Financial Statements             |
| 69 | GRI Content Index                |
| 74 | Third Party Assurance            |
| 76 | UN Global Compact Advanced Level |
| 77 | Zero Tolerance Principles        |



FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENT

The numbers below include all affiliates as well as the footwear business  
(Unit: Won)

| CATEGORY                     |   | 2017              | 2016              | 2015              |
|------------------------------|---|-------------------|-------------------|-------------------|
| ASSET                        | Current assets  | 506,012,540,819   | 540,209,147,113   | 455,632,421,761   |
|                              | Quick Assets  | 287,320,681,678   | 317,282,548,581   | 254,938,139,846   |
|                              | Inventories   | 218,691,859,141   | 222,926,598,532   | 200,694,281,915   |
|                              | Non-current assets  | 1,350,918,936,079 | 1,178,614,011,106 | 1,068,318,475,544 |
|                              | Investment assets   | 433,751,716,364   | 355,750,644,826   | 338,368,165,699   |
|                              | Tangible assets   | 800,973,020,646   | 749,005,341,853   | 668,229,258,945   |
|                              | Intangible assets   | 12,899,040,317    | 5,643,633,146     | 6,395,956,759     |
|                              | Other non-current assets  | 103,295,158,752   | 68,214,391,281    | 55,325,094,141    |
|                              | Total assets  | 1,856,931,476,898 | 1,718,823,158,219 | 1,523,950,897,305 |
| LIABILITIES                  | Current liabilities   | 680,014,786,432   | 865,690,911,667   | 721,985,861,538   |
|                              | Non-current liabilities   | 475,492,751,923   | 295,370,100,201   | 361,861,777,587   |
|                              | Total liabilities   | 1,155,507,538,355 | 1,161,061,011,868 | 1,083,847,639,125 |
| EQUITY                       | Capital   | 955,420,000       | 955,420,000       | 955,420,000       |
|                              | Capital surplus (consolidated)                                    | 141,355,676,203   | 141,355,676,203   | 141,355,676,203   |
|                              | Capital adjustment (consolidated)                                 | (17,400,760,243)  | (17,400,760,243)  | (17,400,760,243)  |
|                              | Other comprehensive income/loss accumulated amount (consolidated) | (15,566,633,744)  | 19,901,493,991    | 16,909,406,181    |
|                              | Earned surplus (consolidated)                                     | 578,930,241,633   | 410,929,189,724   | 296,296,384,166   |
|                              | Non-controlling interests   | 13,149,994,694    | 2,021,126,676     | 1,987,131,873     |
|                              | Total equity  | 701,423,938,543   | 557,762,146,351   | 440,103,258,180   |
| TOTAL EQUITY AND LIABILITIES |   | 1,856,931,476,898 | 1,718,823,158,219 | 1,523,950,897,305 |

\*A list of entities included in the financial statement can be found in our Annual Securities Report 2017 page14, 15

INCOME STATEMENT

(Unit: Won)

| CATEGORY                                     | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|
| Sale   | 1,928,432,289,230 | 1,818,598,602,119 | 1,592,682,606,602 |
| Cost of goods sold                           | 1,450,809,799,222 | 1,375,214,515,927 | 1,249,368,589,106 |
| Gross profit                                 | 477,622,490,008   | 443,384,086,192   | 343,314,017,496   |
| Selling, general and administrative expenses | 264,875,332,952   | 247,799,502,360   | 206,159,663,479   |
| Operating income                             | 212,747,157,056   | 195,584,583,832   | 137,154,354,017   |
| Non-operating income                         | 81,185,189,730    | 55,740,865,897    | 49,799,009,486    |
| Non-operating expenses                       | 67,985,405,717    | 83,354,020,580    | 82,594,011,055    |
| Earnings before taxes                        | 225,946,941,069   | 167,971,429,149   | 104,359,352,448   |
| Income tax expense                           | 61,234,379,303    | 55,530,227,063    | 43,330,012,696    |
| Net income (consolidated)                    | 164,712,561,766   | 112,441,202,086   | 61,029,339,752    |
| Earnings per share                           | 1,772,012         | 1,176,881         | 638,736           |

\*A list of entities included in the financial statement can be found in our Annual Securities Report 2017 page14, 15

GRI CONTENT INDEX






102: GENERAL DISCLOSURE


| TOPIC                  | INDEX   | DISCLOSURE                                 | PAGES & NOTES                             | ISO 26000  | UN SDGs |  |
|------------------------|---|--|---|--|---------|--|
| ORGANIZATIONAL PROFILE | 102-1   | Name of the organization                   | About This Report:                        | 6.3.10/6.4.1/<br>6.4.2/6.4.3/<br>6.4.4/6.4.5/<br>6.8.5/7.8 |         |  |
|                        | 102-2   | Activities, brands, products, and services | Taekwang Overview, 5-6                    |  |         |  |
|                        | 102-3   | Location of headquarters                   | Taekwang Overview, 5                      |  |         |  |
|                        | 102-4   | Location of operations                     | Taekwang Overview, 5                      |  |         |  |
|                        | 102-5   | Ownership and legal form                   | Taekwang Overview, 5                      |  |         |  |
|                        | 102-6   | Markets served                             | Taekwang Overview, 6-12                   |  |         |  |
|                        | 102-7   | Scale of the organization                  | Taekwang Overview, 5                      |  |         |  |
|                        | 102-8   | Information on employees and other workers | Taekwang Overview, 9-13<br>Our People, 48 |  |         |  |
|                        | < Current Employees by Location, Contract Type and Gender > |  |   |  |         |  |
|                        | (As of June 2018)   |  |   |  |         |  |
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GRI CONTENT INDEX

300: ENVIRONMENTAL


| Topic   | Index   | Disclosure Topics                                  | Pages & Notes                   | ISO 26000      | UN SDGs  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|---|---|--|---------------------------------|----------------|--|----------|------|----------------|------------------------|--|---------------|-------------|---|-------------------|-------------------|-------------------|-------------|-------|-------|-------|-------|------|---------|---------|--------|
| ENERGY  |   |  |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| 103: Management Approach  | 103-1   | Explanation of the material topic and its boundary | Our Environment (Energy), 46-47 | 6.5.4          | <br><br><br> |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | 103-2   | The MA and its components                          |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | 103-3   | Evaluation of the MA                               |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| 302: Energy   | 302-1   | Energy consumption within the organization         |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| <Energy consumption>  |   |  | (Unit: kWh)                     |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| <table><tr><th>Category</th><th>2016</th><th>2017</th><th>2018</th></tr><tr><td>Total non-renewable energy consumption1)</td><td>268,083,269</td><td>260,990,703</td><td>146,032,696</td></tr><tr><td>Electricity</td><td>262,303,627</td><td>256,744,761</td><td>160,972,258</td></tr><tr><td>Steam</td><td>5,895</td><td>4,456</td><td>3,739</td></tr><tr><td>Fuel</td><td>151,501</td><td>107,786</td><td>53,950</td></tr></table> |   |  |                                 |                |  | Category | 2016 | 2017           | 2018                   | Total non-renewable energy consumption1) | 268,083,269   | 260,990,703 | 146,032,696                               | Electricity       | 262,303,627       | 256,744,761       | 160,972,258 | Steam | 5,895 | 4,456 | 3,739 | Fuel | 151,501 | 107,786 | 53,950 |
| Category  | 2016  | 2017   | 2018                            |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Total non-renewable energy consumption1)  | 268,083,269   | 260,990,703  | 146,032,696                     |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Electricity   | 262,303,627   | 256,744,761  | 160,972,258                     |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Steam   | 5,895   | 4,456  | 3,739                           |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Fuel  | 151,501   | 107,786  | 53,950                          |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| *Data Coverage: VT, TT, QT, VM<br>1)We have not measured our use of renewable energy generated by solar thermal.  |   |  |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| WATER   |   |  |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| 103: Management Approach  | 103-1   | Explanation of the material topic and its boundary | Our Environment (Water), 45     | 6.5.4          |   |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | 103-2   | The MA and its components                          |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | 103-3   | Evaluation of the MA                               |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| 303: Water  | 303-1   | Water withdrawal by source                         |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | <Total water withdrawal>  |  |                                 | (Unit: m³)     |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | <table><tr><th>Source1)</th><th>2016</th><th>2017</th><th>2018 (Jan-Jun)</th></tr><tr><td>Municipal water</td><td>1,637,880,929</td><td>1,443,850,958</td><td>741,048,422</td></tr><tr><td>Total water consumption</td><td>1,637,880,929</td><td>1,443,850,958</td><td>741,048,422</td></tr></table>  |  |                                 |                | Source1)   | 2016     | 2017 | 2018 (Jan-Jun) | Municipal water        | 1,637,880,929                            | 1,443,850,958 | 741,048,422 | Total water consumption                   | 1,637,880,929     | 1,443,850,958     | 741,048,422       |             |       |       |       |       |      |         |         |        |
|   | Source1)  | 2016   | 2017                            | 2018 (Jan-Jun) |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Municipal water   | 1,637,880,929   | 1,443,850,958                                      | 741,048,422                     |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Total water consumption   | 1,637,880,929   | 1,443,850,958                                      | 741,048,422                     |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| *Data coverage: VT, TT, QT, VM<br>1)We have constructed a few infrastructures for rainwater use; however, we have not measured the amount of water from these infrastructures.  |   |  |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| 303: Water  | 303-3   | Water recycled and reused                          |                                 | 6.5.4          |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | <Water recycled and reused>   |  |                                 | (Unit: m³)     |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
|   | <table><tr><th>Category</th><th>2016</th><th>2017</th><th>2018 (Jan-Jun)</th></tr><tr><td>Total water withdrawal</td><td>1,637,880,929</td><td>1,443,850,958</td><td>741,048,422</td></tr><tr><td>Total volume of water recycled and reused</td><td>718,374,575 (44%)</td><td>474,882,580 (33%)</td><td>299,531,772 (40%)</td></tr></table> |  |                                 |                | Category   | 2016     | 2017 | 2018 (Jan-Jun) | Total water withdrawal | 1,637,880,929                            | 1,443,850,958 | 741,048,422 | Total volume of water recycled and reused | 718,374,575 (44%) | 474,882,580 (33%) | 299,531,772 (40%) |             |       |       |       |       |      |         |         |        |
|   | Category  | 2016   | 2017                            | 2018 (Jan-Jun) |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Total water withdrawal  | 1,637,880,929   | 1,443,850,958                                      | 741,048,422                     |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| Total volume of water recycled and reused   | 718,374,575 (44%)   | 474,882,580 (33%)                                  | 299,531,772 (40%)               |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |
| *Coverage: QT, VM, TT<br>*Standards and methodologies to be added   |   |  |                                 |                |  |          |      |                |                        |  |               |             |   |                   |                   |                   |             |       |       |       |       |      |         |         |        |

| Effluents and Waste   |            |  |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
|---|------------|--|--------------------------------|-------|---|------------------|------|------|----------------|-----------------------|------------|------------|-----------|-----|---------|---------|---------|-----|---------|---------|---------|-----|-----------|-----------|---------|----|-----------|-----------|-----------|----|-----------|-----------|-----------|----|--------|---|---|
| 103: Management Approach  | 103-1      | Explanation of the material topic and its boundary | Our Environment (Waste), 42-44 | 6.5.3 |  |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
|   | 103-2      | The MA and its components                          |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
|   | 103-3      | Evaluation of the MA                               |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| 306: Effluents and Waste  | 306-2      | Waste by type and disposal method                  |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| <Disposal method for solid(non-hazardous) waste>  |            |  |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| (Unit: kg)  |            |  |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| <table><tr><th>Disposal Methods</th><th>2016</th><th>2017</th><th>2018 (Jan-Jun)</th></tr><tr><td>Total weight of waste</td><td>13,091,734</td><td>13,244,444</td><td>7,000,403</td></tr><tr><td>IHR</td><td>759,321</td><td>768,178</td><td>336,019</td></tr><tr><td>CLP</td><td>576,036</td><td>609,244</td><td>210,012</td></tr><tr><td>CSP</td><td>1,623,375</td><td>1,377,422</td><td>637,037</td></tr><tr><td>DC</td><td>5,563,987</td><td>4,423,644</td><td>2,478,143</td></tr><tr><td>ER</td><td>4,490,465</td><td>6,065,955</td><td>3,339,192</td></tr><tr><td>LF</td><td>78,550</td><td>0</td><td>0</td></tr></table> |            |  |                                |       |   | Disposal Methods | 2016 | 2017 | 2018 (Jan-Jun) | Total weight of waste | 13,091,734 | 13,244,444 | 7,000,403 | IHR | 759,321 | 768,178 | 336,019 | CLP | 576,036 | 609,244 | 210,012 | CSP | 1,623,375 | 1,377,422 | 637,037 | DC | 5,563,987 | 4,423,644 | 2,478,143 | ER | 4,490,465 | 6,065,955 | 3,339,192 | LF | 78,550 | 0 | 0 |
| Disposal Methods  | 2016       | 2017   | 2018 (Jan-Jun)                 |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| Total weight of waste   | 13,091,734 | 13,244,444   | 7,000,403                      |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| IHR   | 759,321    | 768,178  | 336,019                        |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| CLP   | 576,036    | 609,244  | 210,012                        |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| CSP   | 1,623,375  | 1,377,422  | 637,037                        |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| DC  | 5,563,987  | 4,423,644  | 2,478,143                      |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| ER  | 4,490,465  | 6,065,955  | 3,339,192                      |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| LF  | 78,550     | 0  | 0                              |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |
| * IHR (In-house Recycling) CLP (Closed Loop) CSP (Customer Sponsored Recycling Program) DC (Down cycling) ER (Energy Recovery) LF (Landfill)  |            |  |                                |       |   |                  |      |      |                |                       |            |            |           |     |         |         |         |     |         |         |         |     |           |           |         |    |           |           |           |    |           |           |           |    |        |   |   |



GRI CONTENT INDEX

400: SOCIAL

| Topic                               | Index | Disclosure Topics   | Pages & Notes                                  | ISO 26000   | UN SDGs   |
|-------------------------------------|-------|---|--|-------------|---|
| OCCUPATIONAL HEALTH AND SAFETY      |       |   |  |             |   |
| 103: Management Approach            | 103-1 | Explanation of the material topic and its boundary  | Our People (Health & Safety Management), 54-55 |             |   |
|                                     | 103-2 | The MA and its components   |  |             |   |
|                                     | 103-3 | Evaluation of the MA  |  |             |   |
| 403: Occupational Health and Safety | 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities |  | 6.4.6/6.8.8 |  |

403-2a~b  
<Types of Injuries<sup>1)</sup>>

| Factory | Contusion  | Fracture    | Abrasion   | Laceration   | Burns       | Wound      | Crushing Injury |
|---------|------------|-------------|------------|--------------|-------------|------------|-----------------|
| VT      | 46         | 9           | 16         | 23           | 20          | 7          | 1               |
| TT      | 1          | 1           | 1          | 3            | 3           | 1          | 4               |
| QT      | 1          | 3           | 0          | 1            | 0           | 3          | 2               |
| VM      | 3          | 15          | 10         | 0            | 2           | 0          | 2               |
| FACTORY | CUT INJURY | BACK INJURY | DISTORTION | BRAIN DAMAGE | FLASH BURNS | AMPUTATION | N/A             |
| VT      | 1          | 0           | 0          | 1            | 1           | 1          | 13              |
| TT      | 1          | 0           | 0          | 0            | 0           | 0          | 3               |
| QT      | 0          | 1           | 1          | 0            | 0           | 0          | 0               |
| VM      | 1          | 0           | 0          | 0            | 0           | 0          | 0               |

1)Reporting period: October 2017 to June 2018 (Reporting period for data on type of injury is only available after our SMDS was established

<Injury Rates of Employees>

|  | Region | 2016 | 2017 | 2018 |
|--|--------|------|------|------|
| Recordable Incident Rate <sup>1)</sup>           | VT     | 0.76 | 0.46 | 0.35 |
|  | TT     | 0.48 | 0.28 | 0.14 |
|  | QT     | 0.46 | 0.33 | 0.57 |
|  | VM     | 0.43 | 0.35 | 0.29 |
| Occupational Disease Rate <sup>2)</sup>          | VT     | 0    | 0    | -    |
|  | TT     | 0    | 0    | -    |
|  | QT     | 0    | 0    | -    |
|  | VM     | 0    | 0    | -    |
| Days Away, Restricted, Transferred <sup>3)</sup> | VT     | 0.16 | 0.09 | 0.10 |
|  | TT     | 0.13 | 0.10 | 0.04 |
|  | QT     | 0.46 | 0.33 | 0.57 |
|  | VM     | 0.26 | 0.14 | 0.12 |
| Absentee Rate <sup>4)</sup>                      | VT     | 0.05 | 1.31 | 3.01 |
|  | TT     | 1.90 | 1.39 | 0.94 |
|  | QT     | 0.59 | 0.44 | 0.50 |
|  | VM     | 0.47 | 0.29 | 0.34 |
| Fatalities                                       | VT     | 0    | 0    | 0    |
|  | TT     | 0    | 0    | 0    |
|  | QT     | 0    | 0    | 0    |
|  | VM     | 0    | 0    | 0    |
| Supplier fatalities <sup>5)</sup>                | VT     | 1    | 0    | 0    |
|  | TT     | 0    | 0    | 0    |
|  | QT     | 1    | 0    | 0    |
|  | VM     | 0    | 0    | 0    |

\*While the data is not being managed by gender, approximately 72.5% of our workforce are female.


1) RIR: Total number of recorded injuries/(Total hours worked x 200,000); excludes minor injuries that require only first aid treatment

2) ODR: Total number of occupational diseases/ (Total hours worked\*200,000); Only includes results of hearing tests during health check-ups; 2018 data U/A: health check-ups to be conducted

3) DART: Total number of lost days / (Total hours worked x 200,000)

4) AR: Total number of missed (absentee) days / (Total workforce days x 200,000)

5) Data regarding supplier injuries includes only injuries that occurred on Taekwang factory sites

|                              |       |  |  |       |   |
|------------------------------|-------|--|--|-------|---|
| HUMAN RIGHTS ASSESSMENT      |       |  |  |       |   |
| 103: Management Approach     | 103-1 | Explanation of the material topic and its boundary       | Our People (Human Rights in the Workplace), 50 |       |   |
|                              | 103-2 | The MA and its components                                |  |       |   |
|                              | 103-3 | Evaluation of the MA                                     |  |       |   |
| 412: Human Rights Assessment | 412-2 | Employee training on human rights policies or procedures |  | 6.3.5 |  |

412-2a~b <Human Rights Education>

|   | REGION | 2016      | 2017      | 2018      |
|---|--------|-----------|-----------|-----------|
| Total training hours on human rights policies or procedures | T2     |           |           |           |
|   | VT     | 1,680,259 | 1,813,020 | 2,273,150 |
|   | TT     | 16,751    | 11,955    | 30,055    |
|   | QT     | 354483    | 126496    | 60564     |
| No. of trainees   | VM     | 154028    | 403716    | 171388    |
|   | T2     |           |           |           |
|   | VT     | 31,703    | 32,964    | 41,330    |
|   | TT     | 16,751    | 11,955    | 30,055    |
|   | QT     | 4146      | 2144      | 2472      |
|   | VM     | 5501      | 11874     | 6121      |

OTHERS

| Topic                                | Index | Disclosure Topics                                  | Pages & Notes                               | ISO 26000 | UN SDGs |
|--------------------------------------|-------|--|---|-----------|---------|
| INNOVATION ON PROCESS AND TECHNOLOGY |       |  |   |           |         |
| 103: Management Approach             | 103-1 | Explanation of the material topic and its boundary | Innovation on Process and Technology, 34-35 |           |         |
|                                      | 103-2 | The MA and its components                          |   |           |         |
|                                      | 103-3 | Evaluation of the MA                               |   |           |         |
| Innovation on process and technology |       | N/A  |   |           |         |



# THIRD PARTY ASSURANCE

## LRQA INDEPENDENT ASSURANCE STATEMENT



### LRQA Independent Assurance Statement

Relating to Taekwang Co., Ltd.'s Sustainability Report for the period January 2017 through June 2018

This Assurance Statement has been prepared for Taekwang Co., Ltd. in accordance with our contract but is intended for the readers of this Report.

#### Terms of engagement

Lloyd's Register Quality Assurance (LRQA) was commissioned by Taekwang Co., Ltd. to provide independent assurance on its 'Taekwang Sustainability Report 2018' ("the report") against the assurance criteria below to a moderate level of assurance using AA1000AS (2008), where the scope was a Type 2 engagement.

Our assurance engagement covered Taekwang Co., Ltd.'s operations and activities in Korea and overseas<sup>1</sup> specifically the following requirements:

- Evaluating adherence to AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness
- Confirming that the report is in accordance with:
  - GRI Standards<sup>2</sup>: Core option
- Evaluating the accuracy and reliability of data and information for only the selected indicators listed below:
  - GRI 200 (Economic): 201-1
  - GRI 300 (Environmental): 301-1, 302-1, 303-1, 303-3, 306-2
  - GRI 400 (Social): 403-2, 412-2

Our assurance engagement excluded the data and information of Taekwang Co., Ltd.'s suppliers, contractors and any third-parties mentioned in the report.

LRQA's responsibility is only to Taekwang Co., Ltd. LRQA disclaims any liability or responsibility to others as explained in the end footnote. Taekwang Co., Ltd.'s responsibility is for collecting, aggregating, analysing and presenting all the data and information within the report and for maintaining effective internal controls over the systems from which the report is derived. Ultimately, the report has been approved by, and remains the responsibility of Taekwang Co., Ltd.

#### LRQA's Opinion

Based on LRQA's approach nothing has come to our attention that would cause us to believe that Taekwang Co., Ltd. has not, in all material respects:

- Met the requirements above
- Disclosed accurate and reliable performance data and information as all errors or omissions identified during the assurance engagement were corrected
- Covered all the issues that are important to the stakeholders and readers of this report.

The opinion expressed is formed on the basis of a moderate level of assurance and at the materiality of the professional judgement of the verifier.

**Note:** The extent of evidence-gathering for a moderate assurance engagement is less than for a high assurance engagement. Moderate assurance engagements focus on aggregated data rather than physically checking source data at sites. Consequently, the level of assurance obtained in a moderate assurance engagement is substantially lower than the assurance that would have been obtained had a high assurance engagement been performed.

#### LRQA's approach

LRQA's assurance engagements are carried out in accordance with our verification procedure. The following tasks though were undertaken as part of the evidence gathering process for this assurance engagement:

- Assessing Taekwang Co., Ltd.'s approach to stakeholder engagement to confirm that issues raised by stakeholders were captured correctly. We did this through reviewing documents and associated records.
- Reviewing Taekwang Co., Ltd.'s process for identifying and determining material issues to confirm that the right issues were included in their report. We did this by benchmarking reports written by Taekwang Co., Ltd. and its peers to ensure that sector specific issues were included for comparability. We also tested the filters used in determining material issues to evaluate whether Taekwang Co., Ltd. makes informed business decisions that may create opportunities that contribute towards sustainable development.
- Auditing Taekwang Co., Ltd.'s data management systems to confirm that there were no significant errors, omissions or mis-statements in the report. We did this by reviewing the effectiveness of data handling procedures, instructions and systems, including those for internal verification. We also spoke with those key people responsible for compiling the data and drafting the report.
- Reviewing supporting evidence made available by Taekwang Co., Ltd. at their head office in Gimhae-si, Korea.
- Checking that the GRI Content Index allows stakeholders to access sustainability indicators.

#### Observations

<sup>1</sup> Taekwang Vina (VT), Taekwang Mocbai (VM), Taekwang China (QT) and Taekwang Indonesia (TT)

<sup>2</sup> <https://www.globalreporting.org>

Further observations and findings, made during the assurance engagement, are:

- **Stakeholder inclusivity:**  
We are not aware of any key stakeholder groups that have been excluded from Taekwang Co., Ltd.'s stakeholder engagement process.
- **Materiality:**  
We are not aware of any material issues concerning Taekwang Co., Ltd.'s sustainability performance that have been excluded from the report. It should be noted that Taekwang Co., Ltd. has established extensive criteria for determining which issue is material and that these criteria are not biased to the company's management. However, Taekwang Co., Ltd. should enhance the review step for outputs of materiality test for ensuring that the report provides more reasonable representation of its positive and negative impacts on sustainability.
- **Responsiveness:**  
Taekwang Co., Ltd. set up its sustainability objectives and established performance management system that is called Sustainable Manufacturing Dashboard. The progress against the objectives is monitored and discussed in the management on a regular basis.
- **Reliability:**  
Taekwang Co., Ltd. has reliable data management systems for the indicators in the report. However, Taekwang Co., Ltd. should enhance its data quality assurance process to ensure more reliable data.

#### LRQA's standards, competence and independence

LRQA implements and maintains a comprehensive management system that meets accreditation requirements for ISO/IEC 17021 Conformity assessment – Requirements for bodies providing audit and certification of management systems that are at least as demanding as the requirements of the International Standard on Quality Control 1 and comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.

LRQA ensures the selection of appropriately qualified individuals based on their qualifications, training and experience. The outcome of all verification and certification assessments is then internally reviewed by senior management to ensure that the approach applied is rigorous and transparent.

This verification engagement is the only work undertaken by LRQA for Taekwang Co., Ltd. and as such does not compromise our independence or impartiality.

Signed

Dated: 24th August 2018

Tae-Kyoung Kim  
LRQA Lead Verifier  
On behalf of Lloyd's Register Quality Assurance Limited  
17th Floor, Sinsong Building, 67 Yeouinaru-ro, Yeongdeungpo-gu, Seoul, Korea

LRQA reference: SEO00000335



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# UNGLOBAI COMPACT ADVANCED LEVEL

| CATEGORY |                                       | PRINCIPLE  | PAGE               | GRI TOPIC          |
|----------|---------------------------------------|--|--------------------|--------------------|
| 1        | Strategies, Governance and Engagement | This report describes mainstreaming into corporate functions and business units.                             | 6-13               | 102-2              |
| 2        |                                       | This report describes value chain implementation.  | 20-21              | 102-2              |
| 3        | Human Rights                          | This report describes robust commitments, strategies and policies in the area of human rights.               | 50,77              | 103-1              |
| 4        |                                       | This report describes an effective management systems to integrate the human rights principles.              | 50                 | 103-2              |
| 5        |                                       | This report describes effective monitoring and evaluation mechanisms of human rights integration.            | 50                 | 103-3              |
| 6        |                                       | This report describes robust commitments, strategies and policies in the area of labor.                      | 48-55              | 103-1              |
| 7        |                                       | This report describes an effective management systems to integrate the labor principles.                     | 51,52,54           | 103-2              |
| 8        |                                       | This report describes effective monitoring and evaluation mechanisms of labor principles integration.        | 50,52,55           | 103-3              |
| 9        | Environment                           | This report describes robust commitments, strategies and policies in the area of environmental stewardship.  | 38,42, 45,46       | 103-1              |
| 10       |                                       | This report describes an effective management systems to integrate the environmental principles.             |                    | 103-2              |
| 11       |                                       | This report describes effective monitoring and evaluation mechanisms for environmental stewardship.          | 40,44, 45,47       | 412-2              |
| 12       | Anti-Corruption                       | This report describes robust commitments, strategies and policies in the area of anti-corruption.            | 15                 | 103-1              |
| 13       |                                       | This report describes an effective management systems to integrate the anti-corruption principle.            |                    | 103-2              |
| 14       |                                       | This report describes effective monitoring and evaluation mechanisms for the integration of anti-corruption. |                    | 205-2              |
| 15       | UN Goals and Issues                   | This report describes core business contributions to UN goals and issues.                                    | 22-25, 63-65       | 102-12,13          |
| 16       |                                       | This report describes strategic social investments and philanthropy.   | 60-61, 63          | 413-1              |
| 17       |                                       | This report describes advocacy and public policy engagement.   | 63-65              | 203-1,2            |
| 18       |                                       | This report describes partnerships and collective action.  | 63-65              | 102-13             |
| 19       | Governance                            | This report describes CEO commitment and leadership.   | 4-5                | 102-14             |
| 20       |                                       | This report describes Board adoption and oversight.  | 14                 | 102-18             |
| 21       |                                       | This report describes stakeholder engagement   | 28,30,38, 48,56,60 | 102-40, 42, 43, 44 |

# TAEKWANG ZERO TOLERANCE PRINCIPLES



## Forced labor

- ▶ Existence of overtime voluntary registration
- ▶ Extortion passport and/or personal identification of migrant worker
- ▶ Toilet/clinic pass
- ▶ Bonded labor



## Child Labor

- ▶ Overtime working
- ▶ Assigning job in hazardous working condition
- ▶ Child labor for subcontractor employment
- ▶ Policy and procedure to verify identification



## Physical and Sexual abuse

- ▶ Verbal and physical abuse (insulting, beating, disrespectful punishment)
- ▶ Unnecessary/unwelcome physical contact
- ▶ Sexual gesture, joke, and message



## Failure to pay wages

- ▶ Payment delays
- ▶ Miscalculations (include overtime premium)
- ▶ Non compliance of social insurance



## Serious health and safety risks

- ▶ Substantial probability of death or serious injury
- ▶ Fatality, permanent disfigurement
- ▶ Non compliance of LOTO, electrical safety, and work at height, bypass



## Serious environmental impacts

- ▶ Discharge of untreated wastewater
- ▶ Inappropriate treatment of waste
- ▶ No air pollution control devices (carbon filter, water bath)



# ACKNOWLEDGEMENT

## SPECIAL THANKS TO

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- | Amy Kang (T2)
- | Marc Hong (T2)

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- Tran Dang Thanh Mai (VM)
- Nguyen Thi Thanh Truc (VM)

# COVER PAGE

We ask ourselves “Who will lead the future of the footwear manufacturing and how?”  
We answer “We will lead the industry by seamless integrating our processes from development to manufacturing while innovating new designs and reducing lead time”  
Leaping to the next level manufacturing and maximize positive impacts while minimizing our environmental footprint.





|  |   |
|--|---|
|  <p>UN GLOBAL COMPACT<br/>COMMUNICATION ON<br/>PROGRESS</p> | <p>This is our <b>Communication on Progress</b> in implementing the principles of the <b>United Nations Global Compact</b> and supporting broader UN goals.</p> <p>We welcome feedback on its contents.</p> |
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